PGE Polska Grupa Energetyczna S.A. Quarterly financial report for the 3-month period

ended March 31, 2019
in accordance with IFRS EU (in PLN million)

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended March 31, 2019 *(unaudited)*	Period ended March 31, 2018 *(unaudited)*
STATEMENT OF PROFIT OR LOSS			
SALES REVENUES	*6.1*	**9,561**	**7,137**
Cost of goods sold	*6.2*	(8,105)	(5,229)
GROSS PROFIT ON SALES		**1,456**	**1,908**
Distribution and selling expenses	*6.2*	(291)	(363)
General and administrative expenses	*6.2*	(252)	(256)
Net other operating income	*6.3*	37	26
OPERATING PROFIT		**950**	**1,315**
Net financial expenses	*6.4*	(207)	(101)
Share of profit of entities accounted for using the equity method	*6.5*	10	11
PROFIT BEFORE TAX		**753**	**1,225**
Current income tax	*8*	(145)	(226)
Deferred income tax	*8*	4	(13)
NET PROFIT FOR THE REPORTING PERIOD		**612**	**986**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss in the future:			
Valuation of debt financial instruments	*16.2*	4	1
Valuation of hedging instruments	*16.2*	(54)	(45)
Exchange differences from translation of foreign entities		-	1
Deferred tax	*8*	10	8
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**(40)**	**(35)**
TOTAL COMPREHENSIVE INCOME		**572**	**951**
NET PROFIT ATTRIBUTABLE TO:			
– equity holders of the parent company		585	935
– non-controlling interests		27	51
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
– equity holders of the parent company		545	900
– non-controlling interests		27	51
EARNINGS AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (IN PLN)		**0.31**	**0.50**

for the 3-month period ended March 31, 2019, in accordance with IFRS EU (in PLN million)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at March 31, 2019 (unaudited)	As at December 31, 2018 audited restated data*
NON-CURRENT ASSETS			
Property, plant and equipment		62,315	62,274
Investment property		48	48
Intangible assets		707	1,046
Right-of-use assets	3	1,244	-
Financial receivables	14.1	178	168
Derivatives and other assets measured at fair value through profit or loss	15	116	117
Shares and other equity instruments		64	53
Shares accounted for using the equity method	11	788	776
Other non-current assets		480	528
CO_2 emission allowances for captive use	13	1,195	1,203
Deferred income tax assets	12	589	552
		67,724	**66,765**
CURRENT ASSETS			
Inventories		2,746	2,699
CO_2 emission allowances for captive use	13	1,830	408
Income tax receivables		201	69
Derivatives and other assets measured at fair value through profit or loss	15	108	114
Trade and other financial receivables	14.1	4,423	4,102
Shares and other equity instruments		1	1
Other current assets		514	457
Cash and cash equivalents	14.2	1,237	1,281
		11,060	**9,131**
ASSETS CLASSIFIED AS HELD FOR SALE		**10**	**9**
TOTAL ASSETS		**78,794**	**75,905**
EQUITY			
Share capital	16.1	19,165	19,165
Reserve capital		19,872	19,872
Hedging reserve	16.2	(92)	(52)
Exchange differences from translation		(1)	(1)
Retained earnings		8,329	7,743
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**47,273**	**46,727**
Equity attributable to non-controlling interests		1,101	1,074
TOTAL EQUITY		**48,374**	**47,801**
NON-CURRENT LIABILITIES			
Non-current provisions	17	6,503	6,428
Loans, borrowings, bonds and lease	18.1	7,195	6,361
Derivatives	15	57	26
Deferred income tax liabilities	12	1,639	1,616
Deferred income and government grants		601	611
Other financial liabilities	18.2	493	521
Other non-financial liabilities	19	43	15
		16,531	**15,578**
CURRENT LIABILITIES			
Current provisions	17	3,740	2,608
Loans, borrowings, bonds and leases	18.1	5,582	4,347
Derivatives	15	191	110
Trade and other financial liabilities	18.2	2,573	3,613
Income tax liabilities		28	14
Deferred income and government grants		79	87
Other non-financial liabilities	19	1,696	1,747
		13,889	**12,526**
TOTAL LIABILITIES		**30,420**	**28,104**
TOTAL EQUITY AND LIABILITIES		**78,794**	**75,905**

for the 3-month period ended March 31, 2019, in accordance with IFRS EU (in PLN million)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserve capital	Hedging reserve	Exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total equity
Note	*16.1*		*16.2*					
JANUARY 1, 2019	**19,165**	**19,872**	**(52)**	**(1)**	**7,743**	**46,727**	**1,074**	**47,801**
Net profit for the reporting period	-	-	-	-	585	585	27	612
Other comprehensive income	-	-	(40)	-	-	(40)	-	(40)
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**(40)**	**-**	**585**	**545**	**27**	**572**
Retained earnings distribution	-	-	-	-	-	-	-	-
Dividend	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	1	1	-	1
TRANSACTIONS WITH OWNERS	**-**	**-**	**-**	**-**	**1**	**1**	**-**	**1**
MARCH 31, 2019	**19,165**	**19,872**	**(92)**	**(1)**	**8,329**	**47,273**	**1,101**	**48,374**

	Share capital	Reserve capital	Hedging reserve	Exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total equity
Note	*16.1*		*16.2*					
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	-	-	-	-	935	935	51	986
Other comprehensive income	-	-	(36)	1	-	(35)	-	(35)
COMPREHENSIVE INCOME	**-**	**-**	**(36)**	**1**	**935**	**900**	**51**	**951**
Retained earnings distribution	-	-	-	-	-	-	-	-
Inclusion of companies in consolidation	-	-	-	-	27	27	20	47
Settlement of purchase of additional shares in subsidiaries	-	-	-	-	14	14	(112)	(98)
TRANSACTIONS WITH OWNERS	**-**	**-**	**-**	**-**	**41**	**41**	**(92)**	**(51)**
MARCH 31, 2018	**19,165**	**15,328**	**47**	**(3)**	**11,932**	**46,469**	**1,124**	**47,593**

for the 3-month period ended March 31, 2019, in accordance with IFRS EU (in PLN million)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Period ended March 31, 2019 *(unaudited)*	Period ended March 31, 2018 *(unaudited)*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**753**	**1,225**
Income tax paid		(300)	(275)
Adjustments for:			
Share of profit of entities consolidated under the equity method		(10)	(11)
Depreciation, amortisation, disposal and impairment losses		939	899
Interest and dividend, net		56	48
Profit/(loss) on investing activities		6	9
Change in receivables		(312)	(139)
Change in inventories		(47)	(85)
Change in liabilities, excluding loans and borrowings		(146)	(399)
Change in other non-financial assets, prepayments and CO_2 emission allowances		(1,497)	(165)
Change in provisions		1,187	584
Other		98	(10)
NET CASH FROM OPERATING ACTIVITIES		**727**	**1,681**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets		(1,863)	(1,697)
Recognition of deposits with maturity over 3 months		(94)	(89)
Termination of deposits with maturity over 3 months		83	79
Purchase of financial assets		(7)	(136)
Inclusion of companies in consolidation		-	18
Other		8	7
NET CASH FROM INVESTING ACTIVITIES		**(1,873)**	**(1,818)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans, borrowings and issue of bonds		1,822	32
Repayment of loans, borrowings, bonds and finance leasing		(651)	(82)
Interest paid		(68)	(59)
Grants received for non-current assets		1	7
Other		(1)	42
NET CASH FROM FINANCING ACTIVITIES		**1,103**	**(60)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(43)**	**(197)**
Net exchange differences		-	*(3)*
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	*14.2*	**1,279**	**2,551**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	*14.2*	**1,236**	**2,354**

for the 3-month period ended March 31, 2019, 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, 2019 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

As at March 31, 2019, the parent's ownership structure was as follows:

	State Treasury	Other shareholders	Total
As at December 31, 2018	57.39%	42.61%	100.00%
As at March 31, 2019	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 comprise financial data for the period from January 1, 2019 to March 31, 2019 ("financial statements," "consolidated financial statements") and include comparative data for the period from January 1, 2018 to March 31, 2018 and as at December 31, 2018.

These condensed consolidated interim financial statements do not cover all of the information and disclosures required in annual financial statements and they should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2018, approved for publication on March 8, 2019.

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

PGE Group companies' core activities are as follows:

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

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

Going concern

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

for the 3-month period ended March 31, 2019, in accordance with IFRS EU (in PLN million)

Changes in accounting policies

The same accounting rules (policies) and calculation methods were applied in these financial statements as in the most recent annual financial statements, except for changes resulting from the entry into force of IFRS 16 *Leases*. A detailed description of the changes is presented in note 3. These financial statements should be read in conjunction with PGE Group's consolidated financial statements for the year ended December 31, 2019, approved for publication on March 8, 2019.

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	Stake held by PGE Group entities as at March 31, 2019	Stake held by PGE Group entities as at December 31, 2018
	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 Paliwa sp. z o.o. Kraków	PGE Energia Ciepła S.A.	100.00%	100.00%
	SEGMENT: CONVENTIONAL GENERATION			
8.	PGE Górnictwo i Energetyka Konwencjonalna S.A. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
9.	ELBIS sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
10.	MegaSerwis sp. z o.o. Bogatynia	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
11.	„ELMEN” sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
12.	"Przedsiębiorstwo Usługowo-Produkcyjne „ELTUR-SERWIS” sp. z o.o. Bogatynia"	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
13.	Przedsiębiorstwo Transportowo-Sprzętowe „BETRANS” sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
14.	Przedsiębiorstwo Wulkanizacji Taśm i Produkcji Wyrobów Gumowych BESTGUM POLSKA sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
15.	RAMB sp. z o.o. Piaski	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
16.	EPORE sp. z o.o. Bogatynia	PGE Górnictwo i Energetyka Konwencjonalna S.A.	85.38%	85.38%
17.	„Energoserwis – Kleszczów” sp. z o.o. Rogowiec	PGE Górnictwo i Energetyka Konwencjonalna S.A.	51.00%	51.00%
	SEGMENT: HEATING			
18.	PGE Energia Ciepła S.A.* Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
19.	PGE Toruń S.A. Toruń	PGE Energia Ciepła S.A.	95.22%	95.22%
20.	PGE Gaz Toruń sp. z o.o. Warsaw	PGE Energia Ciepła S.A.	50.04%	50.04%
21.	Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. Wrocław	PGE Energia Ciepła S.A.	58.07%	58.07%
22.	Elektrociepłownia Zielona Góra S.A. Zielona Góra	Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A.	98.40%	98.40%
23.	MEGAZEC sp. z o.o. Bydgoszcz	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
24.	Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. Zgierz	PGE Górnictwo i Energetyka Konwencjonalna S.A.	50.98%	50.98%

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	Entity	Entity holding stake	Stake held by PGE Group entities as at March 31, 2019	Stake held by PGE Group entities as at December 31, 2018
25.	PGE Ekoserwis sp. z o.o. Wrocław	PGE Energia Ciepła S.A.	84.15%	84.15%
	SEGMENT: RENEWABLES			
26.	PGE Energia Odnawialna S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
27.	Elektrownia Wiatrowa Baltica-1 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
28.	Elektrownia Wiatrowa Baltica-2 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
29.	Elektrownia Wiatrowa Baltica-3 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
30.	PGE Baltica sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
31.	PGE Klaster sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
	SEGMENT: DISTRIBUTION			
32.	PGE Dystrybucja S.A. Lublin	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
	SEGMENT: OTHER ACTIVITY			
33.	PGE EJ 1 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	70.00%	70.00%
34.	PGE Systemy S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
35.	PGE Sweden AB (publ) Stockholm	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
36.	PGE Synergia sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
37.	„Elbest" sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
38.	Elbest Security sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
39.	PGE Inwest 2 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 Nowa Energia sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
49.	PGE Inwest 16 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
50.	PGE Inwest 17 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
51.	PGE Inwest 18 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
52.	PGE Inwest 19 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
53.	Towarzystwo Funduszy Inwestycyjnych Energia S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
54.	BIO-ENERGIA sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%

	Entity	Entity holding stake	Stake held by PGE Group entities as at March 31, 2019	Stake held by PGE Group entities as at December 31, 2018
55.	Przedsiębiorstwo Transportowo-Usługowe „ETRA" sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
56.	Energetyczne Systemy Pomiarowe sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
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%

** Elektrownia Rybnik which is part of PGE Energia Ciepła S.A. is presented in Conventional Generation segment as described in Note 5 of these financial statements.*

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 March 31, 2019:

- On January 2, 2019, the demerger of PGE Górnictwo i Energetyka Konwencjonalna S.A. was entered in the National Court Register. The demerger was effected 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 transaction did not affect these consolidated financial statements.

Transactions and events after the reporting date

- On April 17, 2019 PGE decided to withdraw from the process of acquisition of shares held by other shareholders of PGE EJ1 sp. z o.o. Thus, PGE S.A.'s share in PGE EJ1 sp. z o.o. will remain at 70%.
- On April 24, 2019, PGE Nowa Energia sp. z o.o. acquired new shares in the increased share capital of 4Mobility S.A. The shares acquired account for 51.47% of the increased share capital. As of the second quarter of 2019, 4Mobility S.A. will be a fully consolidated subsidiary. 4Mobility S.A. incurred a net loss of PLN 5 million for 2018, and total assets of this company amounted to PLN 9 million as at December 31, 2018.

2. Basis for preparation of financial statements

2.1 Statement of compliance

These financial statements are prepared in accordance with International Accounting Standard 34 Interim Financial Reporting and in the scope required under the Minister of Finance Regulation of March 29, 2018 on current and periodic information provided by issuers of securities and conditions of recognition as equivalent information required by the law of a non-Member State (Official Journal 2018, items 512 and 685).

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

2.2 Presentation and functional currency

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

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

	March 31, 2019	December 31, 2018	March 31, 2018
USD	3.8365	3.7597	3.4139
EUR	4.3013	4.3000	4.2085

for the 3-month period ended March 31, 2019, in accordance with IFRS EU (in PLN million)

2.3 New standards and interpretations published, not yet effective

The following standards, changes in already effective standards and interpretations are not endorsed by the European Union or are not effective as at January 1, 2019:

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
Amendments to the Conceptual Framework	These amendments aim to harmonise the Conceptual Framework in IFRS standards	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 business combinations	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.

These regulations will not have a significant effect on the future financial statements of PGE Group.

2.4 Professional judgment of management and estimates

Judgments and estimates made by the management in the process of applying accounting rules that are described below had the most significant impact on the amounts presented in the consolidated financial statements, including in other explanatory information. The estimates were based on the best knowledge of the Management Board relating to current and future operations and events in particular areas. Detailed information on the assumptions made was presented below or in the relevant explanatory notes.

- In the previous reporting periods PGE Group recognised impairment losses on assets, in particular of property, plant and equipment. In the reporting period, the Group did not identify premises for performing impairment tests and for reversing impairment losses recognised in previous periods. Estimate of recoverable amount of property, plant and equipment is based on a number of significant assumptions to the factors, realisation of which is uncertain and mostly beyond PGE Group's control. The Group believes that it has assumed the most accurate volumes and values. Nevertheless, realisation of the particular assumptions may diverge from the ones established by the Group.
- Provisions are liabilities of uncertain amount or timing. During the reporting period, the Group changed estimates regarding the validity or amounts of some provisions. Changes in estimates are presented in note 17 of these consolidated financial statements.
- Uncertainties concerning tax treatment are described in note 21 to the consolidated financial statements.

No significant changes in the value of estimates having impact on these consolidated financial statements took place.

3. Changes in accounting principles and data presentation

New standards and interpretations which became effective on January 1, 2019

The accounting principles (policies) applied in preparing these consolidated financial statements are consistent with those applied in preparing the Group's consolidated financial statements for 2018, 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 16 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 9 – Amendments related to the early repayment option with negative compensation;
- Amendments to IFRIC 23 – This interpretation applies to establishing taxable revenue, tax base, unsettled tax losses, unused tax rebates and tax rates;
- Annual improvements to IFRS (cycle 2015-2017) – amendments to IFRS 3, IFRS 11; IFRS 12; IAS 23;
- Amendments to IAS 28 – This amendment concerns measurement of non-current investments in associates;
- Amendments to IAS 19 – Amendments concern defined-benefit plans.

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.

IFRS 16 had the most significant effect on the following types of agreements:

- 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.

After analysis, the Group concluded that the following types of contracts are outside the scope of IFRS 16:

- tenancy agreements, lease agreements, easements which are not burdensome for the owner of the property (e.g. establishment of easement for the purposes of an overhead line);
- agreements on use of road strip.

For these agreements, the definition of a lease is not met because the Group does not derive substantially all the economic benefits and does not have the right to manage the use of the identified asset.

- Lease agreements for lines/fibre-optic cables/cable ducts

For these contracts, the Group does not utilise the majority of the asset's capacity. Therefore, the asset does not meet the criteria for an identified asset under IFRS 16 and the above agreements (e.g. an agreement for the lease of fibre optic cables) do not meet the definition of a lease.

PGE Group has implemented the new IFRS 16 starting from financial statements prepared for the periods starting after January 1, 2019. The Group has selected the implementation option set out in paragraph C5.b) of IFRS 16, i.e. retrospectively, with the cumulative effect of the initial application of this standard recognised as at January 1, 2019 as an adjustment to the opening balance of retained earnings.

In accordance with the selected implementation option, the Group will not restate comparative data. As at the date of implementation of IFRS 16, the Group recognises a right-of-use asset for leases previously classified as an operating lease applying IAS 17 *Leases* an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application, in accordance with paragraph C8.b.ii).

Furthermore, PGE Group decided to use the following practical expedients as at January 1, 2019 provided for in paragraph C10 of IFRS 16 with respect to leases previously classified as operating leases in accordance with IAS 17:

- PGE Group applied a single discount rate to a portfolio of leases with similar characteristics (such as real property).
- 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. January1, 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, in determining the lease term for contract containing options to extend or terminate the lease.

As a result of the application of IFRS 16:

- Right-of-use assets for new lease agreements recognised and lease liabilities increased by PLN 879 million as at January 1, 2019.
- Following reclassification of contracts meeting the definition of a lease and recognised before January 1, 2019 under intangible assets and property, plant and equipment, right-of-use assets increased and intangible assets and property, plant and equipment decreased by PLN 371 million.
- As at January 1, 2019, retained earnings remained unchanged.
- The gross profit for the first quarter of 2019 is lower by approximately PLN 10 million.
- As estimated, EBITDA for the first quarter of 2019 is higher by PLN 12 million.

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Changes in applied accounting principles and data presentation

In the current period, the Group decided to change the method of division of liabilities on account of loans, borrowings and bonds into long-term and short-term portions. The previous present value of cash flows generated was replaced by the payment term method.

The Group has restated the comparative data presented in the statements of financial position. The restatement is shown in the table below.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	As at December 31, 2018 *published data*	Change of presentation	As at December 31, 2018 *restated data*
LONG-TERM LIABILITIES, including:			
Loans, borrowings, bonds and leases	6,247	114	6,361
TOTAL NON-CURRENT LIABILITIES	**15,464**	**114**	**15,578**
CURRENT LIABILITIES, including:			
Loans, borrowings, bonds and leases	4,461	(114)	4,347
TOTAL CURRENT LIABILITIES	**12,640**	**(114)**	**12,526**
TOTAL LIABILITIES	**28,104**	**-**	**28,104**

4. Fair value hierarchy

The principles for valuation of inventories, derivatives, shares and instruments not quoted on active markets, for which fair value may not be determined reliably, are the same as presented in the financial statements for the year ended December 31, 2018.

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

	As at March 31, 2019		As at December 31, 2018	
FAIR VALUE HIERARCHY	Level 1	Level 2	Level 1	Level 2
Currency forwards	-	24	-	22
Commodity forwards	-	2	-	13
Commodity SWAP	-	8	-	56
Contracts for purchase/sale of coal	-	9	-	3
Measurement of CCIRS transactions	-	102	-	101
Measurement of IRS transactions	-	2	-	65
Options	-	11	-	15
Fund participation units	-	66	-	66
Financial assets	**-**	**224**	**-**	**341**
Currency forwards	-	81	-	45
Commodity SWAP	-	108	-	6
Contracts for purchase/sale of coal	-	4	-	22
Measurement of IRS transactions	-	55	-	8
Financial liabilities	**-**	**248**	**-**	**81**

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

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

EXPLANATORY NOTES TO OPERATING SEGMENTS

5. Information on operating segments

PGE Group companies conduct their business activities based on relevant concessions, including primarily concession on: production, trade 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 issued for the period between 10 and 50 years.

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

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

- Conventional Generation comprises exploration and mining of lignite and production of electricity in the Group's power plants as well as ancillary services.
- District heating ("Heating") comprises the generation of electricity and heat from cogeneration units and the transmission and distribution of heat.
- 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 over 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.

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 product 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.

for the 3-month period ended March 31, 2019, in accordance with IFRS EU (in PLN million)

5.1 Information on business segments

Information on business segments for the period ended March 31, 2019

	Conventional Generation	Heating	Renewables	Supply	Distribution	Other activity	Adjustments	Total
STATEMENT OF PROFIT OR LOSS								
Sales to external customers	3,106	1,294	249	3,365	1,518	27	2	9,561
Inter-segment sales	1,619	722	13	2,075	23	87	(4,539)	-
TOTAL SEGMENT REVENUE	**4,725**	**2,016**	**262**	**5,440**	**1,541**	**114**	**(4,537)**	**9,561**
Cost of goods sold	(4,193)	(1,646)	(165)	(5,106)	(1,134)	(101)	4,240	**(8,105)**
EBIT *)	**272**	**256**	**100**	**161**	**346**	**(6)**	**(179)**	**950**
Depreciation, amortisation, disposal and impairment losses recognised in profit or loss	411	149	65	8	299	18	(11)	939
EBITDA **)	**683**	**405**	**165**	**169**	**645**	**12**	**(190)**	**1,889**
ASSETS AND LIABILITIES								
Assets excluding trade receivables	40,625	8,164	3,287	1,499	17,994	682	(1,172)	71,079
Trade receivables	835	753	79	5,096	912	84	(4,049)	3,710
Shares accounted for using the equity method								788
Unallocated assets								3,217
TOTAL ASSETS								**78,794**
Liabilities excluding trade liabilities	9,168	1,827	399	2,448	1,800	105	(1,467)	14,280
Trade liabilities	1,941	808	48	2,334	214	40	(3,937)	1,448
Unallocated liabilities								14,692
TOTAL LIABILITIES								**30,420**
OTHER INFORMATION ON BUSINESS SEGMENT								
Capital expenditures	630	27	11	5	344	46	(55)	1,008
Impairment losses on financial and non-financial assets	21	40	33	6	2	-	-	102
Other non-monetary expenses ***)	976	171	8	46	48	10	138	1,397

*) EBIT = operating profit (loss)

**) EBITDA = EBIT + depreciation, amortisation, disposal and impairment losses (PPE, IA, ROUA, IP, 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 rights, provision for jubilee awards, employee tariff and non-financial liabilities concerning employee benefits that are recognised in profit or loss and other comprehensive income

for the 3-month period ended March 31, 2019, in accordance with IFRS EU (in PLN million)

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

restated data	Conventional Generation	Heating	Renewables	Supply	Distribution	Other activity	Adjustments	Total
STATEMENT OF PROFIT OR LOSS								
Sales to external customers	1,146	1,542	134	2,782	1,489	40	4	7,137
Inter-segment sales	1,902	324	78	868	27	77	(3,276)	-
TOTAL SEGMENT REVENUE	**3,048**	**1,866**	**212**	**3,650**	**1,516**	**117**	**(3,272)**	**7,137**
Cost of goods sold	(2,513)	(1,309)	(153)	(3,129)	(1,124)	(106)	3,105	**(5,229)**
EBIT *)	**320**	**446**	**50**	**182**	**346**	**(6)**	**(23)**	**1,315**
Depreciation, amortisation, disposal and impairment losses recognised in profit or loss	389	135	64	7	292	21	(9)	899
EBITDA **)	**709**	**581**	**114**	**189**	**638**	**15**	**(32)**	**2,214**
ASSETS AND LIABILITIES								
Assets excluding trade receivables	35,780	7,426	3,200	1,181	17,041	574	(820)	64,382
Trade receivables	894	539	87	3,059	856	72	(2,500)	3,007
Shares accounted for using the equity method								698
Unallocated assets								4,100
TOTAL ASSETS								**72,187**
Liabilities excluding trade liabilities	7,442	1,410	346	1,311	1,571	119	(415)	11,784
Trade liabilities	711	494	32	2,090	252	29	(2,386)	1,222
Unallocated liabilities								11,588
TOTAL LIABILITIES								**24,594**
OTHER INFORMATION ON BUSINESS SEGMENT								
Capital expenditures	513	83	15	2	226	41	(25)	855
Impairment losses on financial and non-financial assets	35	16	-	13	7	-	-	71
Other non-monetary expenses ***)	339	50	1	200	(61)	3	-	532

*) EBIT = operating profit (loss)

**) EBITDA = EBIT + depreciation, amortisation, disposal and impairment losses (PPE, IA, IP, 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 rights, provision for jubilee awards, employee tariff and non-financial liabilities concerning employee benefits that are recognised in profit or loss and other comprehensive income

for the 3-month period ended March 31, 2019, in accordance with IFRS EU (in PLN million)

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

6. Revenue and expenses

6.1 Revenue from sales

Revenue from sales in the period ended March 31, 2019, by category

Below a reconciliation of revenue disclosure by category and information on revenue that the entity discloses for each reporting segment.

	Conventional Generation	Heating	Renewables	Supply	Distribution	Other activity	Adjustments	Total
Revenue from contracts with customers	4,724	2,013	207	5,440	1,530	114	(4,535)	**9,493**
Revenue from LTC compensations	-	1	-	-	-	-	-	**1**
Revenue from leases	1	2	55	-	11	-	(2)	**67**
TOTAL REVENUE FROM SALES	**4,725**	**2,016**	**262**	**5,440**	**1,541**	**114**	**(4,537)**	**9,561**

Below the revenue from contracts with customers divided into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

Type of good or service	Conventional Generation	Heating	Renewables	Supply	Distribution	Other activity	Adjustments	Total
Revenue from sale of goods and products, without excluding taxes and fees	4,694	1,981	206	5,261	1,530	25	(4,204)	**9,493**
Taxes and fees collected on behalf of third parties	-	*(1)*	-	*(38)*	*(14)*	-	-	***(53)***
Revenue from sale of goods and products, including:	**4,694**	**1,980**	**206**	**5,223**	**1,516**	**25**	**(4,204)**	**9,440**
Sale of electricity	4,430	1,140	175	3,390	1	-	(2,480)	**6,656**
Sale of distribution services	4	3	-	13	1,463	-	(22)	**1,461**
Sale of heat	65	703	-	5	-	-	(1)	**772**
Sale of energy origin rights	9	5	19	8	-	-	(3)	**38**
Regulatory system services	104	-	10	-	-	-	-	**114**
Sale of gas	-	-	-	157	-	-	(14)	**143**
Sale of fuel	-	-	-	425	-	-	(305)	**120**
Other sales of goods and materials	82	129	2	1,225	52	25	(1,379)	**136**
Revenue from sale of services	**30**	**33**	**1**	**217**	**14**	**89**	**(331)**	**53**
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**4,724**	**2,013**	**207**	**5,440**	**1,530**	**114**	**(4,535)**	**9,493**

Revenue from sales in the period ended March 31, 2018, by category

Below a reconciliation of revenue disclosure by category and information on revenue that the entity discloses for each reporting segment.

	Conventional Generation	Heating	Renewables	Supply	Distribution	Other activity	Adjustments	Total
Revenue from contracts with customers	3,044	1,847	155	3,649	1,506	117	(3,267)	**7,051**
Revenue from LTC compensations	-	14	-	-	-	-	-	**14**
Revenue from leases	4	5	57	1	10	-	(5)	**72**
TOTAL REVENUE FROM SALES	**3,048**	**1,866**	**212**	**3,650**	**1,516**	**117**	**(3,272)**	**7,137**

for the 3-month period ended March 31, 2019, in accordance with IFRS EU (in PLN million)

Below the revenue from contracts with customers divided into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

Type of good or service	Conventional Generation	Heating	Renewables	Supply	Distribution	Other activity	Adjustments	Total
Revenue from sale of goods and products, without excluding taxes and fees	3,021	1,836	154	3,614	1,645	23	(3,006)	**7,287**
Taxes and fees collected on behalf of third parties	*(1)*	*(8)*	-	*(119)*	*(154)*	-	-	***(282)***
Revenue from sale of goods and products, including:	**3,020**	**1,828**	**154**	**3,495**	**1,491**	**23**	**(3,006)**	**7,005**
Sale of electricity	2,803	868	112	2,507	1	-	(2,489)	**3,802**
Sale of distribution services	4	3	-	12	1,448	-	(24)	**1,443**
Sale of heat	75	771	-	6	-	-	-	**852**
Sale of energy origin rights	8	178	30	-	-	-	(10)	**206**
Regulatory system services	83	1	12	-	-	-	-	**96**
Sale of gas	-	1	-	255	-	-	(14)	**242**
Sale of fuel	-	-	-	646	-	-	(401)	**245**
Other sales of goods and materials	47	6	-	69	42	23	(68)	**119**
Revenue from sale of services	**24**	**19**	**1**	**154**	**15**	**94**	**(261)**	**46**
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**3,044**	**1,847**	**155**	**3,649**	**1,506**	**117**	**(3,267)**	**7,051**

6.2 Costs by nature and function

	Period ended March 31, 2019	Period ended March 31, 2018
COSTS BY NATURE		
Depreciation, amortisation and impairment losses	959	923
Materials and energy	1,473	1,369
External services	562	574
Taxes and fees	1,463	927
Employee benefits expenses	1,327	1,236
Other costs by nature	64	66
TOTAL COST BY NATURE	**5,848**	**5,095**
Change in product inventories	(20)	(6)
Cost of products and services for the entity's own needs	(254)	(243)
Distribution and selling expenses	(291)	(363)
General and administrative expenses	(252)	(256)
Cost of goods and materials sold	3,074	1,002
COST OF GOODS SOLD	**8,105**	**5,229**

6.2.1 Depreciation, amortisation, disposal and impairment losses

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

Period ended	Depreciation, amortisation, disposal				Impairment		
March 31, 2019	Property, plant and equipment	Intangible assets	Right-of-use assets	TOTAL	Property, plant and equipment	Intangible assets	TOTAL
Cost of goods sold	870	18	9	**897**	23	-	**23**
Distribution and selling expenses	3	1	-	**4**	-	-	**-**
General and administrative expenses	8	5	2	**15**	-	-	**-**
RECOGNISED IN PROFIT OR LOSS	**881**	**24**	**11**	**916**	**23**	**-**	**23**
Cost of products and services for the entity's own needs	20	-	-	**20**	-	-	**-**
TOTAL	**901**	**24**	**11**	**936**	**23**	**-**	**23**

for the 3-month period ended March 31, 2019, in accordance with IFRS EU (in PLN million)

Period ended	Depreciation, amortisation, disposal				Impairment		
March 31, 2018	Property, plant and equipment	Intangible assets	Investment property	TOTAL	Property, plant and equipment	Intangible assets	TOTAL
Cost of goods sold	814	23	-	**837**	43	-	**43**
Distribution and selling expenses	3	1	-	**4**	-	-	**-**
General and administrative expenses	8	7	-	**15**	-	-	**-**
RECOGNISED IN PROFIT OR LOSS	**825**	**31**	**-**	**856**	**43**	**-**	**43**
Cost of products and services for the entity's own needs	24	-	-	**24**	-	-	**-**
TOTAL	**849**	**31**	**-**	**880**	**43**	**-**	**43**

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

6.3 Other operating income and expenses

	Period ended March 31, 2019	Period ended March 31, 2018
OTHER OPERATING INCOME/(EXPENSES)		
Penalties, fines and compensations	71	33
Recognition of impairment losses on receivables	(43)	(22)
Reversal of other provisions	16	6
Grants	7	4
Other	(14)	5
TOTAL NET OTHER OPERATING INCOME/(EXPENSES)	**37**	**26**

6.4 Financial income and finance expenses

	Period ended March 31, 2019	Period ended March 31, 2018
FINANCIAL INCOME/(EXPENSES) FROM FINANCIAL INSTRUMENTS		
Dividends	-	-
Interest	(53)	(35)
Reversal of impairment / revaluation	229	1
Recognition of impairment / revaluation	(325)	(15)
Exchange differences	(3)	(1)
Loss on disposal of investments	1	(1)
TOTAL NET FINANCIAL INCOME / (EXPENSES) FROM FINANCIAL INSTRUMENTS	**(151)**	**(51)**
OTHER FINANCIAL INCOME/(EXPENSES)		
Interest expenses, including effect of discount unwinding	(52)	(45)
Interest on statutory receivables	-	1
Reversal of provisions	-	(3)
Other	(4)	(3)
TOTAL NET OTHER FINANCIAL INCOME/(EXPENSES)	**(56)**	**(50)**
TOTAL NET FINANCIAL INCOME/(EXPENSES)	**(207)**	**(101)**

Interest expenses mainly relate to bonds issued and credit and loans incurred as well as lease liabilities. In the item "Reversal, recognition 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.

for the 3-month period ended March 31, 2019, in accordance with IFRS EU (in PLN million)

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

SHARE IN VOTES	Polska Grupa Górnicza 15.32%	Polimex Mostostal 16.48%	ElectroMobility Poland 25.00%	PEC Bogatynia 34.93%	Energopomiar 47.30%
Period ended March 31, 2019					
Revenue	2,375	340	-	5	70
Result on continuing operations	51	15	(1)	-	1
SHARE OF PROFIT OF EQUITY-ACCOUNTED ENTITIES	**8**	**2**	**-**	**-**	**-**

SHARE IN VOTES	Polska Grupa Górnicza 15.32%	Polimex Mostostal 16.48%	ElectroMobility Poland 25.00%	PEC Bogatynia 34.93%
Period ended March 31, 2018				
Revenue	2,380	262	-	5
Result on continuing operations	153	32	(2)	1
Share of profit of equity-accounted entities	**23**	**5**	**-**	**-**
Elimination of unrealised gains and losses	(17)	-	-	-
SHARE OF PROFIT OF EQUITY-ACCOUNTED ENTITIES	**6**	**5**	**-**	**-**

7. Impairment losses on assets

	Period ended March 31, 2019	Period ended March 31, 2018
IMPAIRMENT LOSSES ON PROPERTY, PLANT AND EQUIPMENT		
Recognition of impairment loss	130	103
Reversal of impairment loss	107	61
IMPAIRMENT LOSSES ON INVENTORY		
Recognition of impairment loss	37	31
Reversal of impairment loss	4	1

8. Tax in the statement of comprehensive income

Main components of income tax expense for the period ended March 31, 2019, and March 31, 2018 were as follows:

	Period ended March 31, 2019	Period ended March 31, 2018
INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS		
Current income tax	134	221
Adjustments to current income tax for previous years	11	5
Deferred income tax	6	64
Adjustments to deferred income tax	(10)	(51)
INCOME TAX EXPENSE RECOGNISED IN STATEMENT OF PROFIT OR LOSS	**141**	**239**
INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME		
From valuation of hedging instruments	(10)	(8)
TAX BENEFIT RECOGNISED IN OTHER COMPREHENSIVE INCOME	**(10)**	**(8)**

for the 3-month period ended March 31, 2019, in accordance with IFRS EU (in PLN million)

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

In the present period, PGE Group purchased property, plant and equipment and intangible assets worth PLN 1,008 million. The largest expenditures were incurred in the Conventional Generation segment (PLN 630 million) and the Distribution segment (PLN 344 million). The key expenditures items were as follows: construction of units 5-6 at Elektrownia Opole (PLN 178 million), construction of new unit at Elektrownia Turów (PLN 71 million); connecting new customers (PLN 130 million).

In the current period, there were no significant transactions of sale of property, plant and equipment.

10. Future investment commitments

As at March 31, 2019, PGE Group committed to incur capital expenditures on property, plant and equipment of approximately PLN 5,609 million. These amounts relate mainly to construction of new power units, wind farms, modernisation of Group's assets and purchase of machinery and equipment.

	As at March 31, 2019	As at December 31, 2018 ** restated data*
Conventional Generation	3,409	3,694
Distribution	1,395	1,199
Renewables	511	177
District heating	107	114
Other activity	187	187
TOTAL FUTURE INVESTMENT COMMITMENTS	**5,609**	**5,371**

**restatement related mainly to the separation of the Heating segment*

The most significant future investment commitments concern:

- Conventional Generation:
  - Branch Opole Power Plant – construction of power units no. 5 and 6 – approximately PLN 741 million,
  - Branch Turów Power Plant – construction of new power unit no. 7 – approximately PLN 1,436 million,
  - Branch Turów Power Plant – modernisation of power units no. 1-3 – approximately PLN 174 million,
- Distribution – investment commitments related to network distribution assets with the total value of approximately PLN 1,395 million,
- Renewables – investment commitments related to the design and construction of Starza, Rybice and Karnice II wind farms,
- 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 project. 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.

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 considering nuclear power plant build depends among others on a dedicated financing model will be prepared.

for the 3-month period ended March 31, 2019, in accordance with IFRS EU (in PLN million)

11. Shares accounted for using the equity method

	As at March 31, 2019	As at December 31, 2018
Polska Grupa Górnicza Sp. z o.o., Katowice	648	640
Polimex - Mostostal S.A., Warsaw	111	108
ElectroMobility Poland S.A., Warsaw	15	15
PEC Bogatynia Sp. z o.o., Bogatynia	8	8
Energopomiar Sp. z o.o. , Gliwice	6	5
SHARES ACCOUNTED FOR USING THE EQUITY METHOD	**788**	**776**

	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 MARCH 31, 2019					
Current assets	2,585	1,018	13	5	25
Non-current assets	10,102	722	49	21	18
Current liabilities	3,565	716	1	2	11
Non-current liabilities	4,898	439	-	-	7
NET ASSETS	**4,224**	**585**	**61**	**24**	**25**
Share in net assets	**647**	**95**	**15**	**8**	**12**
Goodwill	1	16	-	-	(6)
SHARES ACCOUNTED FOR USING THE EQUITY METHOD	**648**	**111**	**15**	**8**	**6**

	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**

12. Deferred tax in the statement of financial position

12.1 Deferred income tax assets

	As at March 31, 2019	As at December 31, 2018
Difference between tax value and carrying amount of property, plant and equipment	2,044	1,985
Difference between tax value and carrying amount of right-of-use assets	159	-
Difference between tax value and carrying amount of financial assets	96	65
Difference between tax value and carrying amount of financial liabilities	353	301
Difference between tax value and carrying amount of inventories	28	24
LTC compensations	99	61
Rehabilitation provision	559	549
Provision for purchase of CO_2 emission allowances	551	365
Provisions for employee benefits	613	604
Other provisions	157	131
Energy infrastructure acquired free of charge and connection payments received	33	34
Other	32	49
DEFERRED TAX ASSETS	**4,724**	**4,168**

for the 3-month period ended March 31, 2019, in accordance with IFRS EU (in PLN million)

12.2 Deferred tax liabilities

	As at March 31, 2019	As at December 31, 2018
Difference between tax value and carrying amount of property, plant and equipment	4,447	4,265
Difference between tax value and carrying amount of lease liabilities	165	-
Difference between tax value and carrying amount of energy origin units	48	48
Difference between tax value and carrying amount of financial assets	433	399
Difference between tax value and carrying amount of financial liabilities	54	47
CO_2 emission rights	506	302
LTC compensations	60	23
Other	61	148
DEFERRED TAX LIABILITIES	**5,774**	**5,232**
AFTER OFF-SET OF THE ASSET AND THE LIABILITY IN PARTICULAR COMPANIES THE GROUP'S DEFERRED TAX IS PRESENTED AS:		
Deferred tax assets	589	552
Deferred tax liabilities	(1,639)	(1,616)

13. CO_2 emission allowances for captive use

CO_2 emission rights (EUA) are received power generating units belonging to the PGE Group, which are covered with the Act dated June 12, 2015 on a scheme for greenhouse gas emission allowance trading. Starting from 2013, only part of emission rights for production of heat will be granted unconditionally, while for production of electricity there is, as a rule, lack of free of charge EUA. Pursuant to art. 10c of Directive 2009/29/EC of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowance trading within the Community, the derogation is possible providing the realization of investment tasks included in National Investment Plan, which allow to reduce CO_2 emission. The condition under which free of charge CO_2 emission rights can be obtained is presentation of factual-financial statements from realization of tasks included in National Investment Plan.

In September 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 in 2018. The allowances were issued in April 2019 and were used to cover CO_2 emissions for 2018. The Group submitted 14 million EUAs for year 2018 and additional amount of 11 million EUAs for the years 2013-2017 as described in Note 23.2 of these financial statements .

In the case of EUAs for CO_2 emissions related to heating, the allocation schedule is different - in February 2019 EUAs were allocated for the coverage of CO_2 emissions for 2019 (1 million EUAs).

	As at March 31, 2019		As at December 31, 2018	
EUA	Non-current	Current	Non-current	Current
Quantity (Mg million)	**18**	**58**	**18**	**19**
Value	**1,195**	**1,830**	**1,203**	**408**

Change in CO_2 emission allowances for captive use

EUA	Quantity (Mg million)	Value
AS AT JANUARY 1, 2018	**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**
Purchase	39	1,456
Granted free of charge	1	-
Redemption	-	-
Reclassification to inventories	(1)	(42)
AS AT MARCH 31, 2019	**76**	**3,025**

for the 3-month period ended March 31, 2019, in accordance with IFRS EU (in PLN million)

14. Selected financial assets

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

14.1 Trade and other financial receivables

	As at March 31, 2019		As at December 31, 2018	
	Non-current	Current	Non-current	Current
Trade receivables	-	3,710	-	3,155
Deposits	172	9	161	7
Deposits, securities and collateral	1	438	1	694
Damages and penalties	-	207	-	193
Other financial receivables	5	59	6	53
TOTAL FINANCIAL RECEIVABLES	**178**	**4,423**	**168**	**4,102**

Deposits, securities and collateral mainly concern transaction and hedging deposits and the guarantee fund.

The value of other financial receivables consists mainly of disputed receivables described in note 20.4 to these consolidated financial statements.

14.2 Cash and cash equivalents

Current deposits are placed 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 items:

	As at March 31, 2019	As at December 31, 2018
Cash on hand and cash at bank	965	1,023
Overnight deposits	63	33
Current deposits	119	156
Cash in VAT accounts	90	69
TOTAL	**1,237**	**1,281**
Interest accrued on cash, not received at the reporting date	-	-
Exchange differences on cash in foreign currencies	(1)	(2)
Cash and cash equivalents presented in the statement of cash flows	**1,236**	**1,279**
Undrawn borrowing facilities	7,230	8,312
including overdraft facilities	*381*	*934*

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

The value of cash includes restricted cash in the amount of PLN 261 million (PLN 98 million in the comparative period) concerns client accounts of PGE Dom Maklerski S.A. used as collateral for settlements with Izba Rozliczeniowa Giełd Towarowych S.A., cash in VAT accounts in the amount of PLN 90 million (PLN 69 million in the comparative period) as well as securities and collateral of PLN 11 million (PLN 13 million in the comparative period).

for the 3-month period ended March 31, 2019, in accordance with IFRS EU (in PLN million)

15. Derivatives and other assets measured at fair value through profit or loss

	As at March 31, 2019		As at December 31, 2018	
	Assets	Liabilities	Assets	Liabilities
FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE				
Currency forwards	24	12	18	11
Commodity forwards for CO_2	2	-	6	-
Commodity SWAP	8	108	4	46
Contracts for purchase/sale of coal	9	4	2	7
IRS transactions	-	-	-	-
Options	11	-	12	-
HEDGING DERIVATIVES				
CCIRS hedges	102	-	113	-
IRS hedges	-	55	4	24
Currency forward - USD	1	-	2	-
Currency forward - EUR	1	69	4	48
OTHER ASSETS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Investment fund participation units	66	-	66	-
TOTAL DERIVATIVES	**224**	**248**	**231**	**136**
Current	108	191	114	110
Non-current	116	57	117	26

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

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

Purchase and sale contracts with physical delivery of coal

PGE Paliwa Sp. z o.o. measures all of its sales and purchase contracts with physical delivery of coal at fair value using the trader-broker model. As at the reporting date, the Company held contracts that would be performed till September 2020.

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. 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 is presented in note 16.2 to these consolidated financial statements.

CCIRS hedges

In connection with loans received from PGE Sweden AB (publ), PGE S.A. concluded CCIRS transactions, hedging both the exchange rate and interest rate. In these transactions, banks - counterparties pay PGE S.A. interest based on a fixed rate in EUR and PGE S.A. pays interest based on a fixed rate in PLN. In the consolidated financial statements, a relevant part of the CCIRS transaction is treated as a hedge of bonds issued by PGE Sweden AB (publ). To recognise these CCIRS transactions, the Group uses hedge accounting. The impact of hedge accounting on equity is presented in note 16.2 to these financial statements.

16. Equity

The basic objective of the Group's policy regarding equity management is to maintain an optimal equity structure over the long term perspective in order to assure a good financial standing and secure equity structure ratios that would support the operating activity of PGE Group. It is also crucial to maintain a sound equity base that would be the basis to win confidence of potential investors, creditors and the market and assure further development of the Group.

for the 3-month period ended March 31, 2019, in accordance with IFRS EU (in PLN million)

16.1 Share capital

	As at March 31, 2019	As at December 31, 2018
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 on which these consolidated financial statements were prepared, 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 part of PGE Group, in respect of which the State Treasury holds special rights as long as it remains a shareholder.

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

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

- dissolution of company,
- changes of the use or discontinuance of exploitation of an asset that is a component of critical infrastructure,
- change in the Company's principal business activity,
- sale or lease of, or creation of limited property rights in, the Company's business or its organised part,
- adoption of a budget, plan of investment activities, or a long-term strategic plan,
- relocation of the Company's registered office abroad,

if the implementation of any such resolution could constitute a material threat to the security, continuity or integrity of critical infrastructure operations. The objection is expressed in the form of an administrative decision.

16.2 Hedging reserve

	Period ended March 31, 2019	Year ended December 31, 2018
AS AT JANUARY 1	**(52)**	**83**
Change in hedging reserve:	**(50)**	**(166)**
Valuation of hedging instruments, including:	**(54)**	**(158)**
Deferral of changes in fair value of hedging financial instruments in the part considered as effective hedge	*(70)*	*(62)*
Accrued interest on derivatives transferred from hedging reserve and recognised in interest expense	*17*	*(10)*
Currency revaluation of CCIRS transaction transferred from hedging reserve and recognised in the result on foreign exchange differences	*(1)*	*(85)*
Ineffective portion of change in fair value of hedging derivatives recognised in profit or loss	-	*(1)*
Valuation of other financial assets	**4**	**(8)**
Deferred tax	**10**	**31**
HEDGING RESERVE AFTER DEFERRED TAX	**(92)**	**(52)**

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

16.3 Dividends paid and proposed

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.

for the 3-month period ended March 31, 2019, in accordance with IFRS EU (in PLN million)

17. Provisions

The carrying amount of provisions is as follows:

	As at March 31, 2019		As at December 31, 2018	
	Non-current	Current	Non-current	Current
Employee benefits	2,469	247	2,460	245
Rehabilitation provision	3,825	2	3,763	3
Provision for shortage of CO_2 emission allowances	119	2,779	119	1,802
Provision for energy origin units held for redemption	-	596	-	423
Provision for non-contractual use of property	66	10	63	10
Other provisions	24	106	23	125
TOTAL PROVISIONS	**6,503**	**3,740**	**6,428**	**2,608**

Changes in provisions

	Employee benefits	Rehabilitation provision	Provision for shortage of CO_2 emission allowances	Provision for energy origin units held for redemption	Provision for non-contractual use of property	Other	Total
January 1, 2019	**2,705**	**3,766**	**1,921**	**423**	**73**	**148**	**9,036**
Current service costs	23	-	-	-	-	-	23
Interest costs	20	32	-	-	-	-	52
Benefits paid / Provisions used	(32)	-	-	-	-	(8)	(40)
Provisions reversed	-	-	-	-	(4)	(29)	(33)
Provisions recognised - costs	-	10	976	162	7	13	1,168
Provisions recognised – expenditures	-	18	-	-	-	-	18
Other changes	-	1	1	11	-	6	19
MARCH 31, 2019	**2,716**	**3,827**	**2,898**	**596**	**76**	**130**	**10,243**

	Employee benefits	Rehabilitation provision	Provision for shortage of CO_2 emission allowances	Provision for energy origin units held for redemption	Provision for non-contractual use of property	Other	Total
JANUARY 1, 2018	**2,529**	**3,086**	**1,453**	**340**	**83**	**151**	**7,642**
Actuarial gains and losses	179	-	-	-	-	-	179
Current service costs	94	-	-	-	-	-	94
Past service 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**

17.1 Provision for employee benefits

Provisions for employee benefits mainly include:

- post-employment benefits - PLN 1,854 million (PLN 1,845 million as at December 31, 2018),
- jubilee awards - PLN 862 million (PLN 860 million as at December 31, 2018).

17.2 Rehabilitation provision

Provision for rehabilitation of post-exploitation mining properties

PGE Group creates provisions for rehabilitation of post-exploitation mining properties. The amount of the provision recognised in the financial statements includes also the value of Mine Liquidation Fund created in accordance with the Geological and Mining Law Act. The value of the provision as at March 31, 2019 amounted to PLN 3,395 million, and as at December 31, 2018 – to PLN 3,338 million.

Provision for rehabilitation of ash storage

PGE Group power generating units raise provision for rehabilitation of ash storages. The value of the provision as at the reporting date amounted to PLN 197 million, and as at December 31, 2018 – to PLN 195 million.

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Provisions for rehabilitation of post-construction grounds of wind farms

Companies that own wind farms create provisions for rehabilitation of post-construction grounds of wind farms. The value of the provision as at the reporting date amounted to PLN 49 million, and as at December 31, 2018 – to PLN 49 million.

Liquidation of property, plant and equipment

The obligation to liquidate assets and rehabilitate the area results from the "Integrated permission for running electric energy and heat energy producing installation" in which the restitution of the area was specified. As at the reporting date, the value of the provision amounts to PLN 186 million (PLN 184 million as at December 31, 2018) and refers to some assets of the Conventional Generation and Renewables segments.

17.3 Provision for shortage of CO_2 emission allowances

As described in note 13 to these consolidated financial statements, PGE Group is entitled to receive CO_2 emissions allowances granted free of charge in connection to expenditures concerning investments included in National Investment Plan. The calculation of the provision includes also these allowances.

17.4 Provision for energy origin units 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. As at March 31, 2019, the provision amounts to PLN 596 million (PLN 423 million in the comparative period) and is recognised mainly by PGE Obrót S.A.

17.5 Provision for non-contractual use of property

PGE Group companies recognise a provision for damages related 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 PLN 76 million (of which 31 million concerns litigations). In the comparative period the value of the provision amounted to PLN 73 million (of which PLN 34 million concerned litigations).

18. Financial liabilities

The value of financial liabilities measured at amortised cost is a reasonable 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 value at amortised cost presented in these financial statements as at March 31, 2019 amounted to PLN 2,782 million whereas their fair value amounted to PLN 2,845 million.

18.1 Loans, borrowings, bonds and leases

	As at March 31, 2019		As at December 31, 2018 *restated data*	
	Non-current	Current	Non-current	Current
Loans and borrowings	5,759	3,358	5,768	2,168
Bonds issued	592	2,190	592	2,177
Leases	844	34	1	2
TOTAL LOANS, BORROWINGS, BONDS AND LEASES	**7,195**	**5,582**	**6,361**	**4,347**

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Loans and borrowings

Among loans and borrowings presented above as at March 31, 2019, PGE Group presents mainly the following facilities:

Lender	Execution date	Maturity date	Limit in currency	Currency	Interest rate	Liability as at March 31, 2019	Liability as at December 31, 2018
Bank Gospodarstwa Krajowego	2014-12-17	2027-12-31	1,000	PLN	Variable	1,008	1,001
Bank Gospodarstwa Krajowego	2015-12-04	2028-12-31	500	PLN	Variable	504	500
Bank consortium	2015-09-07	2023-09-30	3,630	PLN	Variable	3,627	3,648
Bank consortium	2015-09-07	2019-04-30	1,870	PLN	Variable	1,801	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	359	148
PKO BP S.A.	2018-04-30	2020-04-29	500	PLN	Variable	394	-
Bank Gospodarstwa Krajowego	2018-06-01	2021-05-31	500	PLN	Variable	427	420
Millennium	2014-06-08	2021-06-16	7	PLN	Variable	2	2
PeKaO S.A.	2017-09-21	2020-09-21	40	USD	Variable	105	149
Bank Ochrony Środowiska SA	2006-05-30	2020-10-01	136	PLN	Variable	14	16
Nordic Investment Bank	2005-10-10	2024-06-20	150	EUR	Variable	388	387
Nordic Investment Bank	1999-11-30	2019-05-28	80	USD	Variable	31	30
Bank Ochrony Środowiska SA	2007-05-18	2019-03-31	20	PLN	Variable	-	1
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	15
NFOŚiGW	2014-06-01	November 2020 – December 2028	250	PLN	Fixed	203	203
NFOŚiGW	December 2013 – September 2017	September 2021 – September 2024	212	PLN	Variable	122	127
WFOŚiGW	May 2012 – June 2014	July 2019 – December 2020	370	PLN	Fixed	53	69
WFOŚiGW	April 2013 – December 2018	January 2019 – September 2026	157	PLN	Variable	55	40
TOTAL LOANS AND BORROWINGS						**9,117**	**7,936**

As at March 31, 2019, the value of the available overdrafts at significant PGE Group companies was PLN 381 million. The repayment date of used overdraft facilities of PGE Group's key companies is 2019-2021.

In 2019 and after the reporting period, there were no cases of default on repayment or breach of other terms of credit agreements.

Bonds issued

The Group financed its own operations through the Medium term Eurobonds Issue Programme of EUR 2 billion established on May 22, 2014 by PGE S.A. together with PGE Sweden AB (publ), a 100% subsidiary of PGE S.A. Under the Programme, PGE Sweden AB (publ) may issue eurobonds up to the amount of EUR 2 billion with a minimum maturity of 1 year. On June 9, 2014, PGE Sweden AB (publ) issued Eurobonds in the total amount of EUR 500 million and a five year maturity and on August 1, 2014 it has issued bonds in the amount of EUR 138 million and fifteen-year maturity.

After the reporting date, PGE S.A. issued bonds, as described in more detail in Note 23.3 to these financial statements.

Leases

The recognition of lease liabilities results from the implementation of IFRS 16 *Leases*. Therefore, as at January 1, 2019, the Group recognised lease liabilities of PLN 879 million. The standard was implemented using a modified retrospective approach with the total effect of the initial application recognised as at January 1, 2019, therefore the data for the comparative period were not restated. For details on the implementation of IFRS 16, see Note 3 to these financial statements.

for the 3-month period ended March 31, 2019, in accordance with IFRS EU (in PLN million)

18.2 Trade and other financial liabilities

	As at March 31, 2019		As at December 31, 2018	
	Non-current	Current	Non-current	Current
Trade liabilities	-	1,448	-	1,511
Purchase of property, plant and equipment and intangible assets	1	682	6	1,622
Security deposits received	25	87	38	83
Liabilities related to LTC	448	19	455	11
Insurance	-	11	-	17
Collateral for CO_2 transactions	-	156	-	278
Other	19	170	22	91
TRADE AND OTHER FINANCIAL LIABILITIES	**493**	**2,573**	**521**	**3,613**

The value of "Other" includes PGE Dom Maklerski S.A.'s liabilities towards clients on account of funds deposited and estimated reduction of revenue in the first quarter of 2019 resulting from the Act on Amending the Excise Duty Act and Certain Other Acts, as described in more detail in Section 23.1 of these financial statements.

19. Other non-financial liabilities

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

	As at March 31, 2019	As at December 31, 2018
OTHER NON-CURRENT LIABILITIES		
Contract liabilities	40	10
Estimates of liabilities on account of Voluntary Leave Program (VLP)	3	5
TOTAL OTHER NON-CURRENT LIABILITIES	**43**	**15**
OTHER CURRENT LIABILITIES		
Environmental fees	107	266
VAT liabilities	390	173
Excise tax liabilities	32	36
Payroll liabilities	179	279
Bonuses for employees	167	214
Unused holiday leave	173	132
Other employee benefits	96	47
Personal income tax	57	88
Social security liabilities	214	258
Contract liabilities	196	186
Other	85	68
TOTAL OTHER CURRENT LIABILITIES	**1,696**	**1,747**
TOTAL OTHER LIABILITIES	**1,739**	**1,762**

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 State Fund for Rehabilitation of Persons with Disabilities and withholdings from employee wages.

for the 3-month period ended March 31, 2019, in accordance with IFRS EU (in PLN million)

OTHER EXPLANATORY NOTES

20. Contingent liabilities and receivables. Legal claims

20.1 Contingent liabilities

	As at March 31, 2019	As at December 31, 2018
Contingent return of grants from environmental funds	708	756
Legal claims	222	222
Bank guarantee liabilities	267	177
Share purchase option	4	-
Employees' claims	2	1
Other contingent liabilities	35	36
TOTAL CONTINGENT LIABILITIES	**1,238**	**1,192**

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 the claim extended 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 certificate 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 certificates 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 executory agreements (to sell specific energy origin certificates) were executed in a way that circumvented the Public Procurement Law. Alternatively, if the Agreement is considered as an agreement on award of a public procurement, Energa Obrót S.A. was claiming absolute invalidity of the Agreements due to them being executed in a way that circumvented the Public Procurement Law. In November 2017, PGE companies filed responses to the lawsuits, in which they indicated that the accusations made by Energa Obrót S.A. are groundless.

These proceedings are in progress. In all of the cases, the court referred the parties for mediation, which ended on December 15, 2018, without reaching an agreement. In case concerning FW Galicja, the court set first hearing date in October 2019 and in case of FW Kisielice, the next hearing in October 2019. In the case concerning FW Koniecwałd (Malbork), in May 2019, the first hearing took place, which was postponed until July 2019..

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 certificates 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 57 million being imposed (recognised as revenue in the first quarter of 2019 of PLN 12 million and PLN 45 million in previous periods). 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 set a deadline for Energa Obrót S.A. to respond to the counterclaim. On May 22, 2019 during the first hearing, PGE Energia Odnawialna S.A. filed a counterclaim for payment of the principal amount for contractual penalties and capitalized interest accrued for delay in the payment of contractual penalties from due date to the date of filling a counterclaim, including statutory interest for delay in according to the failure to perform FW Koniecwałd (Malbork) agreement through Energa-Obrót S.A.. The court served Energa-Obrót a counterclaim and set a 21 day as a deadline for response.

Estimated volume of the green certificates covered by the contracts with Energa Obrót S.A. amounts to 803 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 mostly present bank guarantees provided as collateral for stock market transactions resulting from membership in the Stock Exchange Clearinghouse. As at March 31, 2019, the total amount of bank guarantees was PLN 267 million (PLN 177 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.

20.2 Other significant issues related to contingent liabilities

Non-contractual use of property

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

Contractual liabilities related to purchase of fuels

According to the concluded agreements on the purchase of fuels (mainly coal and gas), PGE Group companies are obliged to collect the minimum volume of fuels and not to exceed the maximum level of collection of gas fuel in particular hours and months. Failure to collect a minimum volume of fuels specified in the contracts, may result in a necessity to pay some extra fee (in case of gas fuel, the volume not collected by power plants but paid up may be collected within the next three contractual years). In PGE Group's opinion, the terms and conditions of fuel deliveries to its power generating units as described above do not differ from terms and conditions of fuel deliveries to other power generating units on the Polish market.

20.3 Contingent receivables

As at the reporting date, PGE Group held PLN 17 million in contingent receivables related to non-balancing of purchase and sale of energy on the domestic market (PLN 27 million in the comparative period).

20.4 Other legal claims and disputes

Compensation for conversion of shares

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

Regardless of the above, on November 12, 2014 Socrates Investment S.A. (an entity which purchased claims from former PGE Górnictwo i Energetyka S.A. shareholders) filed a lawsuit to impose a compensation in the total amount of over PLN 493 million (plus interest) for damages incurred in respect of incorrect (in their opinion) determination of the exchange ratio of shares in the merger of PGE Górnictwo i Energetyka S.A. and PGE S.A. The Company filed a response to the lawsuit. A hearing concerning appointment of an expert was held on November 20, 2018. At present, first instance court proceedings are pending. The next court hearing has not been scheduled.

Moreover, a similar claim was raised by Pozwy sp. z o.o., a buyer of claims from the former shareholders of PGE Elektrownia Opole S.A. Through a lawsuit filed at the District Court in Warsaw against PGE GiEK S.A., PGE S.A. and PwC Polska sp. z o.o. ("Defendants"), Pozwy sp. z o.o. demanded from the Defendants, in solidum, or jointly damages for Pozwy sp. z o.o. totalling over PLN 260 million with interest for allegedly incorrect (in its opinion) determination of exchange ratio for PGE Elektrownia Opole S.A. shares for PGE Górnictwo i Energetyka Konwencjonalna S.A. shares in a merger of these companies. This lawsuit was delivered to PGE S.A. on March 9, 2017, and the deadline for responding to it was set by the court as July 9, 2017. The following companies: PGE S.A. and PGE GiEK S.A. submitted a response to the claim 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. On April 8, 2019, PGE S.A. received a copy of the appeal filed by the plaintiff on December 7, 2018.

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.

Claims for annulment of General Meeting resolutions

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 does not agree with the claim. It submitted a response to the lawsuit on February 28, 2019.

Termination of contracts for purchase of energy origin certificates 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 certificates, so called "green certificates". In the explanatory statement of 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 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 certificates 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 March 31, 2019, the Group recognised contractual penalty and compensation receivables of PLN 143 million (of which PLN 9 million was recognised as present-period revenue). As the same time, inventories of energy origin certificates that were initially measured at values resulting from the agreements were revalued to market prices. According to PGE Group companies, based on available legal analysis, a favourable resolution in the above disputes is more probable then a negative resolution.

Estimated volume of the green certificates covered by the contracts with Enea S.A. amounts to approximately 2,664 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 certificates 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 and the next hearings are scheduled for June and September 2019.

21. 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 2019: corporate income tax rate – 19%, for smaller enterprises a 9% 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 inspections) and can be subject to inspections by respective authorities that are entitled to issue fines and penalties with penalty interest. Inspections may cover tax settlements for the period of 5 years after the end of calendar year in which the tax was due.

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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.

VAT split payment mechanism

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 March 31, 2019, the cash balance in these VAT accounts totalled PLN 90 million.

Excise tax

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

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

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

Real estate tax

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.

22. 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.

22.1 Associates and jointly controlled entities

The total value of transactions with associates and jointly controlled entities is presented in the table below.

	Period ended March 31, 2019	Period ended March 31, 2018
Sales to associates and jointly controlled entities	6	6
Purchases from associates and jointly controlled entities	452	393

	As at March 31, 2019	As at December 31, 2018
Trade receivables from associates and jointly controlled entities	6	7
Trade liabilities to associates and jointly controlled entities	133	120

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

22.2 State Treasury-controlled companies

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

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

	Period ended March 31, 2019	Period ended March 31, 2018
Sales to related parties	499	463
Purchases from related parties	1,380	1,209

	As at March 31, 2019	As at December 31, 2018
Trade receivables from related parties	234	230
Trade liabilities to related parties	663	682

The largest transactions with companies in which the State Treasury holds a stake concern Polskie Sieci Elektroenergetyczne S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A., PKP Cargo S.A., Grupa LOTOS S.A., Zakłady Azotowe PUŁAWY S.A., PKN Orlen S.A., TAURON Dystrybucja S.A. and purchase of coal from Jastrzębska Spółka Węglowa 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 organisation of trading, purchases and sales transacted through this entity are not recognised as transactions with related parties.

22.3 Management remuneration

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

PLN 000s	Period ended March 31, 2019	Period ended March 31, 2018
Short-term employee benefits (salaries and salary related costs)	8,838	9,371
Post-employment benefits	364	612
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**9,202**	**9,983**
Remuneration of key management personnel of entities of non-core operations	4,792	5,071
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**13,994**	**15,054**

PLN 000s	Period ended March 31, 2019	Period ended March 31, 2018
Management Board of the parent company	2,037	2,027
Supervisory Board of the parent company	190	165
Management Boards – subsidiaries	6,087	7,157
Supervisory Boards – subsidiaries	888	634
TOTAL	**9,202**	**9,983**
Remuneration of key management personnel of entities of non-core operations	4,792	5,071
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**13,994**	**15,054**

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 6.2 Costs by nature and function.

23. Significant events during and after the reporting period

23.1 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%.

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. As a rule, the Act requires retail companies (such as PGE Obrót S.A.) to reduce prices in contracts with customers within 30 days from the enter into force of implementing regulation – 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 estimated..

In consequence, the overall effect of the Act (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.

Effects on reporting

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 individual companies – including mainly 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 reporting 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. 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 191 million as at March 31, 2019. 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.

The following effects of the implementation of the Act are disclosed in these financial statements:

- revenues from the sale of electricity to end customers were recognised at the amounts resulting from agreements in force in the first quarter of 2019, i.e. reduced revenues for customers billed according to the tariff price list and unadjusted revenues for other customers;
- the amount of provisions for onerous contracts in PGE Group was updated. This provisions are reversed at the level of the consolidated financial statements of the Group;
- no compensation which the Group companies expect to receive under the Act has been recognised in profit or loss.

23.2 Granting of additional CO_2 allowances for PGE's installations

As a result of settlement of capital expenditures in PGE Group, generation assets acquired from EDF group in 2017 on April 2019 received additional allocation of CO_2 emission allowances in amount of approx. 11 million emission rights for years 2013 - 2017.

23.3 Issue of bonds by PGE Polska Grupa Energetyczna S.A.

On May 9, 2019, following the closing of book building process, the PGE has decided to issue two series of bonds on Polish market within the domestic bonds program of up to PLN 5 billion.

On May 21, 2019, PGE issued two series of bonds with an aggregate nominal value of PLN 1,400 million:

- PLN 400 million with maturity of 7 years, bearing interest at a variable rate based on interest rate consisting of WIBOR 6M and margin of 1.20%,
- PLN 1,000 million with maturity of 10 years, bearing interest at a variable rate based on interest rate consisting of WIBOR 6M and margin of 1.40%.

No other significant events that would require disclosure in these consolidated financial statements took place between the end of the reporting period and the date on which these financial statements were approved.

for the 3-month period ended March 29, 2019, in accordance with IFRS EU (in PLN million)

II. PGE POLSKA GRUPA ENERGETYCZNA S.A. QUARTERLY FINANCIAL INFORMATION FOR THE 3-MONTH PERIOD ENDED MARCH 31, 2019, IN ACCORDANCE WITH IFRS EU

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	Period ended March 31, 2019 *(unaudited)*	Period ended March 31, 2018 *(unaudited)*
STATEMENT OF PROFIT OR LOSS		
SALES REVENUES	**4,795**	**2,717**
Cost of goods sold	(4,531)	(2,512)
GROSS PROFIT ON SALES	**264**	**205**
Distribution and selling expenses	(4)	(5)
General and administrative expenses	(49)	(49)
Net other operating income	1	-
OPERATING PROFIT	**212**	**151**
Net financial income/(expenses)	4	(18)
PROFIT BEFORE TAX	**216**	**133**
Current income tax	(30)	(15)
Deferred income tax	(11)	(9)
NET PROFIT FOR THE REPORTING PERIOD	**175**	**109**
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified to profit or loss in the future:		
Valuation of hedging instruments	(30)	(49)
Deferred tax	6	9
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET	**(24)**	**(40)**
TOTAL COMPREHENSIVE INCOME	**151**	**69**
NET PROFIT AND DILUTED NET PROFIT PER SHARE (IN PLN)	**0.09**	**0.06**

for the 3-month period ended March 29, 2019, in accordance with IFRS EU (in PLN million)

SEPARATE STATEMENT OF FINANCIAL POSITION

	As at March 31, 2019 *(unaudited)*	As at December 31, 2018 *(audited)* *restated data*
NON-CURRENT ASSETS		
Property, plant and equipment	164	167
Intangible assets	1	1
Right-of-use assets	20	-
Financial receivables	12,995	13,000
Derivatives and other assets measured at fair value through profit or loss	111	115
Shares in subsidiaries	32,024	32,024
Shares in associates and jointly controlled entities	101	101
Deferred tax assets	14	19
	45,430	**45,427**
CURRENT ASSETS		
Inventories	37	4
Income tax receivables	193	57
Trade and other receivables	6,551	5,306
Derivatives	120	231
Other current assets	378	51
Cash and cash equivalents	108	235
	7,387	**5,884**
TOTAL ASSETS	**52,817**	**51,311**
EQUITY		
Share capital	19,165	19,165
Reserve capital	19,872	19,872
Hedging reserve	(26)	(2)
Retained earnings	(26)	(201)
	38,985	**38,834**
NON-CURRENT LIABILITIES		
Non-current provisions	16	16
Loans, borrowings, bonds	5,763	5,733
Derivatives	55	24
Other liabilities	18	21
	5,852	**5,794**
CURRENT LIABILITIES		
Current provisions	9	9
Loans, borrowings, bonds, cash pooling	6,778	5,439
Derivatives	71	164
Trade and other liabilities	744	840
Other non-financial liabilities	378	231
	7,980	**6,683**
TOTAL LIABILITIES	**13,832**	**12,477**
TOTAL EQUITY AND LIABILITIES	**52,817**	**51,311**

* restatement of comparative data is described in note 1 to this quarterly financial information

for the 3-month period ended March 29, 2019, in accordance with IFRS EU (in PLN million)

SEPARATE STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserve capital	Hedging reserve	Retained earnings	Total equity
AS AT JANUARY 1, 2019	**19,165**	**19,872**	**(2)**	**(201)**	**38,834**
Net profit for the reporting period	-	-	-	175	**175**
Other comprehensive income	-	-	(24)	-	**(24)**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**(24)**	**175**	**151**
Retained earnings distribution	-	-	-	-	**-**
Other changes	-	-	-	-	**-**
AS AT MARCH 31, 2019	**19,165**	**19,872**	**(26)**	**(26)**	**38,985**

	Share capital	Reserve capital	Hedging reserve	Retained earnings	Total equity
AS AT JANUARY 1, 2018	**19,165**	**15,328**	**110**	**4,541**	**39,144**
Net profit for the reporting period	-	-	-	109	**109**
Other comprehensive income	-	-	(40)	-	**(40)**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**(40)**	**109**	**69**
Retained earnings distribution	-	-	-	-	**-**
Other changes	-	-	1	-	**1**
AS AT MARCH 31, 2018	**19,165**	**15,328**	**71**	**4,650**	**39,214**

for the 3-month period ended March 29, 2019, in accordance with IFRS EU (in PLN million)

SEPARATE STATEMENT OF CASH FLOWS

	Period ended March 31, 2019 *(unaudited)*	Period ended March 31, 2018 *(unaudited)*
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) before tax	**216**	**133**
Income tax paid	(52)	**11**
Adjustments for:		
Depreciation, amortisation and impairment losses	3	3
Interest and dividend, net	(34)	(7)
Gain / loss on investing activities	8	30
Change in receivables	(1,333)	(88)
Change in inventories	(33)	(1)
Change in liabilities, excluding loans and borrowings	(74)	(8)
Change in other non-financial assets	(353)	20
Change in provisions	-	-
Other	1	-
NET CASH FROM OPERATING ACTIVITIES	**(1,651)**	**93**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	(1)	(1)
(Purchase)/buy-back of bonds issued by PGE Group companies	148	(195)
Purchase of other financial assets	-	(5)
Origination / (repayment) of loans granted under cash pooling agreement	566	(368)
Loans granted	(400)	(419)
Interest received	50	20
Repayment of loans advanced	-	797
Other	-	-
NET CASH FROM INVESTING ACTIVITIES	**363**	**(171)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans, borrowings and issue of bonds	1,809	-
Repayment of loans / buy-back of bonds	(569)	-
Interest paid	(76)	(63)
Other	(3)	(2)
NET CASH FROM FINANCING ACTIVITIES	**1,161**	**(65)**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(127)**	**(143)**
Net foreign exchange differences	(1)	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**233**	**1,831**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	**106**	**1,688**

for the 3-month period ended March 29, 2019, in accordance with IFRS EU (in PLN million)

1. Changes in accounting principles and data presentation

New standards and interpretations which became effective on January 1, 2019

New standards and interpretations that became effective on January 1, 2019, as described in more detail in note 3 to the consolidated financial statements, had no impact on the Company's separate financial statements.

Effect of application of IFRS 16 on the separate financial statements:

- Right-of-use assets and lease liabilities increased by PLN 20 million as at January 1, 2019.
- As at January 1, 2019, retained earnings remained unchanged.
- The gross profit for the first quarter of 2019 is lower by PLN 65 thousand.
- EBITDA for the first quarter of 2019 is higher by PLN 233 thousand.

Changes in applied accounting principles and data presentation

In the current period, the Company decided to change the method of division of receivables and liabilities on account of loans, borrowings and bonds into long-term and short-term portions. The previous present value of cash flows generated was replaced by the payment term method.

The Company has restated the comparative data presented in the statements of financial position. The restatement is shown in the table below.

	As at December 31, 2018 *published data*	Change in presentation	As at December 31, 2018 *restated data*
NON-CURRENT ASSETS, including:			
Financial receivables	12,756	244	13,000
TOTAL NON-CURRENT ASSETS	**45,183**	**244**	**45,427**
CURRENT ASSETS, including:			
Trade and other receivables	5,550	(244)	5,306
TOTAL CURRENT ASSETS	**6,128**	**(244)**	**5,884**
TOTAL ASSETS	**51,311**	**-**	**51,311**
LONG-TERM LIABILITIES, including:			
Loans, borrowings, bonds	5,628	105	5,733
TOTAL NON-CURRENT LIABILITIES	**5,689**	**105**	**5,794**
CURRENT LIABILITIES, including:			
Loans, borrowings, bonds, cash pooling	5,544	(105)	5,439
TOTAL CURRENT LIABILITIES	**6,788**	**(105)**	**6,683**
TOTAL LIABILITIES	**12,477**	**-**	**12,477**
TOTAL EQUITY AND LIABILITIES	**51,311**	**-**	**51,311**

III. Approval of quarterly financial report

This financial report, containing PGE Group's condensed consolidated financial statements and PGE S.A.'s quarterly financial information for the 3-month period ended March 31, 2019, was approved for publication by the Management Board on May 28, 2019.

Warsaw, May 28, 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 Reporting and Tax Department Director	