PGE Polska Grupa Energetyczna S.A.
Semi-annual financial report
for the 6-month period

ended June 30, 2019
in accordance with IFRS EU (in PLN million)

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended June 30, 2019 *(unaudited)*	Period ended June 30, 2018 *(unaudited)* *Data restated **
STATEMENT OF PROFIT OR LOSS			
SALES REVENUE	*7.1*	**18,236**	**12,871**
Cost of goods sold	*7.2*	(15,848)	(9,898)
GROSS PROFIT ON SALES		**2,388**	**2,973**
Distribution and selling expenses	*7.2*	(582)	(711)
General and administrative expenses	*7.2*	(508)	(511)
Net other operating income	*7.3*	1,148	108
OPERATING PROFIT		**2,446**	**1,859**
Net financial expenses	*7.4*	(228)	(236)
Share of profit of entities accounted for using the equity method	*7.5*	22	43
GROSS PROFIT		**2,240**	**1,666**
Current income tax	*9.*	(340)	(322)
Deferred income tax	*9.*	(135)	(48)
NET PROFIT FOR THE REPORTING PERIOD		**1,765**	**1,296**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss in the future:			
Valuation of debt financial instruments	*17.*	3	(1)
Valuation of hedging instruments	*17.*	(146)	35
Foreign exchange differences from translation of foreign entities		(1)	4
Deferred tax	*9.*	27	(6)
Items that may not be reclassified to profit or loss in the future:			
Actuarial gains and losses		(142)	-
Deferred tax	*9.*	27	-
Share of (loss)/profit of entities accounted for using the equity method		(1)	1
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**(233)**	**33**
TOTAL COMPREHENSIVE INCOME		**1,532**	**1,329**
NET PROFIT ATTRIBUTABLE TO:			
– equity holders of the parent company		1,702	1,281
– non-controlling interests		63	15
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
– equity holders of the parent company		1,469	1,314
– non-controlling interests		63	15
EARNINGS AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (IN PLN)		**0.91**	**0.69**

** restatement of comparative data is described in note 4 to these financial statements*

Condensed Consolidated Interim Financial Statements of PGE Group for the 6-month period ended June 30, 2019, in accordance with IFRS EU (in PLN million)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at June 30, 2019 (unaudited)	As at December 31, 2018 audited Data restated*
NON-CURRENT ASSETS			
Property, plant and equipment		63,463	62,274
Investment property		49	48
Intangible assets		719	1,046
Right-of-use assets	4.	1,252	-
Financial receivables	16.1	178	168
Derivatives and other assets measured at fair value through profit or loss	17.	125	117
Shares and other equity instruments		60	53
Shares accounted for using the equity method	12.	800	776
Other non-current assets		475	528
CO_2 emission allowances for captive use	15.	239	1,203
Deferred income tax assets	13.1	406	552
		67,766	**66,765**
CURRENT ASSETS			
Inventories	14.	4,171	2,699
CO_2 emission allowances for captive use	15.	964	408
Income tax receivables		15	69
Derivatives and other assets measured at fair value through profit or loss	17.	79	114
Trade and other financial receivables	16.1	4,908	4,102
Shares and other equity instruments		1	1
Other current assets		706	457
Cash and cash equivalents	16.2	1,289	1,281
		12,133	**9,131**
ASSETS CLASSIFIED AS HELD FOR SALE		**2**	**9**
TOTAL ASSETS		**79,901**	**75,905**
EQUITY			
Share capital	18.1	19,165	19,165
Reserve capital		19,669	19,872
Hedging reserve	18.2	(168)	(52)
Foreign exchange differences from translation		(2)	(1)
Retained earnings		9,511	7,743
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**48,175**	**46,727**
Equity attributable to non-controlling interests		887	1,074
TOTAL EQUITY		**49,062**	**47,801**
NON-CURRENT LIABILITIES			
Non-current provisions	19.	7,570	6,428
Loans, borrowings, bonds and lease	20.1	10,955	6,361
Derivatives	17.	72	26
Deferred income tax liabilities	13.2	1,551	1,616
Deferred income and government grants		603	611
Other financial liabilities	20.2	518	521
Other non-financial liabilities	21.	43	15
		21,312	**15,578**
CURRENT LIABILITIES			
Current provisions	19.	2,524	2,608
Loans, borrowings, bonds and leases	20.1	1,025	4,347
Derivatives	17.	313	110
Trade and other financial liabilities	20.2	3,725	3,613
Income tax liabilities		102	14
Deferred income and government grants		79	87
Other non-financial liabilities	21.	1,759	1,747
		9,527	**12,526**
TOTAL LIABILITIES		**30,839**	**28,104**
TOTAL EQUITY AND LIABILITIES		**79,901**	**75,905**

** restatement of comparative data is described in note 4 to these financial statements*

Condensed Consolidated Interim Financial Statements of PGE Group for the 6-month period ended June 30, 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	*18.1*		*18.2*					
JANUARY 1, 2019	**19,165**	**19,872**	**(52)**	**(1)**	**7,743**	**46,727**	**1,074**	**47,801**
Net profit for the reporting period	-	-	-	-	1,702	1,702	63	1,765
Other comprehensive income	-	-	(116)	(1)	(116)	(233)	-	(233)
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**(116)**	**(1)**	**1,586**	**1,469**	**63**	**1,532**
Previous years' profit distribution	-	(203)	-	-	203	-	-	-
Dividend	-	-	-	-	-	-	(4)	(4)
Settlement of purchase of additional shares in subsidiaries	-	-	-	-	(21)	(21)	(254)	(275)
Acquisition of a new subsidiary	-	-	-	-	-	-	8	8
TRANSACTIONS WITH OWNERS	**-**	**(203)**	**-**	**-**	**182**	**(21)**	**(250)**	**(271)**
JUNE 30, 2019	**19,165**	**19,669**	**(168)**	**(2)**	**9,511**	**48,175**	**887**	**49,062**

	Share capital	Reserve capital	Hedging reserve	Exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total equity
Note	*18.1*		*18.2*					
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	-	-	-	-	1,281	1,281	15	1,296
Other comprehensive income	-	-	28	4	1	33	-	33
COMPREHENSIVE INCOME	**-**	**-**	**28**	**4**	**1,282**	**1,314**	**15**	**1,329**
Dividend	-	-	-	-	-	-	(39)	(39)
Inclusion of companies in consolidation	-	-	-	-	27	27	20	47
Settlement of purchase of additional shares in subsidiaries	-	-	-	-	34	34	(142)	(108)
Other changes	-	-	-	-	(1)	(1)	(1)	(2)
TRANSACTIONS WITH OWNERS	**-**	**-**	**-**	**-**	**60**	**60**	**(162)**	**(102)**
JUNE 30, 2018	**19,165**	**15,328**	**111**	**-**	**12,238**	**46,842**	**1,103**	**47,945**

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CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Period ended June 30, 2019 *(unaudited)*	Period ended June 30, 2018 *(unaudited)*
CASH FLOWS FROM OPERATING ACTIVITIES			
Gross profit		**2,240**	**1,666**
Income tax paid		(238)	(370)
Adjustments for:			
Share of profit of entities accounted for using the equity method		(22)	(43)
Depreciation, amortisation, disposal and impairment losses		1,949	1,844
Interest and dividend, net		106	188
Profit/(loss) on investing activities		(30)	(5)
Change in receivables		(818)	227
Change in inventories		(1,472)	(391)
Change in liabilities, excluding loans and borrowings		956	(380)
Change in other non-financial assets, prepayments and CO_2 emission allowances		123	436
Change in provisions		292	(430)
Other		107	(59)
NET CASH FROM OPERATING ACTIVITIES		**3,193**	**2,683**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets		(3,180)	(2,847)
Recognition of deposits with maturity over 3 months		(94)	(213)
Termination of deposits with maturity over 3 months		83	200
Purchase of financial assets		(14)	(81)
Inclusion of companies in consolidation		-	18
Other		19	18
NET CASH FROM INVESTING ACTIVITIES		**(3,186)**	**(2,905)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans, borrowings		4,436	337
Proceeds from issue of bonds		1,400	-
Repayment of loans, borrowings and finance leases		(3,258)	(180)
Redemption of bonds issued		(2,139)	(1,000)
Interest and commission paid		(163)	(172)
Increase of share in Group companies		(275)	(111)
Other		-	4
NET CASH FROM FINANCING ACTIVITIES		**1**	**(1,122)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**8**	**(1,344)**
Net foreign exchange differences		*(1)*	*(3)*
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	*16.2*	**1,279**	**2,551**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	*16.2*	**1,287**	**1,207**

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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 Parent Company's registered office is in Warsaw, ul. Mysia 2.

As at January 1, 2019, June 30, 2019 and as at 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 June 30, 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 June 30, 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., 58 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 June 30, 2019 ("financial statements," "consolidated financial statements") and include comparative data for the period from January 1, 2018 to June 30, 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.

Condensed Consolidated Interim Financial Statements of PGE Group for the 6-month period ended June 30, 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* and presentation changes described in detail in note 4. These financial statements should be read in conjunction with PGE Group's consolidated financial statements for the year ended December 31, 2018, 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 June 30, 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: DISTRICT 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.	100.00%	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.	PGE Górnictwo i Energetyka	50.98%	50.98%

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	Entity	Entity holding stake	Stake held by PGE Group entities as at June 30, 2019	Stake held by PGE Group entities as at December 31, 2018
	Zgierz	Konwencjonalna S.A.		
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 ACTIVITIES			
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.	PGE Energia Odnawialna S.A.	100.00%	100.00%

	Entity	Entity holding stake	Stake held by PGE Group entities as at June 30, 2019	Stake held by PGE Group entities as at December 31, 2018
	Warsaw			
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%
59.	4Mobility S.A. Warsaw	PGE Nowa Energia sp. z o.o.	51.47%	-

** Elektrownia Rybnik (Rybnik Power Plant) belonging to PGE Energia Ciepła S.A. is presented in note 6 to these financial statements in the Conventional Generation segment.*

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 June 30, 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.

- On April 17, 2019 PGE S.A. 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. Following the accounting for the acquisition, the PGE Group recognised goodwill of PLN 7 million.
- On June 14, 2019, PGE Energia Ciepła S.A. acquired 49.96% of shares in PGE Gaz Toruń sp. z o.o. and became the sole shareholder of this company. Following the transaction, equity decreased by PLN 275 million, including PLN 254 million attributable to non-controlling interests.

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 (PLN), 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:

	June 30, 2019	December 31, 2018	June 30, 2018
USD	3.7336	3.7597	3.7440
EUR	4.2520	4.3000	4.3616

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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	January 1, 2020
IFRS 17 *Insurance contracts*	Defines a new approach to recognising revenue and profit/loss in the period in which insurance services are provided	January 1, 2021
Amendments to IFRS 3	These changes clarify the definition of economic activity	January 1, 2020
Amendments to IAS 1 and IAS 8	The amendments concern the definition of 'material.'	January 1, 2020

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

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 are based on the best knowledge of the Management Board relating to current and future operations and events in particular areas. Detailed information on the assumptions made is presented below or in respective explanatory notes.

- In the previous reporting periods PGE Group recognised impairment losses on assets, in particular of property, plant and equipment. In the 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.
- On December 28, 2018, an act amending the act on excise duty and certain other acts ("Act on Electricity Prices") was adopted. The Act, as amended, regulated prices for final customers of electricity for 2019 and introduced a system of compensation for energy companies offering reduced prices. In connection with the provisions of the Act, the Group made estimates of revenues from compensation due and estimates of reductions in revenues. For details, see note 25.1 to these financial statements.
- Provisions are liabilities of uncertain amount or timing. During the reporting period, the Group changed estimates regarding the validity or amounts of some provisions.
- In particular, the rehabilitation provision and provisions for employee benefits were remeasured in the reporting period due to a decrease in the discount rate. For details, see note 19 to these financial statements.
- Uncertainties concerning tax treatment are described in note 23 to the consolidated financial statements.

3. Impairment tests for property, plant and equipment, intangible assets and goodwill

Property, plant and equipment constitute the most significant component of the PGE Group's assets. Due to the volatile macroeconomic environment, PGE Group verifies on a regular basis any indications that the recoverable amount of its assets may be impaired. When assessing the market situation, PGE Group uses both its own analytical tools and the support of independent analytical centres.

3.1 Analysis of indications of impairment of generation assets in the Conventional Generation and District Heating segments

In previous reporting periods, PGE Group recognised significant impairment losses for non-current assets in the Conventional Generation segment and the District Heating segment. Key assumptions used in asset impairment tests carried out in 2018 are described in the consolidated financial statements of PGE Group for 2018.

In the current reporting period, the Group analysed the impairment indications in order to verify whether these assets have been impaired or whether previously recognised impairment losses have reversed.

The most significant factors analysed included:

- analysis of the financial plan,
- confirmation whether the investment plan remains valid,
- analysis of energy and gas prices,
- analysis of assumptions concerning the so-called Capacity Market, support for cogeneration after 2018,
- analysis of estimated margins on production and sale of electricity in future periods, in the light of the most recent projections of prices of energy, hard coal and CO_2 emission rights.

The analysis of indications for the Conventional Generation segment showed that most of the generating units implement the financial plan in accordance with the assumptions. New electricity, coal and CO_2 price projections available to PGE Group indicate that current margin projections can be upheld. Moreover, the change in assumptions concerning the Capacity Market results in an increase in the projected revenues from the Capacity Market. Therefore, PGE Group believes that as at the reporting date there are no indications for recognising impairment losses on non-current assets of the Conventional Generation segment or for reversing impairment losses recognized in prior periods.

The analysis of indications for the Heating segment showed that the generating units implement the financial plan in accordance with the assumptions. New electricity, coal and CO_2 price projections available to PGE Group indicate that current margin projections can be upheld. Moreover, the change in assumptions concerning the Capacity Market results in an increase in the projected revenues from the Capacity Market for most units. At the same time, PGE Group believes that the assumptions adopted in 2018 regarding the support for cogeneration remain valid as at June 30, 2019. Therefore, PGE Group believes that as at the reporting date there are no indications for recognising impairment losses on non-current assets of the District Heating segment or for reversing impairment losses recognized in prior periods.

Some material regulatory assumptions made in impairment tests are beyond the control of PGE Group and it is uncertain whether they will materialise in the future. This applies in particular to issues concerning the shape of the Polish Capacity Market after July 1, 2025, support for cogeneration after 2018 and the allocation of free of charge CO_2 emission rights after 2020. In these areas, the Group uses existing assumptions as to the development of regulations which are subject to risk. Changes in these regulations in the future versus PGE's existing expectations might have an impact on the recoverable amounts of generating assets in the Conventional Generation and Heating segments.

3.2 Analysis of indications of impairment of generation assets in the Renewables segment

In previous reporting periods, PGE Group recognised significant impairment losses for non-current assets in the Renewables segment. Key assumptions used in asset impairment tests carried out in 2018 are described in the consolidated financial statements of PGE Group for 2018.

In the current reporting period, the Group analysed the impairment indications in order to verify whether these assets have been impaired or whether previously recognised impairment losses have reversed.

The most significant factors analysed included:

- analysis of the financial plan,
- confirmation whether the investment plan remains valid,
- analysis of energy, gas and energy origin rights prices,
- analysis of assumptions concerning the so-called Capacity Market,
- analysis of estimated margins on production and sale of electricity in future periods, in the light of the most recent projections of prices of energy, hard coal and CO_2 emission rights.

The analysis of indications for the Renewables segment showed that the generating units implement the financial plan above the assumed values. New electricity and property right price projections available to PGE Group indicate that current margin projections can be upheld. The change in assumptions concerning the Capacity Market results in an increase in the projected revenues from the Capacity Market for pumped-storage power plants and hydropower plants. Therefore, PGE Group believes that as at the reporting date there are no indications for recognising impairment losses on non-current assets of the Renewables segment or for reversing impairment losses recognized in prior periods.

Some material regulatory assumptions made in impairment tests are beyond the control of PGE Group and it is uncertain whether they will materialise in the future. This applies in particular to projections of prices of energy origin rights the uncertainty of which results from the unstable legal and regulatory situation related to the functioning of the energy origin system.

4. 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 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

PGE Group has implemented the new IFRS 16 *Leases* 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 the standard recognised as at January 1, 2019 as an adjustment to the opening balance of retained earnings.

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 ("RPUL") – 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 the infrastructure purpose.

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.

The Group did not recognise any lease agreements or lease decisions related to underground infrastructure. As at the date of these financial statements, market practice in this respect is not uniform. Additionally, in June 2019 a decision of the IFRS Interpretation Committee was issued concerning a similar case in which it was found that the agreement meets the definition of a lease. At present, the Group is in the process of re-examining this issue.

As regards lease agreements for lines/fibre-optic cables/cable ducts, 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 capacity in fibre optic cables) do not meet the definition of a lease.

In accordance with the selected implementation option, the Group did not restate comparative data. As at the date of implementation of IFRS 16, the Group recognised a right-of-use asset for leases previously classified as an operating lease applying IAS 17 *Leases* in the 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. January 1, 2019. The Group accounted for those leases in the same way as short-term leases.
- PGE Group decided to exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- PGE Group used hindsight, in determining the lease term for contract containing options to extend or terminate the lease.

As a result of the application of IFRS 16:

- Recognised right-of-use assets for new lease agreements and lease liabilities increased by PLN 890 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 365 million.
- As at January 1, 2019, retained earnings remained unchanged.
- The gross profit for the first half of 2019 is lower by approximately PLN 17 million.
- As estimated, EBITDA for the first half of 2019 is higher by PLN 25 million.

Accounting policy

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 16 does not apply to lease agreements to explore for or use lignite resources, including in particular agreements for the establishment of mining rights and RPUL, rental agreements and similar land lease agreements for mining sites, forefields and dumping sites. In accordance with the Group's interpretation, agreements concerning the production from lignite deposits are excluded from the scope of IFRS 16.

The Group defines the lease period as the non-cancellable period for which a lessee has the right to use an underlying asset, together with both:

- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option and
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

In determining the lease term and assessing the length of the non-cancellable period of a lease, the Group applies the definition of a contract and determine the period for which the contract is enforceable. A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty. The concept of a penalty includes any economic 'disadvantage' of any kind that creates barriers to exit from the contract.

If only a lessee has the right to terminate a lease, that right is considered to be an option to terminate the lease available to the lessee that an entity considers when determining the lease term. If only a lessor has the right to terminate a lease, the non-cancellable period of the lease includes the period covered by the option to terminate the lease.

The lease term begins at the commencement date (date of making the underlying asset available for use by the lessee) and includes any rent-free periods provided to the lessee by the lessor.

At the lease commencement date, the Group takes into account all relevant facts and circumstances that create an economic incentive for the lessee to exercise, or not to exercise, the option to extend the lease or to purchase the underlying asset, or not to exercise an option to terminate the lease.

The interest rate implicit in the lease is the rate that causes the present value of the lease payments and the unguaranteed residual value to equal the sum of the fair value of the underlying asset and any initial direct costs of the lessor.

The lessee's incremental borrowing rate of interest is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

The lessee recognises a right-of-use asset at the commencement date.

The Group as a lessee applies the exemption in respect of recognition, measurement and presentation in relation to:

- short-term leases, i.e. leases with a term of up to 12 months and without a purchase option;
- leases for which the underlying asset is of low value and is not sub-leased. The Group considers that the underlying asset is of low value (value of the asset when it is new, regardless of the age of the asset being leased) if that value is not higher than PLN 18,000.

The election for short-term leases is made by class of underlying asset to which the right of use relates. The election for leases for which the underlying asset is of low value is made on a lease-by-lease basis.

At the commencement date, the lessee measures the right-of-use asset at cost.

The cost of the right-of-use asset should comprise:

- the amount of the initial measurement of the lease liability;

- any lease payments made at or before the commencement date, less any lease incentives received,
- any initial direct costs incurred by the lessee; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

After the commencement date, a lessee measures the right-of-use asset applying a cost model. The lessee measures the right-of-use asset at cost:

- less any accumulated depreciation and any accumulated impairment losses. Depreciation charges are recognised throughout the lease term, from the moment the asset is placed in service. No depreciation charges are recognised for righ-of-use assets classified as non-current assets held for sale.
- adjusted for any remeasurement of the lease liability (e.g. to reflect revised lease payments).

Lease liability is recognised by the lessee at the commencement date.

At the commencement date, the lessee measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee uses the lessee's incremental borrowing rate.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, the lessee measures the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability which, in each period during the lease term, are the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

Changes in applied accounting principles and data presentation

The statement of comprehensive income includes the following net amounts, respectively: other operating income and other operating expenses as well as financial income and expenses.

In the current period, the Group decided to change the manner of presentation of the following valuations: valuations of currency forwards related to the purchase and sale of CO_2 emission rights for captive use were transferred from financing activities to other operating activities, and valuations of derivatives related to coal trading transactions were transferred from operating activities to other operating activities. The changed presentation more accurately reflects the nature of the Group's operations – in particular, all transactions related to trading in CO_2 allowances and coal are included in the same section of the statement.

The Group also decided to change the method of division of liabilities concerning 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.

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In connection with these changes, the Group has restated the comparative data. The restatement is shown in the tables below.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	Period ended June 30, 2018 *Data published*	Net presentation of other operating activities and financing activities	Change in the recognition of forwards related to trading of coal and CO_2 allowances	Period ended June 30, 2018 *Data restated*
SALES REVENUES	12,871	-	-	12,871
Cost of goods sold	(9,854)	-	(44)	(9,898)
GROSS PROFIT ON SALES	**3,017**	**-**	**(44)**	**2,973**
Distribution and selling expenses	(711)	-	-	(711)
General and administrative expenses	(511)	-	-	(511)
Other operating income	207	(207)	-	-
Other operating expenses	(171)	171	-	-
Net other operating income	-	36	72	108
OPERATING PROFIT	**1,831**	**-**	**28**	**1,859**
Financial income	97	(97)	-	-
Financial expenses	(305)	305	-	-
Net financial expenses	-	(208)	(28)	(236)
Share of profit of entities accounted for using the equity method	43	-	-	43
GROSS PROFIT	**1,666**	**-**	**-**	**1,666**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	As at December 31, 2018 *Data published*	Change of presentation	As at December 31, 2018 *Data restated*
NON-CURRENT 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**

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5. Fair value hierarchy

The principles for valuatiom 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 June 30, 2019		As at December 31, 2018	
FAIR VALUE HIERARCHY	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Hard coal in trading activities	140	-	140	-
CO_2 emission rights in trading activities	1,393	-	4	-
Inventories	**1,533**	**-**	**144**	**-**
Currency forwards	-	23	-	24
Commodity forwards	-	35	-	6
Contracts for purchase/sale of coal in trading activities	-	20	-	2
Valuation of CCIRS	-	30	-	113
Valuation of IRS	-	-	-	4
Commodity SWAP	-	18	-	4
Options	-	10	-	12
Fund participation units	-	68	-	66
Financial assets	**-**	**204**	**-**	**231**
Currency forwards	-	188		59
Commodity forwards	-	2		-
Commodity SWAP	-	123	-	46
Contracts for purchase/sale of coal in trading activities	-	2	-	7
Valuation of IRS	-	70	-	24
Financial liabilities	**-**	**385**	**-**	**136**

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

6. 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 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 final customer.
- 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. 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.

Starting from 2019, PGE Group has distinguished a new segment, District Heating. In previous periods, assets and performance figures of this segment were recognised and analysed within the Conventional Generation segment. Comparative figures presented in the segment note have been restated accordingly.

The new presentation format is designed to improve transparency and strengthen supervision over the implementation of the District Heating Strategy, which is one of the key areas of the Group's development.

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 final consumer. 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.

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6.1 Information on business segments

Information on business segments for the period ended June 30, 2019

	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
STATEMENT OF PROFIT OR LOSS								
Sales to external customers	6,038	2,168	522	6,510	2,982	51	(35)	18,236
Inter-segment sales	3,260	933	36	2,632	46	177	(7,084)	-
TOTAL SEGMENT REVENUE	**9,298**	**3,101**	**558**	**9,142**	**3,028**	**228**	**(7,119)**	**18,236**
Cost of goods sold	(8,430)	(2,674)	(344)	(8,294)	(2,293)	(202)	6,389	**(15,848)**
EBIT *)	**1,216**	**481**	**180**	**457**	**609**	**(15)**	**(482)**	**2,446**
Depreciation, amortisation, disposal and impairment losses recognised in profit or loss	890	291	130	16	602	42	(22)	1,949
EBITDA **)	**2,106**	**772**	**310**	**473**	**1,211**	**27**	**(504)**	**4,395**
ASSETS AND LIABILITIES								
Assets excluding trade receivables	41,025	8,115	3,311	2,687	18,182	729	(2,011)	72,038
Trade receivables	708	350	180	3,530	902	60	(2,388)	3,342
Shares accounted for using the equity method	-	-	-	-	-	-	-	800
Unallocated assets	-	-	-	-	-	-	-	3,721
TOTAL ASSETS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**79,901**
Liabilities excluding trade liabilities	9,446	1,719	384	3,048	2,855	112	(2,068)	15,496
Trade liabilities	942	312	38	2,121	204	39	(2,331)	1,325
Unallocated liabilities	-	-	-	-	-	-	-	14,018
TOTAL LIABILITIES	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**30,839**
OTHER INFORMATION ON BUSINESS SEGMENT								
Capital expenditures on PPE/ IA	1,580	111	31	6	818	93	(96)	2,543
Increases of ROUA	1	-	1	3	2	7	-	14
Impairment losses on financial and non-financial assets	95	90	1	10	4	-	(1)	199
Other non-monetary expenses ***)	2,177	255	38	277	157	20	89	3,013

*) EBIT = operating profit (loss)

**) EBITDA = EBIT + depreciation, amortisation, disposal and impairment losses (property, plant and equipment (PPE), intangible assets (IA), right-of-use assets (ROUA), investment property (IP) and goodwill) that are recognised in profit or loss

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

Condensed Consolidated Interim Financial Statements of PGE Group for the 6-month period ended June 30, 2019, in accordance with IFRS EU (in PLN million)

Information on business segments for the period ended June 30, 2018

Data restated	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
STATEMENT OF PROFIT OR LOSS								
Sales to external customers	2,089	2,342	251	5,234	2,869	81	5	12,871
Inter-segment sales	3,881	643	151	1,684	51	163	(6,573)	-
TOTAL SEGMENT REVENUE	**5,970**	**2,985**	**402**	**6,918**	**2,920**	**244**	**(6,568)**	**12,871**
Cost of goods sold	(5,023)	(2,542)	(289)	(5,998)	(2,126)	(217)	6,297	**(9,898)**
EBIT *)	**503**	**271**	**95**	**255**	**688**	**(12)**	**59**	**1,859**
Depreciation, amortisation, disposal and impairment losses recognised in profit or loss	766	332	127	13	582	43	(19)	1,844
EBITDA **)	**1,269**	**603**	**222**	**268**	**1,270**	**31**	**40**	**3,703**
ASSETS AND LIABILITIES								
Assets excluding trade receivables	35,398	7,600	3,158	1,624	17,146	605	(911)	64,620
Trade receivables	860	275	77	2,927	840	84	(2,345)	2,718
Shares accounted for using the equity method								720
Unallocated assets								2,984
TOTAL ASSETS								**71,042**
Liabilities excluding trade liabilities	6,843	1,194	351	1,296	1,715	119	(485)	11,033
Trade liabilities	742	301	24	2,094	225	26	(2,257)	1,155
Unallocated liabilities								10,909
TOTAL LIABILITIES								**23,097**
OTHER INFORMATION ON BUSINESS SEGMENT								
Capital expenditures	1,298	283	48	5	596	70	(56)	2,244
Impairment losses on financial and non-financial assets	92	51	-	18	10	-	-	171
Other non-monetary expenses ***)	840	173	12	409	87	18	-	1,539

*) EBIT = operating profit (loss)

**) EBITDA = EBIT + depreciation, amortisation, disposal and impairment losses (property, plant and equipment (PPE), intangible assets (IA), right-of-use assets, investment property (IP) and goodwill) that are recognised in profit or loss.

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

Condensed Consolidated Interim Financial Statements of PGE Group for the 6-month period ended June 30, 2019, in accordance with IFRS EU (in PLN million)

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

7. Revenues and expenses

7.1 Revenue from sales

Revenue from sales in the period ended June 30, 2019, by category

A reconciliation of revenue disclosure by category and information on revenue that the entity discloses for each reporting segment is presented below.

	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
Revenue from contracts with customers	9,288	3,087	455	8,233	3,005	226	(7,110)	**17,184**
Revenue from recognised compensations based on the Act on Electricity Prices	4	20	-	907	-	-	-	**931**
Revenue from leases	6	9	103	2	23	2	(9)	**136**
LTC compensations	-	(15)	-	-	-	-	-	**(15)**
TOTAL REVENUE FROM SALES	**9,298**	**3,101**	**558**	**9,142**	**3,028**	**228**	**(7,119)**	**18,236**

Revenue from contracts with customers by category reflecting impacts of economic factors on the nature, amounts, maturity dates and uncertainty of revenue and cash flows have been presented in the table below.

Type of goods or services	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
Revenue from sales of goods and products, including taxes and charges	9,235	3,039	454	7,864	3,011	44	(6,444)	**17,203**
Taxes and charges collected on behalf of third parties	*(2)*	*(6)*	-	*(74)*	*(34)*	-	-	***(116)***
Revenue from sales of goods and products, including:	**9,233**	**3,033**	**454**	**7,790**	**2,977**	**44**	**(6,444)**	**17,087**
Sale of electricity	8,767	1,942	333	5,543	2	-	(4,547)	**12,040**
Sale of distribution services	7	6	-	25	2,870	-	(43)	**2,865**
Sale of heat	91	1,037	-	6	-	-	-	**1,134**
Sale of energy origin rights	15	12	91	8	-	-	(5)	**121**
Regulatory system services	182	-	26	-	-	-	-	**208**
Sale of gas	-	-	-	285	-	-	(30)	**255**
Sale of fuel	-	-	-	647	-	-	(441)	**206**
Other sales of goods and materials	171	36	4	1,276	105	44	(1,378)	**258**
Revenue from sales of services	**55**	**54**	**1**	**443**	**28**	**182**	**(666)**	**97**
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**9,288**	**3,087**	**455**	**8,233**	**3,005**	**226**	**(7,110)**	**17,184**

Revenue from sales in the period ended June 30, 2018, by category

A reconciliation of revenue disclosure by category and information on revenue that the entity discloses for each reporting segment is presented below.

	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
Revenue from contracts with customers	5,963	3,058	295	6,915	2,901	244	(6,555)	**12,821**
Revenue from leases	7	10	107	3	19	-	(13)	**133**
LTC compensations	-	(83)	-	-	-	-	-	**(83)**
TOTAL REVENUE FROM SALES	**5,970**	**2,985**	**402**	**6,918**	**2,920**	**244**	**(6,568)**	**12,871**

Condensed Consolidated Interim Financial Statements of PGE Group for the 6-month period ended June 30, 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 goods or services	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
Revenue from sales of goods and products, without excluding taxes and fees	5,900	3,035	295	6,855	3,171	49	(6,038)	**13,267**
Taxes and fees collected on behalf of third parties	-	*(16)*	-	*(229)*	*(301)*	-	-	***(546)***
Revenue from sales of goods and products, including:	**5,900**	**3,019**	**295**	**6,626**	**2,870**	**49**	**(6,038)**	**12,721**
Sale of electricity	5,531	1,563	216	4,907	1	-	(4,851)	**7,367**
Sale of distribution services	8	6	-	27	2,782	-	(49)	**2,774**
Sale of heat	100	1,037	-	7	**-**	-	-	**1,144**
Sale of energy origin rights	15	223	52	-	-	-	(18)	**272**
Regulatory system services	164	-	27	-	-	-	-	**191**
Sale of gas	-	1	-	341	-	-	(28)	**314**
Sale of fuel	-	-	-	1,223	-	-	(824)	**399**
Other sales of goods and materials	82	189	-	121	87	49	(268)	**260**
Revenue from sales of services	**63**	**39**	**-**	**289**	**31**	**195**	**(517)**	**100**
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**5,963**	**3,058**	**295**	**6,915**	**2,901**	**244**	**(6,555)**	**12,821**

7.2 Costs by nature and function

	Period ended June 30, 2019	Period ended June 30, 2018
COSTS BY NATURE		
Depreciation, amortisation and impairment losses	1,994	1,899
Materials and energy	2,660	2,344
External services	1,155	1,196
Taxes and charges	2,783	1,735
Employee benefits expenses	2,679	2,467
Other costs by nature	139	146
TOTAL COSTS BY NATURE	**11,410**	**9,787**
Change in inventories	(20)	(8)
Cost of products and services for the entity's own needs	(569)	(492)
Distribution and selling expenses	(582)	(711)
General and administrative expenses	(508)	(511)
Cost of goods and materials sold	6,117	1,833
COST OF GOODS SOLD	**15,848**	**9,898**

Condensed Consolidated Interim Financial Statements of PGE Group for the 6-month period ended June 30, 2019, in accordance with IFRS EU (in PLN million)

7.2.1 Depreciation, amortisation, disposal and impairment losses

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

Period ended	Depreciation, amortisation, disposal				Impairment losses		
June 30, 2019	PPE	IA	ROUA	TOTAL	PPE	IA	TOTAL
Cost of goods sold	1,756	42	19	**1,817**	95	-	**95**
Distribution and selling expenses	6	1	-	**7**	-	-	-
General and administrative expenses	15	9	5	**29**	1	-	**1**
RECOGNISED IN PROFIT OR LOSS	**1,777**	**52**	**24**	**1,853**	**96**	**-**	**96**
Cost of products and services for the entity's own needs	45	-	-	**45**	-	-	-
TOTAL	**1,822**	**52**	**24**	**1,898**	**96**	**-**	**96**
Other operating income	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**

Period ended	Depreciation, amortisation, disposal			Impairment losses		
June 30, 2018	PPE	IA	TOTAL	PPE	IA	TOTAL
Cost of goods sold	1,631	45	**1,676**	129	-	**129**
Distribution and selling expenses	6	2	**8**	-	-	-
General and administrative expenses	17	13	**30**	1	-	**1**
RECOGNISED IN PROFIT OR LOSS	**1,654**	**60**	**1,714**	**130**	**-**	**130**
Cost of products and services for the entity's own needs	55	-	**55**	-	-	-
TOTAL	**1,709**	**60**	**1,769**	**130**	**-**	**130**
Other operating income	**-**	**-**	**-**	**(2)**	**-**	**(2)**

The impairment losses recognised in the reporting period concern capital expenditure incurred in the units for which impairment losses were recognised in the previous periods.

Under "Depreciation, amortisation, disposal", the Group recognised the net disposals of PPE and IA of PLN 27 million in the current period and PLN 62 million in the corresponding period.

7.3 Other operating income and expenses

	Period ended June 30, 2019	Period ended June 30, 2018 *Data restated*
OTHER OPERATING INCOME/(EXPENSES)		
CO_2 emission allowances	1,391	-
Effect of revaluation of rehabilitation provisions	(246)	(17)
Penalties, fines and compensations	129	70
Recognition of impairment losses on receivables	(97)	(37)
Valuation and exercise of derivatives, including:	(44)	72
- CO_2	*33*	*28*
- Coal	*(77)*	*44*
Grants	14	11
Reversal / (recognition) of other provisions	9	(26)
Gain on disposal of PPE/IA	6	4
Other	(14)	31
TOTAL NET OTHER OPERATING INCOME/(EXPENSES)	**1,148**	**108**

The CO_2 emission allowances have been described in note 25.2 to these financial statements.

Condensed Consolidated Interim Financial Statements of PGE Group for the 6-month period ended June 30, 2019, in accordance with IFRS EU (in PLN million)

7.4 Financial income and expenses

	Period ended June 30, 2019	Period ended June 30, 2018 *Data restated*
FINANCIAL INCOME/(EXPENSES) FROM FINANCIAL INSTRUMENTS		
Dividends	1	1
Interest	(101)	(78)
Revaluation	(6)	(13)
Exchange differences	(14)	(22)
Loss on disposal of investments	(7)	(20)
TOTAL NET FINANCIAL INCOME/(EXPENSES) FROM FINANCIAL INSTRUMENTS	**(127)**	**(132)**
OTHER FINANCIAL INCOME/(EXPENSES)		
Interest expenses, including the effect of discount unwinding	(97)	(91)
Interest on statutory receivables	-	1
Reversal of provisions	(1)	(10)
Other	(3)	(4)
TOTAL NET OTHER FINANCIAL INCOME/(EXPENSES)	**(101)**	**(104)**
TOTAL NET FINANCIAL INCOME/(EXPENSES)	**(228)**	**(236)**

Interest expenses mainly relate to bonds issued and credit and loans incurred as well as lease liabilities. The interest expenses (discount unwinding) on non-financial items mainly relate to rehabilitation provisions and employee benefit provisions.

7.5 Share of profit (loss) of entities accounted for using the equity method

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**	**49.79%**
Period ended June 30, 2019					
Revenue	4,486	632	-	8	34
Profit (loss) on continuing operations	128	(7)	(3)	-	3
Share in profit (loss) of equity-accounted entities	20	(1)	(1)	-	1
Elimination of unrealised gains and losses	2	-	-	-	-
SHARE IN PROFIT (LOSS) OF EQUITY-ACCOUNTED ENTITIES	**22**	**(1)**	**(1)**	**-**	**2**
Other comprehensive income	**(9)**	**-**	**-**	**-**	**-**
SHARE IN PROFIT (LOSS) OF EQUITY-ACCOUNTED ENTITIES IN OTHER COMPREHENSIVE INCOME	**(1)**	**-**	**-**	**-**	**-**

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**
Period ended June 30, 2018				
Revenue	4,680	686	-	8
Profit (loss) on continuing operations	293	39	(4)	-
Share of profit (loss) of equity-accounted entities	**45**	**6**	**(1)**	**-**
Elimination of unrealised gains and losses	(9)	2	-	-
SHARE IN PROFIT (LOSS) OF EQUITY-ACCOUNTED ENTITIES	**36**	**8**	**(1)**	**-**
Other comprehensive income	5	-	-	-
SHARE IN PROFIT (LOSS) OF EQUITY-ACCOUNTED ENTITIES IN OTHER COMPREHENSIVE INCOME	**1**	**-**	**-**	**-**

Condensed Consolidated Interim Financial Statements of PGE Group for the 6-month period ended June 30, 2019, in accordance with IFRS EU (in PLN million)

8. Impairment losses on assets

	Period ended June 30, 2019	Period ended June 30, 2018
IMPAIRMENT LOSSES ON PROPERTY, PLANT AND EQUIPMENT		
Recognition of impairment losses	241	130
Reversal of impairment losses	146	2
IMPAIRMENT LOSSES ON INVENTORY		
Recognition of impairment losses	37	5
Reversal of impairment losses	4	1

9. Tax in the statement of comprehensive income

Main components of income tax expense for the period ended June 30, 2019, and June 30, 2018 were as follows:

	Period ended June 30, 2019	Period ended June 30, 2018
INCOME TAX RECOGNISED IN THE STATEMENT OF PROFIT OR LOSS		
Current income tax	329	321
Adjustments to current income tax for previous years	11	1
Deferred income tax	145	72
Adjustments to deferred income tax	(10)	(24)
INCOME TAX EXPENSE RECOGNISED IN THE STATEMENT OF PROFIT OR LOSS	**475**	**370**
INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME		
On actuarial gains (losses) on valuation of employee benefit provisions	(27)	-
From valuation of hedging instruments	(27)	6
TAX BENEFIT RECOGNISED IN OTHER COMPREHENSIVE INCOME	**(54)**	**6**

Condensed Consolidated Interim Financial Statements of PGE Group for the 6-month period ended June 30, 2019, in accordance with IFRS EU (in PLN million)

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

In the current period, PGE Group purchased property, plant and equipment and intangible assets worth PLN 2,543 million and right-of-use assets worth PLN 14 million. The largest capital expenditure was incurred by Conventional Generation (PLN 1,581 million) and by Distribution (PLN 820 million). The key expenditure items included: construction of units 5 and 6 at the Opole power plant (PLN 473 million), construction of a new unit at the Turów power plant (PLN 163 million) and connection of new customers (PLN 334 million).

In the current reporting period, an increase was reported in the value of property plant and equipment due to activating a rehabilitation costs by PLN 622 million, of which PLN 582 million results from a change of the discounting rate.

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

11. Future investment commitments

As at June 30, 2019, PGE Group incurred capital expenditure on property, plant and equipment in the amount of approximately PLN 5,267 million. The capital expenditure incurred mainly includes the construction of new energy units and wind farms, and for modernisation of the Group's assets and the purchase of machinery and equipment.

	As at June 30, 2019	As at December 31, 2018 **Data restated*
Conventional Generation	2,967	3,694
Distribution	1,526	1,199
Renewables	490	177
District Heating	109	114
Other activities	175	187
TOTAL FUTURE INVESTMENT COMMITMENTS	**5,267**	**5,371**

** Restatement resulting mainly from the separation of the District Heating*

The most significant future capital expenditure is as follows:

- Conventional Generation:
  - Opole power plant – construction of new units no. 5 and 6 – approximately PLN 511 million
  - Turów power plant – construction of a new unit no. 7 – approximately PLN 1,255 million
  - Turów power plant – modernisation of units no. 1 to 3 – approximately PLN 176 million
- Distribution – capital expenditure related to the network distribution assets with the total value of approximately PLN 1,526 million,
- Renewables – capital expenditure related to the design and construction of Starza, Rybice and Karnice II wind farms – approximately PLN 412 million,
- Other activities, PGE EJ 1 sp. z o. o. – agreement for the provision of technical advisory services with regard to the construction of the first Polish nuclear power plant – PLN 158 million (basic scope). The optional scope thereof amounts to approximately PLN 1,118 million.

PGE EJ 1 sp. z o.o. is the PGE Group's entity directly responsible for making preparations, consisting in conducting environmental and site surveys and obtaining all of the necessary decisions for the construction of the first Polish nuclear power plant and implementing the investment project.

Decisions on the construction of the first Polish nuclear power plant will be made in the context of a decision issued by the Minister of Energy, concerning the model for acquiring technology for a nuclear power plant, the investment project's financing model and the updated version of the Poland's nuclear power programme.

The current scope of the Programme conducted by PGE EJ 1 sp. z o.o. provides for carrying environmental and site surveys at two potential locations (Lubiatowo-Kopalino and Żarnowiec) and in preparing an environmental impact assessment report and a site report.

The PGE Group intends to continue providing PGE EJ 1 sp. z o.o. with the financial support necessary to continue the works within the existing scope of preparatory works under the Programme. A decision on the investment project that consists in constructing a nuclear power plant depends, in particular, on the preparation of the dedicated financing model.

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12. Shares accounted for using the equity method

	As at June 30, 2019	As at December 31, 2018
Polska Grupa Górnicza Sp. z o.o., Katowice	658	640
Polimex-Mostostal S.A., Warsaw	107	108
ElectroMobility Poland S.A., Warsaw	15	15
PEC Bogatynia Sp. z o.o., Bogatynia	8	8
Energopomiar Sp. z o.o., Gliwice	12	5
SHARES ACCOUNTED FOR USING THE EQUITY METHOD	**800**	**776**

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**	**49.79%**
AS AT JUNE 30, 2019					
Current assets	2,601	917	45	4	26
Non-current assets	10,322	700	14	21	18
Current liabilities	3,738	647	1	1	12
Non-current liabilities	4,892	419	-	1	7
NET ASSETS	**4,293**	**551**	**58**	**23**	**25**
Share in net assets	**657**	**91**	**15**	**8**	**12**
Goodwill	1	16	-	-	-
SHARES ACCOUNTED FOR USING THE EQUITY METHOD	**658**	**107**	**15**	**8**	**12**

	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**

13. Deferred tax in the statement of financial position

13.1 Deferred tax assets

	As at June 30, 2019	As at December 31, 2018
Difference between the tax value and the carrying amount of property, plant and equipment	1,979	1,985
Difference between the tax value and the carrying amount of right-of-use assets	157	-
Difference between the tax value and the carrying amount of financial assets	142	65
Difference between the tax value and the carrying amount of liabilities	323	301
Difference between the tax value and the carrying amount of inventories	29	24
LTC compensations	90	61
Liability resulting from estimated decrease of revenue - Act on Electricity Prices	159	-
Rehabilitation provisions	679	549
Provision for purchases of CO_2 emission allowances	369	365
Provisions for employee benefits	669	604
Other provisions	105	131
Infrastructure acquired free of charge and connection fees received	32	34
Other	67	49
DEFERRED TAX ASSETS	**4,800**	**4,168**

Condensed Consolidated Interim Financial Statements of PGE Group for the 6-month period ended June 30, 2019, in accordance with IFRS EU (in PLN million)

13.2 Deferred tax liabilities

	As at June 30, 2019	As at December 31, 2018
Difference between the tax value and the carrying amount of property, plant and equipment	4,636	4,265
Difference between the tax value and the carrying amount of lease liabilities	138	-
Difference between the tax value and the carrying amount of energy certificates of origin	20	48
Difference between the tax value and the carrying amount of financial assets	391	399
Difference between the tax value and the carrying amount of liabilities	13	47
CO_2 emission allowances	492	302
LTC compensations	-	23
Receivables due to recognized compensations – Act on Electricity Prices	174	-
Other	81	148
DEFERRED TAX LIABILITIES	**5,945**	**5,232**
AFTER OFF-SETTING ASSETS AND LIABILITIES IN INDIVIDUAL COMPANIES, THE GROUP'S DEFERRED TAX IS AS FOLLOWS:		
Deferred tax assets	406	552
Deferred tax liabilities	(1,551)	(1,616)

14. Inventories

	As at June 30, 2019	As at December 31, 2018
Maintenance and operation materials	654	640
Hard coal	880	959
Mazut	44	*52*
Other materials	59	*62*
TOTAL MATERIALS	**1,637**	**1,713**
Green certificates of origin	877	576
Yellow certificates of origin	-	169
White certificates of origin	20	1
Other certificates of origin	-	13
TOTAL ENERGY CERTIFICATES OF ORIGIN	**897**	**759**
Hard coal	140	140
CO_2 emission allowances	1,393	4
Other goods	21	15
TOTAL GOODS	**1,554**	**159**
OTHER INVENTORIES	**83**	**68**
TOTAL INVENTORIES	**4,171**	**2,699**

As described in note 25.2 to these consolidated financial statements, the CO_2 emission allowances include EUA resulting from the additional allocation of the CO_2 emission allowances for years 2013-2017. The rights are valuated as at every reporting day at fair value. Their fair value as at June 30, 2019, is PLN 1,391 million. These rights are held for trading activity.

Condensed Consolidated Interim Financial Statements of PGE Group for the 6-month period ended June 30, 2019, in accordance with IFRS EU (in PLN million)

15. CO_2 emission allowances for captive use

CO2 emission allowances (EUA) are granted to power generating units that belong to PGE Group and are covered by the Act on Scheme for Greenhouse Gas Emission Allowance Trading of June 12, 2015. From 2013 onwards, CO_2 emission allowances (EUA) for the production of heat are granted unconditionally, but CO_2 emission allowances for the production of electricity are, as a rule, not covered by the EUA. Pursuant to Article 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, a derogation from the foregoing is possible providing that the investment tasks indicated in National Investment Plan are implemented. The condition under which the free-of-charge CO_2 emission allowances can be obtained is the presentation of annual operational and financial reports on the completion of tasks included in National Investment Plan.

In September 2018, PGE Group submitted reports on tasks included in the National Investment Plan in order to obtain the CO_2 EUA allocations concerning electricity produced in 2018. The allowances were issued in April 2019. The Group received 14 million EUAs for year 2018 and additional amount of 11 million EUAs (held for trading activity) for the years 2013-2017 as described in note 25.2 to these financial statements.

As far as the EUAs for CO_2 emissions related to heating are concerned, the allocation schedule is different and EUAs were issued in February 2019, to serve as coverage for CO_2 emissions for 2019 (1 million EUAs).

	As at June 30, 2019		As at December 31, 2018	
EUA	Non-current	Current	Non-current	Current
Quantity (Mg million)	**3**	**18**	**18**	**19**
Value	**239**	**964**	**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	40	1,475
Granted free of charge	15	-
Redemption	(70)	(1,803)
Reclassification to inventories	(1)	(80)
AS AT JUNE 30, 2019	**21**	**1,203**

16. Selected financial assets

The carrying amount of financial assets measured at amortised cost does not materially differ from the fair value thereof.

16.1 Trade and other financial receivables

	As at June 30, 2019		As at December 31, 2018	
	Non-current	Current	Non-current	Current
Trade receivables	-	3,342	-	3,155
Receivables from recognised compensations based on the Act on Electricity Prices	-	931	-	-
Deposits	172	6	161	7
Deposits and collateral	-	464	1	694
Damages and penalties	-	101	-	193
Other financial receivables	6	64	6	53
TOTAL FINANCIAL RECEIVABLES	**178**	**4,908**	**168**	**4,102**

The deposits and collateral mainly consist of the transaction and hedging deposits and the guarantee fund, related with transactions on the electric energy and CO_2 markets.

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16.2 Cash and cash equivalents

Short-term deposits have terms which differ, as a rule, from one day to one month depending on the Group's actual requirement for cash.

Cash and cash equivalents are, as follows:

	As at June 30, 2019	As at December 31, 2018
Cash at bank and in hand	1,044	1,023
Overnight deposits	28	33
Short-term deposits	178	156
VAT accounts	39	69
TOTAL	**1,289**	**1,281**
Interest accrued on cash, not received at the reporting date	-	-
Exchange differences on cash in foreign currencies	(2)	(2)
Cash and cash equivalents recognised in the statement of cash flows	**1,287**	**1,279**
Undrawn credit limits	6,298	8,312
including overdrafts	*980*	*934*

For details on loan agreements, please see note 20.1 to these financial statements.

Cash includes restricted cash in the amount of PLN 211 million (PLN 98 million in the comparable period) in the client accounts of PGE Dom Maklerski S.A. used as collateral for settlements with Izba Rozliczeniowa Giełd Towarowych S.A., cash in the VAT accounts in the amount of PLN 39 million (PLN 69 million in the comparable period) and deposits in the amount of PLN 13 million (PLN 13 million in the comparable period).

17. Derivatives and other assets valued at fair value through profit or loss

	As at June 30, 2019		As at December 31, 2018	
	Assets	Liabilities	Assets	Liabilities
FINANCIAL INSTRUMENTS VALUED AT FAIR VALUE				
Currency forward	15	188	18	11
Commodity forward contract for CO_2	35	2	6	-
Commodity SWAP	18	123	4	46
Contracts for purchase/sale of coal	20	2	2	7
Options	10	-	12	-
HEDGING DERIVATIVES				
CCIRS hedges	30	-	113	-
IRS hedges	-	70	4	24
Currency forward (USD)	-	-	2	-
Currency forward (EUR)	8	-	4	48
OTHER ASSETS VALUED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Fund participation units	68	-	66	-
TOTAL DERIVATIVES	**204**	**385**	**231**	**136**
Current	79	313	114	110
Non-current	125	72	117	26

Commodity and currency forwards

The commodity and currency forward transactions mainly relate to trade in CO_2 emission allowances and to purchases and sales of coal.

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 is measured using the Black-Scholes method. The option exercise dates are: July 30, 2020, July 30, 2021 and July 30, 2022.

Coal swaps

In order to hedge the commodity risk related to the price of imported coal, PGE Paliwa sp. z o.o. carried out a number of hedging transactions through the use of commodity swaps for coal. The number and value of these transactions is correlated with the quantity and value of imported coal. Changes in fair value are recognised in profit or loss.

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Purchase and sale contracts with physical delivery of coal

PGE Paliwa Sp. z o.o. measures all of its sales and purchase contracts with physical delivery of coal at fair value using the trader-broker model. As at the reporting date, the Company held contracts with maturity dates falling within the period up to December 2020.

IRS hedges

PGE S.A. entered into IRS transactions to hedge interest rates on loans with the total nominal value of PLN 6,130 million. The Group uses hedge accounting in order to recognise these IRS transactions. The impact of hedge accounting on the revaluation reserve has been presented in note 18.2 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, the majority of the CCIRS transactions made are recognised as hedges for bonds issued by PGE Sweden AB (publ).

In the current period, partially bought back PGE Sweden's bonds, and the CCIRS hedge partially was settled.

The Company uses hedge accounting in order to recognise the CCIRS transactions. The impact of hedge accounting on the hedging reserve has been presented in note 18.2 to these financial statements.

18. Equity

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

18.1 Share capital

	As at June 30, 2019	As at December 31, 2018
1 470 576 500 ordinary shares series A with a nominal value of PLN 10.25 per share	15,073	15,073
259 513 500 ordinary shares series B with a nominal value of PLN 10.25 per share	2,660	2,660
73 228 888 ordinary shares series C with a nominal value of PLN 10.25 per share	751	751
66 441 941 ordinary shares series D with a nominal value of PLN 10.25 per share	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 forms part of PGE Group, and the State Treasury has special powers applicable thereto as long as it remains its shareholder.

Special powers of the State Treasury that are applicable to PGE Group companies derive from the Act on Special Powers of the Minister of Energy and their Exercise in Certain Companies and Groups Operating in the Electricity, Oil and Gaseous Fuel Sectors of March 18, 2010 (Journal of Laws of 2016, item 2012). The Act specifies special powers of the Minister of Energy applicable to companies and groups operating in the electricity, oil and gaseous fuel sectors, whose assets are disclosed in the harmonised register of facilities, installations, equipment and services that form part of critical infrastructure.

In accordance with the Act, the Minister of Energy has the right to object to any resolution or legal action of the Management Board, concerning disposal of any of the Company's assets which may present a threat to the functioning, continuity of operations and integrity of critical infrastructure. The objection can also be made to any resolution on the following subjects:

- Dissolution of the Company;
- Changes in or discontinuation of the use of any asset that forms part of critical infrastructure;
- Change in the Company's principal business activity;
- Sale or lease of the Company's business or its organised part or establishment of limited property rights thereon;
- Adoption of a budget, plan of investment activities or long-term strategic plan;
- Relocation of the Company's registered office abroad;

if the implementation of such a resolution may constitute a material threat to the functioning, continuity of operations and integrity of critical infrastructure. The objection is made in the form of an administrative decision.

18.2 Hedging reserve

	Period ended June 30, 2019	Year ended December 31, 2018

AS AT JANUARY 1,	**(52)**	**83**
Change in hedging reserve:	**(143)**	**(166)**
Valuation of hedging instruments, including:	**(146)**	**(158)**
Deferral of changes in the fair value of hedging financial instruments in the part considered as effective hedge	*(249)*	*(62)*
Accrued interest on derivatives transferred from the hedging reserve and recognised in the interest expense	*4*	*(10)*
Currency revaluation of CCIRS transactions transferred from the hedging reserve and recognised in the profit (loss) on foreign exchange differences	*92*	*(85)*
Ineffective portion of change in the fair value of hedging derivatives recognised in profit or loss	*7*	*(1)*
Valuation of other financial instruments	**3**	**(8)**
Deferred tax	**27**	**31**
HEDGING RESERVE AFTER DEFERRED TAX	**(168)**	**(52)**

The hedging reserve includes mainly the effects of valuation of the financial instruments to which cash flow hedge accounting is applied.

18.3 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 that payment of dividends from profits for years 2016, 2017 and 2018 be suspended.

After that period, the Company's Management Board intends to recommend to the General Meeting that dividends be paid to shareholders, amounting to 40-50% of the consolidated net profit attributable to the parent's shareholders, adjusted by impairment losses on property, plant and equipment and intangible assets. The payment of each dividend will particularly depend on the general amount of the Company's debt, expected capital outlays and potential acquisitions.

19. Provisions

The carrying amount of provisions is, as follows:

	As at June 30, 2019		As at December 31, 2018	
	Non-current	Current	Non-current	Current
Employee benefits	2,652	246	2,460	245
Rehabilitation provisions	4,712	2	3,763	3
Provision for shortage of CO_2 emission allowances	120	1,821	119	1,802
Provision for energy origin units held for redemption	-	324	-	423
Provisions for non-contractual use of property	62	11	63	10
Other provisions	24	120	23	125
TOTAL PROVISIONS	**7,570**	**2,524**	**6,428**	**2,608**

Change in provisions

	Employee benefits	Rehabilitation provisions	Provision for shortages 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	46	-	-	-	-	-	46
Interest costs	40	57	-	-	-	-	97
Change in discount rate	178	828	-	-	-	-	1,006
Benefits paid/ Provisions used	(70)	(1)	(1,803)	(419)	-	(13)	(2,306)
Provisions reversed	-	-	(1)	(6)	(8)	(34)	(49)
Provisions recognised – costs	-	21	1,823	315	8	38	2,205
Provisions recognised – expenditure	-	41	-	-	-	-	41
Other changes	(1)	2	1	11	-	5	18
June 30, 2019	**2,898**	**4,714**	**1,941**	**324**	**73**	**144**	**10,094**

Due to the change of market interest rates, the PGE Group updated the discounting rate applied for the valuation of provisions for the rehabilitation costs and the employee benefits provision. The discounting rate for the costs of rehabilitation of mining excavations as at June 30, 2019 amounts to 3.0% (in comparison to 3.7% as at December, 31 2018). Whereas the discounting rate for the employee benefits provision and other provisions for rehabilitation costs as at June 30, 2019 amounts to 2.4% (in comparison to 3.0% as at December 31, 2018). Changes of the discounting rate resulted in:

- An increase of the rehabilitation costs provisions, recognized correspondingly in other operating costs in the amount of PLN 246 million;
- An increase of the rehabilitation costs provision, recognized correspondingly as an increase of tangible fixed assets in the amount of PLN 582 million;

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- An increase of provisions after the period of employment, recognized correspondingly as a decrease of other total income, in the amount of PLN 142 million;
- An increase in jubilee bonuses provision, recognized correspondingly in operating costs in the amount of PLN 36 million.

	Employee benefits	Rehabilitation provisions	Provision for shortages 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
Change in discount rate and other variables	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 – expenditure	-	58	-	-	-	-	58
Acquisition 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**

19.1 Provisions for employee benefits

Provisions for employee benefits mainly include:

- Post-employment benefits – PLN 1,998 million (PLN 1,845 million as at December 31, 2018),
- Jubilee awards – PLN 900 million (PLN 860 million as at December 31, 2018).

19.2 Rehabilitation provisions

Provision for rehabilitation of excavation voids

PGE Group recognises provisions for rehabilitation of excavation voids. The provision disclosed in the financial statements includes also the Mine Liquidation Fund created in accordance with the Geological and Mining Law Act. As at June 30, 2019, the provision was PLN 4,226 million and as at December 31, 2018 it was PLN 3,338 million.

Provision for rehabilitation of ash storage sites

Power generating units recognise provisions for rehabilitation of ash storage sites. As at reporting date, the provision was PLN 229 million and as at December 31, 2018 it was PLN 195 million.

Provision for rehabilitation of wind-farm sites

Companies that own wind farms recognise provisions for rehabilitation of wind-farm sites. As at reporting date, the provision was PLN 56 million and as at December 31, 2018 it was PLN 49 million.

Liquidation of property, plant and equipment

The obligation to liquidate assets and reclaim the area results from the "Integrated permission for running electric energy and heat energy producing installation" in which the details on the restitution thereof are provided. As at the reporting date, the provision was PLN 203 million (PLN 184 million as at December 31, 2018) and covered assets used by Conventional Generation and Renewables.

19.3 Provision for shortages of CO_2 emission allowances

As described in note 15 to thses consolidated financial statements, PGE Group is entitled to receive CO_2 emissions allowances granted free of charge in connection to any expenditure made on the investment projects included in the National Investment Plan. The calculation of the provision also includes these rights.

19.4 Provision for energy origin units held for redemption

Companies within PGE Group recognise provisions for certificates of origin relating to sales carried out during the reporting period or in the prior reporting periods, in an unredeemed part, until the reporting date. As at June 30, 2019, the provision was PLN 324 million (PLN 423 million in the comparable period) and was recognised primarily by PGE Obrót S.A.

19.5 Provisions for claims concerning non-contractual use of property

PGE Group companies recognise provisions for claims concerning non-contractual use of property. This mainly relates to the distribution company that owns distribution networks. As at the reporting date, the total provisions were approximately PLN 73 million (including, PLN 31 million for litigations). In the comparable period, the provisions were PLN 73 million (including, PLN 34 million for litigations).

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20. 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 disclosed in these financial statements as at June 30, 2019 was PLN 602 million and their fair value was PLN 666 million.

20.1 Loans, borrowings, bonds and leases

	As at June 30, 2019		As at December 31, 2018 *Data restated*	
	Non-current	Current	Non-current	Current
Loans, borrowings	8,113	981	5,768	2,168
Bonds issued	1,984	21	592	2,177
Leases	858	23	1	2
TOTAL LOANS, BORROWINGS, BONDS AND LEASES	**10,955**	**1,025**	**6,361**	**4,347**

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Loans and borrowings

As at June 30 2019 and December 31 2019, PGE Group's loans are as follows:

Creditor	Conclusion date	Maturity date	Amount	Currency	Interest rate	Liability as at 30/06/2019	Liability as at 31/12/2018
Bank Gospodarstwa Krajowego	17/12/2014	31/12/2027	1,000	PLN	Variable	1,001	1,001
Bank Gospodarstwa Krajowego	04/12/2015	31/12/2028	500	PLN	Variable	500	500
Bank consortium	07/09/2015	30/09/2023	3,630	PLN	Variable	3,649	3,648
Bank consortium	07/09/2015	30/04/2019	1,870	PLN	Variable	-	1,171
European Investment Bank	27/10/2015	26/10/2032	1,500	PLN	Variable	1,505	-
European Investment Bank	27/10/2015	26/10/2032	490	PLN	Variable	493	-
European Bank for Reconstruction and Development	07/06/2017	06/06/2028	500	PLN	Variable	502	-
Revolving loan	17/09/2018	17/12/2023	4,100	PLN	Variable	-	-
Bank Pekao	05/07/2018	03/07/2021	500	PLN	Variable	98	148
PKO BP	30/04/2018	29/04/2020	500	PLN	Variable	-	-
Bank Gospodarstwa Krajowego	01/06/2018	31/05/2021	500	PLN	Variable	438	420
Millennium	08/06/2014	16/06/2021	7	PLN	Variable	2	2
Bank Pekao	21/09/2017	21/09/2020	40	USD	Variable	133	149
Bank Ochrony Środowiska	30/05/2006	01/10/2020	136	PLN	Variable	11	16
Nordic Investment Bank	10/10/2005	20/06/2024	150	EUR	Variable	338	387
Nordic Investment Bank	30/11/1999	28/05/2019	80	USD	Variable	-	30
Bank Ochrony Środowiska SA	18/05/2007	31/03/2019	20	PLN	Variable	-	1
Shareholders' loan	08/11/2017	06/11/2020	9	PLN	Fixed	9	9
Shareholders' loan	02/03/2018	02/03/2021	14	PLN	Fixed	15	15
NFOŚiGW	01/06/2014	November 2020 – December 2028	250	PLN	Fixed	203	203
NFOŚiGW	December 2013 – September 2017	September 2021 – September 2024	212	PLN	Variable	114	127
WFOŚiGW	May 2012 – June 2014	July 2019 – December 2020	370	PLN	Fixed	31	69
WFOŚiGW	April 2013 – December 2018	January 2019 – September 2026	157	PLN	Variable	52	40
TOTAL BANK AND OTHER LOANS						**9,094**	**7,936**

As at June 30, 2019, the value of undrawn overdrafts available to key PGE Group companies was PLN 980 million.

In the first half-year of 2019 and after the reporting period, there were no cases of default on repayment or breach of other terms of loan agreements.

Bonds issued

Issuer	Investor	Conclusion date	Maturity date	Amount	Currency	Interest rate	Tranche issue date	Tranche maturity date	Liability as at 30/06/2019	Liability as at 31/12/2018
PGE SA	Bondholders	27/06/2013	perpetual	5,000	PLN	Variable	21/05/2019 21/05/2019	21/05/2029 21/05/2026	1,002 401	-
PGE Sweden AB (publ)	Bondholders	22/05/2014	perpetual	2,000	EUR	Fixed	09/06/2014 01/08/2014	09/06/2019 01/08/2029	- 602	2,168 601
TOTAL BONDS ISSUED									**2,005**	**2,769**

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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 in the amount of PLN 890 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 comparable period was not restated. For details on the implementation of IFRS 16, see note 4 to these financial statements.

20.2 Trade and other financial liabilities

	As at June 30, 2019		As at December 31, 2018	
	Non-current	Current	Non-current	Current
Trade liabilities	-	1,325	-	1,511
Revenue reduction estimates	-	981	-	-
Purchases of property, plant and equipment and intangible assets	-	870	6	1,622
Settlements related with stock market transactions	-	355	-	278
Deposits received	26	91	38	83
Insurance	-	14	-	17
LTC liabilities	472	11	455	11
Other	20	78	22	91
TRADE AND OTHER FINANCIAL LIABILITIES	**518**	**3,725**	**521**	**3,613**

The revenue reduction estimates include reductions in revenues in the first half-year of 2019 due to the application of the Act on Electricity Prices, which has been further described in section 25.1 of these financial statements.

Other liabilities include, in particular, liabilities of PGE Dom Maklerski S.A. towards its clients on account of the funds deposited.

21. Other non-financial liabilities

Significant other non-financial liabilities are, as follows:

	As at 30 June 2019	As at 31 December 2018
OTHER NON-CURRENT LIABILITIES		
Contract liabilities	40	10
Estimates of liabilities from the Voluntary Leave Program (VLP)	3	5
TOTAL OTHER NON-CURRENT LIABILITIES	**43**	**15**
OTHER CURRENT LIABILITIES		
Environmental fees	158	266
VAT liabilities	312	173
Excise tax liabilities	3	36
Payroll liabilities	194	279
Bonuses for employees	212	214
Unused holiday leave	178	132
Other employee benefits	143	47
Personal income tax	67	88
Social security liabilities	214	258
Contract liabilities	215	186
Other	63	68
TOTAL OTHER CURRENT LIABILITIES	**1,759**	**1,747**
TOTAL OTHER LIABILITIES	**1,802**	**1,762**

The environmental fees relate mainly to the charges for the use of water and for the gas emissions in conventional power plants, as well as to the exploitation charges paid by lignite mines.

The “Other” item comprises mainly payments to the Employment Pension Programme, the State Fund for Rehabilitation of Persons with Disabilities and withholdings from employee salaries.

June 30, 2019, in accordance with IFRS EU (in PLN million)

OTHER EXPLANATORY NOTES

22. Contingent liabilities and receivables. Legal claims

22.1 Contingent liabilities

	As at June 30, 2019	As at December 31, 2018
Contingent return of grants from environmental funds	711	756
Legal claims	223	222
Bank guarantee liabilities	29	177
Employee claims	1	1
Other contingent liabilities	35	36
TOTAL CONTINGENT LIABILITIES	**999**	**1,192**

Contingent return of grants from environmental funds

These liabilities represent the value of possible future reimbursements of funds received by PGE Group companies from environmental funds for certain investment projects. The funds will be reimbursed, if investments for which they have been granted do not bring the expected environmental effect.

Litigation liabilities

Dispute with WorleyParsons

This contingent liability is mainly related to the dispute with WorleyParsons. WorleyParsons initiated a lawsuit for payment of PLN 59 million for remuneration which, in its opinion, was due and for return of an amount which, in its opinion, was unduly collected by PGE EJ 1 sp. z o.o. from a bank guarantee. Subsequently, WorleyParsons increased its claim to PLN 104 million (i.e. by PLN 45 million). On March 31, 2018, the company filed a response to the WorleyParsons' expanded claim. The Group has not recognised the claims and believes that the court is unlikely to award them to the claimant.

Claims concerning sales contracts for energy certificates of origin concluded with 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. demanded that legal relationships be cancelled that were established as a result of the conclusion of framework agreements for the sale of energy certificates of origin concerning electricity produced at FW Kisielice in 2009, FW Koniecwałd (Malbork) and FW Galicja. The claims of Energa Obrót S.A. were based on the allegation that the implementing agreements (sales contracts for specific certificates of origin) were concluded without regard to the provisions of the Public Procurement Law Act. Alternatively, if the framework agreements were to be considered the contract award agreements, Energa Obrót S.A. claimed that they were absolutely invalid, as their conclusion constituted a breach of the Public Procurement Law Act. In November 2017, PGE companies filed responses to the lawsuits, in which they indicated that the allegations made by Energa Obrót S.A. were groundless.

The proceedings are pending. In all the proceedings, the courts recommended that the parties made use of mediations, but the mediations ended unsuccessfully on December 15, 2018. In the case of FW Galicja, the court set the first hearing to be held in October 2019, and in the case of FW Kisielice, the next hearing date is scheduled for October 2019. In the case of FW Koniecwałd (Malbork) hearings took place in May and July 2019 only to be adjourned till September 2019.

In addition, by motions filed in September 2017, Energa-Obrót S.A. called on PGE Energia Odnawialna S.A. and PGE Energia Natury sp. z o. o. (currently acquired by PGE Energia Odnawialna S.A.) to settle in an amicable manner disputes for payment of claims in the total amount of PLN 71 million, concerning considerations paid, but allegedly undue under the 2009 framework agreements, which according to Energa Obrót S.A. were invalid. The parties failed to reach agreement at the meetings that were held in November and December 2017. Therefore, the claims of PLN 71 million have been disclosed herein as contingent liabilities. The Group has not recognised the claims and believes that the court is unlikely to award them to the claimants.

Having claimed that the agreements concluded in 2009 were invalid, Energa Obrót S.A. refused to purchase the energy certificates of origin concerning electricity produced from renewable sources at FW Kisielice, FW Koniecwałd (Malbork) and FW Galicja, which constituted a breach of the agreements and resulted in contractual penalties of PLN 63 million being imposed (including PLN 18 million recognised as revenues in the first quarter of 2019 and PLN 45 million recognised in the previous years). As Energa Obrót S.A. refused to pay the contractual penalties, PGE Energia Odnawialna S.A. claimed the payment thereof during the court proceedings. PGE Energia Odnawialna S.A. filed counterclaims for payment of the principal amount due, along with capitalised interest, increased by statutory late payment interest, of the contractual penalties imposed in connection with the Energa Obrót S.A.'s failure to perform the framework agreements for the sale of energy certificates of origin concerning electricity produced at FW Kisielice (in April 2018), FW Koniecwałd (Malbork) (in May 2019) and FW Galicja (in August 2019). In August 2019, PGE Energia Odnawialna S.A. extended by further periods the counterclaims for payment of the principal amount due, along with capitalised interest, increased by statutory late payment interest, of the contractual penalties imposed in connection with the failure to perform the agreement related to FW Kisielice and FW Koniecwałd (Malbork).

The estimated volume of green certificates covered by the agreements with Energa Obrót S.A. amounts to 801 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 wind farms.

Bank guarantee liabilities

These liabilities consist mostly of bank guarantees provided as collateral for the stock exchange transactions resulting from membership in the Stock Exchange Clearinghouse. As at June 30, 2019, the total amount of bank guarantees was PLN 29 million (PLN 177 million in the comparable period).

Other contingent liabilities

Other contingent liabilities comprise mainly a potential claim by WorleyParsons (in exceed of the claim already made as described above) in the amount of PLN 33 million.

22.2 Other significant issues related to contingent liabilities

Non-contractual use of property

As described in note 19.5, PGE Group recognises provisions for disputes under court proceedings concerning non-contractual use of properties intended for distribution activities. In addition, PGE Group is involved in disputes at the earlier stages of investigation, and the possibility cannot be ruled out that the number and value of similar claims will increase in the future.

Contractual liabilities related to purchase of fuels

According to the concluded agreements for 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 the minimum volume of fuels specified in the contracts concluded may result in extra fees being imposed (in case of gas fuel, the volume not collected but paid up by power plants 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 the terms and conditions of fuel deliveries to other power generating units in the Polish market.

22.3 Contingent receivables

As at the reporting date, PGE Group held PLN 48 million in contingent receivables resulting from the imbalance between purchases and sales of energy in the domestic market (PLN 27 million in the comparable period).

22.4 Other legal claims and disputes

Compensation for conversion of shares

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

Irrespective of the foregoing, on November 12, 2014, Socrates Investment S.A. (an entity which purchased claims from the former shareholders, i.e. from PGE Górnictwo i Energetyka S.A.) filed a claim for compensation in the total amount of over PLN 493 million (plus interest) for damage incurred as a result of the incorrect (in their opinion) calculation of the exchange ratio for shares in the merger of PGE Górnictwo i Energetyka S.A. and PGE S.A. The Company filed a response to the lawsuit. On November 20, 2018, a hearing was held which concerned the appointment of experts. At present, the first instance court proceedings are pending. The next court hearing has not been scheduled. By decision of April 19, 2019, the Court appointed experts responsible for drawing up an opinion on the aforementioned matter.

A similar claim was also made by Pozwy sp. z o.o., an entity that purchased claims from the former shareholders, i.e. from PGE Elektrownia Opole S.A. Through a lawsuit filed to 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 that the Defendants paid in solidum or jointly damages to Pozwy sp. z o.o. in the total amount of over PLN 260 million, together with interest, for the allegedly incorrect (in its opinion) calculation of the exchange ratio of PGE Elektrownia Opole S.A. shares into PGE Górnictwo i Energetyka Konwencjonalna S.A. shares in the merger of these companies. This lawsuit was served on PGE S.A. on March 9, 2017, and the deadline for responding to it, as set by the court, was July 9, 2017. PGE S.A. and PGE GiEK S.A. submitted their responses to the claim on July 8, 2017. On September 28, 2018, the District Court in Warsaw ruled in the first instance and the lawsuit by Pozwy sp. z o.o. against PGE S.A., PGE GiEK S.A. and PWC Polska sp. z o.o. was dismissed. On April 8, 2019, PGE S.A. received a copy of the appeal filed by the claimant on December 7, 2018.

PGE Group companies have not recognised the claims made 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 were groundless and the entire consolidation process was conducted in a fair and correct manner. The value of shares subject to the process of consolidation was established by an independent company, namely by PwC Polska sp. z o.o. In addition, the merger plans for the aforementioned companies, including the exchange ratios, were examined for accuracy and reliability by an expert appointed by the registration court, who found no irregularities therein. Afterwards the mergers of the aforementioned companies were registered by the court. PGE Group has not recognised a provision for this claim.

Claims for annulment of resolutions adopted by the General Meetings

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 requested that resolutions no. 7, 9 and 20 of the Company's Ordinary General Meeting adopted on July 19, 2018 be annulled. The Company has not recognised the claim. It submitted a response to the lawsuit on February 28, 2019. At present, the first instance court proceedings are pending. The first hearing was held on May 31, 2019 and the second hearing during which witnesses were interviewed was held on August 13, 2019.

The next hearing (to continue the proceedings) is scheduled to take place on November 27, 2019.

Termination of contracts for the purchase of certificates of origin 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.) were notified by Enea S.A. of the termination of the long-term contracts for the purchase of energy certificates of origin concerning electricity produced from renewable sources, i.e. "green certificates". In the justification thereof, Enea S.A. claimed that the companies significantly breached the provisions of the contracts, i.e. that they failed to re-negotiate contractual provisions in accordance with the adaptive clause, as requested by Enea S.A. in July 2015 in connection with the alleged amendment to the legal regulations that had an impact on the performance of the aforementioned contracts.

In the opinion of PGE Group, the termination notices presented by Enea S.A. were submitted in breach of contractual terms. The companies took appropriate steps to enforce their rights. With Enea S.A. refusing to perform long-term contracts for the purchase of energy 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. required that Enea S.A. pay contractual penalties, and PGE Energia Odnawialna S.A. demanded that compensation be paid for damage resulting from the aforementioned actions. All the proceedings are pending, and the next hearings are scheduled for October and November 2019.

Due to the fact that, according to PGE Group, the termination notices 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 145 million (of which PLN 11 million were recognised as the present-period revenues). According to PGE Group companies, based on available legal opinions, a favourable resolution in the above disputes is more probable then an unfavourable one.

The estimated volume of green certificates covered by the contracts with Enea S.A. amounts to 2,663 thousand MWh. The above amount was calculated for the period from the date at which 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 payment of receivables totalling PLN 47 million, concerning invoices issued to Enea S.A. for the sale of certificates of origin under the aforementioned 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 the alleged damages arising as a result of the failure to re-negotiate the contracts. According to the Group companies, such offsets are groundless because Enea S.A.'s receivables concerning payment of compensation have never arisen, and there are no grounds for acknowledging Enea S.A.'s claim that the companies breached contractual provisions. The proceedings are pending, and the next hearings are scheduled for October and November 2019.

23. 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 and/or provincial or other regional authorities resulting from the tax regulations. 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 income (corporate income tax), taxation of turnover (value added tax and 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 in 2019 are, as follows: corporate income tax rate – 19%, for smaller enterprises a 9% rate is likely; 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 characterised by a significant changeability of tax regulations, their high complexity and high potential fees for commitment of any tax crime or any violation of the tax regulations. Tax settlements and other activity areas are governed by regulations (customs or currency inspections) and can be subject to inspections by respective authorities that are entitled to impose fines and penalties, together with penalty interest. Inspections may cover tax settlements for the period of 5 years after the end of calendar year in which a given tax is due.

Tax group

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

Companies included in the tax group must meet a number of requirements, including: 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% (calculated at the tax group level), and execution of transactions with related parties from outside the tax group only on market terms. Any violation of these requirements will result in the tax group being dissolved and losing its taxpayer status. When the tax group is dissolved, each of its member companies will become an independent payer of the corporate income tax.

Condensed Consolidated Interim Financial Statements of PGE Group for the 6-month period ended June 30, 2019, in accordance with IFRS EU (in PLN million)

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 the number of the Group's counterparties that decide to use this mechanism and on the relation between the payment dates of receivables and liabilities. As at June 30, 2019, the cash in the VAT accounts was PLN 39 million.

Excise tax

As a result of the incorrect implementation of EU regulations into the Polish legal system, in 2009 PGE GiEK S.A. initiated proceedings regarding reimbursement of the improperly paid excise tax for the period from January 2006 to February 2009. The irregularity consisted in taxing electricity at the first stage of sales, i.e. at the sale by producers, when it was the sale to end users that should have been taxed.

Having examined the company's complaints with regard to the restitution claims against decisions issued by tax authorities refusing to confirm the 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 adopted by the Supreme Administrative Court on June 22, 2011, file no. I GPS 1/11, precludes the reimbursement of the amounts overpaid). According to the Supreme Administrative Court, the claims that the company sought, especially through the use of economic analyses, were of an offsetting nature and therefore could be sought only in civil courts. Given the above, PGE GiEK S.A. decided to withdraw from the proceedings concerning the restitution claims. Currently, the actions concerning the overpaid excise tax are pending in the civil courts.

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

Property tax

A tax on property constitutes a significant burden on certain PGE Group companies. Regulations concerning the property tax are unclear in certain areas and give rise to a variety of interpretation doubts. Tax authorities, i.e. municipality head, mayor or city president, have often issued inconsistent tax interpretations in similar cases. As a result of the foregoing, PGE Group companies have been and may be a party to court proceedings concerning property tax. If the Group believes that adjustments to the settlements are probable, it recognises a relevant provision.

24. Information on the related parties

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

24.1 Associates and jointly controlled entities

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

	Period ended June 30, 2019	Period ended June 30, 2018
Sales to associates and jointly controlled entities	8	10
Purchases to associates and jointly controlled entities	1,074	963

	As at June 30, 2019	As at December 31, 2018
Trade receivables from associates and jointly controlled entities	2	7
Trade liabilities towards associates and jointly controlled entities	224	120

The amounts presented above include transactions with Polska Grupa Górnicza S.A. and Polimex-Mostostal S.A.

24.2 State Treasury-related companies

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

The total value of transactions with these entities has been presented in the table below.

	Period ended June 30, 2019	Period ended June 30, 2018
Sales to related parties	1,018	914
Purchases from related parties	2,730	2,332

	As at June 30, 2019	As at December 31, 2018

	As at June 30, 2019	As at December 31, 2018
Trade receivables from related parties	310	230
Trade liabilities towards related parties	582	682

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

Moreover, PGE Group enters into significant transactions in the energy market via Towarowa Giełda Energii S.A. (Polish Power Exchange). Due to the fact that this entity deals only with the organisation of trading, any purchases and sales made through this entity are not recognised as transactions with related parties.

24.3 Management remuneration

The key management comprises members of the management boards and supervisory boards of the parent company and significant subsidiaries.

in PLN '000	Period ended June 30, 2019	Period ended June 30, 2018
Short-term employee benefits (salaries and salary related costs)	17,119	19,346
Post-employment benefits	1,427	2,685
TOTAL REMUNERATION OF KEY MANAGEMENT MEMBERS	**18,546**	**22,031**
Remuneration of management members in the entities that carry out non-core operations	11,747	10,847
TOTAL REMUNERATION OF MANAGEMENT MEMBERS	**30,293**	**32,878**

in PLN '000	Period ended June 30, 2019	Period ended June 30, 2018
Management Board of the parent company	3,947	3,937
Supervisory Board of the parent company	379	330
Management Boards – subsidiaries	12,447	16,412
Supervisory Boards – subsidiaries	1,773	1,352
TOTAL	**18,546**	**22,031**
Remuneration of management members in the entities that carry out non-core operations	11,747	10,847
TOTAL REMUNERATION OF MANAGEMENT MEMBERS	**30,293**	**32,878**

PGE Group companies (direct and indirect subsidiaries) apply a rule according to which management board members are employed on the basis of management services contracts. The above remuneration is included in other costs by nature disclosed in note 7.2 “Costs by nature and by function”.

25. Significant events during and after the reporting period

25.1 Act amending the Act on Excise Duty and Some Other Acts

The Act amending the Act on Excise Duty and Some Other Acts ("Act on Electricity Prices") was adopted on December 28, 2018. This Act aims to stabilise electricity prices for final customers in 2019. The Act on Electricity Prices had already been amended twice, i.e. on February 21, 2019 and on June 13, 2019. In addition, the Act on Compensation System for Energy Intensive Sectors and Subsectors, which has an effect on the Act, was adopted on July 19, 2019.

The key provisions of the amended Act on Electricity Prices are as follows:

- From January 1, 2019, 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%.
- In 2019, supply companies are obliged to provide final customers with electricity at prices set in accordance with the Act. The pricing rules and beneficiaries of the Act are different in the first and in the second half-year of 2019.
- From January 1, 2019 to June 30, 2019, electricity prices paid by final customers are to correspond to prices set as at December 31, 2018 in the tariffs approved by the President of the Energy Regulatory Office [Urząd Regulacji Energetyki] ("URE President") or at prices applied as at June 30, 2018, if prices paid by final consumers differ from those specified in the tariffs. All final customers have the right to keep paying prices set in 2018. An exception to that rule are energy intensive companies which are to submit by September 12, 2019 a relevant statement disclaiming the right to use the electricity prices and fees reduced by the Act.
- In the period from July 1, 2019 to December 31, 2019:
  - Households (including residential buildings, garages, holiday homes and allotments) are subject to prices applicable in 2018. In turn, micro and small enterprises, hospitals, public finance sector entities and state organisational units are obliged to submit a relevant statement if they wish to apply prices of 2018. The deadline for submission of such statements ended August 13, 2019.
  - Medium and large companies are not entitled to energy price from 2018 h. These entities may apply to Zarządca Rozliczeń S.A. for funding intended to cover an increase in electricity prices in accordance with the rules on the grant of de minimis aid.
  - Energy intensive companies are not beneficiaries of the Act on Electricity Prices in this period. Energy intensive companies may apply for support under the Act on Compensation System for Energy Intensive Sectors and Subsectors.
- Retail companies (such as PGE Obrót S.A.) are entitled to receive compensation for the reduction in prices. Compensation depends on the average weighted electricity prices and on other unit costs of supply companies published by the URE President and also on the volumes sold. Compensations are granted at companies' request.

In the reporting period, PGE Group adjusted electricity prices applicable to households that pay tariff prices or derivative prices and electricity prices specified in the price lists for tariffs A, B, C and R, in accordance with the Act. In case of other beneficiaries of the Act in Electricity Prices are concerned, in the first half-year of 2019, PGE Group used prices set forth in the concluded agreements, because prices charged to such beneficiaries could only be changed if implementing regulations were published, and those have been published after June 30, 2019. As a consequence, supply companies are obliged to adjust the prices to all final customers by September 13, 2019, with the effect from January 1, 2019.

Effects on reporting

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

- A difference between the 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 the electricity produced and the sales to final customers.
- The value of due compensations for both first-half-year and second-half-year of 2019.
- Uncertainties related to the estimation of revenue' reduction and compensations due.

The majority of effects of the implementation of the Act are estimates made by PGE Group. The foregoing pertains, in particular, to the reduction in revenues from sales of electricity to customers other than households in the period from January 1, 2019 to June 30, 2019 and to the level of compensation expected, for both first-half-year and second-half-year of 2019. The Group based its estimates on its best assumptions, but the final settlement of the reduction in revenues and the compensations received may differ from the values specified in these financial statement. The requests for the price differences for the period from January 1, 2019 to June 30, 2019 are to be submitted within the time limit set by law, i.e. by October, 7 2019. If the request submitted is accepted, the price difference is to be paid within 30 days of receipt of the correctly prepared request.

As far as onerous contracts are concerned within the meaning of IAS 37, in the supply segment the difference between the revenues estimated in accordance with the Act and unavoidable costs to satisfy the obligation to perform contracts amounts to PLN 173 million as at June 30, 2019 (surplus of costs over revenue). As a rule, costs 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. In regard to compensations due for second half-year 2019, the Group assumed that compensations are in fact due and should be accounted for in the financial statements to properly reflect the effects of the Act. In consequence, pursuant to IAS 37, the expected reimbursement of expenses in the form of a part of compensations due for second-half-year 2019 was recognized in the supply segment. The reimbursement amounts to PLN 136 million. The expected reimbursement was estimated for individual groups of contracts in accordance with the Group's best knowledge, in an amount not higher than the value of the provision established for the given group of contracts. The final amount of compensations will depend on the publication of further parameters by the URE President and may differ from the Group's estimates.

In turn, in the Group's opinion, there are no onerous contracts at the level of the consolidated financial statements due to the positive margin generated between the cost of producing energy and its sale to the end recipient.

To sum up, these financial statements include disclosures of the following effects of the implementation of the Act:

- Revenues from sales of electricity to households are invoiced and recognised, as from January 1, 2019, at prices applicable in 2018. The Group estimates that, if the Act had not been implemented, its revenues from sales to households would have been higher by approximately PLN 180 million.
- The Group estimated an adjustment to revenues from sales of electricity to customers other than households. The adjustment amounted to PLN 856 million. The adjustment was recognised in the statement of comprehensive income as a reduction in revenues from sales and in the statement of financial position as a liability. For final customers, who were customers of PGE Obrót S.A. both as at June 30, 2018 and as at June 30, 2019, estimates were prepared according to the prices of these recipients as at June 30, 2018. Whereas for end recipients, for which no prices were available as at June 30, 2018 upon the estimation – estimates were prepared according to best available assumptions of the Group.
- Compensation due for first-half-year 2019 for final customers was estimated, including households, in the amount of PLN 931 million. In the total income statement, the adjustment was recognized as an increase of sales, and in the report on the financial situation – as receivables.
- The provisions for onerous contracts were remeasured, and receivables on the account of reimbursement of expenses in the supply segment were recognized. The provision as at June 30, 2019 amounts to PLN 169 million and receivables due to reimbursement of expenses amount to PLN 136 million. Both the provision and the receivables due to reimbursement are subject to reversal at the level of the Group's consolidated financial statements.

25.2 Granting of additional CO_2 emission allowances for PGE installations

As a result of the settlement of capital expenditures in PGE Group, in April 2019 generation assets acquired from EDF group in 2017 received additional allocation of CO_2 emission allowances in the amount of approximately 11 million tonnes for the years 2013-2017. These rights are designated for trading activity.

The received rights were recognized in Inventory (note 14). The rights are valuated as at every reporting day, at fair value. Their fair value as at June 30, 2019 amounts to PLN 1,391 million.

25.3 Establishment of Fundusz Eko-Inwestycje

On July 30, 2019, PGE S.A., PGE Energia Ciepła S.A., PGE GiEK S.A. and PGE Energia Odnawialna S.A. concluded an investment agreement with Towarzystwo Funduszy Inwestycyjnych Energia S.A. according to which a closed-end investment fund of non-public assets was to be established under the name of "Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych Eko-Inwestycje".

The fund focuses on implementing investment projects of a complementary nature to the core activities of PGE Group, in accordance with its strategy and with the aim of developing new business lines. The Fund's investment policy sets forth specific categories of its investments, market areas and criteria to be followed by the Fund's investment managers. The Fund pursues its investment objective through the investment of its funds in the entities operating in the following areas:

- Electromobility,
- Enhancement of flexibility and optimisation of energy systems,
- Energy efficiency services,
- Reduction of emissions in the energy sector, improvement of its efficiency, reliability and flexibility of production, including production from high-performing sources,
- Use of digital technologies for the purpose of improving cost efficiency of production and supporting processes in the energy sector.

The expected investment horizon is of at least five years, unless a shorter period is stipulated by the terms of the investment made.

Investors are obliged to make payments to the Fund in the total amount of no less than PLN 1.5 billion by the end of the Fund's adjustment period, i.e. by the end of the 36-month period from the Fund's registration, in accordance with the schedule provided in the agreement, with the majority of the payments to be made, however, in 2020. The Fund is opened for an indefinite period. The Fund may be terminated no earlier than after seven years from the entry of the Fund to the investment fund register.

Condensed Separate Interim Financial Statements of PGE Polska Grupa Energetyczna S A, for the 6-month period ended June 30, 2019, in accordance with IFRS EU (in PLN million)

II. CONDENSED SEPARATE INTERIM FINANCIAL STATEMENTS OF PGE POLSKA GRUPA ENERGETYCZNA S.A. FOR THE 6-MONTH PERIOD ENDED JUNE 30, 2019, IN ACCORDANCE WITH IFRS EU

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended June 30, 2019 *(unaudited)*	Period ended June 30, 2018 *(unaudited)* *Data restated**
STATEMENT OF PROFIT OR LOSS			
SALES REVENUE	*6.*	**8,048**	**5,179**
Cost of goods sold	*7.*	(7,488)	(4,827)
GROSS PROFIT ON SALES		**560**	**352**
Distribution and selling expenses	*7.*	(8)	(9)
General and administrative expenses	*7.*	(102)	(104)
Net other operating expenses		-	(1)
OPERATING PROFIT		**450**	**238**
Net financial income	*8.*	1,021	64
PROFIT BEFORE TAX		**1,471**	**302**
Current income tax		(44)	(51)
Deferred income tax		(23)	5
NET PROFIT FOR THE REPORTING PERIOD		**1,404**	**256**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss in the future:			
Valuation of hedging instruments		(39)	(25)
Deferred tax		7	5
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**(32)**	**(20)**
TOTAL COMPREHENSIVE INCOME		**1,372**	**236**
NET PROFIT AND DILUTED NET PROFIT PER SHARE (IN PLN)		**0.75**	**0.14**

* The restatement of comparable data has been described in note 4 to these separate financial statements.

Condensed Separate Interim Financial Statements of PGE Polska Grupa Energetyczna S A, for the 6-month period ended June 30, 2019, in accordance with IFRS EU (in PLN million)

SEPARATE STATEMENT OF FINANCIAL POSITION

	Note	As at June 30, 2019 *(unaudited)*	As at December 31, 2018 *(audited)* *Data restated**
NON-CURRENT ASSETS			
Property, plant and equipment		162	167
Intangible assets		1	1
Right-of-use assets		20	-
Financial receivables	*10.*	13,440	13,000
Derivatives and other assets measured at fair value through profit or loss	*12.*	107	115
Shares in subsidiaries		32,065	32,024
Shares in associates and jointly controlled entities		101	101
Deferred tax assets		3	19
		45,899	**45,427**
CURRENT ASSETS			
Inventories		2	4
Income tax receivables		-	57
Trade and other receivables	*10.*	5,948	5,306
Derivatives	*12.*	278	231
Other current assets	*13.*	1,215	51
Cash and cash equivalents	*11.*	107	235
		7,550	**5,884**
TOTAL ASSETS		**53,449**	**51,311**
EQUITY			
Share capital		19,165	19,165
Reserve capital		19,669	19,872
Hedging reserve		(32)	(2)
Retained earnings		1,404	(201)
		40,206	**38,834**
NON-CURRENT LIABILITIES			
Non-current provisions		18	16
Loans, borrowings and bonds	*15.*	9,582	5,733
Derivatives	*12.*	70	24
Other liabilities		18	21
		9,688	**5,794**
CURRENT LIABILITIES			
Current provisions		9	9
Loans, borrowings, bonds, cash pooling	*15.*	2,414	5,439
Derivatives	*12.*	171	164
Trade and other liabilities		804	840
Income tax liabilities		43	-
Other non-financial liabilities		114	231
		3,555	**6,683**
TOTAL LIABILITIES		**13,243**	**12,477**
TOTAL EQUITY AND LIABILITIES		**53,449**	**51,311**

* The restatement of comparable data has been described in Note 4 to these separate financial statements.

Condensed Separate Interim Financial Statements of PGE Polska Grupa Energetyczna S A, for the 6-month period ended June 30, 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	-	-	-	1,404	**1,404**
Other comprehensive income	-	-	(30)	(2)	**(32)**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**(30)**	**1,402**	**1,372**
Previous years' profit distribution	-	(203)	-	203	-
Other changes	-	-	-	-	-
AS AT JUNE 30, 2019	**19,165**	**19,669**	**(32)**	**1,404**	**40,206**

	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	-	-	-	256	**256**
Other comprehensive income	-	-	(20)	-	**(20)**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**(20)**	**256**	**236**
Previous years' profit distribution	-	-	-	-	-
Other changes	-	-	-	-	-
AS AT JUNE 30, 2018	**19,165**	**15,328**	**90**	**4,797**	**39,380**

Condensed Separate Interim Financial Statements of PGE Polska Grupa Energetyczna S A, for the 6-month period ended June 30, 2019, in accordance with IFRS EU (in PLN million)

SEPARATE STATEMENT OF CASH FLOWS

	Period ended June 30, 2019 *(unaudited)*	Period ended June 30, 2018 *(unaudited)*
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) before tax	**1,471**	**302**
Income tax paid	(66)	80
Adjustments:		
Depreciation, amortisation and impairment losses	6	7
Interest and dividends, net	(1,034)	(52)
Profit (loss) on investing activities	(118)	32
Change in receivables	(168)	24
Change in inventories	2	(215)
Change in liabilities, excluding loans and borrowings	(68)	(36)
Change in other non-financial assets	(203)	(35)
Foreign exchange differences	11	-
NET CASH FROM OPERATING ACTIVITIES	**(167)**	**107**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	(2)	(1)
(Purchase)/buy-back of bonds issued by PGE Group companies	(252)	(203)
Purchase of shares in subsidiaries	(15)	(18)
Loans granted/(repaid) under the cash pooling agreement	527	(433)
Loans granted	(1,267)	(522)
Interest received	279	152
Repayment of loans granted	380	260
NET CASH FROM INVESTING ACTIVITIES	**(350)**	**(765)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans, borrowings	4,420	282
Proceeds from issue of bonds	1,400	-
Repayment of loans, borrowings and finance leases	(5,271)	-
Redemption of the bonds issued	-	(1,000)
Interest paid	(160)	(159)
Other	-	(2)
NET CASH FROM FINANCING ACTIVITIES	**389**	**(879)**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(128)**	**(1,537)**
Net foreign exchange differences	-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**233**	**1,831**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**105**	**294**

1. General information

PGE Polska Grupa Energetyczna S.A. ("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.

PGE S.A. is the parent company of PGE Group ("PGE Group" or "Group") and prepares separate and consolidated financial statements in accordance with the International Financial Reporting Standards adopted by the European Union ("IFRS EU").

The Company's majority shareholder is the State Treasury.

The Company's core business activities are, as follows:
- Supply of electricity and other energy market products,
- Oversight of head offices and holding companies,
- Provision of financial services to PGE Group companies,
- Provision of other services related to the aforementioned activities.

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

Revenues from sales of electricity and other energy market products are the only significant items in the operating revenues. They are generated in the domestic market. Therefore, the Company does not report any operating or geographical business segments.

PGE S.A.'s accounting books are maintained by subsidiary PGE Synergia sp. z o.o.

Statement of compliance

These financial statements were prepared in accordance with the International Accounting Standard 34, Interim Financial Reporting, and pursuant to the Regulation of the Minister of Finance of March 29, 2018 on current and periodical information disclosed by issuers of securities, and on consideration as equivalent of information required by law of countries outside the EU (Journal of Laws from 2018, items 512 and 685).

International Financial Reporting Standards („IFRS") include standards and interpretations approved by the International Accounting Standards Board („IASB") and the International Financial Reporting Interpretations Committee („IFRIC").

Going concern

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

These financial statements comprise financial data for the period from January 1, 2019 to June 30, 2019 ("separate financial statements") and comparable data for the period from January 1, 2018 to June 30, 2018 and as at December 31, 2018.

The same accounting rules (policies) and calculation methods are applied in these financial statements as in the most recent annual financial statements, except for changes indicated in note 4, and they should be read in conjunction with PGE S.A.'s audited separate financial statements prepared in accordance with IFRS EU for the year ended December 31, 2018.

Seasonality of business operations

The main factors that affect the demand for electricity and heat are: weather conditions – air temperature, wind force, rainfall, socio-economic factors – number of energy consumers, energy carriers' prices, growth of GDP and technological factors – advances in technology and product manufacturing technology. Each of these factors has an impact on technical and economic conditions of production and distribution of energy products, thus influences the financial performance of the Company.

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 customers. Seasonality effects are more significant for households than for the industrial sector.
The PGE S.A.'s sales seasonality results from the fact that the Company sells 92% of its electricity sales volume to PGE Obrót S.A. and PGE Dystrybucja S.A., whose demand for electricity is subject to seasonality.

2. Professional judgment of management and estimates

In the period covered by these financial statements, no other significant changes in estimates took place that could have had an impact on the amounts disclosed in the financial statements.

3. Impact of new regulations on the Company's future financial statements

New standards and interpretations that were published but are not yet in force have been described in note 2.3 to the consolidated financial statements.

Condensed Separate Interim Financial Statements of PGE Polska Grupa Energetyczna S A, for the 6-month period ended June 30, 2019, in accordance with IFRS EU (in PLN million)

4. Changes in accounting principles and data presentation

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

An impact of new standards and interpretations that entered into force on January 1, 2019, and had no effect on the Company's separate financial statements, has been described in detail in note 3 to the consolidated financial statements.

Effects of the implementation of IFRS 16 on the separate financial statements:

- As at January 1, 2019, right-of-use assets and financial liabilities increased by PLN 20 million.
- Retained earnings remained unchanged as at January 1, 2019.
- Gross profit for the first half-year of 2019 was lower by PLN 125 thousand.
- EBITDA for the first half-year of 2019 was higher by PLN 466 thousand.

Changes in the applied accounting principles

The statement of comprehensive income includes the following net financial income and expenses.

In the current period, the Company decided to change the presentation of derivatives relating to the trade in CO_2 emission allowances by way of shifting their disclosure from the financial activities to the operating activities. The trade in CO_2 emission allowances for the benefit of PGE Group forms part of the Company's core activities, and therefore the new presentation reflects the nature of the activities carried out by the Company in a more suitable manner.

The Company also decided to change the method of division of receivables from and liabilities on account of loans, borrowings and bonds into long-term and short-term portions. The current present value of the generated cash flows was replaced by the maturity date method. The Company believes that the amended presentation reflects the nature of these items in a more suitable manner.

The Company restated the comparable data presented in the statement of financial position and in the statement of comprehensive income. The restatement has been presented in the tables below.

	Period ended June 30, 2018 *(unaudited)* Data published	Net presentation of financing activities	Change in the recognition of forwards related to trading in CO_2 allowances	Period ended June 30, 2018 *(unaudited)* Data restated
STATEMENT OF PROFIT OR LOSS				
REVENUE FROM SALES	**5,179**	**-**	**-**	**5,179**
Cost of goods sold	(4,791)	-	(36)	(4,827)
GROSS PROFIT ON SALES	**388**	**-**	**(36)**	**352**
OPERATING PROFIT	**274**	**-**	**(36)**	**238**
Financial income	239	(239)	-	-
Financial expenses	(211)	211	-	-
Net financial income	-	28	36	64
PROFIT BEFORE TAX	**302**	**-**	**-**	**302**
NET PROFIT FOR THE REPORTING PERIOD	**256**	**-**	**-**	**256**

	As at December 31, 2018 *Data published*	Change in the presentation	As at December 31, 2018 *Data restated*
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**
NON-CURRENT LIABILITIES, including:			
Loans, borrowings and 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**

Condensed Separate Interim Financial Statements of PGE Polska Grupa Energetyczna S A, for the 6-month period ended June 30, 2019, in accordance with IFRS EU (in PLN million)

5. 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 applied to the financial statements for the year ended December 31, 2018.

The Company measures derivatives at fair value using valuation models for financial instruments based on publicly available exchange rates, interest rates, discount curves for currencies (valid also for commodities, prices of which are denominated in those currencies) derived from active markets. The fair value of derivatives is determined based on the 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 factors, but are derived from the spot rate and appropriate forward interest rate for foreign currencies in relation to PLN.

In the current and comparable reporting periods, financial instruments were not transferred between the first and the second level of fair value hierarchy.

6. Revenues from sales

Revenues from sales in the period ended June 30, 2019, by category

	Period ended June 30, 2019	Period ended June 30, 2018
Revenues from contracts with customers	8,045	5,176
Revenues from leases	3	3
TOTAL REVENUES FROM SALES	**8,048**	**5,179**

The Company carries out its business activities primarily in Poland.

The revenues from contracts with customers by category reflecting impacts of economic factors on the nature, amounts, maturity dates and uncertainty of revenues and cash flows have been presented in the table below.

Type of goods or services	Period ended June 30, 2019	Period ended June 30, 2018
Revenues from sales of goods, including:	**7,578**	**4,780**
Sales of electricity	*6,026*	*4,319*
Sales of gas	*276*	*337*
Sales of CO_2 emission allowances	*1,276*	*124*
Revenues from sales of services	**467**	**396**
Total revenues from contracts with customers	**8,045**	**5,176**

An increase in the revenues from sales of electricity in the first half-year of 2019 in comparison to the corresponding period of the previous year results mainly from an increase in the turnover volumes and from higher selling prices, primarily in transactions with PGE Obrót S.A. The sales to PGE Obrót S.A. are carried out in order to satisfy the demand of retail customers for electricity supplies.

A decrease in the sales of natural gas results from a decrease in the sales volumes, mainly, to the entities other than PGE Group companies and at the gas exchange.

An increase in other sales of goods and materials is caused mainly by an increase in the sales volumes of CO_2 emission allowances .

Information on key customers

The Company's key customers are PGE Group companies. In the first half-year of 2019, the sales to PGE Obrót S.A. were 68% of the revenues from sales, and to PGE Górnictwo i Energetyka Konwencjonalna S.A. approximately 18% of the revenues from sales. In the first half-year of 2018, the sales to these companies were 73% and 8%, respectively.

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7. Costs by nature and by function

	Period ended June 30, 2019	Period ended June 30, 2018
COSTS BY NATURE		
Depreciation, amortisation and impairment losses	6	7
Materials and energy	2	2
External services	33	27
Taxes and charges	2	2
Employee benefit costs	70	58
Other costs by nature	29	35
TOTAL COST BY NATURE	**142**	**131**
Distribution and selling expenses	(8)	(9)
General and administrative expenses	(102)	(104)
Value of goods and materials sold	7,456	4,809
COST OF GOODS SOLD	**7,488**	**4,827**

An increase in the value of the goods and materials sold in the first half-year of 2019, as compared to the first half-year of 2018, results mainly from the aforementioned increase in revenues from sales and from higher prices in the wholesale market.

8. Financial income and expenses

	Period ended June 30, 2019	Period ended June 30, 2018
NET FINANCIAL INCOME/(EXPENSES) FROM FINANCIAL INSTRUMENTS		
Dividends	950	46
Interest	95	20
Revaluation of financial instruments	2	1
Foreign exchange differences	(17)	3
Other	(9)	(6)
TOTAL NET FINANCIAL INCOME/(EXPENSES) FROM FINANCIAL INSTRUMENTS	**1,021**	**64**
NET OTHER FINANCIAL INCOME/(EXPENSES)		
Interest expenses, including the effect of discount unwinding	-	-
Other	-	-
TOTAL NET OTHER FINANCIAL INCOME/(EXPENSES)	**-**	**-**
TOTAL NET FINANCIAL INCOME/(EXPENSES)	**1,021**	**64**

In the period ended June 30, 2019, the Company recognised dividend income mainly from PGE Dystrybucja S.A. in the amount of PLN 935 million, and in the comparable period mainly from PGE Obrót S.A. in the amount of PLN 28 million.

The Company recognises interest income mainly on the bonds issued by subsidiaries and on deposits.

The interest expenses pertain mainly to the bonds issued and the loan incurred, as described in note 15 to these separate financial statments.

9. Shares in subsidiaries

Analysis of impairment indications for PGE Obrót S.A. shares

In the previous reporting periods, PGE S.A. recognised an impairment loss on its stake in PGE Obrót S.A. in the amount of PLN 5,536 million. The reason for this impairment loss was the donation of shares of PGE Dystrybucja S.A., in 2014, as a result of which the equity of PGE Obrót S.A. significantly decreased. After the donation, the value of PGE Obrót S.A. shares was estimated in accordance with IAS 36 using the discounted cash flows method. In the financial statements as at December 31, 2018, PGE S.A. tested PGE Obrót S.A. shares for impairment and their value was estimated to be PLN 1,647 million.

At the end of the current reporting period, another analysis of indications for impairment tests was conducted in order to determine whether these assets were impaired or whether the earlier impairment losses could be reversed. The most important factors analysed included:

- Analysis of the implementation of the financial plan in 2019,
- Analysis of the sales volumes in the years 2019-2023,
- Analysis of the estimated mark-ups on sales of electricity in the years 2019-2023,
- Review of provisions and effects of the Act on Electricity Prices.

The analysis of indications demonstrated that PGE Obrót S.A. complies with the financial plan as expected. The sales volumes and mark-ups are estimated assuming that the impact of competition will be smaller than that estimated in the preceding years, due to the fact that many companies selling electricity to final customers went bankrupt in 2018.

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PGE S.A. believes that the planned cash flow generated by PGE Obrót S.A. throughout the forecast period did not change significantly, therefore at the reporting date there are no indications that the value of PGE Obrót S.A. shares should be impaired or that the impairment losses recognised in the previous periods should be reversed.

10. Financial assets

	As at June 30, 2019		As at December 31, 2018	
	Non-current	Current	Non-current	Current
Trade receivables	-	932	-	844
Bonds acquired	13,215	191	12,821	332
Cash pooling receivables	-	999	-	1,204
Loans granted	225	3,605	179	2,785
Other financial receivables	-	221	-	141
TOTAL FINANCIAL RECEIVABLES	**13,440**	**5,948**	**13,000**	**5,306**

Trade receivables

The trade receivables in the amount of PLN 932 million related mainly to the sales of electricity and services to the subsidiaries in PGE Group. As at June 30, 2019, the receivables from the two largest costumers, i.e. from PGE Obrót S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A., were 87% of the total trade receivables.

Bonds acquired

	As at June 30, 2019		As at December 31, 2018	
	Non-current	Current	Non-current	Current
BONDS ACQUIRED – ISSUER				
PGE Górnictwo i Energetyka Konwencjonalna S.A.	12,130	13	11,736	154
PGE Energia Odnawialna S.A.	1,085	178	1,085	178
TOTAL BONDS ACQUIRED	**13,215**	**191**	**12,821**	**332**

PGE S.A. purchases bonds issued by PGE Group companies. The cash obtained from the issue of bonds is used for financing investment projects, repayment of financial liabilities and for financing current operations.

Bonds with maturities not exceeding 12 months from the reporting date are classified as current assets, and bonds with maturities exceeding 12 months from the reporting date are classified as non-current assets; however, this classification depends not only on maturity dates, but also on the Company's intentions with regard to roll-overs. Inter-group bonds that mature within one year and are expected to be rolled over are classified as non-current instruments. This classification reflects the nature of cash management in a mid- and long-term.

Cash pooling receivables

Cash pooling services are rendered to 16 PGE Group companies by Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Polska Kasa Opieki S.A. PGE S.A. coordinates cash pooling services in PGE Group. This means, in particular, that individual entities settle their positions with the Company and the Company makes settlements with banks. Therefore, financial receivables and liabilities of PGE S.A. include settlements between the entities that participate in the cash pooling system.

Loans granted

	As at June 30, 2019		As at December 31, 2018	
	Non-current	Current	Non-current	Current
LOANS GRANTED – CREDITOR				
PGE Energia Ciepła S.A.	-	2,987	-	2,771
PGE Dystrybucja S.A.	-	604	-	-
PGE Systemy S.A.	115	1	115	1
PGE EJ 1 sp. z o.o.	102	-	56	-
PGE Trading GmbH	-	13	-	13
Bestgum sp. z o.o.	5	-	5	-
Betrans sp. z o.o.	3	-	3	-
TOTAL LOANS GRANTED	**225**	**3,605**	**179**	**2,785**

Condensed Separate Interim Financial Statements of PGE Polska Grupa Energetyczna S A, for the 6-month period ended June 30, 2019, in accordance with IFRS EU (in PLN million)

11. Cash and cash equivalents

Short-term deposits have terms which differ from one day to one month depending on the Company's actual requirement for cash and they bear interest accrued according to the agreed interest rates.

Cash and cash equivalents are, as follows:

	As at June 30, 2019	As at December 31, 2018
Cash at bank	94	211
Overnight deposits	-	-
VAT accounts	13	24
TOTAL	**107**	**235**
Exchange differences on cash in foreign currencies	(2)	(2)
Cash and cash equivalents recognised in the statement of cash flows	**105**	**233**
Undrawn credit limits	5,064	7,290
including overdrafts	*964*	*932*

For more details on loan agreements, please refer to note 15 to these separate financial statements.

12. Derivatives and other receivables valued at fair value through profit or loss

The Company recognises all financial derivatives in its financial statements at fair value.

	As at June 30, 2019		As at December 31, 2018	
	Assets	Liabilities	Assets	Liabilities
FINANCIAL INSTRUMENTS VALUED AT FAIR VALUE				
Currency forward	14	171	4	48
Commodity forwards	50	-	-	116
Futures	215	-	147	
Options	10	-	12	-
HEDGING DERIVATIVES				
CCIRS hedges	30	-	113	-
IRS hedges	-	70	4	24
OTHER ASSETS VALUED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Fund participation units	66	-	66	-
TOTAL DERIVATIVES AND OTHER RECEIVABLES VALUED AT FAIR VALUE THROUGH PROFIT OR LOSS	**385**	**241**	**346**	**188**
Non-current	107	70	115	24
Current	278	171	231	164

Commodity and currency forwards

The commodity and currency forward transactions relate mainly to trade in CO_2 emission allowances .

IRS hedges

The Company entered into IRS transactions to hedge interest rates on loans with a total nominal value of PLN 6,130 million. The Company uses hedge accounting in order to recognise these IRS transactions. The impact of hedge accounting on the equity has been presented in note 18.2 to these consolidated financial statements.

CCIRS hedges

In connection with loans from PGE Sweden AB (publ) with the nominal value of EUR 657.5 million, as described in note 15 to these separate financial statements, in June and August 2014, PGE S.A. entered into CCIRS transactions that hedged both the exchange rate and the 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. The nominal value, payment of interest and repayment of nominal value in CCIRS transactions are correlated with the relevant terms of loan agreements.

In the current period, the Company repaid the loan in the nominal amount of EUR 514 million, and the CCIRS hedge was settled.

The Company uses hedge accounting in order to recognise the CCIRS transactions. The impact of hedge accounting on the equity has been presented in note 18.2 to these consolidated financial statements.

Condensed Separate Interim Financial Statements of PGE Polska Grupa Energetyczna S A, for the 6-month period ended June 30, 2019, in accordance with IFRS EU (in PLN million)

Options

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

Fund participation units

In 2018, the Company purchased investment certificates from PGE Ventures (closed-end investment fund of non-public assets). As at the reporting date, their value was PLN 14 million. In 2017, the Company acquired units in three subfunds of PGE Towarzystwo Funduszy Inwestycyjnych S.A. As at the reporting date, their value was PLN 52 million.

13. Other current assets

	As at June 30, 2019	As at December 31, 2018
Dividend receivables	950	-
Advance payments for deliveries	203	37
Receivables from the tax group	19	8
VAT receivables	34	-
Other	9	6
TOTAL	**1,215**	**51**

The dividend receivables include primarily receivables from PGE Dystrybucja S.A.

The advance payments consist of funds transferred to the subsidiary, PGE Dom Maklerski S.A. for the purchase of electricity and gas in the amount of PLN 203 million in the current reporting period and in the amount of PLN 37 million in the comparable period.

14. Selected financial assets

The carrying amount of financial assets measured at amortised cost does not materially differ from the fair value thereof.

15. Loans, borrowings, bonds and cash pooling

	As at June 30, 2019		As at December 31, 2018	
	Non-current	Current	Non-current	Current
Borrowings received	610	8	606	2,232
Bonds issued	1,398	5	-	-
Loan liabilities	7,554	632	5,127	1,761
Cash pooling liabilities	-	1,769	-	1,446
Lease liabilities	20	-	-	-
TOTAL LOANS, BORROWINGS, BONDS AND CASH POOLING	**9,582**	**2,414**	**5,733**	**5,439**

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Loans received

Creditor	Loan type	Conclusion date	Maturity date	Amount	Currency	Interest rate	Liability as at 30/06/2019	Liability as at 31/12/2018
PGE Sweden AB	Loan for general purposes	10/06/2014	05/06/2019	210	EUR	Fixed	-	904
PGE Sweden AB	Loan for general purposes	10/06/2014	05/06/2019	300	EUR	Fixed	-	1,292
PGE Sweden AB	Loan for general purposes	10/06/2014	05/06/2019	4	EUR	Fixed	-	17
PGE Sweden AB	Loan for general purposes	27/08/2014	31/07/2029	43	EUR	Fixed	187	189
PGE Sweden AB	Loan for general purposes	27/08/2014	31/07/2029	100	EUR	Fixed	431	436
TOTAL LOANS RECEIVED							**618**	**2,838**

In 2014, PGE S.A. and PGE Sweden AB (publ) launched the Medium-Term Eurobond Issue Program, under which PGE Sweden AB (publ) could issue Eurobonds in the amount up to EUR 2 billion with a minimum maturity period of 1 year. In 2014, PGE Sweden AB (publ) issued Eurobonds in the total amount of EUR 638 million. The funds acquired as a result thereof were used by the subsidiary to finance loans granted to the parent company.

In the current period, the Company repaid a loan with the nominal value of EUR 514 million (PLN 2,186 million), and at the same time PGE Sweden AB (publ) redeemed bonds with the total value of EUR 500 million.

Domestic market bond issues

Investor	Program conclusion date	Program maturity date	Amount	Currency	Interest rate	Tranche issue date	Tranche redemption date	Liability as at 30/06/2019	Liability as at 31/12/2018
Bondholders	27/06/2013	perpetual	5,000	PLN	Variable	21/05/2019 21/05/2019	21/05/2029 21/05/2026	1,002 401	-
TOTAL BONDS ISSUED								**1,403**	-

Bank loans

Creditor	Loan type	Conclusion date	Maturity date	Amount	Currency	Interest rate	Liability as at 30/06/2019	Liability as at 31/12/2018
Bank Gospodarstwa Krajowego	Loans for general purposes	17/12/2014	31/12/2027	1,000	PLN	Variable	1,001	1,001
Bank Gospodarstwa Krajowego	Loans for general purposes	04/12/2015	31/12/2028	500	PLN	Variable	500	500
Bank consortium	Loans for general purposes	07/09/2015	30/09/2023	3,630	PLN	Variable	3,649	3,648
Bank consortium	Loans for general purposes	07/09/2015	30/04/2019	1,870	PLN	Variable	-	1,171
European Investment Bank	Loan for the modernisation of the network	27/10/2015	26/10/2032	1,500	PLN	Variable	1,505	-
European Investment Bank	Loan for the construction of the CHP plant	27/10/2015	26/10/2032	490	PLN	Variable	493	-
European Bank for Reconstruction and Development	Financing for selected investment projects	07/06/2017	06/06/2028	500	PLN	Variable	502	-
Revolving loan	Loans for general purposes	17/09/2018	17/12/2023	4,100	PLN	Variable	-	-
Bank Pekao S.A.	Overdraft	05/07/2018	03/07/2021	500	PLN	Variable	98	148
PKO BP S.A.	Overdraft	30/04/2018	29/04/2020	500	PLN	Variable	-	-
Bank Gospodarstwa Krajowego	Overdraft	01/06/2018	31/05/2021	500	PLN	Variable	438	420
TOTAL BANK LOANS							**8,186**	**6,888**

Condensed Separate Interim Financial Statements of PGE Polska Grupa Energetyczna S A, for the 6-month period ended June 30, 2019, in accordance with IFRS EU (in PLN million)

In the first half-year of 2019 and after the reporting period, there were no cases of default on repayment or breach of other terms of loan agreements.

16. Contingent liabilities

	As at June 30, 2019	As at December 31, 2018
Surety and bank guarantee liabilities	11,757	12,408
Other contingent liabilities	-	1
TOTAL CONTINGENT LIABILITIES	**11,757**	**12,409**

Guarantee for PGE Sweden AB (publ) liabilities

Due to establishment of the Eurobonds program in 2014, an agreement was concluded for the issue of a guarantee by PGE S.A. for the liabilities of PGE Sweden AB (publ). The guarantee was issued in the amount of up to EUR 2,500 million (PLN 10,630 million) and is valid until December 31, 2041. As at June 30, 2019, PGE Sweden AB (publ) liabilities from the bonds issued were EUR 142 million (PLN 603 million), and as at December 31, 2018 they were EUR 644 million (PLN 2,769 million).

Surety for PGE Górnictwo i Energetyka Konwencjonalna S.A. liabilities

In January 2014, the Company granted three sureties for a bank payment guarantee issued for PGE Górnictwo i Energetyka Konwencjonalna S.A. The total value of the sureties is PLN 126 million. The sureties granted are related to the investment project implemented by PGE Górnictwo i Energetyka Konwencjonalna S.A., which consists in the construction of new power units at the Opole power plant. In keeping with IFRS 9, guarantees are measured at the amount of provisions for the expected credit losses. This amount, estimated as at June 30, 2019, was not disclosed by the Company due to its insignificant value.

17. Other legal claims and disputes

Compensation for share conversions and lawsuits seeking annulment of the General Meeting resolutions have been described in note 22.4 to the consolidated financial statements.

18. Information on the related parties

Transactions with the related parties are concluded at market prices for the goods, products and services provided or are based on their cost of manufacturing. An exception from this rule pertains to the tax loss settlements within the tax group.
Any benefits from the current settlement of tax losses are attributable to PGE S.A.

19. PGE Group subsidiaries

	Period ended June 30, 2019	Period ended June 30, 2018
Sales to related parties	7,610	4,638
Purchases from related parties	3,548	4,110
Net financial income/ (expenses)	1,168	181

The Company recognises revenues from sales to subsidiaries in PGE Group mainly from sales of electricity.

	As at June 30, 2019	As at December 31, 2018
RECEIVABLES FROM RELATED PARTIES		
Bonds issued by subsidiaries	13,406	13,153
Dividend receivables	950	-
Trade receivables from subsidiaries	898	800
Loans granted to subsidiaries	3,830	2,964
Cash pooling receivables	999	1,204
Receivables from the tax group settlements	19	8
TOTAL RECEIVABLES FROM RELATED PARTIES	**20,102**	**18,129**

	As at June 30, 2019	As at December 31, 2018
LIABILITIES TOWARDS RELATED PARTIES		
Loans received from subsidiaries	618	2,838
Trade liabilities towards related parties	898	633
Cash pooling liabilities	1,769	1,446
Liabilities from the tax group settlements	62	174
TOTAL LIABILITIES TOWARDS SUBSIDIARIES	**3,347**	**5,091**

Standby commitments and sureties granted to subsidiaries by PGE S.A. have been described in note 16 to these separate financial statements.

20. State Treasury-related companies

The State Treasury is the dominant shareholder in PGE Group and therefore, the State Treasury companies are recognised as related parties. The Company closely monitors transactions with its key State Treasury subsidiaries. The total value of transactions with these entities has been presented in the table below.

	Period ended June 30, 2019	Period ended June 30, 2018
Sales to related parties	61	77
Purchases from related parties	106	82

	As at June 30, 2019	As at December 31, 2018
Trade receivables from related parties	9	10
Trade liabilities towards related parties	30	29

The Company also concludes significant transactions in the energy market via Towarowa Giełda Energii S.A. (Polish Power Exchange). Due to the fact that this entity deals only with the organisation of trading, any purchases and sales made through this entity are not recognised as transactions with related parties.

21. Management remuneration

The Company's management comprises members of the Management Board and of the Supervisory Board.

in PLN '000 PLN	Period ended June 30, 2019	Period ended June 30, 2018
Short-term employee benefits (salaries and salary related costs)	4,326	4,267
Post-employment and termination benefits	-	-
TOTAL REMUNERATION OF MANAGEMENT MEMBERS	**4,326**	**4,267**

in PLN '000 PLN	Period ended June 30, 2019	Period ended June 30, 2018
Management Board	3,947	3,937
Supervisory Board	379	330
TOTAL REMUNERATION OF MANAGEMENT MEMBERS	**4,326**	**4,267**

The Company's Management Board members are employed on the basis of civil law contracts for management (management contracts). The above remuneration is included in other costs by nature disclosed in note 7 "Costs by nature and by function".

22. Significant events during and after the reporting period

Significant events in the period have been described in note 25 to the consolidated financial statements. No significant events took place between the end of the reporting period and the date on which these separate financial statements were approved.

III. Approval of the semi-annual financial report

This semi-annual financial report was approved for publication by the Management Board of the parent company on September 24, 2019.

Warsaw, September 24, 2019

Signatures of the Management Board members 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 the person responsible for drawing up these financial statements	Michał Skiba Director, Reporting and Tax Department	