



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

**ended June 30, 2016
in accordance with IFRS EU (in PLN million)**

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended June 30, 2016 (reviewed)	Period ended June 30, 2015 (reviewed) <i>restated*</i>
STATEMENT OF PROFIT OR LOSS			
SALES REVENUES	<u>7.1</u>	13,666	14,245
Costs of goods sold	<u>7.2</u>	(11,822)	(19,473)
GROSS PROFIT/(LOSS) ON SALES		1,844	(5,228)
Distribution and selling expenses	<u>7.2</u>	(727)	(732)
General and administrative expenses	<u>7.2</u>	(399)	(402)
Other operating income	<u>7.3</u>	325	332
Other operating expenses	<u>7.3</u>	(91)	(144)
OPERATING PROFIT/(LOSS)		952	(6,174)
Financial income	<u>7.4</u>	49	110
Financial expenses	<u>7.4</u>	(204)	(171)
Share of profit of associates	<u>7.5</u>	(42)	-
PROFIT/(LOSS) BEFORE TAX		755	(6,235)
Current income tax	<u>9</u>	(227)	(297)
Deferred income tax	<u>9</u>	15	1,473
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD		543	(5,059)
OTHER COMPREHENSIVE INCOME			
Items, which may be reclassified to profit or loss, including:			
Valuation of hedging instruments	<u>18.2</u>	40	76
Foreign exchange differences from translation of foreign entities		4	(2)
Deferred tax	<u>9</u>	(8)	(14)
Items, which will not be reclassified to profit or loss, including::			
Actuarial gains and losses from valuation of provisions for employee benefits		-	140
Deferred tax	<u>9</u>	-	(27)
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		36	173
TOTAL COMPREHENSIVE INCOME		579	(4,886)
NET PROFIT/(LOSS) ATTRIBUTABLE TO:			
– equity holders of the parent company		546	(5,055)
– non-controlling interests		(3)	(4)
NET PROFIT/(LOSS) ATTRIBUTABLE TO:			
– equity holders of the parent company		582	(4,882)
– non-controlling interests		(3)	(4)
EARNINGS AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (IN PLN)		0.29	(2.71)

* for information regarding restatement of comparative figures please refer to note 4 of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at June 30, 2016 (reviewed)	As at December 31, 2015 (audited)	As at June 30, 2015 (reviewed) restated*
NON-CURRENT ASSETS				
Property, plant and equipment		48,833	47,068	42,110
Investment property		31	30	31
Intangible assets		635	904	819
Financial receivables	<u>16.1</u>	148	142	138
Derivatives	<u>17</u>	197	43	24
Available-for-sale financial assets		15	15	15
Shares in associates accounted for under the equity method	<u>12</u>	327	8	9
Other non-current assets	<u>15.1</u>	909	1,063	1,425
Deferred tax assets	<u>13</u>	253	313	365
		51,348	49,586	44,936
CURRENT ASSETS				
Inventories		1,799	1,959	2,468
CO ₂ emission rights for own use	<u>14</u>	1,888	2,172	975
Income tax receivables		15	101	20
Derivatives	<u>17</u>	16	7	19
Trade and other financial receivables	<u>16.1</u>	3,705	3,748	3,592
Available-for-sale financial assets		4	4	9
Other current assets	<u>15.2</u>	473	599	520
Cash and cash equivalents	<u>16.2</u>	1,712	3,104	4,913
Assets classified as held-for-sale		20	16	16
		9,632	11,710	12,532
TOTAL ASSETS		60,980	61,296	57,468
EQUITY				
Share capital	<u>18.1</u>	18,698	18,698	18,698
Hedging reserve	<u>18.2</u>	11	(21)	1
Foreign exchange differences from translation		3	(1)	(3)
Reserve capital		14,310	13,009	13,009
Retained earnings		7,412	8,636	6,725
EQUITY ATTRIBUTED TO EQUITY HOLDERS OF THE PARENT COMPANY		40,434	40,321	38,430
Non-controlling interests		88	96	83
TOTAL EQUITY		40,522	40,417	38,513
NON-CURRENT LIABILITIES				
Non-current provisions	<u>19</u>	6,185	6,044	5,424
Loans, borrowings, bonds and lease	<u>20.1</u>	5,638	5,118	4,569
Derivatives	<u>17</u>	51	55	53
Deferred tax liabilities	<u>13</u>	786	852	643
Deferred income and government grants		1,180	1,192	1,165
Other financial liabilities	<u>20.2</u>	22	34	31
		13,862	13,295	11,885
CURRENT LIABILITIES				
Current provisions	<u>19</u>	1,841	1,809	1,782
Loans, borrowings, bonds and lease	<u>20.1</u>	308	291	252
Derivatives	<u>17</u>	-	34	41
Trade and other financial liabilities	<u>20.2</u>	2,830	3,945	2,100
Income tax liabilities		14	5	136
Deferred income and government grants		121	112	132
Other current non-financial liabilities		1,482	1,388	2,627
		6,596	7,584	7,070
TOTAL LIABILITIES		20,458	20,879	18,955
TOTAL EQUITY AND LIABILITIES		60,980	61,296	57,468

* for information regarding restatement of comparative figures please refer to note 4 of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EQUITY ATTRIBUTED TO EQUITY HOLDERS OF THE PARENT COMPANY

	Share capital	Hedging reserve	Foreign exchange differences from translation	Reserve capital	Retained earnings	TOTAL	Non-controlling interests	TOTAL EQUITY
	Note 18.1	18.2						
AS AT JANUARY 1, 2015	18,698	(61)	(1)	9,231	16,901	44,768	116	44,884
Net loss for the reporting period	-	-	-	-	(3,032)	(3,032)	(5)	(3,037)
Other comprehensive income	-	40	-	-	12	52	-	52
COMPREHENSIVE INCOME	-	40	-	-	(3,020)	(2,980)	(5)	(2,985)
Retained earnings distribution	-	-	-	3,778	(3,778)	-	-	-
Dividend	-	-	-	-	(1,458)	(1,458)	(4)	(1,462)
Changes within the Group	-	-	-	-	-	-	68	68
Acquisition of additional shares in subsidiaries	-	-	-	-	(10)	(10)	(78)	(88)
Other changes	-	-	-	-	1	1	(1)	-
TRANSACTIONS WITH OWNERS	-	-	-	3,778	(5,245)	(1,467)	(15)	(1,482)
AS AT DECEMBER 31, 2015	18,698	(21)	(1)	13,009	8,636	40,321	96	40,417
Net loss for the reporting period	-	-	-	-	546	546	(3)	543
Other comprehensive income	-	32	4	-	-	36	-	36
COMPREHENSIVE INCOME	-	32	4	-	546	582	(3)	579
Retained earnings distribution	-	-	-	1,301	(1,301)	-	-	-
Dividend	-	-	-	-	(467)	(467)	(4)	(471)
Acquisition of additional shares in subsidiaries	-	-	-	-	(1)	(1)	(2)	(3)
Other changes	-	-	-	-	(1)	(1)	1	-
TRANSACTIONS WITH OWNERS	-	-	-	1,301	(1,770)	(469)	(5)	(474)
AS AT JUNE 30, 2016	18,698	11	3	14,310	7,412	40,434	88	40,522

EQUITY ATTRIBUTED TO EQUITY HOLDERS OF THE PARENT COMPANY

	Share capital	Hedging reserve	Foreign exchange differences from translation	Reserve capital	Retained earnings	TOTAL	Non-controlling interests	TOTAL EQUITY
AS AT JANUARY 1, 2015	18,698	(61)	(1)	9,231	16,901	44,768	116	44,884
Net loss for the reporting period	-	-	-	-	(5,055)	(5,055)	(4)	(5,059)
Other comprehensive income	-	62	(2)	-	113	173	-	173
COMPREHENSIVE INCOME	-	62	(2)	-	(4,942)	(4,882)	(4)	(4,886)
Retained earnings distribution	-	-	-	3,778	(3,778)	-	-	-
Dividend	-	-	-	-	(1,458)	(1,458)	(4)	(1,462)
Changes within the Group	-	-	-	-	-	-	47	47
Acquisition of additional shares in subsidiaries	-	-	-	-	(3)	(3)	(72)	(75)
Other changes	-	-	-	-	5	5	-	5
TRANSACTIONS WITH OWNERS	-	-	-	3,778	(5,234)	(1,456)	(29)	(1,485)
AS AT JUNE 30, 2015	18,698	1	(3)	13,009	6,725	38,430	83	38,513

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Period ended June 30, 2016 (reviewed)	Period ended June 30, 2015 (reviewed) <i>restated*</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		755	(6,235)
Income tax paid		(129)	(232)
Adjustments for:			
Share of profit of associates consolidated under the equity method		42	-
Depreciation, amortization, disposal and impairment losses		2,192	10,500
Interest and dividend, net		63	68
Profit / loss on investment activities		(57)	(25)
Change in receivables		47	15
Change in inventories		152	(305)
Change in liabilities, excluding loans and borrowings		(710)	(726)
Change in other non-financial assets, prepayments and CO ₂ emission rights		348	420
Change in provisions		115	(432)
Other		39	21
NET CASH FROM OPERATING ACTIVITIES		2,857	3,069
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment and intangible assets		5	15
Purchase of property, plant and equipment and intangible assets		(4,228)	(4,066)
Deposits with a maturity over 3 months		(524)	(120)
Termination of deposits over 3 months		513	112
Acquisition of financial assets / increase in shareholding in the PGE Group companies		(382)	(75)
Proceeds from sale of financial assets		-	68
Other		15	-
NET CASH FROM INVESTING ACTIVITIES		(4,601)	(4,066)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans, borrowings and issue of bonds		510	44
Repayment of loans, borrowings, bonds and finance lease		(98)	(227)
Interest paid		(103)	(96)
Grants received for non-current assets		48	-
Other		(3)	6
NET CASH FROM FINANCING ACTIVITIES		354	(273)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(1,390)	(1,270)
Effect of movements in exchange rates on cash held		1	8
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>16.2</u>	3,101	6,183
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>16.2</u>	1,711	4,913
Restricted cash		216	585

*for information regarding restatement of comparative figures please refer to note 4 of these financial statements

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

1. General information

1.1 Information about the parent company

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

As at January 1, 2016 the composition of the Company's Management Board was as follows:

- **Marek Woszczyk** – the President of the Management Board,
- **Jacek Drozd** – the Vice-President of the Management Board,
- **Grzegorz Krystek** – the Vice-President of the Management Board,
- **Dariusz Marzec** – the Vice-President of the Management Board.

From January 1, 2016 till June 30, 2016 the following changes occurred in the composition of the Management Board:

- On January 29, 2016 the Supervisory Board recalled Mr. Jacek Drozd and Mr. Dariusz Marzec from the Management Board and delegated its member – Mr. Marek Pastuszko – to temporarily perform the duties of the Vice-President of the Management Board for the 3-month period.
- On February 25, 2016 the Supervisory Board cancelled delegation of Mr. Marek Pastuszko to temporarily perform the duties of the Member of the Management Board and appointed Mr. Marek Pastuszko for the position of the Vice-President of the Management Board.
- On February 26, 2016 the Supervisory Board appointed Mr. Emil Wojtowicz to the Management Board as from March 15, 2016 entrusting him the position of the Vice-President of the Management Board and appointed Mr. Ryszard Wasilek to the Management Board as from March 7, 2016 entrusting him the position of the Vice-President of the Management Board.
- On March 2, 2016 Mr. Marek Woszczyk and Mr. Grzegorz Krystek submitted resignations from their positions in the Management Board as from March 30, 2016.
- On March 22, 2016 Mr. Paweł Śliwa submitted his resignation from the Supervisory Board and the Supervisory Board appointed four members of the Management Board as from March 31, 2016: Mr. Henryk Baranowski, entrusting him the position of the President of the Management Board and Ms. Marta Gajęcka, Mr. Bolesław Jankowski and Mr. Paweł Śliwa to the positions of the Vice-Presidents of the Management Board.

As at June 30, 2016 and as at the date of preparation of these financial statements the composition of the Company's Management Board is as follows:

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

Ownership structure

As at June 30, 2016 the ownership structure of the parent company is as follows:

	State Treasury	Other shareholders	Total
As at December 31, 2015	58.39%	41.61%	100.00%
As at June 30, 2016	57.39%	42.61%	100.00%

As of March 30, 2016 the State Treasury transferred 18,697,608 shares, constituting 1% of the share capital of the Company. According to the information received from the Ministry of the State Treasury, after the transaction the State Treasury holds 57.39% in the share capital of the Company. According to information available in the Company as at the date of publication of these financial statements the sole shareholder who holds at least 5% of votes at the General Meeting of PGE S.A. is the State Treasury.

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

1.2 Information about the PGE Group

PGE Polska Grupa Energetyczna S.A. Group („PGE Group”, „Group”) comprises the parent company PGE Polska Grupa Energetyczna S.A., 50 subsidiaries and 2 associates. As described in note 24.2, in the current period, the Group gained significant influence on Polska Grupa Górnicza Sp. z o.o. and consolidates this company under the equity method. For additional information about subsidiaries included in the consolidated financial statements please refer to note 1.3.

These consolidated financial statements of the PGE Group comprise financial data for the period from January 1, 2016 to June 30, 2016 („financial statements”, „consolidated financial statements”) and include comparative data for the period from January 1, 2015 to December 31, 2015 and for the period from January 1, 2015 to June 30, 2015.

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

Core operations of the PGE Group companies are as follows:

- production of electricity,
- distribution of electricity,
- wholesale and retail sale of electricity, energy origin rights, CO₂ emission rights and gas,
- production and distribution of heat,
- rendering of other services related to the above mentioned activities.

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

Going concern

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

The foregoing consolidated financial statements are prepared based on the same accounting principles (policy) and methods of computation as compared with the most recent annual financial statements. These financial statements are to be read together with the audited consolidated financial statements of the PGE Group for the year ended December 31, 2015.

1.3 Structure of the PGE Group

During the reporting period, the PGE Group consisted of the enumerated below companies, consolidated directly and indirectly:

Entity	Entity holding shares	Share of the Group entities as at June 30, 2016	Share of the Group entities as at December 31, 2015
SEGMENT: SUPPLY			
1. PGE Polska Grupa Energetyczna S.A. Warsaw	The Parent Company		
2. PGE Dom Maklerski S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
3. PGE Trading GmbH Berlin	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
4. PGE Obrót S.A. Rzeszów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
5. ENESTA sp. z o.o. Stalowa Wola	PGE Obrót S.A.	87.33%	87.33%
SEGMENT: CONVENTIONAL GENERATION			
6. PGE Górnictwo i Energetyka Konwencjonalna S.A. Bełchatów	PGE Polska Grupa Energetyczna S.A.	99.97%	99.96%
7. ELBIS sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
8. MEGAZEC sp. z o.o. Bydgoszcz	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
9. MegaSerwis sp. z o.o. Bogatynia	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
10. „ELMEN” sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
11. Przedsiębiorstwo Usługowo-Produkcyjne „ELTUR-SERWIS” sp. z o.o. Bogatynia	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%

	Entity	Entity holding shares	Share of the Group entities as at June 30, 2016	Share of the Group entities as at December 31, 2015
12	Przedsiębiorstwo Usługowo-Produkcyjne „TOP SERWIS” sp. z o.o. Bogatynia	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
13	Przedsiębiorstwo Transportowo-Sprzętowe „BETRANS” sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
14	Przedsiębiorstwo Wulkanizacji Taśm i Produkcji Wyrobów Gumowych BESTGUM POLSKA sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
15	RAMB sp. z o.o. Piaski	PGE Polska Grupa Energetyczna S.A. PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00% -	- 100.00%
16	EPORE sp. z o.o. Bogatynia	PGE Górnictwo i Energetyka Konwencjonalna S.A.	85.38%	85.38%
17	„Energoserwis – Kleszczów” sp. z o.o. Rogowiec	PGE Górnictwo i Energetyka Konwencjonalna S.A.	51.00%	51.00%
18	Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. Zgierz	PGE Górnictwo i Energetyka Konwencjonalna S.A.	50.98%	50.98%
SEGMENT: RENEWABLES				
19	PGE Energia Odnawialna S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
20	Elektrownia Wiatrowa Baltica-1 sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
21	Elektrownia Wiatrowa Baltica-2 sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
22	Elektrownia Wiatrowa Baltica-3 sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
23	PGE Energia Natury sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
24	PGE Energia Natury Omikron sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
25	PGE Energia Natury PEW sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
SEGMENT: DISTRIBUTION				
26	PGE Dystrybucja S.A. Lublin	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
SEGMENT: OTHER OPERATIONS				
27	PGE EJ 1 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	70.00%	70.00%
28	PGE Systemy S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
29	EXATEL S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
30	PGE Sweden AB (publ) Stockholm	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
31	PGE Obsługa Księgowo-Kadrowa sp. z o.o. Lublin	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
32	„Elbest” sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
33	Elbest Security sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
34	PGE Inwest 2 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
35	PGE Inwest 4 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
36	PGE Inwest 5 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
37	PGE Inwest 6 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
38	PGE Inwest 7 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
39	PGE Inwest 8 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%

Entity	Entity holding shares	Share of the Group entities as at June 30, 2016	Share of the Group entities as at December 31, 2015
40 PGE Inwest 9 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
41 PGE Inwest 10 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
42 PGE Inwest 11 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
43 PGE Inwest 12 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
44 PGE Inwest 13 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
45 PGE Inwest 14 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
46 PGE Inwest 15 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
47 PGE Inwest 16 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
48 ENERGO-TEL S.A. Warsaw	EXATEL S.A.	100.00%	100.00%
49 BIO-ENERGIA sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
50 Przedsiębiorstwo Transportowo-Uslugowe „ETRA” sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
51 Energetyczne Systemy Pomiarowe sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%

The table above includes the following changes in the structure of the PGE Group companies subject to full consolidation which took place during the reporting period ended June 30, 2016:

- on March 10, 2016 PGE Polska Grupa Energetyczna S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A. concluded agreement for purchase of 100% shares of subsidiary RAMB sp. z o.o. The transaction did not have influence on these financial statements.

2. Basis for preparation of the financial statements

2.1 Statement of compliance

These financial statements were prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* and in the scope required under the Minister of Finance Regulation of February 19, 2009 on current and periodic information provided by issuers of securities and conditions of recognition as equivalent information required by the law of a non-Member State (Official Journal no. 33, item 259) (“Regulation”).

International Financial Reporting Standards (“IFRS”) include standards and interpretations accepted by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Standards Interpretations Committee (“IFRIC”).

2.2 Presentation and functional currency

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

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

	June 30, 2016	December 31, 2015	June 30, 2015
USD	3.9803	3.9011	3.7645
EUR	4.4255	4.2615	4.1944

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, 2016:

Standard	Description of changes	Effective date
IFRS 9 <i>Financial Instruments</i> (along with amendments)	Changes to the classification and measurement requirements – replacement of the existing categories of financial instruments with the two following categories: measured at amortized cost and at fair value. Changes to hedge accounting.	January 1, 2018
IFRS 14 <i>Regulatory Deferral Accounts</i>	Accounting and disclosure principles for regulatory deferral accounts.	Standard in the current version will not be effective in the EU
IFRS 15 <i>Revenue from Contracts with Customers</i>	The standard applies to all contracts with customers, except for those within the scope of other IFRSs (e.g. lease contracts, insurance contracts and financial instruments). IFRS 15 clarifies principles of revenue recognition.	January 1, 2018
IFRS 16 <i>Leases</i>	IFRS 16 eliminates the classification of leases as either operating or finance lease. All contracts which meet the criteria of lease will be recognized as finance lease.	January 1, 2019
Amendments to IAS 12	Clarification of the method of deferred tax asset settlement on unrealized losses.	January 1, 2017
Amendments to IAS 7	The initiative on changes to the disclosures.	January 1, 2017
Amendments to IFRS 10, IFRS 12 and IAS 28	Clarification of the provisions on recognition of investment units in the consolidation.	January 1, 2016*
Amendments to IFRS 10 and IAS 28	Deals with the sale or contribution of assets between an investor and its joint venture or associate.	Has not been determined
Amendments to IFRS 2	Classification and measurement of share-based payment transactions.	January 1, 2018

*Not endorsed by the EU until the approval date of these financial statements

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

The influence of new regulations on future financial statements of the PGE Group

The new IFRS 9 *Financial Instruments* introduces fundamental changes in respect of classification, presentation and measurement of financial instruments. As part of IFRS 9, new model for calculating impairment will be introduced that will require more timely recognition of expected credit losses and rules for hedge accounting will be updated. These changes are intended primarily to adapt risk management requirements, allowing preparers of financial statements to reflect entity's actions more accurately. The new IFRS 9 will possibly have material influence on future financial statements of the PGE Group. At the date of preparation of these financial statements all phases of IFRS 9 have not been published and the standard is not yet approved by the European Union. As a result analysis of its impact on the future financial statements of the Group has not been finished yet.

The new IFRS 15 *Revenue from Contracts with Customers* is intended to unify principles of revenue recognition (except for specific revenues regulated by other IFRSs) and indicate disclosure requirements. Adoption of IFRS 15 may cause changes in the Group's revenue recognition. Analysis of the impact of IFRS 15 has not been completed yet.

The new IFRS 16 *Leases* 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 finance or operating leases. All contracts which meet the criteria of lease will be recognized as finance lease.

Adoption of the standard will have the following effect:

- in the statement of financial position: increase of non-financial non-current assets and financial liabilities,
- in the statement of comprehensive income: decrease of operating expenses (other than depreciation/amortization), increase of depreciation/amortization and financial expenses.

The standard has been published in January 2016 and the PGE Group has not performed yet the analysis of its impact on the future financial statements.

Other standards and their changes should have no significant impact on the PGE Group's future financial statements.

Amendments to standards and interpretations that entered into force in the period from January 1, 2016 to the date of approval of these consolidated financial statements did not have significant influence on these financial statements.

2.4 Professional judgment of management and estimates

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

- Provisions are liabilities of uncertain timing or amount. During the reporting period, the Group changed estimates regarding the basis and amounts of some provisions. Changes in estimates are presented in note 19 of these financial statements.
- The Group's estimates of compensation related to early termination of long-term contracts for sale of capacity and electricity resulting in recognition of related revenues and receivables are based on appropriate, in the Group's opinion, interpretation of the Act dated June 29, 2007 on the principles for coverage of costs incurred due to early termination of long-term contracts for sales of capacity and electricity (Official Journal from 2007, No. 130, item 905) ("the LTC Act"), the anticipated outcome of disputes with the President of the Energy Regulatory Office and on a number of significant assumptions to the factors, some of which are outside the control of the Group.

An unfavorable outcome of the dispute with the President of the Energy Regulation Office, described in note 24.1 of these financial statements, with respect to the interpretation of the LTC Act, and changes in assumptions used, including those resulting from mergers within the PGE Group, may significantly impact the estimates and as a consequence may lead to significant changes in the financial position and results of the PGE Group. It is not possible to predict the final outcome of the dispute with the President of the Energy Regulation Office as at the date of preparation of these consolidated financial statements.

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

Property, plant and equipment is the most significant group of assets of the PGE Group. Due to changeable macroeconomic conditions the PGE Group regularly verifies the impairment indicators of its assets. When assessing the market situation the PGE Group uses both its own analytical tools and independent think tanks' support.

3.1 The analysis of impairment of power generating assets of Conventional Generation segment

In the previous reporting periods, the PGE Group recognized substantial impairment allowances of property, plant and equipment of Conventional Generation segment. In the current reporting period, the Group analyzed impairment indications in order to verify whether there is a need to recognize further impairment of these assets or to reverse previously recognized impairment allowances.

The most important factors analyzed, included:

- analysis of the execution of the financial plan in 2016,
- confirmation of validity of the investment plan,
- analysis of the electricity prices included in the contracts concluded for the coming years,
- analysis of the accuracy of assumptions about the so-called capacity market, cogeneration support after 2018, and allocation of free of charge CO₂ emissions rights,
- review of estimated margins on the production and sale of electricity in the future periods, in the light of the most recent forecasts of energy, coal and CO₂ emissions rights prices.

The analysis shows that Conventional power generating units execute the financial plan as intended. New forecasts of electricity, coal and CO₂ emissions rights prices that are available to the Group do not cause a significant change in the forecasted margins. At the same time, according to the PGE Group the assumptions about capacity market, cogeneration support and the volume of free of charge CO₂ emissions rights that were adopted in 2015 are also valid on June 30, 2016.

Therefore, according to the PGE Group there are no indicators for further impairment of property, plant and equipment of Conventional Generation segment nor for reversal of previously recognized impairment allowances as at the reporting date.

3.2 The analysis of impairment of the power generating assets of Renewables segment

In the first half of 2016 the PGE Group identified impairment indications that could significantly influence the value of the power generating assets and goodwill of Renewables segment. In the PGE Group's opinion the most important factors influencing the recoverable amount of assets are:

Changes in the market environment

The delayed entry into force of the new support system for the production of electricity from renewable energy sources causes that new units are involved in the current system of support. Although, since the beginning of 2016 support for large hydropower and biomass co-firing with coal technologies was limited, the delayed entry into force of the provisions of section 4 of the Act on Renewable Energy Sources dated February 20, 2015 contributed to even higher increase of a large surplus of green certificates. Additionally, expected change of the support system contributed to the intensification of construction works, the consequence of which was a large number of wind power plants that were put into use in 2015 and in the first half of 2016. As a result, there have been further declines of prices of energy origin rights and worsening future forecasts.

Changes in the legal environment

On May 20, 2016 act on investments in wind farms was passed. Among other things, it amends the definition of construction in the construction law. Changed definition of construction causes that the tax base of real estate tax will be expanded to wind farms.

Consequently the PGE Group forecasts a decrease in future cash flows and recognizes the risk of impairment of power generating assets of Renewables segment in the area of wind farms.

The impairment tests of cash-generating units ("CGU") were carried out as at June 30, 2016 in order to determine their recoverable amount. The recoverable amount was determined based on estimated value in use of the tested assets calculated using the discounted cash flow method on the basis of financial projections for assumed economic useful life of the particular CGU. According to the PGE Group, adoption of the financial projections longer than five years is reasonable due to the fact that property, plant and equipment used by the Group have significantly longer economic useful lives and due to the significant and long-term impact of projected changes in the regulatory environment.

The assumptions

The key assumptions influencing the recoverable amount of tested CGUs were as follows:

- recognition as a single CGU of:
 - pumped-storage power plants,
 - other hydropower plants,
 - wind farms,
- the production of electricity and energy origin rights based on historical data and expert estimates made for the investment needs and adjusted to the availability of particular units,
- electricity prices forecasts for the years 2016-2030 assuming an increase in the wholesale market price by more than 20% till 2020 and a smaller increase in the following years (in fixed prices),
- energy origin rights prices assuming an increase in prices for the years 2017-2019 in relation to current prices and a significant decrease in the following years (with an exception that for the production covered by binding contracts prices resulting from these contracts were assumed),
- increase of property tax,
- maintenance of production capacities at the current level, as a result of replacement investments,
- adoption of weighted average cost of capital after tax (WACC) at the level of 7.56 %.

Forecasted electricity and energy origin rights prices are derived from the study prepared by an independent expert. The forecast of energy prices defined as the most likely was considered, with an exception that for the part covered by binding contracts, prices resulting from these contracts during their validity were assumed.

Impairment of the power generating assets of Renewables segment

The tests conducted indicate impairment of some of the wind farms and goodwill allocated to this CGU.

As at June 30, 2016	Value before impairment	Impairment loss	Value after impairment
Power generating assets of Renewables segment			
Pumped-storage power plants	800	-	800
Other hydropower plants	349	-	349
Wind farms	636	479	157
Investment projects	220	32	188
Goodwill	284	272	12
TOTAL	2,289	783	1,506

Sensitivity analysis

The results of the sensitivity analysis show that changes in estimates regarding the sales prices of energy origin rights and electricity as well as weighted average cost of capital have the most significant impact on the recoverable amount of the measured assets. The table below presents the estimated impact of changes in key assumption on changes in impairment loss of Renewables segment assets as at June 30, 2016.

Parameter	Change	Impact on impairment loss	
		Increase in impairment loss	Decrease in impairment loss
Change in electricity prices throughout the forecast period	+ 1%	-	20.6
	- 1%	20.6	-
Change in WACC	+ 0.5 p.p.	75.7	-
	- 0/5 p.p.	-	72.2
Change in energy origin rights prices throughout the forecast period	+ 1%	-	9.6
	- 1%	9.6	-

4. Changes of accounting principles and data presentation

New standards and interpretations which became effective on January 1, 2016

- Amendments to IAS 19 Employee benefits;
- Changes resulting from annual improvements of IFRS 2010-2012;
- Amendments to IFRS 11 Settlement of acquisition of an interest in a joint operation;
- Amendments to IAS 16 and IAS 38 Explanation of allowed depreciation methods;
- Amendments to IAS 16 and IAS 41 Agriculture: bearer plants;
- Amendments to IAS 27 Equity method in separate financial statements;
- Changes resulting from annual improvements of IFRS 2012-2014;
- Amendments to IAS 1 Disclosures.

The above amendments had no influence on the applied accounting policy and did not require amendments to the financial statements.

Presentation changes

The following items were merged in the consolidated statement of financial position: trade receivables with other financial receivables and trade liabilities with other financial liabilities. Moreover, the PGE Group has made the following presentation changes:

- accrual of electricity sales was reclassified from other current assets to trade receivables;
- CCIRS and IRS derivatives were reclassified from financial instruments measured at fair value through profit or loss to derivatives;
- funds of Mine Liquidation Fund collected and invested in accordance with the Geological and Mining Law Act were reclassified from cash and cash equivalents and other loans and financial assets to non-current financial receivables;
- selected items of other operating income and expenses were reclassified to operating revenues and expenses.

New way of presentation reflects more adequately the character of the items and ensures increased comparability of the statements with other entities.

Restatement of comparative information

In accordance with the above, the PGE Group restated the comparative data presented in the statement of comprehensive income, statement of financial position and statement of cash flows. The restatement is presented in the below tables. Information presented in explanatory notes to these financial statements was also restated accordingly.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Period ended June 30, 2015 <i>published</i>	Change in recognition of unexpected losses	Reclassification	Period ended June 30, 2015 <i>restated</i>
STATEMENT OF PROFIT OR LOSS				
SALES REVENUES	14,244	2	(1)	14,245
Costs of goods sold	(19,457)	(7)	(9)	(19,473)
GROSS PROFIT ON SALES	(5,213)	(5)	(10)	(5,228)
Distribution and selling expenses	(732)	-	-	(732)
General and administrative expenses	(402)	-	-	(402)
Other operating income	334	(2)	-	332
Other operating expenses	(161)	7	10	(144)
OPERATING PROFIT/(LOSS)	(6,174)	-	-	(6,174)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at June 30, 2015 <i>published</i>	Reclassification	Merger of items	As at June 30, 2015 <i>restated</i>
NON-CURRENT ASSETS, including:				
Financial receivables	15	123	-	138
Derivatives	-	24	-	24
TOTAL NON-CURRENT ASSETS	44,789	147	-	44,936
CURRENT ASSETS, including:				
Trade and other financial receivables	-	-	3,592	3,592
Derivatives	43	(24)	-	19
Trade receivables	1,724	571	(2,295)	-
Other loans and financial assets	1,420	(123)	(1,297)	-
Other current assets	1,091	(571)	-	520
TOTAL CURRENT ASSETS	12,679	(147)	-	12,532
TOTAL ASSETS	57,468	-	-	57,468
NON-CURRENT LIABILITIES, including:				
Derivatives	-	53	-	53
TOTAL NON-CURRENT LIABILITIES	11,832	53	-	11,885
CURRENT LIABILITIES, including:				
Trade and other financial liabilities	-	-	2,100	2,100
Trade liabilities	718	22	(740)	-
Other financial liabilities	1,382	(22)	(1,360)	-
Financial liabilities at fair value through profit or loss / Derivatives	94	(53)	-	41
TOTAL CURRENT LIABILITIES	7,123	(53)	-	7,070
TOTAL LIABILITIES	18,955	-	-	18,955
TOTAL EQUITY AND LIABILITIES	57,468	-	-	57,468

CONSOLIDATED STATEMENT OF CASH FLOWS

	Period ended June 30, 2015 <i>published</i>	Reclassification	Period ended June 30, 2015 <i>restated</i>
Profit before tax	(6,235)	-	(6,235)
Adjustments for:			
Change in receivables	(46)	61	15
Change in other non-financial assets, prepayments and CO ₂ emission rights	481	(61)	420
NET CASH FROM OPERATING ACTIVITIES	3,069	-	3,069
Termination of deposits over 3 months	26	86	112
NET CASH FROM INVESTING ACTIVITIES	(4,152)	86	(4,066)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,356)	86	(1,270)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	6,269	(86)	6,183
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4,913	-	4,913
<i>Restricted cash</i>	682	(97)	585

5. Fair value hierarchy

The principles for valuation of inventories, derivatives, stocks, shares and instruments not quoted on active markets, for which fair value may not be determined reliably, are the same as presented in the financial statements for the year ended December 31, 2015.

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.

FAIR VALUE HIERARCHY	As at June 30, 2016		As at December 31, 2015	
	Level 1	Level 2	Level 1	Level 2
CO ₂ emission rights	55	-	98	-
Inventories	55	-	98	-
Currency forward	-	3	-	7
Commodity forward	-	13	-	-
CCIRS valuation	-	197	-	43
Financial assets	-	213	-	50
Currency forward	-	-	-	1
Commodity forward	-	-	-	33
IRS valuation	-	51	-	55
Financial liabilities	-	51	-	89

The carrying value of inventories at the reporting date amounts to PLN 1,799 million. CO₂ emission rights recognized in the inventories include the rights classified as held-for-sale at fair value of PLN 55 million. Valuation of derivatives is presented in note 17 of these financial statements.

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

EXPLANATORY NOTES TO THE OPERATING SEGMENTS

6. Information on operating segments

Companies of the PGE Group conduct their business activities based on relevant concessions, including primarily concession on: production, trading and distribution of electricity, generation, transmission and distribution of heat, granted by the President of Energy Regulatory Office and concessions for the extraction of lignite deposits, granted by the Minister of the Environment. Concessions, as a rule, are being issued for the period between 10 and 50 years. Main concessions in the PGE Group expire in the years 2020-2038.

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

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

- Conventional Generation comprises exploration and mining of lignite and production of electricity in the Group's power plants and heat and power plants as well as ancillary services.
- Renewables comprise generation of electricity in pumped-storage power plants and from renewable sources.
- Supply includes sales and purchases of electricity and gas on the wholesale market, trading in emissions certificates and energy origin rights, sales and purchases of fuel, as well as sales of electricity and rendering services to end users.
- Distribution comprises management over local distribution networks and transmission of electricity.
- Other operations comprise services rendered by the subsidiaries for the Group, e.g. fund raising, IT, telecommunication, accounting and HR, and transport services. Additionally, the other operations segment comprises the activities of a subsidiary whose main business is preparation and implementation of a nuclear power plant construction project.

Organization and management over the PGE Group is based on segment reporting separated by nature of the products and services provided. Each segment represents a strategic business unit, offering different products and serving different markets. Assignment of particular entities to operating segments is described in note 1.3 of these financial statements. As a rule, inter-segment transactions are disclosed as if they were concluded with third parties – under market conditions. The exception to this rule were new bonds issued by subsidiaries belonging the tax group with interest rates below market rates and settlements of tax losses within the tax group.

When analysing the results of particular business segments the management of the PGE Group draws attention primarily to EBITDA reached.

Seasonality of business segments

Atmospheric conditions cause the seasonality in demand for electricity and heat and have an impact on technical and economic conditions of their production, distribution and transmission, thus influence the results obtained by the PGE Group.

The level of electricity sales is variable throughout a year and depends especially on air temperature and the length of the day. As a rule, lower air temperature in winter and shorter days cause the growth in electricity demand, while higher temperatures and longer days in summer contribute to its decline. Moreover, seasonal changes are evident among selected groups of end users. In particular, seasonality effects are more significant for households than for the industrial sector.

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

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

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

*) EBIT = operating profit (loss)

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

***) Non-monetary expenses include mainly changes in provisions such as: rehabilitation provision, provision for CO₂ emission rights, provision for jubilee awards and employee tariff that are recognized in profit or loss and other comprehensive income.

Information on business segments for the period ended June 30, 2015

<i>restated</i>	Conventional Generation	Renewables	Supply	Distribution	Other operations	Consolidation adjustments	Total
STATEMENT OF PROFIT OR LOSS							
Sales revenues from external customers	6,126	348	6,624	935	213	(1)	14,245
Sales revenues from inter-segment transactions	300	30	644	2,067	127	(3,168)	-
TOTAL SEGMENT REVENUES	6,426	378	7,268	3,002	340	(3,169)	14,245
Costs of goods sold	(13,424)	(254)	(6,233)	(2,141)	(302)	2,881	(19,473)
EBIT *)	(7,260)	88	267	709	(20)	42	(6,174)
Financial income / (expenses), net							(61)
Share of profit of associates							-
PROFIT/(LOSS) BEFORE TAX							(6,235)
Income tax							1,176
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD							(5,059)
Depreciation, amortization, disposal and impairment losses	9,719	114	12	526	53	(22)	10,402
EBITDA **)	2,459	202	279	1,235	33	20	4,228
ASSETS AND LIABILITIES							
Segment assets excluding trade receivables	27,138	4,203	2,669	15,470	855	(1,987)	48,348
Trade receivables	245	49	2,300	387	103	(790)	2,294
Shares in associates							9
Unallocated assets							6,817
TOTAL ASSETS							57,468
Segment liabilities excluding trade liabilities	7,126	353	3,690	2,902	182	(1,731)	12,522
Trade liabilities	518	24	658	183	68	(712)	739
Unallocated liabilities							5,694
TOTAL LIABILITIES							18,955
OTHER INFORMATION ON BUSINESS SEGMENT							
Capital expenditure	2,358	219	13	688	80	(26)	3,332
Impairment allowances on financial and non-financial assets	8,909	(2)	7	10	(1)	-	8,923
Other non-monetary expenses***)	302	11	533	36	12	-	894

*) EBIT = operating profit (loss)

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

***) Non-monetary expenses include mainly changes in provisions such as: rehabilitation provision, provision for CO₂ emission rights, provision for jubilee awards and employee tariff that are recognized in profit or loss and other comprehensive income.

EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

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

	Q1 <i>not reviewed</i>	Q2 <i>not reviewed</i>	Period ended June 30, 2015
Sales revenues	7,553	6,692	14,245
Costs of goods sold	(5,548)	(13,925)	(19,473)
GROSS PROFIT / (LOSS) ON SALES	2,005	(7,233)	(5,228)
Other operating income / (expenses), net	14	174	188
EBIT – OPERATING PROFIT / (LOSS)	1,416	(7,590)	(6,174)
Financial income / (expenses), net	(54)	(7)	(61)
PROFIT / (LOSS) BEFORE TAX	1,362	(7,597)	(6,235)
Income tax	(264)	1,440	1,176
NET PROFIT / (LOSS) FOR THE REPORTING PERIOD	1,098	(6,157)	(5,059)

7. Revenues and expenses

7.1 Sales revenues

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

	Q1 <i>not reviewed</i>	Q2 <i>not reviewed</i>	Period ended June 30, 2015 <i>restated</i>
SALES REVENUES			
<i>Sales of merchandise and finished goods with excise tax</i>	7,374	6,550	13,924
<i>Excise tax</i>	(116)	(131)	(247)
Revenues from sale of merchandise and finished goods, including:	7,258	6,419	13,677
Sale of electricity	4,988	4,540	9,528
Sale of distribution services	1,455	1,358	2,813
Sale of heat	271	132	403
Sale of energy origin rights	207	121	328
Regulatory system services	127	117	244
Sale of gas	101	35	136
Other sale of merchandise and materials	109	116	225
Revenues from sale of services	133	134	267
Revenues from LTC compensations	162	139	301
TOTAL SALES REVENUES	7,553	6,692	14,245

The decrease in revenues from sale of electricity in the period ended 30 June, 2016 in comparison to the corresponding period of the previous year is mainly due to lower sales volumes on the wholesale market and lower average selling price of electricity sold.

The decrease in revenues from sale of energy origin rights is mainly due to valuation of energy origin rights held as inventories.

Revenues from LTC compensations are described in note 24.1 of these financial statements.

7.2 Cost by nature and function

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

	Q1 <i>not reviewed</i>	Q2 <i>not reviewed</i>	Period ended June 30, 2015 <i>restated</i>
COST BY NATURE			
Depreciation, amortization and impairment losses	836	9,674	10,510
Materials and energy	917	730	1,647
External services	582	618	1,200
Taxes and charges	762	694	1,456
Employee benefits expenses	1,121	1,033	2,154
Other cost by nature	59	68	127
TOTAL COST BY NATURE	4,277	12,817	17,094
Change in inventories	(44)	-	(44)
Cost of products and services for own use	(307)	(372)	(679)
Distribution and selling expenses	(395)	(337)	(732)
General and administrative expenses	(208)	(194)	(402)
Cost of merchandise and materials sold	2,225	2,011	4,236
COST OF GOODS SOLD	5,548	13,925	19,473

7.2.1 Depreciation, amortization, disposal and impairment losses

Recognition of depreciation, amortization, disposal and impairment losses of property, plant and equipment and intangible assets in the statement of comprehensive income is presented below.

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

As described in note 3.2 of these financial statements, impairment losses were recognized mainly for the power generating assets of Renewables segment. Impairment losses in the previous period related mainly to Conventional Generation segment.

Period ended June 30, 2015 <i>restated</i>	Depreciation, amortization and disposal			Impairment losses		
	Property, plant and equipment	Intangible assets	TOTAL	Property, plant and equipment	Intangible assets	TOTAL
Costs of goods sold	1,446	32	1,478	8,876	15	8,891
Distribution and selling expenses	10	2	12	-	-	-
General and administrative expenses	17	4	21	-	-	-
TOTAL DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES RECOGNIZED IN PROFIT OR LOSS	1,473	38	1,511	8,876	15	8,891
Change in inventories	6	-	6	-	-	-
Cost of products and services for own use	102	-	102	-	-	-
TOTAL DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES	1,581	38	1,619	8,876	15	8,891

7.3 Other operating income and expenses

	Period ended June 30, 2016	Period ended June 30, 2015 <i>restated</i>
OTHER OPERATING INCOME		
Adjustment of revenues from LTC compensations	148	-
Penalties, fines and compensations received	64	29
Grants received	34	12
Reversal of other provisions	22	16
Reversal of impairment allowances on receivables	13	18
Tax refund	5	-
Property, plant and equipment, intangible assets received free of charge	5	4
Revenues from illegal energy consumption	3	4
Profit on disposal of property, plant and equipment / intangible assets	3	9
Surpluses / recognition of assets	2	5
Change in rehabilitation provision	-	193
Other	26	42
TOTAL OTHER OPERATING INCOME	325	332

Revenues from LTC compensations are described in note 24.1 of these financial statements.

	Period ended June 30, 2016	Period ended June 30, 2015 <i>restated</i>
OTHER OPERATING EXPENSES		
Recognition of other provisions	25	39
Recognition of impairment allowances on receivables	25	33
Liquidation of damages / breakdowns	9	14
Compensations	4	3
Donations granted	3	14
Legal proceedings' costs	3	5
Disposal of property, plant and equipment and intangible assets associated with other operations	2	2
Other	20	34
TOTAL OTHER OPERATING EXPENSES	91	144

7.4 Financial income and expenses

	Period ended June 30, 2016	Period ended June 30, 2015
FINANCIAL INCOME ON FINANCIAL INSTRUMENTS		
Dividends	1	1
Interest	22	56
Revaluation of financial instruments / reversal of impairment allowances	10	38
Gain on disposal of investments	-	14
Foreign exchange gains	14	-
FINANCIAL INCOME ON FINANCIAL INSTRUMENTS	47	109
OTHER FINANCIAL INCOME		
Reversal of provisions	2	1
OTHER FINANCIAL INCOME	2	1
TOTAL FINANCIAL INCOME	49	110

The Group recognizes interest income primarily on cash deposits and receivables.

In the corresponding period "Revaluation of financial instruments" includes valuation of transactions concluded on the market for CO₂ emission rights and an ineffective portion of valuation of CCIRS hedging transactions designated as hedging instruments in the cash-flow hedge accounting and total valuation of other derivatives.

	Period ended June 30, 2016	Period ended June 30, 2015
FINANCIAL INCOME ON FINANCIAL INSTRUMENTS		
Interest	59	60
Revaluation of financial instruments	4	3
Impairment loss	2	2
Foreign exchange losses	29	26
FINANCIAL EXPENSES ON FINANCIAL INSTRUMENTS	94	91
OTHER FINANCIAL EXPENSES		
Interest expenses, including unwinding of the discount	88	78
Recognition of provisions (interest)	21	1
Other	1	1
OTHER FINANCIAL EXPENSES	110	80
TOTAL FINANCIAL EXPENSES	204	171

Interest expense (unwinding of the discount) on non-financial items relates mainly to rehabilitation provision and provision for employee benefits.

7.5 Share of profit of associates accounted for under the equity method

	Period ended June 30, 2016	Period ended June 30, 2015
Polska Grupa Górnicza	(42)	-
PEC Bogatynia	-	-
INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD	(42)	-

	Polska Grupa Górnicza	PEC Bogatynia
SHARE IN VOTES OF AFFILIATES	15.66%	34.93%
PERIOD ENDED JUNE 30, 2016		
Revenues	714	7
Result from continuing operations	(265)	-
Result from discontinued operations after tax	-	-
Other comprehensive income	-	-
Total comprehensive income	(265)	-
SHARE OF PROFIT OF ASSOCIATES	(42)	-

Data of associate Polska Grupa Górnicza Sp. z o.o. has been consolidated starting from April 29, 2016.

Purchase of shares in Polska Grupa Górnicza Sp. z o.o. is described in more detail in note 24.2 of these financial statements.

8. Impairment allowances on assets

	Period ended June 30, 2016	Period ended June 30, 2015
IMPAIRMENT ALLOWANCES ON PROPERTY, PLANT AND EQUIPMENT		
Impairment allowances raised	524	8,875
Impairment allowances reversed	-	-
IMPAIRMENT ALLOWANCES ON INTANGIBLE ASSETS		
Impairment allowances raised	283	16
IMPAIRMENT ALLOWANCES ON INVENTORIES		
Impairment allowances raised	16	28
Impairment allowances reversed	13	11

As described in note 3.2 of these financial statements, impairment losses were recognized mainly for the power generating assets of Renewables segment. Impairment losses in the previous period related mainly to Conventional Generation segment.

9. Tax in the statement of comprehensive income

Main elements of income tax expense for the periods ended June 30, 2016 and June 30, 2015 are as follows:

	Period ended June 30, 2016	Period ended June 30, 2015
INCOME TAX RECOGNIZED IN THE STATEMENT OF PROFIT OR LOSS		
Current income tax	207	282
Previous periods current income tax adjustments	20	15
Deferred income tax	(15)	(1,473)
INCOME TAX EXPENSE RECOGNIZED IN THE STATEMENT OF PROFIT OR LOSS	212	(1,176)
INCOME TAX RECOGNIZED IN OTHER COMPREHENSIVE INCOME		
On actuarial gains and losses from valuation of provisions for employee benefits	-	27
On valuation of hedging instruments	8	14
(Tax benefit)/expense recognized in other comprehensive income (equity)	8	41

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

Substantial change in the deferred tax in the period ended June 30, 2015 is related to the creation of impairment allowances on property, plant and equipment.

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

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

During the reporting period, the PGE Group purchased property, plant and equipment and intangible assets of a total amount of PLN 3,690 million. The largest expenditures were incurred by Conventional Generation segment (PLN 2,855 million) and Distribution segment (PLN 713 million). The main items of expenditure were: construction of units 5 and 6 in Opole power plant (PLN 1,716 million) and comprehensive modernization of units 7-12 in Bełchatów power plant (PLN 439 million).

In the current period there were no significant sales transactions regarding property, plant and equipment.

11. Future investment commitments

As at June 30, 2016 the PGE Group committed to incur capital expenditures on property, plant and equipment of approximately PLN 12,409 million. These amounts relate mainly to construction of new power units, modernization of Group's assets and a purchase of machinery and equipment.

	As at June 30, 2016	As at December 31, 2015
Conventional Generation	10,042	11,603
Distribution	964	850
Renewables	70	116
Supply	1	3
Other operations	1,332	1,323
TOTAL FUTURE INVESTMENT COMMITMENTS	12,409	13,895

The most significant future investment commitments concern:

- Conventional Generation:
 - Branch Opole Power Plant – construction of power units no. 5 and 6 – approximately PLN 4,308 million,
 - Branch Turów Power Plant – contract for construction of new power unit – approximately PLN 3,487 million,
 - Branch Turów Power Plant – modernization of power units no. 1-3 – approximately PLN 598 million,
 - Branch Bełchatów Power Plant – reconstruction and modernization of power units – approximately PLN 242 million,
- Distribution – investment commitments related to network distribution assets of the total value of approximately PLN 964 million,
- Other operations, PGE EJ1 sp. z o.o. – agreement for engineering of the investment process related to construction of the first Polish nuclear power plant – approximately PLN 1,295 million (including PLN 205 million as base case – remaining part of the contract is optional).

12. Shares in associates accounted for under the equity method

	As at June 30, 2016	As at December 31, 2015
Polska Grupa Górnicza	319	-
PEC Bogatynia	8	8
INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD	327	8

	Polska Grupa Górnicza	PEC Bogatynia
SHARE IN VOTES OF AFFILIATES	15.66%	34.93%
As at June 30, 2016		
Current assets	1,222	3
Non-current assets	6,387	22
Current liabilities	2,862	1
Non-current liabilities	2,710	-
NET ASSETS	2,037	24
Share in net assets	319	8
Goodwill	-	-
INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD	319	8

Purchase of shares in Polska Grupa Górnicza Sp. z o.o. is described in more detail in note 24.2 of these financial statements.

13. Deferred tax in the statement of financial position

13.1 Deferred tax assets

	As at June 30, 2016	As at December 31, 2015
Difference between tax value and carrying amount of property, plant and equipment	1,557	1,520
Difference between tax value and carrying amount of financial assets	34	31
Difference between tax value and carrying amount of liabilities	262	271
Difference between tax value and carrying amount of inventories	23	21
LTC compensations	220	231
Rehabilitation provision	628	605
Provision for CO ₂ emission rights	95	144
Provisions for employee benefits	603	591
Other provisions	167	128
Energy infrastructure acquired free of charge and connection payments received	137	141
Other	17	20
DEFERRED TAX ASSETS	3,743	3,703

13.2 Deferred tax liabilities

	As at June 30, 2016	As at December 31, 2015
Difference between tax value and carrying amount of property, plant and equipment	2,827	2,681
Difference between tax value and carrying amount of energy origin rights	62	107
Difference between tax value and carrying amount of financial assets	316	357
CO ₂ emission rights	354	403
LTC compensations	689	671
Other	28	23
DEFERRED TAX LIABILITIES	4,276	4,242

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

Deferred tax assets	253	313
Deferred tax liabilities	(786)	(852)

14. CO₂ emission rights for own use

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

In the current period entities of the PGE Group received free of charge CO₂ emission rights in the amount of about 25 million tonnes for units generating electricity, and about 1 million tonnes for the installations other than generating electricity.

EUA	As at June 30, 2016		As at December 31, 2015	
	Amount (Mg million)	Value	Amount (Mg million)	Value
AS AT JANUARY 1	77	2,172	68	1,552
Purchase	19	476	38	1,301
Granted free of charge	26	-	30	-
Redemption	(58)	(760)	(59)	(681)
As at the reporting date	64	1,888	77	2,172

15. Other current and non-current assets

15.1 Other non-current assets

	As at June 30, 2016	As at December 31, 2015
Advances for construction in progress	866	1,042
Other non-current assets	43	21
TOTAL OTHER ASSETS	909	1,063

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

15.2 Other current assets

	As at June 30, 2016	As at December 31, 2015
PREPAYMENTS		
Fees and commissions	59	41
Social Fund	40	1
Fees for the exclusion of land from agricultural production, forestry	27	4
IT services	9	7
Perpetual usufruct of land fee	8	-
Property and tort insurance	5	3
Other prepayments	33	18
OTHER CURRENT ASSETS		
VAT receivables	223	388
Excise tax receivables	51	90
Advances for deliveries	6	34
Other current assets	12	13
TOTAL OTHER ASSETS	473	599

Fees and commissions include agency commissions, bank loan commissions and fees for the use of mining. Other prepayments include concessions, fees for devices positioning and for occupancy of the right of way.

The increased VAT receivables in the corresponding period result from investment purchases in Conventional Generation and Renewables segments. The amount of excise tax receivables regards the exemption from the excise tax of electricity generated from renewable energy sources on the basis of a document confirming the redemption of certificates of origin.

16. Selected financial assets

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

16.1 Trade and other financial receivables

	As at June 30, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
Trade receivables	-	2,359	-	2,548
LTC compensations	-	1,227	-	1,075
Deposits	134	2	124	1
Bails and security deposits	-	5	-	37
Collateral – balancing market	-	-	-	18
Receivables in dispute	-	42	-	-
Other financial receivables	14	70	18	69
TOTAL FINANCIAL RECEIVABLES	148	3,705	142	3,748

Trade receivables comprise also accrual of electricity sales (PLN 548 million as at Jne 30, 2016 and PLN 601 million in the corresponding period).

In addition, PGE S.A. holds bonds issued by Autostrada Wielkopolska S.A., all of which have been impaired. Due to the fact that the financial position of Autostrada Wielkopolska S.A. has not changed in the current period, the Group did not see indicators for reversal of previously recognized impairment allowances.

16.2 Cash and cash equivalents

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

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

	As at June 30, 2016	As at December 31, 2015
Cash on hand and cash at bank	912	1,304
Overnight deposits	602	57
Short-term deposits	198	1,743
TOTAL	1,712	3,104
Interest accrued on cash, not received at the reporting date	-	(1)
Exchange differences on cash in foreign currencies	(1)	(2)
Cash and cash equivalents presented in the statement of cash flows	1,711	3,101
<i>including restricted cash</i>	216	333
Undrawn borrowing facilities as at June 30, 2016	10,505	5,257
<i>including overdraft facilities</i>	2,251	2,254
Borrowing facilities available from Q2 2016	-	5,500

Restricted cash disclosed in the consolidated statement of cash flows relates primarily to:

- cash received as a guarantee of proper execution of the contract and cash received as a tender deposit;
- cash deposit securing the settlements of subsidiaries of the PGE Group with Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Clearing House).

For detailed description of bank loan agreements please refer to note 20.1 of these financial statements.

17. Derivatives

	As at June 30, 2016		As at December 31, 2015	
	Assets	Liabilities	Assets	Liabilities
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS				
Currency forward	3	-	7	1
Commodity forward	13	-	-	33
IRS hedging transactions	-	47	-	55
HEDGING DERIVATIVES				
CCIRS hedging transactions	197	-	43	-
IRS hedging transactions	-	4	-	-
TOTAL DERIVATIVES	213	51	50	89
current	16	-	7	34
non-current	197	51	43	55

Commodity and currency forwards

Commodity and currency forwards relate mainly to trading in CO₂ emissions rights.

IRS transactions

In the current reporting period, PGE S.A. entered into an IRS transaction hedging the interest rate of a bank loan with a nominal value of PLN 500 million. For the recognition of this IRS transaction, the Company applies hedge accounting. The impact of hedge accounting is described in note 18.2 of these financial statements.

In 2014, PGE S.A. concluded 2 IRS transactions hedging the interest rate on issued bonds with a nominal value of PLN 1 billion. Payments arising from IRS transactions are correlated with interest payments on bonds. Changes in fair value of IRS transactions are recognized fully in profit or loss.

In 2003, Elektrownia Turów S.A. (currently a branch of PGE Górnictwo i Energetyka Konwencjonalna S.A.) concluded IRS-swap hedge transactions. These transactions are aimed to hedge variable interest rates (USD LIBOR 6m) on investment bank loans of USD 30, 40 and 80 million incurred from Nordic Investment Bank to finance investments in Turów power plant. In these transactions, banks-contractors pay interest based on variable rate, and the company pays to bank interest based on fixed rate.

CCIRS hedging transaction

In connection with loans received from PGE Sweden AB (publ) PGE S.A. concluded a CCIRS transaction, hedging both the exchange rate and interest rate. In these transactions, banks - contractors pay PGE S.A. interest based on a fixed rate in EUR and PGE S.A. pays interest based on a fixed rate in PLN. In the consolidated financial statements the relevant part of CCIRS transactions is recognized as a hedge of bonds issued by PGE Sweden AB (publ).

For the CCIRS transaction the Group applies hedge accounting. The impact of hedge accounting is presented in note 18.2 of these financial statements.

18. Equity

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

18.1 Share capital

	As at June 30, 2016	As at December 31, 2015
Number of Series A ordinary Shares with a nominal value of PLN 10 each	1,470,576,500	1,470,576,500
Number of Series B ordinary Shares with a nominal value of PLN 10 each	259,513,500	259,513,500
Number of Series C ordinary Shares with a nominal value of PLN 10 each	73,228,888	73,228,888
Number of Series D ordinary Shares with a nominal value of PLN 10 each	66,441,941	66,441,941
TOTAL NUMBER OF SHARES	1,869,760,829	1,869,760,829

All shares have been paid up. During the reporting period and as at the date of these financial statements there were no changes in the structure and amount of the share capital.

On July 29, 2016 PGE S.A. received request from a shareholder, the State Treasury, to convene an Extraordinary General Meeting of the Company. The shareholder requests to include in the agenda, among others, points concerning adoption of resolutions to increase the share capital of the Company through increasing the nominal value of series A, B, C and D shares, to change the Company's Articles of Association accordingly and to allocate part of the reserve capital to cover the flat-rate income tax related to the increase of the share capital from the Company's own funds.

In accordance with the shareholder's proposal included in the draft resolution, the share capital of the Company shall increase a result of a transfer from the reserve capital from PLN 18,698 million to PLN 24,307 million (i.e. by PLN 5,609 million), and the nominal value of one share of the Company shall increase from PLN 10 to PLN 13.

18.2 Hedging reserve

The below table presents change in hedging reserve due to applied cash flow hedge accounting:

	Period ended June 30, 2016	Year ended December 31, 2015
AS AT JANUARY 1	(21)	(61)
Change of hedging reserve, including:	40	49
<i>Deferral of changes in fair value of hedging instruments recognized as an effective hedge</i>	149	51
<i>Accrued interest on derivatives transferred from hedging reserve and recognized in interest expenses</i>	(1)	1
<i>Currency revaluation of CCIRS transaction transferred from hedging reserve and recognized in the result on foreign exchange differences</i>	(108)	1
<i>Ineffective portion of change in fair value of hedging derivatives recognized in profit or loss</i>	-	(4)
Deferred tax	(8)	(9)
HEDGING RESERVE INCLUDING DEFERRED TAX	11	(21)

18.3 Dividends paid and dividends declared

	Dividend paid or declared from the profit for the period ended		
	June 30, 2016	December 31, 2015	December 31, 2014
CASH DIVIDENDS FROM ORDINARY SHARES			
Dividend paid from retained earnings	-	467	1,458
Dividend paid from reserve capital	-	-	-
TOTAL CASH DIVIDENDS FROM ORDINARY SHARES	-	467	1,458
Cash dividends per share (in PLN)	-	0.25	0.78

Dividend from the profit for the period ended June 30, 2016

During the reporting period and until the date of preparation of these financial statements PGE S.A. made no advance payments of dividends

Dividend from the profit for the year 2015

On June 28, 2016, the General Shareholders' Meeting of PGE S.A. resolved to distribute PLN 467 million from the net profit of 2015 as a dividend (that comprises dividend of PLN 0.25 per share). The Ordinary General Meeting fixed the dividend record date on September 23, 2016 and dividend payout date on October 14, 2016.

In the statement of financial position prepared as at June 30, 2016 the liability resulting from declared dividends is presented in line other non-financial liabilities.

Dividend from the profit for the year 2014

On June 24, 2015, the General Shareholders' Meeting of PGE S.A. resolved to distribute PLN 1,458 million from the net profit of 2014 as a dividend (that comprises dividend of PLN 0.78 per share). The dividend was paid on October 15, 2015.

19. Provisions

The carrying amount of provisions is as follows:

	As at June 30, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
Employee benefits	2,505	622	2,496	517
Rehabilitation provision	3,472	4	3,348	2
Provision for deficit of CO ₂ emission rights	-	499	-	760
Provisions for energy origin units held for redemption	-	543	-	380
Provision for non-contractual use of property	96	16	97	20
Other provisions	112	157	103	130
TOTAL PROVISIONS	6,185	1,841	6,044	1,809

Changes in provisions

	Employee benefits	Rehabilitation provision	Provision for deficit of CO ₂ emission rights	Provisions for energy origin units held for redemption	Provision for non-contractual use of property	Other provisions	Total
JANUARY 1, 2016	3,013	3,350	760	380	117	233	7,853
Actuarial gains and losses excluding discount rate adjustment	-	-	-	-	-	-	-
Current service costs	36	-	-	-	-	-	36
Past service costs	-	-	-	-	-	-	-
Interest costs	40	48	-	-	-	-	88
Discount rate and other assumptions adjustment	-	-	-	-	-	-	-
Benefits paid / Provisions used	(274)	(1)	(760)	(331)	-	(14)	(1,380)
Provisions reversed	(13)	-	-	(8)	(19)	(8)	(48)
Provisions raised in correspondence with costs	325	16	499	502	14	61	1,417
Provisions raised in correspondence with property, plant and equipment	-	58	-	-	-	-	58
Other changes	-	5	-	-	-	(3)	2
June 30, 2016	3,127	3,476	499	543	112	269	8,026

	Employee benefits	Rehabilitation provision	Provision for deficit of CO ₂ emission rights	Provisions for energy origin units held for redemption	Provision for non-contractual use of property	Other provisions	Total
JANUARY 1, 2015	3,243	3,299	676	555	92	304	8,169
Actuarial gains and losses excluding discount rate adjustment	50	-	-	-	-	-	50
Current service costs	82	-	-	-	-	-	82
Past service costs	(55)	-	-	-	-	-	(55)
Interest costs	70	86	-	-	-	-	156
Discount rate and other assumptions adjustment	(122)	(224)	-	-	-	-	(346)
Benefits paid / Provisions used	(725)	(1)	(680)	(1,159)	(1)	(74)	(2,640)
Provisions reversed	(116)	(4)	(1)	(2)	(19)	(82)	(224)
Provisions raised in correspondence with costs	560	56	765	986	45	85	2,497
Provisions raised in correspondence with property, plant and equipment	-	122	-	-	-	-	122
Changes in the PGE Group	(3)	-	-	-	-	-	(3)
Other changes	29	16	-	-	-	-	45
DECEMBER 31, 2015	3,013	3,350	760	380	117	233	7,853

19.1 Provision for employee benefits

The PGE Group companies raise provisions for:

- post-employment benefits – PLN 1,729 million (PLN 1,721 million as at December 31, 2015);
- jubilee awards – PLN 964 million (PLN 953 million as at December 31, 2015);
- other benefits (bonuses, unused holidays, etc.) – PLN 434 million (PLN 339 million as at December 31, 2015).

Discount rate applied to the valuation of actuarial provisions as at June 30, 2016 and December 31, 2015 is 3.0%.

19.2 Rehabilitation provision

Provision for rehabilitation of post-exploitation mining properties

After the completion of the lignite mining, the area of the surface mines belonging to the PGE Group will be rehabilitated. According to the current plans, costs will be incurred in the years 2023 - 2064 (in case of PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Kopalnia Węgla Brunatnego Bełchatów) and in years 2045-2065 (in case of PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Kopalnia Węgla Brunatnego Turów).

The PGE Group creates provisions for rehabilitation of post-exploitation mining properties. The amount of the provision recognized in the financial statements includes also the value of Mine Liquidation Fund created in accordance with the Geological and Mining Law Act. The value of the provision as at June 30, 2016 amounted to PLN 3,144 million and as at December 31, 2015 to PLN 3,051 million.

Provision for rehabilitation of ash storages

The PGE Group power generating units raise provisions for rehabilitation of ash storages. As at the reporting date, the value of provision amounted to PLN 106 million and as at December 31, 2015 to PLN 98 million.

Provisions for rehabilitation of post-construction grounds of wind farms

The companies which own wind farms create provision for rehabilitation of post-construction grounds of wind farms. As at the reporting date, the value of provision amounted to PLN 67 million and as at December 31, 2015 to PLN 49 million.

Liquidation of property, plant and equipment

The obligation to liquidate assets and rehabilitate the area results from „The integrated permission for running installations producing electricity and heat” in which the restitution of the area was specified. As at the reporting date, the value of the provision amounts to PLN 159 million (PLN 152 million as at December 31, 2015) and refers to some assets of Conventional Generation and Renewables segments.

Discount rate applied to the valuation of rehabilitation provision as at June 30, 2016 and December 31, 2015 is 3.0%.

19.3 Provision for deficit of CO₂ emission rights

The PGE Group entities recognize provision for the shortfall of CO₂ emission rights granted free of charge. In estimating the value of the provision the Group takes into account EUA purchased as well as the possibility to cover any shortage with CER or ERU certificates. As described in note 14 of these financial statements the PGE Group is entitled to receive CO₂ emissions rights granted free of charge in connection to expenditures concerning investments included in the National Investment Plan. The calculation of the provision includes also these rights.

19.4 Provision for non-contractual use of property

Entities of the PGE Group recognize provision for compensations related to non-contractual use of property. This issue mainly relates to the distribution company, which owns distribution networks. As at the reporting date the provision amounted to approximately PLN 112 million (of which PLN 47 million relate to litigations). In the comparative period the value of the provision amounted to PLN 117 million (of which PLN 46 million related to litigations).

19.5 Other provisions

Other provisions comprise mainly provisions raised for claims relating to real estate tax of PLN 98 million (PLN 88 million as at December 31, 2015) and for the ongoing litigations conducted by Exatel S.A. of PLN 67 million (PLN 57 million as at December 31, 2015).

20. Financial liabilities

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

Bonds issued by PGE Sweden AB (publ) are based on a fixed interest rate. Their value at amortized cost presented in these financial statements as at June 30, 2016 amounted to EUR 640 million whereas their assessed fair value amounted to EUR 711 million. The indicators used in the valuation belong to Level 2 of the fair value hierarchy.

20.1 Loans, borrowings, bonds and lease

	As at June, 30 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
Loans and borrowings	1,883	229	1,459	214
Bonds issued	3,754	78	3,658	76
Lease	1	1	1	1
TOTAL LOANS, BORROWINGS, BONDS AND LEASE	5,638	308	5,118	291

Loans and borrowings

Among loans and borrowings presented above as at June 30, 2016, the PGE Group presents mainly the following facilities:

- investment credit facility taken out by PGE Górnictwo i Energetyka Konwencjonalna S.A. from Nordic Investment Bank to finance construction of 858 MW power unit in Power Plant Bełchatów of PLN 599 million;
- investment credit facilities taken out by PGE Górnictwo i Energetyka Konwencjonalna S.A. from Nordic Investment Bank and UBS Investment Bank AG to finance the modernization of power blocks no. 1-6 in Power Plant Turów of PLN 126 million;
- investment credit facility taken out by PGE S.A. from Bank Gospodarstwa Krajowego S.A. in total value of PLN 1,000 million.

Additionally, in 2015 the parent company concluded the following loan agreements:

- On September 7, 2015 PGE S.A. concluded a long-term loan agreement with a syndicate of banks composed of: BNP Paribas S.A., Société Générale S.A., Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Bank Zachodni WBK S.A., mBank S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Polska Kasa Opieki S.A. Subject matter of the agreement is granting a loan in two parts, i.e. term loan facility of up to PLN 3,630 million and revolving loan facility of up to PLN 1,870 million. Final repayment date of the revolving loan facility falls on April 30, 2019 and final repayment date of the term loan facility falls on September 30, 2023.

- On October 27, 2015, the Company concluded two loan agreements with the European Investment Bank for the total amount of nearly PLN 2 billion. The amount of PLN 1.5 billion, obtained on the basis of the first of these agreements, will be intended for projects relating to the modernization and development of distribution grid. The funds from the second agreement, which amount to the remaining PLN 490 million, will be intended to finance and refinance the construction of cogeneration units Gorzów CHP and Rzeszów CHP. The European Investment Bank loans will be available for disbursement over a period of up to 22 months from the date of signing of the agreements. The funds shall be repaid within 15 years from the date of the last tranche.
- On December 4, 2015, the Company concluded a loan agreement in the amount of PLN 500 million with Bank Gospodarstwa Krajowego S.A. with the maturity date of December 31, 2028. The loan will be used to co-finance the investments and current activities of the Group. This agreement is the second loan agreement concluded between PGE S.A. and Bank Gospodarstwa Krajowego S.A. under the program "Polish Investments" launched by the Government, whose aim is to maintain the pace of economic growth by financing selected investments.

As at June 30, 2016 the aforesaid loans were not used.

The value of overdraft facilities at the Group's disposal amounted to PLN 2,251 million as at June 30, 2016 and PLN 2,254 million as at December 31, 2015. The aforesaid overdraft facilities are available until April 29, 2018.

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

Bonds issued

The parent company has the ability to finance its own, and its subsidiaries' operations through three bond issue programs:

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

20.2 Trade and other financial liabilities

	As at June 30, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
Trade liabilities	-	832	-	1,119
Purchase of property, plant and equipment and intangible assets	10	835	25	1,608
Liabilities related to LTC	-	1,074	-	1,131
Bails and security deposits received	12	68	9	81
Other	-	21	-	6
TOTAL TRADE AND OTHER FINANCIAL LIABILITIES	22	2,830	34	3,945

OTHER EXPLANATORY NOTES**21. Contingent liabilities and receivables. Legal claims****21.1 Contingent liabilities**

	As at June 30, 2016	As at December 31, 2015
Contingent return of grants from environmental funds	478	433
Contingent return of CO ₂ emission rights received free of charge	114	-
Legal claims	67	67
Contractual fines and penalties	12	12
Bank guarantees	1	1
Other contingent liabilities	41	47
TOTAL CONTINGENT LIABILITIES	713	560

Contingent return of grants from environmental funds

The liabilities represent the value of possible future reimbursements of funds received by the PGE Group companies from environmental funds for the particular investments. The funds will be reimbursed, if investments for which they were granted, will not bring the expected environmental effect.

Contingent return of CO₂ emission rights received free of charge

The contingent liability results from the risk of a return of the equivalent of CO₂ emission rights (including interest) balanced in 2013 and 2014 by capital expenditure that may not obtain the approval of compliance indicators.

Legal claims

The contingent liability is mainly related to the dispute with WorleyParsons. WorleyParsons made a claim for the remuneration of PLN 59 million payable to the claimant in the claimant's opinion, and for the return of the amount that in the claimant's opinion was unduly collected by PGE EJ 1 sp. z o.o. from a bank guarantee. PGE EJ 1 sp. z o.o. filed a response to the lawsuit. Moreover, the value of the claims mentioned in the WorleyParsons' lawsuit of PLN 54 million has been included in a request for payment of PLN 92 million due to termination of the agreement, that was filed by WorleyParsons on March 13, 2015. It is anticipated that WorleyParsons may take a separate legal action for the amount of PLN 38 million. The company does not accept the claim and regards its possible admission by the court as unlikely.

Claims related to contractual fines and penalties

The contingent liability comprises mainly accrued contractual fines relating to the delay in realization of the investment issued by the Mayor of the City and Municipality of Gryfino to Zespół Elektrowni Dolna Odra S.A. (currently PGE Górnictwo i Energetyka Konwencjonalna S.A.). The Group committed to the Municipality of Gryfino to accomplish two investments with the total value of not less than almost PLN 8 million until the end of 2018. Failure to realize investments included in the agreement will result in claims relating to contractual fines and penalties by the Municipality of Gryfino.

Other contingent liabilities

Other contingent liabilities comprise primarily the value of the potential claim of WorleyParsons of PLN 38 million, which was described above.

21.2 Other significant issues related to contingent liabilities**Non-contractual use of property**

As described in note 19.4 of these financial statements the PGE Group recognizes provision for disputes under court proceedings, concerning non-contractual use of properties utilized for distribution activities. In addition, in the PGE Group, there are disputes at an earlier stage of proceedings and it cannot be excluded that the number and value of similar disputes will grow in the future.

Contractual liabilities related to purchase of fuels

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

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

21.3 Contingent receivables

As at reporting date, the PGE Group did not have significant contingent receivables. Contingent assets relate mainly to financing received from the National Fund for Environmental Protection and Water Management regarding the construction project of cogeneration unit, reimbursement of taxes and registered claims for compensations from insurers relating to fortuitous events.

21.4 Other legal claims and disputes

The issue of compensation for conversion of shares

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

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

The Company filed a response to the lawsuit on March 28, 2015. In September 2015, Socrates Investment S.A. submitted a letter which constitutes a response to the response to the lawsuit. On April 27, 2016 a hearing was held at which both parties reiterated previously raised conclusions and statements. The next hearing was set for August 10, 2016.

PGE S.A. does not recognize the claims of Socrates Investment S.A. and other shareholders who call for trial settlements. These claims are unfounded. In PGE S.A.'s opinion the consolidation process was conducted fairly and properly. The value of the shares, which were subject to the process of consolidation (merger), were valued by the independent company PwC Polska sp. z o.o. Additionally, the plan of the merger, including the share exchange ratio of the acquiree for shares of the acquirer, was tested for correctness and fairness by the court-appointed expert, who found no irregularities. The independent court registered the merger.

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

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

On April 1, 2014, PGE S.A. received a copy of a lawsuit filed to the District Court of Warsaw by one of the shareholders. In the lawsuit, the shareholder is seeking for annulment of the resolutions 1, 2 and 4 of the Extraordinary General Shareholders' Meeting of the Company held on February 6, 2014. The Company filed a responses to the claim. On June 22, 2015, the District Court in Warsaw issued a judgment dismissing the shareholder's claim in its entirety. On July 28, 2015, the shareholder filed an appeal. The Company filed a response to the appeal.

On September 17, 2014, PGE S.A. received a copy of a lawsuit filed to the District Court of Warsaw by one of the shareholders. In the lawsuit, the shareholder is seeking for annulment of the resolution 4 of the Ordinary General Shareholders' Meeting of the Company held on June 6, 2014. The Company filed a response to the lawsuit. On August 13, 2015, the District Court in Warsaw issued a judgment dismissing the shareholder's claim in its entirety. The judgment is appealable. On December 7, 2015, PGE S.A. received a copy of the plaintiff's appeal. The Company filed reply to that appeal on December 21, 2015.

On August 21, 2015, PGE S.A. received a copy of a lawsuit filed to the District Court of Warsaw by one of the shareholders. In the lawsuit, the shareholder is seeking for annulment of the resolution 5 of the Ordinary General Shareholders' Meeting of the Company held on June 24, 2015. The Company filed a response to the lawsuit on September 21, 2015. The District Court in Warsaw dismissed the shareholder's claim in the verdict published on April 26, 2016.

On October 23, 2015 PGE S.A. received a copy of a lawsuit filed to the District Court of Warsaw by one of the shareholders. In the lawsuit, the shareholder is seeking for annulment of the resolution 1 of the Extraordinary General Shareholders' Meeting of the Company held on September 14, 2015. On November 23, 2015 the Company filed a response to the lawsuit.

On May 20, 2016 PGE S.A. received a copy of a lawsuit filed to the District Court of Warsaw by one of the shareholders. In the lawsuit, the shareholder is seeking for annulment of the resolution 1 of the Extraordinary General Shareholders' Meeting of the Company held on March 1, 2016. On June 2, 2016 the Company filed a response to the lawsuit.

22. Tax settlements

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

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

Basic tax rates were as follows: in 2016 corporate income tax rate – 19%, basic value added tax rate – 23%, lowered: 8%, 5%, 0%, furthermore some goods and products are subject to the tax exemption.

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

Tax Group

On September 18, 2014 an agreement concerning a tax group, named "TG PGE 2015" was executed for a 25-year period. PGE S.A. is the representing company of this group.

The companies forming a tax group are obligated to meet a number of requirements including: the appropriate level of equity, the parent company's share in companies included in the group at least at the level of 95%, no equity relationships between subsidiaries, no tax arrears and share of profits in revenues at least at the level of 3% (calculated for the whole Tax Group) as well as concluding transactions with entities not belonging to TG PGE 2015 solely on market terms. The violation of these requirements will affect in termination of the TG PGE 2015 and the loss of status of the taxpayer. Since the termination, each of the companies included in the tax group becomes an independent taxpayer for CIT tax purpose.

Real estate tax

Considering pending disputes the PGE Group established at the reporting date the provision for property tax in the amount of PLN 98 million. The provision relates mainly to tax proceedings with regards to property tax in selected power plants. The dispute is related to the subject of taxation and concerns mainly a decision whether installations in buildings and detached technical machinery should be taxed as autonomous constructions. Tax proceedings are currently at various stages of tax authorities proceedings, i.e. in front of first instance authorities (village mayor, mayor), local government board of appeals and administrative courts.

23. Information on related parties

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

23.1 Associates

Sales of entities belonging to the PGE Group to associates in the period ended June 30, 2016 amounted to PLN 35 million and in the comparative period to PLN 4 million, purchases from associates amounted to PLN 114 million and PLN 1 million, respectively. As at June 30, 2016 the Group's trade receivables from associates amounted to PLN 39 million and as at December 31, 2015 to PLN 1 million. Trade liabilities to associates amounted to PLN 69 million as at June 30, 2016

The increase in turnover and balances results from the inclusion of Polska Grupa Górnicza Sp. z o.o. in these financial statements. This entity is treated as an associate.

23.2 Subsidiaries of the State Treasury

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

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

	Period ended June 30, 2016	Period ended June 30, 2015
Sales to related parties	1,107	1,012
Purchases from related parties	1,638	1,702

	As at June 30, 2016	As at June 30, 2015
Trade receivables from related parties	231	383
<i>including overdue</i>	1	14
Trade liabilities to related parties	338	387
<i>including overdue</i>	-	-

The largest transactions with State Treasury companies involve Polskie Sieci Elektroenergetyczne S.A., PKN Orlen S.A. and purchases of coal from Polish mines. The increase in sales is mainly due to increased sales volumes of energy origin rights to related parties.

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

23.3 Management personnel remuneration

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

<i>PLN thousand</i>	Period ended June 30, 2016	Period ended June 30, 2015
Short-term employee benefits (salaries and salary related costs)	16,356	14,261
Post-employment and termination benefits	6,894	1,082
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	23,250	15,343
Remuneration of key management personnel of entities of non-core operations	7,063	8,736
TOTAL REMUNERATION OF MANAGEMENT PERSONNEL	30,313	24,079

<i>PLN thousand</i>	Period ended June 30, 2016	Period ended June 30, 2015
Management Board of the parent company	7,211	3,067
Supervisory Board of the parent company	243	220
Management Boards – subsidiaries	14,708	11,405
Supervisory Boards – subsidiaries	1,088	651
TOTAL	23,250	15,343
Remuneration of key management personnel of entities of non-core operations	7,063	8,736
TOTAL REMUNERATION OF MANAGEMENT PERSONNEL	30,313	24,079

Increase of the remuneration of management personnel in the first half of 2016 is mainly caused by provision raised for the remuneration of the former Management Board members due to so called non-competition clause.

The Members of the Management Boards of some of the Group companies are employed on the basis of civil law contracts for management (so called management contracts). The above remuneration is included in other costs by nature disclosed in note 7.2 Costs by nature and function.

24. Significant events of the reporting period and subsequent events

24.1 Compensation resulting from termination of long term contracts LTC

Due to the termination of long-term contracts for sale of capacity and electricity (“LTC”), pursuant to the LTC Act, power generating units who once served as parties to such contracts have acquired the right to compensations for the coverage of the so-called stranded costs. Stranded costs are the expenses of the power generating units, borne until May 1, 2004 for property, plant and equipment related to the production of electricity, uncovered by revenue from the sales of the electricity produced, capacity reserves and system services on the competitive market, after the premature termination of the long-term contract. The LTC Act limits the total resources which can be paid out to all power generating units to cover stranded costs discounted as of January 1, 2007 to the sum of PLN 11.6 billion, with PLN 6.3 billion attributable to PGE.

Table: Basic data for Group power generating units assumed with the LTC Act.

Power generating unit	Effective term of LTC	Maximum stranded and extra costs
Turów Power Plant	Up to 2016	2,571
Opole Power Plant	Up to 2012	1,966
Dolna Odra Power Plant Complex	Up to 2010	633
Lublin-Wrotków CHP Plant	Up to 2010	617
Rzeszów CHP Plant	Up to 2012	422
Gorzów CHP Plant	Up to 2009	108
TOTAL		6,317

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

Decisions of the President of the Energy Regulatory Office under the LTC Act

A part of the power generating units currently incorporated in PGE Górnictwo i Energetyka Konwencjonalna S.A. („PGE GiEK S.A.”), have gained the right to receive resources for the coverage of stranded costs (the so-called “compensations”) within the meaning of the LTC Act. The provisions of the LTC Act are however vague in multiple points and raise essential interpretive doubts. When calculating the prospective results for particular power generating units and the resulting compensations, annual adjustments of stranded costs, final adjustment and the resulting revenues recognized in the statement of comprehensive income, the Group exercised its best knowledge in this respect and referred to external experts.

Until the date of preparation of these financial statements, the power generating units from the PGE Group have received decisions regarding adjustments of annual stranded costs and the costs generated in units fueled by natural gas for 2008-2015. In part, these decisions were unfavorable for particular units and, in the opinion of the Group, were issued in violation of the LTC Act. In consequence, as of 2009, a series of proceedings were instituted with the District Court in Warsaw, the Court of Competition and Consumers Protection (“CCP Court”) and with the Court of Appeals, regarding appeals of power generating units from the PGE Group against the Decision of the President of the Energy Regulatory Office (“ERO President”). As at the preparation date of these financial statements, majority of the proceedings are conducted before the Supreme Court.

In 2016:

- On January 27, 2016 a hearing before the Court of Justice of the European Union (“CJEU”) took place, regarding preliminary questions from the Supreme Court to the CJEU, where each of the parties presented their position. The company is awaiting a ruling by the CJEU.
- On April 7, 2016 the court case was conducted before the Supreme Court, during which a cassation appeal of the ERO President was examined concerning the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. Branch Lublin-Wrotków CHP Plant for 2009. The Supreme Court overruled the contested judgment of the Court of Appeals in Warsaw in full and dismissed the appeal of PGE GiEK S.A. The claimed amount in this case is nearly PLN 7.0 million. As a consequence of the verdict, the company paid that amount to the account of Zarządca Rozliczeń S.A.
- On April 7, 2016 the Supreme Court refused to accept for examination the cassation appeal concerning the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. Branch Lublin-Wrotków CHP Plant and Branch Rzeszów CHP Plant for 2010. The ruling ends the proceedings, meaning that rulings by the CCP Court and the Court of Appeals are binding. The claimed amount in this case is PLN 4 million.
- On April 14, 2016 the court case was conducted before the Court of Appeals on determining the annual adjustment for stranded costs due to GiEK S.A. Branch Opole Power Plant for 2010. The court allowed the appeal of PGE GiEK S.A. and at the same time dismissed the appeal of the ERO President. The above means that the court changed the contested decision as requested by the appeal of PGE GiEK S.A. The judgement is final and binding. The ERO President is entitled to file a cassation appeal. The claimed amount in this case is approx. PLN 142 million. Zarządca Rozliczeń S.A. have transferred this amount to the account of the company.
- On May 12, 2016 the court case was conducted before the Court of Appeals on determining the annual adjustment of costs arising in gas-fired units at Branch Rzeszów CHP Plant for 2012. The Court of Appeals issued a judgment, which entirely changed the decision of the CCP Court and dismissed the appeal of the company. The claimed amount in this case is approx. PLN 7 million.
- On May 12, 2016 the Supreme Court refused to accept for examination the cassation appeal of the company concerning the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. Branch Rzeszów CHP Plant for 2009 and 2011. The claimed amount in this case is approx. PLN 10 million.
- On August 8, 2016 PGE GiEK S.A. received the administrative decision of the ERO President regarding the determination of the amount of annual adjustment of stranded costs for 2015. The amount of the annual adjustment of stranded costs incurred in generating units: Branch Turow Power Plant and Branch Opole Power Plant for 2015 is approx. (+) PLN 326 million. The Company believes this amount is indisputable. The amount of advance payments collected for 2015 amounted to PLN 251 million.

Impact on the financial statements for the period ended June 30, 2016

The PGE Group recognized revenues from LTC compensations of PLN 253 million in sales revenues.

The verdict of the Court of Appeals on determining the annual adjustment for stranded costs at PGE GiEK S.A. Branch Opole Power Plant for 2010 caused an adjustment of LTC settlements of nearly PLN (+) 173 million. Moreover, refusal to accept for examination the cassation appeal concerning the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. Branch Lublin-Wrotków CHP Plant and Branch Rzeszów CHP Plant for 2010 and unfavourable ruling of the Supreme Court in case of the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. Branch Lublin-Wrotków CHP Plant for 2009 caused an adjustment of LTC settlements of PLN (-) 25 million.

The above adjustments are presented after offsetting in the statement of the comprehensive income in other operating revenues in amount of PLN 148 million.

The value of disputes in all matters relating to the years 2008 – 2012 amounts to PLN 1,660 million, including the value of disputes favourably resolved for the PGE Group by the Court of Appeals and a favourable final judgment by the CCP Court of PLN 1,563 million.

In the period 2008 – June 30, 2016 the PGE Capital Group recognized LTC revenues in the total amount of PLN 7,488 million.

24.2 Agreement on financial investment in Polska Grupa Górnicza

On April 28, 2016 PGE Górnictwo i Energetyka Konwencjonalna S.A., signed the Investment Agreement specifying the financial investment conditions (the "Investment") in Polska Grupa Górnicza Sp. z o.o. (the "Agreement"). The parties to the Agreement are: PGE Górnictwo i Energetyka Konwencjonalna S.A., ENERGA Kogeneracja S.A., PGNiG TERMIKA S.A., Węglkokoks S.A., Towarzystwo Finansowe "Silesia" Sp. z o.o., Fundusz Inwestycji Polskich Przedsiębiorstw FIZAN (jointly referred later to as the "Investors") and Polska Grupa Górnicza Sp. z o.o. ("PGG"). PGG operates on the basis of selected mining assets, acquired from Kompania Węglowa S.A. ("KW") (including 11 hard coal mines, 4 operational units and support, managing and supervisory functions of KW headquarters that will be transferred therewith).

The Agreement specifies the Investment conditions, including inter alia, conditions of PGG recapitalization by the Investors, operating rules of PGG and corporate governance rules, including method of Investors' supervision over PGG.

Recapitalization of PGG in total amount of PLN 2,417 million, will take place in 3 tranches within which PGE Górnictwo i Energetyka Konwencjonalna S.A. will pay a total of PLN 500 million, including:

- PLN 361.1 million within the first tranche. As a result PGE GiEK S.A. acquired 15.7% in the share capital of PGG as at April 29, 2016;
- PLN 83.3 million within the second tranche (up to November 3, 2016). As a result of the second payment, PGE GiEK S.A.'s share in the share capital of PGG will increase to 16.6%;
- PLN 55.6 million within the third tranche (up to February 1, 2017). As a result of the third payment, PGE GiEK S.A.'s share in the share capital of PGG will increase to 17.1%.

The particular tranches will be released, on the condition, inter alia, that terms of PGG bonds issue are not breached.

PGG shall function on the basis of the business plan, which aims at optimization of coal production costs and achieving defined profitability levels. The business plan assumes that in 2017 PGG will generate positive cash flows for the Investors. The Agreement foresees several mechanisms allowing for on-going monitoring of the financial standing of PGG, including execution of the business plan and taking further optimization measures, among others, in case of adverse changes in market conditions. The Agreement assumes that each shareholder of PGG is entitled to appoint, recall and suspend one member of the Supervisory Board (individual rights). In addition, the key decisions of the Shareholder' Meeting of PGG on equity management and transformations require approval of the Investors.

Due to the entitlements of PGE Górnictwo i Energetyka Konwencjonalna S.A. described above, investment in PGG it is treated as an associate and measured using the equity method in these consolidated financial statements.

25. Approval of the financial statements

These consolidated financial statements were approved for publication by the Management Board of the parent company on August 9, 2016.

Warsaw, August 9, 2016

Signatures of the Members of the Management Board of PGE Polska Grupa Energetyczna S.A.

**President of the
Management Board** **Henryk Baranowski**

**Vice-President of the
Management Board** **Marta Gajęcka**

**Vice-President of the
Management Board** **Bolesław Jankowski**

**Vice-President of the
Management Board** **Marek Pastuszko**

**Vice-President of the
Management Board** **Paweł Śliwa**

**Vice-President of the
Management Board** **Ryszard Wasilek**

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

Signature of the person responsible for preparation of the financial statements
Michał Skiba - Director of Financial Reporting and Tax Department