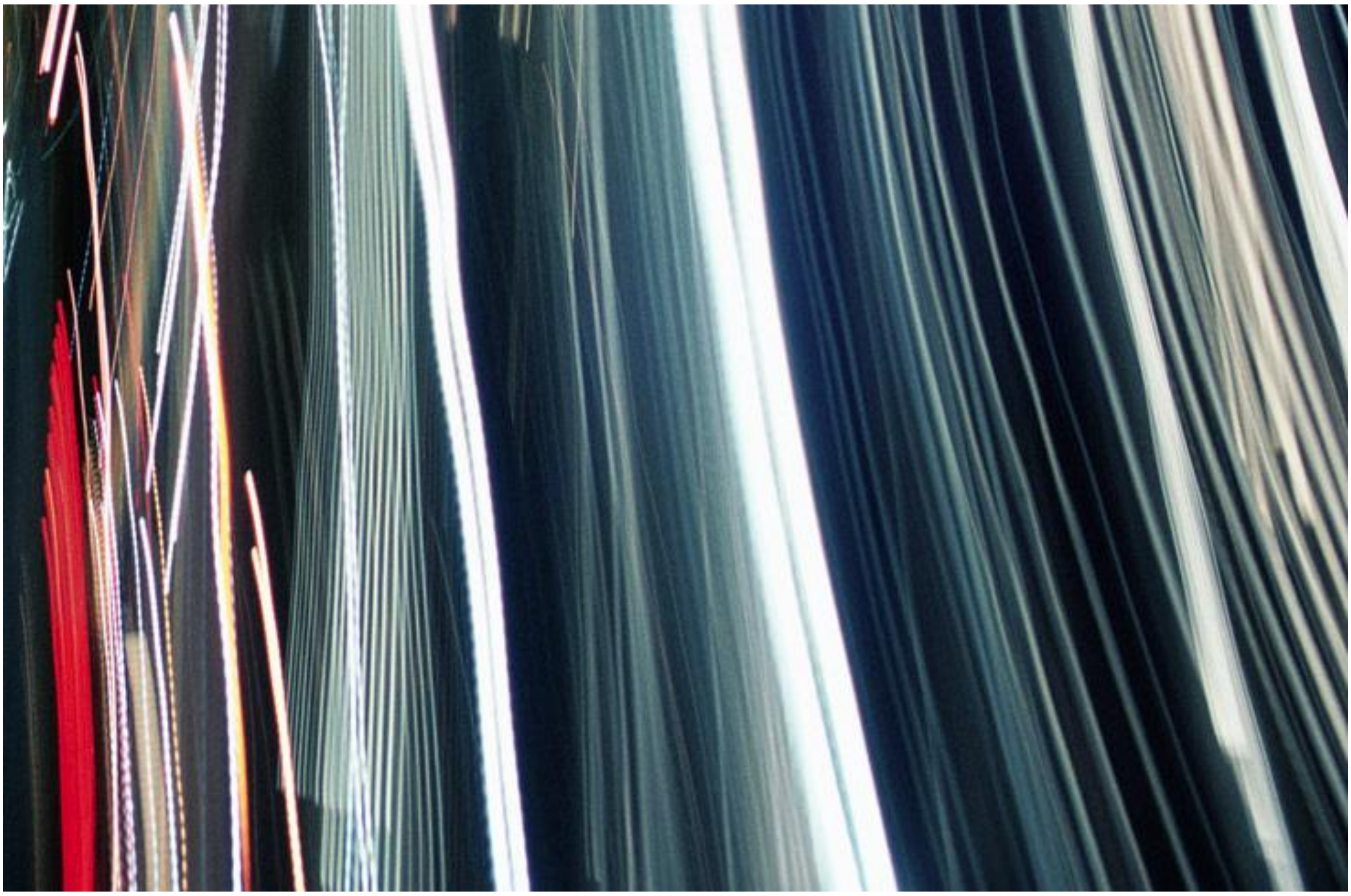

PGE Polska Grupa Energetyczna S.A.
Condensed interim separate financial statements for the 6-month period

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

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IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended June 30, 2016 (audited)	Period ended June 30, 2015 (reviewed)
STATEMENT OF PROFIT OR LOSS			
SALES REVENUES	5.1	**5,626**	**5,027**
Costs of goods sold	5.2	(5,192)	(4,555)
GROSS PROFIT ON SALES		**434**	**472**
Distribution and selling expenses	5.2	(26)	(17)
General and administrative expenses	5.2	(71)	(80)
Other operating income		2	3
Other operating expenses		(1)	(3)
OPERATING PROFIT		**338**	**375**
Financial income	5.3	1,191	1,183
Financial expenses	5.3	(100)	(124)
PROFIT BEFORE TAX		**1,429**	**1,434**
Current income tax	6	(73)	(29)
Deferred income tax	6;8	(4)	(15)
NET PROFIT FOR THE REPORTING PERIOD		**1,352**	**1,390**
OTHER COMPREHENSIVE INCOME			
Items, which may be reclassified to profit or loss, including:			
Valuation of hedging instruments	12.2	40	77
Deferred tax	6	(8)	(15)
Items, which will not be reclassified to profit or loss, including:			
Actuarial gains and losses from valuation of provisions for employee benefits		-	1
Deferred tax		-	-
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**32**	**63**
TOTAL COMPREHENSIVE INCOME		**1,384**	**1,453**
EARNINGS AND DILUTED EARNINGS PER SHARE (IN PLN)		**0.72**	**0.74**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF FINANCIAL POSITION

	Note	As at June 30, 2016 (audited)	As at December 31, 2015 (audited)	As at June 30, 2015 (reviewed) *restated**
NON-CURRENT ASSETS				
Property, plant and equipment	7	185	189	190
Intangible assets		7	7	7
Financial receivables	9.1	7,948	6,053	4,649
Derivatives	10	197	43	24
Available-for-sale financial assets		3	3	3
Shares in subsidiaries	9.2	29,637	29,469	29,110
Deferred tax assets	8	13	24	3
		37,990	**35,788**	**33,986**
CURRENT ASSETS				
Inventories		92	191	541
Trade and other receivables	9.1	1,306	1,043	986
Derivatives	10	16	7	19
Other current assets	11	1,191	419	1,754
Income tax receivables		-	79	-
Cash and cash equivalents	9.3	843	2,013	3,582
		3,448	**3,752**	**6,882**
TOTAL ASSETS		**41,438**	**39,540**	**40,868**
EQUITY				
Share capital	12.1	18,698	18,698	18,698
Hedging reserve	12.2	15	(17)	2
Reserve capital		14,310	13,009	13,009
Retained earnings		1,348	1,764	1,388
		34,371	**33,454**	**33,097**
NON-CURRENT LIABILITIES				
Non-current provisions	13	21	21	19
Loans, borrowings, bonds, cash pooling	14.1	4,808	4,216	3,685
Derivatives	10	41	43	37
		4,870	**4,280**	**3,741**
CURRENT LIABILITIES				
Current provisions	13	31	34	28
Loans, borrowings, bonds, cash pooling	14.1	1,475	1,255	2,205
Derivatives	10	-	34	41
Trade and other liabilities	14.2	186	307	145
Income tax liabilities		9	-	121
Other current non-financial liabilities		496	176	1,490
		2,197	**1,806**	**4,030**
TOTAL LIABILITIES		**7,067**	**6,086**	**7,771**
TOTAL EQUITY AND LIABILITIES		**41,438**	**39,540**	**40,868**

** for information regarding restatement of comparative figures please refer to note 3 of these financial statements*

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Hedging reserve	Reserve capital	Retained earnings	Total equity
Note	12.1	12.2			
AS AT JANUARY 1, 2015	**18,698**	**(60)**	**9,231**	**5,233**	**33,102**
Net profit for the reporting period	-	-	-	1,768	**1,768**
Other comprehensive income	-	43	-	(1)	**42**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**43**	**-**	**1,767**	**1,810**
Retained earnings distribution	-	-	3,778	(3,778)	**-**
Dividend	-	-	-	(1,458)	**(1,458)**
AS AT DECEMBER 31, 2015	**18,698**	**(17)**	**13,009**	**1,764**	**33,454**
Net profit for the reporting period	-	-	-	1,352	**1,352**
Other comprehensive income	-	32	-	-	32
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**32**	**-**	**1,352**	**1,384**
Retained earnings distribution	-	-	1,301	(1,301)	-
Dividend	-	-	-	(467)	(467)
AS AT JUNE 30, 2016	**18,698**	**15**	**14,310**	**1,348**	**34,371**

	Share capital	Hedging reserve	Reserve capital	Retained earnings	Total equity
AS AT JANUARY 1, 2015	**18,698**	**(60)**	**9,231**	**5,233**	**33,102**
Net profit for the reporting period	-	-	-	1,390	**1,390**
Other comprehensive income	-	62	-	1	**63**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**62**	**-**	**1,391**	**1,453**
Retained earnings distribution	-	-	3,778	(3,778)	**-**
Dividend	-	-	-	(1,458)	**(1,458)**
AS AT JUNE 30, 2015	**18,698**	**2**	**13,009**	**1,388**	**33,097**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF CASH FLOWS

	Note	Period ended June 30, 2016 (audited)	Period ended June 30, 2015 (reviewed)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,429**	**1,434**
Settlement with tax group (”TG”)		24	(23)
Income tax paid by PGE S.A. (taking into account the benefit on tax losses of theTG)		(54)	(11)
Adjustments for:			
Depreciation, amortization and impairment losses		8	7
Interest and dividend, net		(1,069)	(1,021)
Profit / loss on investment activities		(49)	(8)
Change in receivables		228	197
Change in inventories		98	(101)
Change in liabilities, excluding loans and borrowings		(172)	(78)
Change in other non-financial assets		233	(539)
Change in provisions		(4)	(5)
Other		-	8
NET CASH FROM OPERATING ACTIVITIES		**672**	**(140)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment and intangible assets		(5)	(7)
Redemption of bonds issued within the PGE Group		1,179	4,170
Acquisition of bonds issued within the PGE Group		(3,180)	(4,993)
Proceeds from sale of other financial assets		-	48
Acquisition of shares in subsidiaries		(16)	(97)
Loans granted under cash pooling agreement		(246)	-
Other loans granted		(16)	-
Dividends received		5	63
Interest received		10	33
Loans repaid		-	2
Other		1	-
NET CASH FROM INVESTING ACTIVITIES		**(2,268)**	**(781)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans, borrowings and issue of bonds		518	-
Proceeds from cash pooling		-	1,615
Interest paid		(89)	(89)
Other		(2)	(2)
NET CASH FROM FINANCING ACTIVITIES		**427**	**1,524**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(1,169)**	**603**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**2,010**	**2,979**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	9.3	**841**	**3,582**

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

1. General information

1.1 The Company's operations

PGE Polska Grupa Energetyczna S.A. ("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 Company is seated in Warsaw, 2 Mysia Street.

PGE S.A. is the parent company of PGE Polska Grupa Energetyczna S.A. Group ("PGE Group", "Group", "GK PGE", "PGE Capital Group") and prepares separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union („IFRS EU").

The State Treasury is the majority shareholder of the Company.

Core operations of the Company are as follows:

- trading of electricity and other products of energy market,
- supervision over activities of central and holding companies,
- rendering of financial services for the companies from the PGE Group,
- rendering of other services related to the above mentioned activities.

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

Revenues from sale of electricity and other products of energy market are the only significant items of operating revenues. These revenues are generated on the domestic market. As a result the Company's operations are not divided into operating or geographical segments.

Going concern

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

These financial statements comprise financial data for the period from January 1, 2016 to June 30, 2016 („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 foregoing 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 separate financial statements of PGE S.A. prepared in accordance with IFRS EU for the year ended December 31, 2015.

Seasonality of business operations

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 Company.

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.

Seasonality of sales of PGE S.A. results from the fact that the Company realized 86% of the electricity sales volume to PGE Obrót S.A. and PGE Dystrybucja S.A. whose demand for electricity is subject to seasonality.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

1.2 Ownership structure of the Company

	State Treasury	Other shareholders	Total
As at January 1, 2016	**58.39%**	**41.61%**	**100.00%**
As at June 30, 2016	**57.39%**	**42.61%**	**100.00%**

The ownership structure as at particular reporting dates was prepared on the basis of data available to the Company.

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.

1.3 The composition of the Company's Management Board

As at January 1, 2016 the composition of the 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 Wasiłek 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 Wasiłek** – the Vice-President of the Management Board,
- **Emil Wojtowicz** – the Vice-President of the Management Board.

2. Basis for preparation of the financial statements

These financial statements of PGE Polska Grupa Energetyczna S.A. were prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*, relevant accounting Standards adopted by the European Union that affect interim financial reporting, published and effective during the period of preparation of these financial statements 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").

2.1 Presentation and functional currency

The functional currency of the Company and presentation currency of these 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

2.2 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 *Financial Instruments* (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 *Regulatory Deferral Accounts*	Accounting and disclosure principles for regulatory deferral accounts.	Standard in the current version will not be effective in the EU
IFRS 15 *Revenue from Contracts with Customers*	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 *Leases*	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 Company 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 Company

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 Company. 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 Company 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 IFRS/IAS) and indicate disclosure requirements. Adoption of IFRS 15 may cause changes in the Company's revenue recognition. Analysis of the impact of IFRS 15 has not been completed yet, nonetheless preliminary evaluation indicates that the standard should not have significant influence on the Company's future financial statements.

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.

Adoption of the standard should have no significant impact on the Company's future financial statements.

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

2.3 Professional judgment of management and estimates

In the period covered by these financial statements there were no significant changes in estimates influencing the numbers presented in the financial statements. As described in note 13 the Company updated the value of provisions recognized in the statement of financial position.

3. 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

During 2015 the Company has decided to change presentation of the selected items:

- "Trade receivables" and "Other loans and financial assets" were combined into "Trade and other receivables" and "Trade liabilities" and "Other current financial liabilities" were combined into "Trade and other liabilities"
- derivatives (CCIRS and IRS) were reclassified from financial "Financial assets/ liabilities at fair value through profit or loss" to non-current "Derivatives".

Changed presentation reflects characteristic of these items more accurately and ensures better comparability of the Company's financial statements with other entities.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF FINANCIAL POSITION

	As at June 30, 2015 *published*	Reclassification of derivatives	Change in presentation of selected items	As at June 30, 2015 *restated*
NON-CURRENT ASSETS, including:				
Derivatives	-	24	-	24
	33,962	**24**	**-**	**33,986**
CURRENT ASSETS, including:				
Financial assets at fair value through profit or loss	43	(24)	(19)	-
Derivatives	-	-	19	19
Trade receivables	415	-	(415)	-
Other loans and financial assets	571	-	(571)	-
Trade and other receivables	-	-	986	986
	6,906	**(24)**	**-**	**6,882**
TOTAL ASSETS	**40,868**	**-**	**-**	**40,868**
NON-CURRENT LIABILITIES, including:				
Derivatives	-	37	-	37
	3,704	**37**	**-**	**3,741**
CURRENT LIABILITIES, including:				
Financial liabilities at fair value through profit or loss	78	(37)	(41)	-
Derivatives	-	-	41	41
Trade liabilities	141	-	(141)	-
Other current financial liabilities	4	-	(4)	-
Trade and other liabilities	-	-	145	145
	4,067	**(37)**	**-**	**4,030**
TOTAL LIABILITIES	**7,771**	**-**	**-**	**7,771**
TOTAL EQUITY AND LIABILITIES	**40,868**	**-**	**-**	**40,868**

4. 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.

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	-	41	-	43
Financial liabilities	**-**	**41**	**-**	**77**

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.

Valuation of hedging transactions CCIRS and IRS is disclosed in note 10 of these financial statements.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

5. Revenues and expenses

5.1 Sales revenues

	Period ended June 30, 2016	Period ended June 30, 2015
SALES REVENUES		
Sale of electricity	4,413	3,997
Sale of energy origin rights	28	487
Sale of gas	329	152
Other sales of merchandise and materials	540	104
Revenues from sale of services	316	287
TOTAL SALES REVENUES	**5,626**	**5,027**

The increase in revenues from sale of electricity in the first half of 2016 in comparison to the corresponding period of the previous year is mainly due to higher sales volumes on the wholesale market.

The decline in sale of energy origin rights was caused by reorganisation of energy origin rights trading within the PGE Group, including assignment of bilateral contracts to PGE Obrót S.A. and takeover of contracting for the PGE Group by PGE Dom Maklerski S.A.

The increase in other sales of merchandise and materials is mainly due to significantly higher sales volumes of CO_2 emission rights.

Information regarding main customers

The main business partners of the Company are subsidiaries in the PGE Group. In the first half of 2016 sales to PGE Obrót S.A. constituted 75% of sales revenues, whereas sales to PGE Górnictwo i Energetyka Konwencjonalna S.A. accounted for approx. 15% thereof. In the first half of 2015, sales to these entities amounted to 81% and 8%, respectively.

5.2 Cost by nature and function

	Period ended June 30, 2016	Period ended June 30, 2015
COST BY NATURE		
Depreciation, amortization	8	7
Materials and energy	2	2
External services	48	43
Taxes and charges	2	2
Employee benefits expenses	48	46
Other cost by nature	37	40
TOTAL COST BY NATURE	**145**	**140**
Distribution and selling expenses	(26)	(17)
General and administrative expenses	(71)	(80)
Cost of merchandise and materials sold	5,144	4,512
COST OF GOODS SOLD	**5,192**	**4,555**

The increase in cost of merchandise and materials sold (mainly purchased electricity and CO_2 emission rights) in the first half of 2016 in comparison to the corresponding period of the previous year is directly related to the increase of revenues described above.

Other cost by nature consist mainly of sponsorship, advertising and management's payroll costs.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

5.3 Financial income and expenses

	Period ended June 30, 2016	Period ended June 30, 2015
FINANCIAL INCOME ON FINANCIAL INSTRUMENTS		
Dividends	1,063	1,050
Interest	110	101
Revaluation of financial instruments	7	32
Foreign exchange gains	11	-
FINANCIAL INCOME ON FINANCIAL INSTRUMENTS	**1,191**	**1,183**
TOTAL FINANCIAL INCOME	**1,191**	**1,183**

In the period ended June 30, 2016, the Company recognized mainly dividends from PGE Dystrybucja S.A. of PLN 1,012 million and from PGE Energia Odnawialna S.A. of PLN 35 million (in the corresponding period PLN 977 million and PLN 58 million, respectively).

Interest income relates mainly to bonds issued by subsidiaries and cash deposits.

Revaluation of financial instruments includes valuation of transactions concluded on the market for CO_2 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 EXPENSES ON FINANCIAL INSTRUMENTS		
Interest	96	93
Revaluation of financial instruments	2	1
Loss on disposal of investments	-	14
Foreign exchange losses	-	15
Other	2	1
FINANCIAL EXPENSES ON FINANCIAL INSTRUMENTS	**100**	**124**
TOTAL FINANCIAL EXPENSES	**100**	**124**

Interest expense relates mainly to bonds issued and bank loans incurred described in note 14.1 of these financial statements.

6. Tax in the statement of comprehensive income

Main elements of 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 of PGE S.A.	45	58
Benefits on tax group settlements	(3)	(48)
Previous periods current income tax adjustments	31	19
Deferred income tax	4	15
INCOME TAX EXPENSE RECOGNIZED IN THE STATEMENT OF PROFIT OR LOSS	**77**	**44**
INCOME TAX RECOGNIZED IN OTHER COMPREHENSIVE INCOME		
On valuation of hedging instruments	8	15
(TAX BENEFIT) / EXPENSE RECOGNIZED IN OTHER COMPREHENSIVE INCOME (EQUITY)	**8**	**15**

Previous periods current income tax adjustments relate mainly to final settlement of the tax group for the previous year. The differences arise from sales of electricity for the previous year invoiced in the first quarter of the current year, previously recognized based on estimates.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Effective tax rate in the period ended June 30, 2016 amounts to 5.39%. Main items affecting the effective tax rate relate to recognition of dividends that are not included in the tax base calculation and settlements of tax benefits between the companies comprising the tax group, including prior year settlements corrections. Rules of settlements between the companies forming the tax group TG PGE are described in note 16 of these financial statements.

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

7. Property, plant and equipment

In the reporting and comparable period the Company neither purchased nor sold any significant property, plant and equipment.

8. Deferred tax in the statement of financial position

8.1 Deferred tax assets

	As at June 30, 2016	As at December 31, 2015
Difference between tax value and carrying amount of financial liabilities	48	36
Difference between tax value and carrying amount of financial assets	22	21
Provisions for employee benefits	10	10
DEFERRED TAX ASSETS	**80**	**67**

The Company does not recognize deferred tax asset related to difference between tax value and carrying amount of shares in subsidiaries.

8.2 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	22	23
Difference between tax value and carrying amount of other financial assets	43	11
CO_2 emission rights	-	7
Other	2	2
DEFERRED TAX LIABILITIES	**67**	**43**

AFTER OFF-SET OF BALANCES THE COMPANY'S DEFERRED TAX IS PRESENTED AS:		
Deferred tax assets	13	24
Deferred tax liabilities	-	-

9. Financial assets

The carrying value of financial assets at amortized cost is not significantly different from their fair value.

9.1 Trade and other financial receivables

	As at June 30, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
Trade receivables	-	462	-	666
Acquired bonds	7,872	89	5,993	29
Cash pooling receivables	-	751	-	320
Loans granted	76	1	60	1
Other financial receivables	-	3	-	27
TOTAL FINANCIAL RECEIVABLES	**7,948**	**1,306**	**6,053**	**1,043**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Trade receivables

Trade receivables of PLN 462 million relate mainly to sale of electricity and services to subsidiaries in the PGE Group. As at June 30, 2016, the balance of the three most important debtors, i.e. PGE Obrót S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE Dystrybucja S.A., constituted 89% of total balance of trade receivables.

Acquired bonds

	As at June 30, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
ACQUIRED BONDS - ISSUER				
PGE Górnictwo i Energetyka Konwencjonalna S.A.	6,528	7	4,597	4
PGE Energia Odnawialna S.A. and its subsidiaries	1,344	82	1,396	25
TOTAL ACQUIRED BONDS	**7,872**	**89**	**5,993**	**29**

PGE S.A. acquires bonds issued by the entities belonging to the PGE Group. Cash obtained from the issue of bonds is used for financing investments, repayment of financial liabilities as well as for financing current operations.

The intergroup bonds acquired by the Company with interest rates lower than market interest rates, are recognized at the date of acquisition at fair value, lower than issue price. The difference between the issue price and the fair value at the date of acquisition is recognized as an increase in the value of shares in subsidiaries issuing the bonds. The difference is amortized using an effective interest rate and recognized in the statement of comprehensive income.

Some of the acquired bonds have maturity up to 1 year, however, as it is planned to roll the bonds over, they are presented as non-current asset in these financial statements.

Cash pooling receivables

In 2014, in order to centralize the management of financial liquidity in the PGE Group, agreements for real cash pooling services were executed between 16 companies of the PGE Group and each bank separately, i.e. with Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Polska Kasa Opieki S.A.

PGE S.A. coordinates the cash pooling service in the PGE Group. This means, among others, that certain entities settle with the Company and the Company settles with banks. In connection to the above, balances with related parties participating in cash pooling are reported in financial receivables and financial liabilities of PGE S.A.

Loans granted

	As at June 30, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
LOANS GRANTED - BORROWER				
PGE Systemy S.A.	61	-	60	-
PGE Trading GmbH	13	1	-	1
Bestgum sp. z o.o.	2	-	-	-
TOTAL LOANS GRANTED	**76**	**1**	**60**	**1**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

9.2 Shares in subsidiaries

Shares in subsidiaries are recognized at cost less accumulated impairment losses.

	Seat	Share as at June 30, 2016	As at June 30, 2016
COMPANIES BELONGING TO TG PGE 2015			
PGE Górnictwo i Energetyka Konwencjonalna S.A.	Bełchatów	99.97%	15,359
PGE Dystrybucja S.A.	Lublin	100.00%	10,592
PGE Energia Odnawialna S.A.	Warsaw	100.00%	1,347
PGE Obrót S.A.	Rzeszów	100.00%	1,117
PGE Systemy S.A.	Warsaw	100.00%	135
ELBEST sp. z o.o.	Bełchatów	100.00%	101
PGE Dom Maklerski S.A.	Warsaw	100.00%	97
BETRANS sp. z o.o.	Bełchatów	100.00%	35
ELMEN sp. z o.o.	Rogowiec	100.00%	23
ELTUR SERWIS sp. z o.o.	Bogatynia	100.00%	23
BESTGUM sp. z o.o.	Rogowiec	100.00%	12
MEGAZEC sp. z o.o.	Bydgoszcz	100.00%	10
ELBIS sp. z o.o.	Rogowiec	100.00%	8
Ramb sp. z o.o.	Piaski	100.00%	7
MegaSerwis sp. z o.o.	Bogatynia	100.00%	7
TOP Serwis sp. z o.o.	Bogatynia	100.00%	5
PGE Obsługa Księgowo-Kadrowa sp. z o.o.	Lublin	100.00%	2
ELBEST Security sp. z o.o.	Warsaw	100.00%	<1
13 limited liability companies named PGE Inwest 2, 4 to 15	Warsaw	100.00%	<1
COMPANIES NOT BELONGING TO TG PGE 2015			
Exatel S.A.	Warsaw	100.00%	428
PGE EJ 1 sp. z o.o.	Warsaw	70.00%	193
PGE Sweden AB (publ)	Stockholm	100.00%	112
PGE Trading GmbH	Berlin	100.00%	23
PGE Inwest 16 sp. z o.o.	Warsaw	100.00%	<1
TOTAL		-	**29,637**

9.2.1 Impairment loss of non-current financial assets

In the previous periods the Company recognized an impairment loss of PLN 5,536 million on shares in subsidiary PGE Obrót S.A. and impairment loss of PLN 115 million on shares in Autostrada Wielkopolska S.A.

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, PGE S.A. did not see indicators for reversal of previously recognized impairment allowances.

The analysis of impairment of shares in PGE Energia Odnawialna S.A.

In the current reporting period the PGE Group recognized impairment allowances on property, plant and equipment and goodwill in the Renewable Energy segment of PLN 787 million that significantly reduced the equity of PGE Energia Odnawialna S.A. As a result PGE S.A. conducted an impairment test of shares owned in this entity.

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 Company, adoption of the financial projections longer than five years is reasonable due to the fact that property, plant and equipment used by PGE Energia Odnawialna S.A. have significantly longer economic useful life and due to the significant and long-term impact of projected changes in the regulatory environment.

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 taking into consideration 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.

The tests conducted did not indicate the need to recognize impairment allowances. The recoverable amount of shares is significantly higher than its carrying value presented in these separate financial statements.

The analysis of impairment indications concerning shares in PGE Górnictwo i Energetyka Konwencjonalna S.A.

In the previous reporting periods, PGE S.A. identified impairment indications concerning shares in PGE Górnictwo i Energetyka Konwencjonalna S.A. Impairment tests performed so far indicated no need to create impairment allowances. In the current reporting period, the Company analyzed impairment indications in order to verify whether there is a need to recognize an impairment of these assets nor 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 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 CO_2 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 CO_2 emissions rights prices.

The analysis shows that PGE Górnictwo i Energetyka Konwencjonalna S.A. executes the financial plan as intended. New forecasts of electricity, coal and CO_2 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 PGE S.A. 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 as at June 30, 2016.

Therefore, according to PGE S.A. there is no risk of impairment of shares of PGE Górnictwo i Energetyka Konwencjonalna S.A. as at the reporting date.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

9.3 Cash and cash equivalents

Short-term deposits are made for different periods, from one day up to one month, depending on the Company'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	343	611
Overnight deposits	500	2
Short-term deposits	-	1.400
TOTAL	**843**	**2.013**
Interest accrued on cash, not received at the reporting date	-	(2)
Exchange differences on cash in foreign currencies	(2)	(1)
Cash and cash equivalents presented in the statement of cash flows	**841**	**2.010**
including restricted cash	-	-
Undrawn borrowing facilities as at June 30, 2016	10.240	5.240
including overdraft facilities	*2.250*	*2.250*
Borrowing facilities available from Q2 2016	-	5.500

For detailed description of bank loan agreements please refer to note 14.1 of these financial statements.

10. Derivatives

All derivatives are recognized in the Company's financial statements at fair value.

	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 transactions	-	37	-	43
HEDGING DERIVATIVES				
CCIRS hedging transactions	197	-	43	-
IRS hedging transactions	-	4	-	-
TOTAL DERIVATIVES	**213**	**41**	**50**	**77**
non-current	197	41	43	43
current	16	-	7	34

Commodity and currency forwards

Commodity and currency forwards relate mainly to trading in CO_2 emissions rights.

IRS transactions

In 2014, PGE S.A. concluded 2 IRS transactions hedging the interest rate on issued bonds with a nominal value of PLN 1,000 million. 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 the current period, the Company 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 12.2 of these financial statements.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

CCIRS hedging transactions

In connection with loans received from PGE Sweden AB (publ), disclosed in note 14.1 of these financial statements, PGE S.A. concluded CCIRS transactions, 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. The nominal value, payment of interest and repayment of nominal value in CCIRS transactions are correlated with the relevant terms and conditions arising from loan agreements.

For the CCIRS transactions the Company applies hedge accounting. The impact of hedge accounting is presented in note 12.2 of these financial statements.

11. Other current assets

	As at June 30, 2016	As at December 31, 2015
Dividend receivables	1,057	-
Advance payments	88	305
Receivables from TG	21	70
VAT receivables	3	19
Other	22	25
TOTAL	**1,191**	**419**

Dividend receivables relate mainly to receivables from PGE Dystrybucja S.A.

Advance payments comprise mainly funds transferred to the subsidiary PGE Dom Maklerski S.A. for the purchase of electricity and gas in the amount of PLN 85 million in the current reporting period as compared to PLN 302 million in the corresponding period.

12. Equity

The basic assumption of the Company'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 Company and 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 PGE Group.

12.1 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 of the Company are paid up.

After the reporting date and until the date of preparation of the foregoing financial statements there were no changes in the value of share capital, reserve capital nor other capital reserves of the Company.

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 as 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.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

12.2 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	**(17)**	**(60)**
Change of hedging reserve, including:	**40**	**52**
Deferral of changes in fair value of hedging instruments recognized as an effective hedge	*149*	*50*
Accrued interest on derivatives transferred from hedging reserve and recognized in interest expense	*(1)*	*1*
Currency revaluation of CCIRS transaction transferred from hedging reserve and recognized in the result on foreign exchange differences	*(108)*	*1*
Ineffective portion of changes in fair value of hedging derivatives recognized in profit or loss	*-*	*-*
Deferred tax	**(8)**	**(9)**
HEDGING RESERVE INCLUDING DEFERRED TAX	**15**	**(17)**

12.3 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 the Company 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.

13. 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
Post-employment benefits	19	2	19	2
Jubilee awards	2	-	2	-
Employee bonuses and other employee related	-	29	-	32
TOTAL PROVISIONS	**21**	**31**	**21**	**34**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

14. Financial liabilities

The carrying value of financial liabilities measured at amortized cost is a reasonable approximation of their fair value.

14.1 Loans, borrowings, bonds, cash pooling

	As at June 30, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
Loans received	2,859	80	2,753	60
Bonds issued	976	24	976	24
Bank credits	973	27	487	14
Cash pooling liabilities	-	1,344	-	1,157
TOTAL LOANS, BORROWINGS, BONDS AND CASH POOLING	**4,808**	**1,475**	**4,216**	**1,255**

Loans received from PGE Sweden AB (publ)

The Company recognizes loans of EUR 664 million drawn from a subsidiary – PGE Sweden AB (publ).

In case of loans received from PGE Sweden AB (publ), PGE S.A. estimates their fair value at PLN 3,283 million (in relation to PLN 2,939 million of carrying value). Fair value was determined using the estimated credit risk of PGE S.A. Indicators used for the valuation are at Level 2 of the fair value hierarchy.

Issuance of bonds on the domestic market

In addition to the above mentioned financing, the Company has the ability to finance its own operations through the following two bond issue programs:

- The bond issue program for the amount of PLN 5 billion directed towards investors from the Polish capital market. In 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 bond issue program in the amount of PLN 5 billion directed towards entities within the PGE Group.

Bank credits

On December 17, 2014, the Company signed the Loan Agreement in the amount of PLN 1 billion with Bank Gospodarstwa Krajowego with the maturity date of December 31, 2027. As at June 30, 2016, the Company used the available loan.

Additionally, in 2015 the 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 the two 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 signed 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 Company's disposal amounted to PLN 2,250 million as at June 30, 2016 and December 31, 2015. The aforesaid overdraft facilities are available until April 29, 2018.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Cash pooling liabilities

Real cash pooling is described in note 9.1 of these financial statements.

14.2 Other financial liabilities measured at amortized cost

	As at June 30, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
Trade liabilities	-	181	-	303
Other	-	5	-	4
TOTAL OTHER FINANCIAL LIABILITIES	**-**	**186**	**-**	**307**

Trade liabilities

Trade liabilities relate mainly to purchase of electricity and gas.

OTHER EXPLANATORY NOTES

15. Contingent liabilities and receivables. Legal claims

15.1 Contingent liabilities

	As at June 30, 2016	As at December 31, 2015
Bank guarantees	12,233	12,153
Other contingent liabilities	58	-
TOTAL CONTINGENT LIABILITIES	**12,291**	**12,153**

Guarantee for the obligations of PGE Sweden AB (publ)

Due to establishment in 2014 of the Eurobonds program, an agreement was concluded for the issue of guarantee by PGE S.A. for the liabilities of PGE Sweden AB (publ). Guarantee was granted to the amount of EUR 2,500 million (PLN 11,064 million) and will be valid until December 31, 2041. As at June 30, 2016, PGE Sweden AB (publ) liabilities due to bonds issued amounted to EUR 640 million (PLN 2,832 million) and as at December 31, 2015 these liabilities amounted to EUR 642 million (PLN 2,734 million).

Surety for the obligations of PGE Górnictwo i Energetyka Konwencjonalna S.A.

In January 2014, the Company granted three sureties to the bank payment guarantee issued for PGE Górnictwo i Energetyka Konwencjonalna S.A. The total value of sureties is PLN 1,090 million. Granting sureties is related to the investment conducted by PGE Górnictwo i Energetyka Konwencjonalna S.A. relating to the construction of new power units in Elektrownia Opole.

15.2 Other significant issues related to contingent liabilities

Standby commitments to ensure financing of new investments in the PGE Group companies

Due to planned strategic investments in the PGE Group, the Company committed to its subsidiaries, to ensure financing of planned investments. The standby commitments relate to specific investments and may be used only for such purposes. As at June 30, 2016 and December 31, 2015 the estimated value of the standby commitments amounts to PLN 15 billion.

Commitment to support liquidity of PGE Obrót S.A.

Following the donation of shares in PGE Dystrybucja S.A. and PGE GiEK S.A. received by the Company in 2014 from PGE Obrót S.A., the Company committed to ensure the liquidity of PGE Obrót S.A. if this entity was to face insolvency. Ensuring liquidity may take form of a capital increase, debt financing or other activities aimed at reducing the likelihood of insolvency. Additionally, PGE Obrót S.A. and PGE S.A. executed a debt subordination agreement pursuant to which, in the event that PGE Obrót S.A. becomes insolvent, PGE S.A.'s receivables from PGE Obrót S.A. will constitute subordinated debt.

PGE Obrót S.A. constitutes a party to the cash-pool agreement established for the companies from the PGE Group and may use the financing available under this program.

15.3 Other legal claims and disputes

Claims concerning 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 response 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 judgement 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 lawsuits, 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.

16. Tax settlements

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

From the point of view of 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.

As at June 30, 2016 and during the reporting period, the Company was not a party to significant proceedings regarding public and legal settlements.

Tax Group

Since January 1, 2015, PGE S.A. has been a member of the tax group “TG PGE 2015”. PGE S.A. is the representing company of this group. The TG PGE 2015 agreement was executed for 25 years. Companies forming TG PGE 2015 were indicated in note 9.2. The Polish Corporate Income Tax Act treats tax groups as separate income tax payers (CIT). This means that companies within TG PGE 2015 are not treated as separate entities for corporate income tax purposes (CIT), with TG PGE 2015 being treated as one whole entity instead. TG PGE 2015’s tax base will constitute the group’s aggregate income, calculated as the excess of the income of the companies that make up the group over their losses. TG PGE 2015 is considered to be a separate entity only for the purposes of corporate income tax. This should not be equated with a separate legal entity. This also does not transfer over to other taxes, with particular emphasis on the fact that each of the companies within TG PGE 2015 will continue to be a separate payer of VAT and tax on civil-law transactions, as well as withholding agent with respect to personal income tax.

In accordance with agreements on settlement within the tax group described above, when the entity generates tax profits, it transfers the appropriate amount of income tax to PGE S.A. PGE S.A. settles with the tax office as the representing company. When entity included in the TG PGE 2015 incurs tax loss, the tax benefits are transferred to the representing company, i.e. PGE S.A. This also means that if tax settlements of companies incurring tax loss are adjusted, such change has direct impact on financial results of PGE S.A.

Flows between companies belonging to TG PGE 2015 are carried out within the year at the periods preceding payment of income tax advances. The final settlement between the companies included in the TG occurs after submission of the annual return.

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 TG) 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 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.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

17. Information on related parties

Transactions with related entities are concluded based on market prices for provided goods, products and services or are based on the cost of manufacturing. Exception to this rule were:

- bonds issued by subsidiaries included in the tax group whose interest rates are below market rates, described in note 9.1 of these financial statements,
- tax losses settlements within the tax group, described in notes 6 and 16 of these financial statements.

17.1 Subsidiaries in the PGE Group

	Period ended June 30, 2016	Period ended June 30, 2015
Sales to related parties	5,303	4,685
Purchases from related parties	551	633
Financial income	1,167	1,120
Financial expences	39	42

Sales to subsidiaries in the PGE Group relate mainly to electricity.

	As at June 30, 2016	As at December 31, 2015
RECEIVABLES FROM RELATED PARTIES		
Bonds issued by subsidiaries	7,961	6,022
Trade receivables from subsidiaries	420	487
Loans granted to subsidiaries	77	61
Cash pooling receivables	751	320
TOTAL RECEIVABLES FROM RELATED PARTIES	**9,209**	**6,890**

	As at June 30, 2016	As at December 31, 2015
LIABILITIES TOWARDS RELATED PARTIES		
Loans received from a subsidiary	2,939	2,813
Trade payables to related parties	86	63
Cash pooling liabilities	1,344	1,157
TOTAL LIABILITIES TOWARDS RELATED PARTIES	**4,369**	**4,033**

The promises and guarantees granted to the PGE S.A.'s subsidiaries were described in note 15 of these financial statements.

17.2 Subsidiaries of the State Treasury

The State Treasury is the dominant shareholder of the PGE Group and as a result State Treasury companies are recognized as related entities. The Company identifies in detail transactions with the most important State Treasury related companies. The total value of transactions with such entities is presented in the tables below.

	Period ended June 30, 2016	Period ended June 30, 2015
Sales to related parties	72	140
Purchases from related parties	71	32

	As at June 30, 2016	As at December 31, 2015
Trade receivables from related parties	13	152
Trade liabilities to related parties	16	6

In addition, the Company 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.

17.3 Management personnel remuneration

The key management personnel comprises the Management Board and the Supervisory Board.

PLN thousand	Period ended June 30, 2016	Period ended June 30, 2015
Short-term employee benefits (salaries and salary related costs)	4,388	3,332
Post-employment and termination benefits	3,066	(45)
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**7,454**	**3,287**

PLN thousand	Period ended June 30, 2016	Period ended June 30, 2015
Management Board	7,211	3,067
Supervisory Board	243	220
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**7,454**	**3,287**

The Members of the Company's Management Board 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 5.2 Costs by nature and function.

Increase of the remuneration of the Management Board 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. In the comparable period the Company reversed the surplus of a provision for the remuneration established in the previous years.

18. Significant events of the reporting period and subsequent events

18.1 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., Węglokoks 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 were 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, was divided into 3 phases 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 functions 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 Shareholders' 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 the consolidated financial statements of the PGE Group.

19. Approval of the financial statements

These financial statements were approved for publication by the Management Board 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 Wasiłek**
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