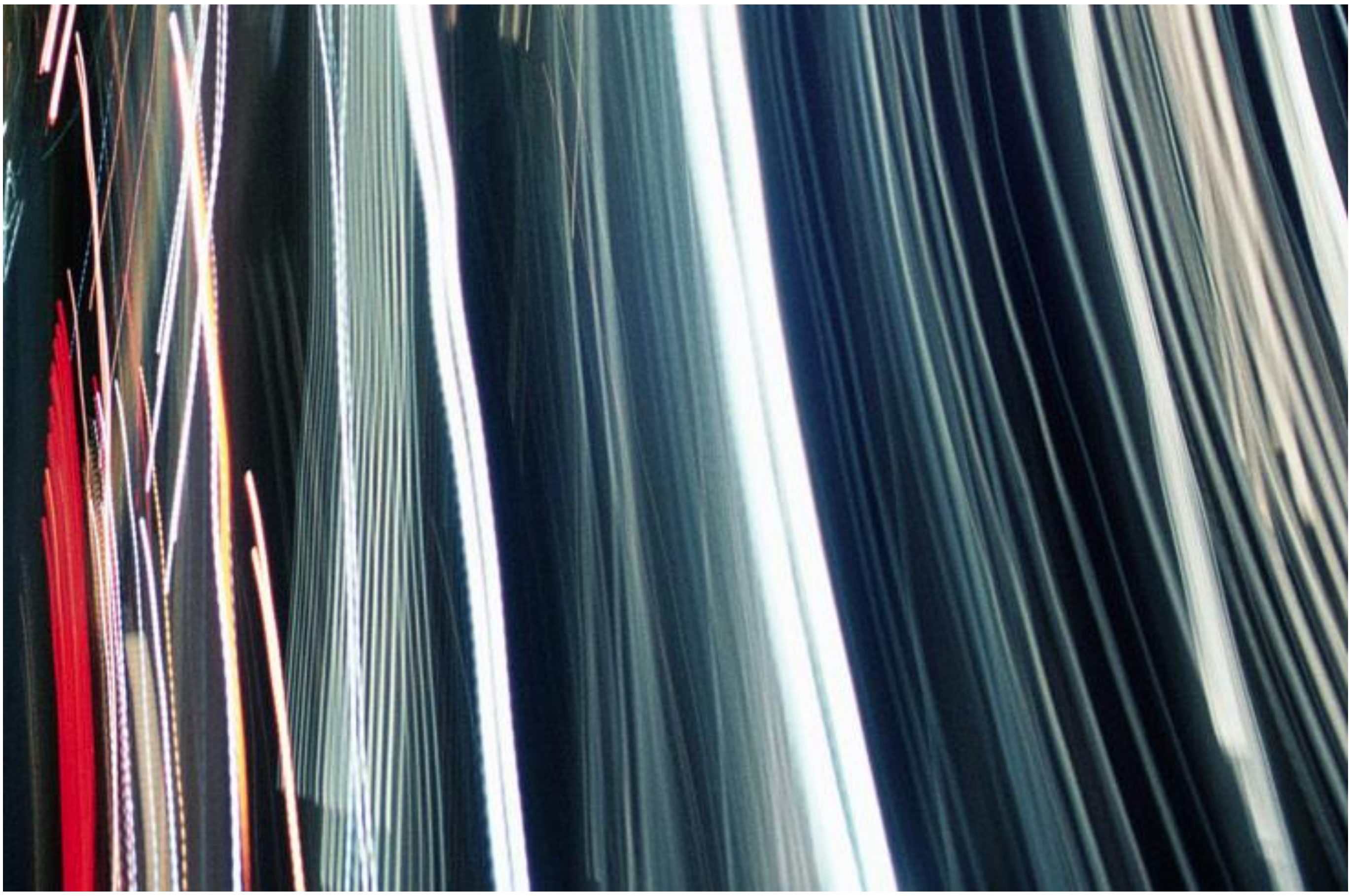

PGE Polska Grupa Energetyczna S.A.
Condensed interim consolidated financial statements for the 3-month and 9-month period

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

PGE Polska Grupa Energetyczna

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CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3-MONTH AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	3 months ended September 30, 2016 (not audited)	9 months ended September 30, 2016 (not audited)	3 months ended September 30, 2015 (not audited) data restated*	9 months ended September 30, 2015 (not audited) data restated*
STATEMENT OF PROFIT OR LOSS					
SALES REVENUES	7.1	**6,897**	**20,563**	**6,915**	**21,160**
Costs of goods sold	7.2	(5,517)	(17,339)	(5,140)	(24,613)
GROSS PROFIT/(LOSS) ON SALES		**1,380**	**3,224**	**1,775**	**(3,453)**
Distribution and selling expenses	7.2	(350)	(1,077)	(322)	(1,054)
General and administrative expenses	7.2	(163)	(562)	(181)	(583)
Other operating income	7.3	64	389	73	405
Other operating expenses	7.3	(36)	(127)	(33)	(177)
OPERATING PROFIT/(LOSS)		**895**	**1,847**	**1,312**	**(4,862)**
Financial income	7.4	14	63	24	134
Financial expenses	7.4	(61)	(265)	(73)	(244)
Share of profit/(loss) of entities accounted for using equity method	7.5	(19)	(61)	-	-
PROFIT/(LOSS) BEFORE TAX		**829**	**1,584**	**1,263**	**(4,972)**
Current income tax	9	(142)	(369)	(260)	(557)
Deferred income tax	9	(31)	(16)	26	1,499
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD		**656**	**1,199**	**1,029**	**(4,030)**
OTHER COMPREHENSIVE INCOME					
Items, which may be reclassified to profit or loss, including:					
Valuation of financial instruments		(1)	(1)	-	-
Valuation of hedging instruments	18.2	19	59	(5)	71
Foreign exchange differences from translation of foreign entities		(3)	1	1	(1)
Deferred tax	9	(3)	(11)	1	(13)
Items, which will not be reclassified to profit or loss, including::					
Actuarial gains and losses from valuation of provisions for employee benefits		-	-	2	142
Deferred tax	9	-	-	-	(27)
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**12**	**48**	**(1)**	**172**
TOTAL COMPREHENSIVE INCOME		**668**	**1,247**	**1,028**	**(3,858)**
NET PROFIT/(LOSS) ATTRIBUTABLE TO:					
– equity holders of the parent company		656	1,202	1,029	(4,026)
– non-controlling interests		-	(3)	-	(4)
NET PROFIT/(LOSS) ATTRIBUTABLE TO:					
– equity holders of the parent company		668	1,250	1,028	(3,854)
– non-controlling interests		-	(3)	-	(4)
EARNINGS AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (IN PLN)		**0.35**	**0.64**	**0.56**	**(2.15)**

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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3-MONTH AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at September 30, 2016 (not audited)	As at December 31, 2015 (audited)	As at September 30, 2015 (not audited) *data restated**
NON-CURRENT ASSETS				
Property, plant and equipment	10	49,998	47,068	43,850
Investment property		31	30	31
Intangible assets		630	904	873
Financial receivables	16.1	148	142	137
Derivatives	17	132	43	41
Available-for-sale financial assets		35	15	15
Shares in associates accounted for under the equity method	12	308	8	8
Other non-current assets	15.1	800	1,063	1,306
Deferred tax assets	13	247	313	409
		52,329	**49,586**	**46,670**
CURRENT ASSETS				
Inventories		1,643	1,959	2,716
CO_2 emission rights for own use	14	2,100	2,172	1,294
Income tax receivables		15	101	20
Derivatives	17	9	7	23
Trade and other financial receivables	16.1	3,698	3,748	3,505
Available-for-sale financial assets		4	4	9
Other current assets	15.2	428	599	520
Cash and cash equivalents	16.2	5,386	3,104	5,084
Assets classified as held-for-sale		20	16	16
		13,303	**11,710**	**13,187**
TOTAL ASSETS		**65,632**	**61,296**	**59,857**
EQUITY				
Share capital	18.1	18,698	18,698	18,698
Reserve capital for increase of the share capital		467	-	-
Capital from valuation of financial instruments	18.2	26	(21)	(3)
Foreign exchange differences from translation		-	(1)	(2)
Reserve capital		13,730	13,009	13,009
Retained earnings		8,068	8,636	7,753
EQUITY ATTRIBUTED TO EQUITY HOLDERS OF THE PARENT COMPANY		**40,989**	**40,321**	**39,455**
Non-controlling interests		86	96	99
TOTAL EQUITY		**41,075**	**40,417**	**39,554**
NON-CURRENT LIABILITIES				
Non-current provisions	19	6,244	6,044	5,479
Loans, borrowings, bonds and lease	20.1	9,076	5,118	4,585
Derivatives	17	48	55	64
Deferred tax liabilities	13	816	852	661
Deferred income and government grants		1,161	1,192	1,172
Other financial liabilities	20.2	27	34	36
		17,372	**13,295**	**11,997**
CURRENT LIABILITIES				
Current provisions	19	2,038	1,809	2,193
Loans, borrowings, bonds and lease	20.1	390	291	252
Derivatives	17	-	34	84
Trade and other financial liabilities	20.2	2,841	3,945	2,784
Income tax liabilities		103	5	271
Deferred income and government grants		117	112	121
Other current non-financial liabilities		1,696	1,388	2,601
		7,185	**7,584**	**8,306**
TOTAL LIABILITIES		**24,557**	**20,879**	**20,303**
TOTAL EQUITY AND LIABILITIES		**65,632**	**61,296**	**59,857**

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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3-MONTH AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EQUITY ATTRIBUTED TO EQUITY HOLDERS OF THE PARENT COMPANY

	Share capital	Reserve capital for increase of the 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	-	-	-	-	-	1,202	**1,202**	**(3)**	**1,199**
Other comprehensive income	-	-	47	1	-	-	**48**	**-**	**48**
COMPREHENSIVE INCOME	**-**	**-**	**47**	**1**	**-**	**1,202**	**1,250**	**(3)**	**1,247**
Retained earnings distribution	-	-	-	-	1,301	(1,301)	-	-	-
Dividend	-	-	-	-	-	(467)	**(467)**	(4)	**(471)**
Increase of the share capital from own funds	-	467	-	-	(467)	-	**-**	-	**-**
Tax on the increase of the share capital	-	-	-	-	(110)	-	**(110)**	-	**(110)**
Acquisition of additional shares in subsidiaries	-	-	-	-	-	(2)	**(2)**	(3)	**(5)**
Other changes	-	-	-	-	(3)	-	**(3)**	-	**(3)**
TRANSACTIONS WITH OWNERS	**-**	**467**	**-**	**-**	**721**	**(1,770)**	**(582)**	**(7)**	**(589)**
AS AT SEPTEMBER 30, 2016	**18,698**	**467**	**26**	**-**	**13,730**	**8,068**	**40,989**	**86**	**41,075**

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	-	-	-	-	(4,026)	**(4,026)**	(4)	**(4,030)**
Other comprehensive income	-	58	(1)	-	115	**172**	-	**172**
COMPREHENSIVE INCOME	**-**	**58**	**(1)**	**-**	**(3,911)**	**(3,854)**	**(4)**	**(3,858)**
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	-	-	-	-	(9)	**(9)**	(77)	**(86)**
Other changes	-	-	-	-	8	**8**	-	**8**
TRANSACTIONS WITH OWNERS	**-**	**-**	**-**	**3,778**	**(5,237)**	**(1,459)**	**(13)**	**(1,472)**
AS AT SEPTEMBER 30, 2015	**18,698**	**(3)**	**(2)**	**13,009**	**7,753**	**39,455**	**99**	**39,554**

Explanatory notes are an integral part of the consolidated financial statements

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3-MONTH AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Period ended September 30, 2016	Period ended September 30, 2015 *data restated**
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**1,584**	**(4,972)**
Income tax paid		(183)	(358)
Adjustments for:			
Share of profit/ (loss) of entities accounted for under the equity method		61	-
Depreciation, amortization, disposal and impairment losses		2,941	11,076
Interest and dividend, net		83	94
Profit / loss on investment activities		(54)	27
Change in receivables		59	105
Change in inventories		297	(541)
Change in liabilities, excluding loans and borrowings		(497)	(365)
Change in other non-financial assets, prepayments and CO_2 emission rights		170	109
Change in provisions		347	8
Other		(17)	34
NET CASH FROM OPERATING ACTIVITIES		**4,791**	**5,217**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment and intangible assets		15	26
Purchase of property, plant and equipment and intangible assets		(6,081)	(6,018)
Deposits with a maturity over 3 months		(524)	(243)
Termination of deposits over 3 months		513	233
Acquisition of financial assets / increase in shareholding in the PGE Group companies		(382)	(86)
Proceeds from sale of financial assets		-	69
Other		23	-
NET CASH FROM INVESTING ACTIVITIES		**(6,436)**	**(6,019)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans, borrowings and issue of bonds		4,143	51
Repayment of loans, borrowings, bonds and finance lease		(123)	(255)
Dividends paid to shareholders		(4)	(5)
Interest paid		(129)	(120)
Grants received for non-current assets		47	-
Other		(6)	30
NET CASH FROM FINANCING ACTIVITIES		**3,928**	**(299)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**2,283**	**(1,101)**
Effect of movements in exchange rates on cash held		2	6
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	16.2	**3,101**	**6,183**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	16.2	**5,384**	**5,082**
Restricted cash		130	393

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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3-MONTH AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

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 September 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 September 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.

Ownership structure

As at September 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 September 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.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3-MONTH AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

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, 1 associate and 1 jointly controlled entity. 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 September 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 September 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, CO_2 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, controlled directly and indirectly:

	Entity	Entity holding shares	Share of the Group entities as at September 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.	99.98%	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%

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3-MONTH AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

	Entity	Entity holding shares	Share of the Group entities as at September 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.	100.00%	-
		PGE Górnictwo i Energetyka Konwencjonalna S.A.	-	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 Cieplnej 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%
	PGE Energia Natury Omikron sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	-	100.00%
24	PGE Energia Natury PEW sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
	SEGMENT: DISTRIBUTION			
25	PGE Dystrybucja S.A. Lublin	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
	SEGMENT: OTHER OPERATIONS			
26	PGE EJ 1 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	70.00%	70.00%
27	PGE Systemy S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
28	EXATEL S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
29	PGE Sweden AB (publ) Stockholm	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
30	PGE Obsługa Księgowo-Kadrowa sp. z o.o. Lublin	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
31	„Elbest" sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
32	Elbest Security sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
33	PGE Inwest 2 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
34	PGE Inwest 4 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
35	PGE Inwest 5 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
36	PGE Inwest 6 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
37	PGE Inwest 7 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
38	PGE Inwest 8 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3-MONTH AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

	Entity	Entity holding shares	Share of the Group entities as at September 30, 2016	Share of the Group entities as at December 31, 2015
39	PGE Inwest 9 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
40	PGE Inwest 10 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
41	PGE Inwest 11 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
42	PGE Inwest 12 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
43	PGE Inwest 13 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
44	PGE Inwest 14 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
45	PGE Inwest 15 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
46	PGE Inwest 16 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
47	ENERGO-TEL S.A. Warsaw	EXATEL S.A.	100.00%	100.00%
48	BIO-ENERGIA sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
49	Przedsiębiorstwo Transportowo-Usługowe „ETRA" sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
50	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 September 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.
- On August 17, 2016 the Extraordinary Assembly of Partners of PGE Energia Natury PEW sp. z o.o. and PGE Energia Natury Omikron sp. z o.o. (subsidiaries of PGE Energia Odnawialna S.A.) adopted resolutions on merger of PGE Energia Natury PEW sp. z o.o. (the Acquiring Company) with PGE Energia Natury Omikron sp. z o.o. (the Acquired Company). The merger of the companies was executed through the transfer to the Acquiring Company of all of the assets of the Acquired Company and subsequent dissolution of the Acquired Company without liquidation. On August 31, 2016 the merger of the companies was registered with the National Court Register and the Acquired Company was deleted from the National Court Register. The merger had no impact on these financial statements.
- On September 15, 2016 PGE S.A. set up two companies: PGE Inwest 17 sp. z o.o. and PGE Inwest 18 sp. z o.o. The share capital amounts to PLN 10,000 for each company. The companies were registered with the National Court Register: PGE Inwest 17 sp. z o.o. on October 20, 2016 and PGE Inwest 18 sp. z o.o. on October 19, 2016.
- On September 19, 2016 the Extraordinary Assembly of Partners of PGE Inwest 4 sp. z o.o. and RAMB sp. z o.o. (subsidiaries of PGE S.A.) adopted resolutions on merger of PGE Inwest 4 sp. z o.o. (the Acquiring Company) with RAMB sp. z o.o. (the Acquired Company). As at the date of this report, there's been no information on registration of the merger by the register court. The merger will have no impact on consolidated financial statements.

In addition, on May 31, 2016 PGE S.A. and Polska Grupa Zbrojeniowa S.A. (PGZ) signed a letter of intent in which they express their willingness to cooperate in order to conclude a sale of shares of Exatel S.A. by PGE to PGZ. Since the conditions resulting from IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* were not fulfilled, shares of Exatel S.A. are recognised and consolidated based on current principles.

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:

	September 30, 2016	December 31, 2015	September 30, 2015
USD	3.8558	3.9011	3.7754
EUR	4.3120	4.2615	4.2386

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 *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 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
Amendments to IFRS 4	Use of IFRS 9 Financial instruments along with IFRS 4 Insurance Contracts	January 1, 2018

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 analysis of the standard's impact has not been finished yet.

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.

- During the reporting period the Group updated value of impairment loss, particularly of property, plant and equipment. Changes are presented in notes 3.2, 7.2.1 and 8 to these financial statements.
  Estimate of recoverable amount of property, plant and equipment is based on a number of significant assumptions, the realisation of which in the future is uncertain and in substantial part is outside of the PGE Capital Group's control. The Group applied the most appropriate, in Group's opinion, volumes and values, however it cannot be ruled out that realization of particular assumptions will differ from those adopted by the Group.
- Provisions are liabilities of uncertain timing or amount. During the reporting period, PGE Group changed estimations regarding the basis and amounts of some provisions. Changes of estimations 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 unfavourable 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 analysed 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 analysed, 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 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 Conventional power generating units execute 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 the PGE Group the assumptions about capacity market, cogeneration support and the volume of free of charge CO_2 emissions rights that were adopted in 2015 are also valid on September 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 Renewable Energy 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 third quarter of 2016, the Group verified the indications once again and found no significant changes compared to the previous analysis.

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 changes 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 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 hydro power plants
  - individual 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 of 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 Renewable energy segment

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

As at June 30, 2016 PLN million	Value before impairment	Impairment loss	Value after impairment
Power generating assets of Renewable energy segment			
Pumped-storage power plants	800	-	800
Other hydropower plants	349	-	349
Wind farms	2,636	479	2,157
Investment projects	220	32	188
Goodwill	284	272	12
TOTAL	**4,289**	**783**	**3,506**

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	-

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3-MONTH AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

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;
- Amendments to IFRS 10, IFRS 12 and IAS 28 Clarification of the provisions on recognition of investment units in the consolidation.

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 September 30, 2015 *published*	Change in recognition of unexpected losses	Reclassification	Period ended September 30, 2015 *data restated*
STATEMENT OF PROFIT OR LOSS				
SALES REVENUES	**21,158**	**2**	**-**	**21,160**
Costs of goods sold	(24,580)	(15)	(18)	(24,613)
GROSS PROFIT/(LOSS) ON SALES	**(3,422)**	**(13)**	**(18)**	**(3,453)**
Distribution and selling expenses	(1,054)	-	-	(1,054)
General and administrative expenses	(583)	-	-	(583)
Other operating income	407	(2)	-	405
Other operating expenses	(210)	15	18	(177)
OPERATING PROFIT/(LOSS)	**(4,862)**	**-**	**-**	**(4,862)**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3-MONTH AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at September 30, 2015 *published*	Reclassification	Merger of items	As at September 30, 2015 *data restated*
NON-CURRENT ASSETS, including:				
Financial receivables	14	123	-	137
Derivatives	-	41	-	41
TOTAL NON-CURRENT ASSETS	**46,506**	**164**	**-**	**46,670**
CURRENT ASSETS, including:				
Trade and other financial receivables	-	-	3,505	3,505
Financial assets at fair value / Derivatives	64	(41)	-	23
Trade receivables	1,775	574	(2,349)	-
Other loans and financial assets	1,279	(123)	(1,156)	-
Other current assets	1,094	(574)	-	520
TOTAL CURRENT ASSETS	**13,351**	**(164)**	**-**	**13,187**
TOTAL ASSETS	**59,857**	**-**	**-**	**59,857**
NON-CURRENT LIABILITIES, including:				
Derivatives	-	64	-	64
TOTAL NON-CURRENT LIABILITIES	**11,933**	**64**	**-**	**11,997**
CURRENT LIABILITIES, including:				
Trade and other financial liabilities	-	-	2,784	2,784
Trade liabilities	755	22	(777)	-
Other financial liabilities	2,029	(22)	(2,007)	-
Financial liabilities at fair value through profit or loss / Derivatives	148	(64)	-	84
TOTAL CURRENT LIABILITIES	**8,370**	**(64)**	**-**	**8,306**
TOTAL LIABILITIES	**20,303**	**-**	**-**	**20,303**
TOTAL EQUITY AND LIABILITIES	**59,857**	**-**	**-**	**59,857**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Period ended September 30, 2015 *published*	Reclassification	Period ended September 30, 2015 *data restated*
Profit before tax	**(4,972)**	**-**	**(4,972)**
Adjustments for:			
Change in receivables	47	58	105
Change in other non-financial assets, prepayments and CO_2 emission rights	167	(58)	109
NET CASH FROM OPERATING ACTIVITIES	**5,217**	**-**	**5,217**
Termination of deposits over 3 months	147	86	233
NET CASH FROM INVESTING ACTIVITIES	**(6,105)**	**86**	**(6,019)**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(1,187)**	**86**	**(1,101)**
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	**5,082**	**-**	**5,082**
Restricted cash	*472*	*(79)*	*393*

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3-MONTH AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

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.

	As at September 30, 2016		As at December 31, 2015	
FAIR VALUE HIERARCHY	**Level 1**	**Level 2**	**Level 1**	**Level 2**
CO_2 emission rights	60	-	98	-
Inventories	**60**	**-**	**98**	**-**
Currency forward	-	2	-	7
CCIRS valuation	-	130	-	43
IRS valuation	-	2	-	-
Commodity forward	-	7	-	-
Financial assets	**-**	**141**	**-**	**50**
Currency forward	-	-	-	1
IRS valuation	-	48	-	55
Commodity forward	-	-	-	33
Financial liabilities	**-**	**48**	**-**	**89**

The carrying value of inventories at the reporting date amounts to PLN 1,643 million. CO_2 emission rights recognized in the inventories include the rights classified as held-for-sale at fair value of PLN 60 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' 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.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3-MONTH AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

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

	Conventional Generation	Renewables	Supply	Distribution	Other operations	Consolidation adjustments	Total
STATEMENT OF PROFIT OR LOSS							
Sales revenues from external customers	8,198	456	10,130	1,448	303	28	20,563
Sales revenues from inter-segment transactions	333	40	1,702	2,918	208	(5,201)	-
TOTAL SEGMENT REVENUES	**8,531**	**496**	**11,832**	**4,366**	**511**	**(5,173)**	**20,563**
Costs of goods sold	(6,664)	(1,171)	(10,433)	(3,335)	(463)	4,727	**(17,339)**
EBIT *)	**1,415**	**(733)**	**300**	**846**	**(39)**	**58**	**1,847**
Financial income / (expenses), net							(202)
Share of profit/(loss) of entities under equity method							(61)
PROFIT/(LOSS) BEFORE TAX							**1,584**
Income tax							(385)
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD							**1,199**
Depreciation, amortization, disposal and impairment losses recognized in profit or loss	1,031	989	20	839	95	(35)	2,939
EBITDA **)	**2,446**	**256**	**320**	**1,685**	**56**	**23**	**4,786**
ASSETS AND LIABILITIES							
Segment assets excluding trade receivables	34,470	3,690	1,128	16,257	927	(842)	55,630
Trade receivables	279	56	2,357	711	102	(1,086)	2,419
Shares accounted for under equity method							308
Unallocated assets							7,275
TOTAL ASSETS							**65,632**
Segment liabilities excluding trade liabilities	8,994	352	1,917	1,883	119	90	13,355
Trade liabilities	541	20	995	202	53	(1,042)	769
Unallocated liabilities							10,433
TOTAL LIABILITIES							**24,557**
OTHER INFORMATION ON BUSINESS SEGMENT							
Capital expenditure	4,309	113	14	1,135	102	(76)	5,597
Impairment allowances on financial and non-financial assets	60	782	4	8	1	4	859
Other non-monetary expenses ***)	1,207	14	486	67	30	-	1,804

*) 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 CO_2 emission rights, provision for jubilee awards and employee tariff that are recognized in profit or loss and other comprehensive income.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3-MONTH AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

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

data restated	Conventional Generation	Renewables	Supply	Distribution	Other operations	Consolidation adjustments	Total
STATEMENT OF PROFIT OR LOSS							
Sales revenues from external customers	9,074	508	9,861	1,394	319	4	21,160
Sales revenues from inter-segment transactions	404	38	1,209	3,087	193	(4,931)	-
TOTAL SEGMENT REVENUES	**9,478**	**546**	**11,070**	**4,481**	**512**	**(4,927)**	**21,160**
Costs of goods sold	(15,482)	(391)	(9,566)	(3,204)	(451)	4,481	**(24,613)**
EBIT *)	**(6,471)**	**105**	**405**	**1,069**	**(25)**	**55**	**(4,862)**
Financial income / (expenses), net							(110)
Share of profit/(loss) of entities under equity method							-
PROFIT/(LOSS) BEFORE TAX							**(4,972)**
Income tax							942
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD							**(4,030)**
Depreciation, amortization, disposal and impairment losses recognized in profit or loss	10,057	173	18	796	83	(35)	11,092
EBITDA **)	**3,586**	**278**	**423**	**1,865**	**58**	**20**	**6,230**
ASSETS AND LIABILITIES							
Segment assets excluding trade receivables	28,587	4,522	2,066	15,656	881	(1,122)	50,590
Trade receivables	256	67	2,305	394	113	(786)	2,349
Shares accounted for under equity method							8
Unallocated assets							6,910
TOTAL ASSETS							**59,857**
Segment liabilities excluding trade liabilities	8,137	321	3,691	1,915	186	(641)	13,609
Trade liabilities	563	35	636	204	58	(719)	777
Unallocated liabilities							5,917
TOTAL LIABILITIES							**20,303**
OTHER INFORMATION ON BUSINESS SEGMENT							
Capital expenditure	4,014	565	22	1,138	141	(43)	5,837
Impairment allowances on financial and non-financial assets	8,934	(2)	(10)	15	(1)	-	8,936
Other non-monetary expenses ***)	578	(1)	759	50	14	-	1,400

*) 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 CO_2 emission rights, provision for jubilee awards and employee tariff that are recognized in profit or loss and other comprehensive income.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3-MONTH AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

	Q1 *not reviewed*	Q2 *not reviewed*	Q3 *not reviewed*	Period ended September 30, 2016
Sales revenues	7,133	6,533	6,897	**20,563**
Costs of goods sold	(5,605)	(6,217)	(5,517)	**(17,339)**
GROSS PROFIT / (LOSS) ON SALES	**1,528**	**316**	**1,380**	**3,224**
Other operating income / (expenses), net	157	77	28	**262**
EBIT – OPERATING PROFIT / (LOSS)	**1,123**	**(171)**	**895**	**1,847**
Financial income / (expenses), net	(48)	(107)	(47)	**(202)**
Share of profit/loss of entities accounted for under equity method	-	(42)	(19)	**(61)**
PROFIT / (LOSS) BEFORE TAX	**1,075**	**(320)**	**829**	**1,584**
Income tax	(206)	(6)	(173)	**(385)**
NET PROFIT / (LOSS) FOR THE REPORTING PERIOD	**869**	**(326)**	**656**	**1,199**

	Q1 *not reviewed*	Q2 *not reviewed*	Q3 *not reviewed*	Period ended September 30, 2015
Sales revenues	7,553	6,692	6,915	**21,160**
Costs of goods sold	(5,548)	(13,925)	(5,140)	**(24,613)**
GROSS PROFIT / (LOSS) ON SALES	**2,005**	**(7,233)**	**1,775**	**(3,453)**
Other operating income / (expenses), net	14	174	40	**228**
EBIT – OPERATING PROFIT / (LOSS)	**1,416**	**(7,590)**	**1,312**	**(4,862)**
Financial income / (expenses), net	(54)	(7)	(49)	**(110)**
PROFIT / (LOSS) BEFORE TAX	**1,362**	**(7,597)**	**1,263**	**(4,972)**
Income tax	(264)	1,440	(234)	**942**
NET PROFIT / (LOSS) FOR THE REPORTING PERIOD	**1,098**	**(6,157)**	**1,029**	**(4,030)**

7. Revenues and expenses

7.1 Sales revenues

	Q1 *not reviewed*	Q2 *not reviewed*	Q3 *not reviewed*	Period ended September 30, 2016
SALES REVENUES				
Sales of merchandise and finished goods with excise tax	*7,001*	*6,400*	*6,751*	***20,152***
Excise tax	*(126)*	*(120)*	*(122)*	***(368)***
Revenues from sale of merchandise and finished goods, including:	**6,875**	**6,280**	**6,629**	**19,784**
Sale of electricity	4,678	4,608	4,847	**14,133**
Sale of distribution services	1,433	1,332	1,365	**4,130**
Sale of heat	283	119	81	**483**
Sale of energy origin rights	185	(39)	59	**205**
Regulatory system services	137	113	123	**373**
Sale of gas	73	58	59	**190**
Other sale of merchandise and materials	86	89	95	**270**
Revenues from sale of services	**128**	**130**	**137**	**395**
Revenues from LTC compensations	**130**	**123**	**131**	**384**
TOTAL SALES REVENUES	**7,133**	**6,533**	**6,897**	**20,563**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3-MONTH AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

	Q1 *not reviewed*	Q2 *not reviewed*	Q3 *not reviewed*	Period ended September 30, 2015 *data restated*
SALES REVENUES				
Sales of merchandise and finished goods with excise tax	*7,374*	*6,550*	*6,780*	***20,704***
Excise tax	*(116)*	*(131)*	*(131)*	***(378)***
Revenues from sale of merchandise and finished goods, including:	**7,258**	**6,419**	**6,649**	**20,326**
Sale of electricity	4,988	4,540	4,844	**14,372**
Sale of distribution services	1,455	1,358	1,395	**4,208**
Sale of heat	271	132	89	**492**
Sale of energy origin rights	207	121	56	**384**
Regulatory system services	127	117	117	**361**
Sale of gas	101	35	35	**171**
Other sale of merchandise and materials	109	116	113	**338**
Revenues from sale of services	**133**	**134**	**124**	**391**
Revenues from LTC compensations	**162**	**139**	**142**	**443**
TOTAL SALES REVENUES	**7,553**	**6,692**	**6,915**	**21,160**

The decrease in revenues from sale of electricity in the period ended September 30, 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 decline in prices of green certificates.

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

7.2 Cost by nature and function

	Q1 *not reviewed*	Q2 *not reviewed*	Q3 *not reviewed*	Period ended September 30, 2016
COST BY NATURE				
Depreciation, amortization and impairment losses	731	1,522	782	**3,035**
Materials and energy	840	655	588	**2,083**
External services	593	617	638	**1,848**
Taxes and charges	811	773	873	**2,457**
Employee benefits expenses	1,117	1,059	1,022	**3,198**
Other cost by nature	63	65	66	**194**
TOTAL COST BY NATURE	**4,155**	**4,691**	**3,969**	**12,815**
Change in inventories	(29)	19	8	**(2)**
Cost of products and services for own use	(264)	(269)	(251)	**(784)**
Distribution and selling expenses	(379)	(348)	(350)	**(1,077)**
General and administrative expenses	(183)	(216)	(163)	**(562)**
Cost of merchandise and materials sold	2,305	2,340	2,304	**6,949**
COST OF GOODS SOLD	**5,605**	**6,217**	**5,517**	**17,339**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3-MONTH AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

	Q1 *not reviewed*	Q2 *not reviewed*	Q3 *not reviewed*	**Period ended September 30, 2015** *data restated*
COST BY NATURE				
Depreciation, amortization and impairment losses	836	9,674	735	**11,245**
Materials and energy	917	730	709	**2,356**
External services	582	618	629	**1,829**
Taxes and charges	762	694	721	**2,177**
Employee benefits expenses	1,121	1,033	1,019	**3,173**
Other cost by nature	59	68	78	**205**
TOTAL COST BY NATURE	**4,277**	**12,817**	**3,891**	**20,985**
Change in inventories	(44)	-	-	**(44)**
Cost of products and services for own use	(307)	(372)	(378)	**(1,057)**
Distribution and selling expenses	(395)	(337)	(322)	**(1,054)**
General and administrative expenses	(208)	(194)	(181)	**(583)**
Cost of merchandise and materials sold	2,225	2,011	2,130	**6,366**
COST OF GOODS SOLD	**5,548**	**13,925**	**5,140**	**24,613**

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 September 30, 2016	**Depreciation, amortization and disposal**				**Impairment losses**		
	Property, plant and equipment	**Intangible assets**	**Investment estates**	**TOTAL**	**Property, plant and equipment**	**Intangible assets**	**TOTAL**
Costs of goods sold	1,969	60	1	**2,030**	557	282	**839**
Distribution and selling expenses	8	4	-	**12**	-	-	**-**
General and administrative expenses	48	9	-	**57**	-	1	**1**
TOTAL DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES RECOGNIZED IN PROFIT OR LOSS	**2,025**	**73**	**1**	**2,099**	**557**	**283**	**840**
Change in inventories	1	-	-	**1**	-	-	**-**
Cost of products and services for own use	95	-	-	**95**	-	-	**-**
TOTAL DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES	**2,121**	**73**	**1**	**2,195**	**557**	**283**	**840**

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.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3-MONTH AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Period ended September 30, 2015 *data restated*	Depreciation, amortization and disposal				Impairment losses		
	Property, plant and equipment	Intangible assets	Investment estates	TOTAL	Property, plant and equipment	Intangible assets	TOTAL
Costs of goods sold	2,058	50	1	**2,109**	8,917	15	**8,932**
Distribution and selling expenses	15	2	-	**17**	-	-	-
General and administrative expenses	27	7	-	**34**	-	-	-
TOTAL DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES RECOGNIZED IN PROFIT OR LOSS	**2,100**	**59**	**1**	**2,160**	**8,917**	**15**	**8,932**
Change in inventories	14	-	-	**14**	-	-	-
Cost of products and services for own use	139	-	-	**139**	-	-	-
TOTAL DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES	**2,253**	**59**	**1**	**2,313**	**8,917**	**15**	**8,932**

7.3 Other operating income and expenses

	Period ended September 30, 2016	Period ended September 30, 2015 *data restated*
OTHER OPERATING INCOME		
Adjustment of revenues from LTC compensations	148	-
Penalties, fines and compensations received	73	49
Grants received	41	19
Reversal of other provisions	32	19
Reversal of impairment allowances on receivables	19	24
Profit on disposal of property, plant and equipment / intangible assets	10	14
Property, plant and equipment, intangible assets received free of charge	8	6
Tax refund	5	1
Revenues from illegal energy consumption	5	5
Surpluses / recognition of assets	3	11
Change in rehabilitation provision	-	193
Other	45	64
TOTAL OTHER OPERATING INCOME	**389**	**405**

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

	Period ended September 30, 2016	Period ended September 30, 2015 *data restated*
OTHER OPERATING EXPENSES		
Recognition of impairment allowances on receivables	38	45
Recognition of other provisions	32	46
Liquidation of damages / breakdowns	12	15
Compensations	5	5
Donations granted	5	15
Legal proceedings' costs	5	7
Disposal of property, plant and equipment and intangible assets associated with other operations	3	2
Other	27	42
TOTAL OTHER OPERATING EXPENSES	**127**	**177**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3-MONTH AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

7.4 Financial income and expenses

	Period ended September 30, 2016	Period ended September 30, 2015
FINANCIAL INCOME ON FINANCIAL INSTRUMENTS		
Dividends	1	1
Interest	31	83
Revaluation of financial instruments / reversal of impairment allowances	14	33
Gain on disposal of investments	-	15
Foreign exchange gains	14	-
FINANCIAL INCOME ON FINANCIAL INSTRUMENTS	**60**	**132**
OTHER FINANCIAL INCOME		
Reversal of provisions	1	1
Other	2	1
OTHER FINANCIAL INCOME	**3**	**2**
TOTAL FINANCIAL INCOME	**63**	**134**

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

"Revaluation of financial instruments" includes mainly 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 September 30, 2016	Period ended September 30, 2015
FINANCIAL INCOME ON FINANCIAL INSTRUMENTS		
Interest	97	87
Revaluation of financial instruments	7	-
Impairment loss	2	3
Foreign exchange losses	10	33
FINANCIAL EXPENSES ON FINANCIAL INSTRUMENTS	**116**	**123**
OTHER FINANCIAL EXPENSES		
Interest expenses, including unwinding of the discount	132	119
Recognition of provisions (interest)	16	
Other	1	2
OTHER FINANCIAL EXPENSES	**149**	**121**
TOTAL FINANCIAL EXPENSES	**265**	**244**

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 and entities jointly controlled accounted for under the equity method

	Period ended September 30, 2016	Period ended September 30, 2015
Polska Grupa Górnicza	(61)	-
PEC Bogatynia	-	-
INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD	**(61)**	**-**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3-MONTH AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

	Polska Grupa Górnicza	PEC Bogatynia
SHARE IN VOTES	**15.66%**	**34.93%**
PERIOD ENDED SEPTEMBER 30, 2016		
Revenues	2,209	9
Result from continuing operations	(389)	(1)
Result from discontinued operations after tax	-	-
Other comprehensive income	-	-
Total comprehensive income	**(389)**	**-**
SHARE OF PROFIT OF ASSOCIATES AND ENTITIES JOINTLY CONTROLLED	**(61)**	**-**

Data of entity jointly controlled 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 September 30, 2016	Period ended September 30, 2015
IMPAIRMENT ALLOWANCES ON PROPERTY, PLANT AND EQUIPMENT		
Impairment allowances raised	557	8,917
Impairment allowances reversed	-	-
IMPAIRMENT ALLOWANCES ON INTANGIBLE ASSETS		
Impairment allowances raised	283	15
IMPAIRMENT ALLOWANCES ON INVENTORIES		
Impairment allowances raised	21	36
Impairment allowances reversed	14	33

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 comparable 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 September 30, 2016 and September 30, 2015 are as follows:

	Period ended September 30, 2016	Period ended September 30, 2015
INCOME TAX RECOGNISED IN THE STATEMENT OF PROFIT OR LOSS		
Current income tax	349	553
Previous periods current income tax adjustments	20	4
Deferred income tax	16	(1,499)
INCOME TAX EXPENSE RECOGNIZED IN THE STATEMENT OF PROFIT OR LOSS	**385**	**(942)**
INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME		
On valuation of hedging instruments	11	13
On actuarial gains and losses from valuation of provisions for employee benefits	-	27
(Tax benefit)/expense recognized in other comprehensive income (equity)	**11**	**40**

Previous periods current income tax adjustments relate mainly to sales of electricity for the previous year invoiced in the current reporting period. 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 September 30, 2015 is related to the creation of impairment allowances on property, plant and equipment.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3-MONTH AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

During the reporting period, the PGE Group purchased property, plant and equipment and intangible assets of a total amount of PLN 5,597 million. The largest expenditures were incurred by Conventional Generation segment (PLN 4,309 million) and Distribution segment (PLN 1,135 million). The main items of expenditure were: construction of units 5 and 6 in Opole power plant (PLN 2,603 million) and comprehensive modernization of units 7-12 in Bełchatów power plant (PLN 507 million).

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

11. Future investment commitments

As at September 30, 2016 the PGE Group committed to incur capital expenditures on property, plant and equipment of approximately PLN 11,152 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 September 30, 2016	As at December 31, 2015
Conventional Generation	8,839	11,603
Distribution	926	850
Renewables	64	116
Supply	2	3
Other operations	1,321	1,323
TOTAL FUTURE INVESTMENT COMMITMENTS	**11,152**	**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 3,493 million,
  - Branch Turów Power Plant – construction of new power unit – approximately PLN 3,497 million,
  - Branch Turów Power Plant – modernization of power units no. 1-3 – approximately PLN 602 million,
  - Branch Bełchatów Power Plant – reconstruction and modernization of power units – approximately PLN 44 million,
- Distribution – investment commitments related to network distribution assets of the total value of approximately PLN 926 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 1,290 million (including PLN 205 million as base case – remaining part of the contract is optional).

12. Shares in associates and entities jointly controlled accounted for under the equity method

	As at September 30, 2016	As at December 31, 2015
Polska Grupa Górnicza	300	-
PEC Bogatynia	8	8
INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD	**308**	**8**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3-MONTH AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

	Polska Grupa Górnicza	PEC Bogatynia
SHARE IN VOTES	15.66%	34.93%
AS AT SEPTEMBER 30, 2016		
Current assets	1,006	2
Non-current assets	6,338	22
Current liabilities	2,769	1
Non-current liabilities	2,662	-
NET ASSETS	**1,913**	**23**
Share in net assets	**300**	**8**
Goodwill	-	-
INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD	**300**	**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 September 30, 2016	As at December 31, 2015
Difference between tax value and carrying amount of property, plant and equipment	1,550	1,520
Difference between tax value and carrying amount of financial assets	33	31
Difference between tax value and carrying amount of liabilities	247	271
Difference between tax value and carrying amount of inventories	23	21
LTC compensations	256	231
Rehabilitation provision	639	605
Provision for CO_2 emission rights	158	144
Provisions for employee benefits	610	591
Other provisions	149	128
Energy infrastructure acquired free of charge and connection payments received	135	141
Other	13	20
DEFERRED TAX ASSETS	**3,813**	**3,703**

13.2 Deferred tax liabilities

	As at September 30, 2016	As at December 31, 2015
Difference between tax value and carrying amount of property, plant and equipment	2,924	2,681
Difference between tax value and carrying amount of energy origin rights	57	107
Difference between tax value and carrying amount of financial assets	306	357
CO_2 emission rights	392	403
LTC compensations	671	671
Other	32	23
DEFERRED TAX LIABILITIES	**4,382**	**4,242**

AFTER OFF-SET OF THE ASSET AND THE LIABILITY IN PARTICULAR COMPANIES THE GROUP'S DEFFERED TAX IS PRESENTED AS:		
Deferred tax assets	247	313
Deferred tax liabilities	(816)	(852)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3-MONTH AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

14. CO_2 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 CO_2 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 CO_2 emission rights in the amount of about 25 million for units generating electricity, and about 1 million for the installations other than generating electricity.

In September 2016 PGE Capital Group submitted subsequent reports on the implementation of the investments.

EUA	As at September 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	30	688	38	1,301
Granted free of charge	26	-	30	-
Redemption	(58)	(760)	(59)	(681)
AS AT THE REPORTING DATE	**75**	**2,100**	**77**	**2,172**

15. Other current and non-current assets

15.1 Other non-current assets

	As at September 30, 2016	As at December 31, 2015
Advances for construction in progress	780	1,042
Other non-current assets	20	21
TOTAL OTHER ASSETS	**800**	**1,063**

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

15.2 Other current assets

	As at September 30, 2016	As at December 31, 2015
PREPAYMENTS		
Fees and commissions	45	41
Social Fund	32	1
Fees for the exclusion of land from agricultural production, forestry	15	4
IT services	7	7
Property and tort insurance	5	3
Perpetual usufruct of land fee	4	-
Other prepayments	27	18
OTHER CURRENT ASSETS		
VAT receivables	204	388
Excise tax receivables	75	90
Advances for deliveries	5	34
Other current assets	9	13
TOTAL OTHER ASSETS	**428**	**599**

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

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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 September 30, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
Trade receivables	-	2,419	-	2,548
LTC compensations	-	1,165	-	1,075
Deposits	135	1	124	1
Bails and security deposits	-	19	1	37
Collateral – balancing market	-	-	-	18
Other financial receivables	13	94	17	69
TOTAL FINANCIAL RECEIVABLES	**148**	**3,698**	**142**	**3,748**

Trade receivables comprise also accrual of electricity sales (PLN 558 million as at September 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 September 30, 2016	As at December 31, 2015
Cash on hand and cash at bank	3,648	1,304
Overnight deposits	31	57
Short-term deposits	1,707	1,743
TOTAL	**5,386**	**3,104**
Interest accrued on cash, not received at the reporting date	-	(1)
Exchange differences on cash in foreign currencies	(2)	(2)
Cash and cash equivalents presented in the statement of cash flows	**5,384**	**3,101**
including restricted cash	*130*	*333*
Undrawn borrowing facilities	6,625	5,257
including overdraft facilities	*2,001*	*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.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3-MONTH AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

17. Derivatives

	As at September 30, 2016		As at December 31, 2015	
	Assets	Liabilities	Assets	Liabilities
DERVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS				
Currency forward	2	-	7	1
Commodity forward	7	-	-	33
IRS hedging transactions	-	43	-	55
DERIVATIVES IN HEDGE ACCOUNTING				
CCIRS hedging transactions	130	-	43	-
IRS hedging transactions	2	5	-	-
TOTAL DERIVATIVES	**141**	**48**	**50**	**89**
current	9	-	7	34
non-current	132	48	43	55

Commodity and currency forwards

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

IRS transactions

In the current reporting period, PGE S.A. entered into an 3 IRS transactions hedging the interest rate of bank loans with a total nominal value of PLN 4,600 million. For the recognition of those IRS transactions, the Group 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.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3-MONTH AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

18.1 Share capital

	As at September 30, 2016	As at December 31, 2015
1,470,576,500 Series A ordinary shares with a nominal value of PLN 10 each	14,706	14,706
259,513,500 Series B ordinary shares with a nominal value of PLN 10 each	2,595	2,595
73,228,888 Series C ordinary shares with a nominal value of PLN 10 each	732	732
66,441,941 Series D ordinary shares with a nominal value of PLN 10 each	665	665
TOTAL SHARE CAPITAL	**18,698**	**18,698**

All shares have been paid up.

On September 5, 2016 the Extraordinary General Meeting of PGE S.A. adopted resolution on increase of the Company's share capital by PLN 467,440,207.25 from the Company's reserve capital, through increasing the nominal value of a share from PLN 10.00 to PLN 10.25. Since until the reporting date the increase has not been registered with the National Court Register, in the statement of financial position as at September 30, 2016 the amount of the share capital increase is recognized in separate item of equity: „reserve capital for the increase of the share capital".

Raising the nominal value of the shares is an event that brings the tax revenue on side of shareholders. On September 5, 2016 the Extraordinary General Meeting of PGE S.A. adopted resolution on allocation of 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, so the tax burden will be borne by the Company. PGE S.A. received tax interpretations in reply to questions regarding proper application of the regulations on income tax from legal persons and income tax from natural persons. The analysis of received interpretations leads to the conclusion that the tax due which Company is supposed to pay to the Tax Office due to the increase of share capital amounts to PLN 110 million. As at September 30, 2016 that amount decreased the equity of the Group and is presented in non-financial liabilities.

After the reporting date until the preparation of these financial statements, there have been no changes with regard to the share capital, the reserve capital and other supplementary capitals.

18.2 Capital from valuation of financial instruments

	Period ended September 30, 2016	Year ended December 31, 2015
AS AT JANUARY 1	**(21)**	**(61)**
Change of capital from valuation of financial instruments, including:	**58**	**49**
Derivatives valuation including:	**59**	**49**
Deferral of changes in fair value of hedging instruments recognized as an effective hedge	*83*	*51*
Accrued interest on derivatives transferred from hedging reserve and recognized in interest expenses	*9*	*1*
Currency revaluation of CCIRS transaction transferred from hedging reserve and recognized in the result on foreign exchange differences	*(33)*	*1*
Ineffective portion of change in fair value of hedging derivatives recognized in profit or loss	*-*	*(4)*
Financial instruments valuation	**(1)**	**-**
Deferred tax	**(11)**	**(9)**
CAPITAL FROM VALUATION OF FINANCIAL INSTRUMENTS INCLUDING DEFERRED TAX	**26**	**(21)**

The capital from valuation of financial instruments includes mainly valuation from applied cash flow hedge accounting.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3-MONTH AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

18.3 Dividends paid and dividends declared

	Dividend paid or declared from the profit for the period ended		
	September 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 September 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 September 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 September 30, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
Employee benefits	2,505	645	2,496	517
Rehabilitation provision	3,529	4	3,348	2
Provision for deficit of CO_2 emission rights	-	830	-	760
Provisions for energy origin units held for redemption	-	476	-	380
Provision for non-contractual use of property	94	15	97	20
Other provisions	116	68	103	130
TOTAL PROVISIONS	**6,244**	**2,038**	**6,044**	**1,809**

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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**
Current service costs	55	-	-	-	-	-	55
Interest costs	60	72	-	-	-	-	132
Benefits paid / Provisions used	(391)	(1)	(760)	(336)	-	(100)	(1,588)
Provisions reversed	(25)	-	-	(3)	(24)	(19)	(71)
Provisions raised in correspondence with costs	439	25	830	435	16	74	1,819
Provisions raised in correspondence with property, plant and equipment	-	83	-	-	-	-	83
Other changes	(1)	4	-	-	-	(4)	(1)
SEPTEMBER 30, 2016	**3,150**	**3,533**	**830**	**476**	**109**	**184**	**8,282**

	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 1,742 million (PLN 1,721 million as at December 31, 2015);
- jubilee awards – PLN 938 million (PLN 953 million as at December 31, 2015);
- other benefits (bonuses, unused holidays, etc.) – PLN 470 million (PLN 339 million as at December 31, 2015).

Discount rate applied to the valuation of actuarial provisions as at September 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 provision 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 September 30, 2016 amounted to PLN 3,198 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 108 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 160 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 September 30, 2016 and December 31, 2015 is 3.0%.

19.3 Provision for deficit of CO_2 emission rights

The PGE Group entities recognize provision for the shortfall of CO_2 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 CO_2 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 109 million (of which PLN 46 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 103 million (PLN 88 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 September 30, 2016 amounted to EUR 639 million whereas their assessed fair value amounted to EUR 710 million. The indicators used in the valuation belong to Level 2 of the fair value hierarchy.

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20.1 Loans, borrowings, bonds and lease

	As at September 30, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
Loans and borrowings	5,390	313	1,459	214
Bonds issued	3,685	76	3,658	76
Lease	1	1	1	1
TOTAL LOANS, BORROWINGS, BONDS AND LEASE	**9,076**	**390**	**5,118**	**291**

Loans and borrowings

Among loans and borrowings presented above as at September 30, 2016 the PGE Group presents among others:

- investment credit facility taken out by PGE S.A. from syndicate of banks: 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., Bank Polska Kasa Opieki S.A. - in total value of PLN 3,624 million;
- investment credit facility taken out by PGE S.A. from Bank Gospodarstwa Krajowego S.A.- in total value of PLN 1,007 million;
- 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 585 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 117 million.

Additionally, PGE Group has unused credit facilities:

- On September 7, 2015 PGE S.A. concluded a long-term loan agreement with a syndicate of banks. Subject matter of the agreement is granting a loan in two parts, i.e. term loan facility of up to PLN 3,630 million – that was used in the current period - and revolving loan facility of up to PLN 1,870 million. Final repayment date of the revolving loan facility falls on April 30, 2019.
- 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.

Moreover, PGE Group has unused borrowings from environmental funds in total value of PLN 264 million.

The value of overdraft facilities at the Group's disposal amounted to PLN 2,001 million as at September 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 the 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

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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 September 30, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
Trade liabilities	-	769	-	1,119
Purchase of property, plant and equipment and intangible assets	12	710	25	1,608
Liabilities related to LTC	-	1,264	-	1,131
Bails and security deposits received	15	66	9	81
Other	-	32	-	6
TOTAL TRADE AND OTHER FINANCIAL LIABILITIES	**27**	**2,841**	**34**	**3,945**

OTHER EXPLANATORY NOTES

21. Contingent liabilities and receivables. Legal claims

21.1 Contingent liabilities

	As at September 30, 2016	As at December 31, 2015
Contingent return of grants from environmental funds	479	433
Contingent return of CO_2 emission rights received free of charge	112	-
Legal claims	67	67
Employees' claims	1	-
Contractual fines and penalties	12	12
Bank guarantees	2	1
Other contingent liabilities	41	47
TOTAL CONTINGENT LIABILITIES	**714**	**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 CO_2 emission rights received free of charge

The contingent liability results from the risk of a return of the equivalent of CO_2 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.

21.4 Other legal claims and disputes

The issue of compensation for conversion of shares

Former shareholders of PGE Górnictwo i Energetyka S.A. filed petitions calling PGE S.A. for a pre-trial settlement with respect of the payment of damages for incorrectly set – as they claim – share exchange ratio of PGE Górnictwo i Energetyka S.A. shares for the shares of PGE S.A. in the consolidation process which took place in 2010. The total value of claims resulting from petitions for pre-trial settlements by former shareholders of PGE Górnictwo i Energetyka S.A. is over PLN 10 million.

Notwithstanding the foregoing, on November 12, 2014 Socrates Investment S.A. (the purchaser of the liabilities from former shareholders of PGE Górnictwo i Energetyka S.A.) filed a lawsuit for compensation in total amount exceeding PLN 493 million (plus interests) for the damage resulting from incorrectly (in opinion of the Socrates Investment S.A.) set share exchange ratio in the consolidation process of PGE Górnictwo i Energetyka S.A. with 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.

At a subsequent hearing on August 10, 2016, the parties reiterated their motions and statements; the plaintiff's attorney responded, in the form of a written statement from the plaintiff, to a procedural document dated July 20, 2016 from PGE S.A.'s intervening party, PwC Polska sp. z o.o., and a statement was presented by PwC Polska sp. z o.o. showing the correctness of the valuation prepared for the purposes of the merger. The next hearing is to be held on November 9, 2016.

In addition, company Pozwy sp. z o.o. submitted a similar claim amounting to more than PLN 229 million in its letter dated October 31, 2016 which constituted a notification about the purchase of claims and demand for payment adressed to PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE S.A. and PwC Polska sp. z o.o. Pozwy sp. z o.o., indicated in its letter that the company bought claims of former shareholders of PGE Elektrownia Opole S.A. The claim concerns compensation for alleged incorrect determination of the share exchange ratio of PGE Elektrownia Opole S.A. for the shares of PGE Górnictwo i Energetyka Konwencjonalna S.A. in the merger process of those companies.

The Group does not accept the claims of Socrates Investment S.A., Pozwy sp. z o.o. and of the other shareholders filing for a pre-trial settlement. The claims are unfounded. In the opinion of PGE S.A. the whole consolidation process was executed in fair and proper manner. The value of the shares of companies subject to the mergers was assessed by the independent company - PwC Polska sp. z o.o. Additionally, plan of the companies' merger, including the exchange ratio with respect to shares of the acquired company for the shares of the acquiring company were examined for accuracy and reliability by an expert appointed by the registration court; no irregularities were found. Then, the court registered the merger of the companies.

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

Claims for annulment of the resolutions of the General Meetings

On April 1, 2014 PGE S.A. received a copy of lawsuit filed to the District Court in 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 Meeting of the Company held on February 6, 2014. The Company filed response to the claim. On June 22, 2015 the District Court in Warsaw dismissed in full the shareholder's claim. On July 28, 2015 the shareholder appealed against that verdict. The Company filed a response to the appeal.

On September 17, 2014 PGE S.A. received a copy of lawsuit filed to the District Court in Warsaw by one of the shareholders. In the lawsuit, the shareholder is seeking for annulment of the resolution 4 of the Ordinary General Meeting of the Company held on June 6, 2014. The Company filed response to the claim. On August 13, 2015 the District Court in Warsaw dismissed in full the shareholder's claim. The verdict is not final and binding. On December 7, 2015 PGE S.A. received copy of the Plaintiff's appeal. On December 21, 2015 the Company filed a response to the appeal.

On August 21, 2015 PGE S.A. received a copy of lawsuit filed to the District Court in Warsaw by one of the shareholders. In the lawsuit, the shareholder is seeking for annulment of the resolution 5 of the Ordinary General Meeting of the Company held on June 24, 2015. On September 21, 2015 the Company filed response to the claim. 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 lawsuit filed to the District Court in Warsaw by one of the shareholders. In the lawsuit, the shareholder is seeking for annulment of the resolution 1 of the Extraordinary General Meeting of the Company held on September 14, 2015. On November 23, 2015 the Company filed response to the claim.

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

On September 12, 2016 PGE S.A. received a copy of lawsuit filed to the District Court in Warsaw by one of the shareholders. In the lawsuit, the shareholder is seeking for annulment of the resolution 1 of the Ordinary General Meeting of the Company held on June 28, 2016 concerning the election of Chairperson of the Ordinary General Meeting. On October 11, 2016 the Company filed a response to the claim.

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.

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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 103 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 and entities jointly controlled

Sales of entities belonging to the PGE Group to associates and entities jointly controlled in the period ended September 30, 2016 amounted to PLN 61 million and in the comparative period to PLN 5 million. Purchases from those entities in the period ended September 30, 2016 amounted to PLN 339 million. As at September 30, 2016 the Group's trade receivables from associates and entities jointly controlled amounted to PLN 69 million and PLN 1 million as at December 31, 2015. Trade liabilities to those entities amounted to PLN 110 million as at September 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 entity jointly controlled.

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 September 30, 2016	Period ended September 30, 2015
Sales to related parties	1,551	1,609
Purchases from related parties	2,572	2,606

	As at September 30, 2016	As at December 31, 2015
Trade receivables from related parties	208	383
including overdue	*1*	*14*
Trade liabilities to related parties	298	387
including overdue	-	-

The largest transactions with State Treasury companies involve Polskie Sieci Elektroenergetyczne S.A., Enea S.A., ENERGA-OBRÓT S.A., PKN Orlen S.A. and purchases of coal from Polish mines.

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.

PLN thousand	Period ended September 30, 2016	Period ended September 30, 2015
Short-term employee benefits (salaries and salary related costs)	24,722	24,991
Post-employment and termination benefits	7,912	1,674
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**32,634**	**26,665**
Remuneration of key management personnel of entities of non-core operations	10,617	10,605
TOTAL REMUNERATION OF MANAGEMENT PERSONNEL	**43,251**	**37,270**

PLN thousand	Period ended September 30, 2016	Period ended September 30, 2015
Management Board of the parent company	9,405	4,614
Supervisory Board of the parent company	368	311
Management Boards – subsidiaries	21,147	20,675
Supervisory Boards – subsidiaries	1,714	1,065
TOTAL	**32,634**	**26,665**
Remuneration of key management personnel of entities of non-core operations	10,617	10,605
TOTAL REMUNERATION OF MANAGEMENT PERSONNEL	**43,251**	**37,270**

Increase of the remuneration of management personnel is mainly caused by increased post-employment benefits (terminations, non-competition clauses).

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, 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 the Act	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 who 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 related to realisation of LTC Act

Some generating entities, currently branches of PGE GiEK S.A., became entitled to receive funds to cover stranded costs (so-called "LTC compensation") pursuant to the LTC Act. The LTC Act is ambiguous in many points and raise important questions of interpretation. The calculation of the estimated results of each entity and resulting compensations, annual adjustments of stranded costs and final adjustments as well as resulting revenues recognized in the statement of comprehensive income was performed by the Group with the best of its knowledge in this area and with support of external experts.

Until the preparation date of these financial statements, producers from PGE Group (branches of PGE GiEK) received decisions on annual adjustments of stranded costs and costs related to natural gas fired entities for 2008-2015. The part of these decisions were unfavourable for the particular entities and the Group believes that they were issued in violation of the Long-Term Contracts Act. As a consequence, since 2009, a number of proceedings have been pending before the Regional Court in Warsaw - Competition and Consumer Protection Court ("CCP Court") and before the Court of Appeal. As at the preparation date of this report, majority of the proceedings are conducted before the Supreme Court.

Until September 30, 2016:

- On April 7, 2016 the court case was conducted before the Supreme Court, during which a cassation appeal of the ERO President was examined in case of the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. Branch Elektrociepłownia Lublin Wrotków for 2009. The Supreme Court repealed the contested judgment of the Court of Appeal in Warsaw in full and dismissed the appeal of PGE GiEK S.A. Claim value in this case amounts to nearly PLN 7 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 the cassation appeal for examination in case of the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. Branch Elektrociepłownia Lublin and Branch Elektrociepłownia Rzeszów for 2010. The ruling ends the proceedings, meaning that rulings by the CCP Court and the Court of Appeal are binding. Claim value in this case amounts to PLN 4 million.
- On April 14, 2016 the court case was conducted before the Court of Appeal on determining the annual adjustment for stranded costs due to GiEK S.A. Branch Elektrownia Opole 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 with the Supreme Court. Claim value in this case amounts to approx. PLN 142 million. Zarządca Rozliczeń S.A. transferred that amount to the company's account.
- On May 12, 2016 the court case was conducted before the Court of Appeal on determining the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. Branch Elektrociepłownia Rzeszów for 2012. The Court of Appeal issued verdict in which it changed the verdict of the CCP Court in full and rejected the company's appeal. Claim value in this case amounts to approx. PLN 7 million.
- On May 12, 2016 the Supreme Court refused to hear the cassation appeal of the company in case of the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. Branch Elektrociepłownia Rzeszów for 2009 and 2011. Claim value in both cases amounts to approx. PLN 10 million.
- On August 8, 2016 PGE GiEK S.A. received administrative decision of the ERO President regarding the annual adjustment of the stranded costs for the year 2015. The amount of the annual adjustment of stranded costs in generating units: Branch Elektrownia Turów and Brach Elektrownia Opole for 2015 amounts to approx. PLN (+) 326 million. The company does not dispute this amount. The amount of advances collected in 2015 amounted to PLN 251 million.
- On September 14, 2016, the company appealed a ruling of the District Court in Warsaw regarding a claim concerning the year 2008 against the State Treasury – President of the Energy Regulatory Office concerning lost benefits for the Company such as have resulted following issue by the President of the Energy Regulatory Office of unfavourable decisions regarding stranded costs for 2008. Claim value in this case amounts to PLN 57 million.
- On September 15, 2016, the Court of Justice of the European Union issued a ruling regarding prejudicial questions concerning the group in the meaning of the LTC Act.

  The above question concerned two issues:

  - whether national courts are competent to examine issues related to LTCs?

  - whether entities in a group should be specified based on the group's state reflected in Annex 7 to the LTC Act or based on the actual state in the year covered by the programme?

  The Court ruled that national bodies and courts are not authorised to verify whether national laws considered to be authorised state aid are in compliance with the assumptions listed in Commission communication relating to the methodology for analysing state aid linked to stranded costs; and that in determining the annual adjustment for compensation of stranded costs which is to be paid out to a generating entity belonging to a group, such group membership and therefore the group's financial results should be taken into consideration at the time when the adjustment is made. In the opinion of the PGE Capital Group, the Court's answer does not necessitate the adjustment of the LTC compensations settlement in the financial statements.

In connection with the above, a cassation hearing has been scheduled for November 10, 2016 regarding calculation of the annual adjustment for stranded costs at the Branch Zespół Elektrowni Odra Dolna for 2009.

- A conciliation meeting is scheduled for December 8, 2016 between the company as applicant and the President of the Energy Regulatory Office as petitioned party in a case concerning a payment of PLN 107 million to the Company as compensation for lost benefits in connection with unfavourable decisions related to 2009. This is the second petition for a pre-trial settlement in this matter.

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

In the financial statements for the period ended September 30, 2016, the Group recognized LTC revenue in sales revenue in the amount of PLN 384 million.

The verdict of the Court of Appeal on determining the annual adjustment for stranded costs due to GiEK S.A. Branch Elektrownia Opole for 2010 caused an adjustment of LTC settlements of approx. PLN (+) 173 million in the financial statements for the period ended September 30, 2016.

Moreover, refusal to accept the cassation appeal for examination in case of the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. Branch Elektrociepłownia Lublin and Branch Elektrociepłownia Rzeszów 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 Elektrociepłownia Lublin Wrotków for 2009 caused an adjustment of LTC settlements of PLN (-) 25 million in the financial statements for the period ended September 30, 2016.

Above adjustments are presented after compensation in the statement of the comprehensive income in other operating revenues.

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 PGE Group by the Court of Appeal and a favourable final judgment by the CCP Court in the amount of PLN 1,563 million.

In the period from 2008 till September 30, 2016 the PGE Capital Group recognised LTC revenues in total amount of PLN 7,619 million.

24.2 Investment Agreement on the financial investment in Polska Grupa Górnicza sp. z o.o.

On April 28, 2016, PGE Górnictwo i Energetyka Konwencjonalna S.A. signed the Investment Agreement determining the conditions of the financial investment (the "Investment") in Polska Grupa Górnicza sp. z o.o. (the „Agreement"). The parties of the Agreement are:
PGE Górnictwo i Energetyka Konwencjonalna S.A., ENERGA Kogeneracja sp. z o.o., 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 transferred therewith).

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

Recapitalisation of PGG in total amount of PLN 2,417 million, was divided into 3 tranches, within which PGE GiEK S.A. will pay a total of PLN 500 million, including:

- PLN 361.1 million within the first tranche. The result was acquisition of 15.7% in the share capital of PGG by PGE GiEK S.A. on April 29, 2016;
- PLN 83.3 million within the second tranche. The result was acquisition on November 3, 2016 of further shares increasing the share of PGE GiEK S.A. in the share capital of 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 share in the share capital of PGG will increase to 17.1%.

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

PGG operates on the basis of the business plan, which aims at optimisation of coal production costs and achieving defined profitability levels. 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 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). Moreover, key decisions of the Assembly of Partners of PGG regarding the capital management and restructuring require the Investors' approval.

Moreover, on June 17, 2016 PGE GiEK S.A., ENERGA Kogeneracja sp. z o.o., PGNiG TERMIKA S.A. and Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (jointly referred to as „New Investors") signed an agreement concerning PGG (the „Agreement"). The purpose of the Agreement is to provide increased control over PGG leading to higher probability of investment success in PGG, as well as increased impact on potential modifications to PGG's business plan that would meet the expectations of New Investors and new market challenges.

On June 29, 2016 the Office of Competition and Consumer Protection issued consent for concentration that involves the taking of joint control over PGG by the New Investors.

In view of the powers indicated above that PGE GiEK S.A. is entitled to, in the consolidated financial statements investment in PGG is treated as jointly controlled entity and accounted for using the equity method.

24.3 Submission of an initial offer with partners for EDF assets in Poland

On September 16, 2016 PGE together with Enea S.A., ENERGA S.A. and PGNiG TERMIKA S.A. (the "Business Partners") jointly submitted to EDF International SAS ("EDF") an initial, non-binding offer for purchase of shares and stakes in EDF subsidiaries in Poland, possessing conventional generation assets and operating a service business.

These assets encompass in particular:

- Rybnik Power Plant;
- CHP in Kraków, CHP in Gdańsk, CHP in Gdynia, CHP and district heating network in Toruń;
- CHPs and district heating network in Wrocław metropolitan area; CHP and district heating network in Zielona Góra (belonging to the company Zespół Elektrociepłowni Wrocławskich Kogeneracja S.A. and its subsidiary Elektrociepłownia Zielona Góra S.A.);
- Investment in gas-fired unit in Toruń (as a part of EDF Gaz Toruń sp. z o.o.).

24.4 Overburden slide at an internal heap in the Turów lignite mine

In the night from September 26 to 27 2016, an landslide process began at an internal heap in the Turów lignite mine.

The landslip caused some limitations in the operations of the mine and the Turów power plant, which uses lignite from the mine as fuel for its power units. The mine temporarily limited coal mining activities what resulted in reduction of generation capacity of the Turów power plant, although fully meeting demand requested by the Operator of the National Power System while part of production was moved to other generating unit of PGE Group.

A rescue operation intended to secure equipment and infrastructure was completed on October 5, 2016, and the situation around the landslide stabilised. Coal supply to the power plant was continuous, drawing from a coal reserve, which stores fuel inventories, and thanks to the launch of additional mining walls. From October 7, 2016, an overburden removal operation is taking place, removing overburden that is covering lignite deposits. As a consequence of the slide a stacker and part of transportation system and associated infrastructure were destroyed. Currently, there is no threat of destruction of the remaining equipment and mining infrastructure. The slide does not have significant impact on the lignite deposits.

Therefore, as of September 30, 2016 an impairment loss of assets was recognised in amount PLN 15.5 million. Additionally, Turów lignite mine will bear the costs associated with removal of effects of overburden slide and reconstruction of part of the property. At the date of preparation of the financial statements, the final amount of these expenses is not yet known. Turów lignite mine has an insurance policy concluded with a syndicate of insurance companies, which is conducting the valuation of damages and the claim adjustment process.

On October 25, 2016, full generation capacity was restored in the Turów power plant therefore it returned to work levels from before the landslide.

24.5 Setting up of ElectroMobility Poland

On October 19, 2016 PGE Polska Grupa Energetyczna S.A., ENERGA S.A., Enea S.A. and Tauron Polska Energia S.A. set up a company named ElectroMobility Poland. Operations of the new company are intended to develop electromobility system in Poland.

The share capital of the company amounts to PLN 10 million as at the set up date. Each of the above companies will take up 25% of the share capital, obtaining 25% of votes on the general meeting of the company.

24.6 Termination of long-term contracts for purchase of certificates by Enea S.A.

On October 28, 2016 and October 31, 2016 PGE GiEK S.A., PGE Energia Odnawialna S.A. and PGE Energia Natury PEW sp. z o.o. received from Enea S.A. terminations of long-term contracts for purchase of so called "green certificates" by Enea S.A.

After initial analysis of the documents sent by Enea S.A., in the opinion of the management boards of the above mentioned companies from PGE Capital Group, notices of termination of contracts presented by Enea S.A. were submitted in violation of the terms of the agreements and companies will take appropriate steps to enforce their rights. In particular, in the opinion of the Management Board of PGE GiEK S.A. termination of the contract by Enea S.A. is unfounded and against the earlier agreement between the parties (a letter of intent) and on that ground PGE GiEK S.A. will demand compensation for termination of the long-term contract.

Estimated volume of the green certificates, covered by contracts with Enea S.A., amounts to approximately 3,115 ths. MWh. Above value was calculated for the period from December 2016 (i.e. the month from which Enea S.A. plans to stop purchases of green certificates - after taking into account the notice period) until the initial maturity dates of the contracts.

25. Approval of the financial statements

These consolidated financial statements were approved for publication by the Management Board of the parent company on November 8, 2016.

Warsaw, November 8, 2016

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

President of the Management Board	**Henryk Baranowski**
The Vice-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**

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