PGE Polska Grupa Energetyczna S.A.
Quarterly financial report
for the 3- and 9-month periods

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

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	3 months ended September 30, 2019 *(unaudited)*	9 months ended September 30, 2019 *(unaudited)*	3 months ended September 30, 2018 *(unaudited) restated data*	9 months ended September 30, 2018 *(unaudited) restated data*
STATEMENT OF PROFIT OR LOSS					
SALES REVENUES	6.1	**9,696**	**27,932**	**6,091**	**18,962**
Cost of goods sold	6.2	(8,661)	(24,509)	(5,065)	(14,963)
GROSS PROFIT ON SALES		**1,035**	**3,423**	**1,026**	**3,999**
Distribution and selling expenses	6.2	(383)	(965)	(280)	(991)
General and administrative expenses	6.2	(253)	(761)	(225)	(736)
Net other operating income/(expenses)	6.3	222	1,370	(14)	94
OPERATING PROFIT		**621**	**3,067**	**507**	**2,366**
Net finance expenses	6.4	(109)	(337)	(29)	(265)
Share of profit of entities accounted for using the equity method	6.5	12	34	15	58
GROSS PROFIT		**524**	**2,764**	**493**	**2,159**
Current income tax	8.	(53)	(393)	(74)	(396)
Deferred income tax	8.	(44)	(179)	(16)	(64)
NET PROFIT FOR THE REPORTING PERIOD		**427**	**2,192**	**403**	**1,699**
OTHER COMPREHENSIVE INCOME					
Items that may be reclassified to profit or loss in the future:					
Valuation of debt financial instruments		(4)	(1)	(4)	(5)
Valuation of hedging instruments		80	(66)	(72)	(37)
Foreign exchange differences from translation of foreign entities		3	2	(1)	3
Deferred tax	8.	(14)	13	14	8
Items that may not be reclassified to profit or loss in the future:					
Actuarial gains and losses from valuation of provisions for employee benefits		(1)	(143)	-	-
Deferred tax	8.	-	27	-	-
Share of (loss)/profit of entities accounted for using the equity method		-	(1)	(1)	-
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**64**	**(169)**	**(64)**	**(31)**
TOTAL COMPREHENSIVE INCOME		**491**	**2,023**	**339**	**1,668**
NET PROFIT ATTRIBUTABLE TO:					
– equity holders of the parent company		471	2,173	416	1,697
– non-controlling interests		(44)	19	(13)	2
COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
– equity holders of the parent company		535	2,004	352	1,666
– non-controlling interests		(44)	19	(13)	2
EARNINGS AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (IN PLN)		**0.25**	**1.16**	**0.22**	**0.91**

** restatement of comparative data is described in note **3 to these financial statements***

The additional notes constitute an integral part
of these consolidated financial statements.

for the 3- and 9-month periods ended September 30, 2019, in accordance with IFRS EU (in PLN million)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at September 30, 2019 *(unaudited)*	As at December 31, 2018 *audited restated data**
NON-CURRENT ASSETS			
Property, plant and equipment		64,317	62,274
Investment property		48	48
Intangible assets		720	1,046
Right-of-use assets		1,244	-
Financial receivables	*15.1*	179	168
Derivatives and other assets measured at fair value through profit or loss	*16*	152	117
Shares and other equity instruments		57	53
Shares accounted for using the equity method	*11.*	811	776
Other non-current assets		520	528
CO_2 emission allowances for captive use	*14.*	240	1,203
Deferred income tax assets	*12.1*	627	552
		68,915	**66,765**
CURRENT ASSETS			
Inventories	*13.*	4,479	2,699
CO_2 emission allowances for captive use	*14.*	1,019	408
Income tax receivables		98	69
Derivatives and other assets measured at fair value through profit or loss	*16*	296	114
Trade and other financial receivables	*15.1*	4,815	4,102
Shares and other equity instruments		1	1
Other current assets		764	457
Cash and cash equivalents	*15.2*	1,741	1,281
		13,213	**9,131**
ASSETS CLASSIFIED AS HELD FOR SALE		**2**	**9**
TOTAL ASSETS		**82,130**	**75,905**
EQUITY			
Share capital	*17.1*	19,165	19,165
Reserve capital		19,669	19,872
Hedging reserve	*17.2*	(106)	(52)
Exchange differences from translation		1	(1)
Retained earnings		9,982	7,743
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**48,711**	**46,727**
Equity attributable to non-controlling interests		842	1,074
TOTAL EQUITY		**49,553**	**47,801**
NON-CURRENT LIABILITIES			
Non-current provisions	*18*	7,617	6,428
Loans, borrowings, bonds and lease	*19.1*	10,974	6,361
Derivatives	*16.*	159	26
Deferred income tax liabilities	*12.2*	1,831	1,616
Deferred income and government grants		595	611
Other financial liabilities	*19.2*	491	521
Other non-financial liabilities	*20.*	38	15
		21,705	**15,578**
CURRENT LIABILITIES			
Current provisions	*18.*	3,569	2,608
Loans, borrowings, bonds and leases	*19.1*	1,696	4,347
Derivatives	*16.*	146	110
Trade and other financial liabilities	*19.2*	3,626	3,613
Income tax liabilities		54	14
Deferred income and government grants		80	87
Other non-financial liabilities	*20.*	1,701	1,747
		10,872	**12,526**
TOTAL LIABILITIES		**32,577**	**28,104**
TOTAL EQUITY AND LIABILITIES		**82,130**	**75,905**

** restatement of comparative data is described in note 3 to these financial statements*

for the 3- and 9-month periods ended September 30, 2019, in accordance with IFRS EU (in PLN million)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserve capital	Hedging reserve	Exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total equity
Note	*17.1*		*17.2*					
JANUARY 1, 2019	**19,165**	**19,872**	**(52)**	**(1)**	**7,743**	**46,727**	**1,074**	**47,801**
Net profit for the reporting period	-	-	-	-	2,173	2,173	19	2,192
Other comprehensive income	-	-	(54)	2	(117)	(169)	-	(169)
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**(54)**	**2**	**2,056**	**2,004**	**19**	**2,023**
Retained earnings distribution	-	(203)	-	-	203	-	-	-
Dividend	-	-	-	-	-	-	(4)	(4)
Settlement of purchase of additional shares in subsidiaries	-	-	-	-	(21)	(21)	(254)	(275)
Acquisition of a new subsidiary	-	-	-	-	-	-	8	8
Other changes	-	-	-	-	1	1	(1)	-
TRANSACTIONS WITH OWNERS	**-**	**(203)**	**-**	**-**	**183**	**(20)**	**(251)**	**(271)**
SEPTEMBER 30, 2019	**19,165**	**19,669**	**(106)**	**1**	**9,982**	**48,711**	**842**	**49,553**

	Share capital	Reserve capital	Hedging reserve	Exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total equity
Note	*17.1*		*17.2*					
DECEMBER 31, 2017	**19,165**	**15,328**	**83**	**(4)**	**10,556**	**45,128**	**1,250**	**46,378**
Effect of IFRS 15 implementation	-	-	-	-	340	340	-	340
JANUARY 1, 2018	**19,165**	**15,328**	**83**	**(4)**	**10,896**	**45,468**	**1,250**	**46,718**
Net profit for the reporting period	-	-	-	-	1,697	1,697	2	1,699
Other comprehensive income	-	-	(34)	3	-	(31)	-	(31)
COMPREHENSIVE INCOME	**-**	**-**	**(34)**	**3**	**1,697**	**1,666**	**2**	**1,668**
Retained earnings distribution	-	4,544	-	-	(4,544)	-	-	-
Dividend	-	-	-	-	-	-	(39)	(39)
Inclusion of companies in consolidation	-	-	-	-	27	27	20	47
Settlement of purchase of additional shares in subsidiaries	-	-	-	-	34	34	(142)	(108)
Capital increase by minority shareholders	-	-	-	-	-	-	18	18
Other changes	-	-	-	-	1	1	(2)	(1)
TRANSACTIONS WITH OWNERS	**-**	**4,544**	**-**	**-**	**(4,482)**	**62**	**(145)**	**(83)**
SEPTEMBER 30, 2018	**19,165**	**19,872**	**49**	**(1)**	**8,111**	**47,196**	**1,107**	**48,303**

for the 3- and 9-month periods ended September 30, 2019, in accordance with IFRS EU (in PLN million)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Period ended September 30, 2019 *(unaudited)*	Period ended September 30, 2018 *(unaudited)*
CASH FLOWS FROM OPERATING ACTIVITIES			
Gross profit		**2,764**	**2,159**
Income tax paid		(424)	(473)
Adjustments for:			
Share of profit of entities accounted for using the equity method		(34)	(58)
Depreciation, amortisation, disposal and impairment losses		3,005	2,778
Interest and dividend, net		167	163
Gain/(loss) on investing activities		(159)	(18)
Change in receivables		(727)	(679)
Change in inventories		(1,780)	(410)
Change in liabilities, excluding loans and borrowings		557	(207)
Change in other non-financial assets, prepayments and CO_2 emission allowances		(5)	(478)
Change in provisions		1,362	(92)
Other		39	(17)
NET CASH FROM OPERATING ACTIVITIES		**4,765**	**2,668**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets		(4,833)	(4,270)
Recognition of deposits with maturity over 3 months		(256)	(372)
Termination of deposits with maturity over 3 months		243	358
Purchase of financial assets		(31)	(103)
Inclusion of companies in consolidation		-	18
Other		26	30
NET CASH FROM INVESTING ACTIVITIES		**(4,851)**	**(4,339)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from share issue for non-controlling interests		-	18
Proceeds from loans, borrowings		5,050	1,979
Proceeds from issue of bonds		1,400	-
Repayment of loans, borrowings and finance leases		(3,236)	(223)
Redemption of bonds issued		(2,139)	(1,000)
Interest and commission paid		(258)	(201)
Increase of share in Group companies		(275)	(111)
Other		4	(17)
NET CASH FROM FINANCING ACTIVITIES		**546**	**445**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**460**	**(1,226)**
Net foreign exchange differences		*(1)*	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	*15.2*	**1,279**	**2,551**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	*15.2*	**1,739**	**1,325**

for the 3- and 9-month periods ended September 30, 2019, in accordance with IFRS EU (in PLN million)

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

1. General information

1.1 Information on the parent

PGE Polska Grupa Energetyczna S.A. ("Parent," "Company," "PGE S.A.") was founded on the basis of a notary deed of August 2, 1990, and registered in the District Court in Warsaw, XVI Commercial Department on September 28, 1990. The Company was registered in the National Court Register of the District Court for the capital city of Warsaw, XII Commercial Department, under no. KRS 0000059307. The Parent Company's registered office is in Warsaw, ul. Mysia 2.

As at January 1, 2019, September 30, 2019 and as at the date on which these financial statements were published, the Company's Management Board was as follows:

- Henryk Baranowski – President of the Management Board,
- Wojciech Kowalczyk – Vice-President of the Management Board,
- Marek Pastuszko – Vice-President of the Management Board,
- Paweł Śliwa – Vice-President of the Management Board,
- Ryszard Wasiłek – Vice-President of the Management Board,
- Emil Wojtowicz – Vice-President of the Management Board.

Ownership structure

As at September 30, 2019, the parent's ownership structure was as follows:

	State Treasury	Other shareholders	Total
As at December 31, 2018	57.39%	42.61%	100.00%
As at September 30, 2019	57.39%	42.61%	100.00%

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

According to information known to the Company as at the date on which these financial statements were prepared, the State Treasury was the only shareholder with at least 5% of votes at the general meeting of PGE S.A.

1.2 Information on PGE Group

PGE Group ("PGE Group," "Group") includes the parent, PGE Polska Grupa Energetyczna S.A., 58 consolidated subsidiaries, 4 associates and 1 jointly controlled entity. For additional information about subordinated entities included in the consolidated financial statements please refer to note 1.3.

These consolidated financial statements of PGE Group comprise financial data for the period from January 1, 2019 to September 30, 2019 ("financial statements," "consolidated financial statements") and include comparative data for the period from January 1, 2018 to September 30, 2018 and as at December 31, 2018.

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

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

PGE Group companies' core activities are as follows:

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

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

Going concern

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

for the 3- and 9-month periods ended September 30, 2019, in accordance with IFRS EU (in PLN million)

Changes in accounting policies

The same accounting rules (policies) and calculation methods were applied in these financial statements as in the most recent annual financial statements, except for changes resulting from the entry into force of IFRS 16 *Leases* and presentation changes described in detail in note 3. These financial statements should be read in conjunction with PGE Group's consolidated financial statements for the year ended December 31, 2018, approved for publication on March 8, 2019.

1.3 PGE Group's composition

During the reporting period, PGE Group consisted of the following subsidiaries, consolidated directly and indirectly:

	Entity	Entity holding stake	Stake held by PGE Group entities as at September 30, 2019	Stake held by PGE Group entities as at December 31, 2018
	SEGMENT: SUPPLY			
1.	PGE Polska Grupa Energetyczna S.A. Warsaw	Parent		
2.	PGE Dom Maklerski S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
3.	PGE Trading GmbH Berlin	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
4.	PGE Obrót S.A. Rzeszów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
5.	ENESTA sp. z o.o. Stalowa Wola	PGE Obrót S.A.	87.33%	87.33%
6.	PGE Centrum sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
7.	PGE Paliwa sp. z o.o. Kraków	PGE Energia Ciepła S.A.	100.00%	100.00%
	SEGMENT: CONVENTIONAL GENERATION			
8.	PGE Górnictwo i Energetyka Konwencjonalna S.A. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
9.	ELBIS sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
10.	MegaSerwis sp. z o.o. Bogatynia	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
11.	„ELMEN” sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
12.	"Przedsiębiorstwo Usługowo-Produkcyjne „ELTUR-SERWIS” sp. z o.o. Bogatynia"	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
13.	Przedsiębiorstwo Transportowo-Sprzętowe „BETRANS” sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
14.	Przedsiębiorstwo Wulkanizacji Taśm i Produkcji Wyrobów Gumowych BESTGUM POLSKA sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
15.	RAMB sp. z o.o. Piaski	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
16.	EPORE sp. z o.o. Bogatynia	PGE Górnictwo i Energetyka Konwencjonalna S.A.	85.38%	85.38%
17.	„Energoserwis – Kleszczów” sp. z o.o. Rogowiec	PGE Górnictwo i Energetyka Konwencjonalna S.A.	51.00%	51.00%
	SEGMENT: DISTRICT HEATING			
18.	PGE Energia Ciepła S.A. * Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
19.	PGE Toruń S.A. Toruń	PGE Energia Ciepła S.A.	95.22%	95.22%
20.	PGE Gaz Toruń sp. z o.o. Warsaw	PGE Energia Ciepła S.A.	100.00%	50.04%
21.	Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. Wrocław	PGE Energia Ciepła S.A.	58.07%	58.07%
22.	Elektrociepłownia Zielona Góra S.A. Zielona Góra	Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A.	98.40%	98.40%
23.	MEGAZEC sp. z o.o. Bydgoszcz	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
24.	Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. Zgierz	PGE Górnictwo i Energetyka Konwencjonalna S.A.	50.98%	50.98%

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	Entity	Entity holding stake	Stake held by PGE Group entities as at September 30, 2019	Stake held by PGE Group entities as at December 31, 2018
25.	PGE Ekoserwis sp. z o.o. Wrocław	PGE Energia Ciepła S.A.	84.15%	84.15%
	SEGMENT: RENEWABLES			
26.	PGE Energia Odnawialna S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
27.	Elektrownia Wiatrowa Baltica-1 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
28.	Elektrownia Wiatrowa Baltica-2 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
29.	Elektrownia Wiatrowa Baltica-3 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
30.	PGE Baltica sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
31.	PGE Klaster sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
	SEGMENT: DISTRIBUTION			
32.	PGE Dystrybucja S.A. Lublin	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
	SEGMENT: OTHER ACTIVITIES			
33.	PGE EJ 1 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	70.00%	70.00%
34.	PGE Systemy S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
35.	PGE Sweden AB (publ) Stockholm	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
36.	PGE Synergia sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
37.	„Elbest" sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
38.	Elbest Security sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
39.	PGE Inwest 2 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
40.	PGE Ventures sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
41.	PGE Inwest 8 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
42.	PGE Inwest 9 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
43.	PGE Inwest 10 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
44.	PGE Inwest 11 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
45.	PGE Inwest 12 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
46.	PGE Inwest 13 S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
47.	PGE Inwest 14 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
48.	PGE Nowa Energia sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
49.	PGE Inwest 16 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
50.	PGE Inwest 17 sp. z o.o. (currently: Elektrownia Wiatrowa Baltica 4 sp. z o.o.) Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
51.	PGE Inwest 18 sp. z o.o. (currently: Elektrownia Wiatrowa Baltica 5 sp. z o.o.) Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
52.	PGE Inwest 19 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
53.	Towarzystwo Funduszy Inwestycyjnych Energia S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
54.	BIO-ENERGIA sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%

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	Entity	Entity holding stake	Stake held by PGE Group entities as at September 30, 2019	Stake held by PGE Group entities as at December 31, 2018
55.	Przedsiębiorstwo Transportowo-Usługowe „ETRA" sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
56.	Energetyczne Systemy Pomiarowe sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
57.	ZOWER sp. z o.o. Czerwionka-Leszczyny	PGE Energia Ciepła S.A.	100.00%	100.00%
58.	Przedsiębiorstwo Usługowo-Handlowe TOREC sp. z o.o. Toruń	PGE Toruń S.A.	50.04%	50.04%
59.	4Mobility S.A. Warsaw	PGE Nowa Energia sp. z o.o.	51.47%	-

** Elektrownia Rybnik (Rybnik Power Plant) belonging to PGE Energia Ciepła S.A. is presented in note 5 to these financial statements in the Conventional Generation segment.*

The table above includes the following changes in the structure of PGE Group companies subject to full consolidation which took place during the period ended September 30, 2019:

- On January 2, 2019, the demerger of PGE Górnictwo i Energetyka Konwencjonalna S.A. was entered in the National Court Register. The demerger was effected by transferring the following PGE Górnictwo i Energetyka Konwencjonalna S.A. branches to PGE Energia Ciepła S.A.:
  - Elektrociepłownia Kielce,
  - Elektrociepłownia Gorzów,
  - Elektrociepłownia Rzeszów,
  - Elektrociepłownia Lublin Wrotków,
  - Elektrociepłownia Zgierz,
  - Zespół Elektrociepłowni Bydgoszcz.

The transaction did not affect these consolidated financial statements.

- On April 17, 2019 PGE S.A. decided to withdraw from the process of acquisition of shares held by other shareholders of PGE EJ1 sp. z o.o. Thus, PGE S.A's share in PGE EJ1 sp. z o.o. will remain at 70%.
- On April 24, 2019, PGE Nowa Energia sp. z o.o. acquired new shares in the increased share capital of 4Mobility S.A. The shares acquired account for 51.47% of the increased share capital. Following the accounting for the acquisition, the PGE Group recognised goodwill of PLN 7 million.
- On June 14, 2019, PGE Energia Ciepła S.A. acquired 49.96% of shares in PGE Gaz Toruń sp. z o.o. and became the sole shareholder of this company. Following the transaction, the Group's equity decreased by PLN 275 million, including PLN 254 million attributable to non-controlling interests.

In addition, on October 10, 2019 the Extraordinary General Meeting of Shareholders of PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE Energia Ciepła S.A. adopted resolutions on the demerger of PGE Energia Ciepła S.A. (the demerged company) through spin-off pursuant to Article 529 § 1(4) of the Commercial Companies Code by way of transfer to PGE Górnictwo i Energetyka Konwencjonalna S.A. (the acquiring company) a part of the assets of the demerged company in the form of an organized part of the enterprise covering the activity conducted by PGE Energia Ciepła S.A. Rybnik Branch related to electricity and heat generation, as well as electricity and heat production and distribution.
As at the date of approval of these financial statements for publication, the demerger was not entered in the National Court Register.

2. Basis for preparation of financial statements

2.1 Statement of compliance

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

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

2.2 Presentation and functional currency

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

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

	September 30, 2019	December 31, 2018	September 30, 2018
USD	4.0000	3.7597	3.6754
EUR	4.3736	4.3000	4.2714

2.3 New standards and interpretations published, not yet effective

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

Standard	Description of changes	Effective date
IFRS 14 *Regulatory Deferral Accounts*	Accounting and disclosure principles for regulatory deferral accounts.	Standard in the current version will not be effective in the EU
Amendments to IFRS 10 and IAS 28	Deals with the sale or contribution of assets between an investor and its joint venture or associate.	Postponed indefinitely
Amendments to the Conceptual Framework	These amendments aim to harmonise the Conceptual Framework	January 1, 2020
IFRS 17 *Insurance contracts*	Defines a new approach to recognising revenue and profit/loss in the period in which insurance services are provided	January 1, 2021
Amendments to IFRS 3	These changes clarify the definition of economic activity	January 1, 2020
Amendments to IAS 1 and IAS 8	The amendments concern the definition of 'material'	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7	The amendments concern the interest rate benchmark reform	January 1, 2020

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

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

2.4 Professional judgment of management and estimates

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

- In the previous reporting periods PGE Group recognised impairment losses on assets, in particular of property, plant and equipment. In the reporting period, the Group did not identify premises for performing impairment tests and for reversing impairment losses recognised in previous periods. Estimate of recoverable amount of property, plant and equipment is based on a number of significant assumptions to the factors, realisation of which is uncertain and mostly beyond PGE Group's control. The Group believes that it has assumed the most accurate volumes and values. Nevertheless, realisation of the particular assumptions may diverge from the ones established by the Group.
- On December 28, 2018, an act amending the act on excise duty and certain other acts (“Act on Electricity Prices") was adopted. The Act, as amended, regulated prices for final customers of electricity for 2019 and introduced a system of compensation for energy companies offering reduced prices. In connection with the provisions of the Act, the Group made estimates of revenues from compensation due and estimates of reductions in revenues. More details described in note 24.1 of these financial statements.
- Provisions are liabilities of uncertain amount or timing. During the reporting period, the Group changed estimates regarding the validity or amounts of some provisions.
  In particular, the rehabilitation provision and provisions for employee benefits were revised due to the decrease in discount rate. Details are described in note 18 of these financial statements.
- Uncertainties concerning tax treatment are described in note 21 of these consolidated financial statements.

3. Changes in accounting principles and data presentation

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

The accounting principles (policies) applied in preparing these consolidated financial statements are consistent with those applied in preparing the Group's consolidated financial statements for 2018, except as stated below. The amendments to IFRSs are applied in these financial statements in line with their effective dates. Amendments relating to IFRS 16 are described below. The other amendments did not have material impact on the presented and disclosed financial information or they were not applicable to the Group's transactions:

- Amendments to IFRS 9 – Amendments related to the early repayment option with negative compensation;
- Amendments to IFRIC 23 – This interpretation applies to establishing taxable revenue, tax base, unsettled tax losses, unused tax rebates and tax rates;
- Annual improvements to IFRS (cycle 2015-2017) – amendments to IFRS 3, IFRS 11; IFRS 12; IAS 23;
- Amendments to IAS 28 – This amendment concerns valuation of non-current investments in associates;
- Amendments to IAS 19 – Amendments concern defined-benefit plans.

IFRS 16 Leases

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

The new standard changes principles for the recognition of contracts which meet the criteria of lease. The main change is to eliminate the classification of leases as either operating leases or finance leases in the lessee's accounts. All contracts which meet the criteria of a lease will be recognised as a finance lease.

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

- right to perpetual usufruct of land ("RPUL") – both purchased and received as contribution-in-kind or received free of charge based on an administrative decision;
- land easements and transmission service easements;
- tenancy agreements, lease agreements, etc. related to the installation of power line and technical infrastructure (heat transfer systems, transformers);
- tenancy agreements, lease agreements, etc. related to office space;
- tenancy agreements, lease agreements, etc. related to buildings, structures and technical equipment.

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

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

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

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

As regards lease agreements for lines/fibre-optic cables/cable ducts, the Group does not utilise the majority of the asset's capacity. Therefore, the asset does not meet the criteria for an identified asset under IFRS 16 and the above agreements (e.g. an agreement for the lease of capacity in fibre optic cables) do not meet the definition of a lease.

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

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

- PGE Group applied a single discount rate to a portfolio of leases with similar characteristics (such as real property).
- PGE Group decided not to apply the requirements arising from paragraph C8 to leases for which the lease term ends within 12 months of the date of initial application, i.e. January 1, 2019. The Group accounted those leases in the same way as short-term leases.
- PGE Group decided to exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- PGE Group used hindsight, in determining the lease term for contract containing options to extend or terminate the lease.

As a result of the application of IFRS 16:

- Right-of-use assets for new lease agreements recognised and lease liabilities increased by PLN 887 million as at January 1, 2019.
- Following reclassification of contracts meeting the definition of a lease and recognised before January 1, 2019 under intangible assets and property, plant and equipment, right-of-use assets increased and intangible assets and property, plant and equipment decreased by PLN 367 million.
- As at January 1, 2019, retained earnings remained unchanged.
- The gross profit for the three quarters of 2019 is lower by approximately PLN 27 million.
- As estimated, EBITDA for three quarters of 2019 is higher by PLN 37 million.

Accounting policy

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

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

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

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

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

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

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

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

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

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

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

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

- short-term leases, i.e. leases with a term of up to 12 months and with no purchase option;
- leases for which the underlying asset is of low value and is not sub-leased. The Group considers that the underlying asset is of low value (value of the asset when it is new, regardless of the age of the asset being leased) if that value is not higher than PLN 18,000.

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

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

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

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

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

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

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

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

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

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

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

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

Changes in applied accounting principles and data presentation

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

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

The Group also decided to change the way in which liabilities are split for long and short-term loans, borrowings, bonds and leases. The previous present value of generated cash flows was replaced by the due date method.

for the 3- and 9-month periods ended September 30, 2019, in accordance with IFRS EU (in PLN million)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	3 months ended September 30, 2018 *(unaudited)* published data	Net presentation of other operating activities and financing activities	Change in the recognition of forwards related to trading of coal and CO_2 allowances	3 months ended September 30, 2018 *(unaudited)* restated data
SALES REVENUES	6,091	-	-	6,091
Cost of goods sold	(5,068)	-	3	(5,065)
GROSS PROFIT ON SALES	**1,023**	**-**	**3**	**1,026**
Distribution and selling expenses	(280)	-	-	(280)
General and administrative expenses	(225)	-	-	(225)
Other operating income	64	(64)	-	-
Other operating expenses	(50)	50	-	-
Net other operating income/(expenses)	-	14	(28)	(14)
OPERATING PROFIT	**532**	**-**	**(25)**	**507**
Financial income	19	(19)	-	-
Financial expenses	(73)	73	-	-
Net financial expenses	-	(54)	25	(29)
Share of profit of entities accounted for using the equity method	15	-	-	15
GROSS PROFIT	**493**	**-**	**-**	**493**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	9 months ended September 30, 2018 *(unaudited)* published data	Net presentation of other operating activities and financing activities	Change in the recognition of forwards related to trading of coal and CO_2 allowances	9 months ended September 30, 2018 *(unaudited)* restated data
SALES REVENUES	18,962	-	-	18,962
Cost of goods sold	(14,922)	-	(41)	(14,963)
GROSS PROFIT ON SALES	**4,040**	**-**	**(41)**	**3,999**
Distribution and selling expenses	(991)	-	-	(991)
General and administrative expenses	(736)	-	-	(736)
Other operating income	271	(271)	-	-
Other operating expenses	(221)	221	-	-
Net other operating income/(expenses)	-	50	44	94
OPERATING PROFIT	**2,363**	**-**	**3**	**2,366**
Financial income	116	(116)	-	
Financial expenses	(378)	378	-	
Net financial expenses	-	(262)	(3)	(265)
Share of profit of entities accounted for using the equity method	58	-	-	58
GROSS PROFIT	**2,159**	**-**	**-**	**2,159**

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

for the 3- and 9-month periods ended September 30, 2019, in accordance with IFRS EU (in PLN million)

4. Fair value hierarchy

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

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

	As at September 30, 2019		As at December 31, 2018	
FAIR VALUE HIERARCHY	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Hard coal in trading activities	87	-	140	-
CO_2 emission allowances in trading activities	1,350	-	4	-
Inventories	**1,437**	**-**	**144**	**-**
Currency forwards	-	94	-	24
Commodity forwards	-	203	-	6
Contracts for purchase/sale of coal in trading activities	-	5	-	2
Valuation of CCIRS	-	47	-	113
Valuation of IRS	-	-	-	4
Commodity SWAP	-	9	-	4
Options	-	6	-	12
Fund participation units and certificates	-	84	-	66
Financial assets	**-**	**448**	**-**	**231**
Currency forwards	-	94		59
Commodity forwards	-	2		-
Commodity SWAP	-	49	-	46
Contracts for purchase/sale of coal in trading activities	-	2	-	7
Valuation of IRS	-	158	-	24
Financial liabilities	**-**	**305**	**-**	**136**

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

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

EXPLANATORY NOTES TO OPERATING SEGMENTS

5. Information on operating segments

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

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

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

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

Organization and management over PGE Group is based on segment reporting separated by nature of the products and services provided. Each segment represents a strategic business unit, offering different products and serving different markets. Assignment of particular entities to operating segments is described in note 1.3 to these consolidated financial statements. Inter-segment transactions are disclosed as if they were concluded with third parties – under market conditions. When analysing the results of particular business segments the management of PGE Group draws attention primarily to EBITDA.

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

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

Seasonality of business segments

Main factors affecting the demand for electricity and heat are: weather conditions – air temperature, wind force, rainfall, socio-economic factors – number of energy consumers, energy product prices, growth of GDP and technological factors – advances in technology, product manufacturing technology. Each of these factors has an impact on technical and economic conditions of production, distribution and transmission of energy carriers, thus influence the results obtained by PGE Group.

The level of electricity sales is variable throughout a year and depends especially on weather conditions - air temperature, length of the day. Growth in electricity demand is particularly evident in winter periods, while lower demands are observed during the summer months. Moreover, seasonal changes are evident among selected groups of final customers. Seasonality effects are more significant for households than for the industrial sector.

In the Renewables segment, electricity is generated from natural resources such as water, wind and sun. Weather conditions are an important factor affecting electricity generation in this segment.

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

for the 3- and 9-month periods ended September 30, 2019, in accordance with IFRS EU (in PLN million)

5.1 Information on business segments

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

	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
STATEMENT OF PROFIT OR LOSS								
Sales to external customers	9,442	2,987	719	10,222	4,470	87	5	27,932
Inter-segment sales	4,810	1,234	52	3,278	68	273	(9,715)	-
TOTAL SEGMENT REVENUE	**14,252**	**4,221**	**771**	**13,500**	**4,538**	**360**	**(9,710)**	**27,932**
Cost of goods sold	(12,976)	(3,777)	(508)	(12,226)	(3,448)	(312)	8,738	(24,509)
EBIT *)	**1,346**	**429**	**214**	**507**	**909**	**(13)**	**(325)**	**3,067**
Depreciation, amortisation, disposal and impairment losses recognised in profit or loss	1,419	436	196	25	901	63	(35)	3,005
EBITDA **)	**2,765**	**865**	**410**	**532**	**1,810**	**50**	**(360)**	**6,072**
ASSETS AND LIABILITIES								
Assets excluding trade receivables	40,507	7,858	3,355	2,141	18,418	764	308	73,351
Trade receivables	771	342	198	3,513	848	69	(2,646)	3,095
Shares accounted for using the equity method								811
Unallocated assets								4,873
TOTAL ASSETS								**82,130**
Liabilities excluding trade liabilities	10,429	1,674	393	3,351	1,913	105	(1,486)	16,379
Trade liabilities	1,060	314	35	2,157	193	45	(2,466)	1,338
Unallocated liabilities								14,860
TOTAL LIABILITIES								**32,577**
OTHER INFORMATION ON BUSINESS SEGMENT								
Capital expenditures on PPE and IA	2,752	264	57	14	1,352	135	(133)	4,441
Increases in ROUA	1	-	2	4	8	12	-	27
Total capital expenditures	**2,753**	**264**	**59**	**18**	**1,360**	**147**	**(133)**	**4,468**
Impairment losses on financial and non-financial assets	181	77	1	11	13	-	-	283
Other non-monetary expenses ***)	3,052	356	41	413	174	27	189	4,252

*) EBIT = operating profit (loss)

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

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

for the 3- and 9-month periods ended September 30, 2019, in accordance with IFRS EU (in PLN million)

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

restated data	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
STATEMENT OF PROFIT OR LOSS								
Sales to external customers	3,129	3,137	442	7,829	4,278	137	10	18,962
Inter-segment sales	5,985	773	176	2,384	74	252	(9,644)	-
TOTAL SEGMENT REVENUE	**9,114**	**3,910**	**618**	**10,213**	**4,352**	**389**	**(9,634)**	**18,962**
Cost of goods sold	(7,776)	(3,565)	(434)	(8,812)	(3,175)	(338)	9,137	(14,963)
EBIT *)	**640**	**78**	**163**	**401**	**1,016**	**(9)**	**77**	**2,366**
Depreciation, amortisation, disposal and impairment losses recognised in profit or loss	1,161	499	191	19	876	62	(30)	2,778
EBITDA **)	**1,801**	**577**	**354**	**420**	**1,892**	**53**	**47**	**5,144**
ASSETS AND LIABILITIES								
Assets excluding trade receivables	36,060	7,677	3,110	2,148	17,312	627	(853)	66,081
Trade receivables	810	338	61	3,066	838	98	(2,247)	2,964
Shares accounted for using the equity method								752
Unallocated assets								3,706
TOTAL ASSETS								**73,503**
Liabilities excluding trade liabilities	7,169	1,265	338	1,144	1,727	105	(178)	11,570
Trade liabilities	778	297	27	1,906	234	36	(2,152)	1,126
Unallocated liabilities								12,504
TOTAL LIABILITIES								**25,200**
OTHER INFORMATION ON BUSINESS SEGMENT								
Capital expenditures	2,106	510	64	8	1,069	115	(113)	3,759
Impairment losses on financial and non-financial assets	143	74	-	24	9	-	-	250
Other non-monetary expenses ***)	1,373	208	13	610	100	21	(146)	2,179

*) EBIT = operating profit (loss)

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

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

for the 3- and 9-month periods ended September 30, 2019, in accordance with IFRS EU (in PLN million)

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

6. Revenue and expenses

6.1 Revenue from sales

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

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

	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
Revenue from contracts with customers	14,237	4,196	626	12,519	4,503	358	(9,695)	**26,744**
Revenue from recognised compensations based on the Act on Electricity Prices	4	26	-	977	-	-	-	**1,007**
Revenue from leases	11	13	145	4	35	2	(15)	**195**
LTC compensations	-	(14)	-	-	-	-	-	**(14)**
TOTAL REVENUE FROM SALES	**14,252**	**4,221**	**771**	**13,500**	**4,538**	**360**	**(9,710)**	**27,932**

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

Type of goods or services	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
Revenue from sales of goods and products, without excluding taxes and fees	14,149	4,120	625	11,970	4,515	76	(8,696)	**26,759**
Taxes and fees collected on behalf of third parties	*(2)*	*(7)*	-	*(106)*	*(54)*	-	-	***(169)***
Revenue from sales of goods and products, including:	**14,147**	**4,113**	**625**	**11,864**	**4,461**	**76**	**(8,696)**	**26,590**
Sale of electricity	13,528	2,772	450	8,775	3	-	(6,604)	**18,924**
Sale of distribution services	11	9	-	36	4,302	-	(64)	**4,294**
Sale of heat	109	1,265	-	7	-	-	-	**1,381**
Sale of energy origin rights	24	16	132	8	-	-	(10)	**170**
Regulatory system services	266	-	39	-	-	-	-	**305**
Sale of gas	-	-	-	392	-	-	(35)	**357**
Sale of fuel	-	-	-	917	-	-	(605)	**312**
Other sales of goods and materials	209	51	4	1,729	156	76	(1,378)	**847**
Revenue from sales of services	**90**	**83**	**1**	**655**	**42**	**282**	**(999)**	**154**
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**14,237**	**4,196**	**626**	**12,519**	**4,503**	**358**	**(9,695)**	**26,744**

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

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

	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
Revenue from contracts with customers	9,103	3,979	456	10,210	4,323	386	(9,616)	**18,841**
Revenue from leases	11	13	162	3	29	3	(18)	**203**
LTC compensations	-	(82)	-	-	-	-	-	**(82)**
TOTAL REVENUE FROM SALES	**9,114**	**3,910**	**618**	**10,213**	**4,352**	**389**	**(9,634)**	**18,962**

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

Type of goods or services	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustmen ts	Total
Revenue from sales of goods and products, without excluding taxes and fees	9,007	3,938	455	10,103	4,728	84	(8,819)	**19,496**
Taxes and fees collected on behalf of third parties	*(1)*	*(24)*	-	*(346)*	*(452)*	-	-	***(823)***
Revenue from sales of goods and products, including:	**9,006**	**3,914**	**455**	**9,757**	**4,276**	**84**	**(8,819)**	**18,673**
Sale of electricity	8,483	2,194	317	7,466	2	-	(7,23 3)	**11,229**
Sale of distribution services	11	9	-	35	4,142	-	(66)	**4,131**
Sale of heat	115	1,242	-	8	-	-	-	**1,365**
Sale of energy origin rights	21	248	98	-	-	-	(26)	**341**
Regulatory system services	246	-	40	-	-	-	-	**286**
Sale of gas	-	2	-	427	-	-	(32)	**397**
Sale of fuel	-	-	-	1,461	-	-	(931)	**530**
Other sales of goods and materials	130	219	-	360	132	84	(531)	**394**
Revenue from sales of services	**97**	**65**	**1**	**453**	**47**	**302**	**(797)**	**168**
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**9,103**	**3,979**	**456**	**10,210**	**4,323**	**386**	**(9,616)**	**18,841**

6.2 Costs by nature and function

	3 months ended September 30, 2019	9 months ended September 30, 2019	3 months ended September 30, 2018 *restated data*	9 months ended September 30, 2018 *restated data*
COSTS BY NATURE				
Depreciation, amortisation and impairment losses	1,082	3,076	955	2,854
Materials and energy	1,139	3,799	1,117	3,461
External services	647	1,802	611	1,807
Taxes and charges	1,385	4,168	1,028	2,763
Employee benefits expenses	1,269	3,948	1,187	3,654
Other costs by nature	85	224	82	228
TOTAL COST BY NATURE	**5,607**	**17,017**	**4,980**	**14,767**
Change in products	3	(17)	(7)	(15)
Cost of products and services for the entity's own needs	(318)	(887)	(323)	(815)
Distribution and selling expenses	(383)	(965)	(280)	(991)
General and administrative expenses	(253)	(761)	(225)	(736)
Cost of goods and materials sold	4,005	10,122	920	2,753
COST OF GOODS SOLD	**8,661**	**24,509**	**5,065**	**14,963**

for the 3- and 9-month periods ended September 30, 2019, in accordance with IFRS EU (in PLN million)

6.2.1 Depreciation, amortisation, disposal and impairment losses

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

Period ended	Depreciation, amortisation, disposal				Impairment losses		
September 30, 2019	PPE	IA	ROUA	TOTAL	PPE	ROUA	TOTAL
Cost of goods sold	2,675	60	26	**2,761**	180	5	**185**
Distribution and selling expenses	9	2	2	**13**	-	-	**-**
General and administrative expenses	23	15	5	**43**	3	-	**3**
RECOGNISED IN PROFIT OR LOSS	**2,707**	**77**	**33**	**2,817**	**183**	**5**	**188**
Change in products	2	-	-	**2**	-	-	**-**
Cost of products and services for the entity's own needs	69	-	-	**69**	-	-	**-**
TOTAL	**2,778**	**77**	**33**	**2,888**	**183**	**5**	**188**
Other operating income	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**

Period ended	Depreciation, amortisation, disposal				Impairment losses		
September 30, 2018	PPE	IA	IP	TOTAL	PPE	IA	TOTAL
Cost of goods sold	2,450	69	1	**2,520**	202	-	**202**
Distribution and selling expenses	8	2	-	**10**	-	-	**-**
General and administrative expenses	29	15	-	**44**	2	-	**2**
RECOGNISED IN PROFIT OR LOSS	**2,487**	**86**	**1**	**2,574**	**204**	**-**	**204**
Cost of products and services for the entity's own needs	76	-	-	**76**	-	-	**-**
TOTAL	**2,563**	**86**	**1**	**2,650**	**204**	**-**	**204**
Other operating income	**-**	**-**	-	**-**	**(2)**	**-**	**(2)**

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

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

6.3 Other operating income and expenses

	Period ended September 30, 2019	Period ended September 30, 2018 *restated data*
OTHER OPERATING INCOME/(EXPENSES)		
Income from additional CO_2 emission allowances	1,348	-
Effect of revaluation of rehabilitation provisions	(246)	(17)
Valuation and exercise of derivatives, including:	187	43
- CO_2	*158*	*22*
- Coal	*29*	*21*
Penalties, fines and compensations	151	90
(Recognition)/Reversal of impairment losses on receivables	(93)	(44)
Donations given	(22)	(11)
Grants	21	18
Reversal/(Recognition) of other provisions	11	(42)
Gain on disposal of PPE/IA	11	13
Other	2	44
TOTAL NET OTHER OPERATING INCOME/(EXPENSES)	**1,370**	**94**

Income from additional CO_2 emission allowances have been described in note 24.2 to these financial statements.

for the 3- and 9-month periods ended September 30, 2019, in accordance with IFRS EU (in PLN million)

6.4 Financial income and expenses

	Period ended September 30, 2019	Period ended September 30, 2018 *restated data*
FINANCIAL INCOME/(EXPENSES) FROM FINANCIAL INSTRUMENTS		
Dividends	1	1
Interest	(152)	(112)
Revaluation	(6)	9
Exchange differences	(20)	(12)
Loss on disposal of investments	-	(1)
TOTAL NET FINANCIAL INCOME/(EXPENSES) FROM FINANCIAL INSTRUMENTS	**(177)**	**(115)**
OTHER FINANCIAL INCOME/(EXPENSES)		
Interest expenses, including the effect of discount unwinding	(149)	(137)
Interest on statutory receivables	(2)	1
Reversal of provisions	(4)	(9)
Other	(5)	(5)
TOTAL NET OTHER FINANCIAL INCOME/(EXPENSES)	**(160)**	**(150)**
TOTAL NET FINANCIAL INCOME/(EXPENSES)	**(337)**	**(265)**

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

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

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**	**49.79%**
Period ended September 30, 2019					
Revenue	6,805	1,022	-	10	50
Profit (loss) on continuing operations	181	13	(4)	(1)	2
Share of profit (loss) of equity-accounted entities	**28**	**2**	**(1)**	**-**	**1**
Elimination of unrealised gains and losses	4	-	-	-	-
SHARE OF PROFIT (LOSS) OF EQUITY-ACCOUNTED ENTITIES	**32**	**2**	**(1)**	**-**	**1**
Other comprehensive income	**(9)**	**-**	**-**	**-**	**-**
SHARE OF PROFIT (LOSS) OF EQUITY-ACCOUNTED ENTITIES IN OTHER COMPREHENSIVE INCOME	**(1)**	**-**	**-**	**-**	**-**

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**
Period ended September 30, 2018				
Revenue	7,078	1,106	-	10
Profit (loss) on continuing operations	435	112	(5)	(1)
Share of profit (loss) of equity-accounted entities	**67**	**17**	**(1)**	**-**
Elimination of unrealised gains and losses	(28)	3	-	-
SHARE OF PROFIT (LOSS) OF EQUITY-ACCOUNTED ENTITIES	**39**	**20**	**(1)**	**-**
Other comprehensive income	5	-	-	-
SHARE OF PROFIT (LOSS) OF EQUITY-ACCOUNTED ENTITIES IN OTHER COMPREHENSIVE INCOME	**1**	**-**	**-**	**-**

for the 3- and 9-month periods ended September 30, 2019, in accordance with IFRS EU (in PLN million)

7. Impairment losses on assets

	Period ended September 30, 2019	Period ended September 30, 2018
IMPAIRMENT LOSSES ON PROPERTY, PLANT AND EQUIPMENT		
Recognition of impairment losses	379	204
Reversal of impairment losses	197	2
IMPAIRMENT LOSSES ON RIGHT-OF-USE ASSETS		
Recognition of impairment losses	5	-
Reversal of impairment losses	-	-
IMPAIRMENT LOSSES ON INVENTORY		
Recognition of impairment losses	43	6
Reversal of impairment losses	5	1

8. Tax in the statement of comprehensive income

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

	Period ended September 30, 2019	Period ended September 30, 2018
INCOME TAX RECOGNISED IN THE STATEMENT OF PROFIT OR LOSS		
Current income tax	382	395
Adjustments to current income tax for previous years	11	1
Deferred income tax	189	88
Adjustments to deferred income tax	(10)	(24)
INCOME TAX EXPENSE RECOGNISED IN THE STATEMENT OF PROFIT OR LOSS	**572**	**460**
INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME		
On actuarial gains (losses) on valuation of employee benefit provisions	(27)	-
On valuation of hedging instruments	(13)	(8)
TAX BENEFIT RECOGNISED IN OTHER COMPREHENSIVE INCOME	**(40)**	**(8)**

for the 3- and 9-month periods ended September 30, 2019, in accordance with IFRS EU (in PLN million)

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

In the current reporting period, PGE Group purchased property, plant and equipment and intangible assets worth PLN 4,441 million and right-of-use assets worth PLN 27 million. The largest expenditure was incurred by the Conventional Generation segment (PLN 2,753 million) and the Distribution segment (PLN 1,360 million). The key expenditure items included: construction of units 5 and 6 at the Opole power plant (PLN 902 million), construction of a new unit at the Turów power plant (PLN 318 million) and connection of new customers (PLN 527 million).

In the current reporting period, an increase was reported in the value of property plant and equipment due to capitalising a provision for rehabilitation costs of PLN 644 million, including PLN 582 million resulting from a change in the discount rate.

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

10. Future investment commitments

As at September 30, 2019, PGE Group committed to incur capital expenditures on property, plant and equipment of approximately PLN 4,888 million. These amounts relate mainly to construction of new power units, wind farms, modernisation of Group's assets and purchase of machinery and equipment.

	As at September 30, 2019	As at December 31, 2018 ** restated data*
Conventional Generation	2,426	3,694
Distribution	1,661	1,199
Renewables	434	177
District Heating	199	114
Other activities	168	187
TOTAL FUTURE INVESTMENT COMMITMENTS	**4,888**	**5,371**

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

The most significant future investment commitments concern:

- Conventional Generation:
  - Branch Turów Power Plant – construction of new power unit no. 7 – approximately PLN 1,072 million,
  - Branch Turów Power Plant – modernisation of power units no. 1-3 – approximately PLN 158 million,
  - Branch Opole Power Plant – modernisation of power units no. 1-4 – approximately PLN 246 million,
  - Branch Bełchatów Power Plant – upgrade of FGD unit – approximately PLN 341 million.
- Distribution – investment commitments related to network distribution assets with the total value of approximately PLN 1,661 million,
- Renewables – investment commitments related to the design and construction of Starza, Rybice and Karnice II wind farms – approximately PLN 362 million,
- Other activity, PGE EJ 1 sp. z o.o. – agreement for owners engineer in the investment process related to construction of the first Polish nuclear power plant – approximately PLN 157 million (basic scope). An optional scope includes the amount of approx. PLN 1,120 million.

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

Decisions with regard to the Programme to build the first Polish nuclear power plant are made in the context of a decision by the Minister of Energy regarding the model for acquiring technology for the nuclear power plant, the investment's financing model and the updated shape of Poland's nuclear power programme.

The current scope of the Programme conducted by PGE EJ 1 sp. z o.o. provides for carrying environmental and site surveys at two potential locations (Lubiatowo-Kopalino and Żarnowiec) and in preparing an Environmental impact assessment report and a Site report. PGE Group intends to continue providing financial support for PGE EJ1 sp. z o.o., as is necessary to continue works under the existing scope of preparatory works for the Programme. A decision on the investment project that consists in constructing a nuclear power plant depends, in particular, on the preparation of the dedicated financing model.

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11. Shares accounted for using the equity method

	As at September 30, 2019	As at December 31, 2018
Polska Grupa Górnicza sp. z o.o., Katowice	667	640
Polimex-Mostostal S.A., Warsaw	110	108
ElectroMobility Poland S.A., Warsaw	14	15
PEC Bogatynia sp. z o.o., Bogatynia	8	8
Energopomiar sp. z o.o., Gliwice	12	5
SHARES ACCOUNTED FOR USING THE EQUITY METHOD	**811**	**776**

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**	**49.79%**
AS AT SEPTEMBER 30, 2019					
Current assets	2,499	911	44	3	25
Non-current assets	10,546	711	14	21	17
Current liabilities	3,852	642	1	1	8
Non-current liabilities	4,840	407	-	-	10
NET ASSETS	**4,353**	**573**	**57**	**23**	**24**
Share in net assets	**666**	**94**	**14**	**8**	**12**
Goodwill	1	16	-	-	-
SHARES ACCOUNTED FOR USING THE EQUITY METHOD	**667**	**110**	**14**	**8**	**12**

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**	**47.30%**
AS AT DECEMBER 31, 2018					
Current assets	2,759	1,223	52	5	31
Non-current assets	9,528	713	9	22	19
Current liabilities	3,679	840	2	2	18
Non-current liabilities	4,435	538	-	1	9
NET ASSETS	**4,173**	**558**	**59**	**24**	**23**
Share in net assets	**639**	**92**	**15**	**8**	**11**
Goodwill	1	16	-	-	(6)
SHARES ACCOUNTED FOR USING THE EQUITY METHOD	**640**	**108**	**15**	**8**	**5**

12. Deferred tax in the statement of financial position

12.1 Deferred income tax assets

	As at September 30, 2019	As at December 31, 2018
Difference between tax value and carrying amount of property, plant and equipment	1,978	1,985
Difference between tax value and carrying amount of right-of-use assets	161	-
Difference between tax value and carrying amount of financial assets	124	65
Difference between tax value and carrying amount of financial liabilities	342	301
Difference between tax value and carrying amount of inventories	20	24
LTC compensations	90	61
Liabilities resulting from estimated decrease of revenue – Act on Electricity Prices	58	-
Rehabilitation provision	691	549
Provision for purchase of CO_2 emission allowances	528	365
Provisions for employee benefits	670	604
Other provisions	148	131
Energy infrastructure acquired free of charge and connection fees received	32	34
Other	76	49
DEFERRED TAX ASSETS	**4,918**	**4,168**

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12.2 Deferred tax liabilities

	As at September 30, 2019	As at December 31, 2018
Difference between tax value and carrying amount of property, plant and equipment	4,674	4,265
Difference between tax value and carrying amount of lease liabilities	167	-
Difference between tax value and carrying amount of energy origin units	24	48
Difference between tax value and carrying amount of financial assets	471	399
Difference between tax value and carrying amount of financial liabilities	14	47
CO_2 emission allowances	484	302
LTC compensations	-	23
Receivables from recognised compensations – Act on Electricity Prices	189	-
Other	99	148
DEFERRED TAX LIABILITIES	**6,122**	**5,232**
AFTER OFF-SET OF THE ASSET AND THE LIABILITY IN PARTICULAR COMPANIES THE GROUP'S DEFERRED TAX IS PRESENTED AS:		
Deferred income tax assets	627	552
Deferred tax liabilities	(1,831)	(1,616)

13. Inventories

	As at September 30, 2019	As at December 31, 2018
Materials for repairs and operations	644	640
Hard coal	1,046	959
Mazut	37	52
Other materials	58	62
TOTAL MATERIALS	**1,785**	**1,713**
Green property rights	1,093	576
Yellow property rights	-	169
White property rights	52	1
Other property rights	8	13
TOTAL ENERGY ORIGIN RIGHTS	**1,153**	**759**
Hard coal	87	140
CO_2 emission allowances	1,350	4
Other goods	30	15
TOTAL GOODS	**1,467**	**159**
OTHER INVENTORIES	**74**	**68**
TOTAL INVENTORIES	**4,479**	**2,699**

As described in note 24.2 to these consolidated financial statements, the CO_2 emission allowances include EUA resulting from the additional allocation of the CO_2 emission allowances for 2013-2017. The allowances are measured at each reporting date at fair value. As at September 30, 2019, their fair value amounted to PLN 1,348 million. These allowances are held for trading purposes.

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14. CO_2 emission allowances for captive use

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

In September 2018, PGE Group submitted another report on investments included in the National Investment Plan in order to obtain CO_2 EUA allocations concerning electricity generated in 2018. The allowances were issued in April 2019. The Group received 14 million EUAs for 2018 and additional 11 million EUAs (held for trading purposes) for years 2013-2017 as described in note 24.2 to these financial statements.

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

In September 2019, PGE Group submitted further reports on investments included in the National Investment Plan in order to obtain CO_2 EUA allocations for power generating installations, justified by expenses incurred for investment tasks included in the National Investment Plan in the period from July 1, 2018 to June 30, 2019. The formal assessment of the documents submitted should be completed by November 30, 2019.

	As at September 30, 2019		As at December 31, 2018	
EUA	**Non-current**	**Current**	**Non-current**	**Current**
Quantity (Mg million)	**3**	**18**	**18**	**19**
Value	**240**	**1,019**	**1,203**	**408**

Change in CO_2 emission allowances for captive use

EUA	**Quantity (Mg million)**	**Value**
AS AT JANUARY 1, 2018	**62**	**1,442**
Purchase	39	1,714
Granted free of charge	17	-
Redemption	(70)	(1,311)
Sale	(11)	(234)
AS AT DECEMBER 31, 2018	**37**	**1,611**
Purchase	40	1,531
Granted free of charge	15	-
Redemption	(70)	(1,803)
Reclassification to inventories	(1)	(80)
AS AT SEPTEMBER 30, 2019	**21**	**1,259**

15. Selected financial assets

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

15.1 Trade and other financial receivables

	As at September 30, 2019		As at December 31, 2018	
	Non-current	**Current**	**Non-current**	**Current**
Trade receivables	-	3,095	-	3,155
Receivables from recognised compensations based on the Act on Electricity Prices	-	1,007	-	-
Deposits	173	6	161	7
Deposits, securities and collateral	-	533	1	694
Damages and penalties	-	109	-	193
Other financial receivables	6	65	6	53
TOTAL FINANCIAL RECEIVABLES	**179**	**4,815**	**168**	**4,102**

Deposits, securities and collateral mainly concern transaction and hedging deposits and the guarantee fund related to transactions on the electricity and CO_2 markets.

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15.2 Cash and cash equivalents

Short-term deposits are placed for different periods, from one day up to one month, depending on the Group's needs for cash.

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

	As at September 30, 2019	As at December 31, 2018
Cash in hand and at banks	1,478	1,023
Overnight deposits	18	33
Short-term deposits	184	156
Cash in VAT accounts	61	69
TOTAL	**1,741**	**1,281**
Interest accrued on cash, not received at the reporting date	-	-
Exchange differences on cash in foreign currencies	(2)	(2)
Cash and cash equivalents presented in the statement of cash flows	**1,739**	**1,279**
Undrawn borrowing facilities	4,689	8,312
including overdraft facilities	*347*	*934*

A detailed description of credit agreements is presented in note 19.1 to these financial statements.

The balance of cash includes restricted cash in the amount of PLN 699 million (PLN 98 million in the comparative period) in PGE Dom Maklerski S.A. clients' accounts as collateral for settlements with Izba Rozliczeniowa Giełd Towarowych S.A. (the Warsaw Commodity Clearing House), cash in VAT accounts in the amount of PLN 61 million (PLN 69 million in the comparative period) as well as securities and collateral of PLN 20 million (PLN 13 million in the comparative period).

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

	As at September 30, 2019		As at December 31, 2018	
	Assets	Liabilities	Assets	Liabilities
FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE				
Currency forwards	33	47	18	11
Commodity forwards for CO_2	203	2	6	-
Commodity SWAP	9	49	4	46
Contracts for purchase/sale of coal	5	2	2	7
Options	6	-	12	-
HEDGING DERIVATIVES				
CCIRS hedges	47	-	113	-
IRS hedges	-	158	4	24
Currency forward - USD	-	-	2	-
Currency forward - EUR	61	47	4	48
OTHER ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Fund participation units and certificates	84	-	66	-
TOTAL DERIVATIVES	**448**	**305**	**231**	**136**
current	296	146	114	110
non-current	152	159	117	26

Commodity and currency forwards

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

Options

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

Coal swaps

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

Purchase and sale contracts with physical delivery of coal

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

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IRS transactions

PGE S.A. entered into IRS transactions to hedge interest rates on credit facilities with a total nominal value of PLN 6,130 million. To recognise these IRS transactions, the Group uses hedge accounting. The impact of hedge accounting on the revaluation reserve is presented in note 17.2 to these consolidated financial statements.

CCIRS hedges

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

In the current period, PGE Sweden bonds were partially redeemed and the CCIRS transaction securing these bonds was settled.

To recognise these CCIRS transactions, the Group uses hedge accounting. The impact of hedge accounting on the revaluation reserve is presented in note 17.2 to these financial statements.

17. Equity

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

17.1 Share capital

	As at September 30, 2019	As at December 31, 2018
1,470,576,500 Series A ordinary Shares with a nominal value of PLN 10.25 each	15,073	15,073
259,513,500 Series B ordinary Shares with a nominal value of PLN 10.25 each	2,660	2,660
73,228,888 Series C ordinary Shares with a nominal value of PLN 10.25 each	751	751
66,441,941 Series D ordinary Shares with a nominal value of PLN 10.25 each	681	681
TOTAL SHARE CAPITAL	**19,165**	**19,165**

All of the Company's shares are paid up.
After the reporting date and until the date on which these consolidated financial statements were prepared, there were no changes in the value of the Company's share capital.

Shareholder rights – State Treasury rights concerning the Company's activities

The Company is a member of PGE Group, in respect of which the State Treasury holds special rights as long as it remains a shareholder.

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

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

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

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

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17.2 Hedging reserve

	Period ended September 30, 2019	Year ended December 31, 2018
AS AT JANUARY 1	**(52)**	**83**
Change in hedging reserve:	**(67)**	**(166)**
Valuation of hedging instruments, including:	**(66)**	**(158)**
Deferral of changes in fair value of hedging financial instruments in the part considered as effective hedge	*(149)*	*(62)*
Accrued interest on derivatives transferred from hedging reserve and recognised in interest expense	*1*	*(10)*
Currency revaluation of CCIRS transaction transferred from hedging reserve and recognised in net foreign exchange gains (losses)	*74*	*(85)*
Ineffective portion of change in fair value of hedging derivatives recognised in profit or loss	*8*	*(1)*
Valuation of other financial assets	**(1)**	**(8)**
Deferred tax	**13**	**31**
HEDGING RESERVE AFTER DEFERRED TAX	**(106)**	**(52)**

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

17.3 Dividends paid and proposed

On May 11, 2017 the Company's Management Board decided to change its dividend policy. In light of the need to finance an ambitious growth programme and with a view towards reducing debt growth, the Company's Management Board recommended the suspension of dividends from profit for years 2016, 2017 and 2018.

After this period, the Company's Management Board intends to recommend to the General Meeting dividend payments to shareholders amounting to 40-50% of consolidated net profit attributable to the parent's shareholders, adjusted for impairment of property, plant and equipment and intangible assets. The payment of each dividend will particularly depend on the overall amount of the Company's debt, expected capital expenditure and potential acquisitions.

18. Provisions

The carrying amount of provisions is as follows:

	As at September 30, 2019		As at December 31, 2018	
	Non-current	Current	Non-current	Current
Employee benefits	2,631	237	2,460	245
Rehabilitation provision	4,778	2	3,763	3
Provision for shortage of CO_2 emission allowances	123	2,655	119	1,802
Provision for energy origin units held for redemption	-	557	-	423
Provision for non-contractual use of property	62	10	63	10
Other provisions	23	108	23	125
TOTAL PROVISIONS	**7,617**	**3,569**	**6,428**	**2,608**

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Changes in provisions

	Employee benefits	Rehabilitation provision	Provision for shortage of CO_2 emission allowances	Provision for energy origin units held for redemption	Provision for non-contractual use of property	Other	Total
January 1, 2019	**2,705**	**3,766**	**1,921**	**423**	**73**	**148**	**9,036**
Current service costs	67	-	-	-	-	-	67
Past service costs	(3)	-	-	-	-	-	(3)
Interest costs	59	90	-	-	-	-	149
Change in discount rate	178	828	-	-	-	-	1,006
Benefits paid / Provisions used	(138)	(1)	(1,803)	(420)	-	(18)	(2,380)
Provisions reversed	-	(1)	(4)	(5)	(8)	(31)	(49)
Provisions recognised – costs	-	32	2,663	548	7	35	3,285
Provisions recognised – expenditure	-	63	-	-	-	-	63
Other changes	-	3	1	11	-	(3)	12
September 30, 2019	**2,868**	**4,780**	**2,778**	**557**	**72**	**131**	**11,186**

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

- An increase in the rehabilitation provision, with a corresponding increase of PLN 246 million in other operating expenses;
- An increase in the rehabilitation provision, with a corresponding increase of PLN 582 million in property, plant and equipment;
- An increase in the provision for post-employment benefits, with a corresponding decrease of PLN 142 million in other comprehensive income;
- An increase in the provision for jubilee awards, with a corresponding increase of PLN 36 million in operating expenses.

	Employee benefits	Rehabilitation provision	Provision for shortage of CO_2 emission allowance	Provision for energy origin units held for redemption	Provision for non-contractual use of property	Other	Total
JANUARY 1, 2018	**2,529**	**3,086**	**1,453**	**340**	**83**	**151**	**7,642**
Actuarial gains and losses	179	-	-	-	-	-	179
Current service costs	94	-	-	-	-	-	94
Past service costs	(105)	-	-	-	-	-	(105)
Interest costs	86	103	-	-	-	-	189
Change in discount rate and other assumptions	100	242	-	-	-	-	342
Benefits paid / Provisions used	(181)	(1)	(1,311)	(769)	-	(17)	(2,279)
Provisions reversed	-	(1)	(29)	(9)	(18)	(85)	(142)
Provisions recognised – costs	-	276	1,808	861	8	94	3,047
Provisions recognised – expenditure	-	58	-	-	-	-	58
Purchase of new subsidiaries	1	-	-	-	-	6	7
Other changes	2	3	-	-	-	(1)	4
DECEMBER 31, 2018	**2,705**	**3,766**	**1,921**	**423**	**73**	**148**	**9,036**

18.1 Provision for employee benefits

Provisions for employee benefits mainly include:

- post-employment benefits - PLN 2,004 million (PLN 1,845 million as at December 31, 2018),
- jubilee awards - PLN 864 million (PLN 860 million as at December 31, 2018).

18.2 Rehabilitation provision

Provision for rehabilitation of post-exploitation mining properties

PGE Group recognises provisions for rehabilitation of post-exploitation mining properties. The amount of the provision recognised in the financial statements includes also the value of Mine Liquidation Fund created in accordance with the Geological and Mining Law Act. As at September 30, 2019, the provision amounted to PLN 4,288 million, and as at December 31, 2018 to PLN 3,338 million.

Provision for rehabilitation of ash storage sites

PGE Group power generating units recognise provisions for rehabilitation of ash storage sites. As at the reporting date, the provision amounted to PLN 233 million, and as at December 31, 2018 to PLN 195 million.

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Provision for rehabilitation of wind-farm sites

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

Liquidation of property, plant and equipment

The obligation to liquidate assets and rehabilitate the area results from the "Integrated permission for running electric energy and heat energy producing installation" in which the restitution of the area was specified. As at the reporting date, the provision amounts to PLN 203 million (PLN 184 million as at December 31, 2018) and refers to some assets of the Conventional Generation and Renewables segments.

18.3 Provision for shortage of CO_2 emission allowances

As described in note 14 to these consolidated financial statements, PGE Group is entitled to receive CO_2 emissions allowances granted free of charge in connection to expenditures on investment projects included in National Investment Plan. The calculation of the provision also includes these allowances.

18.4 Provision for energy origin units held for redemption

PGE Group companies recognise provision for energy origin rights relating to sales carried out during the reporting period or in the prior reporting periods, in an part unredeemed until the reporting date. As at September 30, 2019, the provision amounts to PLN 557 million (PLN 423 million in the comparative period) and is recognised mainly by PGE Obrót S.A.

18.5 Provision for non-contractual use of property

PGE Group companies recognise a provision for claims concerning non-contractual use of property. This mainly relates to the distribution company that owns distribution networks. As at the reporting date, the provision amounted to approximately PLN 72 million (including PLN 31 million for litigations). In the comparative period, the provision amounted to PLN 73 million (including PLN 34 million for litigations).

19. Financial liabilities

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

Bonds issued by PGE Sweden AB (publ) are based on a fixed interest rate. As at September 30, 2019, their value at amortised cost, as disclosed in these consolidated financial statements, amounted to PLN 606 million and their fair value was PLN 683 million.

19.1 Loans, borrowings, bonds and leases

	As at September 30, 2019		As at December 31, 2018 restated data	
	Non-current	**Current**	**Non-current**	**Current**
Loans and borrowings	8,107	1,654	5,768	2,168
Bonds issued	2,001	19	592	2,177
Leases	866	23	1	2
TOTAL LOANS, BORROWINGS, BONDS AND LEASES	**10,974**	**1,696**	**6,361**	**4,347**

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Loans and borrowings

Loans and borrowings disclosed by the PGE Group as at September 30, 2019 and December 31, 2018 include:

Lender	Execution date	Maturity date	Limit in currency	Currency	Interest rate	Liability as at September 30, 2019	Liability as at December 31, 2018
Bank Gospodarstwa Krajowego	2014-12-17	2027-12-31	1,000	PLN	Variable	1,008	1,001
Bank Gospodarstwa Krajowego	2015-12-04	2028-12-31	500	PLN	Variable	504	500
Bank consortium	2015-09-07	2023-09-30	3,630	PLN	Variable	3,627	3,648
Bank consortium	2015-09-07	2019-04-30	1,870	PLN	Variable	-	1,171
European Investment Bank	2015-10-27	2032-10-26	1,500	PLN	Variable	1,516	-
European Investment Bank	2015-10-27	2032-10-26	490	PLN	Variable	496	-
European Bank for Reconstruction and Development	2017-06-07	2028-06-06	500	PLN	Variable	506	-
Revolving credit facility	2018-09-17	2023-12-17	4,100	PLN	Variable	-	-
Bank Pekao	2018-07-05	2021-07-03	500	PLN	Variable	353	148
PKO BP	2018-04-30	2020-04-29	500	PLN	Variable	352	-
Bank Gospodarstwa Krajowego	2018-06-01	2021-05-31	500	PLN	Variable	477	420
Millennium	2014-06-08	2021-06-16	7	PLN	Variable	2	2
Bank Pekao	2017-09-21	2020-09-21	40	USD	Variable	153	149
Bank Ochrony Środowiska	2006-05-30	2020-10-01	136	PLN	Variable	8	16
Nordic Investment Bank	2005-10-10	2024-06-20	150	EUR	Variable	348	387
Nordic Investment Bank	1999-11-30	2019-05-28	80	USD	Variable	-	30
Bank Ochrony Środowiska	2007-05-18	2019-03-31	20	PLN	Variable	-	1
Loan from shareholders	2017-11-08	2020-11-06	9	PLN	Fixed	9	9
Loan from shareholders	2018-03-02	2021-03-02	14	PLN	Fixed	15	15
NFOŚiGW	2014-06-01	November 2020 – December 2028	250	PLN	Fixed	214	203
NFOŚiGW	December 2013 – September 2017	September 2021 – September 2024	212	PLN	Variable	107	127
WFOŚiGW	May 2012 – June 2014	July 2019 – December 2020	370	PLN	Fixed	21	69
WFOŚiGW	April 2013 – December 2018	January 2019 – September 2026	157	PLN	Variable	45	40
TOTAL LOANS AND BORROWINGS						**9,761**	**7,936**

As at September 30, 2019, the value of the available overdrafts at significant PGE Group companies was PLN 347 million.

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

Bonds issued

Issuer	Investor	Conclusion date of the programme	Maturity date of the programme	Limit in the programme currency	Currency	Interest rate	Tranche issue date	Tranche maturity date	Liability as at September 30, 2019	Liability as at December 31, 2018
PGE SA	Bondholders	2013-06-27	indefinite	5,000	PLN	Variable	2019-05-21	2029-05-21	1,010	-
							2019-05-21	2026-05-21	404	
PGE Sweden AB (publ)	Bondholders	2014-05-22	indefinite	2,000	EUR	Fixed	2014-06-09	2019-06-09	-	2,168
							2014-08-01	2029-08-01	606	601
TOTAL BONDS ISSUED									**2,020**	**2,769**

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Leases

The recognition of lease liabilities results from the implementation of IFRS 16 *Leases*. Therefore, as at January 1, 2019, the Group recognised lease liabilities of PLN 887 million. The standard was implemented using a modified retrospective approach with the total effect of the initial application recognised as at January 1, 2019; therefore the data for the comparative period were not restated. For details on the implementation of IFRS 16, describe in note 3 to these financial statements.

19.2 Trade and other financial liabilities

	As at September 30, 2019		As at December 31, 2018	
	Non-current	Current	Non-current	Current
Trade liabilities	-	1,338	-	1,511
Revenue reduction estimates		757	-	-
Purchase of property, plant and equipment and intangible assets		1,087	6	1,622
Settlements related with stock market transactions	-	261	-	278
Security deposits received	26	91	38	83
Insurance	-	1	-	17
LTC liabilities	446	-	455	11
Other	19	91	22	91
TRADE AND OTHER FINANCIAL LIABILITIES	**491**	**3,626**	**521**	**3,613**

The revenue reduction estimates include revenue reductions in 2019 resulting from the Act on Electricity Prices, as described in detail in Section 24.1 of these financial statements.

“Other” liabilities include, among others, PGE Dom Maklerski S.A.'s liabilities towards consumer on account of funds deposited.

20. Other non-financial liabilities

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

	As at September 30, 2019	As at December 31, 2018
OTHER NON-CURRENT LIABILITIES		
Contract liabilities	36	10
Estimated liabilities under the Voluntary Redundancy Programme	2	5
TOTAL OTHER NON-CURRENT LIABILITIES	**38**	**15**
OTHER CURRENT LIABILITIES		
Environmental fees	162	266
VAT liabilities	169	173
Excise tax liabilities	33	36
Payroll liabilities	187	279
Bonuses for employees	293	214
Unused holiday leave	131	132
Other employee benefits	139	47
Personal income tax	74	88
Social insurance liabilities	209	258
Contract liabilities	213	186
Other	91	68
TOTAL OTHER CURRENT LIABILITIES	**1,701**	**1,747**
TOTAL OTHER LIABILITIES	**1,739**	**1,762**

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

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

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OTHER EXPLANATORY NOTES

21. Contingent liabilities and receivables. Legal claims

21.1 Contingent liabilities

	As at September 30, 2019	As at December 31, 2018
Contingent return of grants from environmental funds	690	756
Legal claims	247	222
Bank guarantee liabilities	219	177
Employees' claims	-	1
Other contingent liabilities	35	36
TOTAL CONTINGENT LIABILITIES	**1,191**	**1,192**

Contingent return of grants from environmental funds

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

Legal claims

Dispute with WorleyParsons

The contingent liability is mainly related to the dispute with WorleyParsons. WorleyParsons made a claim for payment of PLN 59 million due to the claimant and for the return of the amount that in the claimant's opinion was unduly collected by PGE EJ 1 sp. z o.o. from a bank guarantee, and later the claim extended to PLN 104 million (i.e. by PLN 45 million). On March 31, 2018, the company filed a response to WorleyParsons' expanded claim.

On September 2, 2019, PGE EJ 1 sp. z o.o. received a pleading containing an extension of the WorleyParsons claim by PLN 24 million on account of capitalized interest.

On September 18, 2019, PGE EJ 1 sp. z o.o. filed a pleading to extend the claim by PLN 52 million as compensation (alternatively unjust enrichment) in connection with WorleyParsons' failure to perform the tasks specified in the Agreement.

The Group has not recognised the claims and believes that the court is unlikely to award them to the claimant.

Claims related to sale contracts of energy origin certificate executed by Energa-Obrót S.A.

In October 2017, PGE Energia Odnawialna S.A. and PGE Energia Natury sp. z o.o. (acquired by PGE Energia Odnawialna S.A.) received lawsuits in which Energa-Obrót S.A. demanded the annulment of a legal relation that were to arise as a result of the execution of master agreements to sell energy origin certificates resulting from electricity origin certificates at FW Kisielice in 2009, FW Koniecwałd (Malbork) and FW Galicja. Energa-Obrót S.A.'s demands in all of the lawsuits are based on the allegation that executory agreements (to sell specific energy origin certificates) were executed in a way that circumvented the Public Procurement Law Act. Alternatively, if the Agreement is considered as an agreement on award of a public procurement, Energa-Obrót S.A. was claiming absolute invalidity of the Agreements due to them being executed in a way that circumvented the Public Procurement Law. In November 2017, PGE companies filed responses to the lawsuits, in which they indicated that the allegations made by Energa-Obrót S.A. were groundless.

The proceedings are pending. In all of the cases, the courts referred the parties for mediation, which ended on December 15, 2018, without reaching an agreement. In the case of FW Galicja, the court rescheduled the first hearing from October 2019 to November 2019. In the case of FW Kisielice, a hearing was held in October, at which the court set the date of the next hearing for April 2020. In the case of FW Koniecwałd (Malbork) hearings took place in May and July 2019, and another hearing scheduled for September was adjourned by the court.

In addition, through motions filed in September 2017, Energa Obrót S.A. summoned PGE Energia Odnawialna S.A. and PGE Energia Natury sp. z o.o. (currently acquired by PGE Energia Odnawialna S.A.) for amicable resolution of disputes for the payment of claims concerning considerations paid on the basis of invalid contracts from 2009. The parties failed to reach agreement at the meetings that were held in November and December 2017. In connection with this, the PLN 71 million claim is presented as a contingent liability. The Group has not recognised the claims and believes that the court is unlikely to award them to the claimants.

Having claimed that the agreements concluded in 2009 were invalid, Energa-Obrót S.A. refused to purchase the energy certificates of origin concerning electricity produced from renewable sources at FW Kisielice, FW Koniecwałd (Malbork) and FW Galicja, which constituted a breach of the agreements and resulted in contractual penalties of PLN 69 million being imposed (including PLN 24 million recognised as revenues in the current period and PLN 45 million recognised in previous years). As Energa-Obrót S.A. refused to pay the contractual penalties, PGE Energia Odnawialna S.A. claimed the payment thereof in the court proceedings. PGE Energia Odnawialna S.A. filed counterclaims for payment of the principal amount due, along with capitalised interest, increased by statutory late payment interest, of the contractual penalties imposed in connection with the failure to perform the master agreements for the sale of energy certificates of origin concerning electricity produced at FW Kisielice (in April 2018), FW Koniecwałd (Malbork) (in May 2019) and FW Galicja (in August 2019). In August 2019, PGE Energia Odnawialna S.A. extended by further periods the counterclaims for payment of the principal amount due, along with capitalised interest, increased by statutory late payment interest, of the contractual penalties imposed in connection with the failure to perform the agreement related to FW Kisielice and FW Koniecwałd (Malbork).

The estimated volume of green certificates covered by the agreements with Energa Obrót S.A. amounts to 805 thousand MWh. This volume was calculated based on the volume of production in the period from July 2017 (FW Koniecwałd/Malbork) or from August 2017 (other farms) to the end of the expected support periods for each of the wind farms.

Bank guarantee liabilities

These liabilities comprise mostly bank guarantees provided as collateral for stock market transactions resulting from membership in the Stock Exchange Clearinghouse. As at September 30, 2019, the total amount of bank guarantees was PLN 219 million (PLN 177 million in the comparative period).

Other contingent liabilities

Other contingent liabilities mainly comprise a potential claim by WorleyParsons (in excess of the claim already reported as described above), amounting to PLN 33 million.

21.2 Other significant issues related to contingent liabilities

Non-contractual use of property

As described in note 18.5 of these financial statements, PGE Group recognises provision for disputes under court proceedings concerning non-contractual use of properties intended for distribution activities. In addition, PGE Group is involved in disputes at an earlier stage of proceedings and it cannot be excluded that the number and value of similar disputes will increase in the future.

Contractual liabilities related to purchase of fuels

According to the concluded agreements for the purchase of fuels (mainly coal and gas), PGE Group companies are obliged to collect the minimum volume of fuels and not to exceed the maximum level of collection of gas fuel. Failure to collect the minimum volumes of fuels specified in the contracts, may result in extra fees being imposed. In PGE Group's opinion, the terms and conditions of fuel deliveries to its power generating units as described above do not differ from the terms and conditions of fuel deliveries to other power generating units in the Polish market.

21.3 Contingent receivables

As at the reporting date, PGE Group held PLN 26 million resulting from the imbalance between purchases and sales of energy in the domestic market (PLN 27 million in the comparative period).

21.4 Other legal claims and disputes

Compensation for conversion of shares

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

Irrespective of the foregoing, on November 12, 2014 Socrates Investment S.A. (an entity which purchased claims from former PGE Górnictwo i Energetyka S.A. shareholders) filed a lawsuit to impose a compensation in the total amount of over PLN 493 million (plus interest) for damage incurred in respect of incorrect (in their opinion) determination of the exchange ratio of shares in the merger of PGE Górnictwo i Energetyka S.A. and PGE S.A. The Company filed a response to the lawsuit. At present, the first instance court proceedings are pending. By decision of April 19, 2019, the Court appointed experts responsible for drawing up an opinion on the aforementioned matter.

As at the date of these financial statements, the next court hearing has not been scheduled.

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

PGE Group companies have not recognised the claims made by Socrates Investment S.A., Pozwy sp. z o.o. and the rest of shareholders requesting conciliatory settlements. According to PGE S.A., these claims are groundless and the entire consolidation process was conducted in a fair and correct manner. The value of shares subject to the process of consolidation was established by an independent company, PwC Polska sp. z o.o. Additionally, merger plans of the companies mentioned above, including the exchange ratios, were examined for accuracy and reliability by an expert appointed by the registration court; no irregularities were found. Next, the court registered the mergers of the aforementioned companies. PGE Group has not recognised a provision for this claim.

Claims for annulment of resolutions adopted by the General Meetings

On January 29, 2019, PGE S.A. received a copy of a lawsuit filed to the District Court of Warsaw by one of its shareholders. In the lawsuit, the shareholder is seeking annulment of resolutions No 7, 9 and 20 of the Company's Ordinary General Meeting held on July 19, 2018. The Company has not recognised the claim. It submitted a response to the lawsuit on February 28, 2019. At present, the first instance court proceedings are pending. The first hearing was held on May 31, 2019 and the second hearing during which witnesses were interviewed was held on August 13, 2019.

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

Termination of contracts for purchase of energy origin certificates by Enea S.A.

In October and November 2016 PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE Energia Odnawialna S.A. and PGE Energia Natury PEW sp. z o.o. (acquired by PGE Energia Odnawialna S.A.) received from Enea S.A. termination of long-term contracts for purchase of renewable energy origin certificates, so called "green certificates". In the explanatory statement of the termination, Enea S.A. claimed that the companies significantly breached the provisions of these contracts, i.e. failed to re-negotiate contractual provisions in accordance with the adaptive clause, as requested by Enea S.A. in July 2015 in connection with an alleged change in legal regulations having impact on performance of these contracts.

In the opinion of PGE Group, notices of termination of contracts presented by Enea S.A. were filled in with a violation terms of the agreements. The companies took appropriate steps to enforce their rights. With Enea S.A. refusing to perform long-term contracts to purchase energy origin certificates resulting from certificates of origin received by PGE Group companies in connection with the production of renewable energy, PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE Energia Natury PEW sp. z o.o. have demanded from Enea S.A. payment of contractual penalties, while PGE Energia Odnawialna S.A. has demanded payment of compensation for damages. Proceedings in all of the cases are pending.

Due to the fact that according to PGE Group termination notices presented by Enea S.A. were submitted in breach of contractual terms, as at September 30, 2019, the Group recognised contractual penalty and compensation receivables of PLN 148 million (of which PLN 13 million was recognised as present-period revenues). According to PGE Group companies, based on available legal opinions, a favourable resolution in the above disputes is more probable than an unfavourable one.

The estimated volume of green certificates covered by the contracts with Enea S.A. amounts to approximately 2,663 thousand MWh. The above amount was calculated for the period from the date of termination of the contracts to the end of the expected initial term of the contracts.

In addition, PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE Energia Natury PEW sp. z o.o. (acquired by PGE Energia Odnawialna S.A.) and PGE Energia Odnawialna S.A. filed lawsuits against Enea S.A. for the payment of receivables totalling PLN 47 million concerning invoices issued to Enea S.A. for the sale of energy origin certificates based on these contracts. Enea S.A. refused to pay these receivables, claiming that they were offset by receivables from the Group's companies related to compensation for alleged damages arising as a result of the companies' failure to re-negotiate the contracts. According to Group companies, such offsets are groundless because Enea S.A.'s receivables concerning the payment of compensation never arose and there are no grounds for acknowledging Enea S.A.'s claim that the companies breached contractual provisions. The proceedings are pending, and the next hearings are scheduled for November 2019.

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 act. Taking into account the subject criterion, current taxes in Poland can be divided into five groups: taxation of incomes, taxation of turnover, taxation of assets, taxation of activities and other, not classified elsewhere.

From the point of view of business entities, the most important is the taxation of income (corporate income tax), taxation of turnover (value added tax, excise tax) followed by taxation of assets (real estate tax and vehicle tax). Other payments classified as quasi-taxes must also be mentioned. Among these there are social security charges.

Basic tax rates in 2019 were as follows: corporate income tax rate – 19%, for smaller enterprises a 9% rate is likely; basic value added tax rate – 23%, reduced: 8%, 5%, 0%, furthermore some goods and products are subject to a VAT tax exemption.

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

Tax group

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

Companies included in the tax group must meet a number of requirements including: appropriate level of equity, parent's stake in PGK companies of at least 75%, lack of capital ties between subsidiaries, no tax arrears, share in total revenue of at least 2% (counted at tax group level), and execution of transactions with related parties from outside the tax group only on market terms. Any violation of these requirements will result in the tax group being dissolved and losing its taxpayer status. When the tax group is dissolved, each of its member companies will become an independent payer of corporate income tax.

VAT split payment mechanism

The Group uses funds received from counterparties in VAT accounts to pay its liabilities that contain VAT. The level of funds in these VAT accounts at a given date depends mainly on the number of the Group's counterparties that decide to use this mechanism and on the relation between the payment dates of receivables and liabilities. As at September 30, 2019, the cash balance in these VAT accounts totalled PLN 61 million.

Excise tax

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

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

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

Property tax

Tax on property constitutes a significant burden on certain PGE Group companies. Regulations concerning property tax are unclear in certain areas and give rise to a variety of interpretation doubts. Tax authorities, i.e. municipality leader, mayor or city president, have often issued inconsistent tax interpretations in similar cases. Due to the above, PGE Group companies have been and may be parties to court proceedings concerning property tax. If the Group considers that an adjustment of settlements is likely due to such a proceeding, it recognises an appropriate provision.

23. Information on related parties

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

23.1 Associates and jointly controlled entities

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

	Period ended September 30, 2019	Period ended September 30, 2018
Sales to associates and jointly controlled entities	10	14
Purchases from associates and jointly controlled entities	1,846	1,472

	As at September 30, 2019	As at December 31, 2018
Trade receivables from associates and jointly controlled entities	1	7
Trade liabilities to associates and jointly controlled entities	234	120

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

23.2 State Treasury-controlled companies

The State Treasury is the dominant shareholder in 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 parties. 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, 2019	Period ended September 30, 2018
Sales to related parties	1,545	1,402
Purchases from related parties	4,095	3,415

	As at September 30, 2019	As at December 31, 2018
Trade receivables from related parties	351	230
Trade liabilities to related parties	555	682

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

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

23.3 Management remuneration

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

PLN '000	Period ended September 30, 2019	Period ended September 30, 2018
Short-term employee benefits (salaries and salary related costs)	26,776	27,603
Post-employment benefits	1,373	3,325
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**28,149**	**30,928**
Remuneration of key management personnel of entities of non-core operations	15,042	15,611
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**43,191**	**46,539**

PLN '000	Period ended September 30, 2019	Period ended September 30, 2018
Management Board of the parent company	5,857	5,847
Supervisory Board of the parent company	563	507
Management Boards – subsidiaries	19,058	22,354
Supervisory Boards – subsidiaries	2,671	2,220
TOTAL	**28,149**	**30,928**
Remuneration of key management personnel of entities of non-core operations	15,042	15,611
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**43,191**	**46,539**

PGE Group companies (direct and indirect subsidiaries) apply a rule according to which management board members are employed on the basis of management services contracts. The above remuneration is included in other costs by nature disclosed in note 6.2 Costs by nature and function.

24. Significant events during and after the reporting period

24.1 Act amending the act on excise duty and some other acts

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

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

- From January 1, 2019, the excise duty on electricity has been reduced from PLN 20 to PLN 5 per MWh. The transition fee, paid each month by electricity customers, was reduced by 95%.
- In 2019, supply companies are obliged to provide final customers with electricity at prices set in accordance with the Act. The pricing rules and beneficiaries of the Act are different in the first and in the second half-year of 2019.
- From January 1, 2019 to June 30, 2019, electricity prices paid by final customers are to correspond to prices set as at December 31, 2018 in the tariffs approved by the President of the Energy Regulatory Office [Urząd Regulacji Energetyki] ("URE President") or at prices applied as at June 30, 2018, if prices paid by final consumers differ from those specified in the tariffs. All final customers have the right to keep paying prices set in 2018. An exception to that rule are energy intensive companies which are to submit by September 12, 2019 a relevant statement disclaiming the right to use the electricity prices and fees reduced by the Act.
- In the period from July 1, 2019 to December 31, 2019:
  - Households (including residential buildings, garages, holiday homes and allotments) are subject to prices applicable in 2018. In turn, micro and small enterprises, hospitals, public finance sector entities and state organisational units are obliged to submit a relevant statement if they wish to apply prices of 2018. The deadline for submission of such statements ended on August 13, 2019.
  - Medium and large companies are not entitled to energy price from 2018. These entities may apply to Zarządca Rozliczeń S.A. for funding intended to cover an increase in electricity prices in accordance with the rules on the grant of de minimis aid.
  - Energy intensive companies are not beneficiaries of the Act on Electricity Prices in this period. Energy intensive companies may apply for support under the Act on Compensation System for Energy Intensive Sectors and Subsectors.
- Retail companies (such as PGE Obrót S.A.) are entitled to receive compensation for the reduction in prices. Compensation depends on the average weighted electricity prices and on other unit costs of supply companies published by the URE President and also on the volumes sold. Compensations are granted at companies' request.

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

Effects on reporting

In assessing the reporting effects on the consolidated financial statements, the Group analysed, in particular:

- The difference between revenue estimated in accordance with the Act and the unavoidable costs to satisfy the obligation to perform contracts at the level of individual companies – including mainly PGE Obrót S.A.,
- A positive energy balance between the value of electricity produced and sales to final customers,
- The value of due compensations for both first half and second half of 2019.
- Uncertainties related to the estimation of revenue reduction and compensations due.

Some effects of the Act constitute estimates of PGE Group and the final settlement of the reduction in revenues and the compensations received may differ from the values specified in these financial statements.

As far as onerous contracts are concerned within the meaning of IAS 37, in the Supply segment the difference between the revenues estimated in accordance with the Act and unavoidable costs to satisfy the obligation to perform contracts amounts to PLN 71 million as at September 30, 2019 (surplus of costs over revenue). Costs, as a rule, include only those costs that are directly related to the contract that the entity would have avoided if it did not perform the contract. Calculating a loss on a contract in the meaning of IAS 37 does not include future operating losses. In regard to compensations due for the 4th quarter of 2019, the Group assumed that compensations are in fact due and should be accounted for in the financial statements to properly reflect the effects of the Act. In consequence, pursuant to IAS 37, the expected reimbursement of expenses in the form of a part of compensations due for the 4th quarter of 2019 was recognized in the Supply segment. The reimbursement recognised amounts to PLN 66 million.

The expected reimbursement was estimated for individual groups of contracts in accordance with the Group's best knowledge, in an amount not higher than the value of the provision recognised for the given group of contracts. The final amount of compensations will depend on the publication of further parameters by the URE President and may differ from the Group's estimates.

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

As at September 30, 2019 PGE Group present receivables from recognized compensations from period of January 1st to September 30th in total amount of PLN 1,007 million.

24.2 Granting of additional CO_2 emission allowances for PGE's installations

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

The allowances received were included in Inventories (Note 13) and other operating income (Note 6.3). The allowances are measured at each reporting date at fair value. As at September 30, 2019, their fair value amounted to PLN 1,348 million and the valuation of related forward contracts (commodity and currency contracts) is PLN 87 million.

24.3 Establishment of Eko-Inwestycje Fund

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

The fund will focus its activities on the implementation of investment projects of a complementary nature in relation to the core activity of the PGE Group, consistent with its strategy, aimed at the development of new business lines. The investment policy of the Fund provides for specific categories of Fund's investments, market areas and criteria for managing the Fund's assets in the selection of those investments. The fund will pursue its investment objective by investing funds in entities operating in market areas related to:

- electromobility,
- increasing flexibility and optimisation of energy systems,
- energy efficiency services,
- reducing the emissions of the power industry, improving its efficiency, reliability and production flexibility, including investments in highly-efficient generation sources,
- using digital technologies to improve the cost efficiency of production and supporting processes in the energy sector.

The assumed investment horizon covers a period of at least 5 years, unless the detailed investment conditions justify a shorter period.

Investors will be obliged to make payments to the Fund in the total amount of not less than PLN 1.5 billion until the end of the Fund adjustment period, i.e. until the end of the 36th month from the date of Fund registration, based on the schedule specified in the agreement, with the majority of payments falling in 2020. The funds transferred to the Fund will be derived, among other things, from the sale of a part of additional CO_2 emission allowances. The fund will be established for an indefinite period. The Fund may be dissolved no sooner than after 7 years from entering the Fund in the register of investment funds.

for the 3- and 9-month periods ended September 30, 2019, in accordance with IFRS EU (in PLN million)

II. PGE POLSKA GRUPA ENERGETYCZNA S.A. QUARTERLY FINANCIAL INFORMATION FOR THE 3- and 9-MONTH PERIODS ENDED SEPTEMBER 30, 2019, IN ACCORDANCE WITH IFRS EU

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	3 months ended September 30, 2019 *(unaudited)*	9 months ended September 30, 2019 *(unaudited)*	3 months ended September 30, 2018 *(unaudited) restated data*	9 months ended September 30, 2018 *(unaudited) restated data*
STATEMENT OF PROFIT OR LOSS				
SALES REVENUES	**3,824**	**11,872**	**2,779**	**7,958**
Cost of goods sold	(3,663)	(11,151)	(2,566)	(7,393)
GROSS PROFIT ON SALES	**161**	**721**	**213**	**565**
Distribution and selling expenses	(3)	(11)	(4)	(13)
General and administrative expenses	(52)	(154)	(51)	(155)
Other operating expenses, net	(14)	(14)	-	(1)
OPERATING PROFIT	**92**	**542**	**158**	**396**
Net financial income	42	1,063	43	107
GROSS PROFIT	**134**	**1,605**	**201**	**503**
Current income tax	88	44	3	(48)
Deferred income tax	(4)	(27)	(8)	(3)
NET PROFIT FOR THE REPORTING PERIOD	**218**	**1,622**	**196**	**452**
OTHER COMPREHENSIVE INCOME				
Items that may be reclassified to profit or loss in the future:				
Valuation of hedging instruments	(92)	(131)	(7)	(32)
Deferred tax	18	25	1	6
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET	**(74)**	**(106)**	**(6)**	**(26)**
TOTAL COMPREHENSIVE INCOME	**144**	**1,516**	**190**	**426**
NET PROFIT AND DILUTED NET PROFIT PER SHARE (IN PLN)	**0.12**	**0.87**	**0.10**	**0.24**

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

for the 3- and 9-month periods ended September 30, 2019, in accordance with IFRS EU (in PLN million)

SEPARATE STATEMENT OF FINANCIAL POSITION

	As at September 30, 2019 *(unaudited)*	As at December 31, 2018 *(audited) restated data**
NON-CURRENT ASSETS		
Property, plant and equipment	161	167
Intangible assets	1	1
Right-of-use assets	20	-
Financial receivables	12,960	13,000
Derivatives and other assets measured at fair value through profit or loss	132	115
Shares in subsidiaries	33,025	32,024
Shares in associates and jointly controlled entities	101	101
Deferred tax assets	16	19
	46,416	**45,427**
CURRENT ASSETS		
Inventories	57	4
Income tax receivables	76	57
Trade and other receivables	6,063	5,306
Derivatives	324	231
Other current assets	737	51
Cash and cash equivalents	39	235
	7,296	**5,884**
TOTAL ASSETS	**53,712**	**51,311**
EQUITY		
Share capital	19,165	19,165
Reserve capital	19,669	19,872
Hedging reserve	(106)	(2)
Retained earnings	1,622	(201)
	40,350	**38,834**
NON-CURRENT LIABILITIES		
Non-current provisions	18	16
Loans, borrowings, bonds	9,600	5,733
Derivatives	158	24
Other liabilities	17	21
	9,793	**5,794**
CURRENT LIABILITIES		
Current provisions	1	9
Loans, borrowings, bonds, cash pooling	2,526	5,439
Derivatives	274	164
Trade and other liabilities	698	840
Other non-financial liabilities	70	231
	3,569	**6,683**
TOTAL LIABILITIES	**13,362**	**12,477**
TOTAL EQUITY AND LIABILITIES	**53,712**	**51,311**

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

for the 3- and 9-month periods ended September 30, 2019, in accordance with IFRS EU (in PLN million)

SEPARATE STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserve capital	Hedging reserve	Retained earnings	Total equity
JANUARY 1, 2019	**19,165**	**19,872**	**(2)**	**(201)**	**38,834**
Net profit for the reporting period	-	-	-	1,622	**1,622**
Other comprehensive income	-	-	(104)	(2)	**(106)**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**(104)**	**1,620**	**1,516**
Retained earnings distribution	-	(203)	-	203	-
Other changes	-	-	-	-	-
SEPTEMBER 30, 2019	**19,165**	**19,669**	**(106)**	**1,622**	**40,350**

	Share capital	Reserve capital	Hedging reserve	Retained earnings	Total equity
AS AT JANUARY 1, 2018	**19,165**	**15,328**	**110**	**4,541**	**39,144**
Net profit for the reporting period	-	-	-	452	**452**
Other comprehensive income	-	-	(26)	-	**(26)**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**(26)**	**452**	**426**
Retained earnings distribution	-	4,544	-	(4,544)	**-**
Other changes	-	-	-	-	**-**
SEPTEMBER 30, 2018	**19,165**	**19,872**	**84**	**449**	**39,570**

for the 3- and 9-month periods ended September 30, 2019, in accordance with IFRS EU (in PLN million)

SEPARATE STATEMENT OF CASH FLOWS

	Period ended September 30, 2019 *(unaudited)*	Period ended September 30, 2018 *(unaudited)*
CASH FLOWS FROM OPERATING ACTIVITIES		
Gross profit	**1,605**	**503**
Income tax paid	(168)	46
Adjustments for:		
Depreciation, amortisation and impairment losses	9	10
Interest and dividend, net	(1,084)	(96)
Gain /(loss) on investing activities	(55)	52
Change in receivables	(335)	(13)
Change in inventories	(53)	(861)
Change in liabilities, excluding loans and borrowings	(148)	(29)
Change in other non-financial assets	(649)	26
Change in provisions	(8)	-
Exchange differences	11	-
NET CASH FROM OPERATING ACTIVITIES	**(875)**	**(362)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	(3)	(2)
(Purchase)/buy-back of bonds issued by PGE Group companies	228	(1,695)
Dividends received	950	46
Purchase of shares in subsidiaries	(1,016)	(176)
Loans granted/(repaid) under the cash pooling agreement	(134)	662
Loans granted	(613)	(782)
Interest received	305	162
Repayment of loans granted	2	260
NET CASH FROM INVESTING ACTIVITIES	**(281)**	**(1,525)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans, borrowings	5,033	1,870
Proceeds from issue of bonds	1,400	-
Repayment of loans, borrowings and finance leases	(5,236)	-
Redemption of bonds issued	-	(1,000)
Interest paid	(236)	(180)
Other	(1)	(4)
NET CASH FROM FINANCING ACTIVITIES	**960**	**686**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(196)**	**(1,201)**
Net foreign exchange differences		
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**233**	**1,831**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	**37**	**630**

The additional notes constitute an integral part
of these consolidated financial statements.

for the 3- and 9-month periods ended September 30, 2019, in accordance with IFRS EU (in PLN million)

1. Changes in accounting principles and data presentation

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

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

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

- Right-of-use assets and lease liabilities increased by PLN 20 million as at January 1, 2019.
- As at January 1, 2019, retained earnings remained unchanged.
- The gross profit for 9 months of 2019 is lower by PLN 188 thousand.
- EBITDA for 9 months of 2019 is higher by PLN 699 thousand.

Changes in the applied accounting policies

The statement of comprehensive income includes the net amounts of finance income and costs.

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

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

The Company has restated the comparative data presented in the statements of financial position and comprehensive income. The restatement is presented in the tables below.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME	3 months ended September 30, 2018 *(unaudited)* published data	Net presentation of other operating activities and financing activities	Change in the recognition of forwards related to trading in CO_2 allowances	3 months ended September 30, 2018 *(unaudited)* restated data
STATEMENT OF PROFIT OR LOSS				
SALES REVENUES	**2,779**	**-**	**-**	**2,779**
Cost of goods sold	(2,560)	-	(6)	(2,566)
GROSS PROFIT ON SALES	**219**	**-**	**(6)**	**213**
Other operating income	2	(2)	-	-
Other operating expenses	(2)	2	-	-
Other operating expenses, net	-	-	-	-
OPERATING PROFIT	**164**	**-**	**(6)**	**158**
Financial income	138	(138)	-	-
Financial expenses	(101)	101	-	-
Net financial income	-	37	6	43
GROSS PROFIT	**201**	**-**	**-**	**201**
NET PROFIT FOR THE REPORTING PERIOD	**196**	**-**	**-**	**196**

SEPARATE STATEMENT OF COMPREHENSIVE INCOME	9 months ended September 30, 2018 *(unaudited)* published data	Net presentation of other operating activities and financing activities	Change in the recognition of forwards related to trading in CO_2 allowances	9 months ended September 30, 2018 *(unaudited)* restated data
STATEMENT OF PROFIT OR LOSS				
SALES REVENUES	**7,958**	**-**	**-**	**7,958**
Cost of goods sold	(7,351)	-	(42)	(7,393)
GROSS PROFIT ON SALES	**607**	**-**	**(42)**	**565**
Other operating income	5	(5)	-	-
Other operating expenses	(6)	6	-	-
Other operating expenses, net	-	(1)	-	(1)
OPERATING PROFIT	**438**	**-**	**(42)**	**396**
Financial income	377	(377)	-	-
Financial expenses	(312)	312	-	-
Net financial income	-	65	42	107
GROSS PROFIT	**503**	**-**	**-**	**503**
NET PROFIT FOR THE REPORTING PERIOD	**452**	**-**	**-**	**452**

for the 3- and 9-month periods ended September 30, 2019, in accordance with IFRS EU (in PLN million)

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

III. Approval of quarterly financial report

This financial report, containing PGE Group's interim consolidated financial statements and PGE S.A.'s quarterly financial information for the 3- and 9-month periods ended September 30, 2019, was approved for publication by the Management Board on November 12, 2019.

Warsaw, November 12, 2019

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

President of the Management Board	**Henryk Baranowski**	
Vice-President of the Management Board	**Wojciech Kowalczyk**	
Vice-President of the Management Board	**Marek Pastuszko**	
Vice-President of the Management Board	**Paweł Śliwa**	
Vice-President of the Management Board	**Ryszard Wasiłek**	
Vice-President of the Management Board	**Emil Wojtowicz**	
Signature of person responsible for drafting these financial statements	Michał Skiba Director, Reporting and Tax Department	