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

ended June 30, 2018
in accordance with IFRS EU (in PLN million)

TABLE OF CONTENTS

6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

I. PGE GROUP CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED JUNE 30, 2018, IN ACCORDANCE WITH IFRS EU

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended June 30, 2018 *(unaudited)*	Period ended June 30, 2017 *(unaudited)*
STATEMENT OF PROFIT OR LOSS			
SALES REVENUES	7.1	**12,871**	**10,620**
Cost of goods sold	7.2	(9,854)	(7,872)
GROSS PROFIT ON SALES		**3,017**	**2,748**
Distribution and selling expenses	7.2	(711)	(600)
General and administrative expenses	7.2	(511)	(345)
Other operating income	7.3	207	202
Other operating expenses	7.3	(171)	(73)
OPERATING PROFIT		**1,831**	**1,932**
Finance income	7.4	97	144
Finance costs	7.4	(305)	(266)
Share of profit of entities accounted for using the equity method	7.5	43	1
GROSS PROFIT		**1,666**	**1,811**
Current income tax	9	(322)	(248)
Deferred income tax	9	(48)	(68)
NET PROFIT FOR THE REPORTING PERIOD		**1,296**	**1,495**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss in the future:			
Valuation of financial instruments	17.2	(1)	-
Valuation of hedging instruments	17.2	35	(72)
Foreign exchange differences from translation of foreign entities		4	(6)
Deferred tax	9	(6)	14
Items that may not be reclassified to profit or loss in the future:			
Share of profit of entities accounted for using the equity method		1	-
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**33**	**(64)**
TOTAL COMPREHENSIVE INCOME		**1,329**	**1,431**
NET PROFIT ATTRIBUTABLE TO:			
– equity holders of the parent company		1,281	1,497
– non-controlling interests		15	(2)
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
– equity holders of the parent company		1,314	1,433
– non-controlling interests		15	(2)
EARNINGS AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (IN PLN)		**0.69**	**0.80**

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

6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at June 30, 2018 (unaudited)	As at December 31, 2017 (audited) restated data*
NON-CURRENT ASSETS			
Property, plant and equipment	10	59,413	59,010
Investment property		46	50
Intangible assets	10	1,015	1,032
Financial receivables	15.1	167	158
Derivatives and other assets measured at fair value through profit or loss	16	319	222
Shares and other equity instruments		34	47
Shares accounted for using the equity method	12	720	634
Other non-current assets		513	524
CO_2 emission allowances for captive use	14	-	402
Deferred income tax assets	13.1	517	571
		62,744	**62,650**
CURRENT ASSETS			
Inventories		2,282	1,890
CO_2 emission allowances for captive use	14	755	1,040
Income tax receivables		12	36
Derivatives and other assets measured at fair value through profit or loss	16	143	83
Trade and other financial receivables	15.1	3,289	3,522
Shares and other equity instruments		1	5
Other current assets		596	391
Cash and cash equivalents	15.2	1,208	2,552
		8,286	**9,519**
ASSETS CLASSIFIED AS HELD FOR SALE		**12**	**14**
TOTAL ASSETS		**71,042**	**72,183**
EQUITY			
Share capital	17.1	19,165	19,165
Supplementary capital		15,328	15,328
Hedging reserve	17.2	111	83
Foreign exchange differences from translation		-	(4)
Retained earnings		12,238	10,556
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**46,842**	**45,128**
Equity attributable to non-controlling interests		1,103	1,250
TOTAL EQUITY		**47,945**	**46,378**
NON-CURRENT LIABILITIES			
Non-current provisions	18	5,775	5,651
Loans, borrowings, bonds and lease	19.1	6,294	8,422
Derivatives	16	15	18
Deferred income tax provision	13.2	1,371	1,302
Deferred income and government grants		621	1,038
Other financial liabilities	19.2	465	379
Other non-financial liabilities		16	-
		14,557	**16,810**
CURRENT LIABILITIES			
Current provisions	18	1,450	1,991
Loans, borrowings, bonds and lease	19.1	3,046	1,623
Derivatives	16	38	106
Trade and other financial liabilities	19.2	2,026	3,231
Income tax liabilities		145	196
Deferred income and government grants		73	115
Other non-financial liabilities	20	1,762	1,733
		8,540	**8,995**
TOTAL LIABILITIES		**23,097**	**25,805**
TOTAL EQUITY AND LIABILITIES		**71,042**	**72,183**

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

6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Supplementary capital	Hedging reserve	Exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total equity
Note	17.1		17.2					
JANUARY 1, 2018 *approved data*	**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 *restated data**	**19,165**	**15,328**	**83**	**(4)**	**10,896**	**45,468**	**1,250**	**46,718**
Net profit for the reporting period	-	-	-	-	1,281	1,281	15	1,296
Other comprehensive income	-	-	28	4	1	33	-	33
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**28**	**4**	**1,282**	**1,314**	**15**	**1,329**
Dividend	-	-	-	-	-	-	(39)	(39)
Inclusion of companies in consolidation	-	-	-	-	27	27	20	47
Settlement of purchase of additional shares in subsidiaries	-	-	-	-	34	34	(142)	(108)
Other changes	-	-	-	-	(1)	(1)	(1)	(2)
TRANSACTIONS WITH OWNERS	**-**	**-**	**-**	**-**	**60**	**60**	**(162)**	**(102)**
JUNE 30, 2018	**19,165**	**15,328**	**111**	**-**	**12,238**	**46,842**	**1,103**	**47,945**

restatement data is described in note 4 of these consolidated financial statements.

	Share capital	Supplementary capital	Hedging reserve	Exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total equity
Note	17.1		17.2					
JANUARY 1, 2017	**19,165**	**13,730**	**147**	**3**	**9,634**	**42,679**	**96**	**42,775**
Net profit for the reporting period	-	-	-	-	1,497	1,497	(2)	1,495
Other comprehensive income	-	-	(58)	(6)	-	(64)	-	(64)
COMPREHENSIVE INCOME	**-**	**-**	**(58)**	**(6)**	**1,497**	**1,433**	**(2)**	**1,431**
Retained earnings distribution	-	1,598	-	-	(1598)	-	-	-
Dividend	-	-	-	-			(2)	(2)
Settlement of purchase of additional shares	-	-	-	-	2	2	(3)	(1)
Other changes	-	-	-	-			(1)	(1)
TRANSACTIONS WITH OWNERS	**-**	**1,598**	**-**	**-**	**(1,596)**	**2**	**(6)**	**(4)**
JUNE 30, 2017	**19,165**	**15,328**	**89**	**(3)**	**9,535**	**44,114**	**88**	**44,202**

6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Period ended June 30, 2018 *(unaudited)*	Period ended June 30, 2017 *(unaudited)* *restated data**
CASH FLOWS FROM OPERATING ACTIVITIES			
Gross profit		**1,666**	**1,811**
Income tax paid		(370)	(340)
Adjustments for:			
Share of profit of associates consolidated under the equity method		(43)	(1)
Depreciation, amortisation, disposal and impairment losses		1,844	1,513
Interest and dividend, net		188	65
Profit / loss on investing activities		(5)	43
Change in receivables		227	348
Change in inventories		(391)	(99)
Change in liabilities, excluding loans and borrowings		(380)	(324)
Change in other non-financial assets, prepayments and CO_2 emission allowances		436	830
Change in provisions		(430)	(508)
Other		(59)	(56)
NET CASH FROM OPERATING ACTIVITIES		**2,683**	**3,282**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets		(2,847)	(2,948)
Recognition of deposits with maturity over 3 months		(213)	(202)
Termination of deposits with maturity over 3 months		200	2,485
Purchase of financial assets		(81)	(218)
Sale of subsidiaries after offsetting sold cash		-	272
Inclusion of companies in consolidation		18	-
Interest received		-	10
Other		18	10
NET CASH FROM INVESTING ACTIVITIES		**(2,905)**	**(591)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in stake in Group companies		(111)	-
Proceeds from loans, borrowings and issue of bonds		337	8
Repayment of loans, borrowings, bonds and finance leasing		(1,180)	(91)
Interest paid		(172)	(156)
Other		4	(3)
NET CASH FROM FINANCING ACTIVITIES		**(1,122)**	**(242)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(1,344)**	**2,449**
Net exchange differences		*(3)*	*(3)*
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	*15.2*	**2,551**	**2,666**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	*15.2*	**1,207**	**5,115**

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

PGE Group Condensed consolidated interim financial statements for the 6-month period ended June 30, 2018, 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 the Notary Deed of August 2, 1990 and registered in the District Court in Warsaw, XVI Commercial Department on September 28, 1990. The Company was registered in the National Court Register of the District Court for the capital city of Warsaw, XII Commercial Department, under no. KRS 0000059307. The Company's registered office is in Warsaw, ul. Mysia 2.

As at January 1, 2018 and on the date on which these financial statements were published, the Company's Management Board was as follows:

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

Ownership structure

As at June 30, 2018, the parent's ownership structure was as follows:

	State Treasury	Other shareholders	Total
As at December 31, 2017	57.39%	42.61%	100.00%
As at June 30, 2018	57.39%	42.61%	100.00%

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

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

1.2 Information on PGE Group

PGE Group ("PGE Group," "Group", "CG PGE", "Capital Group PGE") includes the parent, PGE Polska Grupa Energetyczna S.A., 59 consolidated subsidiaries, 3 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, 2018 to June 30, 2018 ("financial statements", "consolidated financial statements") and include comparative data for the period from January 1, 2017 to June 30, 2017.

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, 2017, approved for publication on March 6, 2018.

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 Condensed consolidated interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

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.

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 9 *Financial Instruments* and IFRS 15 Contracts with Customers *A detailed description of the changes is presented in note 4. These financial statements should be read in conjunction with PGE Group's consolidated financial statements for the year ended December 31, 2017, published on March 6, 2018.*

1.3 PGE Group's composition

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

	Entity	Entity holding stake	Stake held by PGE Group entities as at June 30, 2018	Stake held by PGE Group entities as at December 31, 2017
	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.	PGE Centrum sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
6.	PGE Nowa Energia sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
7.	ENESTA sp. z o.o. Stalowa Wola	PGE Obrót S.A.	87.33%	87.33%
8.	PGE Paliwa sp. z o.o. Kraków	PGE Energia Ciepła S.A.	100.00%	100.00%
	SEGMENT: CONVENTIONAL GENERATION			
9.	PGE GiEK S.A. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
10.	PGE Energia Ciepła S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100,00%	99.52%
11.	PGE Toruń S.A. Toruń	PGE Energia Ciepła S.A.	95.22%	95.22%
12.	PGE Gaz Toruń sp. z o.o. Warsaw	PGE Energia Ciepła S.A.	50.04%	50.04%
13.	Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. Wrocław	PGE Energia Ciepła S.A. Investment III B.V.	25.81% 32.26%	17.74% 32.26%
14.	Elektrociepłownia Zielona Góra S.A. Zielona Góra	Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A.	98.40%	98.40%
15.	ELBIS sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
16.	MEGAZEC sp. z o.o. Bydgoszcz	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
17.	MegaSerwis sp. z o.o. Bogatynia	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
18.	„ELMEN" sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
19.	Przedsiębiorstwo Usługowo-Produkcyjne „ELTUR-SERWIS" sp. z o.o. Bogatynia	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
	Przedsiębiorstwo Usługowo-Produkcyjne „TOP SERWIS" sp. z o.o. Bogatynia	PGE Polska Grupa Energetyczna S.A.	-	100.00%
20.	Przedsiębiorstwo Transportowo-Sprzętowe „BETRANS" sp. z o.o.	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%

6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

	Bełchatów			
21.	Przedsiębiorstwo Wulkanizacji Taśm i Produkcji Wyrobów Gumowych BESTGUM POLSKA sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
22.	RAMB sp. z o.o. Piaski	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
23.	EPORE sp. z o.o. Bogatynia	PGE GiEK S.A.	85.38%	85.38%
24.	„Energoserwis – Kleszczów" sp. z o.o. Rogowiec	PGE GiEK S.A.	51.00%	51.00%
25.	Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. Zgierz	PGE GiEK S.A.	50.98%	50.98%
	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 Energia Odnawialna S.A.	100.00%	100.00%
28.	Elektrownia Wiatrowa Baltica-2 sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
29.	Elektrownia Wiatrowa Baltica-3 sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
	PGE Energia Natury PEW sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	-	100.00%
30.	PGE Klaster sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
	SEGMENT: DISTRIBUTION			
31.	PGE Dystrybucja S.A. Lublin	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
	SEGMENT: OTHER ACTIVITY			
32.	PGE EJ 1 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	70.00%	70.00%
33.	PGE Systemy S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
34.	PGE Sweden AB (publ) Stockholm	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
35.	Investment III B.V. Amsterdam	PGE Energia Ciepła 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 Inwest 5 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
41.	PGE Ventures sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
42.	PGE Inwest 8 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
43.	PGE Inwest 9 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
44.	PGE Inwest 10 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
45.	PGE Inwest 11 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
46.	PGE Inwest 12 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
47.	PGE Inwest 13 S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
48.	PGE Inwest 14 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
49.	PGE Inwest 16 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
50.	PGE Inwest 17 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
51.	PGE Inwest 18 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
52.	PGE Inwest 19 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
53.	Towarzystwo Funduszy Inwestycyjnych Energia S.A. (formerly PGE Towarzystwo Funduszy Inwestycyjnych S.A.) Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%

6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

54.	BIO-ENERGIA sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
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.	PGE Ekoserwis sp. z o.o. Wrocław	PGE Energia Ciepła S.A.	84.15%	84.15%
58.	ZOWER sp. z o.o. * Czerwionka-Leszczyny	PGE Energia Ciepła S.A.	100.00%	100.00%
59.	Przedsiębiorstwo Usługowo - Handlowe TOREC sp. z o.o. * Toruń	PGE Toruń S.A.	50.04%	50.04%
60.	Zakłady Pomiarowo-Badawcze Energetyki Energopomiar sp. z o.o. * Gliwice	PGE Polska Grupa Energetyczna S.A. PGE Górnictwo i Energetyka Konwencjonalna S.A. PGE Energia Ciepła S.A.	22.78% 22.14% 7.38%	22.78% 22.14% 7.38%

* During the present period, three subsidiaries were included in consolidation that previously had not been consolidated due to immateriality:

- ZOWER sp. z o. o.
- Przedsiębiorstwo Usługowo - Handlowe TOREC sp. z o.o.
- Zakłady Pomiarowo-Badawcze Energetyki Energopomiar sp. z o.o.

The table above includes the following changes in the structure of PGE Group companies subject to full consolidation which took place during the period ended June 30, 2018:

- On February 26, 2018, a resolution was adopted to merge Przedsiębiorstwo Usługowo-Produkcyjne ELTUR-SERWIS Sp. z o.o. (the acquiring company) with Przedsiębiorstwo Usługowo-Produkcyjne „TOP SERWIS" sp. z o.o. (the acquired company). The merger was registered at the National Court Register on April 12, 2018.
- On March 27, 2018, a resolution was adopted to merge PGE Energia Odnawialna S.A. (the acquiring company) and PGE Energia Natury PEW sp. z o.o. (the acquired company). The merger was registered at the National Court Register on May 2, 2018.
  The aforementioned mergers did not have any impact on these financial statements.
- On March 7, 2018 and May 7, 2018, PGE S.A. purchased respectively 3,285 and 2,970 shares of PGE Energia Ciepła S.A. in a mandatory squeeze out procedure pursuant to art. 418^1 of the Polish Commercial Companies Code. On May 18, 2018, PGE S.A. purchased 336,473 shares of PGE Energia Ciepła S.A. in a mandatory squeeze out procedure pursuant to art. 418 of the Polish Commercial Companies Code. As a result of these transactions, PGE S.A. currently holds a 100% interest in PGE Energia Ciepła S.A. The price paid for the shares was PLN 13 million.
- As a result of a subscription to sell 2,383,999 ordinary bearer shares of Zespół Elektrociepłowni Wrocławskich KOGENERACJA Spółka Akcyjna ("KOGENERACJA"), announced on February 1, 2018, PGE Energia Ciepła S.A. on March 14, 2018 purchased 1,202,172 shares in the Company, entitling to 1,202,172 votes at KOGENERACJA's general meeting and constituting (after rounding to the nearest one-hundredth of percent) 8.07% of KOGENERACJA's total shares and general meeting votes. The price paid for the shares was PLN 98 million. As of the date of these financial statements were prepared, PGE Group held 58.07% of the total number of votes at KOGENERACJA's general meeting.

As a result of the purchase of shares in PGE Energia Ciepła S.A. and KOGENERACJA, equity attributable to PGE Group increased by PLN 34 million, while equity attributable to non-controlling interests decreased by PLN 142 million.

Furthermore, on June 20, 2018 the management boards of PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE Energia Ciepła S.A. agreed and signed a "Demerger plan for PGE Górnictwo i Energetyka Konwencjonalna S.A.," pursuant to which the following branches of PGE Górnictwo i Energetyka Konwencjonalna will be carved out from PGE Górnictwo i Energetyka Konwencjonalna S.A. and into PGE Energia Ciepła S.A.:

- Elektrociepłownia Kielce,
- Elektrociepłownia Gorzów,
- Elektrociepłownia Rzeszów,
- Elektrociepłownia Lublin Wrotków,
- Elektrociepłownia Zgierz,
- Zespół Elektrociepłowni Bydgoszcz.

The demerger process is expected to be accomplished at the turn of 2018 and 2019.

1.4 Accounting for new acquisitions

Accounting for acquisition of EDF companies in Poland

The transaction between PGE Polska Grupa Energetyczna S.A. and EDF International SAS and EDF Investment II B.V. concerning the sale of EDF's assets in Poland pursuant to a Conditional Share Sale Agreement of May 19, 2017, was finalised on November 13, 2017. Initial recognition of the acquisition of EDF's assets was done for the purposes of the consolidated financial statements for 2017. In the present period, a process consisting of the valuation of tangible and intangible assets of the acquired entities was completed, so that the final accounting for the assets and liabilities of the acquired entities is included in these financial statements.

The following table presents a summary of the recognised assets and liabilities as at the acquisition date.

	Values as at November 13, 2017		
	Initial recognition	Adjustments	Final recognition
Property, plant and equipment and intangible assets	4,710	745	5,455
Other property, plant and equipment	951	85	866
Inventories	398	(11)	409
Cash and cash equivalents	186	-	186
Other current assets	1,166	1	1,165
Total assets	**7,411**	**670**	**8,081**
Loans and borrowings	2,839	-	2,839
Provisions	478	-	478
Other liabilities	1,759	(48)	1,807
Total liabilities	**5,076**	**(48)**	**5,124**
Net assets of acquired entities	**2,335**	**622**	**2,957**

The following table presents preliminary accounting for the acquisition and goodwill arising on consolidation.

	Values as at November 13, 2017		
	Initial recognition	Adjustments	Final recognition
Net assets of acquired entities	2,335	622	2,957
Net assets attributable to non-controlling interests	(1,067)	(87)	(1,154)
Exclusion of liabilities (subrogation)	2,285	-	2,285
PGE Group's stake in net assets of acquired entities	**3,553**	**535**	**4,088**
Cash transferred	1,992	-	1,992
Subrogation of liabilities	2,285	-	2,285
Total acquisition price	**4,277**	**-**	**4,277**
Goodwill arising on consolidation	**724**	**535**	**189**

The goodwill recognised by PGE Group arises from the fact that in accordance with PGE Group's assumptions discounted cash flows from operating activities that will be generated by the acquired assets will be higher than the net asset value of the acquired companies, established in accordance with IFRS 3. Goodwill was allocated jointly to all of the acquired district heating assets that constitute a part of the Conventional Generation segment.

The goodwill recognised does not constitute goodwill for tax purposes.

Due to fair value measurement of assets and final recognition of the acquisition, the net income for the period from November 14 to December 31, 2017 was adjusted by PLN (62)million (of which PLN (60) million was attributable to shareholders of the parent and PLN (2) million to non-controlling interests). The changed data for the comparative period is presented in note 4 to these financial statements.

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:

	June 30, 2018	December 31, 2017	June 30, 2017
USD	3.7440	3.4813	3.7062
EUR	4.3616	4.1709	4.2265

PGE Group Condensed consolidated interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

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, 2018:

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
IFRS 16 *Leases*	The standard eliminates the classification of leases as either operating or finance lease in the lessee's accounts. All contracts which meet the criteria of lease will be recognized as finance lease.	January 1, 2019
Amendments to IFRS 9	These changes apply to the right of early repayment with negative fees.	January 1, 2019
IFRIC 23 *Uncertainty over income tax treatments*	This interpretation applies to establishing taxable revenue, tax base, unsettled tax losses, unused tax rebates and tax rates.	January 1, 2019
Amendments to IAS 28	This amendment concerns measurement of non-current investments in associates	January 1, 2019
Annual improvements to IFRS (cycle 2015-2017)	A collection of amendments dealing with: IFRS 3 - measurement of existing stake in a joint operation; IFRS 11 - no measurement of existing stake in a joint operation; IFRS 12 - income tax consequences of dividends; IAS 23 - financing costs when an asset is ready for its intended use.	January 1, 2019
Amendments to IAS 19	Amendments concern defined-benefit plans.	January 1, 2019
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

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.

Impact of new regulations on PGE Group's consolidated financial statements

MSSF 16 Leasing

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. Adoption of the standard will have the following effect:

- in the statement of financial position: increase of non-financial non-current assets and financial liabilities,
- in the statement of comprehensive income: decrease of operating expenses (other than depreciation/amortisation), increase of depreciation/amortisation and finance costs.
- increase in net debt and net debt to EBITDA due to proportionally higher increase in financial liabilities than decrease in operating expenses other than depreciation/amortization

PGE is currently analysing the potential impact of IFRS 16 on its future financial statements. The analysis focuses particularly on the issue of potential impact of the standard on the receipt of free perpetual usufruct rights to land, easement contracts and road lane occupation contracts. Analysis of the standard has not been finished yet.

Other standards

The other standards and amendments should not have a major impact on PGE Group's future financial statements.

2.4 Professional judgment of management and estimates

In the process of applying accounting rules with regards to the below issues, management has made judgements and estimates that affect 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 present period, the Group conducted impairment tests. 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.
- In the present period, PGE Group finished accounting for the acquisition of EDF's assets in Poland. Accounting for the acquisition required the fair values of the acquired assets and liabilities to be established. Especially, the fair value of the acquired tangible and intangible assets required the adoption of a range of assumptions such as technical and functional state or the replacement value. In performing these measurements, the Group was assisted by independent experts. The change in the value of assets and liabilities had an impact on the final calculation of goodwill.
- Provisions are liabilities of uncertain amount or timing. During the reporting period, the Group changed estimates regarding the validity or amounts of some provisions. Changes in estimates are presented in note 18 of these consolidated financial statements.
- Uncertainties concerning tax treatment are described in note 22 to the consolidated financial statements.

No significant changes in the value of estimates having impact on these consolidated financial statements took place.

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

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

In previous reporting periods, PGE Group recognized substantial impairment allowances of property, plant and equipment of Conventional Generation segment and the Renewables segment. Key assumptions and results of impairment test conducted in 2017 are described in PGE Group's consolidated financial statements for 2017.

In the current reporting period, the Group analysed impairment indications and identified factors that could result in changes to the asset values in the above segments.

External factors

- Market capitalisation of PGE Polska Grupa Energetyczna S.A. remaining below net asset book value;
- Publication of draft Act of March 16, 2018, on the promotion of high-cogeneration electricity, which sees support for all existing cogeneration installations. A reduction of support for gas-fired generating units after 2018 vs assumptions adopted in 2017 was introduced alongside inclusion of hard coal-fired generating units in the support system;
- Positive regulatory changes concerning wind farm maintenance costs in the Renewables segment due to legislative changes in respect of the act of May 20, 2016, on investments in wind farms ("Act") resulting from the entry into force of the act of June 7, 2018, on amendment of the act on renewables and certain other acts ("Renewables Act"). In particular, the Renewables Act introduces a change in the definition of wind farm by re-introducing the wording contained in the act of July 7, 1994 - Construction Law. In accordance with the justification in the Renewables Act, this should clear up interpretation doubts with regard to property tax bases for wind farms, which arose after January 1, 2017. Given the change in the Act in the above scope, wind farms will not be considered entirely as structures, which will translate into lower property tax expenses. Tax base changes are in effect retrospectively, from January 1, 2018.

Following analysis of these factors, the Group conducted asset impairment tests as at May 31, 2018, recognised as at June 30, 2018, for the Conventional Generation segment, in which goodwill is assigned, and for the Renewables segment.

Macroeconomic assumptions

The key price assumptions, i.e. the price of electricity, CO_2 emission allowances, hard coal, gas, and assumptions related to production at most of the Group's installations were derived from a study prepared by an independent expert.

Electricity price forecasts assume growth in market prices by several percent during the forecast period, after a surge in 2020 in relation to 2019 prices.

Price forecasts for CO_2 emission allowances see dynamic market price growth in successive years covered by the forecast.

Hard coal price forecasts see growth in market prices by several percent annually during the period to 2025 and 2-3% growth annually after 2025.

Gas price forecasts see average annual growth in the period to 2022 at approx. 7% and growth of approx. 4% annually in the years thereafter.

The forecast for prices of energy certificates of origin was drafted by PGE S.A.'s team of internal experts, based on a demand-supply balance. It was assumed that auctions will be the dominant support mechanism. The forecast for prices of renewable energy certificates of origin assume growth until 2021. In later years, prices will be in decline until 2025 (except for 2023) and will remain steady thereafter. For production covered by contracts the prices and settlement terms used in these contracts during their validity were adopted. As compared to the assumptions adopted in 2017, price forecasts for certificates of origin for 2018-2019 were updated so as to adapt them to current market conditions.

The forecast for revenue from the capacity market from 2021 was prepared by PGE S.A.'s internal team based on expert assumptions, including results of the British capacity market, among other things. These assumptions remain largely unchanged as compared to the tests carried out in 2017.

Revenue from regulatory system services was based on existing bilateral agreements with PSE S.A.

Unit availability was estimated based on repair plans, taking into account statistical failure rates.

3.1 Description of assumptions for the Conventional Generation segment

Impairment tests were conducted on May 31, 2018, on cash generating unit("CGU") basis by establishing their recoverable amounts. Determining fair value for very large groups of assets for which there is no active market and there are few comparable transactions is very difficult in practice. In the case of power plants and mines for which a value on the local market should be determined there are no observable fair values. Given the above, the recoverable value of the analysed assets was estimated on the basis of discounted net cash flow method which relied on financial projections prepared for the period from June 2018 to 2030. For generating units with expected periods of economic useful lives in excess of 2030, a residual value was determined for the remaining service time. According to the Group, financial projections longer than five years are justified due to significant and long-term effects of projected changes in the regulatory environment. Using longer projections, recoverable amounts may be determined more reliably.

Detailed segment assumptions

Presented below are the key assumptions having impact on estimates of the useful value of CGU:

- classification as one CGU of the following:
    - Branch KWB Bełchatów and Branch Elektrownia Bełchatów ("Bełchatów complex").
    - Branch KWB Turów and Branch Elektrownia Turów ("Turów complex").

given the technological and economic links between these branches,

- classification as three separate CGUs of Elektrownia Dolna Odra, Elektrownia Szczecin and Elektrownia Pomorzany, which are the part of Branch Zespół Elektrowni Dolna Odra
- specific units of PGE EC S.A. being considered as separate CGUs (Rybnik branch - Elektrownia Rybnik), branch 1 in Kraków (Elektrownia Kraków), branch Wybrzeże (Elektrociepłownia Gdańsk, Elektrociepłownia Gdynia),
- three production facilities owned by KOGENERACJA S.A. being considered as one CGU (Elektrociepłownia Wrocław, Elektrociepłownia Czechnica, Elektrociepłownia Zawidawie).
- receipt of a quantity of free-of-charge CO_2 emission allowances for the purposes of electricity generation for 2018-2020 for specific cash generating units in accordance with Poland's application for a transition allocation of free emission allowances for the modernisation of electricity generation activities pursuant to art. 10c sec. 5 of directive 2003/87/EC of the European Parliament and the Council (derogation application), which meets the requirements of Commission Decision of July 13, 2012. As regards heat generation, free-of-charge allowances were taken into account in accordance with the list of quantities of CO_2 emission allowances allocated for heat for 2013-2020 published by the Environment Ministry,
- take into account the allocation of free CO_2 emission allowances in the period 2021-2030 only for system district heating and high-efficiency cogeneration, based on the 2020 level and assuming annual reduction by 2.2%,
- assumption for conventional plants that during the residual period there will be support from the capacity market or equivalent,
- inclusion of support system for high-efficiency cogeneration for a maximum period of 15 years (however no later than until 2035 for existing units and 2043 for new ones). It is assumed that once support for cogeneration ends, these units will participate in capacity auctions on the capacity market. During the residual period there will be support from the capacity market or equivalent,
- take into account work cost optimisation resulting from current work plans, among other things,
- maintain production capacities as a result of replacement-type investments,
- take into account development investments for which construction work has begun,
- adopt WACC for the projection period at 7.29%.

Certain significant regulatory assumptions adopted for impairment tests are outside of PGE Group's control and their realisation is not guaranteed. This especially applies to issues concerning the final shape of the Polish capacity market, support for cogeneration after 2018 and the allocation of free CO_2 emission allowances after 2020. In these areas, the Group uses existing assumptions as to the development of regulations that carry risk. Changes in these regulations in the future versus PGE's existing expectations might have an impact on the recoverable amounts of generating assets in the Conventional Generation segment.

Nonetheless, according to the Group, the adoption of such assumptions is justified given the expected changes in the regulatory framework. The assumptions that are reflected in cash flows constitute a real scenario in terms of method and period, according to the Group. However, it cannot be ruled out that the final shape and period for these solutions will be different from the assumptions.

Impairment tests in the Conventional Generation segment were carried out for two CGU groups: generating assets owned by PGE Górnictwo i Energetyka Konwencjonalna S.A. and separately for PGE Energia Ciepła S.A. and its subsidiaries. As explained in note 1.4 to these financial statements, as a result of the acquisition of EDF's assets, goodwill arose and was subsequently allocated to the acquired heating assets.

As at May 31, 2018, the value of tested property, plant and equipment and intangible assets at PGE GiEK S.A. amounted to PLN 4,223 million. As a result of the asset impairment test, the Group estimated the useful value of the assets being test at PLN 36,626 million, in connection with which it concluded that there is no need to recognise or reverse impairment allowances on these assets.

As at May 31, 2018, the value of tested property, plant and equipment and intangible assets at PGE Energia Ciepła S.A. and its subsidiaries, concerning heating assets belonging to the Conventional Generation segment, amounted to PLN 4,686 million (including PLN 189 million in goodwill). As a result of the asset impairment test, the Group estimated the useful value of the assets being test at PLN 5,289 million, in connection with which it concluded that there is no need to recognise impairment allowances on these assets.

3.2 Description of assumptions for the Renewables segment

Impairment tests were conducted as at May 31, 2018, on cash generating unit basis by establishing their recoverable amounts. The recoverable value of the analysed assets was estimated on the basis of discounted net cash flow method which relied on the financial projections prepared for the assumed useful life of the particular CGU in the case of wind farms or for 2018-2037 in the case of other CGUs. According to the Group, financial projects longer than five years are justified because the property, plant and equipment used by the tested entities have significant longer useful lives and also due to significant and long-term effects of projected changes in the regulatory environment.

Detailed segment assumptions

Presented below are the key assumptions having impact on estimates of the useful value of CGU:

- classification as a separate CGU of the following:
  - Pumped-storage power plants
  - Other hydropower plants
  - Wind farms
- production of electricity and energy origin certificates was estimated based on historic data and expert estimates prepared for investment purposes, adjusted by the availability of units;
- recognition of cash flows concerning contractual penalties and damages awarded in disputes with Enea S.A. and Energa Obrót S.A. in amounts resulting from the contracts or calculated as the difference between the contract prices of energy origin certificates and market prices;
- decline in property tax expenses in 2018; In accordance with the assumptions adopted for the impairment tests as at December 31, 2017, the lower property tax base was adopted starting from 2019.
- maintain production capacities as a result of replacement-type investments,
- adopt WACC for the projection period at 7.29%.

As at May 31, 2018, the value of tested property, plant and equipment and intangible assets at PGE Energetyka Odnawialna amounted to PLN 2,289 million. As a result of the asset impairment test, the Group estimated the useful value of the assets being test at PLN 5,238 million, in connection with which it concluded that there is no need to recognise or reverse impairment allowances on these assets.

4. Changes in accounting principles and data presentation

New standards and interpretations which became effective on January 1, 2018

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 2017, except as stated below. The following amendments to IFRSs are applied in these financial statements in line with their effective dates. Amendments relating to IFRS 9 and IFRS 15 as well as a change in method of outgoing for CO_2 emission allowances 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 2 - Classification and measurement of share-based payment transactions
- Amendments to IFRS 4 - Application of IFRS 9 Financial instruments jointly with IFRS 4 Insurance contracts
- Amendments resulting from IFRS annual improvement cycle 2014-2016 - amendments to IFRS 1, IAS 28;
- Amendments to IAS 40 - Classification of properties: i.e. transfer from investment property to other groups of assets.
- Amendments to IFRIC 22 - Guidelines specifying determination of the date of a transaction and related spot foreign exchange rate to be used in case foreign currency payments are made.

IFRS 9 Financial instruments

IFRS 9 replaced IAS MSR 39 *Financial instruments: recognition and measurement* and is effective for annual periods beginning on or after January 1, 2018. IFRS addressed three areas related to financial instruments: classification and measurement, impairment and hedge accounting.

Financial assets are subject to classification in the following categories of financial instruments:

- measured at amortised cost;
- measured at fair value through other comprehensive income ("FVTOCI");
- measured at fair value through profit or loss ("FVTPL").

The classification of financial assets is based on the business model and characteristics of cash flows.

A debt instrument is measured at amortised cost if both of the following conditions are met:

- the objective of the entity's business model is to hold the financial asset to collect the contractual cash flows;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test).

A debt instrument is measured at FVTOCI if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test).

All other debt instruments which are not meet above, must be measured at fair value through profit or loss (FVTPL).

All equity investments are measured at fair value. If an equity investment is not held for trading, the Group can make an irrevocable decision to recognise changes at FVTOCI if the instrument is not held for trading. For equity instruments held for trading, changes in fair value are recognised in profit or loss.

All standard transactions of purchase or sell of financial assets are recognised at the transaction date, i.e. at the date on which the entity committed to purchase the asset. Standard transactions of purchase or sell of financial assets are transactions which delivery of the asset is explicitly stated by law or customs in a given market.

An impairment model is based on expected credit losses and its scope covers the following:

- Financial assets measured at amortised cost;
- Financial assets measured at FVTOCI;
- Loan commitments when there is a present obligation of starting point;
- Guarantee contracts to which IFRS 9 is applied;
- Lease receivables within the scope of IAS 17;
- Contract assets within the scope of IFRS 15.

The Group applies requirements concerning impairment in order to recognise and measure impairment on expected credit losses on these financial assets that are measured at fair value through other comprehensive income. A loss allowances is recognised in other comprehensive income and does not reduce the balance sheet value of the financial asset in the statement of financial position.

With the exception of purchased or originated credit impaired financial assets, expected credit losses are required to be measured through a loss allowance at an amount equal to:

- the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or
- full expected credit losses over the life of the financial instrument. These losses should be recognised when the relevant financial instrument expires.

The impairment of a financial asset if the credit risk of that financial instrument has increased significantly since initial recognition, regardless of whether it was measured separately or collectively, should take into account all rational and documentable information, including forward-looking data.

The Group applies the following rules for estimating and recognising the loss allowances on financial assets:

- for trade receivables from significant clients that are subject to a credit risk assessment procedure, the Group estimates expected credit losses based on a model used to evaluate this risk on the basis of ratings assigned to counterparties; ratings have a likelihood of default assigned, which is adjusted to reflect impact of macroeconomic factors;
- for receivables from mass or clients not covered by the credit risk assessment procedure, the Group estimates expected credit losses based on an analysis of the likelihood of credit losses in each ageing structure;
- for deposits in banks, the Group estimates expected credit losses based on a model used to evaluate this risk on the basis of ratings assigned to banks by external institutions; ratings have a likelihood of default assigned, which is adjusted to reflect impact of macroeconomic factors;

The Group classified financial liabilities in one of the following categories:

- measured at amortised cost;
- measured at fair value through profit or loss.

After analysis, the Group decided not to implement the changes resulting from IFRS 9 regarding hedge accounting from January 1, 2018.

The Group applied IFRS 9 from January 1, 2018, without restating its comparative data.

The Group analysed the business model as at the first date of application of IFRS 9, i.e. January 1, 2018, and subsequently applied retrospectively, regardless of what business model was used in previous reporting periods on these assets for which recognition had not ceased prior to January 1, 2018. The Group analysed compliance with SPPI criteria based on facts and circumstances at the moment of the initial recognition of financial assets.

If PGE Group had applied IFRS 9 in its financial statements for 2017, impairment losses on financial assets as at December 31, 2017, would have been approx. PLN 4 million higher. Equity as at December 31, 2017 would have decreased by about PLN 4 million gross (no impact on deferred tax).

Due to the insignificant impact of the new standard, its effects were not recognised in retained earnings as at of January 1, 2018. Starting from January 1, 2018, PGE Group recognises expected credit losses in accordance with IFRS 9 requirements.

Changes in the classification of financial instruments resulted in the change of name of several items from the statement of financial position no amounts were reclassified between items.

IFRS 15 Revenue from contracts with customers

IFRS 15 repeals IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and applies to all contracts with customers, with the exception of those that fall under the scope of other standards. The new standard establishes the Five Step Model for recognising revenue from contracts with customers. According to IFRS 15, revenue is recognised in the amount that - according to the entity's expectations - is due in exchange for delivery of the goods or services to the customer.

Revenue is recognised so as to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

PGE Group Condensed consolidated interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

The Group recognises revenue from a contract with a client only if all of the following criteria are met:

- the parties have executed a contract (in written or verbal form or in accordance with customary trade practices) and are obligated to perform their duties;
- the Group is able to identify the rights of each of the parties with regard to the goods or services that are to be transferred;
- the Group is able to identify terms of payment for the goods or services that are to be transferred;
- the contract has commercial substances;
- it is probable that the consideration to which the entity is entitled to in exchange for the goods or services will be collected.

Upon contract execution, the Group analyses the goods or services covered by the contract with the client and identifies as a performance obligation all commitments to provide the client with:

- goods or services (or a bundle of goods or services) that are distinct; or
- the series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

The Group recognises revenue when the performance obligation concerning the goods and services is met (or is in the process of being met). The transfer of the asset occurs when the client obtains control over the asset, i.e. gains the ability to directly manage the asset and obtain largely all other benefits from it.

The Group transfers control over goods or services over time and thus satisfies the performance obligation and recognises revenue over time if one of the following conditions is met:

- the customer simultaneously receives and derives benefits from the Group's consideration as the Group provides the consideration;
- as a result of the Group's consideration a new or improved asset is created (e.g. production in progress) and control over this asset - as it is created or improved - is exercised by the customer; or
- as a result of the Group's consideration no new asset is created for alternative use by the Group and the Group has an enforceable title to pay for the consideration provided thus far.

For each performance obligation over time, the Group recognises revenue over time, measuring the degree of performance of this obligation. The aim of this measurement is to establish progress in performing this obligation to transfer control over goods or services promised to the client (i.e. degree of obligation performance).

The Group applied IFRS 15 from the date it enters into force, i.e. January 1, 2018, without restating its comparative data. In connection with this, as at January 1, 2018, the Group recognised PLN 340 million in retained earnings, as a one-off settlement of revenue from connection fees, which prior to entry into force of IFRIC 18 *Transfers of Assets from Customers*, i.e. prior to July 1, 2009, had been recognised as deferred income and were settled in time, whereas under IFRS 15 they should be accounted for on a one-off basis when the connection is made.

The impact of applying IFRS 15 on the Group's consolidated financial statements in the first half of 2018, compared to IAS 11, IAS 18 and the related interpretations, is presented below.

	June 30, 2018 *Published data*	*Connection fees*	*Transition fee and renewables fee*	*Gas distribution and transmission*	**June 30, 2018** *without IFRS 15*
STATEMENT OF PROFIT OR LOSS					
SALES REVENUES	**12,871**	**19**	**307**	**14**	**13,211**
COST OF GOODS SOLD	**(9,854)**	**-**	**(307)**	**(14)**	**(10,175)**
GROSS PROFIT	**1,666**	**19**	**-**	**-**	**1,685**
Income tax	(370)	(4)	-	-	(374)
NET PROFIT FOR THE REPORTING PERIOD	**1,296**	**15**	**-**	**-**	**1,311**
STATEMENT OF FINANCIAL POSITION					
Retained earnings	10,942	(340)	-	-	10,602
Net profit	1,296	15	-	-	1,311
TOTAL EQUITY	**47,945**	**(325)**	-	-	**47,620**
Deferred income tax provision	1,371	(70)	-	-	1,301
Deferred income and governments grants	694	395	-	-	1,089
TOTAL LIABILITIES	**23,097**	**325**	**-**	**-**	**23,422**

The transition fee and renewables fee, which are collected from end users by PGE Dystrybucja S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A., and then passed on to the Transmission System Operator ("TSO"), constitute a sort of fee collected from electricity end users, which is why in accordance with IFRS 15 they should not be treated as revenue. From the beginning of 2018, these fees are recognised on a net basis. The renewables fee for 2018 is zero.

For gas distribution and transmission services, PGE Obrót S.A. serves as intermediary and therefore has no influence over the key parameters of the services - this is governed by existing regulations concerning terms for the distribution of gas fuel. PGE Obrót is not responsible for failure to perform, or incorrect performance, of framework agreements to provide gas fuel distribution and transmission services. It also does not bear the risk of storing inventories prior to this service being provided to the client. It has no influence over the prices of distribution and transmission services. Given the above, in accordance with IFRS 15, revenue and costs related to distribution and transmission services are recognised in net values from the beginning of 2018.

The Group decided not to apply early any other standards, interpretations or amendments that were published but are not yet effective.

Changes in applied accounting principles and data presentation

- Change in outgoing method for CO_2 emission allowances

In previous reporting periods, PGE Group applied the first in, first out method (FIFO) to CO_2 emission allowances. The accounting method for CO_2 emission allowances has a direct impact on the measurement of a provision for shortages of free emission allowances, which is created in an amount that is equal to the best estimate of costs necessary to perform the redemption obligation with respect to CO_2 emission allowances. PGE Group purchases CO_2 emission allowances when sales are contracted, i.e. in a great majority of cases - prior to actual emission. Because CO_2 emissions concerning contracted sales are purchased both in derivative transactions and on-going, the FIFO method did not reflect the commercial substance faithfully how PGE Group secures its demand for allowances. Given the above, PGE Group voluntarily changed rules for CO_2 accounting to the detailed identification method. Because when a transaction to purchase CO_2 emission allowances, the Group allocates a given bath to the given period and this method credibly presents the transaction's economic substance.

If PGE Group did not changed its accounting policy in this scope, the period ended on and as at June 30, 2018 it would result in:

- cost of own sales and value of provisions for shortages of CO_2 emission allowances would be PLN 98 million higher,
- deferred income tax asset would have been higher and tax burden in the statement of comprehensive income would have been lower by PLN 19 million;
- gross profit would have been PLN 98 million lower, while net profit would have been PLN 79 million lower,
- earnings per share would have been lower by PLN 0.05 per share.

Because during previous periods the FIFO method presented the actual disposal of emission allowance, a change in the accounting policy did not have an impact on the financial results presented in previous reporting periods and does not require restatement of comparative data.

- Change in presentation of employee benefits concerning accrued leave and bonuses

In the present period, the Group decided to change the way in which it presents employee benefits concerning accrued leave, bonuses and similar from the item "provisions" to the item "other non-financial liabilities." According to the Group, this method of presentation better meets the requirements of IFRS 19 *Employee Benefits*.

PGE Group restated its comparative data presented in the statement of financial position. The restatement is presented in the table below. Information presented in notes to these financial statements was also restated accordingly.

- Final accounting for the acquisition of EDF's assets in Poland

As described in note 1.4 to these financial statements, during the analysed period PGE Group conducted a final accounting for the acquisition of the assets and liabilities of EDF's Polish companies. Fair value measurement of property, plant and equipment, intangible assets and investment properties by external appraisers resulted in changes in values from the preliminary accounting for the acquisition as of November 13, 2017 and results for the period from November 14 to December 31, 2017.

Given the above reasons, comparative data for previous periods was restated as shown below.

6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	As at December 31, 2017 *published data*	Final accounting of EDF acquisition	Change of presentation	As at December 31, 2017 *restated data*
NON-CURRENT ASSETS, including:				
Property, plant and equipment	58,620	390	-	59,010
Investment property	47	3	-	50
Intangible assets	1,281	(249)	-	1,032
Deferred income tax assets	651	(80)	-	571
TOTAL NON-CURRENT ASSETS	**62,586**	**64**	**-**	**62,650**
CURRENT ASSETS, including:				
Inventories	1,879	11	-	1,890
TOTAL CURRENT ASSETS	**9,508**	**11**	**-**	**9,519**
ASSETS CLASSIFIED AS HELD FOR SALE	**12**	**2**	**-**	**14**
TOTAL ASSETS	**72,106**	**77**	**-**	**72,183**
EQUITY, including				
Retained earnings	10,616	(60)	-	10,556
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	**45,188**	**(60)**	**-**	**45,128**
Equity attributable to non-controlling interests	1,165	85	-	1,250
TOTAL EQUITY	**46,353**	**25**	**-**	**46,378**
NON-CURRENT LIABILITIES, including:				
Non-current provisions	5,666	-	(15)	5,651
Deferred income tax provision	1,250	52	-	1,302
TOTAL NON-CURRENT LIABILITIES	**16,773**	**52**	**(15)**	**16,810**
CURRENT LIABILITIES, including:				
Current provisions	2,404	-	(413)	1,991
Other non-financial liabilities	1,305	-	428	1,733
TOTAL CURRENT LIABILITIES	**8,980**	**-**	**15**	**8,995**
TOTAL LIABILITIES	**25,753**	52	**-**	**25,805**
TOTAL EQUITY AND LIABILITIES	**72,106**	**77**	**-**	**72,183**

CONSOLIDATED STATEMENT OF CASH FLOWS	As at June 30, 2017 *published data*	Change in presentation	As at June 30, 2017 *restated data*
CASH FLOWS FROM OPERATING ACTIVITIES			
Adjustments for:			
Change in liabilities, excluding loans and borrowings	(465)	141	(324)
Change in provisions	(367)	(141)	(508)
NET CASH FROM OPERATING ACTIVITIES	**3,282**	**-**	**3,282**

PGE Group Condensed consolidated interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

5. Fair value hierarchy

The principles for valuation of inventories, derivatives, shares and instruments not quoted on active markets, for which fair value may not be determined reliably, are the same as presented in the financial statements for the year ended December 31, 2017.

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

	As at June 30, 2018		As at December 31, 2017	
FAIR VALUE HIERARCHY	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Currency forwards	-	75	-	2
Commodity forwards	-	-	-	14
Commodity SWAP	-	72	-	64
Contracts for purchase/sale of coal	-	5	-	9
Measurement of CCIRS transactions	-	177	-	44
Measurement of IRS transactions	-	67	-	98
Options	-	15	-	24
Fund participation units	-	51	-	50
Financial assets	**-**	**462**	**-**	**305**
Currency forwards	-	6	-	82
Commodity SWAP	-	5	-	7
Contracts for purchase/sale of coal	-	34	-	20
Measurement of IRS transactions	-	8	-	15
Financial liabilities	**-**	**53**	**-**	**124**

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

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

EXPLANATORY NOTES TO OPERATING SEGMENTS

6. Information on operating segments

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

Relevant assets are assigned to the held concessions on lignite mining and generation and distribution of electricity and heat, which was presented in detailed information on operating segments. For 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 and heat and power plants as well as ancillary services.
- Renewables comprise generation of electricity in pumped-storage power plants and from renewable sources.
- Supply includes sales and purchases of electricity and gas on the wholesale market, trading in emissions certificates and energy origin rights, sales and purchases of fuel, as well as sales of electricity and rendering services to end users,
- Distribution comprises management over local distribution networks and transmission of electricity.
- Other operations comprise services rendered by the subsidiaries for the Group, e.g. fund raising, IT, telecommunication, accounting and HR, and transport services. Additionally, the other operations segment comprises the activities of a subsidiary whose main business is preparation and implementation of a nuclear power plant construction project, investments in startups.

Organisation and management over PGE Group is based on segment reporting separated by nature of the products and services provided. Each segment represents a strategic business unit, offering different products and serving different markets. Assignment of particular entities to operating segments is described in note 1.3 of these consolidated financial statements. As a rule, 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 reached.

In November 2017, PGE Group purchased EDF's assets in Poland. Assignment of particular assets to operating segments is described in note 1.3 of these consolidated financial statements. Segment results for the first half of 2017 do not include the assets acquired from EDF. The results of the acquired assets are primarily visible in the Conventional Generation segment, as shown in chapter 4 of the Management Board report on the Group's activities.

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 carriers 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 end users. 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.

PGE Group Condensed consolidated interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

6.1 Information on business segments

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

	Conventional Generation	Renewables	Supply	Distribution	Other activity	Adjustments	Total
STATEMENT OF PROFIT OR LOSS							
Sales to external customers	4,407	251	5,234	2,869	103	7	12,871
Inter-segment sales	3,874	151	1,684	51	196	(5,956)	-
TOTAL SEGMENT REVENUE	**8,281**	**402**	**6,918**	**2,920**	**299**	**(5,949)**	**12,871**
Cost of goods sold	(6,857)	(289)	(5,962)	(2,126)	(256)	5,636	**(9,854)**
EBIT *)	**743**	**95**	**290**	**688**	**(8)**	**23**	**1,831**
Net finance income / (costs)							(208)
Share of profit/(loss) of entities accounted for using the equity method							43
GROSS PROFIT							**1,666**
Income tax							(370)
NET PROFIT FOR THE REPORTING PERIOD							**1,296**
Depreciation, amortisation, disposal and impairment recognised in profit or loss	1,096	127	12	582	45	(18)	1,844
EBITDA **)	**1,839**	**222**	**302**	**1,270**	**37**	**5**	**3,675**
ASSETS AND LIABILITIES							
Assets excluding trade receivables	42,970	3,158	1,624	17,146	633	(911)	64,620
Trade receivables	1,114	77	2,927	840	105	(2,345)	2,718
Shares accounted for using the equity method							720
Unallocated assets							2,984
TOTAL ASSETS							**71,042**
Segment liabilities excluding trade payables	8,026	351	1,296	1,715	130	(485)	11,033
Trade payables	1,038	24	2,094	225	31	(2,257)	1,155
Unallocated liabilities							10,909
TOTAL LIABILITIES							**23,097**
OTHER INFORMATION ON BUSINESS SEGMENT							
Capital expenditures	1,580	48	5	596	71	(56)	2,244
Impairment losses on financial and non-financial assets	142	-	18	10	1	-	171
Other non-monetary expenses ***)	1,012	12	409	87	19	-	1,539

*) EBIT = operating profit (loss)

**) EBITDA = EBIT + depreciation, amortisation, disposal and impairment losses (PPE, IA, 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 rights, provision for jubilee awards, employee tariff and non-financial liabilities concerning employee benefits that are recognised in profit or loss and other comprehensive income.

PGE Group Condensed consolidated interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

Information on business segments for the period ended June 30, 2017

	Conventional Generation	Renewables	Supply	Distribution	Other activity	Adjustments	Total
STATEMENT OF PROFIT OR LOSS							
Sales to external customers	2,201	306	6,889	1,093	113	18	10,620
Inter-segment sales	3,449	63	741	2,082	138	(6,473)	-
TOTAL SEGMENT REVENUE	**5,650**	**369**	**7,630**	**3,175**	**251**	**(6,455)**	**10,620**
Cost of goods sold	(4,466)	(294)	(6,599)	(2,396)	(242)	6,125	**(7,872)**
EBIT *)	**855**	**37**	**409**	**642**	**(31)**	**20**	**1,932**
Net finance income / (costs)							(122)
Share of profit/(loss) of entities accounted for using the equity method							1
GROSS PROFIT							**1,811**
Income tax							(316)
NET PROFIT FOR THE REPORTING PERIOD							**1,495**
Depreciation, amortisation, disposal and impairment recognised in profit or loss	757	132	13	580	51	(20)	1,513
EBITDA **)	**1,612**	**169**	**422**	**1,222**	**20**	**-**	**3,445**
ASSETS AND LIABILITIES							
Assets excluding trade receivables	35,903	3,459	4,021	16,623	540	(3,612)	56,934
Trade receivables	750	88	2,409	726	69	(1,713)	2,329
Shares accounted for using the equity method							615
Unallocated assets							7,251
TOTAL ASSETS							**67,129**
Segment liabilities excluding trade payables	9,680	341	1,137	2,583	82	(2,685)	11,138
Trade payables	471	27	1,612	225	22	(1,645)	712
Unallocated liabilities							11,077
TOTAL LIABILITIES							**22,927**
OTHER INFORMATION ON BUSINESS SEGMENT							
Capital expenditures	1,906	28	5	629	53	(26)	2,595
Impairment losses on financial and non-financial assets	121	1	5	5	-	-	132
Other non-monetary expenses ***)	875	14	412	51	14	-	1,366

*) EBIT = operating profit (loss)

**) EBITDA = EBIT + depreciation, amortisation, disposal and impairment losses (PPE, IA, 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 rights, provision for jubilee awards, employee tariff and non-financial liabilities concerning employee benefits that are recognised in profit or loss and other comprehensive income.

PGE Group Condensed consolidated interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Q1 (unaudited)	Q2 (unaudited)	Period ended June 30, 2018
Revenue from sales	7,137	5,734	**12,871**
Cost of goods sold	(5,229)	(4,625)	**(9,854)**
GROSS PROFIT ON SALES	**1,908**	**1,109**	**3,017**
Net other operating income / (expenses)	26	10	**36**
EBIT	**1,315**	**516**	**1,831**
Net financial income / (expenses)	(101)	(107)	**(208)**
Share of profit/(loss) of entities accounted for using the equity method	11	32	**43**
GROSS PROFIT	**1,225**	**441**	**1,666**
Income tax	(239)	(131)	**(370)**
NET PROFIT FOR THE REPORTING PERIOD	**986**	**310**	**1,296**

	Q1 (unaudited)	Q2 (unaudited)	Period ended June 30, 2017
Revenue from sales	5,741	4,879	**10,620**
Cost of goods sold	(4,149)	(3,723)	**(7,872)**
GROSS PROFIT ON SALES	**1,592**	**1,156**	**2,748**
Net other operating income / (expenses)	89	40	**129**
EBIT	**1,201**	**731**	**1,932**
Net financial income / (expenses)	(63)	(59)	**(122)**
Share of profit/(loss) of entities accounted for using the equity method	9	(8)	**1**
GROSS PROFIT	**1,147**	**664**	**1,811**
Income tax	(184)	(132)	**(316)**
NET PROFIT FOR THE REPORTING PERIOD	**963**	**532**	**1,495**

7. Revenue and costs

7.1 Revenue from sales

	Q1 (unaudited)	Q2 (unaudited)	Period ended June 30, 2018
SALES REVENUES			
Revenue from sale, without excluding taxes and fees	*7,344*	*6,027*	*13,371*
Taxes and fees collected on behalf of third parties	*(282)*	*(264)*	*(546)*
Revenue from sale of goods and products, including:	**7,062**	**5,763**	**12,825**
Sale of electricity	3,802	*3,565*	7,367
Sale of distribution services	1,443	*1,331*	2,774
Sale of heat	852	*292*	1,144
Sale of energy origin rights	206	*66*	272
Regulatory system services	153	143	296
Sale of gas	242	72	314
Sale of fuel	245	154	399
Other sales of goods and materials	119	140	259
Revenue from sale of services	**61**	**68**	**129**
Revenues from LTC compensations	**14**	**(97)**	**(83)**
TOTAL REVENUE FROM SALES	**7,137**	**5,734**	**12,871**

PGE Group Condensed consolidated interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

	Q1 *(unaudited)*	Q2 *(unaudited)*	Period ended June 30, 2017
SALES REVENUES			
Revenue from sale of goods and products, excluding excise duty	*5,743*	*4,949*	***10,692***
Excise tax	*(125)*	*(116)*	***(241)***
Revenue from sale of goods and products, including:	**5,618**	**4,833**	**10,451**
Sale of electricity	3,221	2,814	**6,035**
Sale of distribution services	1,574	1,453	**3,027**
Sale of heat	285	129	**414**
Sale of energy origin rights	158	87	**245**
Regulatory system services	147	125	**272**
Sale of gas	146	135	**281**
Other sales of goods and materials	87	90	**177**
Revenue from sale of services	**123**	**46**	**169**
TOTAL REVENUE FROM SALES	**5,741**	**4,879**	**10,620**

The increase in revenue from sales in the period ended June 30, 2018, compared to the same period in the previous year, resulted mainly from the recognition of revenue generated by EDF's companies in Poland acquired in 2017.

The acquired assets had the largest impact on growth in revenue from the sale of electricity, heat, fuels and energy origin rights.

Correction of revenue from LTC compensations results from an update of price paths for electricity, CO_2 and gas over a long-term horizon to the end of the programme, i.e. to 2024.

7.2 Costs by nature and function

	Q1 *(unaudited)*	Q2 *(unaudited)*	Period ended June 30, 2018
COSTS BY NATURE			
Depreciation, amortisation and impairment losses	923	976	**1,899**
Materials and energy	1,369	975	**2,344**
External services	574	622	**1,196**
Taxes and fees	927	808	**1,735**
Employee benefits expenses	1,236	1,231	**2,467**
Other costs by nature	66	80	**146**
TOTAL COST BY NATURE	**5,095**	**4,692**	**9,787**
Change in inventories	(6)	(2)	**(8)**
Cost of products and services for the entity's own needs	(243)	(249)	**(492)**
Distribution and selling expenses	(363)	(348)	**(711)**
General and administrative expenses	(256)	(255)	**(511)**
Cost of goods and materials sold	1,002	787	**1,789**
COST OF GOODS SOLD	**5,229**	**4,625**	**9,854**

Growth in the consumption of materials and energy in the period ended June 30, 2018, compared to the same period in a previous year, resulted from an increase in the cost of fuel for production purposes. The largest impact on the change in fuel costs had coal- and gas-fired assets acquired from EDF.

	Q1 *(unaudited)*	Q2 *(unaudited)*	Period ended June 30, 2017
COSTS BY NATURE			
Depreciation, amortisation and impairment losses	778	797	**1,575**
Materials and energy	758	589	**1,347**
External services	671	642	**1,313**
Taxes and fees	863	727	**1,590**
Employee benefits expenses	1,098	1,094	**2,192**
Other costs by nature	53	53	**106**
TOTAL COST BY NATURE	**4,221**	**3,902**	**8,123**
Change in inventories	(18)	2	**(16)**
Cost of products and services for the entity's own needs	(190)	(246)	**(436)**
Distribution and selling expenses	(304)	(296)	**(600)**
General and administrative expenses	(176)	(169)	**(345)**
Cost of goods and materials sold	616	530	**1,146**
COST OF GOODS SOLD	**4,149**	**3,723**	**7,872**

PGE Group Condensed consolidated interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

7.2.1 Depreciation, amortisation, disposal and impairment losses

The following presents depreciation, amortisation, disposals and impairment losses of property, plant and equipment, intangible assets in the statement of comprehensive income.

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

Period ended June 30, 2017	Depreciation, amortisation, disposal			Impairment		
	Property, plant and equipment	Intangible assets	TOTAL	Property, plant and equipment	Intangible assets	TOTAL
Cost of goods sold	1,406	40	**1,446**	42	-	**42**
Distribution and selling expenses	6	2	**8**	-	-	**-**
General and administrative expenses	11	6	**17**	-	-	**-**
RECOGNISED IN PROFIT OR LOSS	**1,423**	**48**	**1,471**	**42**	**-**	**42**
Cost of products and services for the entity's own needs	62	-	**62**	-	-	**-**
TOTAL	**1,485**	**48**	**1,533**	**42**	**-**	**42**

Impairment allowances recognised in the reporting period concern investment expenditures at units for which impairment had been recognised in previous periods.

7.3 Other operating income and expenses

	Period ended June 30, 2018	Period ended June 30, 2017
OTHER OPERATING INCOME		
Penalties, fines and compensations received	72	29
Tax refund	30	2
Reversal of impairment losses on receivables	22	9
Reversal of other provisions	15	21
Surpluses / asset disclosures	12	3
Grants received	11	14
Property, plant and equipment and intangible assets received free of charge	6	6
Gain on sale of property, plant and equipment and intangible assets	4	7
Revenue from illegal energy consumption	3	4
Compensation for legal proceedings' costs	2	2
Reversal of impairment allowances on other assets	2	-
Re-invoicing	2	2
Adjustment of revenues from LTC compensations	-	83
Other	26	20
TOTAL OTHER OPERATING INCOME	**207**	**202**

	Period ended June 30, 2018	Period ended June 30, 2017
OTHER OPERATING EXPENSES		
Recognition of impairment losses	59	17
Recognition of other provisions	41	7
Effect of change in rehabilitation provision	17	-
Donations granted	8	11
Damage / failure removal	8	6
Re-invoicing	8	3
Liquidation of property, plant and equipment and intangible assets related to other activities	6	3
Legal proceedings' costs	3	3
Compensation	2	9
Other	19	14
TOTAL OTHER OPERATING EXPENSES	**171**	**73**

PGE Group Condensed consolidated interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

7.4 Finance income and finance costs

	Period ended June 30, 2018	Period ended June 30, 2017
FINANCE INCOME FROM FINANCIAL INSTRUMENTS		
Dividends	1	4
Interest	29	50
Revaluation of financial instruments/Reversal of loss allowances	64	50
Positive exchange differences	1	37
FINANCE INCOME FROM FINANCIAL INSTRUMENTS	**95**	**141**
OTHER FINANCE INCOME		
Interest on statutory receivables	1	2
Other	1	1
OTHER FINANCE INCOME	**2**	**3**
TOTAL FINANCE INCOME	**97**	**144**

The Group recognises interest income primarily on cash and receivables. The item 'Revaluation of financial instruments' includes mainly measurements of hedging transactions in the part considered as the ineffective part of a hedge for instruments designated as hedging instruments in cash flow hedge accounting and in full when it comes to other instruments.

	Period ended June 30, 2018	Period ended June 30, 2017
FINANCE COSTS RELATED TO FINANCIAL INSTRUMENTS		
Interest	107	75
Revaluation of financial instruments	47	4
Loss on disposal of investment	20	92
Impairment loss	2	3
Negative exchange differences	23	3
FINANCE COSTS RELATED TO FINANCIAL INSTRUMENTS	**199**	**177**
OTHER FINANCE COSTS		
Interest costs, including effect of discount unwinding	91	84
Recognition of provisions	10	3
Other	5	2
OTHER FINANCE COSTS	**106**	**89**
TOTAL FINANCE COSTS	**305**	**266**

Interest costs mainly relate to bonds issued and credit and loans taken out as well as cleared CCIRS and IRS transactions. Interest cost (discount unwinding) on non-financial items relates mainly to rehabilitation provisions and employee benefit provisions.

In the item 'revaluation' PGE Group presents a valuation of a call option to purchase Polimex-Mostostal S.A. shares and valuations for other instruments.

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

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**
PERIOD ENDED JUNE 30, 2018				
Revenue	4,680	686	-	8
Result on continuing operations	293	39	(4)	-
Share of profit of entities accounted for using the equity method	**45**	**6**	**(1)**	**-**
Elimination of unrealised transactions	(9)	2	-	-
Share of profit of entities accounted for using the equity method	**36**	**8**	**(1)**	**-**
Other comprehensive income	**5**	**-**	**-**	**-**
SHARE OF EQUITY-ACCOUNTED ENTITIES IN OTHER COMPREHENSIVE INCOME	**1**	**-**	**-**	**-**

PGE Group Condensed consolidated interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia
SHARE IN VOTES	15,76%	16.48%	25.00%	34.93%
PERIOD ENDED JUNE 30, 2017				
Revenue	3,716	933	-	8
Result on continuing operations	12	27	-	-
Share of profit of entities accounted for using the equity method	**2**	**4**	**-**	**-**
Elimination of unrealised transactions	(5)	-	-	-
Share of profit of entities accounted for using the equity method	**(3)**	**4**	**-**	**-**

The Group made a consolidation adjustment related to margin on sale of coal between PGG and the Group.

8. Impairment losses on assets

	Period ended June 30, 2018	Period ended June 30, 2017
Impairment losses on property, plant and equipment		
Recognition of impairment	130	42
Reversal of impairment loss	2	-
Impairment losses on inventory		
Recognition of impairment	5	6
Reversal of impairment loss	1	2

9. Tax in the statement of comprehensive income

The main elements of the tax burden for the period ended June 30, 2018 and June 30, 2017, were as follows:

	Period ended June 30, 2018	Period ended June 30, 2017
INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS		
Current income tax	322	248
Deferred income tax	48	68
INCOME TAX EXPENSE RECOGNISED IN STATEMENT OF PROFIT OR LOSS	**370**	**316**
INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME		
From measurement of hedging instruments	6	(14)
Tax benefit recognised in other comprehensive income	**6**	**(14)**

PGE Group Condensed consolidated interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

In the present period, PGE Group purchased property, plant and equipment and intangible assets worth PLN 2,244 million. The largest expenditures were incurred in the Conventional Generation segment (PLN 1,580 million) and the Distribution segment (PLN 596 million). The key expenditures items were as follows: construction of units 5-6 at Elektrownia Opole (PLN 380 million), construction of unit 11 at Elektrownia Turów (PLN 215 million), construction of thermal processing installation with energy recovery at Elektrociepłownia Rzeszów (PLN 103 million) and modernisation of units 1-3 at Elektrownia Turów (PLN 86 million).
No significant tangible asset sale transactions took place in the reporting period.
In the period ended June 30, 2018, the Group recognised a loss allowance on property, plant and equipment of PLN 130 million. This allowance concerns investment expenditures made by Conventional Generation segment companies, as presented in note 7.2.1 of these consolidated financial statements.

11. Future investment commitments

As at June 30, 2018, PGE Group committed to incur capital expenditures on property, plant and equipment of approximately PLN 6,341 million. These amounts relate mainly to construction of new power units, modernisation of Group's assets and purchase of machinery and equipment.

	As at June 30, 2018	As at December 31, 2017 *restated data*
Conventional Generation	4,582	4,755
Distribution	1,536	1,005
Renewables	47	67
Supply	-	1
Other activity	176	171
TOTAL FUTURE INVESTMENT COMMITMENTS	**6,341**	**5,999**

The most significant future investment commitments concern:

- Conventional Generation:
  - Branch Opole Power Plant – construction of power units no. 5 and 6 – approximately PLN 997 million,
  - Branch Turów Power Plant – construction of new power unit – approximately PLN 2,032 million,
  - Branch Turów Power Plant – modernisation of power units no. 1-3 – approximately PLN 373 million,
  - Branch Rzeszów Heat and Power Plant – construction of Thermal Processing Installation with Energy Recovery – approximately PLN 80 million,
- Distribution – investment commitments related to network distribution assets with the total value of approximately PLN 1,536 million,
- Other activity, PGE EJ1 sp. z o.o. – agreement for owners engineer in the investment process related to construction of the first Polish nuclear power plant – approximately PLN 159 million (basic scope) An optional scope includes the amount of approx. PLN 1,121 million.

12. Shares accounted for using the equity method

	As at June 30, 2018	As at December 31, 2017
Polska Grupa Górnicza S.A.	609	533
Polimex Mostostal S.A.	97	91
ElectroMobility Poland S.A.	6	2
PEC Bogatynia Sp. z o.o.	8	8
EQUITY-ACCOUNTED INVESTMENTS	**720**	**634**

PGE Group Condensed consolidated interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**
AS AT JUNE 30, 2018				
Current assets	2,487	1,481	23	4
Non-current assets	9,310	717	1	22
Current liabilities	3,376	923	-	1
Non-current liabilities	4,447	783	-	1
NET ASSETS	**3,974**	**492**	**24**	**24**
Share in net assets	**608**	**81**	**6**	**8**
Goodwill	1	16	-	-
EQUITY-ACCOUNTED INVESTMENTS	**609**	**97**	**6**	**8**

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia
SHARE IN VOTES	**15.76%**	**16.48%**	**25.00%**	**34.93%**
AS AT DECEMBER 31, 2017				
Current assets	1,876	1,586	7	4
Non-current assets	9,074	654	-	22
Current liabilities	3,409	974	-	3
Non-current liabilities	4,167	810	-	1
NET ASSETS	**3,374**	**456**	**7**	**22**
Share in net assets	**532**	**75**	**2**	**8**
Goodwill	1	16	-	-
EQUITY-ACCOUNTED INVESTMENTS	**533**	**91**	**2**	**8**

13. Deferred tax in the statement of financial position

13.1 Deferred income tax assets

	As at June 30, 2018	As at December 31, 2017 *restated data**
Difference between tax value and carrying amount of property, plant and equipment	2,346	2,323
Difference between tax value and carrying amount of financial assets	49	48
Difference between tax value and carrying amount of financial liabilities	289	268
Difference between tax value and carrying amount of inventories	15	17
LTC compensations	48	48
Rehabilitation provision	567	548
Provision for purchase of CO_2 emission allowances	150	276
Provisions for employee benefits	601	571
Other provisions	133	122
Energy infrastructure acquired free of charge and connection payments received	35	111
Other	83	38
DEFERRED TAX ASSETS	**4,316**	**4,370**

13.2 Deferred income tax provision

	As at June 30, 2018	As at December 31, 2017 *restated data**
Difference between tax value and carrying amount of property, plant and equipment	4,406	4,240
Difference between tax value and carrying amount of energy origin units	33	46
Difference between tax value and carrying amount of financial assets	391	382
Difference between tax value and carrying amount of financial liabilities	151	92
CO_2 emission allowances	96	274
LTC compensations	18	34
Other	75	33
DEFERRED TAX PROVISION	**5,170**	**5,101**
AFTER OFF-SET OF THE ASSET AND THE LIABILITY IN PARTICULAR COMPANIES THE GROUP'S DEFERRED TAX IS PRESENTED AS:		
Deferred tax assets	517	571
Deferred tax provision	(1,371)	(1,302)

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

PGE Group Condensed consolidated interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

The restatement of data results from the final accounting for the acquisition of new companies and is described in note 1.4 to the consolidated financial statements.

14. CO_2 emission allowances for captive use

CO_2 emission rights (EUA) are received power generating units belonging to the PGE Group, which are covered with the Act dated June 12, 2015 on a scheme for greenhouse gas emission allowance trading. Starting from 2013, only part of emission rights for production of heat will be granted unconditionally, while for production of electricity there is, as a rule, lack of free of charge EUA. Pursuant to art. 10c of Directive 2003/87/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 CO2 emission rights can be obtained is presentation of factual-financial statements from realization of tasks included in National Investment Plan.

In September 2017, 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 2017. The allowances were issued in April 2018 and were used to cover CO_2 emissions for 2017 (15 million EUAs).

In the case of EUAs for CO_2 emissions related to district heating, the allocation schedule is different - in February 2018 EUAs were allocated for the coverage of CO_2 emissions for 2018 (2 million EUAs).

	As at June 30, 2018		As at December 31, 2017	
EUA	Non-current	Current	Non-current	Current
Quantity (Mg million)	**-**	**27**	**18**	**44**
Value	**-**	**755**	**402**	**1,040**

Amendment to the presentation of CO_2 emission allowances for captive use

EUA	Quantity (Mg million)	Value
AS AT JANUARY 1, 2017	**85**	**2,349**
Purchase of new subsidiaries	-	2
Purchase	12	247
Granted free of charge	21	-
Redemption	(56)	(1,156)
AS AT DECEMBER 31, 2017	**62**	**1,442**
Purchase	21	712
Granted free of charge	17	-
Redemption	(70)	(1,311)
Sale	(3)	(88)
AS AT JUNE 30, 2018	**27**	**755**

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 June 30, 2018		As at December 31, 2017	
	Non-current	Current	Non-current	Current
Trade receivables	-	2,718	-	3,159
Deposits	159	7	148	6
Deposits, securities and collateral	1	307	-	95
LTC compensations	-	1	-	10
Other financial receivables	7	256	10	252
TOTAL FINANCIAL RECEIVABLES	**167**	**3,289**	**158**	**3,522**

Deposits, securities and collateral mainly concern transaction and hedging deposits and the guarantee fund.

The value of other financial receivables consists mainly of compensation for damages and disputed receivables described in note 20.4 of these consolidated financial statements.

PGE Group Condensed consolidated interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

15.2 Cash and cash equivalents

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

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

	As at June 30, 2018	As at December 31, 2017
Cash on hand and cash at bank	835	1,309
Overnight deposits	23	34
Short-term deposits	350	1,209
TOTAL	**1,208**	**2,552**
Interest accrued on cash, not received at the reporting date	-	-
Exchange differences on cash in foreign currencies	(1)	(1)
Cash and cash equivalents presented in the statement of cash flows	**1,207**	**2,551**
Undrawn borrowing facilities	5,241	6,740
including overdraft facilities	*719*	*2,174*

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

Restricted cash amounting to PLN 76 million (PLN 92 million in the comparative period) concerns funds that constitute collateral for settlements with the Warsaw Commodity Clearing House (Izba Rozliczeniowa Giełd Towarowych S.A.).

16. Derivatives

	As at June 30, 2018		As at December 31, 2017	
	Assets	Liabilities	Assets	Liabilities
Financial instruments measured at fair value				
Currency forwards	71	6	1	49
Commodity forwards for CO_2	-	-	14	-
Commodity SWAP	72	5	64	7
Contracts for purchase/sale of coal	5	34	9	20
IRS transactions	-	1	-	10
Options	15	-	24	-
HEDGING DERIVATIVES				
CCIRS hedges	177	-	44	-
IRS hedges	67	7	98	5
Currency forwards	4	-	1	33
Other assets carried at fair value through profit or loss				
Investment fund participation units	51	-	50	-
TOTAL DERIVATIVES	**462**	**53**	**305**	**124**
current	143	38	83	106
non-current	319	15	222	18

Commodity and currency forwards

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

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

Coal swaps

In the current period, PGE Paliwa sp. z o.o. in order to secure 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 on December 31, 2019.

IRS transactions

In 2017, PGE S.A. executed an IRS transaction to hedge interest rates on a credit facility with a nominal value of PLN 500 million. To recognise this IRS transaction, the Company uses hedge accounting.

PGE Group Condensed consolidated interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

In 2016, PGE S.A. executed IRS transactions to hedge interest rates on credit facilities with a total nominal value of PLN 4,630 million. To recognise these IRS transactions, the Company uses hedge accounting.

The impact of hedge accounting is presented in note 17.2 to these consolidated financial statements.

In 2014, PGE S.A. concluded IRS transactions hedging the interest rate on issued bonds with a nominal value of PLN 1 billion. Payments arising from IRS transactions are correlated with interest payments on bonds. Changes in the fair value of IRS transactions are fully recognised in profit or loss. The transactions were conducted, including bond buy-back, in June 2018.

In 2003, Elektrownia Turów S.A. (currently a branch of PGE Górnictwo i Energetyka Konwencjonalna S.A.) concluded an IRS hedge transactions - swap. This transaction hedges variable interest rates (USD LIBOR 6m) on an investment credit of USD 80 million taken from Nordic Investment Bank to finance investments in Turów power plant. Changes in the fair value of IRS transactions are fully recognised in profit or loss.

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 transaction is treated as a hedge of bonds issued by PGE Sweden AB (publ).

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

17. Equity

The basic assumption of the Group's policy regarding equity management is to maintain an optimal equity structure over the long term perspective in order to 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 June 30, 2018	As at December 31, 2017
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 1,869,760,829 shares	**19,165**	**19,165**

All of the Company's shares are paid up.

After the reporting date and until the date of preparation of the foregoing financial statements there were no changes in the value of the Company's share capital.

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

The Company is a part of the PGE Polska Grupa Energetyczna S.A. Group, to which 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.

PGE Group Condensed consolidated interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

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:

- Liquidation of the Company,
- Changes of the use or discontinuance of exploitation of the Company's asset, which is a component of critical infrastructure,
- Change in the scope of activities of the Company,
- Sale or lease of the enterprise or its organised part or establishment of legal restrictions,
- Approval of operational and financial plan, investment plan, or long-term strategic plan,
- Movement of the Company's seat abroad,

if the enforcement of such a resolution would result in an actual threat to functioning, continuity of operations and integrity of the critical infrastructure. The objection is expressed in the form of an administrative decision.

17.2 Hedging reserve

	Period ended June 30, 2018	Year ended December 31, 2017
AS AT JANUARY 1	**83**	**147**
Change in hedging reserve	**34**	**(79)**
Measurement of hedging instruments, including:	**35**	**(74)**
Deferral of changes in fair value of hedging financial instruments in the part considered as effective hedge	*159*	*(242)*
Accrued interest on derivatives transferred from hedging reserve and recognised in interest expense	*1*	*(4)*
Currency revaluation of CCIRS transaction transferred from hedging reserve and recognised in the result on foreign exchange differences	*(125)*	*167*
Ineffective portion of change in fair value of hedging derivatives recognised in profit or loss	*-*	*5*
Measurement of other financial assets	**(1)**	**(5)**
Deferred tax	**(6)**	**15**
HEDGING RESERVE INCLUDING DEFERRED TAX	**111**	**83**

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

17.3 Dividends paid and recommended for payment

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 tangible and intangible assets.

PGE Group Condensed consolidated interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

18. Provisions

The carrying amount of provisions is as follows:

	As at June 30, 2018		As at December 31, 2017	
	Non-current	Current	Non-current	Current
Employee benefits	2,311	244	2,301	229
Rehabilitation provision	3,186	3	3,082	4
Provision for shortage of CO_2 emission allowances	119	672	112	1,341
Provision for energy origin units held for redemption	-	426	-	340
Provision for non-contractual use of the property	64	11	72	11
Other provisions	95	94	84	66
TOTAL PROVISIONS	**5,775**	**1,450**	**5,651**	**1,991**

Changes in provisions

	Employee benefits	Rehabilitation provision	Provision for shortage of CO_2 emission allowances	Provisions for energy origin rights held for redemption	Provision for non-contractual use of the property	Other	Total
January 1, 2018	**2,530**	**3,086**	**1,453**	**340**	**83**	**150**	**7,642**
Current service costs	33	-	-	-	-	-	**33**
Interest costs	41	50	-	-	-	-	**91**
Benefits paid / Provisions used	(66)	(1)	(1,311)	(315)	-	(13)	**(1,706)**
Provisions reversed	(1)	-	(30)	(2)	(17)	(2)	**(52)**
Provisions recognised - costs	6	36	679	403	9	48	**1,181**
Provisions recognised - expenditures	-	33	-	-	-	-	**33**
Inclusion of companies in consolidation	12	-	-	-	-	6	**18**
Other changes	-	(15)	-	-	-	-	**(15)**
June 30, 2018	**2,555**	**3,189**	**791**	**426**	**75**	**189**	**7,225**

restated data	Employee benefits	Rehabilitation provision	Provision for shortage of CO_2 emission allowances	Provisions for energy origin rights held for redemption	Provision for non-contractual use of the property	Other	Total
JANUARY 1, 2017	**2,359**	**2,670**	**1,154**	**416**	**103**	**142**	**6,844**
Actuarial gains and losses	148	-	-	-	-	-	**148**
Current service costs	65	-	-	-	-	-	**65**
Past service costs	(8)	-	-	-	-	-	**(8)**
Interest costs	82	89	-	-	-	-	**171**
Discount rate and other assumptions adjustment	24	65	-	-	-	-	**89**
Benefits paid / Provisions used	(160)	-	(1,156)	(864)	(1)	(15)	**(2,196)**
Provisions reversed	(1)	(2)	-	(12)	(28)	(31)	**(74)**
Provisions recognised - costs	1	82	1,205	759	8	38	**2,093**
Provisions recognised - expenditures	-	70	-	-	-	-	**70**
Purchase of new subsidiaries	22	27	250	41	-	18	**358**
Entity's exit from PGE Group	(1)	-	-	-	-	(3)	**(4)**
Other changes	(1)	85	-	-	1	1	**86**
DECEMBER 31, 2017	**2,530**	**3,086**	**1,453**	**340**	**83**	**150**	**7,642**

18.1 Provision for employee benefits

Provisions for employee benefits mainly include:

- post-employment benefits - PLN 1,714 million (PLN 1,705 million as at December 31, 2017),
- jubilee awards - PLN 834 million (PLN 825 million as at December 31, 2017),

18.2 Rehabilitation provision

Provision for rehabilitation of post-exploitation mining properties

After the completion of the lignite mining, the area of the surface mines belonging to PGE Group will be rehabilitated. According to the current plans, costs will be incurred in the years 2023 - 2069 (in the case of PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Bełchatów Lignite Mine) and in the years 2045-2087 (in the case of PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Turów Lignite Mine).

PGE Group creates provision 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. The value of the provision as at June 30, 2018 amounted to PLN 2,785 million and as at December 31, 2017 to PLN 2,693 million.

Provision for rehabilitation of ash landfills

PGE Group power generating units raise provisions for rehabilitation of ash storages. The value of the provision as at June 30, 2018 amounted to PLN 184 million and as at December 31, 2017 to PLN 175 million.

Provisions for rehabilitation of post-construction grounds of wind farms

Companies that own wind farms create provision for rehabilitation of post-construction grounds of wind farms. The value of the provision as at the reporting date amounted to PLN 54 million and as at December 31, 2017 to PLN 53 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 value of the provision amounts to PLN 166 million (PLN 165 million as at December 31, 2017) and refers to some assets of the Conventional Generation and Renewables segments.

18.3 Provision for shortage of CO_2 emission allowances

As a rule, the provision for deficit of CO_2 emission allowances is created by PGE Group entities for the shortfall of CO_2 emission allowances obtained free of charge. As described in note 14 of these consolidated financial statements PGE Group is entitled to receive CO_2 emissions rights granted free of charge in connection to expenditures concerning investments included in National Investment Plan. The calculation of the provision includes also these rights.

18.4 Provision for energy origin rights held for redemption

Companies within PGE Group create provision for energy origin rights related to sale realised during the reporting period or in prior reporting periods, in the amount of non-depreciated part until the reporting date. The total value of provision as at June 30, 2018 amounted to PLN 426 million (PLN 340 million in the comparative period) and was created mainly by PGE Obrót S.A.

18.5 Provision for non-contractual use of the property

PGE Group companies recognise a provision for damages related to a non-contractual use of property. This issue mainly relates to distribution company, which owns distribution networks. As at the reporting date the provision amounted to approximately PLN 75 million (of which 34 million relate to litigations). In the comparative period the value of the provision amounted to PLN 83 million (of which PLN 38 million related to litigations).

18.6 Other provisions

Other provisions comprise mainly provisions raised for claims relating to real estate tax of PLN 83 million (PLN 81 million in the prior year) and a provision for easements for State Forests worth PLN 30 million.

PGE Group Condensed consolidated interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

19. Financial liabilities

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

Bonds issued by PGE Sweden AB (publ) are based on a fixed interest rate. Their amortised cost presented in these financial statements as at June 30, 2018 amounted to PLN 2,798 million and their fair value amounted to PLN 2,970 million.

19.1 Loans, borrowings, bonds and lease

	As at June 30, 2018		As at December 31, 2017	
	Non-current	Current	Non-current	Current
Loans and borrowings	5,692	846	5,788	570
Bonds issued	600	2,198	2,632	1,051
Lease	2	2	2	2
TOTAL LOANS, BORROWINGS, BONDS AND LEASE	**6,294**	**3,046**	**8,422**	**1,623**

Loans and borrowings

Among loans and borrowings presented above as at June 30, 2018, PGE Group presents mainly the following facilities:

- investment credit facility taken out by PGE Górnictwo i Energetyka Konwencjonalna S.A. from Nordic Investment Bank to finance construction of 858 MW power block in Bełchatów Power Plant of PLN 439 million;
- investment credit facility taken out by PGE Górnictwo i Energetyka Konwencjonalna S.A. from Nordic Investment Bank to finance the modernisation of units 1-6 at Elektrownia Turów - amounting to a total of PLN 45 million,
- investment loans taken out by PGE S.A. at Bank Gospodarstwa Krajowego S.A. amounting to a total of PLN 1,501 million,
- long-term loan agreement with a syndicate of banks composed of: BNP Paribas S.A., Société Générale S.A., Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Bank Zachodni WBK S.A., mBank S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Polska Kasa Opieki S.A., executed on September 7, 2015. Subject matter of the agreement is granting a loan in two parts, i.e. term loan facility of up to PLN 3,630 million and revolving loan facility of up to PLN 1,870 million. The final repayment deadline for the revolving facility is April 30, 2019, and the final repayment deadline for the term facility is September 30, 2023. Part of the term facility was repaid and the level of debt as at June 30, 2018, was PLN 3,647 million.

On October 27, 2015, the Company concluded two credit agreements with the European Investment Bank for a total amount of nearly PLN 2,000 million. The amount of PLN 1,500 million, obtained on the basis of the first of the two agreements, will be used for projects relating to the modernisation and development of distribution grid. The funds from the second agreement, i.e. the remaining PLN 490 million, will be used to finance and refinance the construction of cogeneration units Gorzów CHP and Rzeszów CHP. The European Investment Bank loans will be available for disbursement over a period of up to 46 months from the date of signing of the agreements. The funds will be repaid within 15 years from the date of the last tranche. As at June 30, 2018, the Company did not use these credit lines.

On June 7, 2017, the Company executed a PLN 500 million credit agreement with the European Bank for Reconstruction and Development, with maturity on June 7, 2028. The amount raised based on the agreement will be spent on selected projects related to the modernisation and expansion of distribution grids. As at June 30, 2018, the credit facility remained unused.

Moreover, the Group recognises loans from environmental funds amounting to a total of PLN 425 million.

As at June 30, 2018, the value of the available overdrafts at significant PGE Group companies was PLN 719 million.

Bonds issued

The Group financed its own operations through two bond issue programs:

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

6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

19.2 Trade and other financial liabilities

	As at June 30, 2018		As at December 31, 2017	
	Non-current	Current	Non-current	Current
Trade liabilities	-	1,155	-	1,650
Purchase of property, plant and equipment and intangible assets	-	678	-	1,418
Security deposits received	22	74	22	87
Liabilities related to LTC	420	-	332	-
Insurance	-	6	-	17
Other	23	113	25	59
TRADE AND OTHER FINANCIAL LIABILITIES	**465**	**2,026**	**379**	**3,231**

The item 'Other' includes PGE Dom Maklerski S.A.'s liabilities towards clients on account of funds deposited and liabilities concerning CO_2 hedging transactions.

20. Other current non-financial liabilities

	As at June 30, 2018	As at December 31, 2017 *restated data*
Environmental fees	177	234
VAT liabilities	234	126
Excise tax liabilities	113	128
Payroll liabilities	186	257
Bonuses for employees	212	222
Unused annual holiday leave	172	139
Estimated liabilities concerning Miner's Day and Energy Professional's Day gifts	53	-
Liabilities due to Voluntary Leave Programs	14	49
Estimated liabilities concerning other employee benefits	58	39
Personal income tax	65	85
Liabilities from social insurances	204	246
Advances for deliveries	177	147
Liabilities related to dividends	42	8
Other	55	53
TOTAL OTHER NON-FINANCIAL LIABILITIES	**1,762**	**1,733**

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 coal mines.

The “Other” position comprises mainly payments to the Employment Pension Programme and withholdings from employee wages.

OTHER EXPLANATORY NOTES

21. Contingent liabilities and receivables. Legal claims

21.1 Contingent liabilities

	As at June 30, 2018	As at December 31, 2017
Contingent return of grants from environmental funds	749	753
Legal claims	220	188
Bank guarantee liabilities	531	223
Contractual fines and penalties	-	12
Employees’ claims	1	2
Other contingent liabilities	78	74
Total contingent liabilities	**1,579**	**1,252**

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 the particular investments. The funds will be reimbursed, if investments for which they were granted, will 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 extended the claim to PLN 104 million (i.e. by PLN 45 million). On March 31, 2018, the company filed a response to WorleyParsons' expanded claim. The Group does not accept the claim and regards its possible admission by the court as unlikely.

Claims related to property right sale contracts executed by Energa-Obrót S.A.

In October 2017, PGE Energia Odnawialna S.A. and PGE Energia Natury sp. z o.o. (currently acquired by PGE Energia Odnawialna S.A.) received lawsuits in which Energa-Obrót S.A. demand the annulment of a legal relation that were to arise as a result of the execution of an agreement to sell property rights 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 accusation that executive (agreements to sell specific property rights) were executed in a way that circumvented the Public Procurement Law. 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 accusations made by Energa Obrót S.A. are groundless.

These proceedings are in progress. In the cases involving FW Koniecwałd (Malbork) and FW Galicja, the Court referred the parties for mediation. In the FW Kisielice case, on April 25, 2018 the first hearing was held, in which the Court, at both of the parties' request, referred the parties for mediation for a period of three months and deferred the hearing to November 14, 2018.

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 totalling PLN 71 million concerning considerations paid on the basis of invalid contracts from 2009. No agreement was reached during meetings held in November and December 2017. In connection with this, the PLN 71 million claim is presented as a contingent liability. The Group does not accept the claim and regards its possible admission by the court as unlikely.

Claiming invalidity of the 2009 contracts, Energa Obrót S.A. refused to purchase property rights resulting from the production of renewable electricity at FW Kisielice, FW Koniecwałd (Malbork) and FW Galicja, which constituted a breach of the contracts and resulted in contractual penalties of PLN 30 million being imposed (recognised as revenue in 2017 of PLN 16 million and PLN 14 million in the present period). In the case of refusal to pay these contractual penalties, PGE Energia Odnawialna S.A. intends to seek their payment in court proceedings. On April 25, 2018, during the first hearing, PGE Energia Odnawialna S.A. filed a counterclaim for payment of the principal amount together with statutory late interest for contractual penalties imposed in connection with Energa Obrót S.A.'s failure to perform the contract related to FW Kisielice. Having referred the parties for mediation, the Court did not set a deadline for Energa Obrót S.A. to respond to the counterclaim.

Estimated volume of the green certificates covered by the contracts with Energa Obrót S.A. amounts to 783 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 farms.

Bank guarantee liabilities

These liabilities for the most part present bank guarantees provided as collateral for stock market transactions resulting from membership in the Stock Exchange Clearing House. As at June 30, 2018, the total amount of bank guarantees was PLN 531 million (PLN 215 million in the comparative period).

Other contingent liabilities

Other contingent liabilities comprise the value of potential claim from WorleyParsons of PLN 33 million, which was described above, as well as PLN 40 million related to risk of additional costs related to PGE Group's debt financing programmes.

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 for distribution activities. In addition, in PGE Group, there are disputes at an earlier stage of proceedings and it cannot be excluded that the number and value of similar disputes will grow in the future.

Contractual liabilities related to purchase of fuels

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

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

21.3 Contingent receivables

As at the reporting date, PGE Group held PLN 33 million in contingent receivables related to non-balancing of purchase and sale of energy on the domestic market (PLN 10 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. are presenting to the courts motions 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 directed by the former shareholders of PGE Górnictwo i Energetyka S.A. amounts to over PLN 10 million.

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

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 delivered to PGE S.A. on March 9, 2017, and the deadline for responding to it was set by the court as July 9, 2017. The following companies: PGE S.A. and PGE GiEK S.A. submitted a response to the claim and the lawsuit is currently being proceeded in the first instance. A hearing has been set for August 21, 2018.

PGE Group companies do not recognise the claims being raised by Socrates Investment S.A., Pozwy sp. z o.o. and other shareholders requesting conciliatory settlements. According to PGE S.A., these claims are groundless and the entire consolidation process was conducted fairly and properly. 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. Then, the court registered the mergers of the companies mentioned above.

PGE Group has not recognised a provision for this claim.

Claims for annulment of General Meeting resolutions

On March 15, 2017, 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 for annulment of resolution 4 of the Company's Extraordinary General Meeting held on September 5, 2016. The Company filed a response to the lawsuit.

Having examined the shareholder's claim at a closed-door hearing on October 11, 2017, the District Court in Warsaw ruled to refer the case for mediation.

PGE S.A. decided not to agree to mediation. On March 15, 2018, the District Court in Warsaw issued a judgment dismissing the shareholder's claim in its entirety. The ruling is final.

Termination of contracts for purchase of energy origin rights 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 rights, so called "green certificates." Justifying 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 of 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 property rights 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. In the proceeding instigated by PGE Energia Natury PEW sp. z o.o. (currently PGE Energia Odnawialna S.A.), the District Court in Poznań, 9th Commercial Division ruled fully in favour and issued a payment demand in a writ of payment proceeding. The payment demand became invalid once Enea submitted an appeal. The proceeding is in progress. The next hearing is scheduled for September 2018.

Due to the fact that according to PGE Group declarations on termination of the agreements presented by Enea S.A. were submitted in breach of contractual terms, as at June 30, 2018, the Group recognised contractual penalty and compensation receivables of PLN 130 million (of which PLN 2 million was recognised as present-period revenue). As the same time, property rights inventories that were initially measured at values resulting from the agreements were revalued to market prices. According to PGE Group companies, based on available legal analysis, a favourable resolution in the above disputes is more probable then a negative resolution.

Estimated volume of the green certificates covered by the contracts with Enea S.A. amounts to approximately 2,652 thousand MWh. The above amount was calculated for the period from the date the contracts were terminated to the end of the expected initial term of the contracts.

In addition, PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE Energia Natury PEW sp. z o.o. (acquired by PGE Energia Odnawialna S.A.) and PGE Energia Odnawialna S.A. filed lawsuits against Enea S.A. for the payment of receivables totalling PLN 47 million concerning invoices issued to Enea S.A. for the sale of property rights 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 in progress. The next hearings are scheduled for September 2018.

22. Tax settlements

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

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

Basic tax rates were as follows in 2018: corporate income tax rate – 19%, for smaller enterprises a 15% rate is possible; 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 characterized by a significant changeability of tax regulations, their high complexity, high potential fees for commitment of a tax crime or violation. Tax settlements and other activity areas are conditioned by regulations (customs or currency controls) and can be subject to controls of respective authorities that are entitled to issue fines and penalties with penalty interest. Controls may cover tax settlements for the period of 5 years after the end of calendar year in which the tax was due.

Tax group

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

Companies included in the tax group must meet a number of requirements covering: 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. Violating these requirements would mean the dissolution of the tax group and loss of its taxpayer status. When the tax group is dissolved, each of its member companies becomes an individual payer of corporate income tax.

Changes in corporate income tax in effect from January 1, 2018

As a result of changes in legislation, starting from 2018 taxpayer revenue is divided into two sources: economic (operating) activities and capital gains. This means that each source of revenue will be settled separately and that companies may not offset losses incurred in one source using revenue from the other source. The capital gains source includes: dividends, income obtained as a result of mergers of de-mergers, in-kind contributions, share disposals, disposal of debt claims, income from property rights (authors' rights, licences) and income from securities.

According to existing estimates, the introduction of two income sources should not substantially affect the PGE Group's tax burden.

VAT split payment mechanism

Starting from July 1, 2018, a VAT split payment mechanism will be introduced. This solution is intended to seal off the tax system by separating VAT amounts from bank transfers being made by buyers of products and services and directing these to sellers' dedicated VAT accounts. Funds collected in these VAT accounts may only be used for VAT settlements concerning invoices received and VAT settlements with the tax office. Using split VAT payments will not be the buyer's right but rather an obligation.

Given the above, the introduction of a split payment mechanism might increase net debt and the net debt to EBITDA ratio. At the date on which these financial statements were prepared, there was no set practice as to how cash in VAT accounts will be taken into account when calculating debt ratios that are presented to financing institutions. PGE Group intends to effectively use the funds received from counterparties in VAT accounts to pay its liabilities that contain VAT. The level of funds in these VAT accounts will depend mainly on how many of PGE Group's counterparties decide to use this mechanism and the relation between receivables and liabilities payment dates. According to the Group's estimates, the average level of cash in VAT accounts might be in the range of PLN 100-200 million. As at July 31, 2018, the cash balance in these VAT accounts totalled approx. PLN 45 million.

Excise tax

In connection with an incorrect implementation of EU regulations in the Polish legal system, PGE GiEK S.A. in 2009 initiated proceedings regarding reimbursement of improperly paid excise tax for the period January 2006 - February 2009. The irregularity consisted of taxing electricity at the first stage of sale, i.e. by producers, whereas sales to end users should have been taxed.

Examining the company's complaints with regard to the restitution claims against decisions issued by tax authorities refusing to confirm 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 may 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 issue of overpaid excise tax is in civil courts and the intention is to reach a settlement with the State Treasury as regards restitution claims.

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.

PGE Group Condensed consolidated interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

Real estate tax

Considering pending disputes, PGE Group established at the reporting date the provision for property tax in the amount of PLN 83 million. The provision relates mainly to tax proceedings with regard to property tax in selected power plants. The dispute is related to the subject of taxation and concerns mainly a decision whether installations in buildings and detached technical machinery should be taxed as autonomous constructions. Tax proceedings are currently at various stages of tax authorities proceedings, i.e. in front of first instance authorities (village mayor, mayor), local government board of appeals and administrative courts.

As a result of an update of the Renewables Act entering into force (Polish Journal of Laws of June 7, 2018, item 1276), from January 1, 2018 rules for property tax for wind farms that had been in effect until the end of 2016 were restored. Given the above, the current tax base for a wind farm constitutes its construction elements and not the entire wind farm.

23. Information on related parties

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

23.1 Associates and jointly controlled entities

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

	Period ended June 30, 2018	Period ended June 30, 2017
Sales to associates and jointly controlled entities	10	5
Purchases from associates and jointly controlled entities	963	807
	As at June 30, 2018	**As at December 31, 2017**
Trade receivables from associates and jointly controlled entities	5	9
Trade liabilities to associates and jointly controlled entities	234	180

This turnover and balances take into account 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 of PGE Polska Grupa Energetyczna S.A. and as a result in accordance with IAS 24 Related Party Disclosures, State Treasury companies are treated as related entities. PGE Group entities identify in detail transactions with approximately 40 of the biggest State Treasury subsidiaries.

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

	Period ended June 30, 2018	Period ended June 30, 2017
Sales to related parties	914	1,047
Purchases from related parties	2,332	1,921
	As at June 30, 2018	**As at December 31, 2017**
Trade receivables from related parties	212	280
Trade liabilities to related parties	393	629

The largest transactions with companies where the State Treasury holds a stake concern Polskie Sieci Elektroenergetyczne S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A. , PKP Cargo S.A., Grupa LOTOS S.A., Zakłady Azotowe PUŁAWY S.A., PKN Orlen S.A. and the purchase of coal from Jastrzębska Spółka Węglowa S.A., Katowicki Holding Węglowy S.A. (in the comparative period) and Węglokoks S.A.

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

23.3 Management remuneration

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

PLN thousand	Period ended June 30, 2018	Period ended June 30, 2017
Short-term employee benefits (salaries and salary related costs)	19,346	18,012
Post-employment benefits	2,685	1,488
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**22,031**	**19,500**
Remuneration of key management personnel of entities of non-core operations	10,847	7,204
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**32,878**	**26,704**

PLN thousand	Period ended June 30, 2018	Period ended June 30, 2017
Management Board of the parent company	3,937	4,573
including post-employment benefits	*-*	*20*
Supervisory Board of the parent company	330	407
Management Boards – subsidiaries	16,412	13,205
Supervisory Boards – subsidiaries	1,352	1,315
TOTAL	**22,031**	**19,500**
Remuneration of key management personnel of entities of non-core operations	10,847	7,204
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**32,878**	**26,704**

Until June 30, 2017, members of the management boards of PGE Group companies were employed based on civil contracts and employment contracts. From the end of June 2017, 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, taking into account the provisions of the Act of June 9, 2016, on rules for the remuneration of management personnel at certain companies (Polish Journal of Laws of 2017, item 2190, i.e. of November 28, 2017). In determining remuneration for members of management and supervisory bodies, the scale of the company's business, especially the value of its assets, revenue and size of workforce, is taken into account.

The growth in management remuneration at companies in the 'other activity' segment in the period ended June 30, 2018, compared to the same period last year, resulted mainly from the consolidation of entities acquired as a result of the purchase of EDF's assets.

The above remuneration is included in employee benefit costs and other costs by nature disclosed in note 7.2 Costs by nature and function.

24. Significant events during and after the reporting period

24.1 Tender offer for 100% of Polenergia S.A. shares

On May 22, 2018, PGE, with the intermediation of Pekao Investment Banking S.A., announced a tender offer to subscribe for the sale of 45 443 547 ordinary bearer shares, i.e. all shares issued by Polenergia S.A., entitling to 100% of votes at Polenergia S.A.'s general meeting, for PLN 16.29 per share. PGE is also the acquiring entity in this Tender Offer.

As part of the transaction, the call was granted a security in the form of a bank guarantee for PGE's liabilities, issued by Bank Polska Kasa Opieki S.A. and PEKAO Investment Banking S.A. is the guarantee's beneficiary . The Bank Guarantee was issued on 22 May 2018 for the amount of PLN 740 million, with validity until November 21, 2018.

The Tender Offer was announced on conditions specified in the Tender Offer content, including:

- unconditional approval from the President of the Office of Competition and Consumer Protection for a concentration of undertakings consisting of the acquisition of control over Polenergia S.A.,
- subscription to sell in the Tender Offer Polenergia S.A. shares representing at least 66% of votes,
- appointment to Polenergia S.A.'s supervisory board of candidates designated by PGE,
- adoption by Polenergia S.A.'s general meeting of a resolution on changes in Polenergia S.A.'s articles of association and
- execution of a strategic cooperation agreement between PGE and Polenergia S.A. and Polenergia S.A.'s integration into PGE Group.

If the subscription period is neither extended nor shortened, subscriptions for Polenergia S.A. shares will be accepted from July 13, 2018, to September 20, 2018.

24.2 Significant events after the reporting period

No significant events took place between the end of the reporting period and the date on which these financial statements were approved.

PGE Polska Grupa Energetyczna S.A. Condensed separate interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

II. PGE POLSKA GRUPA ENERGETYCZNA S.A. CONDENSED SEPARATE INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED JUNE 30, 2018, IN ACCORDANCE WITH IFRS EU

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended June 30, 2018 *(unaudited)*	Period ended June 30, 2017 *(unaudited)*
STATEMENT OF PROFIT OR LOSS			
SALES REVENUES	6.	**5,179**	**4,591**
Cost of goods sold	7.	(4,791)	(4,212)
GROSS PROFIT ON SALES		**388**	**379**
Distribution and selling expenses	7.	(9)	(10)
General and administrative expenses	7.	(104)	(72)
Other operating income		3	1
Other operating expenses		(4)	(8)
OPERATING PROFIT		**274**	**290**
Finance income	8.	239	4,374
Finance costs	8.	(211)	(227)
GROSS PROFIT		**302**	**4,437**
Current income tax		(51)	18
Deferred income tax		5	(3)
NET PROFIT FOR THE REPORTING PERIOD		**256**	**4,452**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss:			
Measurement of hedging instruments		(25)	(70)
Deferred tax		5	13
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**(20)**	**(57)**
TOTAL COMPREHENSIVE INCOME		**236**	**4,395**
NET PROFIT AND DILUTED NET PROFIT PER SHARE (IN PLN)		**0.14**	**2.38**

The additional notes constitute an integral part of the separate financial statements.

PGE Polska Grupa Energetyczna S.A. Condensed separate interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

SEPARATE STATEMENT OF FINANCIAL POSITION

	Note	As at June 30, 2018 *(unaudited)*	As at December 31, 2017 *(audited) restated data*
NON-CURRENT ASSETS			
Property, plant and equipment		171	176
Intangible assets		2	3
Financial receivables	10.	11,609	11,840
Derivatives and other assets measured at fair value through profit or loss	12.	310	216
Shares in subsidiaries		32,556	32,568
Shares in other related parties		88	84
		44,736	**44,887**
CURRENT ASSETS			
Inventories		217	2
Trade and other receivables	10.	3,833	2,636
Derivatives	12.	33	54
Other current assets	13.	155	220
Income tax receivables		-	-
Cash and cash equivalents	11.	295	1,832
		4,533	**4,744**
TOTAL ASSETS		**49,269**	**49,631**
EQUITY			
Share capital		19,165	19,165
Reserve capital		15,328	15,328
Hedging reserve		90	110
Retained earnings		4,797	4,541
		39,380	**39,144**
NON-CURRENT LIABILITIES			
Non-current provisions		21	20
Loans, borrowings, bonds	15.	5,636	7,714
Derivatives	12.	7	5
Deferred income tax provision		3	13
Other liabilities		21	23
		5,688	**7,775**
CURRENT LIABILITIES			
Current provisions		1	2
Loans, borrowings, bonds, cash pooling	15.	3,298	1,764
Derivatives		31	27
Trade and other payables		643	682
Income tax liabilities		141	176
Other non-financial liabilities		87	61
		4,201	**2,712**
TOTAL LIABILITIES		**9,889**	**10,487**
TOTAL EQUITY AND LIABILITIES		**49,269**	**49,631**

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

The additional notes constitute an integral part of the separate financial statements.

PGE Polska Grupa Energetyczna S.A. Condensed separate interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

SEPARATE STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserve capital	Hedging reserve	Retained earnings	Total equity
AS AT JANUARY 1, 2018	**19,165**	**15,328**	**110**	**4,541**	**39,144**
Net profit for the reporting period	-	-	-	256	**256**
Other comprehensive income	-	-	(20)	-	**(20)**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**(20)**	**256**	**236**
					-
Retained earnings distribution	-	-	-	-	-
Other changes	-	-	-	-	-
AS AT JUNE 30, 2018	**19,165**	**15,328**	**90**	**4,797**	**39,380**

	Share capital	Reserve capital	Hedging reserve	Retained earnings	Total equity
AS AT JANUARY 1, 2017	**19,165**	**13,730**	**149**	**1,594**	**34,638**
Net profit for the reporting period	-	-	-	4,452	**4,452**
Other comprehensive income	-	-	(57)	-	**(57)**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**(57)**	**4,452**	**4,395**
Retained earnings distribution	-	1,598	-	(1,598)	-
Other changes	-	(1)	-	1	-
AS AT JUNE 30, 2017	**19,165**	**15,327**	**92**	**4,449**	**39,033**

PGE Polska Grupa Energetyczna S.A. Condensed separate interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

SEPARATE STATEMENT OF CASH FLOWS

	Period ended June 30, 2018 *(unaudited)*	Period ended June 30, 2017 *(unaudited) restated data*
CASH FLOWS FROM OPERATING ACTIVITIES		
Gross profit	**302**	**4,437**
Income tax paid	80	(82)
Adjustments for:		
Depreciation, amortisation and impairment losses	7	7
Interest and dividend, net	(52)	(2,853)
Profit / loss on investing activities	32	(1,267)
Change in receivables	24	(49)
Change in inventories	(215)	7
Change in liabilities, excluding loans and borrowings	(36)	349
Change in other non-financial assets	(35)	8
NET CASH FROM OPERATING ACTIVITIES	**107**	**557**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	(1)	(1)
Purchase of bonds issued by PGE Group companies	(203)	(780)
Purchase of shares in associates	(18)	(103)
Sale of other financial assets	-	368
Recognition of deposits with maturity over 3 months	-	(50)
Release of deposits with maturity over 3 months	-	2,340
Origination / (repayment) of loans granted under cash pooling agreement	(433)	507
Repayment of loans	260	-
Loans granted	(522)	(25)
Interest received	152	24
NET CASH FROM INVESTING ACTIVITIES	**(765)**	**2,280**
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of loans / buy-back of bonds	(1,000)	(17)
Proceeds from loans, borrowings and issue of bonds	282	-
Interest paid	(159)	(147)
Other	(2)	(3)
NET CASH FROM FINANCING ACTIVITIES	**(879)**	**(167)**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(1,537)**	**2,670**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**1,831**	**1,930**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	**294**	**4,600**

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

1. General information

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

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

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

The State Treasury is the Company's principal shareholder.

The Company's core activities are as follows:

- trade in electricity and other energy market products
- oversight of head offices and holding companies
- rendering financial services to PGE Group companies
- rendering other services related to these activities

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

Revenue from the sale of electricity and other energy market products is the only significant items in operating revenue. This revenue is generated on the domestic market. The Company does not report business or geographical segments.

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

Going concern

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

These financial statements comprise financial data for the period from January 1, 2018 to June 30, 2018 ("financial statements") and include comparative data for the period from January 1, 2017 to June 30, 2017 and as at December 31, 2017.

The same accounting rules (policies) and calculation methods are applied in these financial statements as in the most recent annual financial statements and they should be read in conjunction with PGE S.A.'s audited separate financial statements prepared in accordance with EU IFRS for the year ended December 31, 2017.

Seasonality of business operations

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 carriers 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 and distribution of energy products, thus influence the results obtained by the Company.

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

PGE S.A.'s sales seasonality results from the fact that the Company sold 86% of its electricity sales volume to PGE Obrót S.A. and PGE Dystrybucja S.A., whose demand for electricity is subject to seasonality.

2. Professional judgment of management and estimates

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

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

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

4. Changes in accounting principles and data presentation

New standards and interpretations which became effective on January 1, 2018

New standards and interpretations that went into force on January 1, 2018, as described in more detail in note 4 of consolidated financial statements, had no impact on the Company's separate financial statements.

IFRS 9 Financial instruments

IFRS 9 replaced IAS MSR 39 *Financial instruments: recognition and measurement* and is effective for annual periods beginning on or after January 1, 2018. IFRS addressed three areas related to financial instruments: classification and measurement, impairment and hedge accounting.

Financial assets are subject to classification in the following categories of financial instruments:

- measured at amortised cost;
- measured at fair value through other comprehensive income ("FVTOCI");
- measured at fair value through profit or loss ("FVTPL").

The classification of financial assets is based on the business model and characteristics of cash flows.

A debt instrument is measured at amortised cost if both of the following conditions are met:

- the objective of the entity's business model is to hold the financial asset to collect the contractual cash flows;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test).

A debt instrument is measured at FVTOCI if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test).

All other debt instruments must be measured at fair value through profit or loss (FVTPL).

All equity investments are measured at fair value. If an equity investment is not held for trading, the Company can make an irrevocable decision to recognise changes at FVTOCI if the instrument is not held for trading. For equity instruments held for trading, changes in fair value are recognised in profit or loss.

All standard transactions of purchase or sell of financial assets are recognised at the transaction date, i.e. at the date on which the entity committed to purchase the asset. Standard transactions of purchase or sell of financial assets are transactions which delivery of the asset is explicitly stated by law or customs in a given market.

An impairment model is based on expected credit losses and its scope covers the following:

- Financial assets measured at amortised cost;
- Financial assets measured at FVTOCI;
- Loan commitments when there is a present obligation of starting point;
- Guarantee contracts to which IFRS 9 is applied;
- Lease receivables within the scope of IAS 17;
- Contract assets within the scope of IFRS 15.

The Company applies requirements concerning impairment in order to recognise and measure losses on these financial assets that are measured at fair value through other comprehensive income. A loss allowances is recognised in other comprehensive income and does not reduce the balance sheet value of the financial asset in the statement of financial position.

With the exception of purchased or originated credit impaired financial assets, expected credit losses are required to be measured through a loss allowance at an amount equal to:

- the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or
- full expected credit losses over the life of the financial instrument. These losses should be recognised when the relevant financial instrument expires.

The impairment of a financial asset if the credit risk of that financial instrument has increased significantly since initial recognition, regardless of whether it was measured separately or collectively, should take into account all rational and documentable information, including forward-looking data.

The Company applies the following rules for estimating and recognising the loss allowances on financial assets:

- for trade receivables from significant clients that are subject to a credit risk assessment procedure, the Company will estimate expected credit losses based on a model used to evaluate this risk on the basis of ratings assigned to counterparties; ratings have a likelihood of default assigned, which is adjusted to reflect impact of macroeconomic factors;
- for receivables from other clients and from related parties, the Company will estimate expected credit losses based on an analysis of the likelihood of credit losses in each age bracket;
- for deposits in banks, the Company will estimate expected credit losses based on a model used to evaluate this risk on the basis of ratings assigned to banks by external institutions; ratings have a likelihood of default assigned, which is adjusted to reflect impact of macroeconomic factors;

- for cash pooling receivables, the Company will estimate expected credit losses based on a model used to evaluate this risk on the basis of ratings assigned to banks and to PGE S.A. by external institutions; ratings have a likelihood of default assigned, which is adjusted to reflect impact of macroeconomic factors;
- for receivables related to loans and bonds from direct and indirect subsidiaries, the Company assumes that they are secured by exercising control by the Company over these direct and indirect subsidiaries' assets; this security is taken into account in estimating recovery rates;
- for investments in other equity instruments, measurement will be at fair value; currently the Company does not have significant investments in equity instruments other than stakes in subsidiaries and associates.

Investments in stakes in subsidiaries and associates are excluded from the scope of IFRS 9 and their measurement will be as before, i.e. at historic cost of purchase less impairment.

The Company classified financial liabilities in one of the following categories:

- measured at amortised cost;
- measured at fair value through profit or loss.

After analysis, the Company decided not to implement the changes resulting from IFRS 9 regarding hedge accounting from January 1, 2018.

The Company applied IFRS 9 from January 1, 2018, without restating its comparative data.

The Company analysed the business model as at the first date of application of IFRS 9, i.e. January 1, 2018, and subsequently applied retrospectively, regardless of what business model was used in previous reporting periods on these assets for which recognition had not ceased prior to January 1, 2018. The Company analysed compliance with SPPI criteria based on facts and circumstances at the moment of the initial recognition of financial assets.

If the Company applied IFRS 9 in its financial statements for 2017, impairment losses on financial assets as at December 31, 2017, would have been approx. PLN 1 million higher. Equity as at December 31, 2017 would have decreased by about PLN 1 million gross, (no impact on deferred tax).

Given the negligible impact of the new standard, its effects were not recognised as retained earnings as of January 1, 2018. Starting from January 1, 2018, the Company recognises expected credit losses in accordance with IFRS 9 requirements.

Changes in the classification of financial instruments resulted in the change of name of several items from the statement of financial position no amounts were reclassified between items.

IFRS 15 Revenue from contracts with customers

IFRS 15 repeals IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and applies to all contracts with customers, with the exception of those that fall under the scope of other standards. The new standard establishes the Five Step Model for recognising revenue from contracts with customers. According to IFRS 15, revenue is recognised in the amount that - according to the entity's expectations - is due in exchange for delivery of the goods or services to the customer.

Revenue is recognised so as to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

PGE Polska Grupa Energetyczna S.A. Condensed separate interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

The Company recognises revenue from a contract with a client only if all of the following criteria are met:

- the parties have executed a contract (in written or verbal form or in accordance with customary trade practices) and are obligated to perform their duties;
- the Company is able to identify the rights of each of the parties with regard to the goods or services that are to be transferred;
- the Company is able to identify terms of payment for the goods or services that are to be transferred;
- the contract has commercial substances;
- it is probable that the consideration to which the Company is entitled to in exchange for the goods or services will be collected.

Upon contract execution, the Company analyses the goods or services covered by the contract with the client and identifies as a performance obligation all commitments to provide the client with:

- goods or services (or a bundle of goods or services) that are distinct; or
- the series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

The Company recognises revenue when the performance obligation concerning the goods and services is met (or is in the process of being met). The transfer of the asset occurs when the client obtains control over the asset, i.e. gains the ability to directly manage the asset and obtain largely all other benefits from it.

The Company transfers control over goods or services over time and thus satisfies the performance obligation and recognises revenue over time if one of the following conditions is met:

- the customer simultaneously receives and derives benefits from the Company's consideration as the Company provides the consideration;
- as a result of the Company's consideration a new or improved asset is created (e.g. production in progress) and control over this asset - as it is created or improved - is exercised by the customer; or
- as a result of the Company's consideration no new asset is created with alternative use by the Company and the Company has an enforceable title to pay for the consideration provided thus far.

For each performance obligation over time, the Company recognises revenue over time, measuring the degree of performance of this obligation. The aim of this measurement is to establish progress in performing this obligation to transfer control over goods or services promised to the client (i.e. degree of obligation performance).

Based on this analysis, the Company found that it is an intermediary in gaseous fuel transmission services. The recognition of revenue and costs concerning these services would have caused a decrease in operating revenue and costs by the same amount, with no impact on profit or loss. Because the transmission service is negligible, the Company does not offset revenue and costs related to this.

The Company applied IFRS 15 from the date it enters into force, i.e. January 1, 2018, without restating its comparative data.

Changes in applied accounting principles

- Change in presentation of employee benefits concerning accrued leave and bonuses

In the present period, the Company decided to change the way in which it presents employee benefits concerning accrued leave, bonuses and similar from the item "provisions" to the item "other non-financial liabilities."

The Company restated its comparative data presented in the statement of financial position. The restatement is presented in the table below.

	As at June 30, 2017 *published data*	Change in presentation	As at June 30, 2017 *restated data*
CASH FLOWS FROM OPERATING ACTIVITIES			
Adjustments for:			
Change in liabilities, excluding loans and borrowings	353	(4)	**349**
Change in provisions	(4)	4	-
NET CASH FROM OPERATING ACTIVITIES	**557**	**-**	**557**

PGE Polska Grupa Energetyczna S.A. Condensed separate interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

	As at December 31, 2017 *published data*	Change in presentation	As at December 31, 2017 *restated data*
CURRENT LIABILITIES, including:			
Current provisions	33	(31)	2
Other non-financial liabilities	30	31	61
TOTAL CURRENT LIABILITIES	**2,712**	**-**	**2,712**
TOTAL EQUITY AND LIABILITIES	**49,631**	**-**	**49,631**

5. Fair value hierarchy

The principles for valuation of inventories, derivatives, shares and instruments not quoted on active markets, for which fair value may not be determined reliably, are the same as presented in the financial statements for the year ended December 31, 2017.

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

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

6. Revenue from sales

	Period ended June 30, 2018	Period ended June 30, 2017
SALES REVENUES		
Sale of electricity	4,319	3,751
Sale of energy origin rights	-	10
Sale of gas	337	296
Other sales of goods and materials	124	220
Revenue from sale of services	399	314
TOTAL REVENUE FROM SALES	**5,179**	**4,591**

The increase revenue from electricity sales in the first half of 2018 in comparison to corresponding period of the previous year mainly results from higher turnover volume and higher sales prices, mainly in transactions with PGE Obrót S.A. Sales to PGE Obrót S.A. are conducted in order to secure retail client demand for electricity.

The higher revenue from natural gas sales results from higher gas prices in sales to entities outside PGE Group. The sales volume was similar to the volume sold as at the end of June 2017, with a decline in exchange sales and an offsetting increase in sales to entities outside PGE Group.

The decline in revenue from the sale of other goods and materials mainly resulted from lower CO_2 emission allowance sales volume.

Information concerning key clients

The Company's main counterparties are PGE Group subsidiaries. In the first half of 2018, sales to PGE Obrót S.A. accounted for 73% of revenue from sales, while sales to PGE Górnictwo i Energetyka Konwencjonalna S.A. accounted for 8%. In the first half of 2017, sales to these companies accounted for 70% and 11%, respectively.

PGE Polska Grupa Energetyczna S.A. Condensed separate interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

7. Costs by nature and function

	Period ended June 30, 2018	Period ended June 30, 2017
COSTS BY NATURE		
Depreciation, amortisation and impairment losses	7	7
Materials and energy	2	2
External services	27	30
Taxes and fees	2	2
Employee benefits expenses	58	55
Other costs by nature	35	26
TOTAL COSTS BY NATURE	**131**	**122**
Distribution and selling expenses	(9)	(10)
General and administrative expenses	(104)	(72)
Cost of merchandise and materials sold	4,773	4,172
COST OF GOODS SOLD	**4,791**	**4,212**

The increase in the value of merchandise goods and materials sold in 2018, comparing to corresponding period of the previous year, is largely the effect of higher revenue from sales, as described above, and higher prices on the wholesale market.

8. Finance income and finance costs

	Period ended June 30, 2018	Period ended June 30, 2017
FINANCE INCOME FROM FINANCIAL INSTRUMENTS		
Dividends	46	2,872
Interest	181	166
Reversal of impairment allowances	-	1,289
Revaluation of financial instruments	9	47
Positive exchange differences	3	-
FINANCE INCOME FROM FINANCIAL INSTRUMENTS	**239**	**4,374**
TOTAL FINANCE INCOME	**239**	**4,374**

In the period ended June 30, 2018, the Company reported dividend income mainly from PGE Obrót S.A. (PLN 28 million), and in the comparative period PLN 2,019 million from PGE GiEK S.A. and PLN 808 million from PGE Dystrybucja S.A.

In the previous period, the Company created a partial impairment allowances on PGE Obrót S.A. shares.

The Company recognises interest income mainly related to bonds issued by subsidiaries and cash deposits.

The item 'Revaluation of financial instruments' includes the fair value measurement of a call option for Polimex-Mostostal shares and measurements of hedging transactions in the part considered as the ineffective part of a hedge for instruments designated as hedging instruments in cash flow hedge accounting and in full when it comes to other instruments.

	Period ended June 30, 2018	Period ended June 30, 2017
FINANCE COSTS RELATED TO FINANCIAL INSTRUMENTS		
Interest	161	158
Revaluation of financial instruments	44	64
Negative exchange differences	-	2
Other	6	3
FINANCE COSTS RELATED TO FINANCIAL INSTRUMENTS	**211**	**227**
TOTAL FINANCE COSTS	**211**	**227**

Interest costs mainly relate to bonds issued and credit and loans incurred, as described in note 15 of these separate financial statements.

PGE Polska Grupa Energetyczna S.A. Condensed separate interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

9. Shares in subsidiaries

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

In previous reporting periods, PGE S.A. recognised an impairment loss on its stake in PGE Obrót S.A. amounting to PLN 5.536 billion. The reason for this impairment loss was donation of the shares of PGE Dystrybucja S.A., in 2014, as a result of which the equity of PGE Obrót S.A. significantly decreased. After the donation, the value of PGE Obrót S.A.'s shares was estimated in line with IAS 36 using the discounted cash flows method. In 2017, as a result of the impairment test, the value of PGE Obrót S.A. shares was estimated at PLN 2,406 million, which resulted in a reversal of the existing impairment allowances by PLN 1,289 million. At the end of the current reporting period, another analysis of indications that may warrant an impairment test was conducted in order to determine whether these assets are impaired or the earlier impairment allowances may be reversed.
The most important factors analysed include:

- analysis of 2018 financial plan implementation,
- analysis of sales volume for 2018-2022,
- review of estimates concerning margins on electricity sales for 2018-2022,
- review of regulations concerning the sale of energy and related products to end customers.

As a result of this analysis and a lack of significant changes in regulations, according to PGE S.A., as at the reporting day there was no need for recognising further impairment allowances on PGE Obrót S.A. shares nor was there need for reversing previously recognised allowances.

10. Financial assets

	As at June 30, 2018		As at December 31, 2017	
	Non-current	Current	Non-current	Current
Trade receivables	-	734	-	758
Bonds acquired	10,897	350	10,912	130
Cash pooling receivables	-	615	-	134
Loans granted	712	2,134	928	1,614
TOTAL FINANCIAL RECEIVABLES	**11,609**	**3,833**	**11,840**	**2,636**

Trade receivables

Trade receivables of PLN 734 million relate mainly to the sale of electricity and services to subsidiaries in PGE Group. The balances of the two largest customers, i.e. PGE Obrót S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A., accounted for 82% of total trade receivables.

Bonds acquired

	As at June 30, 2018		As at December 31, 2017	
	Non-current	Current	Non-current	Current
BONDS ACQUIRED - ISSUER				
PGE Górnictwo i Energetyka Konwencjonalna S.A..	9,670	314	9,685	94
PGE Energia Odnawialna S.A.	1,227	36	1,227	36
TOTAL BONDS ACQUIRED	**10,897**	**350**	**10,912**	**130**

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

Bonds with maturities not exceeding 12 months from the reporting date are classified as current assets, while bonds with maturities exceeding 12 months from the reporting date are classified as non-current assets, however this classification depends not only on maturity but also on the Company's intentions with regard to roll-over.

Inter-group bonds maturing in under one year that are expected to be rolled over are classified as non-current instruments. This classification reflects the character of cash management in mid- and long-term.

The final bond buy-back deadline is set at 2025 for PGE Górnictwo i Energetyka Konwencjonalna S.A. and 2020 for PGE Energia Odnawialna S.A.

Cash pooling receivables

In 2014, in order to centralize the management of financial liquidity in PGE Group, agreements for real cash pooling services were executed between 16 companies of PGE Group and each bank separately, i.e. with Powszechna Kasa Oszczędności Bank Polski S.A. and Polska Kasa Opieki S.A. PGE S.A. coordinates the cash pooling service in PGE Group. This means, among others, that certain entities settle with the Company and the Company settles with banks. In connection to the above, balances with related parties participating in cash pooling are reported in financial receivables and financial liabilities of PGE S.A.

PGE Polska Grupa Energetyczna S.A. Condensed separate interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

Loans granted

	As at June 30, 2018		As at December 31, 2017	
	Non-current	Current	Non-current	Current
LOANS GRANTED - BORROWER				
PGE Energia Ciepła S.A.	542	2,115	542	1,614
PGE Dystrybucja S.A.	-	-	243	-
PGE Systemy S.A.	111	5	106	-
PGE EJ 1 sp. z o.o.	55	-	21	-
PGE Trading GmbH	-	13	12	-
Bestgum sp. z o.o.	4	1	4	-
TOTAL LOANS GRANTED	**712**	**2,134**	**928**	**1,614**

Except for PGE Energia Ciepła S.A., the final loan repayment deadline is in 2020-2021.

11. Cash and cash equivalents

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

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

	As at June 30, 2018	As at December 31, 2017
Cash on hand and cash at bank	96	732
Overnight deposits	-	1
Short-term deposits	199	1,099
TOTAL	**295**	**1,832**
Interest accrued on cash, not received at the reporting date	-	-
Exchange differences on cash in foreign currencies	(1)	(1)
Cash and cash equivalents presented in the statement of cash flows	**294**	**1,831**
Undrawn borrowing facilities	5,078	4,360
including overdraft facilities	*718*	*2,000*

A detailed description of credit agreements is presented in note 15 of these separate financial statements.

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

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

	As at June 30, 2018		As at December 31, 2017	
	Assets	Liabilities	Assets	Liabilities
Derivatives at fair value through profit or loss				
Currency forwards	33	-	54	-
Commodity forwards	-	31	-	19
IRS hedges	-	-	-	8
Options	15	-	24	-
HEDGING DERIVATIVES				
CCIRS hedges	177	-	44	-
IRS hedges	67	7	98	5
OTHER assets measured at fair value through profit or loss				
Investment fund participation units	51	-	50	-
TOTAL DERIVATIVES AND OTHER RECEIVABLES CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS	**343**	**38**	**270**	**32**
current	33	31	216	5
non-current	310	7	54	27

Commodity and currency forwards

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

PGE Polska Grupa Energetyczna S.A. Condensed separate interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

IRS transactions

In the present and previous reporting periods, the Company executed 7 IRS transactions to hedge interest rates on credit facilities totalling PLN 5.130 billion. To recognise these IRS transactions, the Company uses hedge accounting.

In 2014, PGE S.A. concluded 2 IRS transactions hedging the interest rate on issued bonds with a nominal value of PLN 1.000 billion. Payments arising from IRS transactions are correlated with interest payments on bonds. Changes in fair value of IRS transactions are fully recognised in profit or loss. The transactions were conducted, including bond buy-back.

CCIRS hedges

In June and August 2014, in connection with loans received from PGE Sweden AB (publ) disclosed in note 19.1 of the consolidated financial statements, 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. The nominal value, payment of interest and repayment of nominal value in CCIRS transactions are correlated with the relevant conditions arising from loan agreements.

To recognise these CCIRS transactions, the Company uses hedge accounting.

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

Investment fund participation units

On November 15, 2017 the Company purchased participation units from TFI Energia S.A. in three sub-funds. The value of these units as of the reporting date was PLN 51 million.

13. Other current assets

	As at June 30, 2018	As at December 31, 2017
Dividend receivables	46	-
Advance payments	74	32
Receivables from tax group	24	170
VAT receivables	1	13
Other	10	5
TOTAL	**155**	**220**

Dividend receivables mainly concern receivables from PGE Obrót S.A.

Advance payments consist mainly of funds transferred to the subsidiary PGE Dom Maklerski S.A. for the purchase of electricity and gas of PLN 74 million in the current reporting period as compared to PLN 32 million in the comparative period.

14. Selected financial assets

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

15. Loans, borrowings, bonds, cash pooling

	As at June 30, 2018		As at December 31, 2017	
	Non-current	Current	Non-current	Current
Loans received	614	2,264	2,695	59
Bonds issued	-	-	-	1,000
Credit liabilities	5,022	409	5,019	129
Cash pooling liabilities	-	625	-	576
TOTAL LOANS, BORROWINGS, BONDS, CASH POOLING	**5,636**	**3,298**	**7,714**	**1,764**

Loans from PGE Sweden AB (publ)

The company recognises EUR 660 million in loans from subsidiary PGE Sweden AB (publ).

In the case of loans received from PGE Sweden AB (publ), PGE S.A. estimates their fair value at PLN 2,981 million (as compared to PLN 2,878 million of the carrying amount). The fair value was determined using the estimated credit risk of PGE S.A. It is Level 2 of fair value hierarchy.

PGE Polska Grupa Energetyczna S.A. Condensed separate interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

Domestic market bond issues

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

- The bond issue program for the amount of PLN 5 billion directed towards investors from the Polish capital market. In 2013, the first non-public issuance of 5-year bonds under this program took place, the coupon bearer bonds with a variable interest rate. The nominal value of the issue was PLN 1 billion and the maturity of the bonds is June 27, 2018. On August 29, 2013, the bonds were floated in the Alternative Trading System organised by BondSpot S.A. and the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.).
- A bond issue program for the amount of PLN 5 billion dedicated to entities within PGE Group.

Bank credit

In addition, the Company has the following credit agreements:

- On December 17, 2014 the Company signed a PLN 500 million credit agreement with Bank Gospodarstwa Krajowego S.A. with the maturity date of December 31, 2027. As at June 30, 2018, the credit facility was fully used.
- On September 7, 2015 the Company concluded a long-term credit agreement with a syndicate of banks composed of: BNP Paribas S.A., Société Générale S.A., Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Bank Zachodni WBK S.A., mBank S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Polska Kasa Opieki S.A. Subject matter of the agreement is granting a loan in two parts, i.e. term loan facility for up to PLN 3,630 million and a revolving loan facility for up to PLN 1,870 million. The final repayment deadline for the revolving facility is April 30, 2019, and the final repayment deadline for the term facility is September 30, 2023. Part of the term facility was repaid and the level of debt as at June 30, 2018, was PLN 3,647 million.
- On October 27, 2015, the Company concluded two credit agreements with the European Investment Bank for a total amount of nearly PLN 2,000 million. The amount of PLN 1,500 million, obtained on the basis of the first of the two agreements, will be used for projects relating to the modernisation and development of distribution grid. The funds from the second agreement, i.e. the remaining PLN 490 million, will be used to finance and refinance the construction of cogeneration units Gorzów CHP and Rzeszów CHP. The European Investment Bank loans will be available for disbursement over a period of up to 46 months from the date of signing of the agreements. The funds shall be repaid within 15 years from the date of the last tranche. As at June 30, 2018, the Company did not use these credit lines.
- On December 4, 2015 the Company signed the Loan Agreement in the amount of PLN 500 million with Bank Gospodarstwa Krajowego S.A. with the maturity date of December 31, 2028. As at June 30, 2018, the Company used all available credit.
- On June 7, 2017, the Company executed a PLN 500 million credit agreement with the European Bank for Reconstruction and Development, with maturity on June 7, 2028. The amount raised based on the agreement will be spent on selected projects related to the modernisation and expansion of distribution grids. As at June 30, 2018, the credit facility remained unused.

The value of overdraft facilities at the Company's disposal amounted to PLN 718 million as at June 30, 2018. The overdraft limit includes two credit agreements for PLN 500 million each. Part of the limit is available until April 29, 2020, while the other portion until May 31, 2021.

The value of financial assets and liabilities measured at amortised cost is a rational approximation of their fair value.

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

16. Contingent liabilities

	As at June 30, 2018	As at December 31, 2017
Bank guarantee and surety liabilities	12,000	11,052
Other contingent liabilities	40	33
Total contingent liabilities	**12,040**	**11,085**

Guarantee for PGE Sweden AB (publ) liabilities

Due to establishment of the Eurobonds program in 2014, an agreement was concluded for the issue of guarantee by PGE S.A. for the liabilities of PGE Sweden AB (publ). The guarantee was granted to the amount of EUR 2,500 million (PLN 10,904 million) and will be valid until December 31, 2041. As at June 30, 2018, PGE Sweden AB (publ)'s liabilities due to bonds issued amounted to EUR 641 million (PLN 2,798 million), as at December 31, 2017 liabilities amounted to EUR 643 million (PLN 2,682 million).

PGE Polska Grupa Energetyczna S.A. Condensed separate interim financial statements for the 6-month period ended June 30, 2018, in accordance with IFRS EU (in PLN million)

Surety for PGE GiEK S.A.'s liabilities

In January 2014, the Company granted three sureties to the bank payment guarantee issued for PGE GiEK S.A. The total value of the sureties is PLN 318 million. Granting sureties is related to the investment conducted by PGE GiEK S.A. relating to the construction of the new power units in Elektrownia Opole. Under IFRS 9, guarantees are measured at the amount of allowance for expected credit losses. The amount of this allowance as at June 30, 2018, was not taken into account by the Company due to it being negligible.

17. Other legal claims and disputes

Compensation for share conversions and lawsuits seeking annulment of General Meeting resolutions are described in note 21.2 of the consolidated financial statements.

18. Information on related parties

Transactions with related entities are concluded based on market prices for provided goods, products and services or are based on the cost of manufacturing. Tax losses settlements within the tax group, described in notes 9 of these separate financial statements, were an exception from this rule.

19. PGE Group subsidiaries

	Period ended June 30, 2018	Period ended June 30, 2017
Sales to related parties	4,638	3,984
Purchases from related parties	4,110	3,544
Financial income	216	3,004
Financial expenses	35	93

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

	As at June 30, 2018	As at December 31, 2017
Receivables from related parties		
Bonds issued by subsidiaries	11,247	11,042
Dividend receivables	46	-
Trade receivables from subsidiaries	681	630
Loans to subsidiaries	2,846	2,541
Cash pooling receivables	615	134
Tax group settlement receivables	24	170
Total receivables from related parties	**15,459**	**14,517**

	As at June 30, 2018	As at December 31, 2017
Liabilities to related parties		
Loans from subsidiaries	2,878	2,753
Trade liabilities to related parties	583	543
Cash pooling liabilities	625	576
Tax group settlement liabilities	46	25
TOTAL LIABILITIES TO SUBSIDIARIES	**4,132**	**3,897**

Standby commitments and sureties granted to PGE S.A.'s subsidiaries are described in note 16 of these separate financial statements.

20. State Treasury-controlled companies

The State Treasury is the dominant shareholder of the PGE Group and as a result State Treasury companies are recognised as related entities. The Company closely monitors transactions with key State Treasury subsidiaries. The total value of transactions with such entities is presented in the tables below.

	Period ended June 30, 2018	Period ended June 30, 2017
Sales to related parties	77	185
Purchases from related parties	82	148

	As at June 30, 2018	As at December 31, 2017
Trade receivables from related parties	-	24
Trade liabilities to related parties	30	34

The Company concludes significant transactions on the energy market via the Polish energy exchange Towarowa Giełda Energii S.A. Due to the fact that this entity only deals with the organisation of trading, purchases and sales transacted through this entity are not recognised as transactions with related parties.

21. Management remuneration

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

PLN thousand	Period ended June 30, 2018	Period ended June 30, 2017
Short-term employee benefits (salaries and salary related costs)	4,267	4,960
Post-employment and termination benefits	-	20
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**4,267**	**4,980**

PLN thousand	Period ended June 30, 2018	Period ended June 30, 2017
Management Board	3,937	4,573
Supervisory Board	330	407
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**4,267**	**4,980**

Members of the Company's Management Board are employed on the basis of civil law contracts for management (so called management contracts). In note 7. Costs by nature and type, this remuneration is presented in the item other costs by type.

22. Significant events during and after the reporting period

Significant events in the period are presented in note 24 to the consolidated financial statements. No significant events took place between the end of the reporting period and the date on which these separate financial statements were approved.

III. Approval of semi-annual financial report

This semi-annual financial report was approved for publication by the Parent's Management Board on August 7, 2018.

Warsaw, August 7, 2018.

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