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

ended September 30, 2018,
in accordance with IFRS EU (in PLNm)

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	3 months ended September 30, 2018 *(unaudited)*	9 months ended September 30, 2018 *(unaudited)*	3 months ended September 30, 2017 *(unaudited)*	9 months ended September 30, 2017 *(unaudited)*
STATEMENT OF PROFIT OR LOSS					
SALES REVENUES	*7.1*	**6,091**	**18,962**	6,073	16,693
Cost of goods sold	*7.2*	(5,068)	(14,922)	(3,759)	(11,631)
GROSS PROFIT ON SALES		**1,023**	**4,040**	**2,314**	**5,062**
Distribution and selling expenses	*7.2*	(280)	(991)	(282)	(882)
General and administrative expenses	*7.2*	(225)	(736)	(156)	(501)
Other operating income	*7.3*	64	271	57	259
Other operating expenses	*7.3*	(50)	(221)	(50)	(123)
OPERATING PROFIT		**532**	**2,363**	**1,883**	**3,815**
Finance income	*7.4*	19	116	1	145
Finance expenses	*7.4*	(73)	(378)	(81)	(347)
Share of profit of entities accounted for using the equity method	*7.5*	15	58	10	11
GROSS PROFIT		**493**	**2,159**	**1,813**	**3,624**
Current income tax	*9*	(74)	(396)	(108)	(356)
Deferred income tax	*9*	(16)	(64)	(243)	(311)
NET PROFIT FOR THE REPORTING PERIOD		**403**	**1,699**	**1,462**	**2,957**
OTHER COMPREHENSIVE INCOME					
Items that may be reclassified to profit or loss in the future:					
Valuation of financial instruments	*17.2*	(4)	(5)	(1)	(1)
Valuation of hedging instruments	*17.2*	(72)	(37)	12	(60)
Foreign exchange differences from translation of foreign entities		(1)	3	3	(3)
Deferred tax	*9*	14	8	(2)	12
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		**(64)**	**(31)**	**12**	**(52)**
TOTAL COMPREHENSIVE INCOME		**339**	**1,668**	**1,474**	**2,905**
NET PROFIT ATTRIBUTABLE TO:					
– equity holders of the parent company		416	1,697	1,463	2,960
– non-controlling interests		(13)	2	(1)	(3)
COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
– equity holders of the parent company		352	1,666	1,475	2,908
– non-controlling interests		(13)	2	(1)	(3)
EARNINGS AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (IN PLN)		**0.22**	**0.91**	**0.78**	**1.58**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at September 30, 2018 *(unaudited)*	As at December 31, 2017 *(audited) restated data**
NON-CURRENT ASSETS			
Property, plant and equipment	10	59,995	59,010
Investment property		46	50
Intangible assets	10	1,013	1,032
Financial receivables	15.1	168	158
Derivatives and other assets measured at fair value through profit or loss	16	252	222
Shares and other equity instruments		55	47
Shares accounted for using the equity method	12	752	634
Other non-current assets		477	524
CO_2 emission allowances for captive use	14	357	402
Deferred income tax assets	13.1	554	571
		63,669	**62,650**
CURRENT ASSETS			
Inventories		2,312	1,890
CO_2 emission allowances for captive use	14	1,246	1,040
Income tax receivables		12	36
Derivatives and other assets measured at fair value through profit or loss	16	89	83
Trade and other financial receivables	15.1	4,201	3,522
Shares and other equity instruments		1	5
Other current assets		635	391
Cash and cash equivalents	15.2	1,326	2,552
		9,822	**9,519**
ASSETS CLASSIFIED AS HELD FOR SALE		**12**	**14**
TOTAL ASSETS		**73,503**	**72,183**
EQUITY			
Share capital	17.1	19,165	19,165
Reserve capital		19,872	15,328
Hedging reserve	17.2	49	83
Foreign exchange differences from translation		(1)	(4)
Retained earnings		8,111	10,556
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**47,196**	**45,128**
Equity attributable to non-controlling interests		1,107	1,250
TOTAL EQUITY		**48,303**	**46,378**
NON-CURRENT LIABILITIES			
Non-current provisions	18	5,811	5,651
Loans, borrowings, bonds and lease	19.1	6,333	8,422
Derivatives	16	17	18
Deferred income tax provision	13.2	1,408	1,302
Deferred income and government grants		610	1,038
Other financial liabilities	19.2	488	379
Other non-financial liabilities		17	-
		14,684	**16,810**
CURRENT LIABILITIES			
Current provisions	18	1,774	1,991
Loans, borrowings, bonds and leases	19.1	4,569	1,623
Derivatives	16	64	106
Trade and other financial liabilities	19.2	2,073	3,231
Income tax liabilities		113	196
Deferred income and government grants		73	115
Other non-financial liabilities	20	1,850	1,733
		10,516	**8,995**
TOTAL LIABILITIES		**25,200**	**25,805**
TOTAL EQUITY AND LIABILITIES		**73,503**	**72,183**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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

	Share capital	Reserve capital	Hedging reserve	Exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total equity
Note	17.1		17.2					
JANUARY 1, 2017	**19,165**	**13,730**	**147**	**3**	**9,634**	**42,679**	**96**	**42,775**
Net profit for the reporting period	-	-	-	-	2,960	2,960	(3)	2,957
Other comprehensive income	-	-	(49)	(3)	-	(52)	-	(52)
COMPREHENSIVE INCOME	**-**	**-**	**(49)**	**(3)**	**2,960**	**2,908**	**(3)**	**2,905**
Retained earnings distribution	-	1,598	-	-	(1,598)	-	-	-
Dividend	-	-	-	-	-	-	(2)	(2)
Settlement of purchase of additional shares in subsidiaries	-	-	-	-	2	2	(3)	(1)
Other changes	-	-	-	-	1	1	-	1
TRANSACTIONS WITH OWNERS	**-**	**1,598**	**-**	**-**	**(1,595)**	**3**	**(5)**	**(2)**
SEPTEMBER 30, 2017	**19,165**	**15,328**	**98**	**-**	**10,999**	**45,590**	**88**	**45,678**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Period ended September 30, 2018 *(unaudited)*	Period ended September 30, 2017 *(unaudited)* *restated data**
CASH FLOWS FROM OPERATING ACTIVITIES			
Gross profit		**2,159**	**3,624**
Income tax paid		(473)	(462)
Adjustments for:			
Share of profit of entities accounted for using the equity method		(58)	(11)
Depreciation, amortisation, disposal and impairment losses		2,778	2,291
Interest and dividend, net		163	101
Profit / loss on investing activities		(18)	41
Change in receivables		(679)	(691)
Change in inventories		(410)	324
Change in liabilities, excluding loans and borrowings		(207)	(262)
Change in other non-financial assets, prepayments and CO_2 emission allowances		(478)	768
Change in provisions		(92)	(439)
Other		(17)	(39)
NET CASH FROM OPERATING ACTIVITIES		**2,668**	**5,245**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets		(4,270)	(4,338)
Recognition of deposits with maturity over 3 months		(372)	(203)
Termination of deposits with maturity over 3 months		358	2,486
Purchase of financial assets		(103)	(218)
Sale of subsidiaries after offsetting sold cash		-	272
Inclusion of companies in consolidation		18	-
Other		30	31
NET CASH FROM INVESTING ACTIVITIES		**(4,339)**	**(1,970)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in stake in Group companies		(111)	-
Proceeds from share issue for non-controlling interests		18	-
Proceeds from loans, borrowings and issue of bonds		1,979	7
Repayment of loans, borrowings, bonds and finance leasing		(1,223)	(113)
Interest paid		(201)	(230)
Other		(17)	(4)
NET CASH FROM FINANCING ACTIVITIES		**445**	**(340)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(1,226)**	**2,935**
Net exchange differences		-	-
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*	**1,325**	**5,601**

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

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

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

1. General information

1.1 Information on the parent

PGE Polska Grupa Energetyczna S.A. ("Parent," "Company," "PGE S.A.") was founded on the basis of a Notary Deed of August 2, 1990, and registered in the District Court in Warsaw, XVI Commercial Department on September 28, 1990. The Company was registered in the National Court Register of the District Court for the Capital City of Warsaw, XII Commercial Department, under no. KRS 0000059307. The 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 September 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 September 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") includes the parent, PGE Polska Grupa Energetyczna S.A., 58 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 September 30, 2018 ("financial statements," "consolidated financial statements") and include comparative data for the period from January 1, 2017 to September 30, 2017 and as at December 31, 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 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 September 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.	58.07% -	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. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
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%

	Entity	Entity holding stake	Stake held by PGE Group entities as at September 30, 2018	Stake held by PGE Group entities as at December 31, 2017
	SEGMENT: RENEWABLES			
26.	PGE Energia Odnawialna S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
27.	Elektrownia Wiatrowa Baltica-1 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A. PGE Energia Odnawialna S.A.	100.00% -	- 100.00%
28.	Elektrownia Wiatrowa Baltica-2 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A. PGE Energia Odnawialna S.A.	100.00% -	- 100.00%
29.	Elektrownia Wiatrowa Baltica-3 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A. 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%
	Investment III B.V. Amsterdam	PGE Energia Ciepła S.A.	-	100.00%
35.	PGE Synergia sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
36.	„Elbest” sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
37.	Elbest Security sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
38.	PGE Inwest 2 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
39.	PGE Inwest 5 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
40.	PGE Ventures sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
41.	PGE Inwest 8 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
42.	PGE Inwest 9 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
43.	PGE Inwest 10 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
44.	PGE Inwest 11 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
44.	PGE Inwest 12 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
46.	PGE Inwest 13 S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
47.	PGE Inwest 14 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
48.	PGE Inwest 16 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
49.	PGE Inwest 17 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
50.	PGE Inwest 18 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
51.	PGE Inwest 19 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
52.	Towarzystwo Funduszy Inwestycyjnych Energia S.A. (formerly PGE Towarzystwo Funduszy Inwestycyjnych S.A.) Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
53.	BIO-ENERGIA sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
54.	Przedsiębiorstwo Transportowo-Usługowe „ETRA” sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
55.	Energetyczne Systemy Pomiarowe sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
56.	PGE Ekoserwis sp. z o.o. Wrocław	PGE Energia Ciepła S.A.	84.15%	84.15%
57.	ZOWER sp. z o.o. * Czerwionka-Leszczyny	PGE Energia Ciepła S.A.	100.00%	100.00%

	Entity	Entity holding stake	Stake held by PGE Group entities as at September 30, 2018	Stake held by PGE Group entities as at December 31, 2017
58.	Przedsiębiorstwo Usługowo - Handlowe TOREC sp. z o.o. * Toruń	PGE Toruń S.A.	50.04%	50.04%
59.	Zakłady Pomiarowo-Badawcze Energetyki Energopomiar sp. z o.o. * Gliwice	PGE Polska Grupa Energetyczna S.A.	22.78%	22.78%
		PGE Górnictwo i Energetyka Konwencjonalna S.A.	22.14%	22.14%
		PGE Energia Ciepła S.A.	7.38%	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 September 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 3,285 and 2,970 shares of PGE Energia Ciepła S.A. respectively 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% stake in equity of 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 KOGENARACJA 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 financial statements, 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.

- On August 31, 2018, an agreement was executed pursuant to which PGE Polska Grupa Energetyczna S.A. purchased from PGE Energia Odnawialna S.A. all shares in Elektrownia Wiatrowa Baltica-1 sp. z o.o., Elektrownia Wiatrowa Baltica-2 sp. z o.o. and Elektrownia Wiatrowa Baltica-3 sp. z o.o. The shares were transferred on September 3, 2018. The transaction had no impact on these consolidated financial statements.
- A merger of PGE Energia Ciepła S.A. (acquiring company) with Investment III B.V. (acquired company) was registered on September 4, 2018. The merger had no impact on these consolidated financial statements.

On October 18, 2018 ordinary General Meeting of PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE Energia Ciepła S.A. adopted resolution concerning demerger of PGE Górnictwo i Energetyka Konwencjonalna S.A. (divided company), pursuant to which the following branches of PGE Górnictwo i Energetyka Konwencjonalna will be carved out from PGE Górnictwo i Energetyka Konwencjonalna S.A. into PGE Energia Ciepła S.A.:

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

As at the date of approval of these financial statement, the demerger was not registered in the National Court Register.

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 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. The acquisition of control over EDF's assets in Poland will generate synergies for the Group's entire cogeneration activities, and the acquired assets will be managed and analysed together with other assets in this area. Thus, goodwill will be allocated to the entire cogeneration activity.

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 result 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:

	September 30, 2018	December 31, 2017	September 30, 2017
USD	3.6754	3.4813	3.6519
EUR	4.2714	4.1709	4.3091

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
Amendments to IFRS 3	These changes clarify the definition of economic activity	January 1, 2020

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

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

IFRS 16 *Leases*

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 expenses.
- 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/amortisation

PGE is currently analysing the potential impact of IFRS 16 on its future financial statements. The Group inventoried its contracts in order to identify those that contain a lease or a lease component in accordance with IFRS 16.

The following areas were identified as potentially being influenced by IFRS 16:

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

The Group is currently analysing which of these agreements should be recognised and measured as a lease contract, what interest rate should be used for measuring the liability, how to define the lease term and which exemptions and simplifications from IFRS 16 to use.
The largest impact on the consolidated financial statements will come from recognising perpetual usufruct assets and a lease liability related to the recognition of rights to perpetual usufruct of land. According to preliminary estimates, the balance sheet total as at January 1, 2019 might increase by nearly PLN 0.6 billion due to this. Interest rates used for particular PGE Group companies for the purposes of transfer pricing were applied to measurement and it was assumed that the liability will be settled over the period for which the right had been granted unless there are justified indications that the right will be used for a shorter period (e.g. in the case of mines this is a period for which coal is expected to be mined).

Analysis of the standard has not been finished. The aforementioned conclusions and estimates of the impact on future financial statements are subject to change.

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 third quarter of 2018, the Group analysed impairment indications and did not identify factors that could result in changes to the asset values in the above segments, as compared to the results of analyses carried out at the end of the first half of 2018.

Due to the above, according to PGE Group, the results of tests conducted as at May 31, 2018, and described in the condensed consolidated interim financial statements for the 6-month period ended June 30, 2018, are valid as at September 30, 2018. However in the following years of 2018 and 2019 the crucial settlements are awaited and related to i.a. expected revenues from capacity market or support of cogeneration units, which have a significant impact on value-in-use of Group's 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 outgoing method 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 that are not mentioned 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 sale 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 sale of financial assets are transactions in 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 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 trade 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 age 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 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 but 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.
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 (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 over 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 third quarter of 2018, compared to IAS 11, IAS 18 and the related interpretations, is presented below.

	September 30, 2018 *published data*	*Connection fees*	*Transition fee and renewables fee*	*Gas distribution and transmission*	**September 30, 2018** *without IFRS 15*
STATEMENT OF PROFIT OR LOSS					
SALES REVENUES	**18,962**	**28**	**460**	**20**	**19,470**
COST OF GOODS SOLD	**(14,922)**	**-**	**(460)**	**(20)**	**(15,402)**
GROSS PROFIT	**2,159**	**28**	**-**	**-**	**2,187**
Income tax	(460)	(5)	-	-	(465)
NET PROFIT FOR THE REPORTING PERIOD	**1,699**	**23**	**-**	**-**	**1,722**
STATEMENT OF FINANCIAL POSITION					
Retained earnings	6,412	(340)	-	-	6,072
Net profit	1,699	23	-	-	1,722
TOTAL EQUITY	**48,303**	**(317)**	-	-	**47,986**
Deferred income tax provision	1,408	(69)	-	-	1,339
Deferred income and governments grants	683	386	-	-	1,069
TOTAL LIABILITIES	**25,200**	**317**	**-**	**-**	**25,517**

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, revenues 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 outgoing 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 change its accounting policy in this scope, in the period ended on and as at September 30, 2018 this would result in the following:

- cost of own sales and value of provisions for shortages of CO_2 emission allowances would be PLN 535 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 102 million;
- gross profit would have been PLN 535 million lower, while net profit would have been PLN 433 million lower,
- earnings per share would have been lower by PLN 0.23 per share.

Applying the specific identification method in estimating the provision for shortage of free emission allowances in earlier periods does not yield a different result than the FIFO method, which presented the actual usage of emission allowances, in connection with which the change in accounting policy did not have an impact on the financial results presented in previous reporting periods and does not require comparative data to be restated.

- 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 statements 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.

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 EQUITY HOLDERS 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 September 30, 2017 *published data*	Change in presentation	As at September 30, 2017 *restated data*
CASH FLOWS FROM OPERATING ACTIVITIES			
Adjustment for items, including:			
Change in liabilities, excluding loans and borrowings	(411)	149	(262)
Change in provisions	(290)	(149)	(439)
NET CASH FROM OPERATING ACTIVITIES	**5,245**	**-**	**5,245**

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 September 30, 2018		As at December 31, 2017	
FAIR VALUE HIERARCHY	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Currency forwards	-	22	-	2
Commodity forwards	-	13	-	14
Commodity SWAP	-	56	-	64
Contracts for purchase/sale of coal	-	3	-	9
Measurement of CCIRS transactions	-	101	-	44
Measurement of IRS transactions	-	65	-	98
Options	-	15	-	24
Fund participation units	-	66	-	50
Financial assets	**-**	**341**	**-**	**305**
Currency forwards	-	45	-	82
Commodity SWAP	-	6	-	7
Contracts for purchase/sale of coal	-	22	-	20
Measurement of IRS transactions	-	8	-	15
Financial liabilities	**-**	**81**	**-**	**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, trade and distribution of electricity, generation, transmission and distribution of heat, granted by the President of Energy Regulatory Office and concessions for the extraction of lignite deposits, granted by the Minister of the Environment. Concessions, as a rule, are 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.

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 three quarters 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 product prices, growth of GDP and technological factors – advances in technology, product manufacturing technology. Each of these factors has an impact on technical and economic conditions of production, distribution and transmission of energy carriers, thus influence the results obtained by PGE Group.

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

6.1 Information on business segments

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

	Conventional Generation	Renewables	Supply	Distribution	Other activity	Adjustments	Total
STATEMENT OF PROFIT OR LOSS							
Sales to external customers	6,228	442	7,830	4,278	174	10	18,962
Inter-segment sales	5,834	176	2,384	74	299	(8,767)	-
TOTAL SEGMENT REVENUE	**12,062**	**618**	**10,214**	**4,352**	**473**	**(8,757)**	**18,962**
Cost of goods sold	(10,407)	(434)	(8,770)	(3,175)	(393)	8,257	**(14,922)**
EBIT *)	**709**	**163**	**440**	**1,016**	**-**	**35**	**2,363**
Net finance income / (expenses)							(262)
Share of profit/(loss) of entities accounted for using the equity method							58
GROSS PROFIT							**2,159**
Income tax							(460)
NET PROFIT FOR THE REPORTING PERIOD							**1,699**
Depreciation, amortisation, disposal and impairment recognised in profit or loss	1,657	191	19	876	65	(30)	2,778
EBITDA **)	**2,366**	**354**	**459**	**1,892**	**65**	**5**	**5,141**
ASSETS AND LIABILITIES							
Assets excluding trade receivables	43,710	3,110	2,150	17,312	651	(852)	66,081
Trade receivables	1,127	61	3,067	838	118	(2,247)	2,964
Shares accounted for using the equity method							752
Unallocated assets							3,706
TOTAL ASSETS							**73,503**
Segment liabilities excluding trade liabilities	8,424	338	1,144	1,727	114	(177)	11,570
Trade liabilities	1,069	27	1,906	234	41	(2,151)	1,126
Unallocated liabilities							12,504
TOTAL LIABILITIES							**25,200**
OTHER INFORMATION ON BUSINESS SEGMENT							
Capital expenditures	2,615	64	9	1,069	114	(112)	3,759
Impairment losses on financial and non-financial assets	216	-	24	9	1	-	250
Other non-monetary expenses ***)	1,580	13	610	100	22	(146)	2,179

*) 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.

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

	Conventional Generation	Renewables	Supply	Distribution	Other activity	Adjustments	Total
STATEMENT OF PROFIT OR LOSS							
Sales to external customers	4,222	445	10,229	1,639	131	27	16,693
Inter-segment sales	5,176	85	1,011	3,088	206	(9,566)	-
TOTAL SEGMENT REVENUE	**9,398**	**530**	**11,240**	**4,727**	**337**	**(9,539)**	**16,693**
Cost of goods sold	(6,621)	(436)	(9,719)	(3,612)	(315)	9,072	**(11,631)**
EBIT *)	**2,233**	**41**	**594**	**939**	**(28)**	**36**	**3,815**
Net finance income / (expenses)							(202)
Share of profit/(loss) of entities accounted for using the equity method							11
GROSS PROFIT							**3,624**
Income tax							(667)
NET PROFIT FOR THE REPORTING PERIOD							**2,957**
Depreciation, amortisation, disposal and impairment recognised in profit or loss	1,168	198	20	868	68	(29)	2,293
EBITDA **)	**3,401**	**239**	**614**	**1,807**	**40**	**7**	**6,108**
ASSETS AND LIABILITIES							
Assets excluding trade receivables	36,477	3,418	939	16,757	548	(828)	57,311
Trade receivables	801	75	2,576	807	78	(1,898)	2,439
Shares accounted for using the equity method							626
Unallocated assets							7,468
TOTAL ASSETS							**67,844**
Segment liabilities excluding trade liabilities	6,829	331	1,018	1,761	68	15	10,022
Trade liabilities	596	30	1,732	237	16	(1,808)	803
Unallocated liabilities							11,341
TOTAL LIABILITIES							**22,166**
OTHER INFORMATION ON BUSINESS SEGMENT							
Capital expenditures	3,041	49	9	1,060	85	(51)	4,193
Impairment losses on financial and non-financial assets	152	13	9	5	-	-	179
Other non-monetary expenses ***)	1,228	14	613	60	18	2	1,935

*) 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.

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Q1 *(unaudited)*	Q2 *(unaudited)*	Q3 *(unaudited)*	Period ended September 30, 2018
Revenue from sales	7,137	5,734	6,091	**18,962**
Cost of goods sold	(5,229)	(4,625)	(5,068)	**(14,922)**
GROSS PROFIT ON SALES	**1,908**	**1,109**	**1,023**	**4,040**
Net other operating income / (expenses)	26	10	14	**50**
EBIT	**1,315**	**516**	**532**	**2,363**
Net finance income / (expenses)	(101)	(107)	(54)	**(262)**
Share of profit/(loss) of entities accounted for using the equity method	11	32	15	**58**
GROSS PROFIT	**1,225**	**441**	**493**	**2,159**
Income tax	(239)	(131)	(90)	**(460)**
NET PROFIT FOR THE REPORTING PERIOD	**986**	**310**	**403**	**1,699**

	Q1 *(unaudited)*	Q2 *(unaudited)*	Q3 *(unaudited)*	Period ended September 30, 2017
Revenue from sales	5,741	4,879	6,073	**16,693**
Cost of goods sold	(4,149)	(3,723)	(3,759)	**(11,631)**
GROSS PROFIT ON SALES	**1,592**	**1,156**	**2,314**	**5,062**
Net other operating income / (expenses)	89	40	7	**136**
EBIT	**1,201**	**731**	**1,883**	**3,815**
Net finance income / (expenses)	(63)	(59)	(80)	**(202)**
Share of profit/(loss) of entities accounted for using the equity method	9	(8)	10	**11**
GROSS PROFIT	**1,147**	**664**	**1,813**	**3,624**
Income tax	(184)	(132)	(351)	**(667)**
NET PROFIT FOR THE REPORTING PERIOD	**963**	**532**	**1,462**	**2,957**

7. Revenue and costs

7.1 Revenue from sales

	Q1 *(unaudited)*	Q2 *(unaudited)*	Q3 *(unaudited)*	Period ended September 30, 2018
REVENUE FROM SALES				
Revenue from sales, without excluding taxes and fees	*7,344*	*6,027*	*6,284*	***19,655***
Taxes and fees collected on behalf of third parties	*(282)*	*(264)*	*(277)*	***(823)***
Revenue from sale of goods and products, including:	**7,062**	**5,763**	**6,007**	**18,832**
Sale of electricity	3,802	*3,565*	3,862	**11,229**
Sale of distribution services	1,443	*1,331*	1,357	**4,131**
Sale of heat	852	*292*	221	**1,365**
Sale of energy origin certificates	206	*66*	69	**341**
Regulatory system services	153	143	149	**445**
Sale of gas	242	72	83	**397**
Sale of fuel	245	154	131	**530**
Other sales of goods and materials	119	140	135	**394**
Revenue from sale of services	**61**	**68**	**83**	**212**
Revenues from LTC compensations	**14**	**(97)**	**1**	**(82)**
TOTAL REVENUE FROM SALES	**7,137**	**5,734**	**6,091**	**18,962**

The increase in revenue from sales in the period ended September 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 in the present period 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.

	Q1 (unaudited)	Q2 (unaudited)	Q3 (unaudited)	Period ended September 30, 2017
REVENUE FROM SALES				
Revenue from sales, without excluding taxes and fees	*5,743*	*4,949*	*4,910*	***15,602***
Taxes and fees collected on behalf of third parties	*(125)*	*(116)*	*(114)*	***(355)***
Revenue from sale of goods and products, including:	**5,618**	**4,833**	**4,796**	**15,247**
Sale of electricity	3,221	2,814	2,910	**8,945**
Sale of distribution services	1,574	1,453	1,473	**4,500**
Sale of heat	285	129	88	**502**
Sale of energy origin certificates	158	87	(7)	**238**
Regulatory system services	147	125	124	**396**
Sale of gas	146	135	92	**373**
Other sales of goods and materials	87	90	116	**293**
Revenue from sale of services	**123**	**46**	**66**	**235**
Revenues from LTC compensations	**-**	**-**	**1,211**	**1,211**
TOTAL REVENUE FROM SALES	**5,741**	**4,879**	**6,073**	**16,693**

7.2 Costs by nature and function

	Q1 (unaudited)	Q2 (unaudited)	Q3 (unaudited)	Period ended September 30, 2018
COSTS BY NATURE				
Depreciation, amortisation and impairment losses	923	976	955	**2,854**
Materials and energy	1,369	975	1,117	**3,461**
External services	574	622	611	**1,807**
Taxes and fees	927	808	1,028	**2,763**
Employee benefits expenses	1,236	1,231	1,187	**3,654**
Other costs by nature	66	80	82	**228**
TOTAL COST BY NATURE	**5,095**	**4,692**	**4,980**	**14,767**
Change in product inventories	(6)	(2)	(7)	**(15)**
Cost of products and services for the entity's own needs	(243)	(249)	(323)	**(815)**
Distribution and selling expenses	(363)	(348)	(280)	**(991)**
General and administrative expenses	(256)	(255)	(225)	**(736)**
Cost of goods and materials sold	1,002	787	923	**2,712**
COST OF GOODS SOLD	**5,229**	**4,625**	**5,068**	**14,922**

Growth in the consumption of materials and energy in the period ended September 30, 2018, compared to the same period last 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)	Q3 (unaudited)	Period ended September 30, 2017
COSTS BY NATURE				
Depreciation, amortisation and impairment losses	778	797	808	**2,383**
Materials and energy	758	589	634	**1,981**
External services	671	642	668	**1,981**
Taxes and fees	863	727	735	**2,325**
Employee benefits expenses	1,098	1,094	1,023	**3,215**
Other costs by nature	53	53	75	**181**
TOTAL COST BY NATURE	**4,221**	**3,902**	**3,943**	**12,066**
Change in product inventories	(18)	2	8	**(8)**
Cost of products and services for the entity's own needs	(190)	(246)	(244)	**(680)**
Distribution and selling expenses	(304)	(296)	(282)	**(882)**
General and administrative expenses	(176)	(169)	(156)	**(501)**
Cost of goods and materials sold	616	530	490	**1,636**
COST OF GOODS SOLD	**4,149**	**3,723**	**3,759**	**11,631**

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

Period ended September 30, 2017	Depreciation, amortisation, disposal Property, plant and equipment	Intangible assets	Investment property	TOTAL	Impairment Property, plant and equipment	Intangible assets	TOTAL
Cost of goods sold	2,116	59	1	**2,176**	79	-	**79**
Distribution and selling expenses	9	4	-	**13**	-	-	**-**
General and administrative expenses	16	9	-	**25**	-	-	**-**
RECOGNISED IN PROFIT OR LOSS	**2,141**	**72**	**1**	**2,214**	**79**	**-**	**79**
Cost of products and services for the entity's own needs	90	-	-	**90**	-	-	**-**
TOTAL	**2,231**	**72**	**1**	**2,304**	**79**	**-**	**79**

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 September 30, 2018	Period ended September 30, 2017
OTHER OPERATING INCOME		
Penalties, fines and compensations received	92	64
Tax refund	30	2
Reversal of impairment losses on receivables	28	13
Reversal of other provisions	19	25
Grants received	18	21
Surpluses / asset disclosures	14	2
Gain on sale of property, plant and equipment and intangible assets	13	8
Property, plant and equipment and intangible assets received free of charge	9	8
Revenue from illegal energy consumption	3	5
Compensation for legal proceedings' costs	3	3
Reversal of impairment allowances on other assets	3	-
Adjustment of revenues from LTC compensations	-	69
Other	39	39
TOTAL OTHER OPERATING INCOME	**271**	**259**

	Period ended September 30, 2018	Period ended September 30, 2017
OTHER OPERATING EXPENSES		
Recognition of impairment losses	72	37
Recognition of other provisions	61	17
Effect of change in rehabilitation provision	17	-
Re-invoicing	14	7
Donations granted	11	13
Damage / failure removal	9	13
Liquidation of property, plant and equipment and intangible assets related to other activities	7	3
Legal proceedings' costs	4	4
Other	26	29
TOTAL OTHER OPERATING EXPENSES	**221**	**123**

7.4 Finance income and finance expenses

	Period ended September 30, 2018	Period ended September 30, 2017
FINANCE INCOME FROM FINANCIAL INSTRUMENTS		
Dividends	1	5
Interest	38	74
Revaluation of financial instruments/Reversal of loss allowances	74	35
Positive exchange differences	1	28
FINANCE INCOME FROM FINANCIAL INSTRUMENTS	**114**	**142**
OTHER FINANCE INCOME		
Interest on statutory receivables	1	2
Other	1	1
OTHER FINANCE INCOME	**2**	**3**
TOTAL FINANCE INCOME	**116**	**145**

The Group recognises interest income primarily on cash and receivables. The item 'impairment of financial statements' 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 September 30, 2018	Period ended September 30, 2017
FINANCE EXPENSES RELATED TO FINANCIAL INSTRUMENTS		
Interest	149	116
Revaluation of financial instruments	39	1
Loss on disposal of investment	20	92
Impairment loss	3	3
Negative exchange differences	13	2
FINANCE EXPENSES RELATED TO FINANCIAL INSTRUMENTS	**224**	**214**
OTHER FINANCE EXPENSES		
Interest expenses, including effect of discount unwinding	137	126
Recognition of provisions	10	5
Other	7	2
OTHER FINANCE EXPENSES	**154**	**133**
TOTAL FINANCIAL EXPENSES	**378**	**347**

Interest expenses mainly relate to bonds issued and credit and loans incurred 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 SEPTEMBER 30, 2018				
Revenue	7,078	1,106	-	10
Result on continuing operations	435	112	(5)	(1)
Share of profit of entities accounted for using the equity method	**67**	**17**	**(1)**	**-**
Elimination of unrealised transactions	(28)	3	-	-
Share of profit of entities accounted for using the equity method	**39**	**20**	**(1)**	**-**

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia
SHARE IN VOTES	15.76%	16.48%	25.00%	34.93%
PERIOD ENDED SEPTEMBER 30, 2017				
Revenue	5,885	1,476	-	8
Result on continuing operations	58	45	-	-
Share of profit of entities accounted for using the equity method	**9**	**7**	**-**	**-**
Elimination of unrealised transactions	(5)	-	-	-
Share of profit of entities accounted for using the equity method	**4**	**7**	-	-

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 September 30, 2018	Period ended September 30, 2017
Impairment losses on property, plant and equipment		
Recognition of impairment	204	79
Reversal of impairment loss	2	-
Impairment losses on inventory		
Recognition of impairment	6	58
Reversal of impairment loss	1	18

9. Tax in the statement of comprehensive income

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

	Period ended September 30, 2018	Period ended September 30, 2017
INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS		
Current income tax	396	356
Deferred income tax	64	311
INCOME TAX EXPENSE RECOGNISED IN STATEMENT OF PROFIT OR LOSS	**460**	**667**
INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME		
From measurement of hedging instruments	(8)	(12)
Tax benefit recognised in other comprehensive income	**(8)**	**(12)**

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 3,759 million. The largest expenditures were incurred in the Conventional Generation segment (PLN 2,615 million) and the Distribution segment (PLN 1,069 million). The key expenditures items were as follows: construction of units 5-6 at Elektrownia Opole (PLN 642 million), construction of new unit at Elektrownia Turów (PLN 349 million), construction of thermal processing installation with energy recovery at Elektrociepłownia Rzeszów (PLN 141 million) and modernisation of units 1-3 at Elektrownia Turów (PLN 127 million).

No significant tangible asset sale transactions took place in the reporting period.

In the period ended September 30, 2018, the Group recognised a loss allowance on property, plant and equipment of PLN 202 million. This allowance concerns investment expenditures made by Conventional Generation segment companies, for which impairment had been identified in previous periods, as described in note 7.2.1 of these consolidated financial statements.

11. Future investment commitments

As at September 30, 2018, PGE Group committed to incur capital expenditures on property, plant and equipment of approximately PLN 6,350 million. These amounts relate mainly to construction of new power units, modernisation of Group's assets and purchase of machinery and equipment.

	As at September 30, 2018	As at December 31, 2017 *restated data*
Conventional Generation	4,606	4,755
Distribution	1,502	1,005
Renewables	54	67
Supply	13	1
Other activity	175	171
TOTAL FUTURE INVESTMENT COMMITMENTS	**6,350**	**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 900 million,
  - Branch Turów Power Plant – construction of new power unit – approximately PLN 1,891 million,
  - Branch Turów Power Plant – modernisation of power units no. 1-3 – approximately PLN 352 million,
- Distribution – investment commitments related to network distribution assets with the total value of approximately PLN 1,502 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 158 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 September 30, 2018	As at December 31, 2017
Polska Grupa Górnicza S.A.	631	533
Polimex Mostostal S.A.	107	91
ElectroMobility Poland S.A.	6	2
PEC Bogatynia Sp. z o.o.	8	8
Shares accounted for using the equity method	**752**	**634**

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia
SHARE IN VOTES	15.32%	16.48%	25.00%	34.93%
As at September 30, 2018				
Current assets	2,866	1,368	21	3
Non-current assets	9,400	720	3	22
Current liabilities	3,698	856	-	1
Non-current liabilities	4,453	677	-	1
NET ASSETS	**4,115**	**555**	**24**	**23**
Share in net assets	**630**	**91**	**6**	**8**
Goodwill	1	16	-	-
EQUITY-ACCOUNTED INVESTMENTS	**631**	**107**	**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 September 30, 2018	As at December 31, 2017 *restated data**
Difference between tax value and carrying amount of property, plant and equipment	2,365	2,323
Difference between tax value and carrying amount of financial assets	52	48
Difference between tax value and carrying amount of financial liabilities	294	268
Difference between tax value and carrying amount of inventories	17	17
LTC compensations	48	48
Rehabilitation provision	577	548
Provision for purchase of CO_2 emission rights	239	276
Provisions for employee benefits	598	571
Other provisions	106	122
Energy infrastructure acquired free of charge and connection payments received	34	111
Other	102	38
DEFERRED TAX ASSETS	**4,432**	**4,370**

13.2 Deferred income tax provision

	As at September 30, 2018	As at December 31, 2017 *restated data**
Difference between tax value and carrying amount of property, plant and equipment	4,490	4,240
Difference between tax value and carrying amount of energy origin units	34	46
Difference between tax value and carrying amount of financial assets	396	382
Difference between tax value and carrying amount of financial liabilities	140	92
CO_2 emission rights	139	274
LTC compensations	18	34
Other	69	33
DEFERRED TAX PROVISION	**5,286**	**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	554	571
Deferred tax provision	(1,408)	(1,302)

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

In September 2018, PGE Group submitted another report on investments included in the National Investment Plan in order to obtain CO_2 EUA allocations concerning electricity generated, which should be issued to the installations' accounts by April 2019 at the latest.

EUA	As at September 30, 2018 Non-current	As at September 30, 2018 Current	As at December 31, 2017 Non-current	As at December 31, 2017 Current
Quantity (Mg million)	**7**	**30**	**18**	**44**
Value	**357**	**1,246**	**402**	**1,040**

Change in 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	39	1,706
Granted free of charge	17	-
Redemption	(70)	(1,311)
Sale	(11)	(234)
As at September 30, 2018	**37**	**1,603**

15. Selected financial assets

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

15.1 Trade and other financial receivables

	As at September 30, 2018 Non-current	As at September 30, 2018 Current	As at December 31, 2017 Non-current	As at December 31, 2017 Current
Trade receivables	-	2,964	-	3,159
Deposits	160	8	148	6
Deposits, securities and collateral	1	1,000	-	128
LTC compensations	-	-	-	10
Damages and penalties	-	178		158
Other financial receivables	7	51	10	61
TOTAL FINANCIAL RECEIVABLES	**168**	**4,201**	**158**	**3,522**

Deposits, securities and collateral mainly concern transaction and hedging deposits and the guarantee fund. The increase in the value of collateral is primarily due to the increase of electricity prices on the wholesale market and the increase in the volume of electricity sold by the PGE Capital Group on the Towarowa Giełda Energii.

The value of other financial receivables consists mainly of disputed receivables described in note 21.4 of these consolidated financial statements.

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 September 30, 2018	As at December 31, 2017
Cash on hand and cash at bank	1,030	1,309
Overnight deposits	71	34
Short-term deposits	155	1,209
Cash in VAT accounts	70	-
TOTAL	**1,326**	**2,552**
Exchange differences on cash in foreign currencies	(1)	(1)
Cash and cash equivalents presented in the statement of cash flows	**1,325**	**2,551**
Undrawn borrowing facilities as at September 30	4,104	6,740
including overdraft facilities	*1,515*	*2,174*
Credit available from December 16, 2018	*4,100*	-

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

The value of cash includes restricted cash in the amount of PLN 54 million (PLN 92 million in the comparative period) as collateral for settlements with Izba Rozliczeniowa Giełd Towarowych S.A. (the Warsaw Commodity Clearing House) and cash in VAT accounts in the amount of PLN 70 million.

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

	As at September 30, 2018		As at December 31, 2017	
	Assets	Liabilities	Assets	Liabilities
Financial instruments measured at fair value				
Currency forwards	20	45	1	49
Commodity forwards for CO_2	13	-	14	-
Commodity SWAP	56	6	64	7
Contracts for purchase/sale of coal	3	22	9	20
IRS transactions	-	1	-	10
Options	15	-	24	-
HEDGING DERIVATIVES				
CCIRS hedges	101	-	44	-
IRS hedges	65	7	98	5
Currency forwards	2	-	1	33
Other assets carried at fair value through profit or loss				
Investment fund participation units	66	-	50	-
TOTAL DERIVATIVES	**341**	**81**	**305**	**124**
current	89	64	83	106
non-current	252	17	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.

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 September 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 on which these consolidated financial statements were prepared, there were no changes in the value of the Company's share capital.

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

The Company is part of PGE Group, in respect of which the State Treasury holds special rights.

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

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

- 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 September 30, 2018	Year ended December 31, 2017
AS AT JANUARY 1	**83**	**147**
Change in hedging reserve	**(42)**	**(79)**
Measurement of hedging instruments, including:	**(37)**	**(74)**
Deferral of changes in fair value of hedging financial instruments in the part considered as effective hedge	*40*	*(242)*
Accrued interest on derivatives transferred from hedging reserve and recognised in interest expense	*(12)*	*(4)*
Currency revaluation of CCIRS transaction transferred from hedging reserve and recognised in the result on foreign exchange differences	*(66)*	*167*
Ineffective portion of change in fair value of hedging derivatives recognised in profit or loss	*1*	*5*
Measurement of other financial assets	**(5)**	**(5)**
Deferred tax	**8**	**15**
HEDGING RESERVE INCLUDING DEFERRED TAX	**49**	**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.

18. Provisions

The carrying amount of provisions is as follows:

	As at September 30, 2018		As at December 31, 2017	
	Non-current	Current	Non-current	Current
Employee benefits	2,294	238	2,301	229
Rehabilitation provision	3,240	3	3,082	4
Provision for deficit of CO_2 emission rights	117	1,138	112	1,341
Provision for energy origin units held for redemption	-	275	-	340
Provision for non-contractual use of property	63	10	72	11
Other provisions	97	110	84	66
TOTAL PROVISIONS	**5,811**	**1,774**	**5,651**	**1,991**

Changes in provisions

	Employee benefits	Rehabilitation provision	Provision for deficit of CO_2 emission rights	Provisions for energy origin units held for redemption	Provision for non-contractual use of the property	Other	Total
January 1, 2018	**2,530**	**3,086**	**1,453**	**340**	**83**	**150**	**7,642**
Current service costs	50	-	-	-	-	-	**50**
Interest costs	62	75	-	-	-	-	**137**
Benefits paid / Provisions used	(127)	(1)	(1,311)	(666)	-	(15)	**(2,120)**
Provisions reversed	(1)	-	(29)	(1)	(18)	(4)	**(53)**
Provisions recognised - costs	6	46	1,142	602	8	69	**1,873**
Provisions recognised – property, plant and equipment	-	52	-	-	-	-	**52**
Incorporation of companies in consolidation	12	-	-	-	-	6	**18**
Other changes	-	(15)	-	-	-	1	**(14)**
September 30, 2018	**2,532**	**3,243**	**1,255**	**275**	**73**	**207**	**7,585**

restated data	Employee benefits	Rehabilitation provision	Provision for deficit of CO_2 emission rights	Provisions for energy origin units held for redemption	Provision for non-contractual use of 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 – property, plant and equipment	-	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 1,723 million (PLN 1,705 million as at December 31, 2017),
- jubilee awards - PLN 802 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 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 September 30, 2018 amounted to PLN 2,834 million and as at December 31, 2017 to PLN 2,693 million.

Provision for rehabilitation of ash storage

PGE Group power generating units raise provisions for rehabilitation of ash storages. The value of the provision as at September 30, 2018 amounted to PLN 187 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 168 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 deficit of CO_2 emission rights

As a rule, the provision for deficit of CO_2 emission rights is created by PGE Group entities for the shortfall of CO_2 emission rights granted free of charge. As described in note 14 of these 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 units 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 September 30, 2018 amounted to PLN 275 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 property

PGE Group companies recognise a provision for damages related to a non-contractual use of property. This issue mainly relates to the distribution company, which owns distribution networks. As at the reporting date the provision amounted to approximately PLN 73 million (of which 33 million concerns litigations). In the comparative period the value of the provision amounted to PLN 83 million (of which PLN 38 million concerned litigations).

18.6 Other provisions

Other provisions comprise mainly provisions raised for claims relating to real estate tax of PLN 85 million (PLN 81 million in the prior year) and a provision for easement in favour of State Forests worth PLN 30 million.

19. Financial liabilities

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

Bonds issued by PGE Sweden AB (publ) are based on a fixed interest rate. Their value at amortised cost presented in these financial statements as at September 30, 2018 amounted to PLN 2,736 million wheares their fair value amounted to PLN 2,790 million.

19.1 Loans, borrowings, bonds and leases

	As at September 30, 2018		As at December 31, 2017	
	Non-current	Current	Non-current	Current
Loans and borrowings	5,756	2,405	5,788	570
Bonds issued	575	2,161	2,632	1,051
Leases	2	3	2	2
TOTAL LOANS, BORROWINGS, BONDS AND LEASES	**6,333**	**4,569**	**8,422**	**1,623**

Loans and borrowings

Among loans and borrowings presented above as at September 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 unit in Bełchatów Power Plant of PLN 430 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 1 512 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 date of the revolving loan falls on April 30, 2019, and the final repayment date of the loan facility falls on September 30, 2023. This liability as at September 30, 2018, amounted to PLN 5,541 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, are intended to finance and refinance the construction of cogeneration units Gorzów CHP and Rzeszów CHP. The European Investment Bank loans will be available for disbursement over a period of up to 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 September 30, 2018, the aforesaid loans were not used.

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

On September 17, 2018, PGE S.A. executed a PLN 4,100 million open-end credit agreement for four years with a bank consortium consisting of: Santander Bank Polska S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Intesa SanPaolo S.P.A. (acting through the Polish branch: Intesa SanPaolo S.P.A. Spółka Akcyjna Oddział w Polsce) and MUFG Bank (Europe) N.V. The credit facility may be used for:

- financing PGE's and PGE Group's on-going activities,
- financing investment and capital expenditures related to PGE's and PGE Group's activities, and
- re-finance PGE's and PGE Group's financial liabilities.

The credit facility will be available within 90 days from agreement signing, i.e. from December 16, 2018. The agreement provides interest periods not longer than six months. The final repayment date of the credit facility is December 16, 2022. As at September 30, 2018, the credit facility was unused.

Moreover, the Group recognises loans from environmental funds amounting to a total of PLN 432 million.

As at September 30, 2018, the value of the overdrafts at the disposal of the significant PGE Group companies was PLN 1,515 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 Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange). The bonds redemption took place on June 27, 2018.
- 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.

19.2 Trade and other financial liabilities

	As at September 30, 2018		As at December 31, 2017	
	Non-current	**Current**	**Non-current**	**Current**
Trade liabilities	-	1,126	-	1,650
Purchase of property, plant and equipment and intangible assets	-	667	-	1,418
Security deposits received	51	77	22	87
Liabilities related to LTC	416	12	332	-
Insurance	-	-	-	17
Other	21	191	25	59
TRADE AND OTHER FINANCIAL LIABILITIES	**488**	**2,073**	**379**	**3,231**

The value of '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 September 30, 2018	As at December 31, 2017 *restated data*
Environmental fees	200	234
VAT liabilities	292	126
Excise tax liabilities	121	128
Payroll liabilities	172	257
Bonuses for employees	296	222
Unused holiday leave	122	139
Estimated liabilities concerning Sector Holidays	58	-
Liabilities due to Voluntary Leave Programs	10	49
Estimated liabilities concerning other employee benefits	55	39
Personal income tax	70	85
Liabilities from social insurances	197	246
Received advances for deliveries	183	147
Liabilities related to dividends	25	8
Other	49	53
TOTAL OTHER NON-FINANCIAL LIABILITIES	**1,850**	**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 value of "Other" comprises mainly payments to the Employment Pension Program and withholdings from employee wages.

OTHER EXPLANATORY NOTES

21. Contingent liabilities and receivables. Legal claims

21.1 Contingent liabilities

	As at September 30, 2018	As at December 31, 2017
Contingent return of grants from environmental funds	727	753
Legal claims	222	188
Bank guarantee liabilities	495	223
Contractual fines and penalties	-	12
Employees' claims	1	2
Other contingent liabilities	78	74
Total contingent liabilities	**1,523**	**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 the claim extended to PLN 104 million (i.e. by PLN 45 million). On March 31, 2018, the company filed a response to WorleyParsons' expanded claim. The Group does not accept the claim and regards its possible admission by the court as unlikely.

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

In October 2017, PGE Energia Odnawialna S.A. and PGE Energia Natury sp. z o.o. (acquired by PGE Energia Odnawialna S.A.) received lawsuits in which Energa Obrót S.A. demand the annulment of a legal relation that were to arise as a result of the execution of an agreement to sell energy origin certificates resulting from electricity origin certificates at FW Kisielice in 2009, FW Koniecwałd (Malbork) and FW Galicja. Energa Obrót S.A.'s demands in all of the lawsuits are based on the accusation that executory agreements (to sell specific energy origin certificates) 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 all of the cases, the courts referred the parties for mediation, the date of which is December 15, 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 energy origin certificates 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 36 million being imposed (recognised as revenue in 2017 of PLN 16 million and PLN 20 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 807 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 mostly present bank guarantees provided as collateral for stock market transactions resulting from membership in the Stock Exchange Clearninghouse. As at September 30, 2018, the total amount of bank guarantees was PLN 491 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 42 million related to risk of additional costs related to PGE Group's debt financing program.

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, PGE Group is involved in disputes at an earlier stage of proceedings and it cannot be excluded that the number and value of similar disputes will 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 25 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. A hearing is set for November 20, 2018.

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 on July 8, 2017. On September 28, 2018, the District Court in Warsaw ruled in the first instance - the lawsuit by Pozwy sp. z o.o. against PGE S.A., PGE GiEK S.A. and PWC Polska sp. z o.o. was rejected.

PGE Group companies do not recognise the claims being raised by Socrates Investment S.A., Pozwy sp. z o.o. and the rest of shareholders requesting conciliatory settlements. According to PGE S.A., these claims are groundless and the entire consolidation process was conducted 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 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 certificates by Enea S.A.

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

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

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 September 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, energy origin certificates 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 2,664 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 48 million concerning invoices issued to Enea S.A. for the sale of energy origin certificates based on these contracts. Enea S.A. refused to pay these receivables, claiming that they were offset by receivables from the Group's companies related to compensation for alleged damages arising as a result of the companies' failure to re-negotiate the contracts. According to Group companies, such offsets are groundless because Enea S.A.'s receivables concerning the payment of compensation never arose and there are no grounds for acknowledging Enea S.A.'s claim that the companies breached contractual provisions. The proceedings are in progress. The next hearings are scheduled for November and December 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 energy origin certificates (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

As from July 1, 2018, a VAT split payment mechanism was introduced. The mechanism is to seal the tax system by separating amounts of VAT from payments made by the buyers for the purchased services or goods and deposit them into dedicated VAT bank account of the suppliers. 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 is the buyer's right but not an obligation.

Given the above, the introduction of a split payment mechanism might increase net debt and the net debt to EBITDA ratio. As at the date of preparation of these financial statements, there was no practice how cash in VAT accounts will be taken into account when calculating debt ratios that are then presented to financing institutions. PGE Group intends to use the funds received from counterparties in VAT accounts effectively to pay its liabilities that include 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. As at September 30, 2018, the cash balance in these VAT accounts is approx. PLN 70 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.

Real estate tax

Considering pending disputes, PGE Group established at the reporting date the provision for property tax in the amount of PLN 85 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 September 30, 2018	Period ended September 30, 2017
Sales to associates and jointly controlled entities	14	7
Purchases from associates and jointly controlled entities	1,472	1,217
	As at September 30, 2018	**As at December 31, 2017**
Trade receivables from associates and jointly controlled entities	4	9
Trade liabilities to associates and jointly controlled entities	177	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 September 30, 2018	Period ended September 30, 2017
Sales to related parties	1,402	1,516
Purchases from related parties	3,415	2,804
	As at September 30, 2018	**As at December 31, 2017**
Trade receivables from related parties	203	280
Trade liabilities to related parties	472	629

The largest transactions with companies in which 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., Enea 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 organisation 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 000s	Period ended September 30, 2018	Period ended September 30, 2017
Short-term employee benefits (salaries and salary related costs)	27,603	23,756
Post-employment benefits	3,325	2,035
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**30,928**	**25,791**
Remuneration of key management personnel of entities of non-core operations	15,611	10,734
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**46,539**	**36,525**

PLN 000s	Period ended September 30, 2018	Period ended September 30, 2017
Management Board of the parent company	5,847	5,388
including post-employment benefits	-	*116*
Supervisory Board of the parent company	507	595
Management Boards – subsidiaries	22,354	17,917
Supervisory Boards – subsidiaries	2,220	1,891
TOTAL	**30,928**	**25,791**
Remuneration of key management personnel of entities of non-core operations	15,611	10,734
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**46,539**	**36,525**

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 September 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 to these consolidated financial statements.

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. Under the tender offer, collateral in the form of a bank guarantee was put up for PGE's liabilities. The guarantee was issued by Bank Polska Kasa Opieki S.A. and the beneficiary is PEKAO Investment Banking S.A. The bank guarantee was issued on May 22, 2018, for PLN 740 million, valid 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.

Given that some of the aforementioned conditions were not met, PGE decided not to purchase Polenergia S.A. shares.

24.2 Significant events after the reporting period

No significant events that would require disclosure in these consolidated financial statements took place between the end of the reporting period and the date on which these financial statements were approved.

II. PGE Polska Grupa Energetyczna S.A. Quarterly financial information for the 3- and 9-month periods ended September 30, 2018, in accordance with IFRS EU (in PLNm)

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	3 months ended September 30, 2018 *(unaudited)*	9 months ended September 30, 2018 *(unaudited)*	3 months ended September 30, 2017 *(unaudited)*	9 months ended September 30, 2017 *(unaudited)*
STATEMENT OF PROFIT OR LOSS				
SALES REVENUES	**2,779**	**7,958**	**2,213**	**6,804**
Cost of goods sold	(2,560)	(7,351)	(2,031)	(6,243)
GROSS PROFIT ON SALES	**219**	**607**	**182**	**561**
Distribution and selling expenses	(4)	(13)	(3)	(13)
General and administrative expenses	(51)	(155)	(37)	(109)
Other operating income	2	5	1	2
Other operating expenses	(2)	(6)	(1)	(9)
OPERATING PROFIT	**164**	**438**	**142**	**432**
Finance income	138	377	94	4,468
Finance expenses	(101)	(312)	(75)	(302)
GROSS PROFIT	**201**	**503**	**161**	**4,598**
Current income tax	3	(48)	(11)	7
Deferred income tax	(8)	(3)	1	(2)
NET PROFIT FOR THE REPORTING PERIOD	**196**	**452**	**151**	**4,603**
OTHER COMPREHENSIVE INCOME				
Items that may be reclassified to profit or loss:				
Measurement of hedging instruments	(7)	(32)	11	(59)
Deferred tax	1	6	(2)	11
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET	**(6)**	**(26)**	**9**	**(48)**
TOTAL COMPREHENSIVE INCOME	**190**	**426**	**160**	**4,555**
NET PROFIT AND DILUTED NET PROFIT PER SHARE (IN PLN)	**0.10**	**0.24**	**0.08**	**2.46**

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

SEPARATE STATEMENT OF FINANCIAL POSITION

	As at September 30, 2018 *(unaudited)*	As at December 31, 2017 *(audited)* *restated data*
NON-CURRENT ASSETS		
Property, plant and equipment	169	176
Intangible assets	1	3
Financial receivables	13,180	11,840
Derivatives and other assets measured at fair value through profit or loss	247	216
Shares in subsidiaries	32,704	32,568
Shares in other related parties	88	84
	46,389	**44,887**
CURRENT ASSETS		
Inventories	863	2
Trade and other receivables	4,167	2,636
Derivatives	16	54
Other current assets	47	220
Income tax receivables	-	-
Cash and cash equivalents	631	1,832
	5,724	**4,744**
TOTAL ASSETS	**52,113**	**49,631**
EQUITY		
Share capital	19,165	19,165
Reserve capital	19,872	15,328
Hedging reserve	84	110
Retained earnings	449	4,541
	39,570	**39,144**
NON-CURRENT LIABILITIES		
Non-current provisions	20	20
Loans, borrowings, bonds	5,651	7,714
Derivatives	7	5
Deferred income tax provision	9	13
Other liabilities	21	23
	5,708	**7,775**
CURRENT LIABILITIES		
Current provisions	1	2
Loans, borrowings, bonds, cash pooling	5,954	1,764
Derivatives	34	27
Trade and other liabilities	644	682
Income tax liabilities	107	176
Other non-financial liabilities	95	61
	6,835	**2,712**
TOTAL LIABILITIES	**12,543**	**10,487**
TOTAL EQUITY AND LIABILITIES	**52,113**	**49,631**

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

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	-	-	-	452	**452**
Other comprehensive income	-	-	(26)	-	**(26)**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**(26)**	**452**	**426**
Retained earnings distribution	-	4,544	-	(4,544)	-
Other changes	-	-	-	-	-
AS AT SEPTEMBER 30, 2018	**19,165**	**19,872**	**84**	**449**	**39,570**

	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	-	-	-	4,603	**4,603**
Other comprehensive income	-	-	(48)	-	**(48)**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**(48)**	**4,603**	**4,555**
Retained earnings distribution	-	1,598	-	(1,598)	-
Other changes	-	-	-	-	-
AS AT SEPTEMBER 30, 2017	**19,165**	**15,328**	**101**	**4,599**	**39,193**

SEPARATE STATEMENT OF CASH FLOWS

	Period ended September 30, 2018 *(unaudited)*	Period ended September 30, 2017 *(unaudited) restated data*
CASH FLOWS FROM OPERATING ACTIVITIES		
Gross profit	**503**	**4,598**
Income tax paid	46	(116)
Adjustments for:		
Depreciation, amortisation and impairment losses	10	11
Interest and dividend, net	(96)	(2,856)
Profit / loss on investing activities	52	(1,265)
Change in receivables	(13)	(123)
Change in inventories	(861)	57
Change in liabilities, excluding loans and borrowings	(29)	386
Change in provisions	-	(1)
Change in other non-financial assets	26	23
NET CASH FROM OPERATING ACTIVITIES	**(362)**	**714**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	(2)	(2)
Purchase of bonds issued by PGE Group companies	(1,695)	(2,880)
Purchase of shares in subsidiaries	(176)	(107)
Sale of other financial assets	-	369
Recognition of deposits with maturity over 3 months	-	(50)
Release of deposits with maturity over 3 months	-	2,340
Dividends received	46	2,872
Origination / (repayment) of loans granted under cash pooling agreement	662	431
Repayment of loans	260	-
Loans granted	(782)	(285)
Interest received	162	27
NET CASH FROM INVESTING ACTIVITIES	**(1,525)**	**2,715**
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of loans / buy-back of bonds	(1,000)	(17)
Proceeds from loans, borrowings and bonds	1,870	-
Interest paid	(180)	(212)
Other	(4)	(4)
NET CASH FROM FINANCING ACTIVITIES	**686**	**(233)**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(1,201)**	**3,196**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**1,831**	**1,930**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	**630**	**5,126**

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

1. 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 the consolidated financial statements, had no impact on the Company's separate financial statements.

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 September 30, 2017 *published data*	Change in presentation	As at September 30, 2017 *restated data*
CASH FLOWS FROM OPERATING ACTIVITIES			
Adjustment for items, including:			
Change in liabilities, excluding loans and borrowings	353	(5)	**386**
Change in provisions	(6)	5	**(1)**
NET CASH FROM OPERATING ACTIVITIES	**557**	**-**	**557**

	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**

III. Approval of quarterly financial report

This quarterly report, containing PGE Group's condensed consolidated financial statements and PGE S.A.'s quarterly financial information for the 3- and 9-month periods ended September 30, 2018, was approved for publication by the Management Board on November 13, 2018.

Warsaw, November 13, 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