Polska Grupa Energetyczna

PGE Polska Grupa Energetyczna S.A.
Separate financial statements
for 2017

ended December 31, 2017

in accordance with IFRS EU (in PLN million)

TABLE OF CONTENTS

STATEMENT OF COMPREHENSIVE INCOME ... 4
STATEMENT OF FINANCIAL POSITION ... 5
STATEMENT OF CHANGES IN EQUITY ... 6
STATEMENT OF CASH FLOWS ... 7
GENERAL INFORMATION, BASIS FOR PREPARATION OF FINANCIAL STATEMENTS AND OTHER EXPLANATORY INFORMATION ... 8
1. General information ... 8
1.1 Company operations ... 8
1.2 Ownership structure ... 8
1.3 Composition of the Company's Management Board ... 9
2. Basis for preparation of financial statements ... 9
2.1 Statement of compliance ... 9
2.2 Presentation and functional currency ... 9
2.3 New standards and interpretations published, not yet effective ... 10
2.4 Professional judgment of management and estimates ... 12
3. Significant accounting principles applied ... 14
4. Changes in accounting principles and data presentation ... 20
EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS ... 20
EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME ... 20
5. Revenues and expenses ... 20
5.1 Sales revenues ... 20
5.2 Costs by nature and function ... 21
5.3 Financial income and expenses ... 22
6. Income tax ... 24
6.1 Tax in the statement of comprehensive income ... 24
6.2 Effective tax rate ... 24
EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION ... 25
7. Property, plant and equipment ... 25
8. Intangible assets ... 25
9. Shares in subsidiaries ... 25
9.1 Analysis of the value of non-current financial assets ... 26
9.2 Shares in other related parties ... 28
10. Joint ventures ... 28
11. Deferred tax in the statement of financial position ... 29
11.1 Deferred tax assets ... 29
11.2 Deferred tax liabilities ... 29
12. Inventories ... 29
13. Other current assets ... 29
14. Cash and cash equivalents ... 29
15. Equity ... 30
15.1 Share capital ... 30
15.2 Reserve capital ... 31
15.3 Hedging reserve ... 31
15.4 Retained earnings and limitations on payment of dividend ... 31
15.5 Earnings per share ... 32
15.6 Dividends paid and recommended for payment ... 32
16. Provisions ... 32
17. Post-employment benefits ... 33
18. Other non-financial liabilities ... 33

EXPLANATORY NOTES TO FINANCIAL INSTRUMENTS 34
19. Financial Instruments 34
19.1 Description of significant items within particular classes of financial instruments 34
19.2 Fair value of financial instruments 39
19.3 Fair value hierarchy 39
19.4 Collateral for repayment of receivables and liabilities 39
19.5 Statement of comprehensive income 40
20. Objectives and principles of financial risk management 40
20.1 Market risk 41
20.2 Liquidity risk 43
20.3 Credit risk 44
20.4 Market (financial) risk – sensitivity analysis 46
20.5 Hedge accounting 48
EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS 49
21. Statement of cash flows 49
21.1 Cash flows from operating activities 49
21.2 Cash flows from investing activities 50
OTHER EXPLANATORY NOTES 51
22. Contingent liabilities and receivables. Legal claims 51
22.1 Contingent liabilities 51
22.2 Other significant issues related to contingent liabilities 51
22.3 Other legal claims and disputes 52
23. Tax settlements 53
24. Information on related parties 54
24.1 Transactions with related parties 54
24.2 Balances with related parties 55
24.3 Management remuneration 56
25. Disclosures under art. 44 of the Energy Law regarding specific types of activities 56
25.1 Principles for allocation to different types of activities 56
25.2 Breakdown by type of business activity 57
26. Significant events during and after the reporting period 60
26.1 Purchase of EDF's assets in Poland 60
26.2 Equity investment in Polimex-Mostostal S.A. 61
26.3 Events after the reporting period 62
27. Approval of financial statements 62

in accordance with IFRS EU (in PLN million)

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2017	Year ended December 31, 2016
STATEMENT OF PROFIT OR LOSS			
SALES REVENUES	5.1	**9,185**	**10,847**
Cost of goods sold	5.2	(8,436)	(10,157)
GROSS PROFIT ON SALES		**749**	**690**
Distribution and selling expenses	5.2	(17)	(46)
General and administrative expenses	5.2	(154)	(142)
Other operating income		3	1
Other operating expenses		(40)	(8)
OPERATING PROFIT		**541**	**495**
Finance income	5.3	4,594	1,439
Finance expenses	5.3	(586)	(260)
PROFIT BEFORE TAX		**4,549**	**1,674**
Current income tax	6.1	(16)	(58)
Deferred income tax	6.1	11	(18)
NET PROFIT FOR THE REPORTING PERIOD		**4,544**	**1,598**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss:			
Valuation of hedging instruments	15.3	(48)	205
Deferred tax	6.1	9	(39)
Items that may not be reclassified to profit or loss:			
Actuarial gains and losses from valuation of provisions for employee benefits		-	-
Deferred tax		-	-
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**(39)**	**166**
TOTAL COMPREHENSIVE INCOME		**4,505**	**1,764**
EARNINGS AND DILUTED EARNINGS PER SHARE (IN PLN)	15.5	**2.43**	**0.85**

in accordance with IFRS EU (in PLN million)

STATEMENT OF FINANCIAL POSITION

	Note	As at December 31, 2017	As at December 31, 2016
NON-CURRENT ASSETS			
Property, plant and equipment	7	176	186
Intangible assets	8	3	5
Financial receivables	19.1.1	11,840	8,848
Derivatives and other assets at fair value through profit or loss	19.1.2	216	356
Shares in subsidiaries	9	32,568	29,678
Shares in other related parties	9.2	84	6
		44,887	**39,079**
CURRENT ASSETS			
Inventories	12	2	76
Trade and other receivables	19.1.1	2,636	3,474
Derivatives	19.1.2	54	9
Other current assets	13	220	81
Cash and cash equivalents	14	1,832	1,932
		4,744	**5,572**
TOTAL ASSETS		**49,631**	**44,651**
EQUITY			
Share capital	15.1	19,165	19,165
Reserve capital	15.2	15,328	13,730
Hedging reserve	15.3	110	149
Retained earnings	15.4	4,541	1,594
		39,144	**34,638**
NON-CURRENT LIABILITIES			
Non-current provisions	16,17	20	22
Loans, borrowings, bonds	19.1.3	7,714	8,854
Derivatives	19.1.2	5	23
Deferred tax liabilities	11.2	13	33
Other liabilities	19.1	23	-
		7,775	**8,932**
CURRENT LIABILITIES			
Current provisions	16,17	33	30
Loans, borrowings, bonds, cash pooling	19.1.3	1,764	704
Derivatives	19.1.2	27	-
Trade and other liabilities	19.1.4	682	189
Income tax liabilities		176	4
Other non-financial liabilities	18	30	154
		2,712	**1,081**
TOTAL LIABILITIES		**10,487**	**10,013**
TOTAL EQUITY AND LIABILITIES		**49,631**	**44,651**

in accordance with IFRS EU (in PLN million)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserve capital	Hedging reserve	Retained earnings	Total equity
Note	15.1	15.2	15.3	15.4	
AS AT JANUARY 1, 2016	**18,698**	**13,009**	**(17)**	**1,764**	**33,454**
Net profit for the reporting period	-	-	-	1,598	**1,598**
Other comprehensive income	-	-	166	-	**166**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**166**	**1,598**	**1,764**
Retained earnings distribution	-	1,301	-	(1,301)	**-**
Dividend	-	-	-	(467)	**(467)**
Share capital increase using Company's own funds	467	(467)	-	-	**-**
Tax on capital increase	-	(110)	-	-	**(110)**
Other changes	-	(3)	-	-	**(3)**
AS AT DECEMBER 31, 2016	**19,165**	**13,730**	**149**	**1,594**	**34,638**
Net profit for the reporting period	-	-	-	4,544	**4,544**
Other comprehensive income	-	-	(39)	-	**(39)**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**(39)**	**4,544**	**4,505**
Retained earnings distribution	-	1,598	-	(1,598)	**-**
Other changes	-	-	-	1	**1**
AS AT DECEMBER 31, 2017	**19,165**	**15,328**	**110**	**4,541**	**39,144**

in accordance with IFRS EU (in PLN million)

STATEMENT OF CASH FLOWS

	Note	Year ended December 31, 2017	Year ended December 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**4,549**	**1,674**
Income tax paid		(105)	(4)
Adjustments for:			
Depreciation, amortisation and impairment losses		14	15
Interest and dividend, net	21.1	(2,869)	(1,071)
Profit / loss on investing activities	21.1	(1,144)	(123)
Change in receivables	21.1	(233)	168
Change in inventories		74	115
Change in liabilities, excluding loans and borrowings	21.1	496	(163)
Change in other non-financial assets	21.1	17	266
Change in provisions		1	(3)
Other		1	-
NET CASH FROM OPERATING ACTIVITIES		**801**	**874**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceed from sale property, plant and equipment and intangible assets		(3)	(10)
(Acquisition) / Redemption of bonds issued by PGE Group companies	21.2	(2,142)	(2,651)
Sale of other financial assets		368	-
Acquisition of shares in subsidiaries	21.2	(4,351)	(44)
Purchase of other financial assets		(87)	
Dividends received	21.2	2,872	1,063
Deposits with maturity over 3 months		(50)	(2,290)
Release of deposits with maturity over 3 months	21.2	2,340	-
Loans granted/(repayment) under cash pooling agreement	21.2	597	(991)
Loans granted		(366)	(38)
Interest received		66	28
Loans repaid		174	1
Other		-	1
NET CASH FROM INVESTING ACTIVITIES		**(582)**	**(4,931)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans, borrowings and issue of bonds		-	4,648
Dividends paid		-	(467)
Repayment of credit and loans		(17)	-
Interest paid		(298)	(203)
Other		(3)	(1)
NET CASH FROM FINANCING ACTIVITIES		**(318)**	**3,977**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(99)**	**(80)**
Effect of movements in exchange rates on cash held		-	(1)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	14	**1,930**	**2,010**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	14	**1,831**	**1,930**

in accordance with IFRS EU (in PLN million)

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

1. General information

1.1 Company operations

PGE Polska Grupa Energetyczna S.A. ("the Company", "PGE S.A.") was founded on the basis of a notarial deed dated August 2, 1990, and was 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, Mysia 2 Street..

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

The State Treasury is the Company's majority shareholder.

The Company's core activities are as follows:

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

PGE S.A.'s business activities are conducted under appropriate concessions, including concession for electricity trading granted by the Energy Regulatory Office. The concession is valid until 2025. No significant assets or liabilities are assigned to the concession. According to the concession the annual fees are paid depending on the level of trading. In 2017 and in 2016, the Company's costs relating to the concession amounted to PLN 1 million.

Revenue from the sale of electricity and other energy market products is the only significant items in operating revenue. This revenue is generated on the domestic market. The Company's Management Board does not analyse its business based on segments as a result of which the Company does not report business or geographical segments.

The accounts of PGE S.A. are kept by its subsidiary PGE Obsługa Księgowo-Kadrowa sp. z o.o. (the name PGE Obsługa Księgowo-Kadrowa sp. z o.o. was changed to PGE Synergia sp. z o.o. on January 31, 2018).

Going concern

These financial statements are prepared on the assumption that the Company will continue operating as a going concern for a period of at least 12 months from the reporting date. As at the date of approval of these financial statements for publication, there is no evidence indicating that the Company will not be able to continue as a going concern.

These financial statements comprise financial data for the period from January 1, 2017 to December 30, 2017 ("financial statements") and comparative data for the period from January 1, 2016 to December 31, 2016.

1.2 Ownership structure

	State Treasury	Other shareholders	Total
As at January 1, 2017	**57.39%**	**42.61%**	**100.00%**
As at December 31, 2017	**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.

1.3 Composition of the Company's Management Board

As at January 1, 2017 the composition of the Management Board was as follows:

- Henryk Baranowski – the President of the Management Board,
- Marta Gajęcka – the Vice-President of the Management Board,
- Bolesław Jankowski – the Vice-President of the Management Board,
- Marek Pastuszko – the Vice-President of the Management Board,
- Paweł Śliwa – the Vice-President of the Management Board,
- Ryszard Wasiłek – the Vice-President of the Management Board,
- Emil Wojtowicz – the Vice-President of the Management Board.

The following changes in the Management Board took place between January 1, 2017 and December 31, 2017:

- on February 13, 2017, the Supervisory Board dismissed all members of the Management Board as of February 13, 2017. At the same time, the Supervisory Board appointed for the 10th term of the Management Board Henryk Baranowski as President of the Management Board as well as Bolesław Jankowski, Wojciech Kowalczyk, Marek Pastuszko, Paweł Śliwa, Ryszard Wasiłek and Emil Wojtowicz as Vice-Presidents of the Management Board.
- On June 20, 2017, Bolesław Jankowski resigned effective from July 1, 2017.

As at December 31, 2017 and on the date on which these financial statements were published, the Company's Management Board was as follows:

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

2. Basis for preparation of financial statements

2.1 Statement of compliance

These financial statements are prepared in accordance with IFRS EU. IFRS comprise standards and interpretations, approved by the International Accounting Standards Board (“IASB”) and International Financial Reporting Interpretation Committee (“IFRIC”).

Included in these financial statements, in note 25, is the financial information referred to in art. 44 sec. 2 of the Energy Law dated April 10, 1997 (Official Journal from 2012 item. 1059 with amendments).

2.2 Presentation and functional currency

The functional currency of the Company and presentation currency of these financial statements is the Polish zloty ("PLN"). All amounts are in PLN millions, unless indicated otherwise.

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

	December 31, 2017	December 31, 2016
USD	3.4813	4.1793
EUR	4.1709	4.4240

in accordance with IFRS EU (in PLN million)

2.3 New standards and interpretations published, not yet effective

The following standards, changes in already effective standards and interpretations are not endorsed by the European Union or are not effective as at January 1, 2017:

Standard	Description of changes	Effective date
IFRS 9 *Financial Instruments* and subsequent amendments	Changes in classification and measurement of financial instruments. Changes to hedge accounting. These changes apply to the right of early repayment with negative fees.	January 1, 2018 / January 1, 2019
IFRS 14 *Regulatory Deferral Accounts*	Accounting and disclosure principles for regulatory deferral accounts.	Standard in current version will not be effective in 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 15 *Revenue from Contracts with Customers and clarifications to IFRS 15*	The standard applies to all contracts with customers, except for those within the scope of other IFRSs (e.g. lease contracts, insurance contracts and financial instruments). IFRS 15 clarifies principles of revenue recognition.	January 1, 2018
IFRS 16 *Leases*	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
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 2	Classification and measurement of share-based payment transactions	January 1, 2018
Amendments to IFRS 4	Application of IFRS 9 Financial instruments jointly with IFRS 4 Insurance contracts	January 1, 2018
Annual improvements to IFRS (cycle 2014-2016)	A collection of amendments dealing with: IFRS 1 – elimination of short-term exemption for entities using IFRS for the first time; IAS 28 – valuation of entities, in which an investment has been made, at fair value through profit or loss or using an individual method.	January 1, 2018
Amendments to IAS 40	Changes to the classification of properties: i.e. transfer from investment property to other groups of assets.	January 1, 2018
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	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 or received in advance.	January 1, 2018
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

The Company intends to adopt the above mentioned new standards, amendments to standards and IFRS 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 the Company's future financial statements

<u>IFRS 9 *Financial Instruments*</u>

In July 2014, the IASB published IFRS 9 Financial Instruments (IFRS 9). IFRS 9 covers three aspects related to financial instruments: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Company plans to use IFRS 9 from the date it enters into force, without restating comparative data.

In 2017, the Company carried out a detailed analysis of the impact of IFRS 9 on the Company's accounting principles as it relates to the Company's operations or financial results. This assessment is based on currently available information and may be subject to changes based on rational and document-able additional information obtained in the period in which the Company applies IFRS 9 for the first time.

The Company does not expect the introduction of IFRS 9 to have a significant impact on its financial situation and equity, except for the effects of applying IFRS 9 to impairment. The Company expects a slight increase in impairment losses, with negative impact on equity, as discussed below. Moreover, as a result of applying IFRS 9, the classification of certain financial instruments will change.

Analysis shows that changes will mostly affect the following areas:

- Classification of financial instruments - the existing four categories resulting from IAS 39 *Financial Instruments: Recognition and Measurement* will be replaced with three categories: financial assets measured at amortised cost, at fair value through profit or loss and at fair value through other comprehensive income. This will result in presentation changes in financial statements but will have no impact on the Company's financial results.
- Measurement of financial guarantee contracts - guarantees will be measured at the amount of write-off for expected credit losses. Measurements performed as at December 31, 2017 would have increased liabilities and decreased equity by less than PLN 1 million gross, i.e. no impact on deferred tax.
- Rules for estimating and recognising impairment losses on financial assets (transition from incurred loss model to expected loss model):
    - for trade receivables from significant clients that are subject to a credit risk assessment procedure, the Company will estimate expected credit losses based on a model used to evaluate this risk on the basis of ratings assigned to counterparties; ratings have a likelihood of default assigned, which is adjusted to reflect impact of macroeconomic factors;
    - for receivables from other clients and from related parties, the Company will estimate expected credit losses based on an analysis of the likelihood of credit losses in each age bracket;
    - for bank deposits, the Company will estimate expected credit losses based on a model used to evaluate this risk on the basis of ratings assigned to banks by external institutions; ratings have a likelihood of default assigned, which is adjusted to reflect impact of macroeconomic factors;
    - for cash pooling receivables, the Company will estimate expected credit losses based on a model used to evaluate this risk on the basis of ratings assigned to banks and to PGE S.A. by external institutions; ratings have a likelihood of default assigned, which is adjusted to reflect impact of macroeconomic factors;
    - for receivables related to loans and bonds from direct and indirect subsidiaries, the Company assumes that they are secured by the Company having control over these direct and indirect subsidiaries' assets; this security is taken into account in estimating recovery rates;
    - for investments in other equity instruments, measurement will be at fair value; currently the Company does not have significant investments in equity instruments other than stakes in subsidiaries and associates.

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

  Impairment of financial assets according to the above-mentioned rules as at December 31, 2017 would have reached approx. PLN 415 million, compared to PLN 414 million recognised in these financial statements. Equity as at December 31, 2017 would have decreased by less than PLN 1 million gross, i.e. no impact on deferred tax.

Moreover, after the analysis, the Company decided not to implement the changes resulting from IFRS 9 as regards hedge accounting from January 1, 2018.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15, issued in May 2014 and amendment in April 2016, introduces 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 the delivery of goods or services to the customer.

The new standard will replace all existing requirements concerning revenue recognition in compliance with IFRS. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Company analysed the largest contracts with its customers in order to identify those that include provisions which could potentially have an impact on the moment of revenue recognition and the level of revenue in the given reporting period, in particular concerning: contracts for the sale of electricity and gaseous fuel, multi-component contracts, mutually linked contracts and contracts containing the entity's commitment to deliver products or services to the client by another entity (intermediary vs principal), variable remuneration, trade bonuses as well as contractual penalties and bonuses.

Based on this analysis, the Company found that it is an intermediary in gaseous fuel transmission services. The recognition of revenue and costs concerning these services in the financial statements for 2017 would have caused a decrease in operating revenue and costs by approx. PLN 3 million.

Based on this analysis, the Company considers that in periods beginning on January 1, 2018, IFRS 15 will not have a significant impact on the moment of recognition of revenue and its value recognised in the Company's financial statements.

IFRS 16 *Leases*

The new standard changes principles for the recognition of contracts that 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 lease will be recognized as finance lease. Adoption of the standard will have the following effect:

- in the statement of financial position: increase of non-financial non-current assets and financial liabilities,
- in the statement of comprehensive income: decrease of operating expenses (other than depreciation/amortisation), increase of depreciation/amortisation and finance costs.

Analysis of the standard is not finished yet but its application should not have a major impact on the Company's future financial statements.

Other standards

The other standards and amendments should not have a major impact on the Company'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 financial statements, including in other explanatory information. The estimates were based on the best knowledge of the Management Board relating to current and future operations and events in particular areas. Detailed information on the assumptions made was presented below or in respective explanatory notes.

Recoverable amounts of assets

The electricity market is the primary area of operations of the Company and PGE Group entities. Changes in this market may have a significant influence on the recoverable amount of power generating property, plant and equipment of the Company's subsidiaries. If impairment indicators specified in IAS 36 *Impairment of Assets* are identified, the Company estimates the recoverable amount of the respective shares owned.

The Company's impairment analysis of cash generating units is based on a number of significant assumptions concerning factors, some of which are outside the control of the Company. Any significant change in these assumptions will impact the result of future impairment tests and as a consequence may lead to significant changes to the financial position and results of the Company.

During 2017 the Company performed impairment tests of shares in PGE Obrót S.A., PGE GiEK S.A. and PGE Energia Odnawialna S.A. These tests are described in note 9.1 to these financial statements. Additionally, the Company periodically analyses impairment of non-current financial assets in accordance with IAS 39 *Financial Instruments: Recognition and Measurement.*

in accordance with IFRS EU (in PLN million)

Provisions

As described in note 3.16, the recognition of provisions requires estimates of the probable outflow of economic benefits and determination of the amount that will be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The most significant values concern provisions for jubilee awards and post-employment benefits. Provisions for employee benefits were estimated using actuarial methods.

Key actuarial assumptions related to the calculation of provisions as at the reporting date are as follows:

	As at December 31, 2017	As at December 31, 2016
Expected inflation rate (%)	1.8%	1.30-1.80%
Discount rate (%)	3.4%	3.5%
Expected salary growth rate (%)	1.8%	1.73%
Employee turnover (%)	9.57%	9.41%
Expected medical care costs growth rate (%)	1.8%	1.30-1.80%
Expected Social Fund (ZFŚS) allowance growth rate (%)	3.40%-5.0%	3.50-8.40%

- The probability of employee attrition was predicted on the basis of historical data related to Company's employee turnover ratio and statistical data on employee attrition in the industry.
- Mortality and survival probability was adopted from the Life Expectancy Tables published by Central Statistical Office of Poland, assuming that the population of the Company's employees corresponds, in respect of mortality, to the average in Poland.
- Normal procedure of employees' retirement was assumed, in accordance with detailed rules included in the Law on State Social Insurance Pensions, with the exception of employees who meet the conditions required to early retirement.
- For discounting future benefit payments a discount rate of 3.4% was adopted (December 31, 2016: 3.5%), which corresponds to the profitability of long-term Treasury bonds listed on the Polish capital market.

Contingent liabilities

The recognition and measurement of provisions and contingent liabilities requires the Company to estimate the probability of occurrence of potential liabilities. If the occurrence of an unfavourable future event is probable, the Company recognises a provision in the appropriate amount. If the occurrence of an unfavourable future event is estimated by the Company as not probable but possible, a contingent liability is recognised. Contingent liabilities are described in note 22 of these financial statements.

Impairment allowance on receivables

As at the reporting date the Company assesses whether there is objective evidence for impairment of a receivable or a group of receivables. If the recoverable amount of an asset is lower than its carrying amount, the entity recognises an impairment loss to the amount of the present value of expected cash flows. Reversal of impairment losses on trade and other receivables is described in note 20.3.1 of these financial statements.

Uncertainty concerning tax settlements

Regulations regarding the tax on goods and services, corporate income tax and burdens related to social insurance are subject to frequent changes. These frequent changes result in a lack of appropriate reference points, inconsistent interpretations and few precedents that could be used. Existing regulations also contain inconsistencies that cause differences in opinions as to the legal interpretation of tax laws both between state organs and between state organs and businesses.

Tax settlements and other areas of activities (e.g. customs or visa issues) may be the subject of control by organs that are authorised to impose high penalties, and all additional tax liabilities resulting from such inspections must be paid alongside steep interest. These conditions mean that tax risk in Poland is higher than in countries with much more stable tax systems.

As a consequence, the amounts presented and recognised in financial statements may change in the future as a result of a final decision by a tax authority.

On July 15, 2016, changes were introduced to the Tax Ordinance intended to take into account the provisions of General Anti-Abuse Rule (GAAR). GAAR is intended to prevent the formation and use of artificial legal structures created in order to avoid paying tax in Poland. GAAR defines tax avoidance as an activity performed primarily to obtain a tax benefit contrary under the circumstances to the subject and aim of the tax law. According to GAAR, such an activity does not result in a tax benefit if it is artificial. All proceedings regarding unjustified division of operations, involving intermediaries despite a lack of economic justification, mutually offsetting elements or other similar activities may be treated as a condition for the existence of artificial activities subject to GAAR. These new regulations will require a much greater judgement in assessing the tax effects of transactions.

The GAAR clause is to be applied in relation to transactions executed after its entry into force and to transactions that were executed prior to its entry into force but in the case of which tax benefits were or continue to be obtained after GAAR went into force. The implementation of these regulations will make it possible for Polish tax inspection authorities to question legal arrangements and agreements made by taxpayers such as group restructuring and reorganisation.

The Company recognises and measures current and deferred income tax assets and liabilities using IAS 12 Income tax based on profit (tax loss), tax base, unsettled tax losses, unused tax exemptions and tax rates, taking into account assessment of uncertainties related to tax settlements. If there is uncertainty over where or not and in what scope the tax authority will accept tax accounting for transactions, the Company recognises these settlements taking into account an uncertainty assessment.

3. Significant accounting principles applied

These financial statements are prepared under the historical cost convention, which was modified in relation to:

- Property, plant and equipment and intangible assets – property, plant and equipment and intangible assets that were owned by the Company at the date of transition to IFRS were measured at deemed cost as at that date. In addition, for certain property, plant and equipment and intangible assets impairment loss has been recognised.
- Financial instruments – selected categories of financial instruments are measured and presented in the statement of financial position at fair value. Details on the valuation of particular categories of financial instruments are presented in the description of the accounting principles applied.
- Impaired assets – presented in historical cost adjusted by impairment losses.

3.1 Revenue

Revenue is measured at the fair value of the consideration received or due. Revenue is recognised after deducting value added tax (VAT), excise tax and other sales-based taxes as well as discounts. When recognising revenue, the criteria specified below are also taken into account.

Revenue from sale of goods and products

Revenue from the sale of goods and products is recognised when related risks and rewards have been transferred and when the amount of revenue can be reliably measured and costs incurred can be reliably estimated.

Revenue from the sale of goods and products mainly includes:

- amounts receivable from sale of: electricity, gas, certificates of origin for energy, greenhouse gas emission allowances and rendered services relevant to core business,
- amounts receivable from sales of materials and products.

Revenue from sale of services

Revenue from services rendered is recognised when the service is performed.

in accordance with IFRS EU (in PLN million)

3.2 Cost of goods sold

Cost of goods sold includes: value of electricity, certificates of origin for energy, gas sold and other goods and materials at acquisition prices.

Costs that can be directly attributable to revenues recognised by the Company are recognised in profit or loss for the reporting period in which the revenues were recognised.

Costs that can only be indirectly attributed to revenues or other economic benefits recognised by the Company, are recognised in the profit or loss in the reporting periods to which they relate, in accordance with accrual basis of accounting, taking into account the principles of measurement of property, plant and equipment and inventories.

3.3 Financial income and expenses

Interest income and costs are recognised over the respective period using the effective interest method in relation to the net amount of the financial instrument at the reporting date.

Dividends are recognised when the shareholders' right to receive payments is established.

3.4 Taxes

Income tax recognised in profit or loss comprises current income tax and deferred income tax. Recognised are actual fiscal charges for the reporting period calculated by the Company in accordance with regulations of the Corporate Income Tax Act and the change in deferred tax assets and deferred tax liabilities other than the ones charged or credited directly to equity.

Deferred tax asset or deferred tax liability are calculated on the basis of temporary differences between the carrying amount of a given asset or liability and its tax base and tax loss that is recoverable in the future.

The carrying amount of a deferred tax asset and deferred tax liability is verified at each reporting date. Deferred tax assets and deferred tax liabilities are classified as long-term. The Company offsets deferred tax asset and liabilities.

The Company reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow deferred tax asset to be utilised partially or entirely.

3.5 Earnings per share

Earnings per share for each period is calculated by dividing profit or loss attributable to ordinary equity holders of the Company by the weighted average number of shares outstanding during the reporting period.

The Company calculates diluted earnings per share by dividing profit or loss attributable to ordinary equity holders of the Company (after deduction of interest on redeemable convertible preference shares) by the weighted average number of shares outstanding during the period (adjusted by the number of dilutive options or dilutive redeemable convertible preference shares).

3.6 Property, plant and equipment

Property, plant and equipment are assets:

- held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and
- expected to be used for more than one year.

After initial recognition, an item of property, plant and equipment is measured at carrying amount, i.e. initial value (or deemed cost for items of property, plant and equipment used before the transition to IFRS) less any accumulated depreciation and any impairment losses. Initial value comprises purchase price including all costs directly attributable to the purchase and bringing the asset into use. The cost comprises estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having it used for purposes other than to produce inventories.

The depreciable amount is the cost of an asset less its residual value. Depreciation commences when the asset is available for use. Depreciation is based on a depreciation plan reflecting the future useful life of the asset. The depreciation method used reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

The following useful lives are adopted for particular groups of property, plant and equipment:

Group	Average remaining depreciation period in years	Applied total depreciation periods in years
Buildings and structures	19	2-31
Machinery and equipment	6	1-39
Vehicles	1	1-10
Other property, plant and equipment	3	1-15

3.7 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance, such as:

- economic rights acquired by the Company and recognised in non-current assets, with an economic useful life exceeding one year, intended to be used by the Company,
- development costs,
- goodwill excluding internally generated goodwill,
- acquired right of perpetual usufruct of land.

As at the date of initial recognition, an intangible asset is measured at acquisition cost or production cost with respect to development costs. After initial recognition, an intangible asset shall be carried at its cost less accumulated amortization and accumulated impairment losses. The cost of an internally generated intangible asset, excluding development costs, is not capitalised and is recorded in profit or loss for the period in which it was incurred.

The Company assesses whether the useful life of intangible assets is definite or indefinite. If the useful life is definite, the Company estimates the length of the useful period, the volume of production or other measures as the basis to define the useful life. An intangible asset is regarded as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Company.

The amortisable amount of an intangible asset with a definite useful life shall be allocated on a systematic basis over its useful life. Amortisation starts when the asset is available for use.

The following useful lives are adopted for intangible assets:

Group	Average remaining amortisation period in years	Applied total depreciation periods in years
Acquired patents and licences	1	1-11

3.8 Financial assets

Financial assets are classified in the following categories:

- Held-to-maturity investments
- Financial assets at fair value through profit or loss
- Loans and receivables
- Available-for-sale financial assets
- Shares in subsidiaries, jointly controlled entities and associates

Financial assets at fair value through profit or loss

An asset constituting a financial asset at fair value through profit or loss must meet one of the following conditions:

- Is qualified as held for trading. Financial assets are classified as held for trading if they are:
  - acquired principally for the purpose of selling in the near term,
  - part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or
  - derivatives, except for a derivative that is a designated and effective hedging instrument.
- Was classified to this category at acquisition. Every financial asset that falls under IAS 39 may be reclassified at acquisition to a portfolio measured at fair value with changes recognised in profit or loss except for equity instruments that have no prices quoted on an active market and their fair value cannot be reliably established.

These instruments are measured at fair value as at the reporting date. Gain or loss on financial assets classified to the FVP portfolio are recognised in the financial result and not decreased by amount of interest.

Loans and receivables

Loans and receivables are financial assets other than derivatives with identified or identifiable payments, not listed on an active market. They are classified as current assets if their maturity does not exceed 12 months from the reporting date. Loans and receivables with maturity exceeding 12 months are classified as non-current assets. If the time value of money is significant over the period, the assets are measured at discounted value. The Company purchases bonds issued by other PGE Group companies. These bonds are classified as loans and receivables. Bonds with maturities not exceeding 12 months from the reporting date are classified as current assets, while bonds with maturities exceeding 12 months from the reporting date are classified as non-current assets, however this classification depends not only on maturity but also on the Company's intentions with regard to roll-over.

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

Available-for-sale assets

All other financial assets (except for shares in subsidiaries, jointly controlled entities and associates) are accounted for as available-for-sale financial assets. Financial assets available for sale are recognised at fair value as at each reporting date. Fair value of an instrument which does not have a quoted market price is estimated with regards to another instrument of similar characteristics or based on future cash flows relevant to an investment asset (measurement using discounted cash flow method).

Positive and negative differences between fair value of available-for-sale financial assets (if their price is determinable on a regulated active market or if the fair value may be estimated by some other reliable method) and cost, net of deferred tax, are recognised in other comprehensive income, except for:

- impairment losses,
- exchange gains and losses arising on monetary assets,
- interest recognised using the effective interest rate method.

Dividends from equity instrument in the AFS portfolio are recognised in profit or loss on the date that the Company's right to receive payment is established.

Shares in subsidiaries, jointly controlled entities and associates

Subsidiaries are those companies whose financial and operational policies are managed by the Company in order to derive economic benefits from their operations. This involves holding the majority of total votes in decision-making bodies of these organisations. To determine whether the Company has control over the given organisation, existence and impact of potential voting rights that can be realized or converted at any time are considered.

A jointly controlled entity is an organization in which the division of control over the business as specified in the agreement requires unanimity of controlling parties with respect to strategic financial and operational decisions.

An associate is a business organisation, including a partnership (such as a civil partnership) upon which the investor has significant influence and which is not a wholly or partially owned subsidiary. "Significant influence" is defined in IAS as the power to participate in the financial and operating policy decisions of the investee but does not refer either to control or joint control over those policies.

Shares in subsidiaries, jointly controlled entities and associates held by the Company are measured at historical acquisition cost. If there is an objective evidence of impairment of these assets, the amount of impairment is measured as the difference between the carrying value of the asset and the estimated recoverable amount.

3.9 Derivatives and hedging instruments

The Company uses derivatives in order to hedge against interest rate risk and exchange rate risk. The most frequently used derivatives are forward contracts and interest rate swaps (IRS). Such derivatives are measured at fair value. Depending on whether the valuation of a derivative is positive or negative, it is recognised as a financial asset or financial liability, respectively.

The gain or loss resulting from the change in fair value of a derivative not qualifying for hedge accounting, is recognised directly in profit or loss.

The fair value of currency forward contracts is estimated with reference to current forward rates for contracts of similar maturity. Fair value of interest rate swaps is estimated with reference to the market value of similar financial instruments.

3.10 Hedge accounting

Changes in fair value of derivative financial instruments designated as cash flow hedges CCIRS (Cross Currency Interest Rate Swap) and IRS (Interest Rate Swap) are recognised in hedging reserve in the portion determined to be an effective hedge, while the ineffective portion of the hedge is recognised in profit or loss.

The accumulated changes in fair value of hedging instrument, previously recognised in hedging reserve are transferred to profit or loss in the period or periods in which the hedged item affects profit or loss. Alternatively, if the hedge of a planned transaction results in the recognition of non-financial assets or non-financial liabilities, the Company excludes the amount from equity and includes it in the initial cost or other carrying amount of a non-financial asset or liability.

3.11 Inventories

Inventories are assets held for sale in the ordinary course of business, in the process of production for such sale, or in the form of materials or supplies to be consumed in the production process or in providing services.

Inventories comprise:

- energy origin certificates – purchased certificates of origin for energy produced from renewable energy sources, rights of origin for energy relating to energy generated in cogeneration and rights to energy efficiency certificates,
- goods (especially CO_2 emission allowances intended for re-sale).

Inventories are measured at the lower value of the following two: acquisition cost or inventory cost and net realisable value. CO_2 emission rights acquired in order to realise profits from fluctuations in market prices are measured at fair value less costs of disposal.

3.12 Trade receivables

Trade receivables are measured at least at each reporting date in the amount due, i.e. at the nominal value increased by applicable penalty interest, in accordance with the principle of prudence, i.e. less applicable impairment allowances. Impairment losses on receivables are recognised as other operating costs or finance costs. Non-current receivables are measured at present (discounted) value.

3.13 Other assets (including prepayments)

The Company recognises an asset as a prepayment under the following conditions:

- an expense was incurred in the past in relation to operating activity,
- it can be reliably measured,
- it refers to future reporting periods.

Prepayments are recognised at reliably measured amounts, relate to future periods and will generate future economic benefits.

Other assets include in particular state receivables, advances for deliveries and services and dividend receivables.

3.14 Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3.15 Equity

Equity is stated at nominal value, classified by nature, in accordance with legal regulations and the Company's Articles of Association.

Share capital in the statement of financial position is stated at the value specified in the Articles of Association and registered in the Court Register.

Declared, but not contributed, share capital contributions are recognised as outstanding share capital contributions as negative value.

3.16 Provisions

The Company recognises provisions when there is present obligation (legal or constructive) that arises from past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is significant, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate does not reflect risks for which future cash flow estimates have been adjusted.

Post-employment and jubilee awards provision

The Company's employees are entitled to the following post-employment benefits:

- retirement and pension benefits – paid once when the employee retires or becomes a pensioner,
- post-mortem severance,
- cash equivalent related to energy tariff for employees of power industry,
- benefits from the Social Fund,
- medical benefits.

Until December 31, 2017, the Company's employees were also entitled to receive jubilee awards that were paid after an employee has worked for a specified period of time. The amount of awards paid depended on the period of service and the average remuneration of the employee.

The Company recognises a provision for future obligations relevant to past service costs for the purpose of assigning costs to the periods in which they are incurred. The provision raised is recognised as an operating expense in the amount corresponding with accrued future employees' benefits. The present value of these obligations is measured by an independent actuary.

Actuarial gains and losses arising from the change of actuarial assumptions (including change in discount rate) and ex post actuarial adjustments are recognised in other comprehensive income.

3.17 Liabilities

Liabilities are the Company's present obligations, arising from past events, settlement of which will cause an outflow of resources embodying economic benefits from the Company.

The Company divides liabilities into the following categories:

- financial liabilities at fair value through profit or loss,
- other financial liabilities measured at subsequent reporting dates at amortised cost,
- non-financial liabilities.

When the effect of the time value of money is significant, liabilities are presented at discounted value.

3.18 Statement of cash flows

The statement of cash flows is prepared using the indirect approach.

3.19 Specific transactions under joint control

Bonds issued not at arm's length terms

Due to the fact that the Company acquired bonds issued by its subsidiaries on terms other than market terms, settlements for this were recognised as either an increase or decrease of investments in the subsidiary issuing the bonds. On the purchase date, the Company recognised the bonds at fair value, below the issue price, and the difference between the issue price and fair value was recognised as an increase in investment in the subsidiary issuing the bonds while the result on prepayments for these bonds as a decrease in the value of investment in the subsidiary issuing the bonds.

From January 1, 2018, all transactions are executed on market terms.

in accordance with IFRS EU (in PLN million)

4. Changes in accounting principles and data presentation

New standards and interpretations which became effective on January 1, 2017

The accounting principles applied in preparing these financial statements are consistent with those applied in preparing the Company's financial statements for the year ended December 31, 2016, except as stated below. The following amendments to IFRSs are applied in these financial statements as of their effective date however they did not have material impact on the presented and disclosed financial information or they were not applicable to the Company's transactions:

- Amendments to IAS 7 - Disclosure Initiative
- Amendments to IAS 12 - Recognition of deferred tax assets for unrealised losses
- Amendments resulting from IFRS annual improvement cycle 2014-2016 - amendments to IFRS 12 - clarifications regarding the scope of the standard.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

5. Revenues and expenses

5.1 Sales revenues

	Q1 *unaudited*	Q2 *unaudited*	Q3 *unaudited*	Q4 *unaudited*	Year ended December 31, 2017
SALES REVENUES					
Revenues from sales of goods, including:	**2,230**	**2,047**	**2,057**	**2,220**	**8,554**
Sale of electricity	*2,003*	*1,748*	*1,910*	*1,961*	***7,622***
Sale of energy origin rights	*10*	*-*	*19*	*20*	***49***
Sale of gas	*157*	*139*	*88*	*215*	***599***
Other sales of merchandise and materials	*60*	*160*	*40*	*24*	***284***
Revenues from sales of services	**170**	**144**	**156**	**161**	**631**
TOTAL SALES REVENUES	**2,400**	**2,191**	**2,213**	**2,381**	**9,185**

	Q1 *unaudited*	Q2 *unaudited*	Q3 *unaudited*	Q4 *unaudited*	Year ended December 31, 2016
SALES REVENUES					
Revenues from sales of goods, including:	**2,659**	**2,651**	**2,378**	**2,513**	**10,201**
Sale of electricity	*2,206*	*2,207*	*2,093*	*2,138*	***8,644***
Sale of energy origin rights	*17*	*11*	*20*	*7*	***55***
Sale of gas	*225*	*104*	*61*	*121*	***511***
Other sales of merchandise and materials	*211*	*329*	*204*	*247*	***991***
Revenues from sales of services	**162**	**154**	**162**	**168**	**646**
TOTAL SALES REVENUES	**2,821**	**2,805**	**2,540**	**2,681**	**10,847**

The y/y decline in revenue from electricity sales in 2017 results from lower turnover volume and lower sales prices, mainly in transactions with PGE Obrót S.A. Sales to PGE Obrót S.A. are conducted in order to secure retail client demand for electricity.
During 2017, PGE S.A. began sales to a new PGE Group entity - PGE Energia Ciepła S.A.

The higher revenue from natural gas sales results from higher gas sales volumes to entities outside PGE Group and on the exchange. A decline in revenue from transactions with PGE Obrót S.A. was observed at the same time, resulting from this company's lower demand for gas in 2017 than in 2016 (in 2016, PGE Obrót S.A. sold to PGE GiEK S.A., which increased its demand).

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

Information concerning key clients

The Company's main counterparties are PGE Group subsidiaries. In 2017, sales to PGE Obrót S.A. accounted for 71% of revenue from sales, while sales to PGE GiEK S.A. accounted for 9%. In 2016, sales to these companies accounted for 73% and 15%, respectively.

in accordance with IFRS EU (in PLN million)

5.2 Costs by nature and function

	Q1 *unaudited*	Q2 *unaudited*	Q3 *unaudited*	Q4 *unaudited*	Year ended December 31, 2017
COSTS BY NATURE					
Depreciation, amortisation	4	3	4	3	**14**
External services	13	17	15	13	**58**
Employee benefits expenses	27	28	25	32	**112**
Other costs by nature	16	14	18	25	**73**
TOTAL COSTS BY NATURE	**60**	**62**	**62**	**73**	**257**
Distribution and selling expenses	(5)	(5)	(3)	(4)	**(17)**
General and administrative expenses	(35)	(37)	(37)	(45)	**(154)**
Cost of merchandise and materials sold	2,175	1,997	2,009	2,169	**8,350**
COST OF GOODS SOLD	**2,195**	**2,017**	**2,031**	**2,193**	**8,436**

	Q1 *unaudited*	Q2 *unaudited*	Q3 *unaudited*	Q4 *unaudited*	Year ended December 31, 2016
COSTS BY NATURE					
Depreciation, amortisation	4	4	3	4	**15**
External services	24	24	24	19	**91**
Employee benefits expenses	24	24	23	22	**93**
Other costs by nature	20	21	19	24	**84**
TOTAL COSTS BY NATURE	**72**	**73**	**69**	**69**	**283**
Distribution and selling expenses	(14)	(12)	(11)	(9)	**(46)**
General and administrative expenses	(34)	(37)	(35)	(36)	**(142)**
Cost of merchandise and materials sold	2,560	2,584	2,396	2,522	**10,062**
COST OF GOODS SOLD	**2,584**	**2,608**	**2,419**	**2,546**	**10,157**

The decline in the value of goods and materials sold in 2017 compared to 2016 resulted mainly from the above-mentioned decrease in revenue from sales and lower prices on the wholesale market.

in accordance with IFRS EU (in PLN million)

5.2.1 Depreciation, amortisation and impairment losses

	Depreciation, amortisation					
	Year ended December 31, 2017			Year ended December 31, 2016		
	Property, plant and equipment	Intangible assets	TOTAL	Property, plant and equipment	Intangible assets	TOTAL
Cost of goods sold	4	2	**6**	4	2	**6**
Distribution and selling expenses	-	1	**1**	-	1	**1**
General and administrative expenses	6	1	**7**	6	2	**8**
TOTAL	**10**	**4**	**14**	**10**	**5**	**15**

5.2.2 External services

	Year ended December 31, 2017	Year ended December 31, 2016
Trading commissions	10	27
IT services	20	19
Consulting services	16	8
Transmission services	3	20
Other	9	17
TOTAL EXTERNAL SERVICES	**58**	**91**

5.2.3 Employee benefit expenses and employment structure

	Year ended December 31, 2017	Year ended December 31, 2016
Payroll	86	78
Social security expenses	13	11
Change in provisions for employee benefits	(1)	(7)
Other employee benefits	14	11
TOTAL EMPLOYEE BENEFITS EXPENSES, INCLUDING:	**112**	**93**
Included in costs of goods sold	25	24
Included in distribution and selling costs	6	5
Included in general and administrative expenses	81	64

As at December 31, 2017, the Company had 525 employees (full-time equivalent), compared to 507 at December 31, 2016.

5.2.4 Other costs by nature

	Year ended December 31, 2017	Year ended December 31, 2016
Sponsoring and advertising	51	59
Management remuneration	7	13
Taxes and fees	4	4
Other	11	8
TOTAL EXTERNAL SERVICES	**73**	**84**

5.3 Financial income and expenses

	Year ended December 31, 2017	Year ended December 31, 2016
FINANCIAL INCOME FROM FINANCIAL INSTRUMENTS		
Dividends	2,872	1,063
Interest	368	252
Reversal of impairment allowance	1,289	89
Revaluation of financial instruments, including:	63	21
CO_2 emission allowances	31	-
Other derivatives	32	21
Positive foreign exchange differences	2	14
TOTAL FINANCIAL INCOME	**4,594**	**1,439**

In 2017, the Company reported dividend income mainly from PGE GiEK S.A. (PLN 2,019 million) and PGE Dystrybucja S.A. (PLN 808 million), compared to PLN 1,012 million from PGE Dystrybucja S.A. and PLN 35 million from PGE Energia Odnawialna S.A. in the previous period.

in accordance with IFRS EU (in PLN million)

The item 'reversal of impairment allowances' includes the reversal of an impairment allowance on PGE Obrót S.A. shares, which is described in note 9.1 of these financial statements.

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

The item 'impairment of financial statements' includes revaluation 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.

	Year ended December 31, 2017	Year ended December 31, 2016
FINANCIAL EXPENSES RELATED TO FINANCIAL INSTRUMENTS		
Interest	326	226
Impairment loss raised	253	23
Revaluation of financial instruments, including:	-	10
CO_2 emission allowances	-	5
Other derivatives	-	5
Negative foreign exchange differences	6	1
FINANCIAL EXPENSES RELATED TO FINANCIAL INSTRUMENTS	**585**	**260**
Other financial expenses	1	-
TOTAL FINANCIAL EXPENSES	**586**	**260**

The allowances recognised concern impairment of shares in PGE EJ1 sp. z o.o. (PLN 105 million) and Exatel S.A. (PLN 59 million) as well as bonds issued by Autostrada Wielkopolska S.A. (PLN 89 million), as described in note 9 to these financial statements.

Interest expenses mainly relate to bonds issued and bank loans incurred, as described in note 19.1.3 of these financial statements.

5.3.1 Valuation related to trading in CO_2 emission rights

As described in note 5.3 of these financial statements, income and expenses recognised under the heading"Revaluation of financial instruments" comprise the result on transactions related to CO_2 emission rights (so-called trading portfolio).

The following table illustrates the effects of particular items related to the CO_2 emission rights on the finance income and expenses.

	Year ended December 31, 2017	Year ended December 31, 2016
Income		
Valuation of commodity forwards	46	41
Profit on sale of CO_2 emission rights outside the PGE Group	-	1
Impairment of emission allowances	8	-
TOTAL INCOME RELATED TO TRADE IN CO_2 EMISSION RIGHTS	**54**	**42**
Expenses		
Valuation of currency forwards	(20)	(1)
Loss on sale of CO_2 emission rights outside the PGE Group	(3)	
Revaluation of CO_2 trading portfolio	-	(46)
TOTAL EXPENSES RELATED TO TRADE IN CO_2 EMISSION RIGHTS	**(23)**	**(47)**
Income / (expenses) from revaluation of financial instruments related to trading in CO_2 emission rights	**31**	**(5)**

in accordance with IFRS EU (in PLN million)

6. Income tax

6.1 Tax in the statement of comprehensive income

Main elements of income tax expense for the years ended December 31, 2017 and December 31, 2016 are as follows:

	Year ended December 31, 2017	Year ended December 31, 2016
INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS		
Current income tax of PGE S.A.	19	63
Benefits from tax group settlements	(7)	(35)
Adjustments related to settlement of current income tax of previous years	4	30
Total current income tax	**16**	**58**
Deferred income tax	(11)	18
INCOME TAX EXPENSE RECOGNISED IN STATEMENT OF PROFIT OR LOSS	**5**	**76**
INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME		
From valuation of hedging instruments	(9)	39
INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME (EQUITY)	**(9)**	**39**

The principles regarding settlements between companies forming the PGE tax group (“TG PGE”) are described in note 23 of these financial statements.

Adjustments related to settlement of current income tax of previous years concern mainly final settlement of the tax group for the previous year. The differences arise from sales of electricity for the previous year invoiced in the first quarter of the current year, previously recognised based on estimates.

6.2 Effective tax rate

A reconciliation of the calculation of income tax on profit before tax at the statutory tax rate and income tax calculated according to the effective tax rate of the Company is as follows:

	Year ended December 31, 2017	Year ended December 31, 2016
PROFIT BEFORE TAX	**4,549**	**1,674**
Income tax according to Polish statutory tax rate of 19%	864	318
ADJUSTMENTS TO INCOME TAX		
Adjustments related to settlement of current income tax of previous years	4	30
Tax losses of companies belonging to the tax group	(7)	(35)
Non-taxable income	(841)	(244)
Other	(15)	7
TAX AT EFFECTIVE TAX RATE (Income tax (expense) as presented in the financial statements)	**5**	**76**
EFFECTIVE TAX RATE	**0.1%**	**4.5%**

In accordance with agreements within TG PGE, when a company belonging to the tax group incurs a tax loss, the respective tax benefits are transferred to the representing company, PGE S.A.

Non-taxable income refers mainly to dividend income which are not included in the calculation of the current income tax base (in 2017 tax impact of PLN 546 million and in 2016 of PLN 202 million) and the reversal of impairment of PGE Obrót S.A. shares (tax value of PLN 245 million).

in accordance with IFRS EU (in PLN million)

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

7. Property, plant and equipment

	As at December 31, 2017	As at December 31, 2016
Buildings	163	171
Other property, plant and equipment	13	15
NET VALUE OF PROPERTY, PLANT AND EQUIPMENT	**176**	**186**

In the reporting and comparative period, the Company did not purchase nor sold any significant property, plant and equipment.

8. Intangible assets

Intangible assets consist mainly of software and licences. As at December 31, 2017 no impairment risk regarding these assets was identified.

9. Shares in subsidiaries

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

	Registered office	Shares as at December 31, 2017	As at December 31, 2017	Stake as at December 31, 2016	As at December 31, 2016
COMPANIES BELONGING TO TG PGE 2015					
PGE Górnictwo i Energetyka Konwencjonalna S.A.	Bełchatów	100.00%	15,437	99.98%	15,396
PGE Dystrybucja S.A.	Lublin	100.00%	10,611	100.00%	10,592
PGE Obrót S.A.	Rzeszów	100.00%	2,406	100.00%	1,117
PGE Energia Odnawialna S.A.	Warsaw	100.00%	1,349	100.00%	1,347
PGE Systemy S.A.	Warsaw	100.00%	140	100.00%	137
ELBEST sp. z o.o.	Bełchatów	100.00%	101	100.00%	101
PGE Dom Maklerski S.A.	Warsaw	100.00%	97	100.00%	97
BETRANS sp. z o.o.	Bełchatów	100.00%	35	100.00%	35
ELMEN sp. z o.o.	Rogowiec	100.00%	23	100.00%	23
BESTGUM sp. z o.o.	Rogowiec	100.00%	13	100.00%	13
MEGAZEC sp. z o.o.	Bydgoszcz	100.00%	10	100.00%	10
ELBIS sp. z o.o.	Rogowiec	100.00%	8	100.00%	8
Ramb sp. z o.o.	Piaski	100.00%	7	100.00%	7
MegaSerwis sp. z o.o.	Bogatynia	100.00%	7	100.00%	7
TOP Serwis sp. z o.o.	Bogatynia	100.00%	5	100.00%	5
PGE Obsługa Księgowo-Kadrowa sp. z o.o.*)	Warsaw	100.00%	6	100.00%	2
PGE Centrum sp. z o.o.	Warsaw	100.00%	8	100.00%	<1
PGE Ventures sp. z o.o	Warsaw	100.00%	21	100.00%	<1
PGE Nowa Energia sp. z o.o	Warsaw	100.00%	15	100.00%	<1
PGE Inwest 13 S.A.	Warsaw	100.00%	1	100.00%	<1
ELBEST Security sp. z o.o.	Warsaw	100.00%	<1	100.00%	<1
8 limited liability companies named PGE Inwest 2;5;8 to 12;14	Warsaw	100.00%	<1	100.00%	<1
ELTUR SERWIS sp. z o.o.	Bogatynia	100.00%	-	100.00%	-
COMPANIES NOT BELONGING TO TG PGE 2015					
PGE Energia Ciepła S.A.	Warsaw	99.52%	1,992	-	-
Exatel S.A.	Warsaw	-	-	100.00%	428
PGE EJ 1 sp. z o.o.	Warsaw	70.00%	113	70.00%	218
PGE Sweden AB (publ)	Stockholm	100.00%	112	100.00%	112
PGE Trading GmbH	Berlin	100.00%	23	100.00%	23
PGE Towarzystwo Funduszy Inwestycyjnych S.A.	Warsaw	100.00%	24	100.00%	<1
Energopomiar sp. z o.o.	Gliwice	22.73%	3	-	-
PGE Inwest 16 Sp. z o.o.	Warsaw	100.00%	1	100.00%	<1
3 limited liability companies named PGE Inwest 17, 18, 19	Warsaw	100.00%	<1	100.00%	<1
TOTAL			**32,568**	-	**29,678**

*) the name PGE Obsługa Księgowo-Kadrowa sp. z o.o. was changed to PGE Synergia sp. z o.o. on January 31, 2018

Significant changes in the structure of subsidiaries that took place in 2017:

- On February 1, 2017 PGE Polska Grupa Energetyczna S.A. formed PGE Inwest 19 sp. z o.o. The company was registered at the National Court Register on February 24, 2017.
- An agreement to sell 100% of EXATEL S.A. shares for PLN 368.5 million was executed on March 29, 2017. The book value of Exatel S.A. shares at the moment of sale also was PLN 368.5 million. In addition, during the year the Company recognised PLN 59 million worth of impairment losses.
- On November 13, 2017, PGE Polska Grupa Energetyczna S.A. purchased 99.52% of shares in EDF Polska S.A. (currently PGE Energia Ciepła S.A.), which is described in note 26.1 to these financial statements.
- During the reporting period, the Company purchased shares in the increased capital of PGE Ventures sp. z o.o., PGE Nowa Energia sp. z o.o., PGE TFI S.A., PGE Centrum sp. z o.o., PGE OKK sp. z o.o. for a total amount of PLN 73 million.

9.1 Analysis of the value of non-current financial assets

In 2017, the Company recognised an impairment loss on PGE EJ1 sp. z o.o.'s shares of PLN 105 million. The reason for this impairment loss was a substantial difference between the book value of PGE EJ1 sp. z o.o. shares in PGE S.A.'s accounts and the value of this company's equity. The value of the shares in PGE EJ1 sp. z o.o. was estimated using the adjusted net assets approach. The impact of the impairment loss on the statement of comprehensive income is described in note 5.3 of these financial statements.

In the previous reporting period, the Company recognised an impairment loss on its stake in subsidiary ELTUR SERWIS sp. z o.o., amounting to PLN 23 million, due to its economic and financial situation.

In previous reporting periods, the Company recognised an impairment loss on shares in AWSA Holland II BV of PLN 115 million.

Moreover, PGE S.A. holds bonds issued by Autostrada Wielkopolska S.A., which were fully written-off due to a loss of value.

Impairment analysis of PGE Energia Odnawialna S.A. and PGE GiEK S.A.

In 2017, PGE Group analysed assumptions and identified drivers that could have substantial impact on changes in the value of its generating assets and, as a result, on the value of PGE S.A.'s stakes in PGE Energia Odnawialna S.A. and PGE GiEK S.A. Key changes in the regulatory environment are as follows:

- entry into force on September 25, 2017 of an updated bill on renewables, which significantly reduced the substitute fee, which translated into further declines in market prices for property rights attached to certificates of origin (green certificates).
- adoption by the Polish parliament on July 20, 2017 of the water law, which introduced new rules for water usage. In particular, the law introduced fees (fixed and variable) for using water and introduced higher maximum rates for water consumption and discharge of waste through installations belonging to PGE Group companies. The fixed fees for conventional installations and the variable fee for hydroelectric power stations constitute are a new expense for PGE Group's generating units.
- reduction of support for gas-fired generating units after 2018 vs assumptions adopted in 2015. This results from a significant decline in the prices of yellow certificates.
- lack of support for coal-fired CHP plants under the capacity market due to regulations introduced via the capacity market law of December 8, 2017.
- proposed legislative changes concerning the law on investment in wind farms of May 20, 2016. If this law is changed, wind farms will not be fully treated as a structure, which will reduce their property tax expenses.

Given the above, PGE S.A. performed impairment tests on its stakes in PGE Energia Odnawialna S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A. These tests were conducted on cash generating unit basis by establishing their recoverable amounts. The recoverable value of the analysed assets was estimated on the basis of discounted net cash flow method which relied on the financial projections prepared for the assumed useful life of the particular CGU. According to the Company, financial projections longer than five years are justified because the property, plant and equipment items used by the tested entities have significantly longer useful lives and also due to significant and long-term effects of projected changes in the regulatory environment.

Macroeconomic assumptions

The key price assumptions, i.e. prices of electricity, certificates of origin, CO_2 emission allowances, hard coal until 2019 are based on the company's financial plans.

Electricity price forecasts from 2020 are derived from a study prepared by an independent expert. The most probable energy price forecast was adopted, although in the part covered by contracts the prices and settlement terms used in these contracts during their validity were adopted. Electricity price forecasts assume growth in market prices during the forecast period.

The forecast for prices of property rights concerning certificates of origin was drafted by PGE S.A.'s team of in-house experts based on assumptions concerning the demand-supply balance. It was assumed that auctions will be the dominant support mechanism. The forecast for prices of property rights concerning certificates of origin for renewable energy assume growth until 2021. In later years, prices will be in a downtrend until 2025 (except for 2023) and will remain steady thereafter. For production covered by contracts the prices and settlement terms used in these contracts during their validity were adopted.

The forecast for revenue from the capacity market from 2021 was prepared by PGE S.A.'s in-house team based on expert assessments, including the results of the British capacity market, among other things.

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

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

Detailed assumptions regarding the tested companies

Presented below are the key assumptions having impact on estimates of the useful value of PGE GiEK S.A.:

- assumptions concerning electricity production and demand until 2022 were based on a financial plan,
- forecasts for prices of CO_2 emission allowances, assuming dynamic growth in market prices in subsequent years (even over a dozen percent year-on-year in constant prices),
- forecasts for hard coal prices, assuming strong growth in market prices in 2017-2019, resulting from lower supply; for 2020 the end of problems with limited supply was foreseen, resulting in a decline in coal prices; from 2021 prices are expected to stabilise (growth by approx. 1% y/y in constant prices),
- receipt of a quantity of free-of-charge CO_2 emission allowances for the purposes of electricity generation for 2017-2020 for specific cash generating units in accordance with Poland's application for a transition allocation of free emission allowances for the modernisation of electricity generation activities pursuant to art. 10c sec. 5 of directive 2003/87/EC of the European Parliament and the Council (derogation application), which meets the requirements of Commission Decision of July 13, 2012. As regards heat generation, free-of-charge allowances were taken into account in accordance with the list of quantities of CO_2 emission allowances allocated for heat for 2013-2020 published by the Environment Ministry,
- take into account the allocation of free CO_2 emission allowances in the period 2021-2030 only for system district heating and high-efficiency cogeneration, based on the 2020 level and assuming annual reduction by 2.2%,
- take into account the support system for high-efficiency gas cogeneration in the entire forecast period and the end of the support system for coal high-efficiency cogeneration in 2018,
- take into account work cost optimisation resulting from current work plans, among other things,
- maintain production capacities as a result of replacement-type investments,
- take into account development investments for which construction work has begun,
- adopt WACC for the projection period at 7.56%.

Presented below are the key assumptions having impact on estimates of the useful value of PGE Energia Odnawialna S.A.:

- production of electricity and property rights was estimated based on historic data and expert estimates prepared for investment purposes, adjusted by the availability of units;
- recognition of cash flows concerning contractual penalties and damages awarded in disputes with Enea S.A. and Energa Obrót S.A. in amounts resulting from the contracts or calculated as the difference between the contract prices of property rights and market prices;
- decline in property tax expenses from 2019;
- maintain production capacities as a result of replacement-type investments,
- adopt WACC for the projection period at 7.56%.

The tests did not indicate the necessity to recognise an impairment loss on the shares of PGE Energia Odnawialna S.A. and PGE GiEK S.A. The recoverable value of these stakes exceeds their book value indicated in these financial statements.

in accordance with IFRS EU (in PLN million)

Reversal of impairment of PGE Obrót S.A.'s shares

In previous reporting periods, PGE S.A. recognised an impairment loss on shares in PGE Obrót S.A. amounting to PLN 5,536 million. The reason for this impairment loss in 2014 was donation of the shares of PGE Dystrybucja S.A. as a result of which the equity of PGE Obrót S.A. significantly decreased. After the donation, the value of PGE Obrót S.A.'s shares was estimated in line with IAS 36 using the discounted cash flows method.

Key assumptions used in the measurement based on a projection for the period from June 2017 to 2021 were as follows:

- WACC of 7.56%.
- Decrease in overall sales volume in 2021 by approx. 8% compared to 2017.
- Increase in wholesale electricity prices in 2018 and decline in 2019-2021.
- Correlation between electricity prices in sales to retail customers with wholesale prices and impact on their level resulting from a change in the obligation to redeem property rights as well as changes in the prices of property rights.

As a result of the test, the value of PGE Obrót S.A. shares was estimated at PLN 2,406 million, in connection with which PGE S.A. in 2017 recognised a reversal of an existing impairment loss by PLN 1,289 million, which is described in note 5.3 to these financial statements. A sensitivity analysis showed that the valuation is most sensitive to changes in WACC and realised prices in electricity sales in specific tariff groups, mainly in group B. A 1pp increase in WACC would cause a decrease in the value of shares by nearly PLN 287 million, whereas a 1pp decrease in WACC would cause an increase by approx. PLN 389 million. In turn, a 1pp increase or decrease in electricity sales prices would cause an increase or a decrease in share value by approx. 246 million, respectively.

9.2 Shares in other related parties

	As at December 31, 2017	As at December 31, 2016
Polimex Mostostal S.A.	81	-
Energopomiar Sp. z o.o.	-	3
ElectroMobility Poland S.A.	3	3
Total	**84**	**6**

On January 18, 2017, PGE S.A. executed agreements concerning an equity investment in Polimex-Mostostal S.A. ("Polimex"). A detailed description of the transaction is presented in note 26.2 of these financial statements.

10. Joint ventures

During 2017 and 2016, the Company did not participate in any significant joint venture.

in accordance with IFRS EU (in PLN million)

11. Deferred tax in the statement of financial position

11.1 Deferred tax assets

	As at December 31, 2017	As at December 31, 2016
Difference between tax value and carrying amount of financial liabilities	20	49
Difference between tax value and carrying amount of financial assets	21	5
Provisions for employee benefits	10	10
DEFERRED TAX ASSETS	**51**	**64**

The Company does not recognise deferred tax assets related to the difference between tax value and carrying amount of shares in subsidiaries. Negative temporary differences connected with the recognition of impairment losses on shares in subsidiaries would be PLN 3,781 million, which would have a PLN 718 million impact on tax.

11.2 Deferred tax liabilities

	As at December 31, 2017	As at December 31, 2016
Difference between tax value and carrying amount of property, plant and equipment	20	22
Difference between tax value and carrying amount of other financial assets	41	74
Other	3	1
DEFERRED TAX LIABILITIES	**64**	**97**

AFTER OFF-SET OF BALANCES THE COMPANY'S DEFERRED TAX IS PRESENTED AS:		
Deferred tax assets	-	-
Deferred tax liabilities	13	33

12. Inventories

	As at December 31, 2017			As at December 31, 2016		
	Historical cost	Revaluation adjustments	Net value	Historical cost	Revaluation adjustments	Net value
CO_2 emission rights – trading portfolio	-	-	-	37	(8)	29
Other CO_2 emission rights	-	-	-	37	-	37
Energy origin rights	2	-	2	10	-	10
TOTAL INVENTORIES	**2**	**-**	**2**	**84**	**(8)**	**76**

	Year ended December 31, 2017	Year ended December 31, 2016
REVALUATION ADJUSTMENTS OF INVENTORIES AS AT JANUARY 1	**(8)**	**38**
Fair value revaluation of CO_2 emission rights	8	(46)
REVALUATION ADJUSTMENTS OF INVENTORIES AS AT DECEMBER 31	**-**	**(8)**

13. Other current assets

	As at December 31, 2017	As at December 31, 2016
Receivables from TG PGE	170	11
Advance payments	32	39
VAT receivables	13	24
Other	5	7
TOTAL	**220**	**81**

PGE S.A. is the representing company in the tax group that includes the Company and majority of its subsidiaries. For principles of operation and settlements between the companies please refer to note 23 of these financial statements.

Advance payments consist mainly of funds transferred to the subsidiary PGE Dom Maklerski S.A. for the purchase of electricity and gas of PLN 32 million in the current reporting period as compared to PLN 38 million in the comparative period.

14. Cash and cash equivalents

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

Cash in bank accounts based on variable interest rates the level of which depends on the interest on overnight bank deposits

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

in accordance with IFRS EU (in PLN million)

	As at December 31, 2017	As at December 31, 2016
Cash on hand and cash at bank	732	331
Overnight deposits	1	1
Short-term deposits	1,099	1,600
TOTAL	**1,832**	**1,932**
Interest accrued on cash, not received at the reporting date	-	(1)
Exchange differences on cash in foreign currencies	(1)	(1)
Cash and cash equivalents presented in the statement of cash flows	**1,831**	**1,930**
Undrawn borrowing facilities as at December 31	4,360	5,860
including overdraft facilities	*2,000*	*2,000*

A detailed description of credit agreements is presented in note 19.1.3 of these financial statements.

15. Equity

The objective of equity management is to ensure a secure and effective financing structure that takes into account operational risk, investment expenditures and the interests of shareholders and debt investors. Equity management takes places at Group level.

In line with commonly applicable practices, the Company monitors its net debt to EBITDA ratio at PGE Group level, as described in note 20 to the consolidated financial statements. Net debt is understood as short- and long-term financial debt (interest-bearing credit and loans, bonds and other debt instruments as well as finance lease liabilities), less cash and cash equivalents and short-term deposits. Restricted cash is not included in calculating net debt.

The Company's aim is to maintain its investment grade credit ratings. In connection with an on-going investment programme, a gradual increase in financial leverage is expected as a result of which the Company will be more closely analysing the above ratio. The net debt to EBITDA ratio is a central element of the Company's financial forecasts and plans.

15.1 Share capital

	As at December 31, 2017	As at December 31, 2016
1,470,576,500 Series A ordinary Shares with a nominal value of PLN 10.25 each	15,073	15,073
259,513,500 Series B ordinary Shares with a nominal value of PLN 10.25 each	2,660	2,660
73,228,888 Series C ordinary Shares with a nominal value of PLN 10.25 each	751	751
66,441,941 Series D ordinary Shares with a nominal value of PLN 10.25 each	681	681
Total share capital	**19,165**	**19,165**

All of the Company's shares are paid up.

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

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

The Company is part of PGE Group, for which State Treasury holds special rights as long as it remains a shareholder.

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

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,

in accordance with IFRS EU (in PLN million)

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.

15.2 Reserve capital

Reserve capital results from statutory allocation of profits generated in previous reporting periods, from surplus of profit distribution in excess of the value of statutory allocations, as well as from merger of PGE S.A. with its subsidiaries.

According to regulations of the Commercial Code, joint stock companies are obliged to create reserve capital to cover potential losses. At least 8% of the profit for the reporting year recognised in the separate financial statements of the Company is transferred to reserve capital, until this reserve capital amounts to at least one third of share capital. The part of reserve capital which amounts to one third of share capital can only be used to cover losses recognised in the separate financial statements and cannot be distributed for other purposes. The General Meeting decides on the use of reserve capital and other capital reserves.

Reserve capital subject to distribution to shareholders amounted to PLN 8,940 million as at December 31, 2017, and PLN 7,342 million as at December 31, 2016.

15.3 Hedging reserve

Change in the revaluation reserve concerning cash flow hedge accounting implemented:

	Year ended December 31, 2017	Year ended December 31, 2016
AS AT JANUARY 1	**149**	**(17)**
Change in hedging reserve, including:	**(48)**	**205**
Deferral of changes in fair value of hedging financial instruments in the part considered as effective hedge	(218)	313
Accrued interest on derivatives transferred from hedging reserve and recognised in interest expense	4	-
Currency revaluation of CCIRS transaction transferred from hedging reserve and recognised in the result on foreign exchange differences	166	(107)
Ineffective portion of changes in fair value of hedging derivatives recognised in profit or loss	-	(1)
Deferred tax	**9**	**(39)**
HEDGING RESERVE INCLUDING DEFERRED TAX	**110**	**149**

15.4 Retained earnings and limitations on payment of dividend

Retained earnings which are not subject to distribution are amounts that cannot be paid in the form of dividends.

	As at December 31, 2017	As at December 31, 2016
Retained earnings not subject to distribution - profits / losses recognised in other comprehensive income	(3)	(4)
Retained earnings subject to distribution	4,544	1,598
TOTAL RETAINED EARNINGS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	**4,541**	**1,594**

For information regarding limitations of dividend payments from reserve capital please refer to note 15.2 of these financial statements. As at December 31, 2017 there were no other restrictions on dividend payments.

in accordance with IFRS EU (in PLN million)

15.5 Earnings per share

During the current and comparative reporting period there was no dilutive effect on earnings per share.

	Year ended December 31, 2017	Year ended December 31, 2016
NET PROFIT	**4,544**	**1,598**
NET PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY USED TO CALCULATE EARNINGS PER SHARE	**4,544**	**1,598**
Number of ordinary shares at the beginning of the reporting period	1,869,760,829	1,869,760,829
Number of ordinary shares at the end of the reporting period	1,869,760,829	1,869,760,829
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES USED TO CALCULATE EARNINGS PER SHARE	**1,869,760,829**	**1,869,760,829**
NET PROFIT AND DILUTED NET PROFIT PER SHARE (IN PLN)	**2.43**	**0.85**

15.6 Dividends paid and recommended for payment

Dividend from 2017 profit

During 2017 and until the date of preparation of these financial statements the Company made no advance payments of dividends.

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.

The payment of each dividend will depend particularly on the overall level of the Company's debt, expected capital expenditures and potential acquisitions.

Dividend from 2016 profit

In line with the updated Dividend Policy, on June 27, 2017 the General Meeting of PGE S.A. adopted a resolution to transfer the entire profit generated in 2016 (PLN 1,598 million) to the Company's reserve capital.

16. Provisions

The carrying amount of provisions is as follows:

	As at December 31, 2017		As at December 31, 2016	
	Non-current	Current	Non-current	Current
Post-employment benefits	20	2	20	2
Jubilee awards	-	-	2	-
Employee bonuses and other employee related	-	24	-	28
Other	-	7	-	-
TOTAL PROVISIONS	**20**	**33**	**22**	**30**

in accordance with IFRS EU (in PLN million)

Changes in provisions

Year ended December 31, 2017	Post-employment benefits	Jubilee awards	Employee bonuses and other employee related	Other	Total
AS AT JANUARY 1, 2017	**22**	**2**	**28**	**-**	**52**
Benefits paid / Provisions used	-	(2)	(26)	(3)	**(31)**
Provisions recognised	-	-	30	3	**33**
Other changes	-	-	(8)	7	**(1)**
AS AT DECEMBER 31, 2017	**22**	**-**	**24**	**7**	**53**

Year ended December 31, 2016	Post-employment benefits	Jubilee awards	Employee bonuses and other employee related	Total
AS AT JANUARY 1, 2016	**21**	**2**	**32**	**55**
Benefits paid / Provisions used	(1)	-	(24)	**(25)**
Provisions reversed	-	-	(10)	**(10)**
Provisions recognised	-	-	29	**29**
Other changes	2	-	1	**3**
AS AT DECEMBER 31, 2016	**22**	**2**	**28**	**52**

Based on information received from the actuary, the Company estimates that the influence of changes in assumptions on the value of provisions for post-employment benefits would be as follows:

- should the discount rate be higher by 1 percentage point (p.p.), the provision would decrease by PLN 2 million, and should the discount rate be lower by 1 p.p., the provision would increase by PLN 3 million.
- should the growth rates be higher by 1 p.p., the provision would increase by PLN 3 million, and should the rates be lower by 1 p.p., the provision would decrease by PLN 2 million.

17. Post-employment benefits

The amount of provisions for post-employment benefits recognised in the financial statements results from the valuation prepared by an independent actuary.

The carrying amount of provisions for employee benefits:

	As at December 31, 2017		As at December 31, 2016	
	Non-current	Current	Non-current	Current
Retirement, pension and post-mortem benefits	1	1	1	1
Energy tariff	8	1	8	1
Social Fund	7	-	7	-
Medical benefits	4	-	4	-
TOTAL EMPLOYEE BENEFITS	**20**	**2**	**20**	**2**

18. Other non-financial liabilities

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

	As at December 31, 2017	As at December 31, 2016
Tax on share capital increase	-	110
Liabilities due to settlements in the tax group	25	18
VAT liabilities	-	19
Other	5	7
TOTAL OTHER LIABILITIES	**30**	**154**

PGE S.A. is the representative entity in its tax group, which covers the Company and most of its subsidiaries. Rules regarding settlements between companies are described in note 23 of these financial statements.

in accordance with IFRS EU (in PLN million)

EXPLANATORY NOTES TO FINANCIAL INSTRUMENTS

19. Financial Instruments

19.1 Description of significant items within particular classes of financial instruments

19.1.1 Trade and other financial receivables

	As at December 31, 2017		As at December 31, 2016	
	Non-current	Current	Non-current	Current
Trade receivables	-	758	-	523
Bonds acquired	10,912	130	8,751	21
Cash pooling receivables	-	134	-	628
Loans granted	928	1,614	97	-
Deposits with maturity over 3 months	-	-	-	2,299
Other financial receivables	-	-	-	3
TOTAL FINANCIAL RECEIVABLES	**11,840**	**2,636**	**8,848**	**3,474**

Trade receivables

Trade receivables of PLN 758 million relate mainly to the sale of electricity and services to subsidiaries in PGE Group. As at December 31, 2017, the balance of the three most important debtors, i.e. PGE Obrót S.A., PGE GiEK S.A. and PGE Dystrybucja S.A., accounted for 78% of total trade receivables.

Additional information relating to trade receivables is presented in note 20.5.1 of these financial statements.

Bonds acquired

	As at December 31, 2017		As at December 31, 2016	
	Non-current	Current	Non-current	Current
BONDS ACQUIRED - ISSUER				
PGE GiEK S.A.	9,685	94	7,236	7
PGE Energia Odnawialna S.A. and its subsidiaries	1,227	36	1,426	14
Autostrada Wielkopolska S.A.	-	-	89	-
TOTAL BONDS ACQUIRED	**10,912**	**130**	**8,751**	**21**

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

From January 1, 2018 all transactions are on market terms.

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

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

The final bond buyback deadline is 2025 for PGE GiEK S.A. and 2020 for PGE Energia Odnawialna S.A.

As described in note 5.3, applying the prudent measurement principle and based on conducted analysis, the bonds of Autostrada Wielkopolska S.A. were fully covered by an impairment loss.

Cash pooling receivables

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

in accordance with IFRS EU (in PLN million)

Loans granted

	As at December 31, 2017		As at December 31, 2016	
	Non-current	Current	Non-current	Current
LOANS GRANTED - BORROWER				
PGE Energia Ciepła S.A.	542	1.614	-	-
PGE Dystrybucja S.A.	243	-	-	-
PGE Systemy S.A.	106	-	80	-
PGE EJ 1 sp. z o.o.	21	-	-	-
PGE Trading GmbH	12	-	13	-
Bestgum sp. z o.o.	4	-	4	-
TOTAL LOANS GRANTED	**928**	**1.614**	**97**	**-**

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

The issue of loans for PGE Energia Ciepła is described in note 26.1 to these financial statements. The repayment deadline for these loans is set as 2018-2019.

Deposits with maturity over 3 months

As at December 31, 2016 the Company recognises deposits with a maturity over 3 months at the total amount of PLN 2,299 million.

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

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

	As at December 31, 2017			
	Recognised in profit or loss	Recognised in other comprehensive income	Assets	Liabilities
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS				
Commodity forwards	46	-	54	-
Currency forwards	(20)	-	-	19
IRS hedges	15	-	-	8
Options	17	-	24	-
HEDGING DERIVATIVES				
CCIRS hedges	(168)	(19)	44	-
IRS hedges	(3)	(29)	98	5
OTHER ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS				
Investment fund participation units	-	-	50	-
TOTAL DERIVATIVES AND OTHER RECEIVABLES CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS	**(113)**	**(48)**	**270**	**32**
non-current			216	5
current			54	27

	As at December 31, 2016			
	Recognised in profit or loss	Recognised in other comprehensive income	Assets	Liabilities
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS				
Currency forwards	(5)	-	1	-
Commodity forwards	(5)	-	8	-
IRS transactions	3	-	-	23
HEDGING DERIVATIVES				
CCIRS hedges	49	79	231	-
IRS hedges	(1)	126	125	-
TOTAL DERIVATIVES	**41**	**205**	**365**	**23**
non-current			356	23
current			9	-

in accordance with IFRS EU (in PLN million)

Commodity and currency forwards

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

IRS transactions

In the present and previous reporting periods, the Company executed 7 IRS transactions to hedge interest rates on credit facilities totalling PLN 5,130 million. To recognise these IRS transactions, the Company uses hedge accounting. The impact of hedge accounting on equity is presented in note 15.3 to these financial statements.

In 2014, PGE S.A. concluded two IRS transactions hedging the interest rate on issued bonds with a nominal value of PLN 1,000 million. Payments arising from IRS transactions are correlated with interest payments on bonds. Changes in fair value of IRS transactions are fully recognised in profit or loss.

CCIRS hedges

In June and August 2014, in connection with loans received from PGE Sweden AB (publ) disclosed in note 19.1.3 of these financial statements, PGE S.A. concluded CCIRS transactions, hedging both the exchange rate and interest rate. In these transactions, banks - counterparties pay PGE S.A. interest based on a fixed rate in EUR and PGE S.A. pays interest based on a fixed rate in PLN. The nominal value, payment of interest and repayment of nominal value in CCIRS transactions are correlated with the relevant conditions arising from loan agreements.

To recognise these CCIRS transactions, the Company uses hedge accounting. The impact of hedge accounting on equity is presented in note 15.3 to these financial statements.

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 deadlines are: July 30, 2020, July 30, 2021 and July 30, 2022.

Investment fund participation units

On November 15, 2017 the Company purchased participation units from PGE TFI S.A. in three sub-funds. The value of these units as of the reporting date was PLN 50 million.

Presented below are the terms of the derivative instruments and other assets carried at fair value through profit or loss.

	As at December 31, 2017		As at December 31, 2016		
	Value in financial statements in PLN	Instrument's nominal value in original currency	Value in financial statements in PLN	Instrument's nominal value in original currency	Maturity
Currency forward - EUR	-	-	1	17	by January 2018
Commodity forward sale EUA - EUR	54	763	8	9	by March 2020
Commodity forward purchase EUA - EUR		194		-	by March 2020
CCIRS - EUR to PLN	44	514	231	514	by June 2019
		144		144	by July 2029
IRS - interest rate PLN	98	3,630	125	3,630	by September 2023
		1,000		1,000	by December 2027
Options	24	6	-	-	by July 2022
Investment fund participation units	50	50	-	-	n/a
FINANCIAL ASSETS	**270**	**-**	**365**	**-**	
Currency forward - EUR	19	193	-	1	by March 2020
IRS - interest rate PLN	13	500	-	-	by December 2027
		1,000	23	1,000	by June 2018
FINANCIAL LIABILITIES	**32**	**-**	**23**	**-**	

in accordance with IFRS EU (in PLN million)

19.1.3 Loans, borrowings, bonds, cash pooling

	As at December 31, 2017		As at December 31, 2016	
	Non-current	Current	Non-current	Current
Credit liabilities	5,019	129	5,020	127
Loans received	2,695	59	2,858	80
Bonds issued	-	1,000	976	24
Cash pooling liabilities	-	576	-	473
TOTAL LOANS, BORROWINGS, BONDS AND CASH POOLING	**7,714**	**1,764**	**8,854**	**704**

Loans from PGE Sweden AB (publ)

The Company recognises loans of EUR 660 million (PLN 2,754 million) from subsidiary PGE Sweden AB (publ).

In 2014, PGE S.A. and PGE Sweden AB (publ) established a Euro Medium Term Note Program, in which PGE Sweden AB (publ) may issue Eurobonds up to EUR 2 billion with a minimum maturity of 1 year. In 2014, PGE Sweden AB (publ) issued Eurobonds in the total amount of EUR 638 million. The subsidiary allocated the funds raised under this program to grant a loan to its parent company.

Domestic market bond issues

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

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

Bank credit

- On December 17, 2014, PGE S.A. signed the Loan Agreement in the amount of PLN 1,000 million with Bank Gospodarstwa Krajowego with a maturity date of December 31, 2027. As at December 31, 2017, the Company used all available credit.
- On September 7, 2015 the Company concluded a long-term loan agreement with a syndicate of banks composed of: BNP Paribas S.A., Société Générale S.A., Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Bank Zachodni WBK S.A., mBank S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Polska Kasa Opieki S.A. Subject matter of the agreement is granting a loan in two parts, i.e. term loan facility and revolving loan facility. As at December 31, the Company used all of the term loan facility of PLN 3,630 million which falls on September 30, 2023.
  The revolving loan facility of up to PLN 1,870 million and falling on April 30, 2019 is available, but not used by the Company.
- On December 4, 2015 the Company signed the Loan Agreement in the amount of PLN 500 million with Bank Gospodarstwa Krajowego S.A. with the maturity date of December 31, 2028. As at December 31, 2017, the Company used all available credit.

Additionally, on October 27, 2015, the Company concluded two loan agreements with the European Investment Bank for the total amount of nearly PLN 2 billion. The amount of PLN 1.5 billion, obtained on the basis of the first of the two agreements, will be used for projects relating to the modernisation and development of distribution grid. The funds from the second agreement, i.e. the remaining PLN 490 million, will be used to finance and refinance the construction of cogeneration units Gorzów CHP and Rzeszów CHP. The funds shall be repaid within 15 years from the date of the last tranche. As at December 31, 2017, the Company did not use these credit lines.

The value of overdraft facilities at the Company's disposal amounted to PLN 2,000 million as at December 31, 2017 and as at December 31, 2016. The aforesaid overdraft facilities falls on Frebruary 2018. Currently, the Company is working on extending these deadlines.

In 2017 and after the reporting period there were no cases of default of repayment or violation of other terms of credit agreements.

Cash pooling liabilities

The launch of real cash pooling is described in note 19.1.1 of these financial statements.

in accordance with IFRS EU (in PLN million)

Currency position and interest

As at December 31, 2017

Currency	Reference rate	Value in currency	Value in PLN	Final repayment deadline
PLN	Variable	3,647	3,647	September 2023
	Variable	1,001	1,001	December 2027
	Variable	1,000	1,000	indefinite program, maturity date of the tranche issued- June 2018
	Variable	500	500	December 2028
	Variable	576	576	5-year programme
	Fixed	-	-	
TOTAL PLN		**6,724**	**6,724**	
EUR	Variable	-	-	
	Fixed	515	2,147	June 2019
	Fixed	145	607	July 2029
TOTAL EUR		**660**	**2,754**	
TOTAL LOANS, BORROWINGS, BONDS, CASH POOLING			**9,478**	

As at December 31, 2016

Currency	Reference rate	Value in currency	Value in PLN	Final repayment deadline
PLN	Variable	3,646	3,646	September 2023
	Variable	1,001	1,001	December 2027
	Variable	1,000	1,000	indefinite program, maturity date of the tranche issued- June 2018
	Variable	500	500	December 2028
	Variable	473	473	5-year programme
	Fixed	-	-	
TOTAL PLN		**6,620**	**6,620**	
EUR	Variable	-	-	
	Fixed	515	2,277	June 2019
	Fixed	145	643	July 2029
	Fixed	4	18	June 2017
TOTAL EUR		**664**	**2,938**	
TOTAL LOANS, BORROWINGS, BONDS, CASH POOLING			**9,558**	

The following table illustrates changes in interest-bearing debt in the years ended December 31, 2017 and 2016:

	Year ended December 31, 2017	Year ended December 31, 2016
AS AT JANUARY 1	**9,558**	**5,471**
CHANGE IN OVERDRAFTS	**-**	**-**
CHANGE IN CASH POOLING LIABILITIES	**103**	**(684)**
CHANGE IN OTHER LOANS, BORROWINGS AND BONDS, including:	**(183)**	**4,771**
Drawn loans and borrowings / issued bonds	-	4,648
Accrued interest	215	138
Repayment of loans and borrowings / redemption of bonds	(232)	(123)
Exchange differences	(166)	108
AS AT DECEMBER 31	**9,478**	**9,558**

19.1.4 Other financial liabilities measured at amortised cost

	As at December 31, 2017		As at December 31, 2016	
	Non-current	Current	Non-current	Current
Trade payables	-	673	-	184
Future payments to Polish National Foundation	23	3	-	-
Other	-	6	-	5
TOTAL OTHER FINANCIAL LIABILITIES	**23**	**682**	**-**	**189**

Trade payables

Trade liabilities relate mainly to purchase of electricity and gas.

in accordance with IFRS EU (in PLN million)

19.2 Fair value of financial instruments

The book value of financial receivables and payables carried at amortised cost, except for loans from PGE Sweden AB (publ), constitutes a rational approximation of their fair value.

In the case of loans received from PGE Sweden AB (publ), PGE S.A. estimates their fair value at PLN 2,862 million (as compared to PLN 2,754 million of the carrying amount). The fair value was determined using the estimated credit risk of PGE S.A. It is Level 2 of fair value hierarchy.

19.3 Fair value hierarchy

Inventories

During the reporting period the Company held CO_2 emission allowances a part of which was purchased in order to benefit from market price swings. This part of the emission allowances is recognised in inventories at fair value less costs of disposal. Fair value is based on the market quotations (Level 1).

Derivatives

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

In the category of financial assets and financial liabilities at fair value through profit or loss, the Company presents financial instruments related to greenhouse gases emission rights – currency and commodity forwards and IRS hedging transaction changing variable interest rate in PLN to fixed interest rate in PLN (Level 2).

In addition, the Company presents CCIRS derivative that hedges foreign exchange rate and interest rate (Level 2).

FAIR VALUE HIERARCHY	As at December 31, 2017		As at December 31, 2016	
	Level 1	Level 2	Level 1	Level 2
CO_2 emission allowances	-	-	29	-
Inventories	**-**	**-**	**29**	**-**
Currency forwards	-	-	-	1
Commodity forwards	-	54	-	8
Measurement of CCIRS transactions	-	44	-	231
Measurement of IRS transactions	-	98	-	125
Options	-	24	-	-
Fund participation units	-	50	-	-
Financial assets	**-**	**270**	**-**	**365**
Currency forwards	-	19	-	-
Measurement of IRS transactions	-	13	-	23
Financial liabilities	**-**	**32**	**-**	**23**

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.

Inventories are described in note 12 of these financial statements, whereas derivatives are presented in note 19.1.2 of these financial statements.

Financial instruments not quoted on active markets, for which fair value cannot be estimated reliably

PGE S.A. holds significant amount of shares in entities not quoted on active markets. For shares in entities that are not quoted on the stock exchange, there is no active market nor is there a possibility to use measurement techniques that will give reliable values. These assets are measured at purchase prices less impairment.

19.4 Collateral for repayment of receivables and liabilities

The Company uses a variety of collateral and its combinations. The most frequently used are execution statements. Additionally, the Company uses the power of attorney to the bank accounts and assignment of receivables. As a rule, there is no collateral on subsidiaries' liabilities towards PGE S.A.

As at December 31, 2017 and December 31, 2016, Company's assets are not encumbered as collateral for the repayment of the Company's liabilities and contingent liabilities.

in accordance with IFRS EU (in PLN million)

19.5 Statement of comprehensive income

The table below presents the combined effect of the various categories of the financial instruments on the finance income and finance costs.

YEAR ENDED DECEMBER 31, 2017	Hedging derivatives	Derivatives measured at fair value through profit or loss	Cash	Shares in subsidiaries	Loans and receivables	Financial liabilities at amortised cost	TOTAL
Dividends	-	-	-	2,872	-	-	**2,872**
Interest income / (costs)	(4)	-	62	-	306	(322)	**42**
Exchange differences	(166)	-	(4)	-	(2)	168	**(4)**
Revaluation of financial instruments/Reversal of impairment allowances	-	63	-	1,289	-	-	**1,352**
Revaluation of financial instruments /Recognition of allowances	(1)	-	-	(164)	(88)	-	**(253)**
TOTAL PROFIT/ (LOSS)	**(171)**	**63**	**58**	**3,997**	**216**	**(154)**	**4,009**

YEAR ENDED DECEMBER 31, 2016	Hedging derivatives	Derivatives measured at fair value through profit or loss	Cash	Shares in subsidiaries	Loans and receivables	Financial liabilities at amortised cost	TOTAL
Dividends	-	-	-	1,063	-	-	**1,063**
Interest income / (costs)	(59)	(17)	16	-	235	(149)	**26**
Exchange differences	107	-	11	-	3	(108)	**13**
Revaluation of financial instruments/Reversal of impairment allowances	-	20	-	-	89	1	**110**
Revaluation of financial instruments /Recognition of allowances	-	(10)	-	(23)	-	-	**(33)**
TOTAL PROFIT/ (LOSS)	**48**	**(7)**	**27**	**1,040**	**327**	**(256)**	**1,179**

20. Objectives and principles of financial risk management

The main goal of financial risk management at PGE Group is to support the process of creating value for shareholders and to implement business strategies of the Group through maintaining the financial risk at the level acceptable for the Group management. Responsibility for managing financial risk lies with the Management Board of PGE S.A. The Management Board specifies risk appetite, understood as an acceptable level of deterioration of PGE Group's financial results, taking into consideration its current and planned economic and financial situation. The Management Board also decided on the allocation of risk appetite to specific business areas.

The organization of a function of financial risk management is based on the principle of independence of an entity responsible for measurement and control of risk vs business entities (risk owners) responsible for taking and managing the risk on an ongoing basis. Risk reports are submitted directly to the Risk Committee, Audit Committee and the Management Board of PGE S.A.

The Company has a Risk Committee that exercises oversight of the financial and corporate risk management process at PGE Group. The Risk Committee monitors exposure levels, sets limits for significant financial risks, accepts methodologies in financial risk resulting from trade and finance activities, permits expansions of activities in new business areas and makes key decisions regarding risk management.

Financial risk is managed at Group level as a whole, with the Company having a leading role, being a centre of competence in this area, and managing the process in an integrated manner. Exposures to risk generated by business areas are examined on a comprehensive basis, taking into account interdependencies, the possibility of using natural hedging effects and the overall impact on PGE Group's risk profile and financial situation.

The financial risk management model includes:

- collection and consolidation of data on exposure to particular categories of financial risk,
- calculation of Value-at-Risk and Profit-at-Risk for specific risk factors and overall for all risk factors;
- management of the PGE Group's consolidated exposure in relation to capital at risk and risk limits established based on it (including the identification and implementation of hedging strategies).

In key areas of financial risk, the Company has implemented internal regulations for managing these risks.

The Company is exposed to a variety of financial risks:

- market risk (commodity risk, interest rate risk, currency risk);
- liquidity risk;
- credit risk.

The Company's exposure to specific financial risks depends on the scope of activities in commodity and financial markets.

20.1 Market risk

Market risk covers commodity risk, interest rate risk, currency risk.

The main objective of managing market risk is to retain a level of risk resulting from trade and finance activities at an acceptable level and to support business strategy and maximisation of the Group's value for shareholders.

The Company's procedures for managing specific market risk categories in trade and finance activities specify the following:

- objective, scope and rules for managing risk;
- responsibility for managing risk;
- management and operational processes within risk management in trade activities on electricity markets and electric product markets and as regards finance activities;
- ways of identifying sources of exposure to risk;
- methods for measuring and monitoring exposures to risk;

The Company's market risk management rules also specify ways to set risk appetite, limit exposures to market risk based on Profit-at-Risk and Value-at-Risk and mechanisms for limiting risk when limits are exceeded.

20.1.1 Commodity risk

Commodity risk is related to the possibility that financial results deteriorate as a result of changes in commodity prices.

The Company's exposure to commodity risk mainly concerns the following commodity markets:

- electricity;
- CO_2 emission allowances;
- natural gas

The Company has a strategy for hedging key exposures in trading electricity and related products over a 5-year horizon. The level of hedging for an open position is set taking into account risk appetite, results of monitoring the risk of electricity and related product prices, liquidity of specific markets as well as the financial situation of the Company and the Group and the Group's strategic objectives.

20.1.2 Interest rate risk

Interest rate risk is related to the possibility that financial results deteriorate as a result of changes in interest rates.

The Company is exposed to interest rate risk as a result of financing their operating and investment activities with interest bearing financing at variable interest rates, mainly in the form of credit facilities, loans and bonds issued in domestic or foreign currency and through investments in financial assets at variable interest rates.

The Company controls interest rate risk through a system of limits relating to the maximum potential loss due to changes in interest rates. The interest rate risk measure is based on the Value at Risk methodology.

Moreover, the Company sets out hedging strategies for interest rate risk using hedging ratios subject to approval by PGE S.A.'s Risk Committee and Management Board. The hedging strategy and level of interest rate risk are subject to monitoring and are regularly reported to the Risk Committee.

The Company executes derivative transactions concerning instruments that are based on interest rates only in order to hedge identified risk exposures. Regulations applicable to PGE Group do not permit derivative transactions based on interest rates for the purposes of speculative transactions that would be intended to generate additional earnings resulting from changes in interest rates while exposing the Company to a risk of potential losses.

Bonds issued in the amount of PLN 1 billion under the Bonds issue program of PLN 5 billion that was described in note 19.1.3 of these financial statements, are interest-bearing bonds at a variable rate in PLN. Payments relating to those bonds are hedged by IRS transactions, described in note 19.1.2.

Loans received from a subsidiary PGE Sweden AB (publ) are interest bearing loans at a fixed interest rate in EUR. Payments for these loans are hedged by CCIRS transactions described in note 19.1.2.

In addition, the Company holds long-term bank credit of PLN 1.5 billion under the terms of Credit Agreements signed on December 17, 2014 and December 4, 2015 respectively with Bank Gospodarstwa Krajowego and syndicated loan (term loan facility tranche) of PLN 3,630 million under the terms of Credit Agreement signed on September 7, 2015. These credit facilities are based on variable interest rates in PLN. Payments related to bank credits are hedged with IRS hedge instruments, described in note 19.1.2.

The Company's exposure to interest rate risk and concentration of this risk by currencies:

in accordance with IFRS EU (in PLN million)

		Type of interest	As at December 31, 2017	As at December 31, 2016
Derivatives - assets exposed to interest rate risk	PLN	Fixed	-	-
		Variable	122	125
	EUR	Fixed	-	-
		Variable	98	240
Loans granted, bonds acquired and cash exposed to interest rate risk	PLN	Fixed	15,185	12,611
		Variable	311	1,010
	EUR	Fixed	55	18
		Variable	-	89
Derivatives – liabilities, exposed to interest rate risk	PLN	Fixed	-	-
		Variable	(13)	(23)
	EUR	Fixed	-	-
		Variable	(19)	-
Loans received, bonds issued exposed to interest rate risk	PLN	Fixed	-	-
		Variable	(6,724)	(6,620)
	EUR	Fixed	(2,753)	(2,938)
		Variable	-	-
Net exposure	**PLN**	**Fixed**	**15,185**	**12,611**
		Variable	**(6,304)**	**(5,508)**
	EUR	**Fixed**	**(2,698)**	**(2,920)**
		Variable	**79**	**329**

Interest rates on variable interest rate financial instruments are updated in periods shorter than one year. Interest rates on fixed interest rate financial instruments are fixed throughout the whole period until maturity of these instruments.

20.1.3 Currency risk

Currency risk is related to the possibility that financial results deteriorate as a result of changes in currency prices.

The main sources of exposure to currency risk are presented below:

The main sources of exposure to currency risk are presented below:

- loans and borrowings denominated in foreign currencies;
- sales of electricity denominated in foreign currencies (export);
- fees denominated in or indexed to foreign currencies relevant to purchase of transmission capacities;
- sales and purchases of CO_2 emission rights and gas denominated in or indexed to foreign currencies;
- financial assets with deposit characteristics denominated in foreign currencies,
- foreign subsidiaries,
- other operating flows denominated in or indexed to foreign currencies.

The Company controls currency risk through a system of limits relating to the maximum potential loss due to changes in currencies. The currency risk measure is based on the Value at Risk methodology.

Moreover, the Company sets out hedging strategies for currency risk using hedging ratios subject to approval by PGE S.A.'s Risk Committee and Management Board. The hedging strategy and level of currency risk are subject to monitoring and are regularly reported to the Risk Committee.

The Company concludes derivative transactions concerning instruments that are based on currency only in order to hedge identified risk exposures. Regulations applicable to PGE Group do not permit derivative transactions based on currency for the purposes of speculative transactions that would be intended to generate additional earnings resulting from changes in currencies while exposing the Company to a risk of potential losses.

The Company's exposure to currency risk broken down into classes of financial instruments:

in accordance with IFRS EU (in PLN million)

	Total value in financial statements in PLN	CURRENCY POSITION AT DECEMBER 31, 2017	
		EUR	PLN
FINANCIAL ASSETS			
Trade and other financial receivables, including:	14,476	4	15
Trade receivables	*758*	*1*	*3*
Loans granted	*928*	*3*	*12*
Cash and cash equivalents	1,832	10	41
Derivatives, including:	270	724	3,020
Carried at fair value through profit or loss	*54*	*13*	*54*
CCIRS hedges	*44*	*711*	*2,966*
FINANCIAL LIABILITIES			
Loans, borrowings, bonds, including:	(9,478)	(660)	(2,754)
Loans received	*(2,754)*	*(660)*	*(2,754)*
Trade and other payables, including:	(705)	(1)	(2)
Trade payables	*(673)*	*(1)*	*(2)*
Derivatives measured at fair value through profit or loss	(32)	(193)	(805)
NET CURRENCY POSITION		**(116)**	**(485)**

The book value of derivatives constitutes their fair value measurement. The value of exposure to currency risk for forwards constitutes their nominal value in currency. The value of exposure to risk currency for CCIRS constitutes a value in the currency of discounted cash flows in the currency leg.

	Total value in financial statements in PLN	CURRENCY POSITION AT DECEMBER 31, 2016	
		EUR	PLN
FINANCIAL ASSETS			
Trade and other financial receivables, including:	12,322	42	186
Trade receivables	*523*	*19*	*84*
Bonds acquired	*8,772*	*20*	*89*
Loans granted	*97*	*3*	*13*
Cash and cash equivalents	1,932	1	4
Derivatives, including:	365	743	3,288
Carried at fair value through profit or loss	*9*	*15*	*66*
CCIRS hedges	*231*	*728*	*3,222*
FINANCIAL LIABILITIES			
Loans, borrowings, bonds, including:	(9,558)	(664)	(2,938)
Loans received	*(2,938)*	*(664)*	*(2,938)*
Trade and other payables, including:	(189)	(5)	(22)
Trade payables	*(184)*	*(5)*	*(22)*
Derivatives measured at fair value through profit or loss	(23)	-	-
NET CURRENCY POSITION		**117**	**518**

The book value of derivatives constitutes their fair value measurement. The value of exposure to currency risk for forwards constitutes their nominal value in currency. The value of exposure to risk currency for CCIRS constitutes a value in the currency of discounted cash flows in the currency leg.

20.2 Liquidity risk

Liquidity risk concerns a situation in which the company is unable to meet its liabilities (current or non-current) when they become due.

The main objective of liquidity risk management at PGE Group is to ensure and maintain the companies' ability to meet their existing and future financial liabilities, taking into account the cost to obtain liquidity. Liquidity risk management at PGE Group involves planning and monitoring short- and long-term cash flows from operating, investing and financing activities and taking action intended to assure funds for the activities of PGE S.A. and its subsidiaries, while limiting the cost of these actions.

Periodic planning and monitoring of liquidity makes it possible to secure funds for any liquidity gaps by allocating funds among PGE Group companies (cash pooling) as well as using external financing, including overdrafts.

Liquidity risk management in the long term allows PGE Group to define its borrowing capacity and supports decisions regarding the financing of long-term investments.

PGE Group has a central financing model in which, as a rule, agreements relating to external financing are executed by PGE S.A. PGE Group subsidiaries use various sources of intra-group financing such as loans, bonds, bank accounts consolidation agreements and real cash pooling agreements.

The Company has an active policy of investing free cash. The Company monitors its financial surpluses and forecasts future cash flows and then on this basis implements an investment strategy for its free cash.

In the case of cash shortages, the Company uses the following financing sources:

in accordance with IFRS EU (in PLN million)

- overdrafts, term loans, working capital loans;
- bank accounts consolidation agreements (real cash-pooling);
- bond issues addressed to external investors;
- bonds issues addressed to PGE Group subsidiaries.

Maturities of financial liabilities based on contractual non-discounted payments:

As at December 31, 2017	Carrying amount	Total payments	Under 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years
Bank credit	**5,148**	**5,849**	43	87	3,157	2,562
Loans received	**2,754**	**3,027**	9	50	2,239	729
Bonds issued	**1,000**	**1,013**	-	1,013	-	-
Cash pooling liabilities	**576**	**576**	576	-	-	-
Trade and other financial liabilities measured at amortised cost	**705**	**710**	678	-	32	-
Derivatives measured at fair value through profit or loss	**32**	**32**	1	13	22	(4)
TOTAL	**10,215**	**11,207**	**1,307**	**1,163**	**5,450**	**3,287**

As at December 31, 2016	Carrying amount	Total payments	Under 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years
Bank credit	**5,147**	**5,823**	43	86	1,399	4,295
Loans received	**2,938**	**3,292**	10	71	2,418	793
Bonds issued	**1,000**	**1,038**	-	25	1,013	-
Cash pooling liabilities	**473**	**473**	473	-	-	-
Trade and other financial liabilities measured at amortised cost	**189**	**189**	188	-	1	-
Derivatives measured at fair value through profit or loss	**23**	**23**	-	16	7	-
TOTAL	**9,770**	**10,838**	**714**	**198**	**4,838**	**5,088**

20.3 Credit risk

Credit risk is connected with a potential credit event that can occur, such as insolvency of a customer, partial payment of a receivable, significant delay in receivable payment or other breaches of contract conditions (in particular the lack of delivery and acceptance of the goods as agreed in the contract and the possible non-payment for damages and contractual penalties).

The Company is exposed to credit risk arising in the following areas:

- Basic activities – the credit risk results from, among others, purchases and sales of electricity, energy origin rights, gas, hard coal and CO_2 emission allowances. This relates primarily to the possibility of a default of the other party of transaction, if fair value of the transaction is positive from the point of view of the Company;
- Investing free cash – the credit risk results from investing free cash of PGE S.A. in securities bearing credit risk, i.e. financial instruments other than those issued by the State Treasury.

Maximum credit risk exposure resulting from financial assets is equal to the carrying value of these items.

	Year ended December 31, 2017	Year ended December 31, 2016
Trade receivables	758	523
Loans and receivables	13,718	11,799
Cash and cash equivalents	1,832	1,932
Derivatives - assets	270	365
MAXIMUM EXPOSURE TO CREDIT RISK	**16,578**	**14,619**

20.3.1 Trade and other financial receivables

Trade receivables typically have a 2-3-week payment deadline. In 2017, payment for receivables was received on average after 26 days. Trade receivables relate mainly to receivables for energy sold. According to the management, due to current control over trade receivables, there is no additional credit risk that would exceed the level reflected by impairment on receivables.

in accordance with IFRS EU (in PLN million)

The Company reduces and controls the credit risk related to trade transactions. In the case of trade transactions which due to high value may generate substantial loss in case of failure of business partner to comply with the agreement, the assessment of contractor is carried out before the transaction is conducted, taking into account contractor's financial analysis, its credit history and other factors. Based on the assessment, an internal rating is recognised or the Company uses a rating determined by an independent reputable agency. A limit for the contractor is set based on the rating. Entering into contracts that would increase exposure above the limit requires, as a rule, collateral in line with rules pertaining to credit risk management. The level of used limit is regularly monitored and if it is substantially exceeded, units responsible for contractor's risk are obliged to undertake measures to eliminate them. The Company regularly monitors the payment of receivables and uses a system for early recovery. It also cooperates with credit bureaus.

Credit risk relating to trade receivables by geographical region is presented in the table below:

	DECEMBER 31, 2017		DECEMBER 31, 2016	
	Receivables balance	**% share**	**Receivables balance**	**% share**
Poland	688	90.8%	504	96.4%
Netherlands	59	7.8%	-	-
Luxembourg	-	-	13	2.5%
Germany	3	0.4%	5	1,0%
Great Britain	3	0.4%	1	0.2%
Other	5	0.6%	-	-
TOTAL	**758**	**100%**	**523**	**100%**

The majority of sales transactions and trade receivables balances relate to related parties within the PGE Group, as well as large Polish entities from the electricity market. Information on transactions with related parties is presented in note 24 of these financial statements.

Ageing of receivables and impairment

As at December 31, 2017 part of financial assets was covered by impairment allowances.

The change in allowances accounts for these classes of financial instruments is presented in the table below:

2017	Trade receivables	Loans granted	Cash pooling receivables	Bonds acquired	Other financial receivables
Impairment as of January 1	**(3)**	**-**	**-**	**(297)**	**(25)**
Impairment allowances raised	-	-	-	(89)	-
Impairment as of December 31	**(3)**	**-**	**-**	**(386)**	**(25)**
Value before impairment	**761**	**2,542**	**134**	**11,428**	**25**
Net value (carrying amount)	**758**	**2,542**	**134**	**11,042**	**-**

Raised impairment allowances concern bonds issued by Autostrada Wielkopolska S.A. worth PLN 89 million.

2016	Trade receivables	Loans granted	Cash pooling receivables	Bonds acquired	Other financial receivables
Impairment as of January 1	**(3)**	**-**	**-**	**(386)**	**(25)**
Reversal of impairment allowances	-	-	-	89	-
Impairment as of December 31	**(3)**	**-**	**-**	**(297)**	**(25)**
Value before impairment	**526**	**97**	**628**	**9,069**	**28**
Net value (carrying amount)	**523**	**97**	**628**	**8,772**	**3**

in accordance with IFRS EU (in PLN million)

Trade and other receivables

	DECEMBER 31, 2017			DECEMBER 31, 2016		
	Gross	Impairment	Net carrying amount	Gross	Impairment	Net carrying amount
Receivables before due date	**14,844**	**(389)**	**10,021**	**10,321**	**(300)**	**10,021**
Past due <30 days	*21*	-	*21*	*2*	-	*2*
Past due 30-90 days	-	-	-	-	-	-
Past due 90-180 days	-	-	-	-	-	-
Past due 180-360 days	-	-	-	-	-	-
Past due >360 days	*25*	*(25)*	-	*25*	*(25)*	-
RECEIVABLES PAST DUE, TOTAL	**46**	**(25)**	**21**	**27**	**(25)**	**2**
TOTAL LOANS AND RECEIVABLES	**14,890**	**(414)**	**14,476**	**10,348**	**(325)**	**10,023**

20.3.2 Deposits, cash and cash equivalents

The Company manages credit risk related to cash and cash equivalents by diversification of banks in which surpluses of cash are allocated. All entities with which the Company concludes deposit transactions with operate in the financial sector. These can only be banks registered in Poland or divisions of foreign banks with high investment level ratings, adequate indicator of solvency and equity as well as strong, stable market position.

20.3.3 Derivatives

All entities with which the Company concludes derivative transactions with operate in the financial sector. These are banks with investment ratings, adequate equity and strong, stable market position. As at the reporting date, the Company was party to the derivative transactions, described in detail in note 19.1.2 to these financial statements.

20.3.4 Guarantees granted and sureties issued

Guarantees and sureties issued by the Company are presented in note 22 to these financial statements.

20.4 Market (financial) risk – sensitivity analysis

The Company identifies the following types of market risk to which it is exposed:

- Interest rate risk,
- Currency risk.

Currently, the Company is exposed mainly to currency risk related to foreign exchange rates between EUR/PLN. Furthermore, the Company is exposed to interest rate risk related to referential interest rates of PLN. The Company uses a scenario analysis for the purpose of analysing sensitivity to changes of market risk factors. The Company uses experts' scripts reflecting the subjective opinion on the Company in relation to future fluctuations of individual market risk factors.

The scenario analysis presented in this point is intended to analyse the influence of changes in market risk factors on the financial results of the Company. Only those items that can be defined as financial instruments are subject to the analysis of interest and currency risk.

In sensitivity analysis related to interest rate risk, the Company applies parallel shift of interest rate curve related to a potential possible change of referential interest rates during the following year.

In case of sensitivity analysis of interest rates' fluctuations, the effect of risk factors' changes could be recorded in the statement of comprehensive income as incomes or expenses or as revaluation of financial instruments measured at fair value.

The sensitivity analysis related to all types of market risks the Company is exposed to as at the reporting date, indicating the potential influence of changes of individual risk factors by class of financial assets and liabilities on profit before tax is presented below.

in accordance with IFRS EU (in PLN million)

Sensitivity analysis for currency risk

The table below presents the sensitivity of profit before tax and equity to reasonably possible changes in foreign currency exchange rates, under the assumption of stability of other risk factors for these classes of financial instruments exposed to currency risk.

SENSITIVITY ANALYSIS FOR CURRENCY RISK AS AT DECEMBER 31, 2017				
FINANCIAL INSTRUMENTS BY CLASS	Carrying amount in PLN	Value exposed to risk in PLN	EUR/PLN Impact on financial result / Equity	
			+10%	-10%
Trade and other financial receivables	14,476	15	2	(2)
Cash and cash equivalents	1,832	41	4	(4)
Derivatives - assets	54	54	5	(5)
CCIRS hedges	44	2,966	274	(274)
Loans, borrowings, bonds	(9,478)	(2,753)	(275)	275
Trade and other financial payables	(705)	(2)	-	-
Derivatives - liabilities	(32)	(805)	(81)	81
Impact on financial result			**(71)**	**71**
CCIRS hedges	44	2,966	22	(22)
Impact on revaluation reserve			**22**	**(22)**

SENSITIVITY ANALYSIS FOR CURRENCY RISK AS AT DECEMBER 31, 2016				
FINANCIAL INSTRUMENTS BY CLASS	Carrying amount in PLN	Value exposed to risk in PLN	EUR/PLN Impact on financial result / Equity	
			+10%	-10%
Trade and other financial receivables	12,322	186	19	(19)
Cash and cash equivalents	1,932	4	-	-
Derivatives - assets	9	66	7	(7)
CCIRS hedges	231	3,222	291	(291)
Loans, borrowings, bonds	(9,558)	(2,938)	(294)	294
Trade and other financial payables	(189)	(22)	(2)	2
Impact on financial result			**21**	**(21)**
CCIRS hedges	231	3,222	31	(31)
Impact on revaluation reserve			**31**	**(31)**

in accordance with IFRS EU (in PLN million)

Sensitivity analysis for interest rate risk

The table below presents the sensitivity of profit before tax and equity to reasonably possible changes in interest rates, under the assumption of stability of other risk factors for these classes of financial instruments that are exposed to interest rate risk:

FINANCIAL ASSETS AND LIABILITIES	Carrying amount in PLN	Value exposed to risk in PLN	SENSITIVITY ANALYSIS FOR INTEREST RATE RISK AS AT DECEMBER 31, 2017			
			WIBOR Impact on financial result / Equity		EURIBOR Impact on financial result / Equity	
			+50bp	–50bp	+25bp	–25bp
Trade and other receivables	14,476	311	2	(2)	-	-
Derivatives - assets	270	78	-	-	-	-
Loans, borrowings, bonds, cash pooling	(9,478)	(6,724)	(34)	34	-	-
Derivatives - liabilities	(32)	(27)	-	-	-	-
Impact on financial result			**(32)**	**32**	**-**	**-**
CCIRS hedges	44	44	46	(48)	(27)	27
IRS hedges - assets	98	98	109	(113)	-	-
IRS hedges - liabilities	(5)	(5)	(12)	16	-	-
Impact on revaluation reserve			**143**	**(145)**	**(27)**	**27**

Value of derivatives exposed to interest rate risk is fair value of those instruments (carrying amount). Sensitivity analysis for CCIRS and IRS derivatives was carried out using the valuation change due to the shift of interest rates curves for particular currency.

FINANCIAL ASSETS AND LIABILITIES	Carrying amount in PLN	Value exposed to risk in PLN	SENSITIVITY ANALYSIS FOR INTEREST RATE RISK AS AT DECEMBER 31, 2016			
			WIBOR Impact on financial result / Equity		EURIBOR Impact on financial result / Equity	
			+50bp	–50bp	+25bp	–25bp
Trade and other receivables	12,322	1,099	5	(5)	-	-
Derivatives - assets	365	9	-	-	-	-
Loans, borrowings, bonds, cash pooling	(9,558)	(6,620)	(33)	33	-	-
Derivatives - liabilities	(23)	(23)	5	(5)	-	-
Impact on financial result			**(23)**	**23**	**-**	**-**
CCIRS hedges	231	231	60	(62)	(37)	37
IRS hedges	125	125	128	(133)	-	-
Impact on revaluation reserve			**188**	**(195)**	**(37)**	**37**

Value of derivatives exposed to interest rate risk is fair value of those instruments (carrying amount). Sensitivity analysis for CCIRS and IRS derivatives was carried out using the valuation change due to the shift of interest rates curves for particular currency.

20.5 Hedge accounting

In June and August 2014, in connection with loans received from PGE Sweden AB, PGE S.A. concluded CCIRS transactions, hedging both exchange rates. In these transactions, banks - counterparties pay PGE S.A. interest based on a fixed rate in EUR and PGE S.A. pays interest based on a fixed rate in PLN. The nominal value, payment of interest and repayment of nominal value in CCIRS transactions are correlated with the relevant conditions arising from loan agreements. To recognise these transactions, the Company uses hedge accounting.

Hedge accounting is also applied to IRS transactions hedging interest rate due to financial liabilities under credit agreements such as the Credit Agreement with a syndicate of banks signed on September 7, 2015 and Credit Agreement with Bank Gospodarstwa Krajowego signed on December 17, 2014. In these transactions, banks - counterparties pay PGE S.A. interest based on a variable rate in PLN and PGE S.A. pays interest based on a fixed rate in PLN.

The impact of hedge accounting on the revaluation reserve is presented in note 15.3 to these financial statements.

in accordance with IFRS EU (in PLN million)

EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

21. Statement of cash flows

Presented below is the analysis of the most significant items of cash flow statement.

21.1 Cash flows from operating activities

Interest and dividends

	Year ended December 31, 2017	Year ended December 31, 2016
Dividend receivables	(2.872)	(1.063)
Interest on bonds acquired	(283)	(215)
Interest on bonds issued	25	25
Interest on loans granted	60	62
Interest and commission on bank credit	137	44
Other	64	76
TOTAL INTEREST AND DIVIDENDS	**(2.869)**	**(1.071)**

Profit / loss on investing activities

	Year ended December 31, 2017	Year ended December 31, 2016
Valuation of derivatives	(114)	(57)
Impairment allowances of financial assets	(1.036)	(66)
Other	6	-
Total profit / loss on investing activities	**(1,144)**	**(123)**

Change in receivables

	Year ended December 31, 2017	Year ended December 31, 2016
Change in trade and other receivables	(2,876)	(5,226)
Adjustment for changes in loans granted (including cash pooling)	1,950	344
Adjustment for changes in bonds acquired	2,992	2,750
Adjustment for deposits with maturities over 3 months	(2,299)	2,299
Other	-	1
TOTAL CHANGE IN LOANS AND RECEIVABLES	**(233)**	**168**

Change in liabilities, excluding loans and borrowings

	Year ended December 31, 2017	Year ended December 31, 2016
Change in trade and other financial liabilities	489	(118)
Change in other non-financial liabilities	(123)	(22)
Adjustment for changes in tax related to the increase of share capital	110	(110)
Adjustment for changes in settlements in tax group	(7)	89
Other	-	(2)
TOTAL CHANGE IN LIABILITIES, EXCLUDING LOANS AND BORROWINGS	**496**	**(163)**

Change in other non-financial assets

	Year ended December 31, 2017	Year ended December 31, 2016
Change in other current assets	(140)	338
Adjustment for changes in settlements in tax group	158	(59)
Other	(1)	(13)
TOTAL CHANGE IN OTHER CURRENT ASSETS	**17**	**266**

21.2 Cash flows from investing activities

Acquisition and redemption of bonds issued by PGE Group companies

PGE S.A. acquires bonds issued by entities belonging to PGE Group. Cash obtained from the issue of bonds is used for financing investments, repayment of financial liabilities as well as for financing current operations. Detailed description in note 19.1.1.

Sale of other financial assets

In 2017, the Company executed an agreement to sell 100% of shares in Exatel S.A. for PLN 368 million.

Purchase of subsidiaries

In 2017, the Company mainly purchased EDF's assets for a total amount of PLN 4,227 million, which is further described in note 26.1 to these financial statements.

Release of deposits with maturity over 3 months

In 2017, the Company released deposits with a maturity over 3 months at the total amount of PLN 2,340 million.

Dividends received

The total amount of dividends received consists mainly of dividends from PGE GiEK S.A. (PLN 2,019 million) and PGE Dystrybucja S.A. (PLN 808 million). During the comparative period PLN 1,012 million from PGE Dystrybucja S.A. and PLN 35 million from PGE Energia Odnawialna S.A.

Cash flows under cash pooling

As described in note 19.1.1, PGE S.A. coordinates the cash pooling service in the PGE Group. This means, among others, that certain entities settle with the Company and the Company settles with banks. In connection with the above, balances with related parties participating in cash pooling are reported in the Company's financial receivables and liabilities.

in accordance with IFRS EU (in PLN million)

OTHER EXPLANATORY NOTES

22. Contingent liabilities and receivables. Legal claims

22.1 Contingent liabilities

	As at December 31, 2017	As at December 31, 2016
Bank guarantee	11,052	11,908
Other contingent	33	1
Total contingent liabilities	**11,085**	**11,909**

Guarantee for PGE Sweden AB (publ) liabilities

Due to establishment of the Eurobonds program in 2014, an agreement was concluded for the issue of guarantee by PGE S.A. for the liabilities of PGE Sweden AB (publ). The guarantee was granted to the amount of EUR 2,500 million (PLN 11,060 million) and will be valid until December 31, 2041. As at December 31, 2017, PGE Sweden AB (publ)'s liabilities due to bonds issued amounted to EUR 642 million (PLN 2,682 million), as at December 31, 2016 liabilities amounted to EUR 642 million (PLN 2,842 million).

Surety for PGE GiEK S.A.'s liabilities

In January 2014, the Company granted three sureties to the bank payment guarantee issued for PGE GiEK S.A. at the total value of PLN 391 million at the reporting date (PLN 758 million in the corresponding period). Granting sureties is related to the investment conducted by PGE GiEK S.A. relating to the construction of the new power units in Elektrownia Opole.

Other contingent liabilities

Other contingent liabilities mainly include the amount of PLN 31 million related to risk of additional costs related to PGE Group's debt financing programmes.

22.2 Other significant issues related to contingent liabilities

Standby commitments to ensure financing of new investments for PGE Group companies

Due to planned strategic investments in PGE Group, the Company committed to its subsidiaries, in the form of standby commitments, to ensure financing of the planned investments. The standby commitments relate to specific investments and may be used only for such purposes. As at the reporting date approximate value of future investment commitments related to these projects amounts to about PLN 3.5 billion. As at December 31, 2017 and December 31, 2016 the estimated value of the standby commitments amounts to PLN 15 billion.

Commitment to support liquidity at PGE Obrót S.A.

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

PGE Obrót S.A. constitutes a party to the cash-pool agreement established for PGE Group companies and may use the financing available under the terms of this program. As at the date of preparation of these financial statements, there were no indications of insolvency risk at PGE Obrót S.A.

22.3 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 similar claim was raised by Pozwy sp. z o.o., an entity that purchased claims from former PGE Elektrownia Opole S.A. shareholders. Pozwy sp. z o.o. has filed a claim at the District Court in Warsaw against PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE S.A. and PwC Polska sp. z o.o. ("Defendants"), demanding 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. On July 8, 2017, PGE S.A. and PGE GiEK S.A. submitted a response to the claim and the lawsuit is currently being proceeded in the first instance.

PGE Group companies do not recognise the claims being raised by Socrates Investment S.A., Pozwy sp. z o.o. and other shareholders requesting conciliatory settlements. According to PGE S.A., these claims are groundless and the entire consolidation process was conducted fairly and properly. The value of the shares, which were subject to the process of consolidation (merger), 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.

The Company has not recognised provisions for these claims.

Claims for annulment of General Meeting resolutions

On April 1, 2014, PGE S.A. received a copy of a lawsuit filed to the District Court of Warsaw by one of its shareholders. In the lawsuit, the shareholder is seeking for annulment of the resolutions 1, 2 and 4 of the Company's Extraordinary General Meeting held on February 6, 2014. The Company filed a response to the claim. On June 22, 2015, the District Court in Warsaw issued a judgment dismissing the shareholder's claim in its entirety. The shareholder appealed, and the Company filed a reply to the appeal. On March 24, 2017, a hearing was held at the Appellate Court in Warsaw. The court discontinued the proceedings due to the lawsuit being withdrawn without relinquishing the claim.

On August 21, 2015, PGE S.A. received a copy of a lawsuit filed to the District Court of Warsaw by one of its shareholders. In the lawsuit, the shareholder is seeking for annulment of resolution 5 of the Company's Ordinary General Meeting held on June 24, 2015. The Company filed a response to the claim. On April 26, 2016, the District Court in Warsaw issued a judgment dismissing the shareholder's claim. On April 3, 2017, the shareholder appealed. Through a ruling of April 18, 2017, the District Court rejected the appeal due to the appeal deadline having been exceeded. The ruling became final on May 6, 2017.

On September 17, 2014, PGE S.A. received a copy of a lawsuit filed to the District Court of Warsaw by one of its shareholders. In the lawsuit, the shareholder is seeking for annulment of resolution 4 of the Company's Ordinary General Meeting held on June 6, 2014. The Company filed a response to the claim. On August 13, 2015, the District Court in Warsaw issued a judgment dismissing the shareholder's claim in its entirety. The shareholder appealed, and the Company filed a reply to the appeal. Through a ruling of March 2, 2017, the Appeals Court in Warsaw dismissed the shareholder's appeal. The shareholder filed a cassation claim dated June 10, 2017. On August 3, 2017, the Company filed a response to the cassation claim. In a ruling of January 10, 2018, the Supreme Court rejected the shareholder's cassation claim.

On October 23, 2015, PGE S.A. received a copy of a lawsuit filed to the District Court of Warsaw by one of its shareholders. In the lawsuit, the shareholder is seeking for annulment of resolution 1 of the Company's Extraordinary General Meeting held on September 14, 2015. The Company filed a response to the claim. A hearing before the District Court in Warsaw was held on April 24, 2017. In a ruling of May 8, 2017, the court dismissed the shareholder's claim. On July 3, 2017, the shareholder appealed. On August 27, 2017, the District Court ruled to dismiss the shareholder's appeal. The ruling became final on September 13, 2017.

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

Company filed a response to the claim. The proceedings were discontinued through a ruling of March 14, 2017 after the withdrawal of the claim prior to the first hearing.

On September 12, 2016, PGE S.A. received a copy of a lawsuit filed to the District Court in Warsaw by one of its shareholders. In the lawsuit, the shareholder is seeking for annulment of the resolution 1 of the Company's Ordinary General Meeting held on June 28, 2016. The Company filed a response to the claim. The proceedings were discontinued through a ruling of March 17, 2017 after the withdrawal of the claim prior to the first hearing.

On December 30, 2016, PGE S.A. received a copy of a lawsuit filed to the District Court in Warsaw by one of its shareholders. In the lawsuit, the shareholder is seeking for annulment of resolution 1 of the Company's Extraordinary General Meeting held on September 5, 2016. The Company filed a response to the claim. The proceedings were discontinued through a ruling of March 16, 2017 after the withdrawal of the claim prior to the first hearing.

On March 15, 2017, PGE S.A. received a copy of a lawsuit filed to the District Court of Warsaw by one of its shareholders. In the lawsuit, the shareholder is seeking for annulment of resolution 4 of the Company's Extraordinary General Meeting held on September 5, 2016. The Company filed a response to the claim. 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 1, 2018 a hearing was held - the date of the judgment was postponed until March 15, 2018.

23. Tax settlements

Tax obligations and rights are specified in the Constitution of the Republic of Poland, tax regulations and rectified international agreements. According to the tax ordinance, tax is defined as public, unpaid, obligatory and non-returnable cash liability toward the State Treasury, provincial or other regional authorities resulting from the tax regulation. Taking into account the subject criterion, current taxes in Poland can be divided into five groups: taxation of incomes, taxation of turnover, taxation of assets, taxation of activities and other, not classified elsewhere. From the point of view of 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 2017: corporate income tax rate – 19%, basic value added tax rate – 23%, reduced: 8%, 5%, 0%, furthermore some goods and products are subject to a VAT tax exemption.

The tax system in Poland is characterised by a significant changeability of tax regulations, their high complexity, high potential penalties 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 TG 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 95% (75% from 2018), lack of capital ties between subsidiaries, no tax arrears, share in total revenue of at least 3% (counted for the entire tax group, 2% from 2018 on), and execution of transactions with related parties from outside the tax group only on market terms. Violating these requirements would mean the dissolution of the tax group and loss of its taxpayer status. When the tax group is dissolved, each of its member companies becomes an individual payer of corporate income tax.

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

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

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

VAT split payment mechanism

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

in accordance with IFRS EU (in PLN million)

PGE S.A. intends to effective use the funds received from counterparties in the VAT accounts for the payment of its liabilities containing VAT tax. The amount of funds at the VAT accounts on a given day will depend mainly on how many of the Company's counterparties use this mechanism and the relation between due days for receivables and liabilities. The Company's estimates show that the average balance of funds at the VAT accounts might be in the range of PLN 10-40 million.

24. Information on related parties

The State Treasury is PGE Group's majority shareholder and as a result State Treasury companies are recognised as related entities. The Company closely monitors transactions with key State Treasury subsidiaries. The total value of transactions with such entities is presented in the table below in the column "other related parties".

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

- bonds issued by subsidiaries belonging to the tax group with interest rates below market rates, described in note 19.1.1 of these financial statements,
- tax losses settlements within the tax group, described in notes 6.2 and 23 of these financial statements.

From January 1, 2018 all transactions are on market terms.

24.1 Transactions with related parties

Year ended December 31, 2017

	Subsidiaries	Other PGE Group related parties	Other related parties	Third parties	Revenue and cost offsetting	TOTAL
STATEMENT OF COMPREHENSIVE INCOME						
Sales revenues	7,975	-	339	871	-	**9,185**
Other operating income	3	-	-	-	-	**3**
Financial income	4,634	-	-	126	(166)	**4,594**
Operating costs	7,156	-	295	1,156	-	**8,607**
Other operating expenses	-	2	34	4	-	**40**
Financial expenses	398	89	-	265	(166)	**586**

Year ended December 31, 2016

	Subsidiaries	Other PGE Group related parties	Other related parties	Third parties	Revenue and cost offsetting	TOTAL
STATEMENT OF COMPREHENSIVE INCOME						
Sales revenues	10,120	-	205	522	-	**10,847**
Financial income	1,288	89	61	62	(61)	**1,439**
Operating costs	986	-	167	9,192	-	**10,345**
Financial expenses	97	-	61	163	(61)	**260**

The Company recognises revenue from sales to related parties in PGE Group mainly related to sales of electricity, gas, energy origin rights and CO_2 emission allowances.

Finance income relates primarily to dividends and interest on bonds.

Operating costs relate to the value of sales of materials and goods.

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

in accordance with IFRS EU (in PLN million)

24.2 Balances with related parties

As at December 31, 2017

ASSETS	Subsidiaries	Other PGE Group related parties	Other related parties	Third parties	TOTAL
Loans and receivables:	**14,348**	**-**	**24**	**104**	**14,476**
Bonds acquired	11,042	-	-	-	11,042
Trade receivables	630	-	24	104	758
Other loans and financial receivables	2,676	-	-	-	2,676
Shares in subsidiaries	**32,568**	**-**	**-**	**-**	**32,568**
Shares in other related parties	**-**	**84**	**-**	**-**	**84**
Derivatives - assets	**-**	**-**		**270**	**270**
Other current assets	**202**	**-**	**-**	**18**	**220**

As at December 31, 2016

ASSETS	Subsidiaries	Other PGE Group related parties	Other related parties	Third parties	TOTAL
Loans and receivables:	**9,804**	**89**	**71**	**2,358**	**12,322**
Bonds acquired	8,683	89	-	-	8,772
Trade receivables	393	-	71	59	523
Deposits with maturity over 3 months	-	-	-	2,299	2,299
Other loans and financial receivables	728	-	-	-	728
Shares in subsidiaries	**29,678**	**-**	**-**	**-**	**29,678**
Shares in other related parties	**-**	**6**	**-**	**-**	**6**
Derivatives - assets	**-**	**-**	**-**	**365**	**365**
Other current assets	**49**	**-**	**-**	**32**	**81**

As at December 31, 2017

	Subsidiaries	Other related parties	Third parties	TOTAL
LIABILITIES				
Derivatives - equity and liabilities	**-**	**-**	**32**	**32**
Financial liabilities measured at amortised cost:	**3,902**	**35**	**6,246**	**10,183**
Bonds issued	*-*	*-*	*1,000*	*1,000*
Interest bearing loans and borrowings	*2,753*	*-*	*5,149*	*7,902*
Cash pooling liabilities	*576*	*-*	*-*	*576*
Trade payables	*543*	*35*	*95*	*673*
Other financial liabilities	30	-	2	32

As at December 31, 2016

	Subsidiaries	Other related parties	Third parties	TOTAL
LIABILITIES				
Derivatives - equity and liabilities	**-**	**-**	**23**	**23**
Financial liabilities measured at amortised cost:	**3,485**	**34**	**6,228**	**9,747**
Bonds issued	*-*	*-*	*1,000*	*1,000*
Interest bearing loans and borrowings	*2,938*	*-*	*5,147*	*8,085*
Cash pooling liabilities	*473*	*-*	*-*	*473*
Trade payables	*74*	*34*	*76*	*184*
Other financial liabilities	*-*	*-*	*5*	*5*

Standby commitments and sureties granted to PGE S.A.'s subsidiaries are described in note 22 of these financial statements.

24.3 Management remuneration

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

PLN 000s	Year ended December 31, 2017	Year ended December 31, 2016
Short-term employee benefits (salaries and salary related costs)	8,046	9,113
Post-employment and termination benefits	168	3,066
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**8,214**	**12,179**

PLN 000s	Year ended December 31, 2017	Year ended December 31, 2016
Management Board	7,454	11,669
Supervisory Board	760	510
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**8,214**	**12,179**

Members of the Company's Management Board are employed on the basis of civil law contracts for management (so called management contracts). In note 5.2 Costs by nature and type, this remuneration is presented in the item other costs by type.

25. Disclosures under art. 44 of the Energy Law regarding specific types of activities

Article 44 of the Energy Law imposes an obligation on the energy companies to prepare regulatory financial statements with a balance sheet (statement of financial position) and the statement of profit or loss for the reporting periods separately for each type of business activity related to the following areas:

- supply of gaseous fuels or energy, including fixed costs, variable costs and revenues separately for the generation, transmission, distribution and trade in gaseous fuels or energy, gaseous fuel storage and liquefaction of natural gas or re-gasification of liquefied natural gas, also in relation to groups of recipients specified in the tariff;
- unrelated to the activities listed above.

25.1 Principles for allocation to different types of activities

The section below presents the types of activities referred to in art. 44 of the Energy Law and principles for allocation of revenues, expenses, assets and liabilities resulting from these types of activities.

25.1.1 Description of separate types of activities

The Company has identified the following types of activities pursuant to art. 44 point 1 of the Energy Law:

- trade in electricity
- trade in gaseous fuels
- other activities

25.1.2 Rules for allocation of revenues, expenses, assets and liabilities

Selected items in the statement of comprehensive income and statement of financial position are assigned by the Company to certain types of activities based on the accounting records:

- revenue from sale
- cost of goods sold
- selling and distribution costs
- general and administrative expenses
- finance income and finance costs
- trade receivables
- trade payables
- derivatives
- inventories
- provisions, except for employee benefit provisions

Selected items in the statement of financial position are assigned by the Company to certain types of activities with the use of allocation keys:

- property, plant and equipment as well as intangible assets in proportion to the depreciation/amortisation costs,
- provisions for employee benefits and liabilities arising from wages, personal income tax and social insurance in proportion to the costs of employee benefits,
- VAT liabilities in proportion to revenues from sales.

in accordance with IFRS EU (in PLN million)

Selected items in the statement of comprehensive income and statement of financial position are not assigned to certain types of activities as they pertain to all activities of the entity. The main unallocated items include:

- deferred income tax assets and provision
- loans and receivables other than trade receivables
- interest-bearing loans, borrowings, bonds
- shares in subsidiaries and financial assets available for sale
- income tax receivables and liabilities
- cash and cash equivalents
- equity, except for profit for the reporting period
- income tax in statement of profit or loss

Unallocated items are presented together with other activities.

25.2 Breakdown by type of business activity

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2017

	Electricity	Gas	Other activities and unallocated items	Total
SALES REVENUES	**7,622**	**605**	**958**	**9,185**
Cost of goods sold	(7,423)	(595)	(418)	**(8,436)**
GROSS PROFIT ON SALES	**199**	**10**	**540**	**749**
Distribution and selling expenses	(12)	(5)	-	**(17)**
General and administrative expenses	(39)	(1)	(114)	**(154)**
Other operating income	-	-	3	**3**
Other operating expenses	-	-	(40)	**(40)**
OPERATING PROFIT	**148**	**4**	**389**	**541**
Financial income	-	-	4,594	**4,594**
Financial expenses	-	-	(586)	**(586)**
PROFIT BEFORE TAX	**148**	**4**	**4,397**	**4,549**
Income tax	-	-	(5)	**(5)**
NET PROFIT FOR THE REPORTING PERIOD	**148**	**4**	**4,392**	**4,544**

In Note 5.1 Revenues from sales of each activity are presented in revenues from sales of goods and revenues from sales of services.

in accordance with IFRS EU (in PLN million)

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2017

	Electricity	Gas	Other activities and unallocated items	Total
NON-CURRENT ASSETS				
Property, plant and equipment	31	2	143	176
Intangible assets	1	-	2	3
Financial receivables	-	-	11,840	11,840
Derivatives and other assets measured at fair value through profit or loss	-	-	216	216
Shares in subsidiaries	-	-	32,568	32,568
Shares in other related parties			84	84
	32	**2**	**44,853**	**44,887**
CURRENT ASSETS				
Inventories	-	-	2	2
Derivatives	-	-	54	54
Trade and other receivables	560	99	1,977	2,636
Other current assets	15	17	188	220
Cash and cash equivalents	-	-	1,832	1,832
	575	**116**	**4,053**	**4,744**
TOTAL ASSETS	**607**	**118**	**48,906**	**49,631**

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2017

	Electricity	Gas	Other activities and unallocated items	Total
Net profit for the reporting period	148	4	4,392	4,544
Other equity	-	-	34,600	34,600
TOTAL EQUITY	**148**	**4**	**38,992**	**39,144**
NON-CURRENT LIABILITIES				
Non-current provisions	5	-	15	20
Loans, borrowings, bonds, cash pooling	-	-	7,714	7,714
Derivatives	-	-	5	5
Deferred income tax liabilities	-	-	13	13
Other financial liabilities	-		23	23
	5	**-**	**7,770**	**7,775**
CURRENT LIABILITIES				
Current provisions	8	-	25	33
Loans, borrowings, bonds, cash pooling	-	-	1,764	1,764
Trade and other liabilities	546	95	41	682
Derivatives	-	-	27	27
Income tax liabilities	-	-	176	176
Other non-financial liabilities	-	-	30	30
	554	**95**	**2,063**	**2,712**
TOTAL LIABILITIES	**559**	**95**	**9,833**	**10,487**
TOTAL EQUITY AND LIABILITIES	**707**	**99**	**48,825**	**49,631**

in accordance with IFRS EU (in PLN million)

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2016

	Electricity	Gas	Other activities and unallocated items	Total
SALES REVENUES	**8,644**	**522**	**1,681**	**10,847**
Cost of goods sold	(8,520)	(496)	(1,141)	**(10,157)**
GROSS PROFIT ON SALES	**124**	**26**	**540**	**690**
Distribution and selling expenses	(23)	(22)	(1)	**(46)**
General and administrative expenses	(26)	(5)	(111)	**(142)**
Other operating income	-	-	1	**1**
Other operating expenses	-	-	(8)	**(8)**
OPERATING PROFIT	**75**	**(1)**	**421**	**495**
Finance income	-	5	1,434	**1,439**
Finance expenses	-	-	(260)	**(260)**
PROFIT BEFORE TAX	**75**	**4**	**1,595**	**1,674**
Income tax	-	-	(76)	**(76)**
NET PROFIT FOR THE REPORTING PERIOD	**75**	**4**	**1,519**	**1,598**

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2016

	Electricity	Gas	Other activities and unallocated items	Total
NON-CURRENT ASSETS				
Property, plant and equipment	22	4	160	186
Intangible assets	1	-	4	5
Financial receivables	-	-	8,848	8,848
Derivatives and other assets measured at fair value through profit or loss	-	-	356	356
Shares in subsidiaries	-	-	29,678	29,678
Shares in other related parties	-	-	6	6
	23	**4**	**39,052**	**39,079**
CURRENT ASSETS				
Inventories			76	76
Derivatives			9	9
Trade and other receivables	330	35	3,109	3,474
Other current assets	17	1	63	81
Cash and cash equivalents			1,932	1,932
	347	**36**	**5,189**	**5,572**
TOTAL ASSETS	**370**	**40**	**44,241**	**44,651**

in accordance with IFRS EU (in PLN million)

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2016

	Electricity	Gas	Other activities and unallocated items	Total
Net profit for the reporting period	75	4	1,519	1,598
Other equity	-	-	33,040	33,040
TOTAL EQUITY	**75**	**4**	**34,559**	**34,638**
NON-CURRENT LIABILITIES				
Non-current provisions	4	1	17	22
Loans, borrowings, bonds, cash pooling	-	-	8,854	8,854
Derivatives	-	-	23	23
Deferred income tax liabilities	-	-	33	33
	4	**1**	**8,927**	**8,932**
CURRENT LIABILITIES				
Current provisions	5	1	24	30
Loans, borrowings, bonds, cash pooling	-	-	704	704
Trade and other liabilities	102	32	55	189
Income tax liabilities	-	-	4	4
Other non-financial liabilities	-	-	154	154
	107	**33**	**941**	**1,081**
TOTAL LIABILITIES	**111**	**34**	**9,868**	**10,013**
TOTAL EQUITY AND LIABILITIES	**186**	**38**	**44,427**	**44,651**

26. Significant events during and after the reporting period

26.1 Purchase of EDF's assets in Poland

On May 11, 2017, PGE S.A. and EDF International SAS and EDF Investment II B.V. (together "EDF") signed a put option agreement concerning the sale of EDF's assets in Poland. Under the put option agreement, EDF obtain the option to call for PGE S.A. to sign a share sale agreement concerning the following assets once certain conditions are met, including EDF securing corporate approvals for the sale transaction.

On May 19, 2017, as a result of EDF exercising its put option under the put option agreement, EDF and PGE signed a conditional sale agreement.

The sale agreement concerned in particular:

- purchase of 99.52% of shares in EDF Polska S.A.,
- purchase of 100% of shares in EDF Investment III B.V.,
- indirect purchase of 50% and 1 share of ZEW Kogeneracja S.A. (shares held by EDF Polska S.A. and EDF Investment III B.V.) and purchase of shares in EDF Polska S.A. subsidiaries engaged in support activities.

Once all of the conditions precedent were met, the transaction was conducted on November 13, 2017.

As a result of the agreement, PGE S.A. purchase a number of generating assets, including: 8 CHP plants, i.e. Kraków, Gdańsk, Gdynia, Toruń, Wrocław, Zielona Góra, Czechnica and Zawidawie, district heating distribution networks in Toruń, Zielona Góra, Siechnice and Zawidawie as well as the Rybnik power plant.

The final value of the transaction was approx. PLN 4.27 billion. PGE S.A.'s overall expenditures related to the transactions included:

- value of equity of approx. PLN 2.45 billion, establishing using the Locked-Box formula as of December 31, 2016,
- intra-group debt as of November 13, 2017, of approx. PLN 1.68 billion and approx. USD 10 million,
- cost of interest on equity accrued on a pro rata basis counting from January 1, 2017 to the transaction date of PLN 93.27 million on account of the purchased companies having generated economic gains within the scope of the transaction after the price had been set, i.e. December 31, 2016,
- interest payable, as of the transaction closure date, on intra-group debt (and other fees) amounting to PLN 18.21 million and PLN 0.05 million, respectively.

In connection with the closure of the Transaction and the indirect purchase of shares in Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. ("KOGENERACJA"), resulting in PGE exceeding the 33% threshold of votes in KOGENERACJA, on February 1, 2018, PGE S.A. announced a tender offer to subscribe for the sale of 2 383 999 dematerialised ordinary bearer shares issued by KOGENERACJA at PLN 81.80 per share, which entitled to 16.00% votes at KOGENERACJA's general meeting. PGE Energia Ciepła S.A. is the buyer. After the tender offer, the buyer together with subsidiary Investment III B.V. intends to hold a total of 66% of votes at KOGENERACJA's general meeting, which corresponds to 9,834,000 shares of KOGENERACJA.

26.2 Equity investment in Polimex-Mostostal S.A.

On January 18, 2017, PGE S.A. executed agreements concerning an equity investment in Polimex-Mostostal S.A.

- investment agreement with ENEA S.A., Energa S.A., PGNiG Technologie S.A. (jointly refereed as to "Investors") and Polimex, on the basis of which, subject to conditions precedent specified in the agreement, Investors are obligated to make an investment in Polimex. The investment includes taking up 150,000,000 of series T ordinary shares with a nominal value of PLN 2 each and an issue price of PLN 2 each (" New Shares") issued by Polimex as the increase of share capital of Polimex by up to PLN 300 million ("Investment Agreement"). Under the terms of the Agreement PGE committed to purchase 37,500,000 New Shares at the total issue price amounting to PLN 75 million;
- agreement between Investors, defining the terms of cooperation together with mutual rights and responsibilities of Investors relating to the investment carried out on the basis of Investment Agreement;
- agreement between Investors and SPV Operator Sp. z o.o. ("SPV Operator") obliging the parties, subject to fulfilment of conditions precedent, to conduct a sale transaction of 6,000,001 Polimex shares by SPV Operator to Investors, whereas PGE obligated to acquire 1,500,001 Polimex shares;
- agreement between Investors and TFS whereby TFS granted Investors, for remuneration, a possibility to acquire Polimex shares provided that TFS realizes conversion right in respect of convertible bonds issued by Polimex. Moreover, TFS has committed not to converse possessed convertible bonds of series A issued by Polimex without prior written request made by Investors.

On January 18, 2017, President of the Office for Competition and Consumer Protection granted approval for Investors to take joint control over Polimex.

On January 20, 2017, due to the fulfilment of conditions precedent specified in the Investment Agreement, PGE accepted the offer made by Polimex's Management Board to acquire 37,500,000 series T ordinary shares issued by Polimex with a nominal value of PLN 2 each and an issue price of PLN 2 each and the total issue price of PLN 75 million.

Additionally, on the terms of agreement with SPV Operator and due to the fulfilment of conditions precedent, the Company acquired 1,500,001 Polimex shares from SPV Operator for approx. PLN 5.6 million.

On March 21, 2017, Investors announced a tender offer to subscribe for the sale of Polimex shares in a number that would result in the 66% threshold of total votes being exceeded, as a result of which PGE S.A. would be able to purchase up to 42 102 shares of Polimex for PLN 4.90 per share. On March 28, 2017, Investors adjusted the price proposed in the tender offer from PLN 4.90 to PLN 4.91 per one Polimex share. The share purchase was cleared by the National Depository for Securities on April 28, 2017. As a result of the Tender Offer, PGE S.A. purchased 24 shares for PLN 117.84 and holds a total of 39 000 025 shares constituting 16.48% of Polimex's share capital and entitling to 16.48% of votes at Polimex's general meeting.

The investment agreement gives Investors influence over Polimex's financial and operational policy. These entitlements are exercised by the Supervisory Board. As per the agreement, the Supervisory Board will consist of up to 7 members, 4 of which will be appointed by Investors. Moreover, Investors signed an agreement concerning the investment in Polimex. The aim of this agreement is to ensure increased control over Polimex for Investors, who hold a majority share of votes at Polimex's general meeting (65.93%). The agreement stipulates that joint positions will be agreed on through voting on key decisions of the general meeting and supervisory board, including the appointment of Polimex's management board.

Given the Investors' above-mentioned entitlements, which constitute significant influence, the stake in Polimex has been classified as an associate.

26.3 Events after the reporting period

As at the date on which these financial statements were approved, no significant events took place after the end of the reporting period the impact or disclosure of which is not included in these financial statements.

27. Approval of financial statements

These financial statements were approved for publication by the Management Board on March 6, 2018.

Warsaw, March 6, 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