PGE Polska Grupa Energetyczna S.A.

Semi-annual financial report for the 6-month period

ended June 30, 2021
in accordance with IFRS EU (in PLN million)

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I. PGE GROUP CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED JUNE 30, 2021, IN ACCORDANCE WITH IFRS EU

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended June 30, 2021 (unaudited)	Period ended June 30, 2020 (unaudited)
STATEMENT OF PROFIT OR LOSS			
SALES REVENUE	*7.1*	**21,908**	**22,776**
Cost of goods sold	*7.2*	(18,792)	(20,893)
GROSS PROFIT ON SALES		**3,116**	**1,883**
Distribution and selling expenses	*7.2*	(759)	(738)
General and administrative expenses	*7.2*	(501)	(535)
Net other operating income / expenses	*7.3*	1,302	(339)
OPERATING PROFIT		**3,158**	**271**
Net finance income / costs, including:	*7.4*	53	(270)
Interest income calculated using effective interest rate method		*15*	*17*
Share of profit/(loss) of entities accounted for using the equity method	*7.5*	(1)	(545)
GROSS PROFIT/(LOSS)		**3,210**	**(544)**
Income tax	*9*	(491)	(93)
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD		**2,719**	**(637)**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss in the future:			
Valuation of debt financial instruments		7	(3)
Valuation of hedging instruments		(161)	(55)
Foreign exchange differences from translation of foreign entities		(2)	4
Deferred tax	*9*	29	11
Items that may not be reclassified to profit or loss in the future:			
Actuarial gains and losses from valuation of provisions for employee benefits		82	(207)
Deferred tax	*9*	(15)	39
Share of profit of equity-accounted entities		-	(3)
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**(60)**	**(214)**
TOTAL COMPREHENSIVE INCOME		**2,659**	**(851)**
NET PROFIT/(LOSS) ATTRIBUTABLE TO:			
– shareholders of the parent company		2,690	(688)
– non-controlling interests		29	51
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
– shareholders of the parent company		2,629	(902)
– non-controlling interests		30	51
EARNINGS AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (IN PLN)		**1.44**	**(0.37)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at June 30, 2021 *(unaudited)*	As at 31 December 2020 *(audited)*
NON-CURRENT ASSETS			
Property, plant and equipment		60,938	61,741
Investment property		40	41
Intangible assets		714	646
Right-of-use assets		1,271	1,309
Financial receivables	*18.1*	205	191
Derivatives and other assets measured at fair value through profit or loss	*19*	90	132
Shares and other equity instruments		87	57
Shares accounted for using the equity method	*12*	161	152
Other non-current assets		776	839
CO_2 emission allowances for captive use	*16*	3	39
Deferred income tax assets	*14.2*	897	1,351
		65,182	**66,498**
CURRENT ASSETS			
Inventories	*15*	2,568	3,123
CO_2 emission allowances for captive use	*16*	38	1,735
Income tax receivables		203	8
Derivatives and other assets measured at fair value through profit or loss	*19*	364	423
Trade and other financial receivables	*18.1*	5,199	4,812
Other current assets		603	799
Cash and cash equivalents	*18.2*	5,396	4,189
		14,371	**15,089**
ASSETS CLASSIFIED AS HELD FOR SALE		**2**	**7**
TOTAL ASSETS		**79,555**	**81,594**
EQUITY			
Share capital	*20.1*	19,165	19,165
Reserve capital		20,154	18,410
Hedging reserve	*20.2*	(138)	(13)
Foreign exchange differences from translation		1	5
Retained earnings		5,943	4,951
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY		**45,125**	**42,518**
Equity attributable to non-controlling interests		856	983
TOTAL EQUITY		**45,981**	**43,501**
NON-CURRENT LIABILITIES			
Non-current provisions	*21*	9,725	11,207
Loans, borrowings, bonds and lease	*22.1*	9,201	10,025
Derivatives	*19*	193	385
Deferred income tax liabilities	*14.2*	329	345
Deferred income and government grants		590	600
Other financial liabilities	*22.2*	439	448
Other non-financial liabilities	*23.1*	86	65
		20,563	**23,075**
CURRENT LIABILITIES			
Current provisions	*21*	4,942	7,311
Loans, borrowings, bonds and leases	*22.1*	2,039	1,384
Derivatives	*19*	136	63
Trade and other financial liabilities	*22.2*	3,794	3,504
Income tax liabilities		8	476
Deferred income and government grants		77	77
Other non-financial liabilities	*23.2*	2,015	2,203
		13,011	**15,018**
TOTAL LIABILITIES		**33,574**	**38,093**
TOTAL EQUITY AND LIABILITIES		**79,555**	**81,594**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserve capital	Hedging reserve	Foreign exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total equity
Note	*20.1*		*20.2*					
JANUARY 1, 2021	**19,165**	**18,410**	**(13)**	**5**	**4,951**	**42,518**	**983**	**43,501**
Net profit for the reporting period	-	-	-	-	2,690	2,690	29	2,719
Other comprehensive income	-	-	(125)	(2)	66	(61)	1	(60)
COMPREHENSIVE INCOME	**-**	**-**	**(125)**	**(2)**	**2,756**	**2,629**	**30**	**2,659**
Retained earnings distribution	-	1,744	-	-	(1,744)	-	-	-
Dividend	-	-	-	-	-	-	(2)	(2)
Changes in PGE Group	-	-	-	(2)	(18)	(20)	(155)	(175)
Other changes	-	-	-	-	(2)	(2)	-	(2)
JUNE 30, 2021	**19,165**	**20,154**	**(138)**	**1**	**5,943**	**45,125**	**856**	**45,981**

	Share capital	Reserve capital	Hedging reserve	Foreign exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total equity
Note	*20.1*		*20.2*					
JANUARY 1, 2020	**19,165**	**19,669**	**(323)**	**(1)**	**3,779**	**42,289**	**848**	**43,137**
Net profit/(loss) for the reporting period	-	-	-	-	(688)	(688)	51	(637)
Other comprehensive income	-	-	(47)	4	(171)	(214)	-	(214)
COMPREHENSIVE INCOME	**-**	**-**	**(47)**	**4**	**(859)**	**(902)**	**51**	**(851)**
Coverage of losses from previous years	-	(1,259)	-	-	1,259	-	-	-
Dividend	-	-	-	-	-	-	(1)	(1)
Settlement of purchase of additional shares in subsidiaries	-	-	-	-	(6)	(6)	(5)	(11)
Other changes	-	-	-	-	(1)	(1)	(1)	(2)
JUNE 30, 2020	**19,165**	**18,410**	**(370)**	**3**	**4,172**	**41,380**	**892**	**42,272**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Period ended June 30, 2021 *(unaudited)*	Period ended June 30, 2020 *(unaudited)*
CASH FLOWS FROM OPERATING ACTIVITIES			
Gross profit / loss		**3,210**	**(544)**
Income tax paid		(709)	(174)
Adjustments for:			
Share of (profit)/ loss of entities accounted for using the equity method		1	545
Depreciation, amortisation, disposal and impairment losses		2,096	2,534
Interest and dividend, net		151	150
(Profit) / loss on investing activities		(563)	240
Change in receivables		(436)	765
Change in inventories		541	1,490
Change in CO_2 emission allowances for captive use		1,733	964
Change in liabilities, excluding loans and borrowings		362	(598)
Change in other non-financial assets, prepayments		176	(179)
Change in provisions		(3,268)	109
Other		(4)	7
NET CASH FROM OPERATING ACTIVITIES		**3,290**	**5,309**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets		(2,360)	(3,454)
Sale of property, plant and equipment and intangible assets		30	-
Recognition of deposits with maturity over 3 months		(93)	(43)
Termination of deposits with maturity over 3 months		84	33
Purchase of financial assets		(41)	(1)
Sale of subsidiary after offsetting cash received		368	-
Sale of other financial assets		50	-
Loss of control		(118)	-
Other		4	16
NET CASH FROM INVESTING ACTIVITIES		**(2,076)**	**(3,449)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of equity		347	-
Proceeds from loans, borrowings		139	3,634
Repayment of loans, borrowings, leases		(304)	(4,602)
Interest paid		(183)	(186)
Increase in stake in Group companies		-	(11)
Other		13	12
NET CASH FROM FINANCING ACTIVITIES		**12**	**(1,153)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**1,226**	**707**
Net exchange differences		*(19)*	*12*
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	*18.2*	**4,173**	**1,311**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	*18.2*	**5,399**	**2,018**

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

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

1. General information

1.1 Information on the parent

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

As at January 1, 2021 the composition of the Company's Management Board was as follows:

- Wojciech Dąbrowski – President of the Management Board,
- Wanda Buk – Vice-President of the Management Board,
- Paweł Cioch – Vice-President of the Management Board,
- Paweł Strączyński – Vice-President of the Management Board,
- Paweł Śliwa – Vice-President of the Management Board,
- Ryszard Wasiłek – Vice-President of the Management Board.

On March 31, 2021 Mr. Paweł Strączyński resigned as Vice-President of the Management Board, effective March 31, 2021. On June 8, 2021, PGE's Supervisory Board adopted a resolution to appoint Mr. Lechosław Rojewski to the Management Board from June 9, 2021.

At June 30, 2021 and on the date on which these financial statements were published, the Company's Management Board was as follows:

- Wojciech Dąbrowski – President of the Management Board,
- Wanda Buk – Vice-President of the Management Board,
- Paweł Cioch – Vice-President of the Management Board,
- Lechosław Rojewski – Vice-President of the Management Board,
- Paweł Śliwa – Vice-President of the Management Board,
- Ryszard Wasiłek – Vice-President of the Management Board.

Ownership structure

The parent's ownership structure is as follows:

	State Treasury	Other shareholders	Total
As at December 31, 2020	57.39%	42.61%	100.00%
As at June 30, 2021	57.39%	42.61%	100.00%

The ownership structure as at each reporting date was prepared on the basis of information available to the Company.

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

1.2 Information on PGE Group

PGE Group consists of the parent, PGE Polska Grupa Energetyczna S.A., along with 69 consolidated subsidiaries. Subject to consolidation also are 2 entities constituting a joint operation, 4 associates and 1 jointly controlled entity. For additional information about subsidiary entities included in the consolidated financial statements please refer to note 1.3.

These consolidated financial statements of PGE Group cover the period from January 1, 2021 to June 30, 2021 and include comparative data for the period from January 1, 2020 to June 30, 2020. These condensed consolidated interim financial statements do not include all of the information and disclosures required in annual financial statements and they should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2020, approved for publication on March 22, 2021.

The financial statements of all subordinated entities were prepared for the same reporting period as the financial statements of the parent company, using consistent accounting principles. Companies acquired in the course of the financial year were the exception, preparing financial data for the period from the moment when PGE Group obtained control.

PGE Group companies' core activities are as follows:

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

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

Going concern

These financial statements were prepared under the assumption that the key Group companies will continue operating as a going concern for at least 12 months from the reporting date. Subsidiary PGE Obrót S.A. reported negative equity as at June 30, 2021, largely due to negative changes on the retail electricity trading market. PGE Obrót S.A. - like other PGE Group companies - has access to financing through PGE S.A., in connection with which this company's going concern assumption is justified.

Aside from PGE Obrót S.A., at the date of the approval of these financial statements, there is no evidence indicating that the going concern of significant Group companies is endangered.

Changes in accounting policies

The same accounting principles (policy) and calculation methods were applied in these financial statements as in the most recent annual financial statements. These financial statements should be read in conjunction with PGE Group's consolidated financial statements for the year ended December 31, 2020, published on March 22, 2021.

1.3 PGE Group's consolidated companies

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

	Entity	Entity holding stake	Stake held by Group entities as at June 30, 2021	Stake held by Group entities as at 31 December 2020
	SEGMENT: SUPPLY			
1.	PGE Polska Grupa Energetyczna S.A. Warsaw	Parent		
2.	PGE Dom Maklerski S.A. Warsaw	PGE S.A.	100.00%	100.00%
	PGE Trading GmbH (in liquidation) Berlin	PGE S.A.	-	100.00%
3.	PGE Obrót S.A. Rzeszów	PGE S.A.	100.00%	100.00%
4.	ENESTA sp. z o.o. Stalowa Wola	PGE Obrót S.A.	87.33%	87.33%
5.	PGE Centrum sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
6.	PGE Paliwa sp. z o.o. Kraków	PGE EC S.A.	100.00%	100.00%
	SEGMENT: CONVENTIONAL GENERATION			
7.	PGE GiEK S.A. Bełchatów	PGE S.A.	100.00%	100.00%
8.	ELBIS sp. z o.o. Rogowiec	PGE S.A.	100.00%	100.00%
9.	MegaSerwis sp. z o.o. Bogatynia	PGE S.A.	100.00%	100.00%
10.	ELMEN sp. z o.o. Rogowiec	PGE S.A.	100.00%	100.00%
11.	ELTUR-SERWIS sp. z o.o. Bogatynia"	PGE S.A.	100.00%	100.00%
12.	BETRANS sp. z o.o. Bełchatów	PGE S.A.	100.00%	100.00%
13.	BESTGUM POLSKA sp. z o.o. Rogowiec	PGE S.A.	100.00%	100.00%
14.	RAMB sp. z o.o. Piaski	PGE S.A.	100.00%	100.00%
15.	„Energoserwis – Kleszczów" sp. z o.o. Rogowiec	PGE GiEK S.A.	51.00%	51.00%
	SEGMENT: DISTRICT HEATING			
16.	PGE Energia Ciepła S.A. Warsaw	PGE S.A.	100.00%	100.00%
17.	PGE Toruń S.A. Toruń	PGE EC S.A.	95.22%	95.22%
18.	PGE Gaz Toruń sp. z o.o. Warsaw	PGE EC S.A.	100.00%	100.00%
19.	Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. Wrocław	PGE EC S.A.	58.07%	58.07%
20.	Elektrociepłownia Zielona Góra S.A. Zielona Góra	KOGENERACJA S.A.	98.40%	98.40%

	Entity	Entity holding stake	Stake held by Group entities as at June 30, 2021	Stake held by Group entities as at 31 December 2020
21.	MEGAZEC sp. z o.o. Bydgoszcz	PGE S.A.	100.00%	100.00%
22.	Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. Zgierz	PGE EC S.A.	100.00%	100,00%
	SEGMENT: CIRCULAR ECONOMY			
23.	PGE Ekoserwis S.A. Wrocław	PGE S.A.	95.08%	95.08%
24.	EPORE S.A. Bogatynia	PGE GiEK S.A.	100.00%	100,00%
25.	ZOWER sp. z o.o. Rybnik	PGE EC S.A.	100.00%	100.00%
	SEGMENT: RENEWABLES			
26.	PGE Energia Odnawialna S.A. Warsaw	PGE S.A.	100.00%	100.00%
27.	Elektrownia Wiatrowa Baltica-1 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
28.	Elektrownia Wiatrowa Baltica-4 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
29.	Elektrownia Wiatrowa Baltica-5 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
30.	Elektrownia Wiatrowa Baltica-6 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
31.	PGE Baltica 1 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
32.	PGE Baltica 2 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
33.	PGE Baltica 3 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
34.	PGE Baltica 4 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
35.	PGE Baltica 5 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
36.	PGE Baltica 6 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
37.	PGE Baltica sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
38.	PGE Klaster sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
39.	PGE Soleo 1 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
40.	PGE Soleo 2 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
41.	PGE Soleo 3 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
42.	PGE Soleo 4 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
43.	PGE Soleo 5 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
44.	PGE Soleo 6 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
45.	PGE Soleo 7 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
	ECO-POWER sp. z o.o. Warsaw	PGE EO S.A.	-	100.00%
	SEGMENT: DISTRIBUTION			
46.	PGE Dystrybucja S.A. Lublin	PGE S.A.	100.00%	100.00%
	SEGMENT: OTHER ACTIVITY			
	PGE EJ 1 sp. z o.o. Warsaw	PGE S.A.	-	70.00%
47.	PGE Systemy S.A. Warsaw	PGE S.A.	100.00%	100.00%
48.	PGE Sweden AB (publ) Stockholm	PGE S.A.	100.00%	100.00%

	Entity	Entity holding stake	Stake held by Group entities as at June 30, 2021	Stake held by Group entities as at 31 December 2020
49.	PGE Synergia sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
50.	„Elbest" sp. z o.o. Bełchatów	PGE S.A.	100.00%	100.00%
51.	Elbest Security sp. z o.o. Bełchatów	PGE S.A.	100.00%	100.00%
52.	PGE Inwest 2 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
53.	PGE Ventures sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
54.	PGE Inwest 8 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
55.	PGE Inwest 9 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
56.	PGE Inwest 10 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
57.	PGE Inwest 11 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
58.	PGE Inwest 12 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
59.	PGE Inwest 13 S.A. Warsaw	PGE S.A.	100.00%	100.00%
60.	PGE Inwest 14 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
61.	PGE Nowa Energia sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
62.	Towarzystwo Funduszy Inwestycyjnych Energia S.A. Warsaw	PGE S.A.	100.00%	100.00%
63.	Rybnik 2050 sp. z o.o. w organizacji Warsaw	PGE S.A.	100.00%	-
64.	BIO-ENERGIA sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
65.	Przedsiębiorstwo Transportowo-Usługowe „ETRA" sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
66.	Energetyczne Systemy Pomiarowe sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
67.	Przedsiębiorstwo Usługowo-Handlowe TOREC sp. z o.o. Toruń	PGE Toruń S.A.	51.05%	51.05%
68.	4Mobility S.A. Warsaw	PGE Nowa Energia sp. z o.o.	51.47%	51.47%
69.	PIMERGE S.A. Wrocław	PGE Ventures sp. z o.o.	89.87%	89.87%

The table above includes the following changes in the structure of PGE Group companies subject to full consolidation which took place during the period ended June 30, 2021.

- Rybnik 2050 sp. z o.o. w organizacji was formed on February 1, 2021. The company was not yet registered at the National Court Register as of the date on which this report was prepared.
- On March 1, 2021, an Extraordinary General Meeting of PGE Trading GmbH adopted a resolution to dissolve PGE Trading GmbH and appoint a liquidator to carry out liquidation. Due to the loss of control related to the liquidation, as of April 1, 2021 PGE Trading GmbH is no longer a part of PGE Group and is not subject to consolidation.
- An agreement to sell all shares in PGE EJ1 sp. z o.o. to the State Treasury was signed on March 26, 2021. Ownership of the shares was transferred on March 31, 2021. In connection with this sale, PGE Group recorded a gross loss of PLN 19 million in its consolidated financial statements.
- On March 31, 2021 an Extraordinary General Meeting of PGE EO S.A. (acquiring company) and Extraordinary General Meeting of ECO - POWER sp. z o.o. (acquired company) adopted resolutions to merge the companies by transferring the entire assets of the acquired company to the acquiring company without issuing new shares by the acquiring company in exchange for shares in the acquired company. The merger was registered at the National Court Register on April 30, 2021. The merger had no impact on these consolidated financial statements.

The following joint ventures are subject to consolidation as regards the assets, equity and liabilities, revenues and costs attributable to PGE Group:

	Entity	Entity holding stake	Stake held by Group entities as at June 30, 2021	Stake held by Group entities as at 31 December 2020
	SEGMENT: RENEWABLES			
1.	Elektrownia Wiatrowa Baltica-2 sp. z o.o. Warsaw	PGE Baltica 6 sp. z o.o.	50.00%	100.00%
2.	Elektrownia Wiatrowa Baltica-3 sp. z o.o. Warsaw	PGE Baltica 5 sp. z o.o.	50.00%	100.00%

In May this year, Ørsted Group entities acquired stakes in the increased capital of Elektrownia Wiatrowa Baltica - 2 sp. z o.o. and Elektrownia Wiatrowa Baltica - 3 sp. z o.o. Following this transaction, Ørsted Group became a 50% shareholder in EWB2 and EWB3. In effect, PGE Group lost control over these two companies.

As a result of the transaction and signed agreements, the shareholders have joint control over EWB2 and EWB3. Decisions regarding all major activities require unanimous consent from the shareholders. At the same time, based on professional judgement, PGE Group assessed that as a result of the agreements signed the shareholders have the right to generally all of the economic benefits that will be generated by the companies' assets and will generally be their only source of revenue. According to PGE Group, starting from the date on which the stakes were acquired by Ørsted (as mentioned above), EWB2 and EWB3 constitute a joint operation in the meaning of IFRS *Joint Arrangements*, in connection with which in these financial statements PGE Group recognises its 50% stake in the assets, liabilities, revenues and costs of the jointly controlled entities.

The following table presents the way in which the loss of control over EWB2 and EWB3 was accounted for:

	EWB2	EWB3	Total
Fair value of contractual joint operation attributable to PGE Group (50%)	233	297	530
Net carrying amount of assets prior to loss of control	90	116	206
GAIN ON LOSS OF CONTROL	**143**	**181**	**324**
Fair value of contractual joint operation attributable to PGE Group (50%)	233	297	530
Net assets at the date joint control began	197	252	449
GOODWILL	**36**	**45**	**81**

The following associates and jointly controlled entities are subject to consolidation using the equity method:

	Entity	Entity holding stake	Stake held by Group entities as at June 30, 2021	Stake held by Group entities as at 31 December 2020
1.	Polska Grupa Górnicza S.A. Katowice	PGE GiEK S.A.	15.32%	15.32%
2.	Polimex Mostostal S.A. Warsaw	PGE S.A.	16.48%	16.48%
3	ElectroMobility Poland S.A. Warsaw	PGE S.A.	25.00%	25.00%
4.	PEC Bogatynia Bogatynia	PGE GiEK S.A.	34.93%	34.93%
5.	Energopomiar sp. z o.o. Gliwice	PGE Group companies	49.79%	49.79%

On August 19, 2021 an Extraordinary General Meeting of ElectroMobility Poland S.A. adopted a resolution to decrease the company's share capital from PLN 70,000,000 to PLN 52,300,500, by reducing the nominal value of all shares from PLN 7,000 to PLN 5,230.05 each. The goal of the share capital decrease is to transfer funds from share capital to supplementary capital, in connection with which the proceeds from the share capital decrease will go to the company's supplementary capital. Moreover, on August 19, 2021 an Extraordinary General Meeting of ElectroMobility Poland S.A. adopted a resolution to increase the company's share capital from PLN 52,300,500 to PLN 302,296,890. The company's Extraordinary General Meeting decided to waive the existing shareholders' pre-emption right completely and offer all of the new shares to the State Treasury in exchange for a cash contribution. As a result of the State Treasury becoming a shareholder of ElectroMobility Poland S.A., PGE S.A.'s stake in this company's share capital will decline from 25% to 4.33%. At the date on which these financial statements were approved for publication, these changes were not yet registered at the National Court Register.

2. Basis for preparation of financial statements

2.1 Statement of compliance

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

IFRS comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee.

2.2 Presentation and functional currency

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

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

	June 30, 2021	31 December 2020	June 30, 2020
USD	3.8035	3.7584	3.9806
EUR	4.5208	4.6148	4.4660

2.3 New standards and interpretations published, not yet effective

The following standards, amendments to existing standards and interpretations are not yet endorsed by the European Union or are not effective as at January 1, 2021:

Standard	Description of changes	Effective date
IFRS 14 Regulatory Deferral Accounts	Accounting and disclosure principles for regulatory deferral accounts.	In accordance with a decision by the European Commission, the approval process for the standard in its preliminary version will not begin before the final version is published.
Amendments to IFRS 10 and IAS 28	Contains guidelines on the sale or contribution of assets between an investor and its joint venture or associate.	Postponed indefinitely
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, 2023
Amendments to IAS 1	The changes concern presentation of financial statements - Classification of Liabilities as Current or Non-current	January 1, 2023
Amendments to IAS 1	The amendments concern the presentation of financial statements - disclosures regarding the applied accounting policy	January 1, 2023
Amendments to IAS 8	The amendments concerning disclosures regarding the applied accounting policy, including changes in estimated values and correcting errors	January 1, 2023
Amendments resulting from IFRS annual improvement cycle 2018-2020	Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 mainly concern the resolution of inconsistencies and clarification of terminology.	January 1, 2022
Amendments to IFRS 3	Amendments to References to the Conceptual Framework	January 1, 2022
Amendments to IAS 16	Proceeds from property, plant and equipment before intended use	January 1, 2022
Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract	January 1, 2022
Amendments to IFRS 16	Covid-19-Related Rent Concessions	April 1, 2021
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	January 1, 2023

PGE Group intends to adopt the above new standards, amendments to standards and interpretations published by the International Accounting Standards Board but not yet effective at the reporting date, when they enter into force. These regulations will not have a material impact on PGE Group's future financial statements.

2.4 Professional judgement of management and estimates

In the process of applying accounting rules in the matters referred to below, of the most importance, aside from accounting estimates, is the professional judgement of management, which has an impact on the amounts presented in the consolidated financial statements, including in additional explanatory notes. The estimates are based on the best knowledge of the Management Board relating to current and future operations and events in specific areas. Detailed information on the assumptions made is presented below or in respective explanatory notes.

- During the reporting period, PGE Group updated its impairment losses on assets, in particular of property, plant and equipment. These changes are described in note 3 to these financial statements.
- Estimates of the recoverable amount of property, plant and equipment are based on a number of significant assumptions, the appearance of which is uncertain and mostly beyond PGE Group's control. The Group believes that it has assumed the most accurate volumes and values. Nevertheless, realisation of the particular assumptions may diverge from the ones established by the Group.
- Provisions are liabilities of uncertain amount or timing. During the reporting period, the Group changed estimates regarding the validity or amounts of some provisions.
- In particular, during the reporting period a provision for land rehabilitation and a provision for employee benefits were updated due to an increase in the discount rate. Details are presented in note 21 to these financial statements.
- Uncertainties concerning tax settlements are described in note 25 to these consolidated financial statements.
- No significant extensions in the payment of receivables or problems with liquidity resulting from the COVID-19 pandemic were observed as of the reporting date. Following the pandemic's outbreak, in 2020 the Group updated its models for estimating expected credit losses. For the purposes of estimating the expected credit losses, counterparties were split into two groups: strategic counterparties, which have been internally assigned ratings based on a scoring model, and other counterparties, for which expected credit losses are estimated based on a provisions matrix. For the first group of counterparties, the basis for calculating expected credit losses was changed. Losses are currently calculated on the basis of Credit Default Swap (CDS) prices, while for the other group of counterparties percentage coefficients in each time interval of the provisions matrix were updated to a level corresponding to the current recovery rate for receivables. In effect of these two changes, the amount of provisions for expected credit losses at June 30, 2021 was PLN 13 million higher than it would have been had the previous rules been applied. A more extensive description of the impact of the pandemic on PGE Group's business is presented in note 27.1 to these financial statements.

3. Impairment tests on property, plant and equipment, intangible assets, right-of-use assets and goodwill

Property, plant and equipment is PGE Group's most significant group of assets. Due to variable macroeconomic conditions PGE Group regularly verifies indications of impairment for its assets. When assessing the market situation PGE Group uses both its own analytical tools and independent think tanks' support. In previous reporting periods, PGE Group recognised substantial impairment allowances of property, plant and equipment of Conventional Generation segment, District Heating segment and the Renewables segment. An impairment loss recognised in the Renewables segment was also in major part reversed in previous reporting periods.

In the current reporting period, the Group analysed impairment indications and identified factors that could result in changes to the asset values in the Conventional Generation and Renewables segments. The tests showed no need to recognise an impairment loss for the Conventional Generation segment and the necessity to reverse the impairment loss for the Renewables segment. An analysis of the indications for conducting impairment tests in the District Heating segment did not show the need to conduct these tests.

Macroeconomic and other assumptions

The key price assumptions, i.e. the price of electricity, CO_2 emission allowances, hard coal, natural gas, and assumptions related to production at most of the Group's installations were derived from a study prepared by an independent expert, taking into account own estimates based on the current market situation for the first two years of the forecast.

The forecasts for electricity prices expect a decline in price in 2022 in reference to 2021 prices, a major price hike in 2023 in comparison with 2022, a decline in 2024 in reference to 2023, and subsequently an annual increase of 6% on average in 2025-2029.

The price forecasts for CO_2 emission allowances expect a major increase in 2023 in comparison with 2022, an annual decline in 2024-2025 of 6.5% on average and an annual increase in 2026-2029 of 12.7% on average. A slight decrease is expected in 2030, in comparison with 2029, followed by stable growth at approx. 4% annually until 2040.

The forecasts for hard coal prices expect a major increase in 2023 in reference to 2022, followed by an average annual growth of 2.8 until 2030.

The forecasts for natural gas prices expect an increase in price in 2022 in reference to 2021 prices, a major price hike in 2023 in comparison with 2022, followed by an average annual growth of approx. 4.1% in subsequent years.

The price forecasts for certificates of origin for energy expect an increase in the first two years of the forecasts, followed by an average annual decline of approx. 9% in 2023-2031, which is related to the decreasing obligation to redeem these certificates.

The forecast for revenue from the capacity market for 2021-2025 is based on the results of completed main and additional auctions for these delivery periods, taking into account the joint balancing mechanism at PGE Group companies. From 2026, the forecast was developed by a team of experts at PGE S.A. on the basis of assumptions concerning estimated future flows for generating units, based on, inter alia, results of a completed auction and forecasts from an external expert. For one-year contracts with delivery from July 1, 2025 and for multiannual contracts executed as part of the auction for 2025 and subsequent, the 550g CO2/kWH (EPS 550) emission criterion is in place, which in practice rules out all coal units from Capacity Market auctions.

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

On February 2, 2021 the Council of Ministers approved "Poland's Energy Policy 2040." The Policy constitutes a vision for Poland in the area of energy transition, indicating, inter alia, the expected structure of electricity generating units. According to the Policy, the share of low- and zero-emission units will grow, while the share of coal-based units will decline.

However, the pace of the energy transition and trends expected in the PEP 2040 recently considerably accelerated and strengthened. In July 2021, the European Commission published the Fit for 55 legislative package, which intends to, inter alia, reduce GHG emissions in the EU by 55% (previously 40%) by 2030, in comparison with 1990. In line with the expectations of market participants, the EU ETS reform included in the package should result in a considerable increase in the prices of CO_2 emission allowances, which in practice already took place in this first half of the year. In effect, the current level of prices for CO_2 emission allowances significantly diverges from that assumed in the PEP 2040. Another important element that vastly diverges from the Policy's assumptions is the dynamic increase in PV capacities as a result of numerous grant programs, a discount system for prosumers and renewable energy auctions. In effect, the level of installed capacities expected for 2030 has already been achieved.

In connection with the above, for the purposes of impairment tests on tangible assets, PGE Group uses assumptions developed by an independent analytical centre, which take into account the current regulatory and market situation. Future changes on the electricity market may differ from the current assumptions, which may lead to substantial changes in PGE Group's financial situation and results. They will be recognised in future financial statements.

3.1 Description of assumptions for the Conventional Generation segment

Impairment tests were conducted on June 30, 2021, on cash generating unit basis by establishing their recoverable amounts. Determining fair value for very large groups of assets for which there is no active market and there are few comparable transactions is very difficult in practice. In the case of complete power plants and mines for which a value on the local market should be determined there are no observable fair values. Given the above, the recoverable value of the analysed assets was estimated on the basis of discounted net cash flow method which relied on financial projections prepared for the period from July 2021 to the end of the use period. According to the Group, financial projections longer than five years are justified due to significant and long-term effects of projected changes in the regulatory environment. Using longer projections, recoverable amounts may be determined more reliably.

Detailed segment assumptions

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

- classify the following as one CGU due to technological links:
  - Branch KWB Bełchatów and Branch Elektrownia Bełchatów ("Bełchatów complex").
  - Branch KWB Turów and Branch Elektrownia Turów ("Turów complex").
- classify Elektrownia Dolna Odra, Elektrownia Szczecin and Elektrownia Pomorzany, which are part of Branch Zespół Elektrowni Dolna Odra, as three separate CGUs,
- adopt the going concern assumption:
  - until 2036 for the Bełchatów complex based on a trade union-approved date for shutting down all units, adopted for the purposes of the Just Transition Plan for the Łódzkie Voivodship,
  - until 2044 for the Turów complex based on a decision to prolong the mining concession validity period to 2044 of April 28, 2021.
- adopt the assumption that in the period after June 2025 there will be support from the capacity market or equivalent for units complying with the emission criterion of 550 g CO_2/kWh of produced electricity, although multiannual contracts executed as part of auctions for 2021-2024 are performed in accordance with their validity periods; for units that do not meet the emission criterion, there is the possibility of balancing multiannual contracts executed by 2019,
- take into account work cost optimisation resulting from current work plans, among other things,
- maintain production capacities as a result of replacement-type investments,
- adopt WACC after tax for the projection period at 6.06%-7.56%, depending on the CGU, in accordance with an individually estimated level of risk.

PGE Group's surroundings are characterised by high volatility and dependence on macroeconomic, market and regulatory conditions, and any changes in this regard may have a substantial impact on PGE Group's financial situation and results. This is why the above and other assumptions adopted in estimates of the useful value of assets are subject to periodic analysis and verification. Potential changes will be recognised in future financial statements.

As at June 30, 2021, the value of tested property, plant and equipment and intangible assets at PGE GiEK S.A. amounted to PLN 25,910 million. This value does not include CGUs for which the useful value of tested assets is negative. As a result of an asset impairment test, the Group estimated the useful value of the assets being tested at PLN 31,368 million, in connection with which it concluded that there is no need to recognise or reverse impairment losses on these assets.

Sensitivity analysis

In accordance with IAS 36 *Impairment*, the Group carried out a sensitivity analysis for generating units in the Conventional Generation segment.

Presented below is the impact of changes in key assumptions on the useful value of assets in the Conventional Generation segment as at June 30, 2021.

Parameter	Change	Impact on useful value in PLNbn	
		Increase	Decrease
Change in electricity prices throughout the forecast period	1%	1.8	-
	-1%	-	1.8

A decline in electricity price by 1% would have caused a PLN 1.8 billion decrease in useful value.

Parameter	Change	Impact on useful value in PLNbn	
		Increase	Decrease
Change in WACC	+0.5pp	-	0.9
	-0.5pp	1.0	-

An increase in WACC by 0.5 points would have caused a PLN 0.9 billion decrease in useful value.

Parameter	Change	Impact on useful value in PLNbn	
		Increase	Decrease
Changes in prices for CO_2 emission allowances	1%	-	1.0
	-1%	1.0	-

An increase in the price of CO_2 emission allowances by 1% would have caused a PLN 1 billion decrease in useful value.

3.2 Analysis of impairment indications in the District Heating segment

In previous reporting periods, PGE Group recognised substantial impairment losses on the non-current assets in the District Heating segment. The key assumptions used in the impairment tests carried out as at November 30, 2020 are described in PGE Group's consolidated financial statements for 2020.

In the current reporting period, the Group performed an analysis of indications in order to determine whether these assets are impaired or the earlier impairment losses may be reversed.

The most important factors analysed include:

- financial plan analysis,
- confirmation that the investment plan is up-to-date,
- analysis of prices for energy, hard coal, CO_2 emission allowances and natural gas
- analysis of heat prices,
- analysis of assumptions regarding the capacity market, support for cogeneration
- analysis of estimated margins on the production and sale of electricity in future periods in the light of price forecasts for energy, hard coal, gas and CO_2 emission allowances.

The analysis of indications performed for the District Heating segment showed that the generating units are implementing their financial plan in accordance with assumptions. Price forecasts for natural gas, electricity, hard coal, gas and CO_2 emission allowances that are available to PGE Group mean that margin forecasts are favourable for both the sale of electricity and heat. The cogeneration support system for gas units has been reduced, however it has been replaced with support in the form of the capacity market, therefore this gives no rise to the risk of significant changes in useful values. Assumptions concerning the capacity market, in comparison to 2020, have a positive impact on forecast revenue from the program, having been updated to include completed auctions. Given the above, according to PGE, at the end of the reporting period there were no indications that would warrant the recognition of impairment losses on the non-current assets in the District Heating segment or the reversal of impairment losses recognised in previous periods.

3.3 Description of assumptions for the Renewables segment

In the present reporting period, PGE Group conducted asset impairment tests as of June 30, 2021.

The following cash generating units are identified and analysed in the Renewables segment:

- Considered as separate CGU belonging to PGE EO S.A.
  - total pumped-storage power plants
  - total other hydropower plants
  - individual wind farms owned by PGE EO S.A.
  - individual wind farms owned by PGE Klaster sp. z o.o.

Impairment tests on the non-current assets of CGU PGE EO S.A.

Impairment tests were conducted as at June 30, 2021, on cash generating unit basis by establishing their recoverable amounts. The recoverable value of the analysed assets was estimated on the basis of discounted net cash flow method which relied on the financial projections prepared for the assumed useful life of the particular CGU in the case of wind farms or for 2021-2030 in the case of other

CGUs. For CGUs with expected periods of economic useful lives in excess of 2030, a residual value was determined for the remaining service time. According to the Group, financial projections longer than five years are justified because the property, plant and equipment used by the Group have significantly longer useful lives and also due to considerable and long-term effects of projected changes in the regulatory environment included in the detailed forecast.

Detailed assumptions

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

- classification as a separate CGU of the following:
  - pumped-storage plants (one CGU for all plants due to their shared economic nature);
  - other hydropower plants (one CGU for all plants due to their shared economic nature);
  - individual wind farms (separate CGU for each wind farm due to different operational periods);
- production of electricity and property rights were estimated based on historic data, adjusted by the availability of units;
- unit availability was estimated based on repair plans, taking into account statistical failure rates;
- revenue from regulatory system services until mid-2023 were estimated based on the currently functioning system of remuneration for these services, from mid-2023 it is expected that the market mechanism for contracting regulatory services will start functioning, the revenues from which have been estimated based on PGE Group's internal analyses;
- maintain production capacities as a result of replacement-type investments;
- adopt WACC after tax for the projection period at 6.56%.

As a result of the non-current asset impairment test, the Group identified the need to release (reverse) impairment losses recognised in previous reporting periods on wind farms as of the reporting date.

PGE Group’s surroundings are characterised by high volatility and dependence on macroeconomic, market and regulatory conditions, and any changes in this regard may have a substantial impact on PGE Group’s financial situation and results. This is why the above and other assumptions adopted in estimates of the useful value of assets are subject to periodic analysis and verification. Potential changes will be recognised in future financial statements.

The following table presents the value of impairment reversal as of June 30, 2021 as regards wind farms.

As at June 30, 2021	Discount rate	Tested value	Reversal of impairment	Value after impairment
Wind farms (PLNm)	6.56%	1.906	4	1.910

Sensitivity analysis

A sensitivity analysis showed that factors such as WACC and electricity prices have a considerable impact on estimated useful value. The results of this sensitivity analysis concern all CGUs owned by PGE EO S.A.

Presented below is the impact of factors that have considerable influence throughout the entire projection period on forecast cash flows and thus also on estimated useful values.

Parameter	Change	Impact on useful value in PLNm	
		Increase	Decrease
Change in electricity prices throughout the forecast period	1%	67	-
	-1%	-	67

A decline in electricity price by 1% would have caused a PLN 67 million decrease in useful value.

Parameter	Change	Impact on useful value in PLNm	
		Increase	Decrease
Change in WACC	+0.5pp	-	1,077
	-0.5pp	1,375	-

An increase in WACC by 0.5 points would have caused a PLN 1.077 million decrease in useful value. A change in WACC by 0.5 points has no impact on the amount of impairment or reversal.

Impairment tests on the non-current assets of CGU PGE Klaster sp. z o.o.

Impairment tests were conducted as at June 30, 2021, 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 wind farms.

Detailed assumptions

- production of electricity is assumed on the basis of assumptions for the investment model,
- adopt WACC in the period of support in the form of auction price at 5.06% and in the remainder of the projection at 6.56%.

As a result of the non-current asset impairment test, the Group identified the need to release (reverse) impairment losses recognised in previous reporting periods on wind farms as of the reporting date.

The following table presents the value of impairment reversal as of June 30, 2021 as regards wind farms owned by PGE Klaster sp. z o.o.

As at June 30, 2021	Discount rate	Tested value	Reversal of impairment	Value after impairment
Wind farms (PLNm)	5.06% / 6.56%	687	36	723

Sensitivity analysis

In accordance with IAS 36, the Group performed a sensitivity analysis for PGE Klaster sp. z o.o.'s wind farms. Presented below is the impact of changes in WACC on the useful value of assets as at June 30, 2021:

Parameter	Change	Impact on useful value in PLNm	
		Increase	Decrease
Change in WACC	+0.5pp	-	50
	-0.5pp	54	-

An increase in WACC by 0.5 points would have caused a PLN 50 million decrease in useful value. A change in WACC by 0.5 points has no impact on the amount of impairment or reversal.

4. Changes in accounting principles and data presentation

New standards and interpretations that went into force on January 1, 2021

The accounting principles (policy) applied in preparing these financial statements are consistent with those applied in preparing the financial statements for 2020. The following amendments to IFRSs are applied in these financial statements in line with their effective dates. The following amendments did not have a material impact on the presented and disclosed financial information or were not applicable to the Group's transactions:

- Amendments to IFRS 4 - Extension of the Temporary Exemption from Applying IFRS 9;
- Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform - Phase II.

The Group decided not to apply early any standard, interpretation or amendment that was published but is not yet effective in the light of EU regulations.

5. Fair value hierarchy

Derivatives

The Group measures derivatives at fair value using valuation models for financial instruments based on publicly available exchange rates, interest rates, discount curves in particular currencies (applicable also for commodities which prices are denominated in these currencies) derived from active markets. The fair value of derivatives is determined based on discounted future cash flows from transactions, calculated based on the difference between the forward rate and transaction price. Forward exchange rates are not modelled as a separate risk factor, 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 Group presents financial instruments related to greenhouse gas emissions trading – currency and commodity forwards, contracts to buy and sell coal, commodity swaps (Level 2).

In addition, the Group presents a CIRRUS derivative instrument that hedges foreign exchange rate and interest rate and IFRS hedging transactions exchanging a variable interest in PLN for a fixed interest rate in PLN (Level 2).

FAIR VALUE HIERARCHY	Assets as of June 30, 2021		Liabilities as of June 30, 2021	
	Level 1	Level 2	Level 1	Level 2
CO_2 emission allowances in trading activities	1	-	-	-
Hard coal in trading activities	137	-	-	-
INVENTORIES	**138**	**-**	**-**	**-**
Currency forwards		1	-	-
Commodity forwards		264	-	1
Commodity SWAP		21	-	60
Contracts for purchase/sale of coal		15	-	7
Options		20	-	-
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS	**-**	**321**		**68**
CCIRS hedges	-	25	-	-
IRS hedges	-	-	-	193
Currency forward - USD	-	-	-	-
Currency forward - EUR	-	65	-	68
HEDGING DERIVATIVES	**-**	**90**	**-**	**261**
Investment fund participation units	-	43	-	-
OTHER ASSETS / LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	**-**	**43**	**-**	**-**

FAIR VALUE HIERARCHY	Assets at December 31, 2020		Liabilities at December 31, 2020	
	Level 1	Level 2	Level 1	Level 2
CO_2 emission allowances in trading activities	1	-	-	-
Hard coal in trading activities	144	-	-	-
INVENTORIES	**145**	**-**	**-**	**-**
Currency forwards		3	-	4
Commodity forwards		11	-	4
Commodity SWAP		11	-	13
Contracts for purchase/sale of coal		17	-	18
Options		16	-	-
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS	**-**	**58**		**39**
CCIRS hedges	-	64	-	-
IRS hedges	-	-	-	385
Currency forward - USD	-	-	-	1
Currency forward - EUR	-	381	-	23
HEDGING DERIVATIVES	**-**	**445**	**-**	**409**
Investment fund participation units	-	52	-	-
OTHER ASSETS / LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	**-**	**52**	**-**	**-**

Derivative instruments are presented in note 18 to these financial statements. During the current and comparative reporting periods, there were no transfers of financial instruments between the first and second level of the fair value hierarchy.

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
EXPLANATORY NOTES TO OPERATING SEGMENTS

6. Information on operating segments

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

Relevant assets are assigned to concessions for lignite mining and generation and distribution of electricity and heat, as presented in detailed information on operating segments. For its concessions concerning electricity and heat, the Group pays annual fees dependent on the level of turnover, while lignite mining operations under concessions are subject to extraction fees depending on the current rate and volume of output as well as mining use fees.

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

- Conventional Generation, comprising exploration and production of lignite, conventional generation of electricity and ancillary services.
- District Heating, comprising the generation of electricity from cogeneration sources and the transmission and distribution of heating.
- Renewables, comprising the generation of electricity in pumped-storage power plants and from renewable sources.
- Supply, comprising selling and buying electricity and natural gas on wholesale markets, emissions trading, buying and supplying fuels as well as selling electricity and providing services to end users.
- Distribution, comprising management over local distribution networks and transmission of electricity.
- Circular Economy, comprising management of the by-products of combustion.
- Other operations, comprising services provided by subsidiaries for the Group, e.g. capital raising, IT services, accounting and HR, and transport services and investments in startups.

PGE Group is organised and managed in segments that are distinct in terms of products and services. Each segment represents a strategic business unit that offers distinct goods and serves different markets. Entities assigned to operating segments are described in note 1.3 of these consolidated financial statements. PGE Group accounts for inter-segment transactions as if they concerned unrelated entities - on market terms. When analysing the results of business segments the management of PGE Group focuses mainly on EBITDA.

Starting in 2021, PGE Group reports a new operating segment - Circular Economy - the assets and results of which were recognised and analysed within the following segments: Conventional Generation, District Heating and Other Operations. The data for the comparative period was not restated.

Seasonality of business segments

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

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

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

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

6.1 Information on business segments

Information on business segments for the period ended June 30, 2021

	Conventional Generation	District Heating	Renewables	Supply	Distribution	Circular Economy	Other activity	Adjustments	Total
STATEMENT OF PROFIT OR LOSS									
Sales to external customers	8,577	2,098	396	7,543	3,186	68	36	4	21,908
Inter-segment sales	2,162	851	245	6,384	39	70	178	(9,929)	-
TOTAL SEGMENT REVENUE	**10,739**	**2,949**	**641**	**13,927**	**3,225**	**138**	**214**	**(9,925)**	**21,908**
Cost of goods sold	(10,343)	(2,405)	(367)	(12,458)	(2,345)	(103)	(184)	9,413	(18,792)
EBIT	**1,073**	**396**	**237**	**690**	**767**	**19**	**8**	**(32)**	**3,158**
Depreciation, amortisation, liquidation and impairment recognised in profit or loss	976	319	145	16	615	5	31	(11)	2,096
EBITDA	**2,049**	**715**	**382**	**706**	**1,382**	**24**	**39**	**(43)**	**5,254**
GROSS PROFIT	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,210**
Income tax	-	-	-	-	-	-	-	-	(491)
NET PROFIT FOR THE REPORTING PERIOD	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,719**
ASSETS AND LIABILITIES									
Segment assets excluding trade receivables	34,277	7,689	4,264	2,983	19,468	70	342	(2,142)	66,951
Trade receivables	659	199	178	3,326	915	53	59	(1,958)	3,431
Equity-accounted interests	-	-	-	-	-	-	-	-	161
Unallocated assets	-	-	-	-	-	-	-	-	9,012
TOTAL ASSETS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**79,555**
Segment liabilities excluding trade liabilities	13,218	2,068	676	3,664	2,856	48	97	(2,167)	20,460
Trade liabilities	722	259	44	2,745	336	35	26	(2,959)	1,208
Unallocated liabilities	-	-	-	-	-	-	-	-	11,906
TOTAL LIABILITIES	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**33,574**
OTHER INFORMATION ON BUSINESS SEGMENT									
Capital expenditures	1,385	199	72	3	604	4	19	(57)	2,229
Increases in right-of-use assets	2	5	5	2	2	-	2	-	18
TOTAL INVESTMENT EXPENDITURES	**1,387**	**204**	**77**	**5**	**606**	**4**	**21**	**(57)**	**2,247**
Acquisition of property, plant and equipment, intangible assets, right-of-use assets and investment properties as part of acquisition of new companies	-	-	81	-	-	-	-	-	81
Impairment losses on financial and non-financial assets	106	(3)	(41)	(18)	5	-	(1)	-	48
Other non-monetary expenses *)	2,817	582	15	531	33	2	13	-	3,993

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

Information on business segments for the period ended June 30, 2020

	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activity	Adjustments	Total
STATEMENT OF PROFIT OR LOSS								
Sales to external customers	9,276	1,556	382	9,987	3,091	38	(1,554)	22,776
Inter-segment sales	3,291	1,061	139	5,699	44	199	(10,433)	-
TOTAL SEGMENT REVENUE	**12,567**	**2,617**	**521**	**15,686**	**3,135**	**237**	**(11,987)**	**22,776**
Cost of goods sold	(12,288)	(2,234)	(335)	(14,843)	(2,493)	(232)	11,532	(20,893)
EBIT	**(667)**	**193**	**152**	**169**	**502**	**(39)**	**(39)**	**271**
Depreciation, amortisation, liquidation and impairment recognised in profit or loss	1,441	300	149	18	625	44	(43)	2,534
EBITDA	**774**	**493**	**301**	**187**	**1,127**	**5**	**(82)**	**2,805**
GROSS LOSS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(544)**
Income tax	-	-	-	-	-	-	-	(93)
NET LOSS FOR THE REPORTING PERIOD	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(637)**
ASSETS AND LIABILITIES								
Segment assets excluding trade receivables	34,164	7,833	4,118	3,251	19,203	854	(2,054)	67,369
Trade receivables	603	220	145	3,645	812	67	(2,304)	3,188
Shares accounted for using the equity method	-	-	-	-	-	-	-	157
Unallocated assets	-	-	-	-	-	-	-	4,411
TOTAL ASSETS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**75,125**
Segment liabilities, except for trade liabilities	14,712	2,127	1,015	2,538	2,812	138	(4,022)	19,320
Trade liabilities	889	213	30	1,891	221	30	(2,258)	1,016
Unallocated liabilities	-	-	-	-	-	-	-	12,517
TOTAL LIABILITIES	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**32,853**
OTHER INFORMATION ON BUSINESS SEGMENT								
Capital expenditures	811	175	647	5	819	85	(51)	2,491
Increases in right-of-use assets	2	3	2	1	6	2	(3)	13
TOTAL INVESTMENT EXPENDITURES	**813**	**178**	**649**	**6**	**825**	**87**	**(54)**	**2,504**
Impairment losses on financial and non-financial assets	622	2	-	34	8	-	-	666
Other non-monetary expenses *)	3,385	497	20	362	180	26	174	4,644

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

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

7. Revenue and costs

7.1 Sales revenue

Sales revenue for the period ended June 30, 2021, by category

The following table presents a reconciliation between revenue disclosed by category and information on revenue that the Group discloses for each reporting period.

	Conventional Generation	District Heating	Renewables	Supply	Distribution	Circular Economy	Other activity	Adjustments	Total
Revenue from contracts with customers	10,733	2,927	638	13,924	3,195	138	213	(9,912)	**21,856**
Revenues from LTC compensations	-	4	-	-	-	-	-	-	**4**
Revenue from support for high-efficiency cogeneration	-	5	-	-	-	-	-	-	**5**
Revenue from leases	6	13	3	3	30	-	1	(13)	**43**
TOTAL SALES REVENUE	**10,739**	**2,949**	**641**	**13,927**	**3,225**	**138**	**214**	**(9,925)**	**21,908**

The following table presents revenue from contracts with customers by category to reflect the manner in which economic factors influence the type, amount, payment deadline and uncertainty of revenue and cash flows.

Type of goods or services	Conventional Generation	District Heating	Renewables	Supply	Distribution	Circular Economy	Other activity	Adjustments	Total
Revenue from sale of goods and products, without excluding taxes and fees	10,716	2,901	632	13,564	3,827	56	23	(9,232)	**22,487**
Taxes and fees collected on behalf of third parties	*(5)*	*(2)*	-	*(73)*	*(657)*	-	-	-	***(737)***
Revenue from sale of goods and products, including:	**10,711**	**2,899**	**632**	**13,491**	**3,170**	**56**	**23**	**(9,232)**	**21,750**
Sale of electricity	8,282	1,340	390	6,411	1			(2,307)	**14,117**
Capacity market	1,046	138	145	16	-	-	-	-	**1,345**
Sale of distribution services	10	5	-	25	3,071	-	-	(37)	**3,074**
Sale of heat	116	1,373	-	7	-	-	-	-	**1,496**
Sale of energy origin rights	35	9	82	-	-	-	-	5	**131**
Regulatory system services	161	-	18	-	-	-	-	-	**179**
Sale of natural gas	-	-	-	177	-	-	-	(90)	**87**
Sale of fuel	-	-	-	215	-	-	-	(114)	**101**
Sale of CO_2 emission allowances	1,019	28	-	6,640	-	-	-	(6,666)	**1,021**
Other sale of goods and materials	42	6	(3)	-	98	56	23	(23)	**199**
Revenue from sale of services	**22**	**28**	**6**	**433**	**25**	**82**	**190**	**(680)**	**106**
REVENUE FROM CONTRACTS WITH CUSTOMERS	**10,733**	**2,927**	**638**	**13,924**	**3,195**	**138**	**213**	**(9,912)**	**21,856**

Sales revenue for the period ended June 30, 2020, by category

The following table presents a reconciliation between revenue disclosed by category and information on revenue that the Group discloses for each reporting period.

	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activity	Adjustments	Total
Revenue from contracts with customers	12,560	2,560	415	15,683	3,109	237	(11,981)	**22,583**
Revenues from LTC compensations	-	41	-	-	-	-	-	**41**
Revenue from support for high-efficiency cogeneration	-	7	-	-	-	-	-	**7**
Revenue from leases	7	9	106	3	26	-	(6)	**145**
TOTAL SALES REVENUE	**12,567**	**2,617**	**521**	**15,686**	**3,135**	**237**	**(11,987)**	**22,776**

The following table presents revenue from contracts with customers by category to reflect the manner in which economic factors influence the type, amount, payment deadline and uncertainty of revenue and cash flows.

Type of goods or services	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activity	Adjustments	Total
Revenue from sale of goods and products, without excluding taxes and fees	12,539	2,511	414	15,289	3,117	37	(11,310)	**22,597**
Taxes and fees collected on behalf of third parties	*(2)*	*(2)*	*-*	*(61)*	*(36)*	*-*	*-*	***(101)***
Revenue from sale of goods and products, including:	**12,537**	**2,509**	**414**	**15,228**	**3,081**	**37**	**(11,310)**	**22,496**
Sale of electricity	10,595	1,200	268	7,573	1	-	(4,012)	**15,625**
Sale of distribution services	7	7	-	23	2,972	-	(42)	**2,967**
Sale of heat	85	1,066	-	5	-	-	-	**1,156**
Sale of energy origin rights	27	6	120	-	-	-	31	**184**
Regulatory system services	221	-	24	-	-	-	-	**245**
Sale of natural gas	-	-	-	154	-	-	(77)	**77**
Sale of fuel	-	-	-	384	-	-	(215)	**169**
Sale of CO_2 emission allowances	1,535	202	-	7,086	-	-	(6,993)	**1,830**
Other sale of goods and materials	67	28	2	3	108	37	(2)	**243**
Revenue from sale of services	**23**	**51**	**1**	**455**	**28**	**200**	**(671)**	**87**
REVENUE FROM CONTRACTS WITH CUSTOMERS	**12,560**	**2,560**	**415**	**15,683**	**3,109**	**237**	**(11,981)**	**22,583**

7.2 Costs by nature and function

	Period ended June 30, 2021	Period ended June 30, 2020 *restated data*
COSTS BY NATURE		
Depreciation, amortisation and impairment losses	2,098	2,545
Materials and energy	2,780	2,582
External services	1,142	1,230
Taxes and fees	5,257	4,103
Employee benefits expenses	2,633	2,835
Other costs by nature	165	138
TOTAL COST BY NATURE	**14,075**	**13,433**
Change in product inventories	9	(5)
Cost of products and services for internal purposes	(301)	(421)
Distribution and selling expenses	(759)	(738)
General and administrative expenses	(501)	(535)
Cost of goods and materials sold	6,269	9,159
COST OF GOODS SOLD	**18,792**	**20,893**

7.2.1 Depreciation, amortisation, liquidation and impairment losses

The following presents depreciation, amortisation, liquidation and impairment of property, plant and equipment, intangible assets, right-of-use assets and investment properties in the statement of comprehensive income.

Period ended June 30, 2021	Depreciation, amortisation, disposal					Impairment			
	Property, plant and equipment	Intangible assets	Right-of-use assets	Investment property	TOTAL	Property, plant and equipment	Intangible assets	Right-of-use assets	TOTAL
Cost of goods sold	1,929	29	25	1	**1,984**	68	(1)	1	**68**
Distribution and selling expenses	5	1	-	-	**6**	-	-	-	**-**
General and administrative expenses	18	14	5	-	**37**	1	-	-	**1**
RECOGNISED IN PROFIT OR LOSS	**1,952**	**44**	**30**	**1**	**2,027**	**69**	**(1)**	1	**69**
Change in product inventories	(1)	-	-	-	**(1)**	-	-	-	**-**
Cost of products and services for internal purposes	3	-	-	-	**3**	-	-	-	**-**
TOTAL	**1,954**	**44**	**30**	**1**	**2,029**	**69**	**(1)**	1	**69**

Period ended June 30, 2020	Depreciation, amortisation, disposal					Impairment	
	Property, plant and equipment	Intangible assets	Right-of-use assets	Investment property	TOTAL	Property, plant and equipment	TOTAL
Cost of goods sold	1,804	37	27	1	**1,869**	623	**623**
Distribution and selling expenses	7	2	1	-	**10**	-	**-**
General and administrative expenses	17	9	5	-	**31**	1	**1**
RECOGNISED IN PROFIT OR LOSS	**1,828**	**48**	**33**	**1**	**1,910**	**624**	**624**
Change in product inventories	(4)	-	-	-	**(4)**	-	**-**
Cost of products and services for internal purposes	14	-	1	-	**15**	-	**-**
TOTAL	**1,838**	**48**	**34**	1	**1,921**	**624**	**624**

In the present period, the Group performed a non-current asset impairment test, which led to the release of impairment losses totalling PLN 40 million. A detailed description is presented in note 3.3 to these financial statements.

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

In the item 'Depreciation/amortisation and liquidation' the Group recognised in the current and comparative period PLN 18 million and PLN 17 million net as liquidation of property, plant and equipment and intangible assets.

7.3 Other operating income and expenses

	Period ended June 30, 2021	Period ended June 30, 2020
NET OTHER OPERATING INCOME/(EXPENSES)		
Effect of change in rehabilitation provision	932	(434)
Measurement and exercise of derivatives, including:	268	70
- CO_2	*264*	*66*
- Coal	*4*	*4*
Penalties, fines and compensations received	46	40
Gain on sale of property, plant and equipment / intangible assets	21	4
Grants received	16	17
Reversal/(recognition) of other provisions	13	(7)
Reversal/(recognition) of impairment losses on receivables	8	(40)
Other	(2)	11
TOTAL NET OTHER OPERATING INCOME/(EXPENSES)	**1,302**	**(339)**

7.4 Finance income and finance costs

	Period ended June 30, 2021	Period ended June 30, 2020
NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS		
Dividends	2	2
Interest, including	(142)	(133)
Interest income calculated using the effective interest rate method	*15*	*17*
Impairment	(27)	3
Reversal/(recognition) of impairment	(3)	(2)
Exchange differences	8	(17)
Loss on sale of investment	(7)	-
Settlement of loss of control	324	-
TOTAL NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS	**155**	**(147)**
NET OTHER FINANCE INCOME/(COSTS)		
Interest cost on non-financial items	(97)	(117)
Interest on statutory receivables/(liabilities)	2	(1)
Recognition of provisions	(1)	-
Other	(6)	(5)
TOTAL NET OTHER FINANCE INCOME/(COSTS)	**(102)**	**(123)**
TOTAL NET FINANCE INCOME/(COSTS)	**53**	**(270)**

Result on the loss of control is related to Ørsted's acquisition of a 50% stake in the increased share capital of Elektrownia Wiatrowa Baltica 2 sp. z o.o. and Elektrownia Wiatrowa Baltica 3 sp. z o.o. The transaction is described in greater detail in notes 1.3 and 27.3 to these financial statements.

Interest costs mainly relate to outstanding bonds, credit facilities, loans, settled IRS transactions and leases. The interest cost on lease liabilities reached PLN 20 million in the current report (PLN 21 million in the comparative period).
The interest cost on non-financial items concerns land rehabilitation provisions and employee benefit provisions.

7.5 Share of profit of equity-accounted entities

Period ended June 30, 2021	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**	**49.79%**
Revenue	3,810	969	-	11	34
Result on continuing operations	(366)	44	(1)	1	5
Share of profit of equity-accounted entities before consolidation adjustments	**(56)**	**7**	**-**	**-**	**3**
Elimination of unrealised gains and losses	(9)	(2)	-	-	-
Impairment	56	-	-	-	-
SHARE OF PROFIT OF EQUITY-ACCOUNTED ENTITIES	**(9)**	**5**	**-**	**-**	**3**

Period ended June 30, 2020	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**	**49.79%**
Revenue	3,524	644	-	5	33
Result on continuing operations	(547)	64	(2)	1	4
Share of profit of equity-accounted entities before consolidation adjustments	**(84)**	**11**	**(1)**	**-**	**2**
Elimination of unrealised gains and losses	9	-	-	-	-
Impairment	(482)	-	-	-	-
SHARE OF PROFIT OF EQUITY-ACCOUNTED ENTITIES	**(557)**	**11**	**(1)**	**-**	**2**
Other comprehensive income	**(21)**	**-**	**-**	**-**	**-**
Share of the result of equity-accounted entities in other comprehensive income	**(3)**	**-**	**-**	**-**	**-**

The Group makes consolidation adjustments related to margin on sale of coal between PGG and PGE Group and on the margin on Polimex Mostostal's contracts being performed for PGE Group.

8. Impairment losses on assets

	Period ended June 30, 2021	**Period ended June 30, 2020** *restated data*
IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT		
Recognition of impairment loss	111	883
Reversal of impairment loss	42	259
IMPAIRMENT OF INTANGIBLE ASSETS		
Recognition of impairment loss	-	-
Reversal of impairment loss	1	-
IMPAIRMENT LOSSES ON RIGHT-OF-USE ASSETS		
Recognition of impairment loss	1	-
Reversal of impairment loss	-	-
IMPAIRMENT LOSSES ON EQUITY-ACCOUNTED STAKES		
Recognition of impairment loss	-	482
Reversal of impairment loss	271	-
IMPAIRMENT OF INVENTORIES		
Recognition of impairment loss	2	9
Reversal of impairment loss	4	16

An impairment loss recognised on the stake in associate PGG was partially reversed in the current reporting period. The impairment loss was partially used due to losses incurred by PGG. The amount of impairment loss was adjusted to the value of net assets attributable to PGE Group.

9. Income tax

9.1 Tax in the statement of comprehensive income

The main elements of the tax burden for the period ended June 30, 2021 and June 30, 2020, were as follows:

	Period ended June 30, 2021	Period ended June 30, 2020
INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS		
Current income tax	14	458
Adjustments concerning current income tax from prior years	28	1
Deferred income tax	448	(369)
Adjustments of deferred income tax	1	3
INCOME TAX EXPENSE RECOGNISED IN STATEMENT OF PROFIT OR LOSS	**491**	**93**
INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME		
From actuarial gains and losses from valuation of provisions for employee benefits	15	(39)
From measurement of hedging instruments	(29)	(11)
(Tax benefit) / tax burden recognised in other comprehensive income (equity)	**(14)**	**(50)**

9.2 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 Group is as follows:

	Period ended June 30, 2021	Period ended June 30, 2020
PROFIT/(LOSS) BEFORE TAX	**3,210**	**(544)**
Income tax according to Polish statutory tax rate of 19%	610	(103)
ITEMS ADJUSTING INCOME TAX		
Result on settlement of loss of control	(62)	-
Adjustments concerning current income tax from prior years	28	-
Recognition of impairment losses for which no deferred tax was recognised	(1)	111
Recognition of land rehabilitation provisions for which no deferred tax was recognised	-	74
Release of land rehabilitation provisions for which no deferred tax was recognised	(67)	-
Other costs not recognised as tax-deductible costs	20	26
Other adjustments	(37)	(15)
TAX AT EFFECTIVE TAX RATE **Income tax (expense) as presented in the consolidated financial statements**	**491**	**93**
EFFECTIVE TAX RATE	**15%**	**-17%**

Result on the loss of control is related to Ørsted's acquisition of a 50% stake in the increased share capital of Elektrownia Wiatrowa Baltica 2 sp. z o.o. and Elektrownia Wiatrowa Baltica 3 sp. z o.o. The transaction is described in greater detail in notes 1.3 and 27.3 to these financial statements.

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

10. Material transactions to purchase and sell property, plant and equipment, intangible assets and right-of-use assets

In the present period, PGE Group purchased property, plant and equipment and intangible assets worth PLN 2,229 million, along with the right-of-use for underlying assets worth PLN 18 million. The largest expenditures were incurred in the Conventional Generation segment (PLN 1,387 million) and the Distribution segment (PLN 606 million). The key expenditure items were as follows: construction of new unit (no. 7) at Elektrownia Turów (PLN 590 million), construction of two new gas-and-steam units at Elektrownia Dolna Odra (PLN 331 million) and connection of new customers to DSO grid (PLN 280 million). These values include borrowing costs.

In the current period, the Group sold its stake in PGE EJ1 sp. z o.o. As a result of this transaction, the net value of property, plant and equipment, intangible assets and right-of-use assets decreased by PLN 415 million.

11. Future investment commitments

As at June 30, 2021, PGE Group committed to incur capital expenditures on property, plant and equipment of approximately PLN 7,436 million. These amounts relate mainly to the construction of new gas-and-steam units, modernisation of Group's assets and the purchase of machinery and equipment.

	As at June 30, 2021	As at 31 December 2020
Conventional Generation	4,776	5,790
Distribution	1,040	1,346
Renewables	329	185
District Heating	1,288	190
Supply	2	3
Other activity	1	175
TOTAL FUTURE INVESTMENT COMMITMENTS	**7,436**	**7,689**

The most significant future investment commitments concern:

- Conventional Generation:
  - Branch Zespół Elektrowni Dolna Odra - construction of two gas-and-steam units and contract for service for two gas turbines - approx. PLN 3,945 million,
  - Branch Elektrownia Bełchatów - modernisation of flue gas desulphurisation system - approx. PLN 117 million,
- District Heating - construction of gas-and-steam CHP Nowa EC Czechnica in Siechnice - approx. PLN 1,159 million,
- Distribution – investment commitments mainly related to network distribution assets with the total value of approximately PLN 1,040 million,

The decrease in future investment commitments in the Other Activity segment is related to the sale of PGE EJ1 sp. z o.o., which had been responsible for these commitments. The increase in future investment commitments in the Renewables segment results from the start of the joint offshore project, as described in note 27.3.

12. Shares accounted for using the equity method

	As at June 30, 2021	As at 31 December 2020
Polska Grupa Górnicza S.A., Katowice	-	-
Polimex - Mostostal S.A., Warsaw	135	127
ElectroMobility Poland S.A., Warsaw	13	14
PEC Bogatynia Sp. z o.o., Bogatynia	-	-
Energopomiar Sp. z o.o., Gliwice	13	11
EQUITY-ACCOUNTED INTERESTS	**161**	**152**

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**	**49.79%**
AS AT JUNE 30, 2021					
Current assets	1,853	1,528	11	4	32
Non-current assets	8,157	693	42	20	19
Current liabilities	6,439	1,274	1	1	10
Non-current liabilities	3,480	225	-	-	15
NET ASSETS	**91**	**722**	**52**	**23**	**26**
Share in net assets	**14**	**119**	**13**	**8**	**13**
Goodwill	1	16	-	-	-
Impairment of investment	(15)	-	-	(8)	-
EQUITY-ACCOUNTED INTERESTS	**-**	**135**	**13**	**-**	**13**

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**	**49.79%**
AT DECEMBER 31, 2020					
Current assets	1,770	1,390	18	4	33
Non-current assets	9,423	674	39	21	18
Current liabilities	6,626	1,175	3	2	18
Non-current liabilities	2,704	214	-	-	10
NET ASSETS	**1,863**	**675**	**54**	**23**	**23**
Share in net assets	**285**	**111**	**14**	**7**	**11**
Goodwill	1	16	-	-	-
Impairment of investment	(286)	-	-	(7)	-
EQUITY-ACCOUNTED INTERESTS	**-**	**127**	**14**	**-**	**11**

An impairment loss was recognised on the investment in PGG in the previous period, which amounted to PLN 286 million as at December 31, 2020. Following the recognition of this impairment loss, PGG's book value in PGE Group's consolidated financial statements was zero.

In the current period, the impairment loss was partially used due to losses incurred by PGG. The amount of impairment loss was adjusted to the value of net assets attributable to PGE Group.

13. Joint operations

In May this year, Ørsted Group entities acquired stakes in the increased capital of Elektrownia Wiatrowa Baltica - 2 sp. z o.o. and Elektrownia Wiatrowa Baltica - 3 sp. z o.o. Following this transaction, Ørsted Group became a 50% shareholder in EWB2 and EWB3.

PGE Group lost control over these two companies as a result of the transaction in the meaning of IFRS.

Based on an analysis of the agreements executed between PGE Group and Ørsted Group companies, PGE Group assessed that Elektrownia Wiatrowa Baltica - 2 sp. z o.o. and Elektrownia Wiatrowa Baltica - 3 sp. z o.o. constitute a joint operation in the meaning of IFRS 11 *Joint Arrangements*.

As a resulting of accounting for the loss of control, finance income of PLN 324 million and goodwill of PLN 81 million were recognised in the consolidated financial statements.

14. Deferred tax in statement of financial position

14.1 Deferred income tax assets

	As at June 30, 2021	As at 31 December 2020
Difference between tax value and carrying amount of property, plant and equipment	2,629	2,776
Rehabilitation provision	1,049	1,242
Provision for cost of CO_2 emissions	771	1,206
Provisions for employee benefits	716	723
Difference between tax value and carrying amount of liabilities	324	316
Difference between tax value and carrying amount of financial assets	472	395
Difference between carrying amount and tax value of right-of-use assets	168	171
Tax losses	267	111
Other provisions	141	157
LTC compensations	78	79
Energy infrastructure acquired free of charge and connection payments received	27	28
Difference between tax value and carrying amount of inventories	12	11
Other	4	4
TOTAL DEFERRED INCOME TAX ASSETS	**6,658**	**7,219**

14.2 Deferred tax liabilities

	As at June 30, 2021	As at 31 December 2020
Difference between tax value and carrying amount of property, plant and equipment	4,930	5,000
Difference between tax value and present carrying amount of financial assets	843	713
Difference between carrying amount and tax value of lease liabilities	185	181
CO_2 emission allowances	7	199
Difference between tax value and carrying amount of energy origin units	20	31
Receivables from recognised compensation - Act on electricity prices	16	16
Difference between tax value and present carrying amount of financial liabilities	13	8
Other	76	65
TOTAL DEFERRED TAX LIABILITIES	**6,090**	**6,213**

Group's deferred tax after offsetting assets and liabilities at companies and within tax group

Deferred income tax assets	897	1,351
Deferred income tax liabilities	(329)	(345)

15. Inventories

	As at June 30, 2021	As at 31 December 2020
Hard coal	579	963
Repair and maintenance materials	701	676
Mazut	37	29
Other materials	67	70
TOTAL MATERIALS	**1,384**	**1,738**
Green energy origin rights	965	1,140
Other energy origin rights	2	3
TOTAL ENERGY ORIGIN RIGHTS	**967**	**1,143**
CO_2 emission allowances held for sale	1	1
Hard coal held for sale	137	144
Other goods	19	25
TOTAL GOODS	**157**	**170**
OTHER INVENTORIES	**60**	**72**
TOTAL INVENTORIES	**2,568**	**3,123**

16. CO_2 emission allowances for captive use

Pursuant to the provisions of the Regulation of the Council of Ministers dated April 8, 2014 on the list of electricity generation installations in the greenhouse gas emissions trading scheme, PGE Group's installations are not eligible to receive free emission allowances, starting from 2020.

In the case of EUAs for CO_2 emissions related to district heating, the allocation schedule for 2021 has not yet been approved, and EUAs were allocated in February 2020 to cover CO_2 emissions for 2020 (1 million EUAs).

	At June 30, 2021		At December 31, 2020	
EUA	Non-current	Current	Non-current	Current
Quantity (Mg million)	-	1	1	20
Value (PLN million)	3	38	39	1.735

EUA	Quantity (Mg million)	Value (PLN million)
AT JANUARY 1, 2020	21	1,205
Purchase	78	6,629
Granted free of charge	13	-
Redemption	(61)	(3,414)
Sale	(30)	(2,646)
AT DECEMBER 31, 2020	21	1,774
Purchase	49	5,620
Redemption	(59)	(6,318)
Sale	(10)	(1,035)
AS AT JUNE 30, 2021	1	41

17. Other current and non-current assets

17.1 Other non-current assets

	As at June 30, 2021	As at 31 December 2020
Advances for property, plant and equipment	651	711
Cost to acquire customers	105	105
Other non-current assets	20	23
TOTAL OTHER ASSETS	776	839

Advances for construction in progress relate mainly to investment projects conducted by the Conventional Generation segment. The cost to acquire customers concern co-financing by PGE Energia Ciepła S.A. of investments in the development of district heating networks and agent commissions at PGE Obrót S.A.

17.2 Other current assets

	As at June 30, 2021	As at 31 December 2020
PREPAYMENTS		
Cost to acquire customers	48	50
Long-term contracts	50	43
Property and tort insurance	15	14
Logistics costs related to coal purchases	12	17
IT services	13	16
Social Fund	72	10
Fees for exclusion of land from agricultural production / forestry	26	-
Fees for installing equipment and taking up a road lane	15	-
Other prepayments	38	20
OTHER CURRENT ASSETS		
VAT receivables	243	519
Excise tax receivables	17	17
Advances for deliveries	9	11
Other current assets	45	82
TOTAL OTHER ASSETS	603	799

The amount of VAT receivables is related mainly to an estimate of electricity sales, unread on metering equipment as of the reporting date.

18. Selected financial assets

The value of financial receivables at amortised cost is a rational approximation of their fair value.

18.1 Trade and other financial receivables

	At June 30, 2021		At December 31, 2020	
	Non-current	Current	Non-current	Current
Trade receivables	-	3,431	-	3,602
Deposits and loans	194	-	185	6
Loans granted	-	77	-	-
Bonds	-	-	-	40
Receivables from recognised compensation - Act on electricity prices	-	85	-	85
Deposits, security and collateral	3	1,415	2	788
Damages and penalties	-	135	-	102
Other financial receivables	8	56	4	189
FINANCIAL RECEIVABLES	**205**	**5,199**	**191**	**4,812**

Deposits, security and collateral mainly concern transaction and hedging deposits for transactions on the electricity and CO_2 markets.

PGE Obrót S.A. has recognised a receivable from the Settlements Manager concerning applications adjusting the amount of price difference and financial compensation received for the period from January 1 to December 31, 2019, amounting to PLN 85 million. The amount was paid in August of this year.

18.2 Cash and cash equivalents

Short-term deposits have different maturities, typically from one day up to one month, depending on the Group's needs for cash.

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

	As at June 30, 2021	As at 31 December 2020
Cash on hand and cash at bank	4,989	1,415
Overnight deposits	-	309
Short-term deposits	331	1,423
Cash in VAT accounts	76	1,042
TOTAL	**5,396**	**4,189**
Exchange differences on cash in foreign currencies	3	(16)
Cash and cash equivalents presented in the statement of cash flows	**5,399**	**4,173**
Unused credit facilities at the reporting date	6,495	6,556
including overdraft facilities	*1,861*	*1,811*

A detailed description of credit agreements is presented in note 22.1 to these financial statements.

The value of cash includes restricted cash amounting to PLN 181 million (PLN 93 million in the comparative period) in customer accounts at PGE Dom Maklerski S.A., which constitute collateral for settlements with clearinghouse IRGiT.

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

	At June 30, 2021	
	Assets	Liabilities
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS		
Currency forwards	1	-
Commodity forwards	264	1
Commodity SWAP	21	60
Contracts for purchase/sale of coal	15	7
Options	20	-
HEDGING DERIVATIVES		
CCIRS hedges	25	-
IRS hedges	-	193
Currency forward - USD	-	-
Currency forward - EUR	65	68
Other assets carried at fair value through profit or loss		
Investment fund participation units	43	-
TOTAL	**454**	**329**
current	364	136
non-current	90	193

	At December 31, 2020	
	Assets	Liabilities
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS		
Currency forwards	3	4
Commodity forwards	11	4
Commodity SWAP	11	13
Contracts for purchase/sale of coal	17	18
Options	16	-
HEDGING DERIVATIVES		
CCIRS hedges	64	-
IRS hedges	-	385
Currency forward - USD	-	1
Currency forward - EUR	381	23
Other assets carried at fair value through profit or loss		
Investment fund participation units	52	-
TOTAL	**555**	**448**
current	423	63
non-current	132	385

Commodity and currency forwards

Commodity and currency forward transactions mainly relate to trade in CO_2 emission allowances and coal sales. The Group uses hedge accounting to account for currency forwards related to the purchase of CO_2 allowances.

Options

On January 20, 2017 PGE S.A. bought 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.

Coal swaps

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

Purchase and sale contracts with physical delivery of coal

PGE Paliwa Sp. z o.o. measures all of its sales and purchase contracts with physical delivery of coal at fair value using the trader-broker model.

IRS transactions

PGE S.A. executed IRS transactions to hedge interest rates on credit facilities and outstanding bonds with a total nominal value of PLN 7,030 million (PLN 5,630 million for credit facilities and PLN 1,400 million for bonds). Prior to the start of repayment of principal on certain credit facilities, the current nominal amount of credit-hedging IRS transactions is PLN 5,380 million. To recognise these IRS transactions, the Group uses hedge accounting.

The impact of hedge accounting on the revaluation reserve is presented in note 20.2 to these consolidated financial statements.

CCIRS hedges

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

Investment fund participation units

At the reporting date, the Company held participation units in three sub-funds managed by TFI Energia S.A.

20. Equity

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

20.1 Share capital

	As at June 30, 2021	As at 31 December 2020
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 a part of PGE Group, where the State Treasury holds special rights as long as it remains a shareholder.

The State Treasury's special right applicable to PGE Group entities derive from the Act of March 18, 2010 on the special rights of the Minister of Energy and their exercise at certain companies and groups operating in the electricity, oil and gas sectors (Polish Journal of Laws of 2020, item 2173). The Act specifies the special rights available to the Minister of Energy related to companies and groups operating in the electricity, oil and gas sectors whose assets are disclosed in the register of buildings, installations, equipment and services considered as critical infrastructure.

Based on this act the Minister of Energy has the right to object to any resolution adopted or legal activity undertaken by the Management Board involving assets that would endanger the functioning, operational continuity and integrity of critical infrastructure. The objection can also be applied to any resolution pertaining to:

- dissolution of the Company,
- changes in use or retirement of an asset being a component of critical infrastructure,
- change in the scope of the Company's activities,
- sale or lease of enterprise or its organised part or establishment of legal restrictions,
- approval of operational and financial plan, investment plan or long-term strategic plan,
- transfer of the Company's registered office abroad,

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

20.2 Hedging reserve

	Period ended June 30, 2021	Year ended 31 December 2020
AS AT JANUARY 1	**(13)**	**(323)**
Change in hedging reserve:	**(154)**	**383**
Measurement of hedging instruments, including:	**(161)**	**387**
Recognition of the effective part of change in fair value of hedging instruments in the part considered as effective hedge	*(174)*	*420*
Accrued interest on derivatives transferred from hedging reserve and recognised in interest expense	*-*	*17*
Currency revaluation of CCIRS transaction transferred from hedging reserve and recognised in the result on foreign exchange differences	*13*	*(51)*
Ineffective portion of changes in fair value of hedging derivatives recognised in profit or loss	*-*	*1*
Measurement of other financial assets	**7**	**(4)**
Deferred tax	**29**	**(73)**
HEDGING RESERVE AFTER DEFERRED TAX	**(138)**	**(13)**

The hedging reserve mainly includes the measurement of cash flow hedges.

20.3 Dividends paid and recommended for payment

The Company did not pay a dividend in the current or comparative reporting period.

21. Provisions

The carrying amount of provisions is as follows:

	At June 30, 2021		At December 31, 2020	
	Non-current	Current	Non-current	Current
Employee benefits	2,905	269	3,007	276
Rehabilitation provision	6,737	-	8,110	1
Provision for cost of CO_2 emissions	-	4,030	-	6,318
Provision for energy origin units held for redemption	-	491	-	589
Provision for non-contractual use of property	46	5	58	5
Other provisions	37	147	32	122
TOTAL PROVISIONS	**9,725**	**4,942**	**11,207**	**7,311**

Due to changes in market interest rates, PGE Group updated the discount rate use to measure land rehabilitation provisions and employee benefit provisions.

The discount rate for the mine excavation rehabilitation provision as at June 30, 2021 is:

- for expenses expected to be incurred within 15 years from the balance sheet date - 1.6% (compared to 1.3% as at December 31, 2020);
- for expenses expected to be incurred 16-25 years from the balance sheet date - 2.39%, PGE's extrapolation in accordance with the adopted method (compared to 1.6% as at December 31, 2020);
- for expenses expected to be incurred more than 25 years from the balance sheet date - 2.72%, PGE's extrapolation in accordance with the adopted method (compared to 1.9% as at December 31, 2020).

The discount rate for employee benefit provisions and other provisions for land rehabilitation as at June 30, 2021 is 1.6% (vs. 1.3% as at December 31, 2020).

These changes in discount rates caused:

- a decrease in the land rehabilitation recognised correspondingly in other operating revenue of PLN 932 million;
- a decrease in the land rehabilitation recognised correspondingly as a decrease in property, plant and equipment of PLN 576 million;
- a decrease in the post-employment benefit provisions recognised correspondingly as a decrease in other comprehensive income of PLN 82 million;
- a decrease in provisions for long service recognised correspondingly as a decrease in operating costs of PLN 17 million.

Changes in provisions

	Employee benefits	Rehabilitation provision	Provision for cost of CO_2 emissions	Provisions for energy origin rights held for redemption	Provision for non-contractual use of property	Other	Total
JANUARY 1, 2021	**3,283**	**8,111**	**6,318**	**589**	**63**	**154**	**18,518**
Actuarial gains and losses	-	-	-	-	-	-	-
Current employment costs	58	-	-	-	-	-	58
Past employment costs	1	-	-	-	-	-	1
Interest costs	21	76	-	-	-	-	97
Adjustment of discount rate and other assumptions	(99)	(1,508)	-	-	-	-	(1,607)
Benefits paid / Provisions used	(90)	-	(6,317)	(571)	(1)	(32)	(7,011)
Provisions reversed	-	(3)	(3)	(11)	(13)	(20)	(50)
Provisions recognised - costs	-	38	4,032	484	2	72	4,628
Provisions recognised - expenditures	-	24	-	-	-	-	24
Changes in PGE Group	(1)	-	-	-	-	(2)	(3)
Other changes	1	(1)	-	-	-	12	12
30 CZERWCA 2021	**3,174**	**6,737**	**4,030**	**491**	**51**	**184**	**14,667**

	Employee benefits	Rehabilitation provision	Provision for cost of CO_2 emissions	Provisions for energy origin rights held for redemption	Provision for non-contractual use of property	Other	Total
JANUARY 1, 2020	**3,066**	**6,649**	**3,532**	**572**	**72**	**127**	**14,018**
Actuarial gains and losses	40	-	-	-	-	-	40
Current employment costs	121	-	-	-	-	-	121
Past employment costs	(10)	-	-	-	-	-	(10)
Interest costs	61	168	-	-	-	-	229
Adjustment of discount rate and other assumptions	231	1,173	-	-	-	-	1,404
Benefits paid / Provisions used	(228)	(1)	(3,411)	(947)	-	(32)	(4,619)
Provisions reversed	-	-	(121)	(2)	(16)	(15)	(154)
Provisions recognised - costs	-	55	6,318	966	7	80	7,426
Provisions recognised - expenditures	-	43	-	-	-	-	43
Acquisition of companies within the Group	-	14	-	-	-	-	14
Other changes	2	10	-	-	-	(6)	6
DECEMBER 31, 2020	**3,283**	**8,111**	**6,318**	**589**	**63**	**154**	**18,518**

21.1 Provision for employee benefits

Provisions for employee benefits mainly include:

- post-employment benefits - PLN 2,288 million (PLN 2,379 million as at December 31, 2020),
- seniority bonuses - PLN 886 million (PLN 904 million as at December 31, 2020),

21.2 Rehabilitation provision

Provision for rehabilitation of post-mining properties

PGE Group creates provisions for the rehabilitation of post-mining properties. The amount of the provision recognised in the financial statements includes the value of the Mine Liquidation Fund created in accordance with the Geological and Mining Law. The value of the provision as at June 30, 2021 amounted to PLN 6,134 million and as at December 31, 2020 to PLN 7,463 million.

Provision for rehabilitation of ash landfills

PGE Group's generating assets create provisions for the rehabilitation of ash landfills. As at June 30, 2021, this provision amounted to PLN 298 million (PLN 318 million at the end of the comparative period).

Provisions for wind farm decommissioning and restoration

Wind farm owners create provisions for decommissioning and restoration. As at June 30, 2021, this provision amounted to PLN 30 million (PLN 71 million at the end of the comparative period).

Liquidation of property, plant and equipment

As at the reporting date, the provision amounted to PLN 275 million (PLN 259 million as at the end of the comparative period) and refers to certain assets in the Conventional Generation and Renewables segments.

21.3 Provision for cost of CO_2 emissions

As described in note 15 to these financial statements, the Group no longer receives free emission allowances for electricity generation from 2020. The Group is only eligible to receive free allowances for heating generation. As at June 30, 2021, this provision amounted to PLN 4,030 million (PLN 6,318 million at the end of the comparative period).

21.4 Provision for energy origin rights held for redemption

PGE Group companies create a provision for energy origin rights concerning sales generated in the reporting period or previous periods, in the part yet to be redeemed as of the reporting date. The total value of provision as at June 30, 2021 was PLN 491 million (PLN 589 million in the comparative period) and was created mainly by PGE Obrót S.A.

21.5 Provision for claims concerning non-contractual use of property

PGE Group companies recognise a provision for claims related to the non-contractual use of property. This issue mainly concerns the distribution company that owns distribution networks. As at the reporting date the provision amounted to approximately PLN 51 million (of which PLN 27 million relate to litigations). In the comparative period, the provision amounted to PLN 63 million (of which PLN 32 million related to litigations).

21.6 Settlements with prosumers

2020 saw a considerable increase in the number of prosumer installations, mainly due to the assistance available in the "My electricity" program. According to the Energy Market Agency, installed PV capacity in Poland grew by 117% to 5.36 GW in H1 2021 vs. 2.46 GW in the same period of last year. The act on renewable energy sources of February 20, 2015 introduced a settlement system for prosumers and energy cooperatives that generates losses for the obligated vendor (i.e. PGE Obrót S.A.); the higher the percentage of electricity introduced to the grid that is compensated by the prosumer's or energy cooperative's own use, the higher these losses are.

Therefore, the prosumer does not incur any variable costs of distribution services for energy drawn from the grid. Companies in the Supply segment, which are merely intermediaries in the sale of distribution services, have to pay the full fee for electricity drawn by the prosumer to the Distribution System Operator. Companies in the Supply segment, despite the fact that they do not provide distribution services, have to bear the costs related to these services because they are a party to a comprehensive contract with the customer.

PGE Obrót S.A.'s growing losses due to fees for distribution services are giving rise to deliberations on recognising provisions for onerous contracts. However, due to the difficulty in estimating the number of prosumer installations being built, their capacity and consumption as well as their operational period and potential new regulations, calculating credible results may be subject to significant errors. Moreover, taking into account the fact that losses on contracts with prosumers result from systemic regulations, these contracts should be analysed together with contracts that PGE Obrót S.A. is required to perform as an obligated vendor, according to the Group.

In connection with the above, the conditions to create provisions for onerous contracts in the meaning of IAS 37 were not met as of the reporting date.

22. Financial liabilities

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

Bonds issued by PGE Sweden AB (publ) are based on a fixed interest rate. Their amortised cost presented in these financial statements as at June 30, 2021 amounted to PLN 641 million and their fair value amounted to PLN 711 million.

22.1 Loans, borrowings, bonds and leases

	At June 30, 2021		At December 31, 2020	
	Non-current	Current	Non-current	Current
Loans and borrowings	6,308	1,983	7,105	1,318
Bonds issued	2,022	20	2,035	10
Leases	871	36	885	56
TOTAL LOANS, BORROWINGS, BONDS AND LEASES	**9,201**	**2,039**	**10,025**	**1,384**

Loans and borrowings

Among loans and borrowings presented above as at June 30, 2021, and December 31, 2020, PGE Group presents mainly the following facilities:

Lender	Security instrument	Maturity	Limit in currency	Currency	Interest rate	Liability at 30-06-2021	Liability at 31-12-2020
Bank consortium	IRS	2023-09-30	3,630	PLN	Variable	3.637	3.636
European Investment Bank	-	2034-08-25	1,500	PLN	Fixed	1.505	1.505
Bank Gospodarstwa Krajowego	IRS	2027-12-31	1,000	PLN	Variable	813	876
European Investment Bank	-	2034-08-25	490	PLN	Fixed	493	493
European Bank for Reconstructior and Development	IRS	2028-06-07	500	PLN	Variable	469	501
Bank Gospodarstwa Krajowego	IRS	2028-12-31	500	PLN	Variable	469	500
Nordic Investment Bank	-	2024-06-20	150	EUR	Variable	167	219
Bank Pekao S.A.	-	2021-09-21	40	USD	Variable	100	149
Bank Pekao S.A.	-	2021-12-31	9	PLN	Variable	1	-
Millennium S.A.	-	2021-06-16	7	PLN	Fixed	-	1
PKO BP S.A.	-	2022-04-29	300	PLN	Variable	-	-
Revolving credit facility (bank consortium)	-	2022-12-16	4,100	PLN	Variable	-	-
Bank Gospodarstwa Krajowego	-	2023-05-31	1,000	PLN	Variable	-	-
Bank Pekao S.A.	-	2024-12-22	500	PLN	Variable	-	-
European Investment Bank	-	2038-10-16	273	PLN	Fixed	-	-
NFOŚiGW	-	March 2023 - December 2029	215	PLN	Fixed	136	157
NFOŚiGW	-	September 2021 June 2035	697	PLN	Variable	374	279
Voivodship Fund for Environment Protection and Water Management (WFOŚiGW)	-	September 2026	70	PLN	Fixed	8	6
WFOŚiGW	-	September 2021 September 2028	207	PLN	Variable	116	101
Loan from PFR	-	June 2024	3	PLN	Fixed	3	-
TOTAL LOANS AND BORROWINGS						**8,291**	**8,423**

As at June 30, 2021, the value of the available overdrafts at significant PGE Group companies was PLN 1,861 million. The repayment dates for the available overdraft facilities of PGE Group's key companies are in 2021-2024.

In the period ended on June 30, 2021 and after the reporting period no failures to make payment or other breaches of credit agreement terms were recorded.

Bonds issued

Issuer	Security instrument	Program maturity date	Program limit in currency	Currency	Interest rate	Tranche issue date	Tranche buy-back date	Liability at 30-06-2021	Liability at 31-12-2020
PGE S.A.	IRS	indefinite	5.000	PLN	Variable	2019-05-21 2019-05-21	2029-05-21 2026-05-21	1,001 400	1,001 400
PGE Sweden AB (publ)	CCIRS	indefinite	2.000	EUR	Fixed	2014-08-01	2029-08-01	641	644
TOTAL OUTSTANDING BONDS								**2,042**	**2,045**

The Group is continuously monitoring works related to the IBOR reform, which may have an impact on financial instruments based on a variable interest rate. At June 30, 2021 the value of credit facilities, loans and bonds exposed to interest rate risk was PLN 7,547 million (PLN 7,280 million based on WIBOR, PLN 167 million on EURIBOR and PLN 100 million on LIBOR). To hedge the interest rate on a financial liability, PGE S.A. applies IFRS hedging instruments and hedge accounting. The value of credit facilities, loans and bonds covered by hedging instruments and hedge accounting as at June 30, 2021 was PLN 6,789 million.

22.2 Trade and other financial liabilities

	At June 30, 2021		At December 31, 2020	
	Non-current	Current	Non-current	Current
Trade liabilities	-	1,208	-	1,357
Settlements related to transactions on exchange	-	1,499	-	856
Purchase of property, plant and equipment and intangible assets	7	771	6	1,050
Security deposits received	26	96	30	96
Liabilities related to LTC	392	21	395	22
Insurance	-	2	-	8
Other	14	197	17	115
TRADE AND OTHER FINANCIAL LIABILITIES	**439**	**3,794**	**448**	**3,504**

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

23. Other non-financial liabilities

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

23.1 Other non-current non-financial liabilities

	As at June 30, 2021	As at 31 December 2020
OTHER NON-CURRENT LIABILITIES		
Liabilities related to a contract	84	64
Estimated liabilities due to Voluntary Leave Programs	1	1
Estimated liabilities concerning other employee benefits	1	-
TOTAL OTHER NON-CURRENT LIABILITIES	**86**	**65**

23.2 Other current non-financial liabilities

	As at June 30, 2021	As at 31 December 2020
OTHER CURRENT LIABILITIES		
VAT liabilities	490	540
Excise tax liabilities	29	33
Environmental fees	154	202
Payroll liabilities	197	284
Bonuses for employees	223	272
Unused annual holiday leave	166	113
Estimated liability related to Miner's Day and Energy Technician's Day	54	1
Liabilities due to Voluntary Leave Programs	1	1
Bonuses for the Management Board	25	20
Estimated liabilities concerning other employee benefits	30	5
Personal income tax	60	95
Liabilities from social insurances	203	269
Liabilities related to a contract	310	296
Liabilities related to dividends	7	7
Other	66	65
TOTAL OTHER CURRENT LIABILITIES	**2,015**	**2,203**

The item 'Other' largely includes liabilities related to contributions to the Employee Pensions Program, amounts withheld from employees' salaries and contributions to the State Fund for Rehabilitation of Disabled People.

Liabilities related to a contract

Contract liabilities mainly include advances for deliveries and prepayments by customers for connections to the distribution grid and electricity consumption forecasts for future periods.

OTHER EXPLANATORY NOTES

24. Contingent liabilities and receivables. Legal claims

24.1 Contingent liabilities

	As at June 30, 2021	As at 31 December 2020
Contingent return of grants from environmental funds	392	461
Legal claims	107	186
Liabilities related to bank guarantees and sureties securing exchange transactions	95	75
Usufruct of land	67	67
Contractual fines and penalties	-	70
Other contingent liabilities	10	37
Total contingent liabilities	**671**	**896**

Contingent return of grants from environmental funds

The liabilities represent the value of possible future returns of funds received by PGE Group companies from environmental funds for selected investments. The funds will be returned if the investments for which they were granted do not achieve the expected environmental outcomes.

Legal claims

In connection with the sale of shares in PGE EJ1 sp. z o.o. to the State Treasury and in accordance with an agreement determining the responsibility of the former shareholders as regards the costs of a dispute with Worley Parsons, if the dispute is lost, PGE S.A. may be required to cover the cost of the dispute of up to PLN 98 million. The probability of losing the dispute was estimated in order to determine the fair value of the payment received. In effect, PLN 59 million was recognised under contingent liabilities and PLN 39 million in non-current provisions. The amount of the provision adjusted the result on the sale of shares as presented in these financial statements.

Bank guarantee liabilities

These liabilities represent bank guarantees provided as security for exchange transactions resulting from membership in the clearinghouse IRGiT.

Usufruct of land

Contingent liabilities pertaining to the usufruct of land are related to an update of annual fees for the usufruct of land. PGE GiEK S.A.'s branches have appealed the decisions in Local Appeals Courts. The contingent liability is measured as the difference between the discounted sum of the updated fees for usufruct of land throughout the entire period of the usufruct and the perpetual usufruct of land liability recognised in accounts based on previous fees.

24.2 Other significant issues related to contingent liabilities

Non-contractual use of property

As described in note 21.5 to these financial statements, PGE Group recognises a provision for disputes under court proceedings concerning non-contractual use of properties for distribution activities. In addition, PGE Group is a party to disputes at an earlier stage of proceedings, and it cannot be ruled out that the volume and value of similar disputes will increase in the future.

Contractual liabilities related to purchase of fuels

In accordance with fuel purchase agreements (mainly coal and gas), PGE Group is required to collect a minimum volume of fuel and to not exceed the maximum gas uptake levels in specific periods. Failure to uptake the contractual minimum volume of fuel may result in the necessity to pay fees (in case of gas fuel, volumes that have been paid for but not collected can be collected in the next three contractual years).

According to PGE Group, the terms of fuel delivery to its generating assets as described above do not diverge from the terms of delivery to other power stations in Poland.

24.3 Contingent receivables

As at the reporting date, PGE Group held PLN 72 million in contingent receivables related to a potential refund of excess excise duty. The Group is waiting for a ruling by the Supreme Administrative Court on what excise duty rate should be applied in settling the excise duty relief related to the redemption of property rights created in renewable energy sources prior to January 1, 2019.

According to PGE Group, this relief should be settled using the rate applicable at the time the electricity generated from renewable sources is sold to the end customer, i.e. 20 PLN/MWh. This was confirmed in a ruling by the Voivodship Administrative Court in Rzeszów of October 8, 2019.

The tax authority issued a cassation appeal against this ruling by the Voivodship Administrative Court on November 20, 2019.

24.4 Other court cases and disputes

Compensation for conversion of shares

Former shareholders of PGE GiEK S.A. petitioned the courts to summon PGE S.A. to conciliatory hearings 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 these summons to conciliatory hearings lodged by former shareholders of PGE Górnictwo i Energetyka S.A. exceeds 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 seeking more than PLN 493 million in compensation (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, and first-instance proceedings are in progress. A hearing to appoint a court expert was held on November 20, 2018. A first-instance court proceeding is currently under-way. In a ruling dated April 19, 2019 the court appointed experts to draft an opinion on this matter. The experts' opinion was not yet drafted as of the date on which these financial statements were prepared. The date of the next hearing will be set ex officio.

Furthermore, 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. 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"), demanded from the Defendants, in solidum, or jointly damages for Pozwy sp. z o.o. totalling over PLN 260 million with interest for allegedly incorrect (in its opinion) determination of the 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. PGE S.A. and PGE GiEK S.A. filed a response to the suit on July 8 2017. On September 28, 2018, the District Court in Warsaw ruled in the first instance - the lawsuit by Pozwy sp. z o.o. against PGE S.A., PGE GiEK S.A. and PWC Polska sp. z o.o. was rejected. On April 8, 2019 PGE S.A. received a copy of an appeal lodged by the claimant on December 7, 2018. A response to the appeal was drafted on April 23, 2019. A hearing was held on December 21, 2020. The Appeals Court ruled to repeal the District Court's ruling in its entirety and referred the case to the District Court for re-examination. On January 22, 2021 PGE S.A. and PGE GiEK S.A. appealed the ruling to the Supreme Court, requesting that the appealed ruling be repealed entirely and the case referred to the Appeals Court for re-examination. At a closed-door hearing on April 27, 2021 the Supreme Court reversed the judgement. The case was returned to be re-examined by the Appeals Court. A justification for the Supreme Court ruling was received by PGE S.A. and PGE GiEK S.A. on June 24, 2021. The Appeals Court meeting date is September 30, 2021.

PGE Group companies do not accept the claims being raised by Socrates Investment S.A., Pozwy sp. z o.o. and the rest of shareholders requesting conciliatory settlements. According to PGE S.A., these claims are groundless and the entire consolidation process was conducted fairly and correctly. The value of shares subject to the process of consolidation was established by an independent firm, PwC Polska sp. z o.o. Additionally, the merger plans of these companies, 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 aforementioned companies.

PGE Group did not create a provision for this claim.

Termination by Enea S.A. of long-term energy origin rights sale contracts

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

According to PGE Group, the notices terminating the contracts sent by Enea S.A. were submitted in breach of contractual obligations. The companies took appropriate steps to enforce their rights. With Enea S.A. refusing to perform these long-term contracts to purchase property rights resulting from certificates of origin received by PGE Group companies in connection with the production of renewable energy, PGE GiEK S.A. and PGE Energia Natury PEW sp. z o.o. demanded from Enea S.A. the payment of contractual penalties, while PGE EO S.A. demanded payment of compensation for damages. In October 2020, at the request of the parties, the court proceedings were suspended in connection with the intention to hold mediation sessions as an alternative dispute resolution. In 2021, the parties to the disputes submitted them for conciliation by the General Prosecutor's Office of the Republic of Poland.

Due to the fact that according to PGE Group the declarations terminating the contracts presented by Enea S.A. were submitted in breach of contractual terms, as at June 30, 2021 the Group recognised contractual penalty receivables of PLN 164 million (recognised entirely as revenue in previous reporting periods). According to PGE Group companies, based on available legal analysis, a favourable resolution in the above disputes is more probable than a negative resolution.

In addition, PGE GiEK S.A., PGE Energia Natury, PEW sp. z o.o. (acquired by PGE EO S.A.) and PGE EO S.A. filed lawsuits against Enea S.A. for the payment of receivables totalling PLN 47 million concerning invoices issued to Enea S.A. for the sale of property rights based on these contracts. Enea S.A. refused to pay these receivables, claiming that they were offset by receivables from the Group's companies related to compensation for alleged damages arising as a result of the companies' failure to re-negotiate the contracts. According to Group companies, such offsets are groundless because Enea S.A.'s receivables concerning the payment of compensation never arose and there are no grounds for acknowledging Enea S.A.'s claim that the companies breached contractual provisions. In October 2020, at the request of the parties, the court proceedings were suspended in connection with the intention to hold mediation sessions as an alternative dispute resolution. In 2021, the parties to the disputes submitted them for conciliation by the General Prosecutor's Office of the Republic of Poland.

25. Tax settlements

Tax obligations and rights are specified in the Constitution of the Republic of Poland, tax regulations and ratified international agreements. According to the tax code, 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, the current taxes in Poland can be divided into five groups: income tax, turnover tax, asset tax, activity tax and other fees 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 2021: corporate income tax rate – 19%, for smaller enterprises a 9% rate is possible; basic value added tax rate – 23%, reduced: 8%, 5%, 0%, furthermore some goods and products are subject to a VAT tax exemption.

The tax system in Poland is characterised by significant volatility and complexity of tax regulations, steep potential penalties for tax offences or crimes. Tax settlements and other activity areas subject to regulations (customs or currency controls) may be the subject of inspections by relevant authorities authorised to issue fines and penalties with interest. These inspections may cover tax settlements for a five-year period after the end of calendar year in which the tax was due.

Tax group

An agreement for a tax group named PGK PGE 2015, represented by PGE S.A., was signed on September 18, 2014, for a period of 25 years. An annex to the tax group agreement was signed on July 28, 2021, which reduced the agreement validity period from 25 to 7 years.

Companies included in the tax group must meet a number of requirements covering: appropriate level of equity, parent's stake in tax-group companies of at least 75%, lack of capital ties between subsidiaries, no tax arrears, an earnings-to-sales ratio of at least 2% (counted at tax group level), and execution of transactions with related parties from outside the tax group only on market terms. Violating these requirements would mean the dissolution of the tax group and loss of its taxpayer status. When the tax group is dissolved, each of its member companies becomes an individual payer of corporate income tax. Due to the introduction of laws intended to combat the effects of COVID-19, the requirement to have an earnings-to-sales ratio of at least 2% was waived for 2020.

VAT split payment mechanism, requirement to make payments to accounts registered with tax offices

The Group intends to effectively use the funds received from counterparties in VAT accounts to pay its liabilities that contain VAT. The level of funds in these VAT accounts on any given day depends mainly on how many of PGE Group's counterparties decide to use this mechanism and the relation between the payment deadlines for receivables and liabilities. As of June 30, 2021 the cash balance in these VAT accounts totalled PLN 76 million.

Reporting of tax arrangements (MDR)

In 2019, new regulations introduced mandatory reporting of tax arrangements (Mandatory Disclosure Rules - MDR). A tax arrangement should be understood as any activity of which the main or one of the main benefits is is the obtaining of a tax advantage. Moreover, tax arrangements include events that have general hallmarks or various specific hallmarks, as defined in regulations. Three types of entities are subject to the reporting obligation: promoter, supporter and beneficiary. MDR regulations are complex and imprecise in numerous areas, which gives rise to interpretation doubts as to their practical application.

Excise tax

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

Examining the company's complaints with regard to the restitution claims against decisions issued by tax authorities refusing to confirm overpayment of excise tax, administrative courts ruled that the company did not bear the economic burden of the improperly calculated excise tax (which in the context of the resolution by the Supreme Administrative Court of June 22, 2011, file no. I GPS 1/11, precludes the return of overpaid amounts). According to the Supreme Administrative Court, the claims that the company sought, especially using economic analyses, are of an offsetting nature and therefore may be sought only in civil courts. Given the above, PGE GiEK S.A. decided to withdraw from the proceedings as regards restitution claims. Activities concerning the excess excise tax are currently being conducted in civil courts. On January 10, 2020 the District Court in Warsaw issued a ruling in a case brought by PGE GiEK against the State Treasury - Minister of Finance. The court dismissed the case. On February 3, 2020 the company filed an appeal with the Court of Appeals in Warsaw against the first-instance ruling. The session was held on December 2, 2020, after which the Court of Appeals in Warsaw rejected PGE GiEK's appeal in a ruling dated December 17, 2020. On April 23, 2021, PGE GiEK S.A. submitted a cassation complaint to the Supreme Court. On May 20, 2021 PGE GiEK received a response from the general prosecutor's office regarding the company's cassation complaint.

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

Real estate tax

Real estate tax constitutes a considerable burden for certain PGE Group companies. Regulations on the real estate tax are unclear in some areas and give rise to a range of interpretation doubts. Tax authorities such as municipality head, city mayor or president, often issue inconsistent tax interpretations in substantively similar cases. This means that PGE Group companies were and can be parties in proceedings relating to real estate tax. If the Group concludes that an adjustment of settlements is probable as a result of such a proceeding, it creates an appropriate provision.

Uncertainty concerning tax settlements

Regulations concerning tax on goods and services, corporate income tax and burdens related to social insurance are subject to changes. These frequent changes result in a lack of reference points, inconsistent interpretations and few precedents that can be applied. The existing regulations also contain uncertainties that result in differing opinions as to legal interpretation of tax regulations both between state organs and between state organs and companies.

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 authorised to issue fines and penalties, and all additional tax liabilities resulting from such audits must be paid with high interest. This means that tax risk in Poland is higher than in countries with more stable tax systems.

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

The Tax Ordinance Act contains provisions from the General Anti-Abuse Clause (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 Group 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 Group recognises these settlements taking into account an uncertainty assessment.

26. Information on related parties

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

26.1 Associates and jointly controlled entities

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

	Period ended June 30, 2021	Period ended June 30, 2020*
Sales to associates and jointly controlled entities	94	152
Purchases from associates and jointly controlled entities	1,030	984

	As at June 30, 2021	As at 31 December 2020
Trade receivables from associates and jointly controlled entities	40	93
Trade liabilities to associates and jointly controlled entities	162	243

**Restated data*

This turnover and balances result from transactions with Polska Grupa Górnicza S.A. and Polimex-Mostostal S.A.

26.2 State Treasury-controlled companies

The State Treasury is the dominant shareholder of PGE Polska Grupa Energetyczna S.A. and as a result in accordance with IAS 24 *Related Party Disclosures*, State Treasury companies are treated as related entities. PGE Group entities identify in detail transactions with approximately 40 of the biggest State Treasury subsidiaries.

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

	Period ended June 30, 2021	Period ended June 30, 2020
Sales to related parties	2,025	1,192
Purchases from related parties	3,028	2,509

	As at June 30, 2021	As at 31 December 2020
Trade receivables from related parties	392	254
Trade liabilities to related parties	653	582

Largest transactions with the State Treasury's concern the following companies: Polskie Sieci Elektroenergetyczne S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A., Jastrzębska Spółka Węglowa S.A., ENERGA-OPERATOR S.A., PKP Cargo S.A., PKN Orlen S.A., Zakłady Azotowe PUŁAWY S.A., Grupa LOTOS S.A., TAURON Dystrybucja S.A., PKO Bank Polski S.A.

Moreover, PGE Group executes material transactions on the energy market via power exchange Towarowa Giełda Energii S.A. Due to the fact that this entity only manages exchange trading, purchases and sales transacted through this entity are not treated as transactions with related parties.

26.3 Management Board and Supervisory Board remuneration

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

PLN 000s	Period ended June 30, 2021	Period ended June 30, 2020
Short-term employee benefits (salaries and salary related costs)	18,750	18,349
Post-employment benefits	(645)	1,863
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**18,105**	**20,212**
Remuneration of key management personnel of entities of non-core operations	12,561	12,024
TOTAL REMUNERATION OF MANAGEMENT PERSONNEL	**30,666**	**32,236**

PLN 000s	Period ended June 30, 2021	Period ended June 30, 2020
Management Board of the parent company	2,901	3,357
including post-employment benefits	*(935)*	*(143)*
Supervisory Board of the parent company	422	407
Management Boards – subsidiaries	13,049	14,669
Supervisory Boards – subsidiaries	1,733	1,779
TOTAL	**18,105**	**20,212**
Remuneration of key management personnel of entities of non-core operations	12,561	12,024
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**30,666**	**32,236**

PGE Group companies (direct and indirect subsidiaries) apply a rule whereby management board members are employed on the basis of management services contracts. The cost of this remuneration is presented, by nature and function, in note 7.2 Costs by nature and function.

27. Significant events during and after the reporting period

27.1 Impact of COVID-19 on PGE Group's business

PGE is identifying risk factors related to the COVID-19 pandemic that affect the Group's results on an on-going basis. The pandemic's impact on financial results remained limited in the first half of 2021. Further potential events and their scale are difficult to estimate. The duration, intensity and reach of the pandemic will be of significance, as well as the pandemic's impact on economic growth in Poland. At the same time, preparing precise estimate is difficult due to a variety of other factors having an impact on the electricity market, including demand for electricity.

The onset of the pandemic caused an economic slowdown in 2020 globally and in Poland. Currently, following a lockdown of the Polish economy, the economic situation is improving. This can be seen in the major increase in GDP and industrial production in Q2 2021 on a year-on-year basis.

Nonetheless, the re-introduction of restrictions could result in reduced economic activity, which would give rise to a temporarily lower domestic consumption of electricity, which in turn would reduce revenue and margins on the generation, distribution and sale of energy in the Conventional Energy, Distribution, Supply and District Heating segments. Most of the production in 2021 was contracted in previous years, which is why the potential negative impact of lower volumes in the Conventional Energy segment would largely be limited.

If the pandemic intensifies, the Supply segment is at risk of falling demand for electricity, which could translate into lower sales to end customers and a higher cost of electricity balancing. In the Distribution segment, a lower volume of supplies to end customers could also directly lead to lower revenue.

On June 30, 2021, the impact of a predicted increase in payment backlogs, especially in receivables from SMEs, was not material. As described in note 2.4 to these consolidated financial statements, the Group has recognised additional impairment losses of PLN 13 million. Depending on the further development of the pandemic and economic situation, liquidity risk and the risk of higher impairment of overdue receivables at PGE Group still exist and are being monitored on an on-going basis. The Group currently does not expect this risk to become material and has not identified liquidity risk.

PGE Group owns facilities of strategic importance from the viewpoint of uninterrupted generation and supply of electricity and heat in Poland. The COVID-19 pandemic has changed the way work is organised, especially with regard to PGE Group's generating assets. In many instances, this gives rise to additional costs, including for example the purchase of protective equipment for employees. Since the start of the pandemic, the Group has work rules in place that are aimed at reducing the risk of infection for employees as much as possible. As one of the largest employers in Poland, with more than 40 000 employees, PGE Group is undertaking a range of corporate and work organisation efforts intended to ensure operational continuity, protection of employee health and life, including remote and rotational work, raising awareness of the basic rules for protecting against COVID-19, prevention and quarantine.

PGE Group is constantly performing communication activities for employees, intended to build awareness of the positive impact of vaccinations - both individual and societal. Furthermore, internal communication is maintained in connection with the course of the pandemic and encouraging to minimise the risk of infection - this means keeping distance, frequently washing hands or using office space in a safe manner. PGE has appointed a crisis team, which collects information from all Group companies, monitors the situation at the companies and undertakes appropriate activities.

Production units also have operational plans, drafted and approved on an on-going basis, in the event of elevated absences - as they are of strategic importance from the viewpoint of maintaining the continuity of production and supply of electricity and heat, they also remain in continuous contact with local services responsible for monitoring the situation in the country across all PGE Group sites.

In the retail customer area, PGE Group has been primarily focusing on expanding its remote service channels.

Having implemented appropriate remedial measures at an early stage of the pandemic, PGE Group has been producing and supplying electricity and heat with no interruptions.

PGE Group is monitoring the further impact of COVID-19 on its financial position and is preparing for various scenarios. The pandemic has accelerated the roll-out of measures intended to prepare the entire organisation for changes in order to take on the challenges that energy companies are facing in connection with decarbonisation. They will require financial expenditures. All potential savings scenarios, in both investment expenditures and operational costs, have been analysed in order to focus on flagship development projects related to PGE Group's core business.

27.2 Preliminary proposal to purchase stake in Fortum's assets

On October 27, 2020, an investor consortium that included PGE submitted a preliminary, non-binding proposal to purchase from Fortum Holding B.V. its district heating and cooling business in Estonia, Lithuania, Latvia and Poland. Consortium members included: PGE, Polskie Górnictwo Naftowe i Gazownictwo S.A., PFR Inwestycje FIZ, whose investment portfolio is managed in part by Polski Fundusz Rozwoju S.A., and IFM Investors Pty Ltd.

On November 16, 2021, a consortium consisting of: PGE and Polskie Górnictwo Naftowe i Gazownictwo S.A. (Partners) submitted a modified preliminary non-binding offer to purchase shares belonging to Fortum Holding B.V.

The modified proposal entails the acquisition of Fortum Holding B.V.'s district heating business in Poland only. At the same time, the Partners withdrew from the intended acquisition of Fortum's assets in Estonia, Lithuania, Latvia and from participating in the investor consortium with PFR Inwestycje FIZ and IFM Investors Pty Ltd.

Joint work is currently in progress to submit a binding proposal.

Fortum Holding B.V.'s Polish subsidiary is involved in the generation, distribution and sale of heat and the generation of electricity.

The purchase of Fortum's assets is in line with PGE Group's Strategy 2030, announced on October 19, 2020.

27.3 Investment agreement with Ørsted for offshore wind farm projects

On February 10, 2021 PGE Group entities and Ørsted signed an agreement to form a 50%/50% joint venture to develop two offshore wind farm projects. These are PGE's on-going projects Baltica 2 through SPV EWB2 (with a planned capacity of approx. 1.5 GW) and Baltica 3 through SPV EWB3 (with a planned capacity of approx. 1 GW).

PGE Baltica 6 sp. z o.o., PGE Baltica 5 sp. z o.o. (PGE's subsidiaries) ("Existing Shareholders"), Orsted Baltica 2 Holding sp. z o.o., Orsted Baltica 3 Holding sp. z o.o., (subsidiaries of Ørsted Wind Power A/S ("OWPAS"), hereinafter jointly referred to as "Investors"), Elektrownia Wiatrowa Baltica – 2 sp. z o.o. and Elektrownia Wiatrowa Baltica – 3 sp. z o.o. signed an investment agreement concerning the development by the Investors of projects Baltica 2 and Baltica 3.

The investment agreement establishes the legal framework for the formation of a joint venture between PGE and OWPAS for the development, construction and operation of offshore wind projects Baltica 2 and Baltica 3.

Under the investment agreement, the Investors undertake to acquire newly-issued shares in EWB2 and EWB3 constituting 50% of share capital and granting the Investors 50% of votes at each of the companies.

On March 10, 2021 the President of the Polish Office of Competition and Consumer Protection approved the concentration.

On May 6, 2021, after the fulfilment of the conditions precedent, relevant PGE Group entities and Ørsted completed the transaction in which Ørsted entities acquired shares representing a 50% stake in EWB2 and EWB3. Once the share capital increase was registered, Ørsted and PGE (acting through subsidiaries) became 50/50 partners in this joint operation.

The total price for the 50% stake in EWB2 and EWB3 constitutes the equivalent of approx. PLN 686 million. The increased price includes in particular contributions made by PGE to the companies after the investment agreement was signed.

Once the relevant assumptions are met, Ørsted entities will be required to make additional contributions to EWB2 and EWB3, which can amount to a total of PLN 1,024 million.

In closing the transactions, Ørsted and PGE entities signed a number of documents, separately for Baltica 2 and Baltica 3, including in particular:

- shareholder agreements, regulating the companies' corporate governance, operational rules for integrated project teams, commitments by the parties regarding financing and the provision of other services to the companies, restrictions on the disposal of shares in the companies constituting the joint operation as well as the consequences of contractual breaches and change of control;
- agreements concerning the provision of development services for the companies constituting the joint operation by relevant subsidiaries from both sides;
- agreements regarding access to resources, based on which both of the parties will delegate personnel to the companies;
- shareholder loan agreements, pursuant to which the shareholders will provide debt financing (aside from equity financing) to the companies; and
- corporate guarantees issued by PGE and Ørsted Wind Power A/S, pursuant to which both of the parties guarantee due performance of liabilities at the development stage of the projects by their respective subsidiaries.

27.4 Czechia's complaint against Poland regarding prolongation of mining concession for KWB Turów

On September 30, 2020 the Czech Republic sent a letter to the European Commission pursuant to art. 259 of the Treaty on the Functioning of the EU, initiating a procedure against Poland for alleged violations of EU law in connection with the extension of the term of concession for lignite mining for 6 years for KWB Turów.

On December 17, 2020, the European Commission issued a reasoned opinion, in which it shared some of the objections of the Czech side, while pointing out that the extension of the operation of KWB Turów did not violate the provisions of the Water Framework Directive. The European Commission also stressed that some of the remaining allegations from the Czech side turned out to be wrong.

On February 26, 2021 the Czech government lodged a complaint against Poland with the Court of Justice of the EU. A summary of the complaint and key arguments were published in the EU Official Journal on April 19, 2021. The parties in this proceeding are member states, which precludes the participation of natural and legal persons even if the case directly concerns their activities.

On May 21, 2021, the Vice-President of the Court of Justice issued an order for an interim measure as follows: "The Republic of Poland will cease immediately and until the ruling in case C-121/21 lignite mining at the Turów mine (Poland)." An interim measure does not decide the merits of the case.

On June 9, 2021, the European Commission joined the main proceedings as an intervener supporting some of the claims of the Czech side. In the interim measure procedure, the Czech Republic additionally demanded a fine for each day of non-compliance with the decision to immediately cease lignite mining. At the same time, the Republic of Poland applied for annulment of the decision on interim measures due to a change in circumstances within the meaning of art. 163 of the Rules of the Court of Justice. In accordance with the decision of September 20, 2021, the Vice-President of the Court of Justice dismissed the request to revoke the interim measure and ordered Poland to pay the European Commission a fine in the amount of EUR 500,000 per day, starting from delivery of the ruling to Poland and ending when the member states abides by the ruling of May 21, 2021. In the opinion of the Company, it is not possible to transfer the above-mentioned penalties onto PGE Group companies.

PGE Group does not plan to stop coal mining activities at KWB Turów and electricity generation activities at the Turów plant. Mining at KWB Turów complies with domestic laws and European environmental norms, based on a legally obtained concession. The government of the Republic of Poland takes the same position in this respect, additionally pointing out that the suspension of works in the mine would endanger the stability of the Polish power system and would have negative consequences for energy security. Government representatives also point to the lack of legal grounds to order the suspension of work at KWB Turów.

At the same time, the main proceedings concerning allegations of a breach of EU law are pending.

According to PGE Group, the dispute in question has no impact on these financial statements as of the date on which they were prepared. At the same time, PGE Group will be monitoring the case on an on-going basis, and any potential events that materialise will be reflected appropriately in future financial statements.

27.5 Planned disposal of coal assets to National Energy Security Agency

On 21 May 2021, the following draft was published in the list of legislative and program works of the Council of Ministers: "Transition of Poland's energy sector. Carve out of coal-based generation assets from companies with a State Treasury shareholding." According to the draft, the carve out process will consist of purchase by the State Treasury all assets related to electricity generation in hard coal- and lignite-based power plants, including related service companies, from PGE S.A., ENEA S.A., TAURON Polska Energia S.A. and ENERGA S.A. (which was not included in the published draft but joined the transition process in June of this year). In connection with the indivisibility of lignite-based energy complexes, the acquired assets will also include lignite mines. Assets related to hard coal mining will not become a part of the entity operating coal-based energy generation units. As regards heating assets, because of their planned modernisations in the low- and zero-carbon direction, they will not be included in the transaction. The State Treasury will subsequently integrate the acquired assets into one entity. PGE GiEK S.A. will be the integrator. The integration will consist of merging the companies acquired by the State Treasury or contributing them to PGE GiEK S.A. via a capital increase. PGE GiEK S.A. will be re-named as Narodowa Agencja Bezpieczeństwa Energetycznego S.A. (NABE). NABE will be a self-sufficient entity that will carry out maintenance and modernisation investments that are necessary to maintain the efficiency of its coal units. The transaction will follow relevant business and economic analyses, including due diligence and valuation of selected assets covered by the transaction. Because of the generating companies' debts toward their parent entities, the settlement of this transaction will be the subject of detailed arrangements between the State Treasury and the existing owners.

According to the draft, once the coal assets are carved out, the energy groups will focus on implementing low- and zero-carbon investments, while NABE, operating as an entity wholly owned by the State Treasury, will be the owner of coal-based generating assets. NABE's role will be to ensure the essential balance of capacity in the energy system and will be limited to essential replacement investments and a gradual phase-out of coal units as low- and zero-emission capacities gradually grow, thus ensuring the state's energy security. Public consultations on the published draft were conducted. An updated version of the document "Transition of Poland's energy sector. Carve out of coal-based generation assets from companies with a State Treasury shareholding." has not yet been published. On July 23, 2021, PGE S.A., ENEA S.A., TAURON Polska Energia S.A. and ENERGA S.A. executed an agreement with the State Treasury regarding cooperation on the carve out of coal-based energy generation assets and their integration into NABE.

A precise date for the disposal of the coal assets, their valuation and means of settling debt and other liabilities related to these assets has not yet been set. In connection with this, it is currently not possible to determine the impact of this division on the future financial statements of PGE and PGE Group.

The Company expects the process to sell these assets to NABE to take place in 2022.

II. PGE Polska Grupa Energetyczna S.A. Condensed separate interim financial statements for the 6-month period ended June 30, 2021, in accordance with IFRS EU (in PLNm)

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended June 30, 2021 *(unaudited)*	Period ended June 30, 2020 *(unaudited)*
STATEMENT OF PROFIT OR LOSS			
SALES REVENUE	6	**12,829**	**15,100**
Cost of goods sold	7	(12,353)	(14,571)
GROSS PROFIT ON SALES		**476**	**529**
Distribution and selling expenses	7	(9)	(10)
General and administrative expenses	7	(98)	(107)
Other operating income / (expenses)		(5)	(8)
OPERATING PROFIT		**364**	**404**
Finance income / (costs), including	8	1,264	1,200
Interest income calculated using the effective interest rate method		*74*	*82*
GROSS PROFIT		**1,628**	**1,604**
Income tax		(27)	(57)
NET PROFIT FOR THE REPORTING PERIOD		**1,601**	**1,547**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss:			
Measurement of hedging instruments		199	(356)
Actuarial gains and losses from valuation of provisions for employee benefits		1	-
Deferred tax		(38)	68
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**162**	**(288)**
TOTAL COMPREHENSIVE INCOME		**1,763**	**1,259**
NET PROFIT AND DILUTED NET PROFIT PER SHARE (IN PLN)		**0.86**	**0.83**

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

SEPARATE STATEMENT OF FINANCIAL POSITION

	Note	As at June 30, 2021 *(unaudited)*	As at 31 December 2020 *(audited)*
NON-CURRENT ASSETS			
Property, plant and equipment		150	155
Right-of-use assets		20	20
Financial receivables	10.1	7,591	9,139
Derivatives and other assets measured at fair value through profit or loss	11	87	132
Shares in subsidiaries	9	29,492	29,401
Shares in subsidiaries, jointly controlled entities and associates		101	101
Deferred income tax assets		79	119
Other non-current assets		3	-
		37,523	**39,067**
CURRENT ASSETS			
Inventories		1	1
Income tax receivables		191	-
Trade and other receivables	10.1	12,459	9,762
Derivatives	11	1,576	1,244
Shares in subsidiaries	9	-	369
Other current assets	12	1,349	54
Cash and cash equivalents	10.2	4,221	3,507
		19,797	**14,937**
TOTAL ASSETS		**57,320**	**54,004**
EQUITY			
Share capital		19,165	19,165
Reserve capital		20,154	18,410
Hedging reserve		(127)	(288)
Retained earnings		1,600	1,742
		40,792	**39,029**
NON-CURRENT LIABILITIES			
Non-current provisions		19	19
Loans, borrowings, bonds and leases	13	7,740	8,602
Derivatives	11	192	385
Other liabilities		14	17
		7,965	**9,023**
CURRENT LIABILITIES			
Current provisions		39	21
Loans, borrowings, bonds, cash pooling, leases	13	3,713	2,150
Derivatives	11	1,564	1,243
Trade and other liabilities		2,885	1,583
Income tax liabilities		-	456
Other non-financial liabilities		362	499
		8,563	**5,952**
TOTAL LIABILITIES		**16,528**	**14,975**
TOTAL EQUITY AND LIABILITIES		**57,320**	**54,004**

SEPARATE STATEMENT OF CHANGES IN EQUITY

	Share capital	Supplementary capital	Hedging reserve	Retained earnings	Total equity
AS AT JANUARY 1, 2021	**19,165**	**18,410**	**(288)**	**1,742**	**39,029**
Net profit for the reporting period	-	-	-	1,601	**1,601**
Other comprehensive income	-	-	161	1	**162**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**161**	**1,602**	**1,763**
Allocation of profit from previous years	-	1,744	-	(1,744)	-
AS AT JUNE 30, 2021	**19,165**	**20,154**	**(127)**	**1,600**	**40,792**

	Share capital	Supplementary capital	Hedging reserve	Retained earnings	Total equity
AS AT JANUARY 1, 2020	**19,165**	**19,669**	**(72)**	**(1,258)**	**37,504**
Net profit for the reporting period	-	-	-	1,547	**1,547**
Other comprehensive income	-	-	(286)	(2)	**(288)**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**(286)**	**1,545**	**1,259**
Coverage of loss	-	(1,259)	-	1,259	-
Other changes	-	-	-	1	**1**
AS AT JUNE 30, 2020	**19,165**	**18,410**	**(358)**	**1,547**	**38,764**

SEPARATE STATEMENT OF CASH FLOWS

	Period ended June 30, 2021 *(unaudited)*	Period ended June 30, 2020 *(unaudited)*
CASH FLOWS FROM OPERATING ACTIVITIES		
Gross profit	**1,628**	**1,604**
Income tax paid	(499)	191
Adjustments for:		
Depreciation, amortisation and impairment losses	6	6
Interest and dividend, net	(1,325)	(1,542)
(Gain) / loss on investing activities	54	440
Change in receivables	(384)	54
Change in inventories	-	2
Change in liabilities, excluding loans and borrowings	994	(138)
Change in other non-financial assets	(47)	(160)
Change in provisions	(21)	-
Exchange differences	15	(3)
NET CASH FROM OPERATING ACTIVITIES	**421**	**454**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	(2)	(3)
(Purchase) / buy-back of bonds issued by PGE Group companies	-	910
Sale of other financial assets	378	-
Expenditure on purchase of shares in subsidiaries	(93)	(18)
Origination / (repayment) of loans granted under cash pooling agreement	757	683
Loans granted	(6,469)	(2,088)
Interest received	232	279
Loans repaid	5,787	1,724
NET CASH FROM INVESTING ACTIVITIES	**590**	**1,487**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans, borrowings	-	3,603
Repayment of loans, borrowings, leases	(125)	(4,463)
Interest paid	(158)	(180)
NET CASH FROM FINANCING ACTIVITIES	**(283)**	**(1,040)**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**728**	**901**
Net exchange differences	(14)	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**3,493**	**219**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	**4,221**	**1,120**

1. General information

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

PGE S.A. is the parent company for PGE Group and prepares separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

The State Treasury is the Company's principal shareholder.

The Company's core activities are as follows:

- trade in electricity and other energy market products
- oversight of head offices and holding companies
- 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.

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

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

Statement of compliance

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

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

Going concern

These condensed interim financial statements were prepared under the assumption that the Company will continue operating as a going concern for at least 12 months from the reporting date. As at the date of approval of these separate financial statements, there is no evidence indicating that the Company will not be able to continue its operations as a going concern.

These financial statements comprise financial data for the period from January 1, 2021 to June 30, 2021 ("separate financial statements") and include comparative data for the period from January 1, 2020 to June 30, 2020 and as at December 31, 2020.

The same accounting rules (policies) and calculation methods are applied in these financial statements as in the most recent annual financial statements and they should be read in conjunction with PGE S.A.'s audited separate financial statements prepared in accordance with EU IFRS for the year ended December 31, 2020.

Seasonality

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

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

PGE S.A.'s sales seasonality results from the fact that the Company sold 90% of its electricity to PGE Obrót S.A. and PGE Dystrybucja S.A., whose demand for electricity is subject to seasonality.

2. Professional judgement of management and estimates

In the period ended June 30, 2021, no other significant changes of estimates took place that would have an impact on the amounts presented in the financial statements. As described in note 9 to these financial statements, impairment tests on stakes held were performed in the current period. The tests did not provide grounds for recognising or releasing impairment losses.

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

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

4. Changes in accounting principles and data presentation

In the present period, the Company did not change accounting rules or data presentation.

New standards and interpretations that went into force on January 1, 2021 and had no impact on the Company's separate financial statements are described in note 4 to the consolidated financial statements.

5. Fair value hierarchy

The principles for valuation of inventories, derivatives, shares and instruments not quoted on active markets, for which fair value may not be determined reliably, are the same as presented in the financial statements for the year ended December 31, 2020.

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

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

6. Sales revenue

The following table presents revenue from contracts with customers by category to reflect the manner in which economic factors influence the type, amount, payment deadline and uncertainty of revenue and cash flows, and revenue from leases is presented in the table below.

Type of goods or services	Period ended June 30, 2021	Period ended June 30, 2020
REVENUE FROM CONTRACTS WITH CUSTOMERS	**12,827**	**15,097**
Revenue from sale of goods, including:	**12,332**	**14,568**
Sale of electricity	*5,499*	*7,333*
Sale of gas	*177*	*149*
Sale of CO_2 emission allowances	*6,640*	*7,086*
Revenue from Capacity Market	*16*	*-*
Revenue from sale of services	**495**	**529**
Revenue from leases	**2**	**3**
TOTAL REVENUE FROM SALE	**12,829**	**15,100**

The Company operates predominately in Poland.

The decline in revenue from the sale of electricity in the first half of 2021 in comparison with the same period last year resulted from lower supply volumes and a decline in sales prices. The decline in supply volume mainly concerns electricity sales to PGE Obrót S.A. in order to cover demand from retail customers and a decline in re-sale of electricity to PGE GiEK as producer. The decline in volume sold to retail customers at PGE Obrót S.A. is largely the result of lower demand for electricity from large customers in the professional segment.

Growth in revenue from the sale of natural gas in the first half of 2021 is the effect of higher gas supply volume and higher sales prices. The increase in gas volume was recorded mainly on the exchange and in gas sales to PGE Group's CHPs.

The decline in revenue from the sale of CO_2 emission allowances during the present period mainly resulted from:

- no proceeds in 2021 from the sale of free CO_2 emission allowances (received in 2019 and 2020),
- decline in revenue from the sale of surplus CO_2 emission allowances bought back from PGE Group companies and sold to external entities,

alongside a simultaneous increase in revenue from sale to PGE Group companies as a result of higher sales prices and volumes of CO_2 emission allowances. The increase in sales volume resulted from a lower volume of CO_2 emission allowances allocated for 2020 (redeemed in 2021).

Revenue from the Capacity Market - in connection with the launch of the Capacity Market on January 1, 2021, PGE Group companies being suppliers of capacity to PSE S.A. generate revenue related to the capacity obligation. This revenue is settled by individual Group companies according to an algorithm described in the Capacity Market Management Agreement. PGE S.A., which according to the Agreement serves as Manager, recognises revenue from activities it undertakes.

Revenue from the sale of services mainly concerns services performed for PGE Group subsidiaries and includes, inter alia, services related to electricity trade and supply, supply of fuel, licenses and so-called support services. The decline in revenue mainly stems from lower revenue from services related to electricity trade provided on behalf of PGE Group companies as a result of both a decline in volume and lower electricity prices.

Information concerning key clients

The Company's main counterparties are PGE Group subsidiaries. In the first half of 2021, sales to PGE Obrót S.A. accounted for 38% of revenue from sales, while sales to PGE GiEK S.A. accounted for 40%. In the first half of 2020, sales to these companies accounted for 38% and 30%, respectively.

7. Costs by nature and function

	Period ended June 30, 2021	Period ended June 30, 2020
COSTS BY NATURE		
Depreciation, amortisation	6	6
External services	31	36
Employee benefits expenses	71	83
Other costs by nature	29	25
TOTAL COSTS BY NATURE	**137**	**150**
Distribution and selling expenses	(9)	(10)
General and administrative expenses	(98)	(107)
Cost of goods and materials sold	12,323	14,538
COST OF GOODS SOLD	**12,353**	**14,571**

The decline in the value of goods and materials sold in H1 2021 compared to H1 2020 resulted mainly from the above-mentioned decrease in revenue from sales.

8. Finance income and finance costs

	Period ended June 30, 2021	Period ended June 30, 2020
NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS		
Dividends	1,252	1,464
Interest calculated using the effective interest rate method	70	80
Revaluation of financial instruments	(27)	(10)
Reversal/(recognition) of impairment	-	(337)
Exchange differences	8	3
Loss on disposal of investment	(39)	-
TOTAL NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS	**1,264**	**1,200**
NET OTHER FINANCE INCOME/(COSTS)	-	-
TOTAL NET FINANCE INCOME/(COSTS)	**1,264**	**1,200**

In the period ended June 30, 2021, the Company reported dividend income mainly from PGE Dystrybucja S.A. (PLN 784 million), PGE Energia Ciepła S.A. (PLN 277 million) and PGE Energia Odnawialna S.A. (PLN 166 million), and in the comparative period PLN 792 million from PGE Dystrybucja S.A., PLN 467 million from PGE Energia Odnawialna S.A., and PLN 186 million from PGE Energia Ciepła S.A.

In the comparative period, in the item release/(recognition) of impairment the Company presented the recognition of an impairment loss on the stake in PGE Obrót S.A. (PLN 278 million), Elbest sp. z o.o. (PLN 31 million), PGE Nowa Energia sp. z o.o. (PLN 16 million) and PGE Trading GmbH (PLN 12 million).

The Company reports interest income mainly from financing granted to subsidiaries. Interest costs mainly relate to bonds issued and credit facilities and loans taken out, as described in note 13 to these financial statements.

The item 'impairment of financial statements' mainly includes measurements of hedging transactions in the part considered as the ineffective part of a hedge for instruments designated as hedging instruments in cash flow hedge accounting and in full when it comes to other instruments.

An agreement to sell all shares in PGE EJ1 sp. z o.o. to the State Treasury was signed on March 26, 2021. The ownership of the shares was transferred on March 31, 2021. In connection with the sale, PGE incurred a gross loss of PLN 39 million.

9. Shares in subsidiaries

9.1 Analysis of the value of stakes in PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE Energia Ciepła S.A. and PGE Energia Odnawialna S.A.

In the first half of 2021, the Company analysed indications and identified factors that may contribute to a change in the value of its generating assets and as a result influence the value of PGE S.A.'s stakes in PGE GiEK S.A. and PGE EO S.A. As a result of the analysis, PGE S.A. performed impairment tests on its stakes in PGE GiEK S.A. and PGE EO S.A. The tests did not show the need to recognise an impairment loss. In the case of PGE EC S.A., there were no indications warranting an impairment test.

The key changes in surroundings include:

- Market capitalisation of PGE S.A. remaining below net asset book value;
- Depletion of lignite resources approaching.
  The operational time for lignite-fired plants is limited by the quantity of lignite available. Thus, as time passes, the remaining operational time is reduced, as are the benefits obtained and the useful value.
- Lingering high prices for property rights (index TGEozea). In the first half of 2021, the average price of green certificates (index TGEozea) reached 151.21 PLN/MWh and was 9% higher than in the same period of last year.
- High prices for CO_2 emission allowances. After a slump caused by the pandemic outbreak in mid-March 2020, the prices of CO_2 emission allowances began to rebound. In the first half of 2021, the average weighted price for EUA DEC 21 was 44.57 EUR/t, which represented a 105% increase on the same period last year.

Macroeconomic and market assumptions

The key price assumptions, i.e. the price of electricity, CO_2 emission allowances, hard coal, natural gas, and assumptions related to production at most of the Group's installations were derived from a study prepared by an independent expert, taking into account own estimates based on the current market situation for the first two years of the forecast.

The forecasts for electricity prices expect a decline in price in 2022 in reference to 2021 prices, a major price hike in 2023 in comparison with 2022, a decline in 2024 in reference to 2023, and subsequently an annual increase of 6% on average in 2025-2029.

The price forecasts for CO_2 emission allowances expect a major increase in 2023 in comparison with 2022, an annual decline in 2024-2025 of 6.5% on average and an annual increase in 2026-2029 of 12.7% on average. A slight decrease is expected in 2030, in comparison with 2029, followed by stable growth at approx. 4% annually until 2040.

The forecasts for hard coal prices expect a major increase in 2023 in reference to 2022, followed by an average annual growth of 2.8 until 2030.

The forecasts for natural gas prices expect an increase in price in 2022 in reference to 2021 prices, a major price hike in 2023 in comparison with 2022, followed by an average annual growth of approx. 4.1% in subsequent years.

The price forecasts for certificates of origin for energy expect an increase in the first two years of the forecasts, followed by an average annual decline of approx. 9% in 2023-2031, which is related to the decreasing obligation to redeem these certificates.

The forecast for revenue from the capacity market for 2021-2025 is based on the results of completed main and additional auctions for these delivery periods, taking into account the joint balancing mechanism at PGE Group companies. From 2026, the forecast was developed by a team of experts at PGE S.A. on the basis of assumptions concerning estimated future flows for generating units, based on, inter alia, results of a completed auction and forecasts from an external expert. For one-year contracts with delivery from July 1, 2025 and for multiannual contracts executed as part of the auction for 2025 and subsequent, the 550g CO_2/kWh (EPS 550) emission criterion is in place, which in practice rules out all coal units from Capacity Market auctions.

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

On February 2, 2021 the Council of Ministers approved "Poland's Energy Policy 2040." The Policy constitutes a vision for Poland in the area of energy transition, indicating, inter alia, the expected structure of electricity generating units. According to the Policy, the share of low- and zero-emission units will grow, while the share of coal-based units will decline.

However, the pace of the energy transition and trends expected in the Policy recently considerably accelerated and strengthened. In July 2021, the European Commission published the Fit for 55 legislative package, which intends to, inter alia, reduce GHG emissions in the EU by 55% (previously 40%) by 2030, in comparison with 1990. In line with the expectations of market participants, the EU ETS reform included in the package should result in a considerable increase in the prices of CO_2 emission allowances, which in practice already took place in this first half of the year. In effect, the current level of prices for CO_2 emission allowances significantly diverges from that assumed in the Policy. Another important element that vastly diverges from the Policy's assumptions is the dynamic increase in PV capacities as a result of numerous grant programs, a discount system for prosumers and renewable energy auctions. In effect, the level of installed capacities expected for 2030 has already been achieved.

The surroundings in which PGE S.A.'s companies operate is characterised by high volatility and is dependent on macroeconomic, market and regulatory conditions, and all changes in this regard may have a substantial impact on their financial situation and results, and in consequence on the value of stakes held by PGE S.A. This is why the above and other assumptions adopted in estimating the value of these stakes are subject to periodic analysis and verification. Potential changes will be recognised in future financial statements.

Impairment tests on stake in PGE GiEK S.A.

In previous reporting periods, PGE S.A. recognised substantial impairment losses on its stake in PGE GiEK S.A.

In the present reporting period, the Company performed impairment tests in order to verify whether the value of its stake in PGE GiEK S.A. decreased or increased.

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

- adopt the assumption that in the period after June 2025 there will be support from the capacity market or equivalent for units complying with the emission criterion of 550 g CO_2/kWh of produced electricity, although multiannual contracts executed as part of auctions for 2021-2024 are performed in accordance with their validity periods; for units that do not meet the emission criterion, there is the possibility of balancing multiannual contracts executed by 2019,
- 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 after tax for the projection period at 6.06%-7.56%, depending on the CGU, in accordance with an individually estimated level of risk.

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

Impairment tests on stake in PGE EO S.A.

In the present reporting period, the Company performed impairment tests in order to verify whether the value of its stake in PGE EO S.A. decreased or increased.

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

- production of electricity and property rights were estimated based on historic data, adjusted by the availability of units;
- unit availability was estimated based on repair plans, taking into account statistical failure rates;
- revenue from regulatory system services until mid-2023 were estimated based on the currently functioning system of remuneration for these services, from mid-2023 it is expected that the market mechanism for contracting regulatory services will start functioning, the revenues from which have been estimated based on PGE Group's internal analyses;
- maintain production capacities as a result of replacement-type investments;
- adopt WACC after tax for the projection period at 6.56%.

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

Analysis of indications for PGE EC S.A.

In the present reporting period, the Company analysed indications in order to verify whether there are grounds for conducting an impairment test on its stake in PGE EC S.A.

The analysis included:

- financial plan analysis,
- confirmation that the investment plan is up-to-date,
- analysis of prices for energy, hard coal, CO_2 emission allowances and natural gas
- analysis of heat prices,
- analysis of assumptions regarding the capacity market, support for cogeneration
- analysis of estimated margins on the production and sale of electricity in future periods in the light of price forecasts for energy, hard coal, gas and CO_2 emission allowances.

The analysis of indications performed for the District Heating segment showed that the generating units are implementing their financial plan in accordance with assumptions. Price forecasts for natural gas, electricity, hard coal, gas and CO_2 emission allowances that are available to PGE Group mean that margin forecasts are favourable for both the sale of electricity and heat. The cogeneration support system for gas units has been reduced, however it has been replaced with support in the form of the capacity market, therefore this gives no rise to the risk of significant changes in useful values. Assumptions concerning the capacity market, in comparison to 2020, have a positive impact on forecast revenue from the program, having been updated to include completed auctions. Given the above, according to PGE, at the end of the reporting period there were no indications that would warrant the recognition of impairment losses on the stake in PGE EC S.A.

9.2 Analysis of the value of stake in PGE Obrót S.A.

In previous reporting periods, PGE S.A. recognised an impairment loss on its stake in PGE Obrót S.A. The key assumptions applied in the impairment tests performed as of May 31 2020 are described in PGE S.A.'s separate financial statements, which are part of PGE S.A.'s half-yearly financial report for H1 2020.

In the current reporting period, PGE S.A. performed an analysis of indications in order to determine whether these assets are impaired or the earlier impairment losses may be reversed.

The most important factors analysed include:

- analysis of the current market situation, including impact of the COVID-19 pandemic on the energy market,
- analysis of prices for energy and certificates of origin,
- analysis of estimated margins on the production and sale of electricity in future periods in the light of price forecasts for energy,
- analysis of economic effects related to prices approved by the President of the Energy Regulatory Office for households,
- analysis of the dynamic development of PV micro-installations and settlement of prosumers in the context of impact on the Company's financial results.

The analysis of indications showed that the planned cash flows generated by PGE Obrót S.A. throughout the entire forecast period did not substantially change, in connection with which as at the reporting date there are no indications to recognise additional impairment losses on the stake in PGE Obrót S.A. nor to reverse impairment losses recognised in previous periods.

10. Selected financial assets

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

10.1 Trade and other financial receivables

	At June 30, 2021		At December 31, 2020	
	Non-current	Current	Non-current	Current
Trade receivables	-	851	-	1,239
Bonds acquired	5,830	4,112	9,130	813
Cash pooling receivables	-	414	-	330
Loans granted	1,761	5,581	9	6,499
Other financial receivables	-	1,501	-	881
TOTAL FINANCIAL RECEIVABLES	**7,591**	**12,459**	**9,139**	**9,762**

Trade receivables

Trade receivables of PLN 851 million relate mainly to the sale of electricity and services to subsidiaries in PGE Group. The balances of the three largest customers, i.e. PGE Obrót S.A., PGE GiEK S.A. and PGE Energia Ciepła S.A. constituted 94% of the balance of trade receivables. The decline in receivables by PLN 388 million concerns mainly in 85% the three aforementioned customers are results largely due to a decline in the sale of electricity.

Bonds acquired

	At June 30, 2021		At December 31, 2020	
	Non-current	Current	Non-current	Current
BONDS ACQUIRED - ISSUER	**5,830**	**4,112**	**9,130**	**813**
PGE GiEK S.A.	5,830	4,112	9,130	813

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

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

Cash pooling receivables

In order to centralise the management of financial liquidity in PGE Group, agreements for real cash pooling services were executed between 33 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.

Loans granted

	At June 30, 2021		At December 31, 2020	
	Non-current	Current	Non-current	Current
LOANS GRANTED - BORROWER				
PGE Energia Ciepła S.A.	-	1,314	-	1,809
PGE Obrót S.A.	-	1,157	-	1,614
PGE Energia Odnawialna S.A.	-	1,086		1,316
PGE Dystrybucja S.A.	-	647	-	1,047
PGE GiEK S.A.	1,751	1,015		500
PGE Systemy S.A.	-	197	-	197
PGE Trading GmbH	-	-	-	9
Betrans sp. z o.o.	10	2	9	2
EW Baltica 2 sp. z o.o.	-	90	-	-
EW Baltica 3 sp. z o.o.	-	63	-	-
Elbest Sp. o.o.	-	10	-	5
TOTAL LOANS GRANTED	**1,761**	**5,581**	**9**	**6,499**

The loan repayment deadline is in 2021-2025.

Other financial receivables

In the item "Other" the Company mainly presents settlements with exchanges, largely related to the purchase of CO_2 emission allowances.

10.2 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 accrues interest 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:

	As at June 30, 2021	As at 31 December 2020
Cash at bank	3,914	849
Overnight deposits	-	300
Short-term deposits	300	1,399
Cash in VAT accounts	7	959
TOTAL	**4,221**	**3,507**
Exchange differences on cash in foreign currencies	-	(14)
Cash and cash equivalents presented in the statement of cash flows	**4,221**	**3,493**
Available borrowing facilities	4,373	6,173
including overdraft facilities	1,800	1,800

A detailed description of credit agreements is presented in note 13 to these financial statements.

11. Derivatives and other receivables at fair value through profit or loss

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

	At June 30, 2021		At December 31, 2020	
	Assets	Liabilities	Assets	Liabilities
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS				
Commodity forwards	-	1,496	-	1,219
Futures	1,510	-	862	-
Currency forwards	65	68	382	24
Options	20	-	16	-
HEDGING DERIVATIVES				
CCIRS hedges	25	-	64	-
IRS hedges	-	192	-	385
OTHER assets carried at fair value through profit or loss				
Investment fund participation units	43	-	52	-
TOTAL	**1,663**	**1,756**	**1,376**	**1,628**
non-current	87	192	132	385
current	1,576	1,564	1,244	1,243

Commodity and currency forwards

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

IRS transactions

The Company executed IRS transactions to hedge interest rates on credit facilities and outstanding bonds. The initial nominal value of these transactions is PLN 7,030 (PLN 5,630 million for credit facilities and PLN 1,400 million for bonds). Prior to the start of repayment of principal on certain credit facilities, the current nominal amount of credit-hedging IRS transactions is PLN 5,380 million. To recognise these IRS transactions, the Company uses hedge accounting.

CCIRS hedges

In connection with loans received from PGE Sweden AB (publ) disclosed in note 13 to these financial statements, in August 2014 PGE S.A. concluded CCIRS transactions, hedging both the exchange rate and interest rate. In these transactions, banks - counterparties pay PGE S.A. interest based on a fixed rate in EUR and PGE S.A. pays interest based on a fixed rate in PLN. The nominal value, payment of interest and repayment of nominal value in CCIRS transactions are correlated with the relevant conditions arising from loan agreements.

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

Options

PGE S.A. bought 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.

Investment fund participation units

In previous years, the Company purchased participation units from TFI Energia S.A. in three sub-funds the value of which at the reporting date was PLN 43 million.

12. Other current assets

	As at June 30, 2021	As at 31 December 2020
Dividend receivables	1,252	-
Receivables from tax group	-	10
Advance payments	42	41
VAT receivables	45	-
Other	10	3
TOTAL	**1,349**	**54**

Dividend receivables mainly concern receivables from PGE Dystrybucja S.A., PGE Energia Ciepła S.A. and PGE Energia Odnawialna S.A.

Advance payments consist mainly of funds transferred to the subsidiary PGE Dom Maklerski S.A. for the purchase of electricity and gas of PLN 42 million in the current reporting period as compared to PLN 41 million in the comparative period.

VAT receivables amounting to PLN 45 million are largely the result of transactions in supply of electricity.

13. Loans, borrowings, bonds, cash pooling, leases

	At June 30, 2021		At December 31, 2020	
	Non-current	Current	Non-current	Current
Credit liabilities	5,673	1,713	6,522	989
Loans received	649	8	662	9
Bonds issued	1,399	2	1,399	2
Cash pooling liabilities	-	1,990	-	1,149
Lease liabilities	19	-	19	1
TOTAL LOANS, BORROWINGS, BONDS AND CASH POOLING	**7,740**	**3,713**	**8,602**	**2,150**

Bank credit

Lender	Security instrument	Execution date	Maturity	Limit in currency	Currency	Interest rate	Liability at 30-06-2021	Liability at 31-12-2020
Bank consortium	IRS	2015-09-07	2023-09-30	3,630	PLN	Variable	3.637	3.636
European Investment Bank	-	2015-10-27	2034-08-25	1,500	PLN	Fixed	1.505	1.505
Bank Gospodarstwa Krajowego	IRS	2014-12-17	2027-12-31	1,000	PLN	Variable	813	876
European Bank for Reconstruction and Development	IRS	2017-06-07	2028-06-07	500	PLN	Variable	469	501
Bank Gospodarstwa Krajowego	IRS	2015-12-04	2028-12-31	500	PLN	Variable	469	500
European Investment Bank	-	2015-10-27	2034-08-25	490	PLN	Fixed	493	493
Bank Gospodarstwa Krajowego	-	2018-06-01	2023-05-31	1,000	PLN	Variable	-	-
Revolving credit facility	-	2018-09-17	2022-12-16	4,100	PLN	Variable	-	-
Bank Pekao S.A.	-	2018-07-05	2024-12-22	500	PLN	Variable	-	-
PKO BP S.A.	-	2018-04-30	2022-04-29	300	PLN	Variable	-	-
European Investment Bank	-	2019-12-16	2038-10-16	273	PLN	Fixed	-	-
TOTAL BANK CREDIT							**7,386**	**7,511**

In the first half of 2021 and after the reporting period there were no cases of default of repayment or violation of other terms of credit agreements.

Loans received

Lender	Security instrument	Execution date	Maturity	Limit in currency	Currency	Interest rate	Liability at 30-06-2021	Liability at 31-12-2020
PGE Sweden AB	CCIRS	2014-08-27	2029-07-31	100	EUR	Fixed	458	468
PGE Sweden AB	CCIRS	2014-08-27	2029-07-31	43	EUR	Fixed	199	203
TOTAL LOANS RECEIVED							**657**	**671**

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. EUR 138 million is currently still outstanding. The subsidiary allocated the funds raised under this program to grant a loan to its parent company.

Domestic market bond issues

Execution date	Maturity date	Limit in currency	Security instrument	Currency	Interest rate	Tranche issue date	Tranche buy-back date	Liability at 30-06-2021	Liability at 31-12-2020
2013-06-27	indefinite	5,000	IRS	PLN	Variable	2019-05-21 2019-05-21	2029-05-21 2026-05-21	1.001 400	1.001 400
TOTAL OUTSTANDING BONDS								**1.401**	**1,401**

Cash pooling liabilities

The launch of real cash pooling is described in note 10.1 these financial statements.

14. Contingent liabilities

	As at June 30, 2021	As at 31 December 2020
Bank guarantee liabilities	12,845	13,120
Surety	678	692
Collateral for exchange transactions	1,996	450
Other contingent liabilities	59	-
Total contingent liabilities	**15,578**	**14,262**

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 11,302 million) and will be valid until December 31, 2041. As at June 30, 2021, PGE Sweden AB (publ)'s liabilities due to bonds issued amounted to EUR 142 million (PLN 641 million (PLN 2,798 million), as at December 31, 2020 liabilities amounted to EUR 140 million (PLN 644 million).

Surety

This liability presents a surety issued by PGE S.A. for PGE Dom Maklerski S.A.'s liabilities to the benefit of Citigroup Global Markets Europe AG in order to put up collateral for settling exchange transactions on CO_2. As at June 30, 2021, the total amount of sureties issued by PGE S.A. was PLN 150 million, i.e. the equivalent of PLN 678 million.

Collateral for exchange transactions

These liabilities represent bank guarantees provided as security for exchange transactions resulting from membership in the clearinghouse IRGiT. As at June 30, 2021, the total amount of bank guarantees was PLN 1,996 million (PLN 450 million in the comparative period). The increase in deposit under compensation agreement between PGE Group companies results from higher electricity sales prices vs. the average purchase price.

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 272 million.

Other court cases and disputes

In connection with the sale of shares in PGE EJ1 sp. z o.o. to the State Treasury and in accordance with an agreement determining the responsibility of the former shareholders as regards the costs of a dispute with Worley Parsons, if the dispute is lost, PGE S.A. may be required to cover the cost of the dispute of up to PLN 98 million. The probability of losing the dispute was estimated in order to determine the fair value of the payment received. In effect, PLN 59 million was recognised under contingent liabilities and PLN 39 million in non-current provisions. The amount of the provision adjusted the result on the sale of shares as presented in these financial statements.

Compensation for share conversions and lawsuits seeking annulment of General Meeting resolutions are described in note 23.4 to the consolidated financial statements.

15. Information on related parties

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

Benefits resulting from on-going settlement of tax losses are attributable to PGE S.A.

16. PGE Group subsidiaries

	Period ended June 30, 2021	Period ended June 30, 2020
Sales to related parties	11,111	11,210
Purchases from related parties	3,003	6,100
Net finance income / (costs)	1,471	1,421

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

	As at June 30, 2021	As at December 31, 2020
Receivables from related parties		
Bonds issued by subsidiaries	9,942	9,943
Dividend receivables	1,252	-
Trade receivables from subsidiaries	833	1,195
Loans to subsidiaries	7,342	6,508
Cash pooling receivables	414	330
Tax group settlement receivables	-	10
Total receivables from related parties	**19,783**	**17,986**

	As at June 30, 2021	As at December 31, 2020
Liabilities to related parties		
Loans from subsidiaries	657	671
Trade liabilities to related parties	1,335	681
Cash pooling liabilities	1,990	1,149
Tax group settlement liabilities	302	139
TOTAL LIABILITIES TO SUBSIDIARIES	**4,284**	**2,640**

Standby commitments and sureties granted to PGE S.A.'s subsidiaries are described in note 14 to these separate financial statements.

17. State Treasury subsidiaries

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

	Period ended June 30, 2021	Period ended June 30, 2020
Sales to related parties	483	68
Purchases from related parties	127	101

	As at June 30, 2021	As at December 31, 2020
Trade receivables from related parties	13	18
Trade liabilities to related parties	29	21

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 organisation of trading, purchases and sales transacted through this entity are not recognised as transactions with related parties.

18. Management Board and Supervisory Board remuneration

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

PLN 000s	Period ended June 30, 2021	Period ended June 30, 2020
Short-term employee benefits (salaries and salary related costs)	4,258	3,907
Post-employment and termination benefits	(935)	(143)
TOTAL REMUNERATION OF MANAGEMENT PERSONNEL	**3,323**	**3,764**

PLN 000s	Period ended June 30, 2021	Period ended June 30, 2020
Management Board	2,901	3,357
Supervisory Board	422	407
TOTAL REMUNERATION OF MANAGEMENT PERSONNEL	**3,323**	**3,764**

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

The amount of post-employment benefits and benefits related to employment termination was negative in the present and comparative periods due to the release of unused provisions from previous years.

19. Significant events during and after the reporting period

Significant events in the period are presented in note 27 to the consolidated financial statements. No significant events took place between the end of the reporting period and the date on which these separate financial statements were approved.

III. Approval of the semi-annual financial report

This half-yearly financial report was approved for publication by the Parent's Management Board on September 28, 2021.

Warsaw, September 28, 2021

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

President of the Management Board	**Wojciech Dąbrowski**	
Vice-President of the Management Board	**Wanda Buk**	
Vice-President of the Management Board	**Paweł Cioch**	
Vice-President of the Management Board	**Lechosław Rojewski**	
Vice-President of the Management Board	**Paweł Śliwa**	
Vice-President of the Management Board	**Ryszard Wasiłek**	

Signature of person responsible for drafting these financial statements	Michał Skiba Director, Reporting and Tax Department	

Glossary of terms and abbreviations

Presented below is a set of the most frequently used terms and abbreviations in these consolidated financial statements.

Abbreviation	Full term
CCIRS	Cross Currency Interest Rate Swap
CGU	Cash Generating Unit
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
EWB2	Elektrownia Wiatrowa Baltica – 2 sp. z o.o o
EWB3	Elektrownia Wiatrowa Baltica – 3 sp. z o.o o
EUA	European Union Allowances
PGE Group, Group	PGE Polska Grupa Energetyczna S.A. Group
IRGiT	Izba Rozliczeniowa Giełd Towarowych S.A.
IRS	Interest Rate Swap
LTC	Long-term capacity and electricity sale contracts
KOGENERACJA S.A.	Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A.
IFRS	International Financial Reporting Standards
IFRS EU	International Financial Reporting Standards approved by the European Union
NABE	Narodowa Agencja Bezpieczeństwa Energetycznego S.A.
NFOŚiGW	National Fund for Environmental Protection and Water Management
Investment property	Investment property
Right-of-use assets	Right-of-use assets
PEP 2040	Poland's energy policy 2040
PGE S.A., PGE, Company, parent	PGE Polska Grupa Energetyczna S.A.
PGE EC S.A.	PGE Energia Ciepła S.A.
PGE EO S.A.	PGE Energia Odnawialna S.A.
PGE GiEK S.A.	PGE GiEK S.A.
PGG	Polska Grupa Górnicza S.A.
PGE PGK	PGE's tax group
Property, plant and equipment	Property, plant and equipment
Financial statements, consolidated financial statements	PGE Group's consolidated financial statements
Act on electricity prices	Act on amendment of the excise tax act and certain other acts
WACC	Weighted Average Cost of Capital
Voivodship Fund for Environmental Protection and Water Management (WFOŚiGW)	Voivodship Fund for Environmental Protection and Water Management
Intangible assets	Intangible assets