



PGE Polska Grupa
Energetyczna S.A.
Consolidated report
on payments to governments
for the year 2020

ended December 31, 2020
(in PLN '000)

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1. Basis for preparing the consolidated report on payments to governments

The basis for preparing this report on payments to governments is the provisions of Chapter 6a of the Accounting Act of September 29, 1994 (the "Act") (the consolidated text: Polish Journal of Laws of 2019, item 351). Pursuant to these provisions, entities operating in extractive industries or involved in the logging of primary forests, provided that they meet the criteria set out in the Act, prepare a report on payments made to governments as at the balance sheet date, together with annual financial statements. The Act defines entities operating in extractive industries as entities pursuing activities consisting in the exploration, prospecting, discovery, production and mining of mineral resources, oil, natural gas or other raw materials within the types of economic activity listed in Section B, Subsections 05-08 of the Polish Classification of Economic Activities.

The Act also imposes an obligation to prepare a consolidated report on payments made to public governments. A consolidated report on payments made to governments should include the data of the parent company and its subsidiaries operating in extractive industries or involved in the logging of primary forests, provided that they meet the criteria set out in the Act.

Within the PGE Capital Group, the only entity that meets the provisions of Chapter 6a of the Act is PGE Górnictwo i Energetyka Konwencjonalna Spółka Akcyjna (the "Company", "PGE GiEK S.A."). Accordingly, this consolidated report on payments made to governments presents only the data of PGE GiEK S.A.

The core business of PGE Górnictwo i Energetyka Konwencjonalna Spółka Akcyjna (the "Company") is the activity listed in Section D, Subsection 35, of the Polish Classification of Economic Activities ("PKD"):

- production of electricity (PKD 35.11.Z),
- transmission of electricity (PKD 35.12.Z),
- distribution of electricity (PKD 35.13.Z),
- trade of electricity (PKD 35.14.Z),
- production and supply of steam, hot water and air for air-conditioning systems (PKD 35.30.Z).

However, the Company also conducts business activities listed in the Polish Classification of Business Activities in Section B - Mining and Quarrying. This is mainly the mining of lignite (PKD 05.20.Z), which is used mainly as fuel in the Company's power plants and, to a small extent, also sold to external customers.

In addition, according to the Company Statutes, the objects of the Company include also the following:

- quarrying of ornamental and building stone, limestone, gypsum, chalk and slate (PKD 08.11.Z),
- operation of gravel and sand pits; extraction of clays and kaolin (PKD 08.12.Z),
- extraction of chemical and fertilizer minerals (PKD 08.91.Z),
- extraction of peat (PKD 08.92.Z),
- extraction of salt (PKD 08.93.Z),
- other mining and quarrying not elsewhere classified (PKD 08.99.Z).

However, these activities are already of marginal importance to the Company and are carried out as ancillary activities to lignite mining.

As at January 1, 2020, the Company's organisational structure comprised six branches. As at January 2, 2020 PGE Górnictwo i Energetyka Konwencjonalna S.A. acquired another branch, the Rybnik Power Plant, which had previously been separated from PGE Energia Ciepła S.A. The separation took place in accordance with the plan of division of PGE Energia Ciepła S.A. adopted on June 11, 2019. During the remaining part of 2020 the Company's organisational structure comprised the following seven branches:

- Bełchatów Power Plant Branch,
- Bełchatów Lignite Mine Branch,
- Turów Lignite Mine Branch,
- Turów Power Plant Branch,
- Opole Power Plant Branch,
- Dolna Odra Power Plant Complex Branch,
- Zgierz Cogeneration Plant Branch,
- Rybnik Power Plant Branch.

Mining activities are conducted at two branches, i.e.:

- Bełchatów Lignite Mine, and
- Turów Lignite Mine.

Mining activities are conducted on the basis of concessions for the extraction of lignite from deposits issued by the Minister of the Environment.

2. Adopted rules applicable to preparing the report on payments to governments

In accordance with Article 63e(6) of the Accounting Act, payments are understood to be amounts paid, in cash or in kind, for the following:

- production payables,
- taxes levied on the income, production or profits of companies, excluding taxes on consumption such as value added tax, personal income tax or sales tax,
- royalties,
- dividends,
- concession fees as well as discovery and production bonuses,
- licence fees, rental fees, entry fees and other considerations for licences or concessions,
- payments for infrastructure improvements,

concerning the activities listed in Article 63e(1)(2) of the Act.

The activities listed in Article 63e(1)(2) of the Act are activities consisting in the exploration, prospecting, discovery, production and mining of minerals, oil, natural gas or other natural materials within the types of economic activities listed in Section B, Subsections 05-08 of the Polish Classification of Economic Activities, as well as the activities referred to in Section A, Subsection 02, Group 02.2 of the Polish Classification of Economic Activities – wood harvesting within primary forest areas.

The Company does not harvest wood within primary forest areas. Consequently, all amounts indicated in this report, unless expressly stated otherwise, relate solely to the mining activities conducted in the Company's two branches mentioned above and do not include amounts paid to governments on account of other activities conducted at the Company's other branches.

In this report on payments to governments, the Company includes the following categories of payments:

Payment category as defined in Article 63e of the Accounting Act	Taxes and fees allocated by the Company to the payment categories specified in the Accounting Act
Production payables	The Company did not make any payments on this account in 2020
Taxes levied on the income, production or profits of companies, excluding taxes on consumption such as value added tax, personal income tax or sales tax	Corporate income tax (CIT)
Royalties	The Company did not make any payments on this account in 2020
Dividends	The Company did not make any payments on this account in 2020
Concession fees as well as discovery and production bonuses	production fees mining usage fees fees for perpetual usufruct of land fees for excluding land from agricultural and forestry production
Licence fees, rental fees, entry fees and other considerations for licences or concessions	fees for paid use of geological information fees for economic use of the environment property tax vehicle tax agricultural tax forest tax
Payments for infrastructure improvements	The Company did not make any payments on this account in 2020

Corporate income tax

In 2014 PGE GiEK S.A. entered into a 25-year capital group tax agreement providing for the establishment of a tax group called "PGK PGE 2015", where PGE Polska Grupa Energetyczna S.A. is the representing entity as the parent company in relation to PGE GiEK S.A. Besides the parent company and PGE GiEK S.A., PGK PGE 2015 comprises the other companies belonging to the Capital Group of PGE Polska Grupa Energetyczna S.A. PGK PGE 2015 became a payer of corporate income tax on 1 January 2015. The Corporate Income Tax Act regards a tax capital group as a separate income tax payer. It means that the companies belonging to PGK PGE 2015 are deprived of their individual capacity for the purposes of corporate income tax, and this capacity is held by PGK PGE 2015 as a whole. Within PGK PGE 2015, the subject of taxation is income determined with respect to the group's combined income, calculated as a surplus of the sum of income of all companies belonging to the group over the sum of their losses. Therefore, since 2015 corporate income tax has been transferred by the Company to the representing entity and not directly to the tax authority. It is the representing entity that transfers income tax calculated on the total income of PGK PGE 2015 to the tax authority.

Considering the above circumstances, and also in view of the fact that corporate income tax is calculated at the level of the Company as a whole, in this report on payments to governments, it is disclosed in the amounts transferred to the representing entity in the full amount calculated with respect to the income of the Company as a whole, and not just with respect to income from extractive activities, less any refunds of overpayments.

Information disclosed in the report

The amounts of payments disclosed constitute the amounts of money transfers made to governments on account of the particular payment categories, less any refunds received in 2020. The Company did not make any in-kind payments to governments in 2020.

In accordance with Article 63f(2) of the Act, this report on payments to governments should include the following information:

- the total amount of payments made to governments of a given country broken down into payments made to particular government levels;
- the total amount of payments broken down into the categories of payments specified in Article 63e(6) and made to particular government levels;
- where payments were allocated by the entity to a specific project, the total amount of payments made in relation to each project, broken down into the payment categories specified in Article 63e(6).

The company allocated payments to governments to two projects. These are projects related to the activities conducted in:

- Bełchatów Lignite Mine, and
- Turów Lignite Mine.

3. Payments to governments made in 2020

3.1 The total amount of payments made to governments, broken down into payments made to particular government levels and into payment categories

Government levels	Taxes on income, production or profits	Concession fees as well as discovery and production bonuses	Licence fees, rental fees, entry fees and other fees	Total
Central government authorities and entities supervised or controlled by such authorities	-	63,562	36,906	100,468
Local government authorities and entities supervised or controlled by such authorities	-	50,374	171,122	221,496
<i>Cities and communes</i>	-	50,374	146,429	196,803
<i>District authorities</i>	-	-	4,475	4,475
<i>Provincial authorities</i>	-	-	20,218	20,218
Corporate income tax (CIT) *	491,319	-	-	491,319
Total	491,319	113,936	208,028	813,283

* as described in item 2, in connection with the signing of the tax group agreement, the Company does not pay corporate income tax to the relevant tax authority, but transfers it to the representing entity, i.e. PGE Polska Grupa Energetyczna S.A. The presented amount of CIT is the balance of tax payments made to PGE and received refunds of overpayments in the amount calculated on the income of the whole Company, not only on the income from extractive operations, and received refunds of tax overpayments.

3.2 The total amount of payments made for particular projects, broken down into payment categories

3.2.1 Bełchatów Lignite Mine Project

Government levels	Concession fees as well as discovery and production bonuses	Licence fees, rental fees, entry fees and other fees	Total
Central government authorities and entities supervised or controlled by such authorities	55,865	30,301	86,166
Local government authorities and entities supervised or controlled by such authorities	44,520	121,160	165,680
<i>Cities and communes</i>	44,520	105,699	150,219
<i>District authorities</i>	-	2,516	2,516
<i>Provincial authorities</i>	-	12,945	12,945
Total	100,385	151,461	251,846

3.2.2 Turów Lignite Mine Project

Government levels	Concession fees as well as discovery and production bonuses	Licence fees, rental fees, entry fees and other fees	Total
Central government authorities and entities supervised or controlled by such authorities	7,697	6,605	14,302
Local government authorities and entities supervised or controlled by such authorities	5,854	49,962	55,816
<i>Cities and communes</i>	5,854	40,730	46,584
<i>District authorities</i>	-	1,959	1,959
<i>Provincial authorities</i>	-	7,273	7,273
Total	13,551	56,567	70,118

Warsaw, March 22, 2021

Signatures of the 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** **Paweł Strączyński**

**Vice President
of the Management Board** **Paweł Śliwa**

**Vice President
of the Management Board** **Ryszard Wasilek**