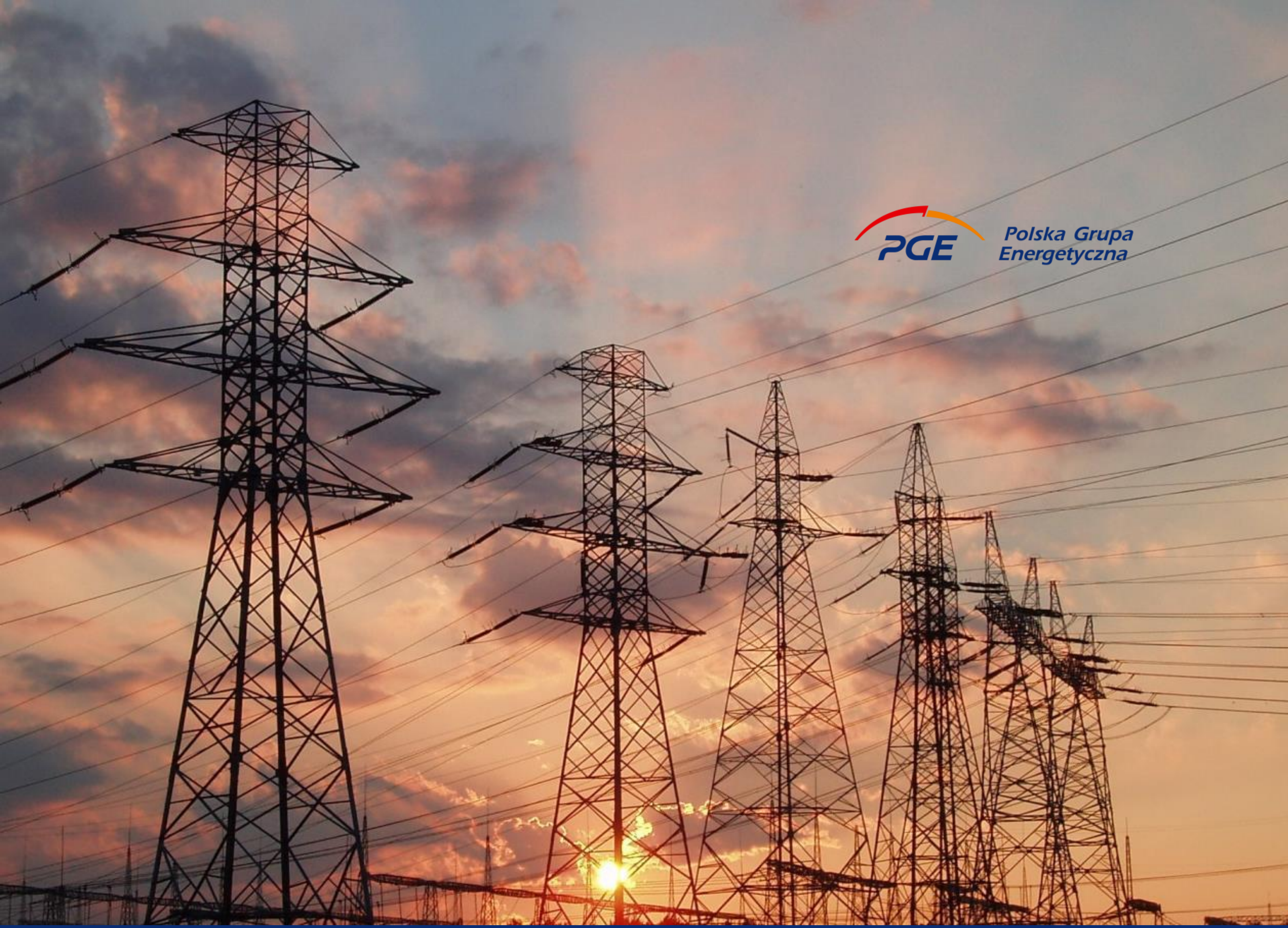

PGE Polska Grupa Energetyczna S.A.
Consolidated financial statements
for 2019

ended December 31, 2019
in accordance with IFRS EU (in PLN million)

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for 2019 in accordance with EU IFRS (in PLN million)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2019	Year ended December 31, 2018 *restated data**
STATEMENT OF PROFIT OR LOSS			
SALES REVENUES	*7.1*	**37,627**	**25,946**
Cost of goods sold	*7.2*	(40,134)	(21,044)
GROSS PROFIT/ (LOSS) ON SALES		**(2,507)**	**4,902**
Distribution and selling expenses	*7.2*	(1,361)	(1,406)
General and administrative expenses	*7.2*	(1,099)	(984)
Net other operating income/expenses	*7.3*	792	(30)
OPERATING PROFIT/(LOSS)		**(4,175)**	**2,482**
Net finance costs, including:	*7.4*	(471)	(361)
Interest income calculated using the effective interest rate method		*36*	*45*
Share of profit / (loss) of entities accounted for using the equity method	*7.5*	(57)	71
PROFIT/(LOSS) BEFORE TAX		**(4,703)**	**2,192**
Income tax	*8.1*	775	(681)
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD		**(3,928)**	**1,511**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss in the future:			
Valuation of debt financial instruments	*20.3*	-	(6)
Valuation of hedging instruments	*20.3*	(336)	(158)
Foreign exchange differences from translation of foreign entities	*20.4*	-	3
Deferred tax	*8.1*	65	31
Items that may not be reclassified to profit or loss in the future:			
Actuarial gains and losses from valuation of provisions for employee benefits	*22*	(266)	(207)
Deferred tax	*8.1*	49	39
Share of other comprehensive income of entities accounted for using the equity method	*7.5*	(5)	1
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**(493)**	**(297)**
TOTAL COMPREHENSIVE INCOME		**(4,421)**	**1,214**
NET PROFIT/(LOSS) ATTRIBUTABLE TO:			
– equity holders of the parent company		(3,961)	1,498
– non-controlling interests		33	13
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
– equity holders of the parent company		(4,453)	1,202
– non-controlling interests		32	12
EARNINGS AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (IN PLN)	*20.7*	**(2.12)**	**0.80**

** restatement of comparative data is described in note 5 to these consolidated financial statements*

for 2019 in accordance with EU IFRS (in PLN million)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at December 31, 2019	As at December 31, 2018 *restated data**	As at January 1, 2018 *restated data**
NON-CURRENT ASSETS				
Property, plant and equipment	9	59,690	62,274	59,010
Investment property	10	47	48	50
Intangible assets	11	735	1,046	1,032
Right-of-use assets	12	1,303	-	-
Financial receivables	25.1.1	180	168	158
Derivatives and other assets measured at fair value through profit or loss	25.1.2	93	117	222
Shares and other equity instruments		58	53	47
Shares accounted for using the equity method	13	715	776	634
Other non-current assets	17.1	676	528	524
CO_2 emission allowances for captive use	16	240	1,203	402
Deferred income tax assets	14.1	1,318	552	571
		65,055	**66,765**	**62,650**
CURRENT ASSETS				
Inventories	15	4,509	2,699	1,890
CO_2 emission allowances for captive use	16	965	408	1,040
Income tax receivables		59	69	36
Derivatives and other assets measured at fair value through profit or loss	25.1.2	327	114	83
Trade and other financial receivables	25.1.1	4,815	4,102	3,522
Other current assets	17.2	605	458	396
Cash and cash equivalents	18	1,313	1,281	2,552
		12,593	**9,131**	**9,519**
ASSETS CLASSIFIED AS HELD FOR SALE		**2**	**9**	**14**
TOTAL ASSETS		**77,650**	**75,905**	**72,183**
EQUITY				
Share capital	20.1	19,165	19,165	19,165
Reserve capital	20.2	19,669	19,872	15,328
Hedging reserve	20.3	(323)	(52)	83
Foreign exchange differences from translation	20.4	(1)	(1)	(4)
Retained earnings	20.5	3,779	7,743	10,556
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**42,289**	**46,727**	**45,128**
Equity attributable to non-controlling interests	20.6	848	1,074	1,250
TOTAL EQUITY		**43,137**	**47,801**	**46,378**
NON-CURRENT LIABILITIES				
Non-current provisions	21	9,652	6,428	5,651
Loans, borrowings, bonds and lease	25.1.3	10,859	6,361	8,557
Derivatives	25.1.2	107	26	18
Deferred income tax liabilities	14.2	920	1,616	1,302
Deferred income and government grants	23.1	616	611	1,038
Other financial liabilities	25.1.4	475	521	379
Other non-financial liabilities	24	58	15	-
		22,687	**15,578**	**16,945**
CURRENT LIABILITIES				
Current provisions	21	4,366	2,608	1,991
Loans, borrowings, bonds and leases	25.1.3	1,449	4,347	1,488
Derivatives	25.1.2	372	110	106
Trade and other financial liabilities	25.1.4	3,636	3,613	3,231
Income tax liabilities		58	14	196
Deferred income and government grants	23.2	80	87	115
Other non-financial liabilities	24	1,865	1,747	1,733
		11,826	**12,526**	**8,860**
TOTAL LIABILITIES		**34,513**	**28,104**	**25,805**
TOTAL EQUITY AND LIABILITIES		**77,650**	**75,905**	**72,183**

The accounting policies and notes to
the consolidated financial statements
are their integral part.

for 2019 in accordance with EU IFRS (in PLN million)

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*	*20.3*	*20.4*			*20.6*	
JANUARY 1, 2018	**19,165**	**15,328**	**83**	**(4)**	**10,896**	**45,468**	**1,250**	**46,718**
Net profit for the reporting period	-	-	-	-	1,498	1,498	13	1,511
Other comprehensive income	-	-	(133)	3	(166)	(296)	(1)	(297)
COMPREHENSIVE INCOME	**-**	**-**	**(133)**	**3**	**1,332**	**1,202**	**12**	**1,214**
Retained earnings distribution	-	4,544	-	-	(4,544)	-	-	-
Dividend	-	-	-	-	-	-	(38)	(38)
Inclusion of companies in consolidation	-	-	-	-	18	18	8	26
Settlement of purchase of additional shares in subsidiaries	-	-	-	-	42	42	(150)	(108)
Capital increase by minority shareholders	-	-	-	-	-	-	18	18
Cancellation of shares	-	-	-	-	-	-	(26)	(26)
Other changes	-	-	(2)	-	(1)	(3)	-	(3)
TRANSACTIONS WITH OWNERS	**-**	**4,544**	**(2)**	**-**	**(4,485)**	**57**	**(188)**	**(131)**
DECEMBER 31, 2018	**19,165**	**19,872**	**(52)**	**(1)**	**7,743**	**46,727**	**1,074**	**47,801**
Net (loss) for the reporting period	-	-	-	-	(3,961)	(3,961)	33	(3,928)
Other comprehensive income	-	-	(271)	-	(221)	(492)	(1)	(493)
COMPREHENSIVE INCOME	**-**	**-**	**(271)**	**-**	**(4,182)**	**(4,453)**	**32**	**(4,421)**
Retained earnings distribution	-	(203)	-	-	203	-	-	-
Dividend	-	-	-	-	-	-	(4)	(4)
Acquisition of a new subsidiary	-	-	-	-	-	-	8	8
Settlement of purchase of additional shares in subsidiaries	-	-	-	-	14	14	(262)	(248)
Other changes	-	-	-	-	1	1	-	1
TRANSACTIONS WITH OWNERS	**-**	**(203)**	**-**	**-**	**218**	**15**	**(258)**	**(243)**
DECEMBER 31, 2019	**19,165**	**19,669**	**(323)**	**(1)**	**3,779**	**42,289**	**848**	**43,137**

for 2019 in accordance with EU IFRS (in PLN million)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended December 31, 2019	Year ended December 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**(4,703)**	**2,192**
Income tax paid		(555)	(586)
Adjustments for:			
Share in (profit)/loss of equity-accounted entities		57	(71)
Depreciation, amortisation, disposal and impairment losses		11,316	3,893
Interest and dividend, net		245	179
(Gain)/loss from investing activities	*27.1*	(264)	(14)
Change in receivables	*27.1*	(720)	(553)
Change in inventories	*27.1*	(1,811)	(803)
Change in liabilities, excluding loans and borrowings	*27.1*	170	339
Change in other non-financial assets, prepayments and CO_2 emission allowances	*27.1*	209	(333)
Change in provisions	*27.1*	2,836	789
Other		40	70
NET CASH FROM OPERATING ACTIVITIES		**6,820**	**5,102**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment and intangible assets		30	25
Purchase of property, plant and equipment and intangible assets	*27.2*	(6,907)	(6,393)
Recognition of deposits with maturity over 3 months	*27.2*	(256)	(372)
Termination of deposits with maturity over 3 months	*27.2*	243	358
Acquisition of financial assets and increase of share in Group companies	*27.2*	(15)	(114)
Acquisition of subsidiaries, net of cash acquired	*27.2*	-	13
Other		40	18
NET CASH FROM INVESTING ACTIVITIES		**(6,865)**	**(6,465)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase of share in Group companies	*27.3*	(282)	(111)
Proceeds from share issue for non-controlling interests		-	18
Proceeds from loans, borrowings	*27.3*	5,359	2,582
Proceeds from issue of bonds		1,400	-
Repayment of loans, credit facilities and leases	*27.3*	(3,916)	(1,024)
Redemption of bonds issued		(2,139)	(1,000)
Dividends paid to shareholders	*27.3*	(4)	(34)
Interest and commission paid	*27.3*	(358)	(316)
Other		17	(24)
NET CASH FROM FINANCING ACTIVITIES		**77**	**91**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**32**	**(1,272)**
Net foreign exchange differences		*(2)*	*3*
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	*18*	**1,279**	**2,551**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	*18*	**1,311**	**1,279**

The accounting policies and notes to
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for 2019 in accordance with EU IFRS (in PLN million)

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

1. General information

1.1 Information on the parent

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

As at January 1, 2019 and December 31, 2019, the Company's Management Board was as follows:

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

After the reporting date, on February 19, 2020, the Supervisory Board dismissed all members of the Management Board from the Management Board with effect as of February 19, 2020. At the same time, the Supervisory Board appointed Mr Wojciech Dąbrowski, Mr Paweł Śliwa and Mr Ryszard Wasiłek to the Management Board for the eleventh term of office as of February 20, 2020, as well as Mr Paweł Cioch and Mr Paweł Strączyński as of February 24, 2020.

As at the date of publication of these financial statements, the composition of the Management Board is as follows:

- Wojciech Dąbrowski – 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.

Ownership structure

The parent's ownership structure was as follows:

	State Treasury	Other shareholders	Total
As at December 31, 2018	57.39%	42.61%	100.00%
As at December 31, 2019	57.39%	42.61%	100.00%

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

According to information known to the Company as at the date on which these financial statements were prepared, the State Treasury is 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 includes the parent, PGE Polska Grupa Energetyczna S.A., 66 consolidated subsidiaries, 4 associates and 1 jointly controlled entity. For additional information about subordinated entities included in the consolidated financial statements please refer to note 1.3.

These consolidated financial statements of PGE Group cover the period from January 1 to December 31, 2019 and contain comparative figures for the period from January 1 to December 31, 2018 and as at December 31, 2018.

The financial statements of all subordinated entities were prepared for the same reporting period as the financial statements of the parent company, using consistent accounting principles. An exception to this rule are companies acquired in the course of the financial year that prepared financial data for the period from the moment of obtaining control by PGE Group.

PGE Group companies' core activities are as follows:

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

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

for 2019 in accordance with EU IFRS (in PLN million)

Going concern

These financial statements have been prepared on the assumption that significant Group companies will continue as going concerns for a period of at least 12 months from the reporting date. As at December 31, 2019, the subsidiary, PGE Obrót S.A., reports negative equity, primarily due to negative developments on the retail electricity trading market. PGE Obrót S.A., like other PGE Group companies, has access to financing provided by PGE S.A., therefore the going concern for this company is justified.
Apart from the issue concerning PGE Obrót S.A., as at the date of authorisation of these financial statements for publication, no circumstances were identified which would indicate any threat to significant Group companies continuing as going concerns.

1.3 PGE Group's composition

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

	Entity	Entity holding stake	Stake held by PGE Group companies as at December 31, 2019	Stake held by PGE Group entities as at December 31, 2018
	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%
3.	PGE Trading GmbH Berlin	PGE S.A.	100.00%	100.00%
4.	PGE Obrót S.A. Rzeszów	PGE S.A.	100.00%	100.00%
5.	ENESTA sp. z o.o. Stalowa Wola	PGE Obrót S.A.	87.33%	87.33%
6.	PGE Centrum sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
7.	PGE Paliwa sp. z o.o. Kraków	PGE EC S.A.	100.00%	100.00%
	SEGMENT: CONVENTIONAL GENERATION			
8.	PGE Górnictwo i Energetyka Konwencjonalna S.A. Bełchatów	PGE S.A.	100.00%	100.00%
9.	ELBIS sp. z o.o. Rogowiec	PGE S.A.	100.00%	100.00%
10.	MegaSerwis sp. z o.o. Bogatynia	PGE S.A.	100.00%	100.00%
11.	„ELMEN" sp. z o.o. Rogowiec	PGE S.A.	100.00%	100.00%
12.	"Przedsiębiorstwo Usługowo-Produkcyjne „ELTUR-SERWIS" sp. z o.o. Bogatynia"	PGE S.A.	100.00%	100.00%
13.	Przedsiębiorstwo Transportowo-Sprzętowe „BETRANS" sp. z o.o. Bełchatów	PGE S.A.	100.00%	100.00%
14.	Przedsiębiorstwo Wulkanizacji Taśm i Produkcji Wyrobów Gumowych BESTGUM POLSKA sp. z o.o. Rogowiec	PGE S.A.	100.00%	100.00%
15.	RAMB sp. z o.o. Piaski	PGE S.A.	100.00%	100.00%
16.	EPORE sp. z o.o. Bogatynia	PGE GiEK S.A.	85.38%	85.38%
17.	„Energoserwis – Kleszczów" sp. z o.o. Rogowiec	PGE GiEK S.A.	51.00%	51.00%
	SEGMENT: DISTRICT HEATING			
18.	PGE Energia Ciepła S.A. * Warsaw	PGE S.A.	100.00%	100.00%
19.	PGE Toruń S.A. Toruń	PGE EC S.A.	95.22%	95.22%
20.	PGE Gaz Toruń sp. z o.o. Warsaw	PGE EC S.A.	100.00%	50.04%
21.	Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. Wrocław	PGE EC S.A.	58.07%	58.07%
22.	Elektrociepłownia Zielona Góra S.A. Zielona Góra	KOGENERACJA S.A.	98.40%	98.40%
23.	MEGAZEC sp. z o.o. Bydgoszcz	PGE S.A.	100.00%	100.00%

for 2019 in accordance with EU IFRS (in PLN million)

	Entity	Entity holding stake	Stake held by PGE Group companies as at December 31, 2019	Stake held by PGE Group entities as at December 31, 2018
24.	Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. Zgierz	PGE EC S.A.	50.98%	-
		PGE GiEK S.A.	-	50.98%
25.	PGE Ekoserwis sp. z o.o. Wrocław	PGE S.A.	95.08%	-
		PGE EC S.A.	-	84.15%
	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-2 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
29.	Elektrownia Wiatrowa Baltica-3 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
30.	Elektrownia Wiatrowa Baltica-4 sp. z o.o. (formerly: PGE Inwest 17 sp. z o.o.) Warsaw	PGE S.A.	100.00%	100.00%
31.	Elektrownia Wiatrowa Baltica-5 sp. z o.o. (formerly: PGE Inwest 18 sp. z o.o.) Warsaw	PGE S.A.	100.00%	100.00%
32.	PGE Baltica sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
33.	PGE Klaster sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
34.	PGE Soleo 1 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	-
35.	PGE Soleo 2 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	-
36.	PGE Soleo 3 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	-
37.	PGE Soleo 4 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	-
38.	PGE Soleo 5 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	-
39.	PGE Soleo 6 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	-
40.	PGE Soleo 7 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	-
	SEGMENT: DISTRIBUTION			
41.	PGE Dystrybucja S.A. Lublin	PGE S.A.	100.00%	100.00%
	SEGMENT: OTHER ACTIVITIES			
42.	PGE EJ 1 sp. z o.o. Warsaw	PGE S.A.	70.00%	70.00%
43.	PGE Systemy S.A. Warsaw	PGE S.A.	100.00%	100.00%
44.	PGE Sweden AB (publ) Stockholm	PGE S.A.	100.00%	100.00%
45.	PGE Synergia sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
46.	„Elbest" sp. z o.o. Bełchatów	PGE S.A.	100.00%	100.00%
47.	Elbest Security sp. z o.o. Bełchatów	PGE S.A.	100.00%	100.00%
48.	PGE Inwest 2 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
49.	PGE Ventures sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
50.	PGE Inwest 8 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
51.	PGE Inwest 9 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%

for 2019 in accordance with EU IFRS (in PLN million)

	Entity	Entity holding stake	Stake held by PGE Group companies as at December 31, 2019	Stake held by PGE Group entities as at December 31, 2018
52.	PGE Inwest 10 sp. z o.o. Warsaw	PGE S.A	100.00%	100.00%
53.	PGE Inwest 11 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
54.	PGE Inwest 12 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
55.	PGE Inwest 13 S.A. Warsaw	PGE S.A.	100.00%	100.00%
56.	PGE Inwest 14 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
57.	PGE Nowa Energia sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
58.	PGE Inwest 16 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
59.	PGE Inwest 19 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
60.	Towarzystwo Funduszy Inwestycyjnych Energia S.A. Warsaw	PGE S.A.	100.00%	100.00%
61.	BIO-ENERGIA sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
62.	Przedsiębiorstwo Transportowo-Usługowe „ETRA" sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
63.	Energetyczne Systemy Pomiarowe sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
64.	ZOWER sp. z o.o. Czerwionka-Leszczyny	PGE EC S.A.	100.00%	100.00%
65.	Przedsiębiorstwo Usługowo-Handlowe TOREC sp. z o.o. Toruń	PGE Toruń S.A.	50.04%	50.04%
66.	4Mobility S.A. Warsaw	PGE Nowa Energia sp. z o.o.	51.47%	-
67.	Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych Eko-Inwestycje Warsaw	PGE Group companies	100.00%	-

** Elektrownia Rybnik (Rybnik Power Plant) belonging to PGE EC S.A. is presented in note 6 to these financial statements in the Conventional Generation segment.*

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 December 31, 2019:

- On January 2, 2019, the demerger of PGE GiEK S.A. was entered in the National Court Register. The demerger was effected by transferring the following PGE GiEK S.A. branches to PGE EC S.A.:
  - Elektrociepłownia Kielce,
  - Elektrociepłownia Gorzów,
  - Elektrociepłownia Rzeszów,
  - Elektrociepłownia Lublin Wrotków,
  - Elektrociepłownia Zgierz,
  - Zespół Elektrociepłowni Bydgoszcz.

  The transaction did not affect these consolidated financial statements.
- On April 17, 2019 PGE S.A. decided to withdraw from the process of acquisition of shares held by other shareholders of PGE EJ1 sp. z o.o. Thus, PGE S.A's share in PGE EJ1 sp. z o.o. will remain at 70%.
- On April 24, 2019, PGE Nowa Energia sp. z o.o. acquired new shares in the increased share capital of 4Mobility S.A. The shares acquired account for 51.47% of the increased share capital. Following the accounting for the acquisition, the PGE Group recognised goodwill of PLN 7 million.
- On June 14, 2019, PGE EC S.A. acquired 49.96% of shares in PGE Gaz Toruń sp. z o.o. and became the sole shareholder of this company. Following the transaction, the Group's equity decreased by PLN 275 million, including PLN 254 million attributable to non-controlling interests.
- On October 2, 2019, PGE EO S.A. established 7 companies: PGE Soleo 1 sp. z o.o. – PGE Soleo 7 sp. z o.o. All shares in the companies were acquired by PGE EO S.A. The companies were entered into the National Court Register in October and November 2019.
- On October 10, 2019 the Extraordinary General Meeting of Shareholders of PGE GiEK S.A. and PGE EC S.A. adopted resolutions on the demerger of PGE EC S.A. (the demerged company) through spin-off pursuant to Article 529 § 1(4) of the Commercial Companies Code by way of transfer to PGE GiEK S.A. (the acquiring company) a part of the assets of the demerged company in the form of an organized part of the enterprise covering the activity conducted by PGE EC S.A. Rybnik Branch related to electricity and heat generation, as well as electricity and heat distribution.
  The demerger was entered in the National Court Register on January 2, 2020.
- On October 18, 2019, PGE EC S.A. acquired all shares in Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. with its registered office in Zgierz from PGE GiEK S.A.
- In November and December 2019, PGE EC S.A. acquired 10.94% of shares in PGE Ekoserwis sp. z o.o. from minority shareholders. Following the transaction, the Group's equity decreased by PLN 8 million, including PLN 7 million attributable to non-controlling interests.
- In December 2019, PGE S.A. acquired all shares in PGE Ekoserwis sp. z o.o. held by PGE EC S.A. from PGE EC S.A.
- The establishment of the Eko-Inwestycje Fund is described in detail in note 33.4 to these consolidated financial statements.

2. Basis for preparation of the financial statements

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards, as endorsed by the European Union. The IFRSs comprise standards and interpretations approved by the International Accounting Standards Board and IFRS Interpretation Committee.

2.2 Presentation and functional currency

The functional currency of the parent company and the presentation currency of these consolidated financial statements is Polish Zloty. All amounts are in PLN millions, unless indicated otherwise.

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

	December 31, 2019	December 31, 2018
USD	3.7977	3.7597
EUR	4.2585	4.3000

for 2019 in accordance with EU IFRS (in PLN million)

2.3 New standards and interpretations published, not yet effective

The following standards, changes in already effective standards and interpretations are not endorsed by the European Union or are not effective as at January 1, 2019:

Standard	Description of changes	Effective date
IFRS 14 Regulatory Deferral Accounts	Accounting and disclosure principles for regulatory deferral accounts.	Standard in the current version will not be effective in the EU
Amendments to IFRS 10 and IAS 28	Deals with the sale or contribution of assets between an investor and its joint venture or associate.	Postponed indefinitely
Amendments to the Conceptual Framework	These amendments aim to harmonise the Conceptual Framework	January 1, 2020
IFRS 17 Insurance contracts	Defines a new approach to recognising revenue and profit/loss in the period in which insurance services are provided	January 1, 2021
Amendments to IFRS 3	These changes clarify the definition of economic activity	January 1, 2020
Amendments to IAS 1 and IAS 8	The amendments concern the definition of 'material.'	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7	The amendments concern the reform of the benchmark rate	January 1, 2020

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

These regulations will not have a significant effect on the future financial statements of PGE Group.

3. Test for impairment of property, plant and equipment, intangible assets and goodwill

Property, plant and equipment is PGE Group's most significant group of assets. Due to the changing macroeconomic and regulatory environment, PGE Group verifies regularly the premises that may indicate that its assets may be impaired. In assessing the market situation, PGE Group uses both its own analytical tools and the support of independent analytical institutions. In previous reporting periods, PGE Group recognised significant impairment allowances on non-current assets in the Conventional Generation segment and the Renewables segment.

In the current reporting period, PGE Group analysed indications and identified drivers that could have substantial impact on changes in the value of assets in the aforesaid segments.

External indications

- Market capitalisation of PGE Polska Grupa Energetyczna S.A. remaining below the net carrying amount of assets.
- Decrease in prices of futures contracts for electricity: the prices of annual futures contracts for the BASE and PEAK profiles fell by 12-20% in 2019.
- High energy imports and low demand in the National Power System: low prices on spot markets in Germany and Scandinavia result in high competitiveness of energy imports to Poland, which results in lower utilisation of Generation Units. An additional adverse factor is a decrease in demand in the National Power System and an increase in RES generation. In the opinion of the PGE Group, this situation will continue until the end of 2021.
- Increase in planned reclamation costs: according to the most recent report on the assessment of the costs of open-pit mine decommissioning after the end of operation of Kopalnia Turów, prepared by an external expert, the scope of work will need to be significantly larger than previously assumed. As a result, the projected cost of reclamation also increases significantly.
- Increase in hard coal prices in Poland: rising hard coal prices translate into rising costs in hard coal-fired power plants which, in the context of falling electricity prices, translates into weaker financial performance of these entities.
- Increase in the overall level of prices and wages in Poland: the rapid growth of prices and wages in Poland, observed recently and expected in the near future, will translate to some extent into an increase in fixed costs and capital expenditure. In particular, this applies to the cost of salaries and third-party services, and indirectly to the cost of materials.
- Approaching depletion of lignite resources: the lifetime of lignite-fired power plants is limited due to the quantity of available lignite resources. Therefore, over time, the remaining service period, as well as the benefits and value in use, becomes shorter.
- Continuing high prices of energy origin rights (TGEozea index)
- The price of green energy origin rights increased between Q1 and Q4 2018 from 63 PLN/MWh to 149 PLN/MWh and then remained high in 2019 to reach 143 PLN/MWh in Q4 2019.

Following the analysis of the aforementioned indications, the Group performed an impairment test of assets as at November 30, 2019 for the District Heating segment, to which goodwill is allocated, and performed impairment tests of assets as at December 31, 2019 for the Conventional Generation and Renewables segments.

Macroeconomic assumptions

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

Electricity price projections assume a slight increase in prices in 2020 as compared to 2019, followed by growths in subsequent years.

Price projections for CO_2 emission allowances assume dynamic market price growth in successive years of the projection.

Hard coal price projections expect a decline in prices until 2023, as compared to 2019, followed by several-percent growth in subsequent years.

Gas price projections assume a decline in 2020 as compared to 2019, average annual growth in the period to 2025 at approx. 8% and growth of approx. 3% annually in the years thereafter.

Projections for prices of energy origin rights provide for an average annual decrease of about 7% between 2022 and 2031, which is related to the declining obligation to redeem.

Capacity-market revenue projection for 2021-2024 is based on the results of main auctions for these delivery periods, taking into account the mechanisms of the agreement to re-allocate revenue within PGE Group companies. The projection after 2025 was developed by a team of experts at PGE S.A., based on assumptions concerning estimated future cash flows for generation units, on the basis of, among others, completed auctions and projections prepared by a third-party expert. As of July 1, 2025, removed from the Capacity Market are units that fail to meet the emission criterion of 550 g CO_2 per kWh, except for units covered by multiannual contracts executed in main auctions for years 2021-2024.

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

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

3.1 Description of assumptions for the Conventional Generation segment

The impairment tests were performed as at December 31, 2019 with respect to cash-generating units by determining their recoverable amount. Determination of fair value for very large groups of assets for which there is no active market and a small number of comparable transactions is very difficult in practice. In the case of power plants and mines for which a value on the local market should be determined, there are no observable fair values. Therefore, the recoverable amount of the analysed assets was determined based on value in use estimated using the discounted net cash flow method, based on financial projections prepared for the period from January 2020 to the end of their operation. 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. With longer projections, the recoverable amount can be determined in a more reliable manner.

Detailed assumptions regarding the segment

Presented below are the key assumptions having impact on estimates of the value in use of the tested CGU:

- recognition of the following branches as a single CGU:
  - Branch Kopalnia Węgla Brunatnego Bełchatów and Branch Elektrownia Bełchatów ("Bełchatów Complex"),
  - Branch Kopalnia Węgla Brunatnego Turów and Branch Elektrownia Turów ("Turów Complex"),

  given the technological and economic links between these branches,
- recognition of Elektrownia Dolna Odra, Elektrownia Szczecin and Elektrownia Pomorzany, forming part of the Branch Zespół Elektrowni Dolna Odra, as three separate CGUs,
- recognition of the Rybnik Branch of PGE Energia Ciepła S.A. (Elektrownia Rybnik) as a separate CGU,
- assumption that in the period after June 2025 there will be support from the capacity market or equivalent only for units that meet the emission criterion of 550 g of CO_2 for electricity produced per kWh, whereby multiannual contracts concluded in auctions for 2021-2024 will be performed in accordance with their term,
- taking into account work cost optimisation resulting from current work plans, among other things,
- maintaining production capacities as a result of replacement-type investments,
- taking into account development investments for which construction works are in progress,
- assuming WACC over the projection period of 6.5%-8.0%, differentiated for individual CGUs according to the risk level assessed on a case by case basis.

Some important regulatory assumptions made for impairment tests are beyond the control of PGE Group and their materialization in the future is uncertain. This concerns in particular issues related to the shape of the Polish capacity market after July 1, 2025 or the EU climate policy. In these areas, the Group relies on current assumptions about developments in regulations, which are subject to risk. Future changes to these regulations, compared to PGE's current expectations, may have an impact on the assessment of the recoverable amount of generation assets in the Conventional Generation segment.

Nevertheless, the Group believes that such assumptions are justified in view of the expected changes in the regulatory environment. These assumptions, which have been reflected in cash flows, form, in the Group's opinion, a realistic scenario and will remain valid in the period they have been made for. However, it cannot be ruled out that the final shape and term of validity of these arrangements may differ significantly from those assumed.

Below are the results of the tests performed for CGUs for which impairment was identified:

As at December 31, 2019	Discount rate	Value tested*	Impairment loss	Value after impairment loss
Bełchatów Complex	7.67%	14,092	(3,323)	10,769
Turów Complex	7.00%	6,820	(4,183)	2,637
Elektrownia Opole	7.00%	12,324	-	12,324
Elektrownia Dolna Odra	6.50%–8.00%**	7	(7)	-
Elektrociepłownia Pomorzany	8.00%	-	-	-
Elektrociepłownia Szczecin	8.00%	1	(1)	-
Elektrownia Rybnik	8.00%	-	-	-
TOTAL		**33,244**	**(7,514)**	**25,730**

**) The tested amount presented above is the net carrying amount of the tested assets as at December 31, 2019 adjusted for provisions and liabilities allocated to assets, except for the rehabilitation provision*
***) the discount rate is reduced when new gas units are put into operation*

Following the test performed as at December 31, 2019, PGE Group has found impairment of generation assets in the total amount of PLN 7,514 million.

Sensitivity analysis

In accordance with IAS 36, the Group performed a sensitivity analysis for generation units in the Conventional Energy segment.

The estimated effect of the change of key assumptions on the amount in impairment loss on assets as at December 31, 2019 for the Conventional Generation segment is presented below.

Parameter	Change	Effect on impairment loss in PLN billion	
		Increase	Decrease
Change in electricity prices in the entire projection period	1%	-	1.1
	-1%	1.0	-

A 1% decrease in electricity price would increase the impairment loss by PLN 1.0 billion for the Bełchatów and Turów Complexes.

Parameter	Change	Effect on impairment loss in PLN billion	
		Increase	Decrease
Change in WACC	+0.5 pp	0.3	-
	- 0.5 pp	-	0.3

A 0.5 p.p. increase WACC would increase the impairment loss by PLN 0.3 billion for the Bełchatów and Turów Complexes.

Parameter	Change	Effect on impairment loss in PLN billion	
		Increase	Decrease
Change in prices of CO_2 emission allowances	1%	0.4	-
	-1%	-	0.4

A 1% increase in prices of CO_2 emission allowances would increase the impairment loss by PLN 0.4 billion for the Bełchatów and Turów Complexes.

3.2 Description of assumptions for the District Heating segment

The impairment tests were performed as at November 30, 2019 with respect to cash-generating units by determining their recoverable amount. Determination of fair value for very large groups of assets for which there is no active market and a small number of comparable transactions is very difficult in practice. In the case of CHP plants for which a value on the local market should be determined, there are no observable fair values. Therefore, the recoverable amount of the analysed assets was determined based on value in use estimated using the discounted net cash flow method, based on financial projections prepared for the period from December 2019 to 2030. 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. With longer projections, the recoverable amount can be determined in a more reliable manner. For generating units with expected periods of economic useful lives beyond 2030, a residual value was determined for the remaining service time. The energy market, and in particular the heating market, is a regulated market in Poland and as such is subject to many regulations and cannot be freely shaped solely on the basis of business decisions. The objectives of the Energy Law include, among others, taking effective regulatory actions aimed at ensuring energy security. This means that the regulatory environment aims at stable operation of heat suppliers in a given area in order to meet the long-term needs of consumers. According to the provisions of the Energy Law, the President of the ERO may even, in extreme cases, order an energy company to carry out activities covered by a concession (for a period not longer than 2 years) if the public interest so requires. If such activities cause a loss to the energy company, the losses should be covered by the State Treasury.

Therefore, the Company does not assume the end of life of assets due to the regulatory environment, which limits the possibility of discontinuation of operations. Moreover, in the heating sector, we can observe an extended service life of equipment (boilers, turbine sets), which is operated much longer than it would result from the original assumptions. In view of the above, the impairment tests assume the continuation of operations (in the form of residual value) while maintaining expenditures at the replacement level on current assets in the long term, due to, among other things, the public interest in the form of heat supplies. The life cycle approach is in line with the PGE Group's asset maintenance strategy.

Detailed assumptions regarding the segment

Presented below are the key assumptions having impact on estimates of the value in use of the tested CGUs:

- Recognition individual branches of PGE Energia Ciepła S.A. as separate CGUs: Rybnik Branch (Elektrownia Rybnik), Branch No 1 in Kraków (Elektrociepłownia Kraków), Wybrzeże Branch (Elektrociepłownia Gdańsk, Elektrociepłownia Gdynia), Reszów Branch (Elektrociepłownia Rzeszów), Lublin Branch (Elektrociepłownia w Lublinie Wrotków), Bydgoszcz Branch (Elektrociepłownia Bydgoszcz I, Elektrociepłownia Bydgoszcz II), Gorzów Wielkopolski Branch (Elektrociepłownia w Gorzowie Wielkopolskim), Zgierz Branch (Elektrociepłownia w Zgierzu), Kielce Branch (Elektrociepłownia w Kielcach). Elektrownia Rybnik (Rybnik Power Plant) belonging to PGE Energia Ciepła S.A. is tested in the Conventional Generation segment.
- Recognition of three production facilities of KOGENERACJA, i.e. Elektrociepłownia Wrocław, Elektrociepłownia Czechnica, Elektrociepłownia Zawidawie, as a single CGU.
- Assumption of a quantity of free-of-charge CO_2 emission allowances for the purposes of electricity generation for 2019-2020 for specific CGUs in accordance with Poland's application for a transition allocation of free emission allowances for the modernisation of electricity generation activities pursuant to Article 10c(5) of directive 2003/87/EC of the European Parliament and the Council (derogation application), which meets the requirements of Commission Decision of July 13, 2012. As regards heat generation, free-of-charge allowances were taken into account in accordance with the list of quantities of CO_2 emission allowances allocated for heat for 2013-2020, published by the Environment Ministry.
- Taking into account the allocation of free CO_2 emission allowances in 2021-2030 only for system district heating and high-efficiency cogeneration, based on the 2020 level and assuming annual reduction.
- assumption for CHP plants that during the residual period there will be support from the capacity market or equivalent, only for units that meet the emission criterion of 550 g of CO_2 of electricity produced.
- Taking into account the support system for high-efficiency cogeneration over the maximum period of 15 years, for gas units for which the statutory period expires after 2030, the support also included in the residual value.
- Maintaining production capacities as a result of replacement-type investments.
- Taking into account highly advanced development investments, including tenders in progress.
- Assumption of the adjusted weighted average cost of capital after tax (WACC) over the projection period of 7.0%.

Some important regulatory assumptions made for impairment tests are beyond the control of PGE Group and their materialization in the future is uncertain. This concerns in particular issues related to the shape of the Polish capacity market after July 1, 2025 or allocation of free CO_2 emission allowances after 2020. In these areas, the Group relies on current assumptions about developments in regulations, which are subject to risk. Future changes to these regulations, compared to PGE's current expectations, may have an impact on the assessment of the recoverable amount of generation assets in the District Heating segment.

Nevertheless, the Group believes that such assumptions are justified in view of the expected changes in the regulatory environment. These assumptions, which have been reflected in cash flows, form, in the Group's opinion, a realistic scenario and will remain valid in the period they have been made for. However, it cannot be ruled out that the final shape and term of validity of these arrangements may differ significantly from those assumed.

Impairment tests for the District Heating segment were performed in respect of generation assets owned by PGE EC S.A. and its subsidiaries, excluding Elektrownia Rybnik presented in the Conventional Generation segment. As a result of the acquisition of EDF assets in 2017, goodwill was allocated to the acquired district heating assets.

As at November 30, 2019, the value of tested property, plant and equipment and intangible assets of PGE EC S.A. amounted to PLN 5,959 million. Based on the impairment test, the Group estimated the excess of the value in use of the tested assets over their carrying amount, and therefore found no need to recognize or reverse impairment losses on these assets. The Group also found that it was not necessary to reverse the impairment losses recognised in previous reporting periods with respect to selected CGUs.

Sensitivity analysis

In accordance with IAS 36, the Group performed a sensitivity analysis for generation units in the District Heating segment.

The estimated effect of the change of key assumptions on the value in use of assets as at November 30, 2019 for the District Heating segment is presented below.

Parameter	Change	Effect on value in use in PLN billion	
		Increase	Decrease
Change in electricity prices in the entire projection period	1%	0.5	-
	-1%	-	0.5

A 1% decrease in electricity price would decrease the value in use by PLN 0.5 billion.

Parameter	Change	Effect on value in use in PLN billion	
		Increase	Decrease
Change in WACC	+0.5 pp	-	1.6
	- 0.5 pp	2.0	0

A 0.5 p.p. increase WACC would decrease the value in use by PLN 1.6 billion.

A lack of support for high-efficiency cogeneration would decrease the value in use by PLN 2.3 billion.

3.3 Description of assumptions for the Renewables segment

The impairment tests were performed as at December 31, 2019 with respect to cash-generating units by determining their recoverable amount. The recoverable amount of the analysed assets was determined based on value in use estimated using the discounted net cash flow method, based on financial projections prepared for the assumed useful life of the particular CGU for wind farms or the period from 2020 to 2030 for other CGUs. For CGUs with expected periods of economic useful lives beyond 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 items used by the Group have significantly longer useful lives and also due to significant and long-term effects of projected changes in the regulatory environment, taken into account in the detailed projection.

Detailed assumptions regarding the segment

Presented below are the key assumptions having impact on estimates of the value in use of the tested CGUs:

- recognition of the following branches as separate CGUs:
- pumped-storage power plants (a single CGU for individual power plants due to their common economic character);
- other hydro power plants (a single CGU for individual power plants due to their common economic character);
- individual wind farms (separate CGUs for individual power plants due to different period of operation);
- production of electricity and energy origin rights was estimated based on historic data, taking into the availability of individual units;
- unit availability was estimated based on repair plans, taking into account statistical failure rates;
- revenue from regulatory system services was based on existing bilateral agreements with PSE S.A.;
- recognition of cash flows related to contracts covered by the dispute with Enea S.A. and Energa Obrót S.A., in the amount resulting from the contract;
- maintaining production capacities as a result of replacement-type investments;
- assumption of the weighted average cost of capital after tax (WACC) over the projection period of 7.0%.

Based on the impairment test of non-current assets, the Group found it necessary to reverse impairment allowances on wind farm assets as at the reporting date.

The table below shows the value of reversals of impairment losses as at the end of 2019 with respect to wind farms.

As at December 31, 2019	Discount rate	Value tested	Reversal of impairment allowances	Value after impairment allowances
Wind farms	7.0%	1,549	385	1,934

Sensitivity analysis

The sensitivity analysis indicated that the estimated value in use is significantly affected by factors such as WACC, prices of electricity and prices of energy origin rights.

The effect of changes in factors having a material impact throughout the projection period on the projected cash flows, and therefore on the estimated value in use, is presented below.

Parameter	Change	Effect on value in use in PLN million	
		Increase	Decrease
Change in electricity prices in the entire projection period	1%	49.3	-
	-1%	-	49.3

A 1% decrease in electricity price would decrease the value in use by PLN 49.3 million.

Parameter	Change	Effect on value in use in PLN million	
		Increase	Decrease
Change in WACC	+0.5 pp	-	0.8
	- 0.5 pp	0.6	-

A 0.5 p.p. increase WACC would decrease the value in use by PLN 0.8 billion.

Parameter	Change	Effect on value in use in PLN million	
		Increase	Decrease
Change in prices of energy origin rights	1%	9.2	-
	-1%	-	9.2

A 1% decrease in prices of energy origin rights would decrease the value in use by PLN 9.2 billion.

3.4 Property, plant and equipment of the Distribution segment

As at the reporting date the carrying amount of property, plant and equipment related to the distribution activity amounted to approx. PLN 18 billion and represented approx. 31% of total consolidated property, plant and equipment. Their recoverable amount depends mainly on tariffs granted by President of the Energy Regulatory Office. Regulated revenue (tariff) which is determined annually provides covering justified costs: operating costs, depreciation and amortisation, taxes, purchase of energy to cover balancing difference and transferred costs. It provides also a return on capital employed in the distribution activity at a justified level. Return on capital employed and depreciation charges depend on the so called Regulatory Asset Base.

As at the date of preparation of these consolidated financial statements, PGE Group did not identify any indications for impairment of property, plant and equipment allocated to the distribution activities.

4. Selected accounting policies

The financial statements were prepared in accordance with the historical cost convention, except for CO_2 emission allowances acquired in order to realise gains from changes in market prices, which are recognised at fair value less costs to sell.

These consolidated financial statements of PGE Group were prepared on the basis of the financial statements of the parent company and financial statements of its subsidiaries, associates and a jointly-controlled entity. The financial statements of consolidated entities were prepared for the same reporting period, using consistent accounting policies.

All balances, income and expenses arising between the Group entities and unrealised gains from intercompany transactions, are fully eliminated.

Subsidiaries are consolidated from the date when the Group obtains control of them and cease to be consolidated when the control is lost. The parent also exercises control when it owns directly or indirectly through its subsidiaries more than half of the votes in a given entity, unless it is possible to prove that such ownership does not constitute control. The Parent controls a subsidiary when it has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the subsidiary. Exercising control may also occur when the parent company does not own half of votes in a subsidiary.

Accounting for the formation of PGE Group and later Group transformations in the consolidated financial statements

Matters concerning acquisitions and business combinations are generally regulated by IFRS 3 *Business Combinations*. However, the scope of this standard does not include transactions among business entities under common control. The entities that later formed PGE Group had been controlled by the State Treasury. This transaction thus, according to the Company, meets the definition of transaction under common control and is therefore excluded from IFRS 3.

Business combinations under common control were accounted for using the pooling of interests method and thus the consolidated financial statements reflect the fact of the common control continuity and does not present the changes in the net asset value to fair value (or recognition of new assets), or measurement of the goodwill.

Further business combinations within PGE Group were recognised as transactions between entities under common control, therefore should be accounted within the equity of PGE Group, without affecting goodwill.

Acquisitions of companies from third parties are accounted for using the acquisition method in line with IFRS 3.

Joint ventures and joint control

In relation to participation in a joint venture (a joint arrangement giving the right to the net assets) this participation is recognised in the financial statements as an investment and accounted for using the equity method.

Joint control is a contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in associates

Associates are those entities over which the parent has significant influence, either directly or indirectly through its subsidiaries, but are neither controlled, nor jointly controlled by the parent.

Investments in associates are equity-accounted.

Measurement of fair value of assets and liabilities acquired, determination of goodwill

PGE Group identifies acquired assets and liabilities, measures their fair value and recognizes goodwill or gain on bargain purchase in accordance with IFRS 3 *Business combinations*. Measurement is based on a number of assumptions, which include inter alia: application of appropriate valuation method, management's plans relating to the use of acquired assets, financial projections (including price forecasts influencing main items of income and expenses), changes in laws and regulations and other. On the other hand, the accounting for the transaction is also affected by the appropriate determination of the consideration transferred (including contingent portion). Assumptions applied may significantly impact fair values of acquired assets and liabilities, and calculation of goodwill or gain on bargain purchase. Goodwill is tested for impairment together with the respective cash generating units.

Translation of items denominated in foreign currencies

Transactions denominated in foreign currencies are translated into the Polish złoty using the exchange rate from the transaction date.
As at the reporting date:

- monetary items are translated in a simplified manner, using the closing rate quoted by the National Bank of Poland;
- non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate effective at the date of the transaction;
- non-monetary items measured at fair value in a foreign currency are translated at the exchange rate effective for the date of determining the fair value.

Foreign exchange gains and losses arising on translation are recognised in profit or loss or, where the accounting policies so provide, capitalised in the value of assets.

Exchange differences resulting from translation of non-monetary items, such as equity instruments measured at fair value through profit or loss, are recognised as a change in fair value. Exchange differences resulting from translation of non-monetary items, such as equity instruments, are recognised in other comprehensive income. Exchange differences resulting from translation of assets and liabilities of foreign companies with functional currency other than functional currency of the parent company are recognised other comprehensive income and accumulated in equity, under "Foreign exchange differences from translation".

5. Changes in accounting policies and data presentation

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

The accounting principles (policies) applied in preparing these financial statements are consistent with those applied in preparing the separate consolidated financial statements for 2018, except for as stated below. The following amendments to IFRSs are applied in these financial statements in line with their effective dates. Amendments relating to IFRS 16 *Leases* are described below. The other amendments did not have material impact on the presented and disclosed financial information or they were not applicable to the Group's transactions:

- Amendments to IFRS 9 – Amendments related to the early repayment option with negative compensation;
- Amendments to IFRIC 23 – This interpretation applies to establishing taxable revenue, tax base, unsettled tax losses, unused tax rebates and tax rates;
- Annual improvements to IFRS (cycle 2015-2017) – amendments to IFRS 3, IFRS 11; IFRS 12; IAS 23;
- Amendments to IAS 28 – This amendment concerns measurement of non-current investments in associates;
- Amendments to IAS 19 – Amendments concern defined benefit plans.

The Group has not elected to early adopt any of the standards, interpretations or amendments that have been published but are not yet effective in accordance with the European Union regulations.

IFRS 16 Leases

IFRS 16 replaced IAS 17 Leases and interpretations in this respect.

PGE Group has implemented the new IFRS 16 starting from financial statements prepared for the periods starting after January 1, 2019. The Group has selected the implementation option set out in paragraph C5.b) of IFRS 16, i.e. retrospectively, with the cumulative effect of the initial application of the standard recognised as at January 1, 2019 as an adjustment to the opening balance of retained earnings.

The new IFRS 16 changes principles for the recognition of contracts which meet the criteria of lease. The main change is to move away from the classification of leases as either operating leases or finance leases in the lessee's accounts. All contracts which meet the criteria of a lease will be recognised as a finance lease.

The Group has analysed the following types of contracts in order to determine whether a given contract contains a lease in accordance with the definition set out in IFRS 16.

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

The analysis showed that the rights of perpetual usufruct of land and land tenancy/lease contracts which were recognised as operating leases before the effective date of IFRS 16 had the most significant effect on the consolidated financial statements.

After analysis, the Group concluded that the following types of contracts are outside the scope of IFRS 16:

- agreements on use of road strip for which a significant right of substitution was identified;
- lease agreements for lines/fibre-optic cables/cable ducts

In the case of easements relating to the foundation of overhead infrastructure, the dominant element of the contract is the non-leasing component (overhead line). The share of the lease component (pole) is immaterial. Therefore, such contracts are outside the scope of IFRS 16.

Decisions on use of road strip, in principle, meet the definition of a lease. However, in the PGE Group companies where there are cases of exercise by a road administrator of the right to request, in accordance with the provisions of law, the relocation of infrastructure situated in the road strip, the company has no full right to direct the use of the identified asset. In such a situation, the contracts do not meet the definition of a lease.

As regards lease agreements for lines/fibre-optic cables/cable ducts, the Group does not utilise the majority of the asset's capacity. Therefore, the asset does not meet the criteria for an identified asset under IFRS 16 and the above agreements (e.g. an agreement for the lease of capacity in fibre optic cables) do not meet the definition of a lease.

In turn, in the case of easements relating to the foundation of overhead infrastructure, the dominant element of the contract is the non-leasing component (overhead line). The share of the lease component (pole) is immaterial. As a rule, easements meet the definition of a lease set out in IFRS 16, but due to their immaterial impact on the financial statements they were not recognised as leases in accordance with IFRS 16.

In accordance with the selected implementation option, the Group did not restate comparative data. On the date of implementation of IFRS 16, the Group recognised right-of-use assets in the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application, in accordance with paragraph C8.b.ii).

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Furthermore, PGE Group decided to use the following practical expedients as at January 1, 2019 provided for in paragraph C10 of IFRS 16 with respect to leases previously classified as operating leases in accordance with IAS 17:

- PGE Group applied a single discount rate to a portfolio of leases with similar characteristics (such as real property).
- PGE Group elected not to apply the requirements in paragraph C8 to leases for which the lease term ends within 12 months of the date of initial application, i.e. January 1, 2019. The Group accounted for those leases in the same way as short-term leases.
- PGE Group decided to exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- PGE Group used hindsight, in determining the lease term for contract containing options to extend or terminate the lease.

As a result of the application of IFRS 16:

- Right-of-use assets for new lease agreements recognised and finacial liabilities increased by PLN 895 million as at January 1, 2019.
- Following reclassification of contracts meeting the definition of a lease and recognised before January 1, 2019 under intangible assets and property, plant and equipment, right-of-use assets increased and intangible assets and property, plant and equipment decreased by PLN 390 million.
- As at January 1, 2019, retained earnings remained unchanged.
- Profit before tax for 2019 is lower by approximately PLN 45 million.
- As estimated, EBITDA for 2019 is higher by PLN 50 million.

	Amounts in the statement of financial position as at January 1, 2019
Future operating lease payments to be made by the lessee as at December 31, 2018	**1,829**
Adjustments for changes in RPUL fees, extension or termination options, etc.	348
Operating lease liabilities as at 31 December 2018, after adjustments	**2,177**
Discounted using weighted average incremental borrowing rate of the lessee as at January 1, 2019	848
Liability on account of application of the new definition of lease under IFRS 16	47
Lease liabilities recognised as at January 1, 2019	**895**

The lease liabilities were measured at the present value of lease payments. Lease payments were discounted using the lessee's incremental borrowing rate of 2.290%–5.855%.

For information on lease liabilities, see note 25.1.3 and 26.2, and for information on right-of-use assets – note 12 to these financial statements. Information on costs of amortisation and depreciation is provided in note 7.2.1, whereas interest costs on finance liabilities are disclosed in note 7.4.

In 2019, the total cash outflow on account of leases amounted to PLN 69 million.

In the current period, costs related to short-term leases amounted to about PLN 2 million, while costs related to leases of low-value assets did not reach one million PLN.

There were no material sale and leaseback transactions in the current period.

Changes in applied accounting policies and data presentation

In the current period, the Group decided to change the manner of presentation of the following valuations: valuations of currency forwards related to the purchase and sale of CO_2 emission allowances for captive use were transferred from financing activities to other operating activities, and valuations of derivatives related to coal trading transactions were transferred from operating activities to other operating activities. The changed presentation more accurately reflects the nature of the Group's operations – in particular, all transactions related to trading in CO_2 allowances and coal are included in the same section of the statement.

To better reflect its business operations, the Group also decided to change the method of division of liabilities on account of loans, borrowings and bonds into long-term and short-term portions. The previous present value of cash flows generated was replaced by the payment term method.

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In connection with these changes, the Group has restated the comparative data. The restatement is presented in the tables below.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Period ended December 31, 2018 *published data*	Change in the recognition of forwards related to trading of coal and CO_2 allowances	Period ended December 31, 2018 *restated data*
SALES REVENUE	25,946	-	25,946
Cost of goods sold	(21,087)	43	(21,044)
GROSS PROFIT ON SALES	**4,859**	**43**	**4,902**
Distribution and selling expenses	(1,406)	-	(1,406)
General and administrative expenses	(984)	-	(984)
Other operating income/expense	2	(32)	(30)
OPERATING PROFIT	**2,471**	**11**	**2,482**
Net finance costs	(350)	(11)	(361)
Share of profit of entities accounted for using the equity method	71	-	71
GROSS PROFIT	**2,192**	**-**	**2,192**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at December 31, 2018 *published data*	Change of presentation	As at December 31, 2018 *restated data*
NON-CURRENT LIABILITIES, including:			
Credit facilities, loans, bonds and leases	6,247	114	6,361
TOTAL NON-CURRENT LIABILITIES	**15,464**	**114**	**15,578**
CURRENT LIABILITIES, including:			
Credit facilities, loans, bonds and leases	4,461	(114)	4,347
TOTAL CURRENT LIABILITIES	**12,640**	**(114)**	**12,526**
TOTAL LIABILITIES	**28,104**	**-**	**28,104**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at January 1, 2018 *published data*	Change of presentation	As at January 1, 2018 *restated data*
NON-CURRENT LIABILITIES, including:			
Credit facilities, loans, bonds and leases	8,422	135	8,557
TOTAL NON-CURRENT LIABILITIES	**16,810**	**135**	**16,945**
CURRENT LIABILITIES, including:			
Credit facilities, loans, bonds and leases	1,623	(135)	1,488
TOTAL CURRENT LIABILITIES	**8,995**	**(135)**	**8,860**
TOTAL LIABILITIES	**25,805**	**-**	**25,805**

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

6. Information on operating segments

ACCOUNTING POLICIES

Operating segments

An operating segment is a component of the Group:

- that engages in business activities from which it may earn revenues and incur expenses,
- whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance;
- for which discrete financial information is available.

Due to the types of production processes as well as the current system of regulation within PGE Group, the following segments are distinguished:

- Conventional Generation,
- District Heating,
- Renewables,
- Supply,
- Distribution,
- Other activity, which includes the activities of subsidiaries other than listed above, but not material enough to create separate segments.

Segment revenue is revenue reported in the Group's statement of profit or loss that is directly attributable to a segment and the relevant portion of the Group's revenue that can be allocated on a reasonable basis to a segment, whether from sales to external customers or from transactions with other segments of the Group. Segment expense is expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to sales to external customers and expenses relating to transactions with other segments of the Group. Segment result is segment revenue less segment expense.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets and liabilities do not include income tax assets and liabilities.

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

Relevant assets are assigned to the held concessions on lignite mining and generation and distribution of electricity and heat, which was presented in detailed information on operating segments. For its concessions concerning electricity and heat the Group incurs annual charges dependent on the level of turnover, whereas for conducting licensed extraction of lignite the exploitation charges as well as fees for the use of mining are borne. The exploitation charges depend on the current rate and the volume of the extraction. In 2019, PGE Group's concessions costs amounted to approx. PLN 17 million (PLN 10 million in 2018), exploitation charges and mining usufruct charges amounted to PLN 118 million in 2019 and PLN 136 million in 2018.

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

- Conventional Generation comprises exploration and mining of lignite and generation of electricity from conventional sources as well as ancillary services.
- District Heating comprises the generation of electricity from cogeneration units and the transmission and distribution of heat.
- Renewables comprise generation of electricity in pumped-storage power plants and from renewable sources.
- Supply includes sales and purchases of electricity and gas on the wholesale market, trading in emissions certificates and energy origin rights, sales and purchases of fuel, as well as sales of electricity and rendering services to final customers.
- Distribution comprises management over local distribution networks and transmission of electricity in these networks.
- Other operations comprise services rendered by the subsidiaries for the Group, e.g. fund raising, IT, telecommunication, accounting and HR, and transport services. Additionally, the other operations segment comprises the activities of a subsidiary whose main business is preparation and implementation of a nuclear power plant construction project, investments in startups.

Organisation and management over PGE Group is based on segment reporting separated by nature of the products and services provided. Each segment represents a strategic business unit, offering different products and serving different markets. Assignment of particular entities to operating segments is described in note 1.3 to these consolidated financial statements. As a rule, inter-segment transactions are disclosed as if they were concluded with third parties – under market conditions. When analysing the results of particular business segments the management of PGE Group draws attention primarily to EBITDA.

Starting from 2019, PGE Group has distinguished a new segment, District Heating. In previous periods, assets and performance figures of this segment were recognised and analysed within the Conventional Generation segment. Comparative figures presented in the segment note have been restated accordingly.

The new presentation format is designed to improve transparency and strengthen supervision over the implementation of the District Heating Strategy, which is one of the key areas of the Group's development.

Seasonality of business segments

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

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

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6.1 Information on business segments

Information on business segments for 2019

	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustme nts	Total
STATEMENT OF PROFIT OR LOSS								
Sales to external customers	12,936	4,295	975	13,235	6,063	114	9	37,627
Inter-segment sales	6,309	1,763	64	4,077	92	387	(12,692)	-
TOTAL SEGMENT REVENUE	**19,245**	**6,058**	**1,039**	**17,312**	**6,155**	**501**	**(12,683)**	**37,627**
Cost of goods sold	(25,557)	(5,295)	(291)	(15,535)	(4,796)	(443)	11,783	(40,134)
EBIT	**(7,109)**	**595**	**657**	**247**	**1,101**	**(29)**	**363**	**(4,175)**
Depreciation, amortisation, disposal and impairment losses recognised in profit or loss	9,989	591	(140)	33	1,205	84	(446)	11,316
EBITDA	**2,880**	**1,186**	**517**	**280**	**2,306**	**55**	**(83)**	**7,141**
LOSS BEFORE TAX	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4,703)**
Income tax	-	-	-	-	-	-	-	775
NET LOSS FOR THE REPORTING PERIOD	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3,928)**
ASSETS AND LIABILITIES								
Segment's assets excluding trade receivables	34,369	8,013	4,059	1,927	18,954	800	648	68,770
Trade receivables	810	599	184	3,714	918	89	(2,831)	3,483
Shares accounted for using the equity method								715
Unallocated assets								4,682
TOTAL ASSETS								**77,650**
Segment's liabilities excluding trade liabilities	13,167	3,282	517	2,808	2,180	128	(2,840)	19,242
Trade liabilities	914	429	49	2,303	272	46	(2,507)	1,506
Unallocated liabilities								13,765
TOTAL LIABILITIES								**34,513**
OTHER INFORMATION ON BUSINESS SEGMENT								
Capital expenditures	4,016	545	148	26	2,207	192	(171)	6,963
Increases in ROUA	2	3	3	4	18	16	-	46
TOTAL CAPITAL EXPENDITURES	**4,018**	**548**	**151**	**30**	**2,225**	**208**	**(171)**	**7,009**
Acquisition of PPE, IA and IP as part of acquisition of new companies*)	-	-	-	-	-	16	-	16
Impairment losses on financial and non-financial assets	8,283	64	(394)	22	15	-	(400)	7,590
Other non-monetary expenses **)	4,488	524	28	933	266	44	(71)	6,212

*) Including goodwill

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

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Information on business segments for 2018

restated data	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
STATEMENT OF PROFIT OR LOSS								
Sales to external customers	4,269	4,544	647	10,550	5,779	143	14	25,946
Inter-segment sales	8,106	964	192	3,827	99	357	(13,545)	-
TOTAL SEGMENT REVENUE	**12,375**	**5,508**	**839**	**14,377**	**5,878**	**500**	**(13,531)**	**25,946**
Cost of goods sold	(11,002)	(4,933)	(602)	(12,455)	(4,411)	(440)	12,799	(21,044)
EBIT	**379**	**196**	**205**	**203**	**1,277**	**(17)**	**239**	**2,482**
Depreciation, amortisation, disposal and impairment losses recognised in profit or loss	1,722	656	258	24	1,186	82	(35)	3,893
EBITDA	**2,101**	**852**	**463**	**227**	**2,463**	**65**	**204**	**6,375**
GROSS PROFIT	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,192**
Income tax	-	-	-	-	-	-	-	(681)
NET PROFIT FOR THE REPORTING PERIOD	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,511**
ASSETS AND LIABILITIES								
Segment's assets excluding trade receivables	38,779	7,876	3,191	1,398	17,767	637	(985)	68,663
Trade receivables	989	522	70	3,178	821	102	(2,527)	3,155
Shares accounted for using the equity method								776
Unallocated assets								3,311
TOTAL ASSETS								**75,905**
Segment's liabilities excluding trade liabilities	8,806	1,758	417	2,048	2,051	123	(1,084)	14,119
Trade liabilities	950	442	48	2,034	312	41	(2,316)	1,511
Unallocated liabilities								12,474
TOTAL LIABILITIES								**28,104**
OTHER INFORMATION ON BUSINESS SEGMENT								
Capital expenditures	4,122	775	103	14	1,853	162	(173)	6,856
Impairment losses on financial and non-financial assets	300	113	-	44	13	2	4	476
Other non-monetary expenses *)	2,220	379	29	890	199	34	-	3,751

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

for 2019 in accordance with EU IFRS (in PLN million)

6.2 Information on geographical areas

Geographic distribution of sales revenues for 2019 and 2018 is as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
REVENUES FROM OPERATING ACTIVITIES		
Domestic market	37,477	25,596
EU countries	150	349
Other countries	-	1
TOTAL SALES REVENUE	**37,627**	**25,946**

Geographic distribution of assets as at December 31, 2019, and December 31, 2018, is as follows:

	As at December 31, 2019	As at December 31, 2018
OTHER INFORMATION ON THE AREA		
Domestic market	72,232	71,740
EU countries	21	77
Other countries	-	1
TOTAL ASSETS ALLOCATED TO SEGMENTS	**72,253**	**71,818**
Domestic market	4,567	3,256
EU countries	115	55
TOTAL ASSETS NOT ALLOCATED TO SEGMENTS	**4,682**	**3,311**
Domestic market	715	776
TOTAL SHARES ACCOUNTED FOR USING THE EQUITY METHOD	**715**	**776**
TOTAL ASSETS	**77,650**	**75,905**

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

7. Revenue and expenses

7.1 Revenue from sales

ACCOUNTING POLICIES

Revenue from contracts with customers

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

Revenue is recognised when the performance of an obligation through transferring the promised good (product) to a customer is fulfilled. A good is transferred when the customer obtains control of that good.

The entity recognises revenue from a contract with customer only when all of the following criteria are met:

- the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are obligated to perform their duties;
- The Group is able to identify each party's rights regarding the goods or services to be transferred;
- The Group can identify the payment terms for the goods or services to be transferred;
- the contract has commercial substance; and
- it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

At contract inception, the Group assesses the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the customer either:

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

The Group recognises revenue when (or as) the Group satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to the customer. An asset is transferred when the customer obtains control of that asset, i.e. when the customer obtains the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The Group transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

For each performance obligation satisfied over time, the Group recognises revenue over time by measuring the progress towards complete satisfaction of that performance obligation. The objective when measuring progress is to depict an entity's performance in transferring control of goods or services promised to a customer (i.e. the satisfaction of the Group's performance obligation).

When (or as) a performance obligation is satisfied, the Group recognises as revenue the amount of the transaction price that is allocated to that performance obligation. The transaction price includes some or all of an amount of estimated variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Revenue is recognised net of value added tax, excise duty, other sales taxes or charges as well as discounts and bonuses.

The entity considers the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue from wholesale of electricity

Contracts for the sale of electricity concluded on the wholesale market are reported to the Transmission System Operator (TSO) as a notification of the volume of electricity declared per each hour which the company is obliged to provide as a supplier or ensure its provision and the client is obliged to accept. Both the settlement price and volume of electricity per each hour are set out in OTC (Over The Counter) contracts signed or – in the case of sales on the POLPX – determined on the basis of transactions recorded electronically. Revenue from the sale of electricity on the power exchange is recognised on the delivery date.

The actual electricity supply takes place through the Balancing Market, where the Transmission System Operator ensures reliability of data concerning the supplied volume of energy and deviations in volume from the previously notified work schedules (the so-called ESC: Energy Sale Contracts) are settled at prices resulting from the mechanism of operation of the Balancing Market. Settlements of the Balancing Market are executed with the Transmission System Operator every decade, whereas settlements of the wholesale sale on the Polish Power Exchange are carried out with the Warsaw Commodity Clearing House that is the guarantor of settlements of transactions entered into on the Polish Power Exchange, they are executed on a daily basis in accordance with the Warsaw Commodity Clearing House's clearing regulations. For OTC Contracts, settlements are performed in accordance with the provisions of such Contracts, i.e. on a decade or monthly basis.

Revenue from sale of heat in the District Heating segment

Revenue is measured at the currently applicable tariff rates, subject to the approval of the President of ERO. The tariff rates apply to the procured heating power, sold heat and heat carrier. Revenue invoiced for the sale of heat is the product of the aforesaid tariff rates and sales volumes.

The sales of heat in volume terms come from the readings of metering and billing systems. Readings are taken on the indicated working days of each calendar month, including a date close to the end of the month. Therefore, for the purposes of financial reporting, estimates of sales volume are made for the period between the last reading date of the month and the end of that month.

Revenue from the sale of heat is recognised when the heat is delivered in accordance with the readings taken together with the estimate.

Revenue from electricity distribution services in the Distribution segment

The amount of revenue from electricity distribution services results from documented sales, plus the estimated value of non-invoiced sales of electricity distribution services in a given period, and less the estimated value of such sales from the previous period. The sales are estimated at least at the end of each quarter.

Revenue from distribution services is recognised at the time of provision of the service, based on the readings of metering and billing systems, taking into account the estimation of consumption.

Revenue from sales of electricity and gaseous fuel in the Supply segment

The Group earns revenue from sales of electricity and gaseous fuel to end users and on the wholesale market. Revenue from sales of electricity is recognised on the basis of the month of sale indicated on the invoices.
Due to the continuous nature of energy supplies, for the purposes of proper recognition in the accounting books, the Group adjusts its sales revenue (invoiced sales) for the amount of energy delivered and not invoiced in a given period. Estimates of electricity sales are made at the end of each month.

The calculation of the value of the sales estimation is made separately for each energy uptake point and separately for each price component and type of tariff charges. The electricity volume estimation is calculated on the basis of the average daily energy consumption per a energy uptake point, determined on the basis of:

- data from sales of invoiced energy in the last billing period,
- forecast daily energy consumption.

Estimation of the volume of electricity for a newly acquired energy uptake point (which has no history of electricity consumption in the billing system) is determined on the basis of the volume declared by the customer.

In the case of energy uptake points billed with the use of forecast invoices, the estimation makes sales more realistic by recalculating the value of charges for the projected amount of energy at the current rates applicable in the projection period.

Operating lease income

Income from operating leases is recognised in profit or loss for the current period on a straight-line basis over the lease term, unless the application of a different systematic method better reflects the pattern of reduction over time of the benefits derived from a leased asset.

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Undiscounted lease payments to be received per year in the following periods are presented in the table below.

Maturity dates	Year ended December 31, 2019
up to 1 year	247
1 to 2 years	46
2 to 3 years	41
3 to 4 years	39
4 to 5 years	37
more than 5 years	665

Revenue from sales in 2019, by category

A reconciliation of revenue disclosure by category and information on revenue that the entity discloses for each reporting segment is presented in the table below.

	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
Revenue from contracts with customers	19,226	5,992	847	16,189	6,108	498	(12,663)	**36,197**
Revenue from recognised compensations based on the Act on Electricity Prices	4	26	-	1,118	-	-	-	**1,148**
Revenue from support for high-efficiency cogeneration	-	29	-	-	-	-	-	**29**
Revenue from LTC compensations	-	(8)	-	-	-	-	-	**(8)**
Operating lease income	15	19	192	5	47	3	(20)	**261**
TOTAL REVENUE FROM SALES	**19,245**	**6,058**	**1,039**	**17,312**	**6,155**	**501**	**(12,683)**	**37,627**

The total revenue amount includes PLN 51 million in sales transactions for which the value was not ultimately established as at the end of the reporting period. PGE Group makes estimates of revenue, the most important of which concerns the estimation of revenue from sales of electricity, gaseous fuel and distribution services in the Supply and Distribution segments as well as the estimation of revenue from support for high-efficiency cogeneration in the District Heating segment.

For information on revenue from recognised compensations based on the Act on Electricity Prices, see note 33.1 to these financial statements.

Lease payments recognised as income in 2019 amounted to PLN 261 million. The Group did not earn any operating lease income relating to variable lease payments that do not depend on an index or a rate.

Revenue from contracts with customers divided into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors is presented in the table below.

Type of goods or services	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
Revenue from sales of goods and products, without excluding taxes and fees	19,129	5,893	845	15,450	6,125	104	(11,312)	**36,234**
Taxes and fees collected on behalf of third parties	*(3)*	*(8)*	-	*(138)*	*(74)*	-	-	***(223)***
Revenue from sales of goods and products, including:	**19,126**	**5,885**	**845**	**15,312**	**6,051**	**104**	**(11,312)**	**36,011**
Sale of electricity	18,276	3,923	594	12,113	4	-	(8,918)	**25,992**
Sale of distribution services	17	13	-	49	5,828	-	(88)	**5,819**
Sale of heat	159	1,864	-	10	-	-	-	**2,033**
Sale of energy origin rights	61	22	195	8	-	-	(39)	**247**
Regulatory system services	361	-	51	-	-	-	-	**412**
Sale of gas	-	-	-	508	-	-	(46)	**462**
Sale of fuel	-	-	-	1,247	-	-	(839)	**408**
Other sales of goods and materials	252	63	5	1,377	219	104	(1,382)	**638**
Revenue from sales of services	**100**	**107**	**2**	**877**	**57**	**394**	**(1,351)**	**186**
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**19,226**	**5,992**	**847**	**16,189**	**6,108**	**498**	**(12,663)**	**36,197**

for 2019 in accordance with EU IFRS (in PLN million)

Timing of transfer of goods or services	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
Revenue from sales of goods and services transferred to customers over time	18,813	5,800	645	12,680	5,832	-	(9,052)	**34,718**
Revenue from sales of goods and services transferred to customers at a particular point in time	413	192	202	3,509	276	498	(3,611)	**1,479**
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**19,226**	**5,992**	**847**	**16,189**	**6,108**	**498**	**(12,663)**	**36,197**

Revenue from sales in 2018, by category

A reconciliation of revenue disclosure by category and information on revenue that the entity discloses for each reporting segment is presented in the table below.

restated data	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
Revenue from contracts with customers	12,360	5,610	635	14,372	5,843	497	(13,506)	**25,811**
Revenue from LTC compensations	-	(120)	-	-	-	-	-	**(120)**
Operating lease income	15	18	204	5	35	3	(25)	**255**
TOTAL REVENUE FROM SALES	**12,375**	**5,508**	**839**	**14,377**	**5,878**	**500**	**(13,531)**	**25,946**

The total revenue amount includes PLN 69 million in sales transactions for which the value was not ultimately established as at the end of the reporting period.

Revenue from contracts with customers divided into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors is presented in the table below.

Type of goods or services *restated data*	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
Revenue from sales of goods and products, without excluding taxes and fees	12,273	5,544	634	14,222	6,379	130	(12,401)	**26,781**
Taxes and fees collected on behalf of third parties	*(3)*	*(30)*	-	*(470)*	*(603)*	-	-	***(1,106)***
Revenue from sales of goods and products, including:	**12,270**	**5,514**	**634**	**13,752**	**5,776**	**130**	**(12,401)**	**25,675**
Sale of electricity	11,544	3,018	452	10,146	3	-	(9,724)	**15,439**
Sale of distribution services	15	12	-	48	5,590	-	(87)	**5,578**
Sale of heat	168	1,841	-	12	-	-	-	**2,021**
Sale of energy origin rights	33	407	134	-	-	-	(16)	**558**
Regulatory system services	338	-	47	-	-	-	-	**385**
Sale of gas	-	3	-	533	-	-	(41)	**495**
Sale of fuel	-	-	-	1,795	-	-	(1,143)	**652**
Other sales of goods and materials	172	233	1	1,218	183	130	(1,390)	**547**
Revenue from sales of services	**90**	**96**	**1**	**620**	**67**	**367**	**(1,105)**	**136**
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**12,360**	**5,610**	**635**	**14,372**	**5,843**	**497**	**(13,506)**	**25,811**

Timing of transfer of goods or services *restated data*	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
Revenue from sales of goods and services transferred to customers over time	12,065	4,874	499	10,739	5,593	-	(9,852)	**23,918**
Revenue from sales of goods and services transferred to customers at a particular point in time	295	736	136	3,633	250	497	(3,654)	**1,893**
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**12,360**	**5,610**	**635**	**14,372**	**5,843**	**497**	**(13,506)**	**25,811**

for 2019 in accordance with EU IFRS (in PLN million)

7.2 Costs by nature and function

ACCOUNTING POLICIES

Cost of goods sold

Cost of goods sold includes:

- cost of products incurred in the reporting period adjusted for changes in products (finished products, semi-finished products and work-in-progress) and for cost of work performed by entity and capitalised,
- cost of electricity, goods and materials sold, at purchase prices, changes in fair value of financial instruments related to coal, measured at fair value, as well as changes in inventories of coal measured at fair value.

Costs of products which are directly attributable to revenue generated by the entity affect the entity's profit or loss for the reporting period in which the income was earned.

Costs of products that can only indirectly be attributed to revenue or other benefits received by the entity affect the entity's profit or loss to the extent they are attributable to the reporting period, ensuring their matching with revenue or other economic benefits.

	Year ended December 31, 2019	Year ended December 31, 2018 *restated data*
COSTS BY NATURE		
Depreciation, amortisation and impairment losses	11,417	3,985
Materials and energy consumption	5,370	4,900
External services	2,548	2,481
Taxes and fees	5,483	4,001
Employee benefits expenses	5,464	4,882
Other costs by nature	327	322
TOTAL COST BY NATURE	**30,609**	**20,571**
Change in products	(28)	(2)
Cost of products and services for the entity's own needs	(1,333)	(1,176)
Distribution and selling expenses	(1,361)	(1,406)
General and administrative expenses	(1,099)	(984)
Cost of goods and materials sold	13,345	4,041
COST OF GOODS SOLD	**40,133**	**21,044**

The increase in the cost of goods and materials sold results from the increase in the purchase of electricity on the wholesale market and on the balancing market and is caused by the increased turnover of electricity on the exchange, which is a consequence of the introduction of exchange sale requirement of 100%.

As disclosed in notes 3.1 and 3.3 to these financial statements, following impairment tests performed, the Group recognised and reversed impairment losses on non-current assets in the amount of PLN 7,129 million under Amortisation, depreciation and impairment losses. In 2019, the total amount of impairment losses recognised and reversed was PLN 7,518 million.

for 2019 in accordance with EU IFRS (in PLN million)

7.2.1 Depreciation, amortisation, disposal and impairment losses

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

Year ended December 31, 2019	Depreciation, amortisation, disposal PPE	IA	ROUA	IP	TOTAL	Impairment losses PPE	IA	TOTAL
Cost of goods sold	3,592	82	47	2	**3,723**	7,517	(4)	**7,513**
Distribution and selling expenses	15	3	-	-	**18**	-	-	**-**
General and administrative expenses	30	18	9	-	**57**	5	-	**5**
RECOGNISED IN PROFIT OR LOSS	**3,637**	**103**	**56**	**2**	**3,798**	**7,522**	**(4)**	**7,518**
Change in products	3	-	-	-	**3**	-	-	**-**
Work performed by entity and capitalised	97	-	1	-	**98**	-	-	**-**
TOTAL	**3,737**	**103**	**57**	**2**	**3,899**	**7,522**	**(4)**	**7,518**
Other operating income	-	-	-	-	**-**	(1)	-	**(1)**
Other operating expenses	-	-	-	-	**-**	3	-	**3**

Year ended December 31, 2018	Depreciation, amortisation, disposal PPE	IA	IP	TOTAL	Impairment losses PPE	IA	TOTAL
Cost of goods sold	3,319	95	2	**3,416**	402	-	**402**
Distribution and selling expenses	11	3	-	**14**	-	-	**-**
General and administrative expenses	39	20	-	**59**	1	1	**2**
RECOGNISED IN PROFIT OR LOSS	**3,369**	**118**	**2**	**3,489**	**403**	**1**	**404**
Change in products	-	1	-	1	-	-	-
Work performed by entity and capitalised	91	-	-	**91**	-	-	**-**
TOTAL	**3,460**	**119**	**2**	**3,581**	**403**	**1**	**404**
Other operating income	-	-	-	**-**	(2)	-	**(2)**

In the current period, the Group performed impairment tests on non-current assets, as a result of which it recognised/reversed impairment losses in the total amount of PLN 7,129 million. For a detailed description, see notes 3.1 and 3.3 to these financial statements.

Other impairment losses recognised in the reporting period concern capital expenditure incurred in the units for which impairment losses were recognised in previous periods.

Under "Depreciation, amortisation, disposal", the Group recognised the net disposals of PPE and IA of PLN 56 million.

7.2.2 Materials and energy consumption

	Year ended December 31, 2019	Year ended December 31, 2018
Cost of production fuel	4,203	3,854
Use of repair and consumable materials	602	524
Energy consumption	245	175
Other	320	347
TOTAL MATERIALS AND ENERGY CONSUMPTION	**5,370**	**4,900**

7.2.3 External services

	Year ended December 31, 2019	Year ended December 31, 2018
Transmission services	1,362	1,259
External services – repairs and operation	517	465
Transport services	174	239
IT services	107	86
Telecommunications services	22	24
Leases and rents	16	47
Consultancy services	49	80
Other	301	281
TOTAL COSTS OF EXTERNAL SERVICES	**2,548**	**2,481**

for 2019 in accordance with EU IFRS (in PLN million)

7.2.4 Employee benefits expenses and employee structure

	Year ended December 31, 2019	Year ended December 31, 2018
Payroll	3,914	3,640
Social security expenses	744	688
Retirement benefits expenses	49	37
Length-of-service awards, coal allowances	122	111
Other post-employment benefits	39	37
Change in provision for employee benefits	47	(145)
Costs of the Voluntary Redundancy Programme	-	3
Other employee benefits expenses	549	511
TOTAL EMPLOYEE BENEFITS EXPENSE, INCLUDING:	**5,464**	**4,882**
Items recognised in cost of goods sold	3,964	3,571
Items recognised in distribution and selling expenses	350	395
Items recognised in general and administrative expenses	744	653
Work performed by entity and capitalised	406	263

The item "Other employee benefits expenses" includes, among others, costs of employee pension schemes, contribution to the Company Social Benefits Fund, costs of medical benefits and training.

PGE Group's headcount (in FTEs) was as follows:

	As at December 31, 2019	As at December 31, 2018
Conventional Generation	21,530	21,492
District Heating	4,248	4,133
Renewables	595	529
Supply	2,433	2,361
Distribution	10,272	10,257
Other consolidated companies	2,856	2,670
TOTAL HEADCOUNT	**41,934**	**41,442**

7.3 Other operating income and expenses

ACCOUNTING POLICIES

Other operating income and expenses

Other operating income and expenses are recognised in the financial statements in accordance with the prudence and matching principle.

	Year ended December 31, 2019	Year ended December 31, 2018 *restated data*
NET OTHER OPERATING INCOME/(EXPENSES)		
Income from additional CO_2 emission allowances	1,300	-
Effect of revaluation of rehabilitation provisions	(835)	(146)
Valuation and exercise of derivatives, including:	289	(31)
- CO_2	*261*	*23*
- Coal	*28*	*(54)*
Penalties, fines and compensations	117	130
(Recognition)/Reversal of impairment losses on receivables	(68)	(68)
Grants	25	25
Donations given	(25)	(16)
Surpluses, discovery of assets/Settlement of stocktaking shortages	(17)	29
Repair of damage and failure	(8)	(12)
Reversal/(Recognition) of other provisions	6	4
Gain on disposal of PPE/IA	6	14
Other	2	41
TOTAL NET OTHER OPERATING INCOME/(EXPENSES)	**792**	**(30)**

Income from additional CO_2 emission allowances has been described in note 33.3 to these financial statements.

for 2019 in accordance with EU IFRS (in PLN million)

7.4 Finance income and costs

ACCOUNTING POLICIES

Finance income and costs

Interest income and costs are recognised as they accrue (using the effective interest rate method) by reference to the net carrying amount of a particular financial instrument as at the reporting date, in accordance with the principle of materiality.

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

	Year ended December 31, 2019	Year ended December 31, 2018 *restated data*
NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS		
Dividends	1	2
Interest, including:	(223)	(140)
Interest income calculated using the effective interest rate method	*36*	*45*
Revaluation	(11)	(10)
Reversal/(recognition) of impairment losses	3	(3)
Foreign exchange differences	(27)	(18)
Loss on disposal of investments	-	(1)
TOTAL NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS	**(257)**	**(170)**
OTHER NET FINANCE INCOME/(COSTS)		
Interest costs on non-financial items	(204)	(189)
Interest on statutory receivables	(1)	2
Reversal of provisions	(2)	8
Other	(7)	(12)
TOTAL NET OTHER FINANCE INCOME/(COSTS)	**(214)**	**(191)**
TOTAL NET FINANCE INCOME/(COSTS)	**(471)**	**(361)**

Interest costs mainly relate to bonds issued and credit and loans incurred as well as leases. In the current period, interest costs on lease liabilities amounted to PLN 41 million.

Interest costs on non-financial items relate mainly to rehabilitation provisions and employee benefit provisions.

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

2019	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**	**49.79%**
Revenue	9,012	1,510	-	15	50
Profit (loss) on continuing operations	(427)	22	(5)	(1)	2
Share of profit of equity-accounted entities	**(65)**	**4**	**(1)**	**-**	**1**
Elimination of unrealised gains and losses	4	-	-	-	-
SHARE OF PROFIT (LOSS) OF EQUITY-ACCOUNTED ENTITIES	**(61)**	**4**	**(1)**	**-**	**1**

2018	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**	**47.30%**
Revenue	9,371	1,556	-	15	70
Profit (loss) on continuing operations	493	104	(7)	-	1
Share of profit (loss) of equity-accounted entities	**76**	**17**	**(2)**	**-**	**-**
Elimination of unrealised gains and losses	(25)	5	-	-	-
SHARE OF PROFIT (LOSS) OF EQUITY-ACCOUNTED ENTITIES	**51**	**22**	**(2)**	**-**	**-**

On February 20, 2020, an agreement was concluded between the representatives of the Management Board of Polska Grupa Górnicza and the trade unions operating in the company, providing for an increase in salaries in Polska Grupa Górnicza as of January 1, 2020.

The Group makes a consolidation adjustment related to margin on sale of coal between Polska Grupa Górnicza and the Group and an adjustment to margin on Polimex - Mostostal contracts for the Group.

for 2019 in accordance with EU IFRS (in PLN million)

8. Income tax

ACCOUNTING POLICIES

Income tax

Income tax recognised in profit or loss comprises current and deferred income tax.

In the statement of profit or loss, the Group recognises the actual tax expense for the given reporting period, as determined by the Group companies in accordance with the provisions of the Corporate Income Tax Act, as well as movements in the balance of the deferred tax asset and deferred tax liability that is not settled against equity.

8.1 Tax in the statement of comprehensive income

The main items of the tax expense for the annual periods ended December 31, 2019 and December 31, 2018 were as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
INCOME TAX RECOGNISED IN THE STATEMENT OF PROFIT OR LOSS		
Current income tax	572	350
Deferred income tax	(1,337)	173
Adjustments to deferred income tax	(10)	158
INCOME TAX EXPENSE RECOGNISED IN THE STATEMENT OF PROFIT OR LOSS	**(775)**	**681**
INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME		
On actuarial gains (losses) on valuation of employee benefit provisions	(49)	(39)
On valuation of hedging instruments	(65)	(31)
(Tax benefit)/tax expense recognised in other comprehensive income (equity)	**(114)**	**(70)**

8.2 Effective tax rate

The table below presents a reconciliation of income tax on pre-tax profit/loss computed at the statutory rate with income tax computed at the effective tax rate of the Group:

	Year ended December 31, 2019	Year ended December 31, 2018
PROFIT / (LOSS) BEFORE TAX	**(4,703)**	**2,192**
Income tax at the 19% statutory rate applicable in Poland	(894)	416
ITEMS ADJUSTING INCOME TAX		
Adjustments to deferred income tax	(10)	31
Non-deductible costs	65	108
Recognition of rehabilitation provisions with respect to which no deferred tax was recognised	110	127
Non-taxable income	(9)	(41)
Other adjustments	(37)	40
INCOME TAX AT THE EFFECTIVE TAX RATE **Income tax (expense) in the consolidated financial statements**	**(775)**	**681**
EFFECTIVE TAX RATE	**16%**	**31%**

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

9. Property, plant and equipment

ACCOUNTING POLICIES

Property, plant and equipment

Property, plant and equipment are assets:

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

After initial recognition, an item of property, plant and equipment is measured at carrying amount, i.e. initial value (or deemed cost for items of property, plant and equipment used before the transition to IFRSs) less any accumulated depreciation and any impairment losses. Initial value of an item of property, plant and equipment comprises its cost, which includes all costs directly related to its acquisition and bringing it to working condition for its intended use. The cost comprises estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having it used for purposes other than to produce inventories. As at the date of acquiring or manufacturing of an item of property, plant and equipment, the Group identifies and distinguishes all components being a part of a respective asset that are significant as compared to the acquisition price, cost of manufacture or deemed cost, and depreciates them separately. The Group also recognises the costs of major overhauls, periodic inspections that meet the definition of component as components of property, plant and equipment.

The depreciable amount is the cost of an item of property, plan and equipment less its residual value. Depreciation commences when the asset is available for use. Depreciation of property, plant and equipment is based on a schedule plan reflecting the future useful life of the item of property, plant and equipment. The depreciation method used reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group. Major overhauls and periodic inspections recognised as a component of property, plant and equipment are depreciated starting from the month following the completion of the inspection/overhaul until the month in which the next inspection/overhaul commences.

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

Group	Average remaining depreciation period in years	Most frequently applied depreciation periods in years
Buildings, premises, civil and marine engineering structures	22	20 – 60
Machinery and technical equipment	18	4 – 40
Vehicles	8	4 – 14
Other property, plant and equipment	4	5 – 10

Depreciation methods, depreciation rates and residual values of property, plant and equipment are verified on an annual basis. Changes identified during verification are accounted for as a change in an accounting estimate and adjustments, if any, to depreciation charges are recognised in the year in which the verification took place and in subsequent periods.

Property, plant and equipment under construction include assets in the course of construction or assembly, and are measured at cost less any impairment losses. Property, plant and equipment under construction are not depreciated until their construction is completed and they are available for use.

Borrowing costs

Borrowing costs are interest and other costs incurred by the Group in connection with the borrowing of funds. Borrowing costs which may be directly attributed to an acquisition, construction or production of a qualifying asset are capitalised as part of the cost of such an asset, Other borrowing costs are recognised as costs for the period. Exchange differences arising from foreign currency borrowings are capitalised by the Group to the extent that they are regarded as an adjustment to interest costs.

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Impairment of non-financial non-current assets

As at each reporting date, the Group assesses whether there is any indication of impairment of its non-financial non-current assets. If such indication exists, or in case an annual impairment testing is required, the Group makes an estimate of the recoverable amount of that asset or the asset's cash-generating unit.

The recoverable amount of an asset or cash-generating unit is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for individual assets, unless a given asset does not generate separate cash flows largely independent from those generated by other assets or asset groups. If the carrying amount of an asset is higher than its recoverable amount, the value of the asset is impaired and an impairment loss is recognised up to the established recoverable amount. In assessing value in use, the projected cash flows are discounted to their present value using a pre-tax discount rate which reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the expense categories consistent with the function of the impaired asset.

Stripping costs

If the conditions of the IFRIC 20 interpretation are met, mines also recognize as an item of property, plant and equipment so-called deferred stripping cost, i.e. stripping costs incurred during the production phase. The value of the assets arising due to stripping costs in the production phase is determined based on the model that takes into account, inter alia, the estimated value of the overall N-W ratio (the proportion of overburden to lignite) and annual real rate of N-W. This ratio is calculated as the ratio of the remaining quantity of overburden to the remaining coal reserves to be extracted from the date of application of IFRIC 20 interpretation to the end of coal extraction from the given deposit. This ratio is calculated at the end of each year based on the best knowledge of the technical experts employed in the mine and may be subject to change in case of acquisition of new information on the size of the deposit and the way it is located underground.

An asset arising due to stripping costs is systematically depreciated using the natural method of depreciation based on the amount of coal extracted from the given deposit.

Measurement of assets arising from capitalisation of stripping costs in the production phase of surface mine

The value of the assets arising due to stripping costs in the production phase is determined based on the model that takes into account, inter alia, the estimated value of the overall N-W ratio.

Costs of post-mining rehabilitation of surface mines

Surface mines operating in the Group capitalise in the value of the corresponding component of tangible assets estimated costs of rehabilitation of post-exploitation mining properties in the proportion of the volume of the excavation resulting from stripping of overburden at the reporting date to the planned volume of excavation resulting from stripping of overburden at the end of exploitation period.

Capitalised costs of rehabilitation are systematically depreciated using the natural method of depreciation based on the amount of lignite extracted from a particular field.

Property, plant and equipment subject to operating leases

The Group classifies each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee. All other types of lease are treated as operating leases.

Assets subject to operating leases are presented in the statement of financial position according to the nature of the asset.

The entity, as a lessor disaggregates each class of property, plant and equipment into assets subject to operating leases and assets not subject to operating leases.

	As at December 31, 2019	As at December 31, 2018
Land	226	236
Buildings and structures	24,315	21,011
Technical equipment	25,852	22,446
Vehicles	370	342
Other property, plant and equipment	2,832	3,428
PPA under construction	6,095	14,811
NET VALUE OF PROPERTY, PLANT AND EQUIPMENT	**59,690**	**62,274**

for 2019 in accordance with EU IFRS (in PLN million)

Change in property, plant and equipment by group

	Land	Buildings and structures	Technical equipment	Vehicles	Other PPE	PPE under construction	Total
GROSS CARRYING AMOUNT							
AS AT JANUARY 1, 2019	**284**	**37,921**	**48,076**	**812**	**6,487**	**15,318**	**108,898**
Capital expenditures	-	1	22	2	1	6,796	6,822
Settlement of PPA under construction	6	5,852	8,752	93	488	(15,191)	-
Sale, liquidation	-	(175)	(386)	(22)	(10)	-	(593)
Purchase of new subsidiaries	-	-	-	6	-	-	6
Effect of changes in assumptions for the rehabilitation provision	1	14	12	-	1,841	-	1,868
Reclassification to ROUA	(35)	-	-	(13)	-	(4)	(52)
Other	-	20	(8)	1	(2)	46	57
AS AT DECEMBER 31, 2019	**256**	**43,633**	**56,468**	**879**	**8,805**	**6,965**	**117,006**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES							
AS AT JANUARY 1, 2019	**48**	**16,910**	**25,630**	**470**	**3,059**	**507**	**46,624**
Depreciation and net value of liquidation included in costs by nature	3	1,429	1,975	60	268	2	3,737
Impairment losses	(3)	1,153	3,382	1	2,656	335	7,524
Sale, liquidation	-	(170)	(377)	(18)	(10)	-	(575)
Reclassification to ROUA	(18)	-	-	(7)	-	-	(25)
Other	-	(4)	6	3	-	26	31
AS AT DECEMBER 31, 2019	**30**	**19,318**	**30,616**	**509**	**5,973**	**870**	**57,316**
NET CARRYING AMOUNT AS AT DECEMBER 31, 2019	**226**	**24,315**	**25,852**	**370**	**2,832**	**6,095**	**59,690**

	Land	Buildings and structures	Technical equipment	Vehicles	Other PPE	PPA under construction	Total
GROSS CARRYING AMOUNT							
AS AT JANUARY 1, 2018	**290**	**36,275**	**46,457**	**757**	**5,810**	**12,814**	**102,403**
Capital expenditures	-	-	1	10	1	6,727	6,739
Settlement of PPA under construction	3	1,748	2,055	55	303	(4,164)	-
Sale, liquidation	(1)	(130)	(423)	(10)	(7)	(3)	(574)
Purchase of new subsidiaries	-	-	5	1	-	1	7
Other	(8)	28	(19)	(1)	380	(57)	323
AS AT DECEMBER 31, 2018	**284**	**37,921**	**48,076**	**812**	**6,487**	**15,318**	**108,898**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES							
AS AT JANUARY 1, 2018	**42**	**15,609**	**23,998**	**418**	**2,858**	**468**	**43,393**
Depreciation and net value of liquidation included in costs by nature	5	1,371	1,816	61	206	1	3,460
Impairment losses	-	61	255	-	2	83	401
Sale, liquidation	-	(127)	(419)	(9)	(7)	-	(562)
Other	1	(4)	(20)	-	-	(45)	(68)
AS AT DECEMBER 31, 2018	**48**	**16,910**	**25,630**	**470**	**3,059**	**507**	**46,624**
NET CARRYING AMOUNT AS AT DECEMBER 31, 2018	**236**	**21,011**	**22,446**	**342**	**3,428**	**14,811**	**62,274**

Other changes in the gross carrying amount of property, plant and equipment in the comparative period comprise mainly changes in assumptions and capitalisation of the cost of rehabilitation provisions.

Significant additions and disposals of property, plant and equipment

The largest expenditure was incurred by the Conventional Generation segment (PLN 4,016 million) and the Distribution segment (PLN 2,207 million). The key expenditure items included: construction of units 5 and 6 at the Opole power plant (PLN 910 million) and construction of a unit at the Turów power plant (PLN 527 million).

Borrowing costs

During the year ended December 31, 2019, PGE Group capitalised borrowing costs of approximately PLN 136 million (PLN 147 million in the comparative period) in property, plant and equipment. The average capitalisation rate of borrowing costs for the year ended December 31, 2019 was 49% (64% in the comparative period).

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Capitalisation of stripping costs

In the current period, in accordance with the requirements of IFRIC 20, the Group capitalized expenditures regarding stripping costs in the production phase of PLN 440 million. At the same time, the Group recognised depreciation of capitalised stripping costs of PLN 144 million, and impairment losses of PLN 883 million. Capitalised stripping costs are presented as "other property, plant and equipment".

Capitalisation of changes in measurement of rehabilitation provision

In the property, plant and equipment, PGE Group recognises changes in rehabilitation provision assigned to stripping of overburden, provision for rehabilitation of post-construction grounds of wind farms and provision for liquidation of property, plant and equipment. As at December 31, 2019, the net carrying amount of the capitalised portion of rehabilitation provisions (after impairment and depreciation) amounted to PLN 1,146 million (including PLN 1,031 million of the provision for rehabilitation of post-exploitation mining properties). In comparative period, the net carrying amount of the capitalised portion of rehabilitation provisions amounted to PLN 1,138 million (including PLN 1,041 million of the provision for rehabilitation of post-exploitation mining properties). Capitalised rehabilitation provision is presented in: “land” and “other property, plant and equipment”.

Depreciation periods of property, plant and equipment

Depreciation rates and charges are determined based on the anticipated economic useful lives of property, plant and equipment, as well as their estimated residual values. Capitalised costs of major overhauls are depreciated throughout the period until the beginning of the next major overhaul.

Estimated economic useful lives of assets are subject to verification at least once a financial year. Depreciation periods applied are disclosed in notes 9, 11 and 12.

The verification of the economic useful lives of property, plant and equipment and intangible assets conducted in 2019 resulted in a decrease in the depreciation costs for 2019 by a total of PLN 82 million.

Property, plant and equipment subject to operating leases

The table below presents changes in property, plant and equipment subject to operating leases by class of the underlying asset.

Changes in property, plant and equipment subject to operating leases

	Land	Buildings and structures	Technical equipment	Other PPE	Total
GROSS CARRYING AMOUNT					
AS AT JANUARY 1, 2019	**27**	**518**	**513**	**-**	**1,058**
Capital expenditures	-	-	-	3	3
Settlement of PPA under construction	-	9	20	-	29
Sale, liquidation	-	-	(2)	-	(2)
Other	1	-	-	(1)	-
AS AT DECEMBER 31, 2019	**28**	**527**	**531**	**2**	**1,088**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES					
AS AT JANUARY 1, 2019	**4**	**286**	**376**	**-**	**666**
Depreciation and net value of liquidation included in costs by nature	-	26	28	-	54
Impairment losses	-	1	-	-	1
Other	-	-	(1)	-	(1)
AS AT DECEMBER 31, 2019	**4**	**313**	**403**	**-**	**720**
NET CARRYING AMOUNT AS AT DECEMBER 31, 2019	**24**	**214**	**128**	**2**	**368**

The amounts presented in the table above are mainly related to the contract for the provision of regulatory system services by the pumped-storage power plants of the Group.

The provision of regulatory system services consists in the disposal and use of generation units by the transmission system operator for the purpose of interventional balancing of active and passive capacity in the National Power System (PPS) in order to ensure ongoing security of PPS operation. The Group assessed that the contract for provision of regulatory system services concluded with Polskie Sieci Elektroenergetyczne S.A. contains a lease. The Group, as the lessor, has separated the property, plant and equipment covered by this contract.

10. Investment property

ACCOUNTING POLICIES

Investment property

At initial recognition, investment property is measured at cost, taking into account transaction costs. If an investment property was purchased, the cost of a purchased investment property comprises its purchase price and any directly attributable expenditure, such as legal services and tax on property purchase.

Investment property at PGE Group companies comprises mainly buildings located in the entity's locations, leased fully or partially to third parties. Fair value of investment property is not significantly different than valuation determined under the historical cost convention in light of the materiality related to the consolidated financial statements.

In the present period, the Group recognised PLN 1 million of expenditure on investment property, whereas depreciation charges reached PLN 2 million.

11. Intangible assets

ACCOUNTING POLICIES

Intangible assets

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

- non-current property rights acquired for commercial use, which have estimated useful lives of more than one year and are to be used for the Company's own needs,
- development costs,
- goodwill, excluding internally generated goodwill,
- easements acquired for power lines and received free of charge,
- intangible assets not commissioned for use.

Intangible assets are initially recognised at cost if they are acquired in separate transactions (for development work). Subsequent to initial recognition, intangible assets are carried at cost less accumulated amortisation and impairment losses. Expenditure incurred on internally generated intangible assets, excluding capitalised development costs, is not capitalised and is charged against profits in the period in which it is incurred.

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

The amount of an intangible asset with a definite useful life subject to amortisation is amortised on a systematic basis over its useful life. Amortisation starts on the first day of the month following the month in which the asset is available for use.

Intangible assets with indefinite useful lives and intangible assets which have not been placed in service are tested for impairment on a cyclical (annual) basis.

Other intangible assets are tested for impairment only if there are indications of impairment. If any indications of impairment are identified and the carrying amount exceeds the estimated recoverable amount, then the carrying amount of such assets or cash-generating units to which such assets belong is written down to the recoverable amount. The Group recognised impairment losses on intangible assets in the statement of profit and loss, under costs by nature. This also applies to impairment losses on intangible assets not yet put into service or those resulting from the impairment of an entire CGU.

The amortisation period and the amortisation method for an intangible asset are reviewed at the end of each financial year. Changes identified during verification are accounted for as a change in an accounting estimates. Amortisation periods for intangible assets are as follows:

Group	**Average remaining amortisation period in years**	**Total amortisation periods applied in years**
Patents and licences	3	3–10
Development costs	1	3–15
Other	13	3–25

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	As at December 31, 2019	As at December 31, 2018
Development costs	3	1
Goodwill	205	198
Software	195	150
Other licences and patents	32	39
Acquired right of perpetual usufruct of land	-	352
Other intangible assets	157	154
Intangible assets not placed in service	143	152
NET CARRYING AMOUNT OF INTANGIBLE ASSETS	**735**	**1,046**

Change in intangible assets

	Development costs	Goodwill	Software	Other licences and patents	Acquired RPUL	Other intangible assets	Intangible assets not placed in service	Total
GROSS CARRYING AMOUNT AS AT JANUARY 1, 2019	**19**	**198**	**682**	**143**	**366**	**244**	**160**	**1,812**
Capital expenditures	-	-	-	-	-	-	140	**140**
Settlement of intangible assets not placed in service	-	-	118	13	-	14	(145)	**-**
Sale, liquidation	-	-	(20)	(2)	-	(2)	-	**(24)**
Reclassification to ROUA	-	-	-	-	(366)	(14)	-	**(380)**
Purchase of new subsidiaries	2	7	-	1	-	-	-	**10**
Other	-	-	16	(5)	-	(7)	(2)	**2**
AS AT DECEMBER 31, 2019	**21**	**205**	**796**	**150**	**-**	**235**	**153**	**1,560**
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES AS AT JANUARY 1, 2019	**18**	**-**	**532**	**104**	**14**	**90**	**8**	**766**
Amortisation, disposal	1	-	75	17	-	10	-	**103**
Impairment losses	-	-	-	4	-	(9)	1	**(4)**
Sale, liquidation	-	-	(20)	(2)		(2)		**(24)**
Reclassification to ROUA	-	-	-	-	(14)	(3)	-	**(17)**
Purchase of new subsidiaries	-	-	-	1	-	-	-	**1**
Other	(1)	-	14	(6)	-	(8)	1	**-**
AS AT DECEMBER 31, 2019	**18**	**-**	**601**	**118**	**-**	**78**	**10**	**825**
NET CARRYING AMOUNT AS AT DECEMBER 31, 2019	**3**	**205**	**195**	**32**	**-**	**157**	**143**	**735**

	Development costs	Goodwill	Software	Other licences and patents	Acquired RPUL	Other intangible assets	Intangible assets not placed in service	Total
GROSS CARRYING AMOUNT AS AT JANUARY 1, 2018	**19**	**199**	**428**	**302**	**364**	**229**	**145**	**1,686**
Capital expenditures	-	-	-	-	-	-	116	**116**
Settlement of intangible assets not placed in service	-	-	84	12	1	11	(108)	**-**
Sale, liquidation	-	-	(3)	(1)	(4)	-	(1)	**(9)**
Reclassifications	-	-	173	(173)	-	-	-	**-**
Other	-	(1)	-	3	5	4	8	**19**
AS AT DECEMBER 31, 2018	**19**	**198**	**682**	**143**	**366**	**244**	**160**	**1,812**
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES								
AS AT JANUARY 1, 2018	**17**	**-**	**379**	**161**	**11**	**78**	**8**	**654**
Amortisation, disposal	1	-	79	19	8	12	-	**119**
Impairment losses	-	-	-	-	-	-	1	**1**
Sale, liquidation	-	-	(3)	(1)	(4)	-	-	**(8)**
Reclassifications	-	-	77	(77)	-	-	-	**-**
Other	-	-	-	2	(1)	-	(1)	**-**
AS AT DECEMBER 31, 2018	**18**	**-**	**532**	**104**	**14**	**90**	**8**	**766**
NET CARRYING AMOUNT AS AT DECEMBER 31, 2018	**1**	**198**	**150**	**39**	**352**	**154**	**152**	**1,046**

Intangible assets not placed in service

The presented amount of intangible assets not placed in service as at December 31, 2019 concerns mainly programs for implementation of IT systems in the Group and expenditures incurred on exploration and evaluation of deposits in the Złoczew field.

Available financial projections do not indicate any impairment of intangible assets not yet placed in service.

Goodwill

As at the reporting date of December 31, 2019, goodwill was allocated to the following segments:

- District Heating – PLN 194 million,
- Renewables – PLN 4 million,
- Other Activities – PLN 7 million.

12. Right-of-use assets

ACCOUNTING POLICIES

Right-of-use assets - accounting policy applied from January 1, 2019

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 16 does not apply to lease agreements to explore for or use lignite resources, including in particular agreements for the establishment of mining rights and RPUL, rental agreements and similar land lease agreements for mining sites, forefields and dumping sites. In accordance with the Group's interpretation, agreements concerning the production from lignite deposits are excluded from the scope of IFRS 16.

The Group defines the lease period as the non-cancellable period for which a lessee has the right to use an underlying asset, together with both:

- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option and
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

In determining the lease term and assessing the length of the non-cancellable period of a lease, the Group applies the definition of a contract and determine the period for which the contract is enforceable. A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty. The concept of a penalty includes any economic 'disadvantage' of any kind that creates barriers to exit from the contract.

If only a lessee has the right to terminate a lease, that right is considered to be an option to terminate the lease available to the lessee that an entity considers when determining the lease term. If only a lessor has the right to terminate a lease, the non-cancellable period of the lease includes the period covered by the option to terminate the lease.

The lease term begins at the commencement date (date of making the underlying asset available for use by the lessee) and includes any rent-free periods provided to the lessee by the lessor.

At the lease commencement date, the Group takes into account all relevant facts and circumstances that create an economic incentive for the lessee to exercise, or not to exercise, the option to extend the lease or to purchase the underlying asset, or not to exercise an option to terminate the lease.

The interest rate implicit in the lease is the rate that causes the present value of the lease payments and the unguaranteed residual value to equal the sum of the fair value of the underlying asset and any initial direct costs of the lessor.

The lessee's incremental borrowing rate of interest is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

The lessee recognises a right-of-use asset at the commencement date.

The Group as a lessee applies the exemption in respect of recognition, measurement and presentation in relation to:

- short-term leases, i.e. leases with a term of up to 12 months and without a purchase option;
- leases for which the underlying asset is of low value and is not sub-leased. The Group considers that the underlying asset is of low value (value of the asset when it is new, regardless of the age of the asset being leased) if that value is not higher than PLN 18 thousand.

The election for short-term leases is made by class of underlying asset to which the right of use relates. The Group uses the exemption for all contracts concluded. The election for leases for which the underlying asset is of low value is made on a lease-by-lease basis.

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At the commencement date, the lessee measures the right-of-use asset at cost. The cost of the right-of-use asset should comprise:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received,
- any initial direct costs incurred by the lessee; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

After the commencement date, a lessee measures the right-of-use asset applying a cost model. The lessee measures the right-of-use asset at cost:

- less any accumulated depreciation and any accumulated impairment losses. Depreciation charges are recognised throughout the lease term, from the moment the asset is placed in service. No depreciation charges are recognised for right-of-use assets classified as non-current assets held for sale.
- adjusted for any remeasurement of the lease liability (e.g. to reflect revised lease payments).

Leases - accounting policy applied until December 31, 2018

Classification of the lease is made at the lease inception, based on the economic substance of the lease agreement.

A lease, tenancy contract or other contract of a similar nature under which transfer to the Group substantially all the risks and rewards of ownership is classified as a finance lease. The subject of a finance lease is recognized in assets as at the lease commencement date at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Any initial direct costs of the lessee are added to the amount recognised as an asset. Lease payments shall be apportioned between reduction of the outstanding liability balance and the financial expenses in such a way as to maintain a constant discount rate in relation to the unsettled part of the liability.Financial expenses are recognised as financial expenses in the statement of comprehensive income during the lease period.

An operating lease is a lease under which the lessor retains significant part of the risks and rewards incidental to ownership of the asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

The following useful lives are adopted for particular groups of right-of-use assets:

Group	Average remaining depreciation period in years	Applied depreciation periods in years
Lease and rental contracts for land	15	2–70
RPUL	50	12–90
Easements	24	25–35
Buildings and structures	6	2–60
Other	6	1–26

	As at December 31, 2019
Lease and rental contracts for land	212
RPUL	897
Easements	59
Buildings and structures	99
Other	36
NET CARRYING AMOUNT OF RIGHT-OF-USE ASSETS	**1,303**

for 2019 in accordance with EU IFRS (in PLN million)

Changes in right-of-use assets by group

	Leases and rental of land	RPUL	Easements	Buildings and structures	Other	Total
GROSS CARRYING AMOUNT						
AS AT JANUARY 1, 2019	-	-	-	-	-	-
Entry into force of IFRS 16	182	561	42	86	24	895
Reclassification from PPE/IA	35	366	14	-	17	432
Changes, revaluation of liability	1	1	1	13	-	16
Contracts concluded in the current period	4	3	7	23	9	46
Other	16	(2)	-	(3)	-	11
AS AT DECEMBER 31, 2019	**238**	**929**	**64**	**119**	**50**	**1,400**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES						
AS AT JANUARY 1, 2019	-	-	-	-	-	-
Reclassification from PPE/IA	18	14	3	-	7	42
Amortisation and depreciation	14	18	2	16	7	57
Impairment losses	(6)	-	-	4	2	-
Other	-	-	-	-	(2)	(2)
AS AT DECEMBER 31, 2019	**26**	**32**	**5**	**20**	**14**	**97**
NET CARRYING AMOUNT AS AT DECEMBER 31, 2019	**212**	**897**	**59**	**99**	**36**	**1,303**

13. Shares accounted for using the equity method

	As at December 31, 2019	As at December 31, 2018
Polska Grupa Górnicza Sp. z o.o., Katowice	570	640
Polimex-Mostostal S.A., Warsaw	112	108
ElectroMobility Poland S.A., Warsaw	14	15
PEC Bogatynia Sp. z o.o., Bogatynia	8	8
Energopomiar Sp. z o.o. , Gliwice	11	5
SHARES ACCOUNTED FOR USING THE EQUITY METHOD	**715**	**776**

	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 DECEMBER 31, 2019					
Current assets	2,226	964	40	5	28
Non-current assets	10,220	718	18	21	18
Current liabilities	4,040	779	1	2	15
Non-current liabilities	4,695	320	-	-	8
NET ASSETS	**3,711**	**583**	**57**	**24**	**23**
Share in net assets	**569**	**96**	**14**	**8**	**11**
Goodwill	1	16	-	-	-
SHARES ACCOUNTED FOR USING THE EQUITY METHOD	**570**	**112**	**14**	**8**	**11**

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**	**47.30%**
AS AT DECEMBER 31, 2018					
Current assets	2,759	1,223	52	5	31
Non-current assets	9,528	713	9	22	19
Current liabilities	3,679	840	2	2	18
Non-current liabilities	4,435	538	-	1	9
NET ASSETS	**4,173**	**558**	**59**	**24**	**23**
Share in net assets	**639**	**92**	**15**	**8**	**11**
Goodwill	1	16	-	-	(6)
SHARES ACCOUNTED FOR USING THE EQUITY METHOD	**640**	**108**	**15**	**8**	**5**

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14. Deferred tax in the statement of financial position

ACCOUNTING POLICIES

Deferred income tax

The Group recognizes deferred tax liabilities and deferred tax assets in respect of temporary differences between the carrying values of assets or liabilities and their tax bases, and tax loss carryforwards.

Deferred tax liability is recognised in relation to all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be generated which will enable the deductible temporary differences to be offset.

The Group separately recognizes deferred tax assets due to deductible temporary differences connected with recognition of lease liabilities as the entry into force of IFRS 16 and deferred tax liabilities due to positive temporary differences to RPUL.

The current carrying amount of deferred tax assets and liabilities is reviewed at the end of each reporting period. Deferred tax assets and liabilities are treated entirely as non-current. The Group offsets deferred tax assets and liabilities at the level of the capital group and at the level of individual PGE Group companies.

14.1 Deferred income tax assets

	As at December 31, 2019	As at December 31, 2018
Difference between tax value and carrying amount of property, plant and equipment	3,403	1,985
Rehabilitation provision	984	549
Provisions for employee benefits	677	604
Provision for purchase of CO_2 emission allowances	671	365
Difference between tax value and carrying amount of financial liabilities	429	301
Difference between carrying amount and tax value of right-of-use assets	171	-
Tax losses	160	37
Other provisions	151	131
Difference between tax value and carrying amount of financial assets	146	65
LTC compensations	89	61
Difference between tax value and carrying amount of inventories	21	24
Energy infrastructure acquired free of charge and connection fees received	31	34
Other	14	12
DEFERRED TAX ASSETS	**6,947**	**4,168**

Change in deferred tax assets

	Year ended December 31, 2019	Year ended December 31, 2018
AS AT JANUARY 1	**4,168**	**4,370**
Changes in correspondence with profit or loss	2,474	(151)
Changes in correspondence with retained earnings	-	(73)
Changes in correspondence with other comprehensive income	49	42
Recognition of deferred tax in connection with demerger of subsidiaries	254	-
Other changes	2	(20)
AS AT DECEMBER 31	**6,947**	**4,168**

Changes in the correspondence with other comprehensive income concern changes in deferred tax on a part of the provision for employee benefits related to post-employment benefits. Other changes in each item are recognised in profit or loss.

for 2019 in accordance with EU IFRS (in PLN million)

14.2 Deferred tax liabilities

	As at December 31, 2019	As at December 31, 2018
Difference between tax value and carrying amount of property, plant and equipment	5,281	4,265
CO_2 emission allowances	476	302
Difference between tax value and carrying amount of financial assets	447	399
Difference between carrying amount and tax value of lease liabilities	169	-
Receivables from recognised compensations – Act on Electricity Prices	58	23
Difference between tax value and carrying amount of energy origin units	25	48
Difference between tax value and carrying amount of financial liabilities	12	47
Other	81	148
DEFERRED TAX LIABILITIES	**6,549**	**5,232**

Change in deferred tax liabilities

	Year ended December 31, 2019	Year ended December 31, 2018
AS AT JANUARY 1	**5,232**	**5,101**
Changes in correspondence with profit or loss	1,127	180
Changes in correspondence with retained earnings	-	(4)
Changes in correspondence with other comprehensive income	(65)	(28)
Recognition of deferred tax in connection with demerger of subsidiaries	254	-
Other changes	1	(17)
AS AT DECEMBER 31	**6,549**	**5,232**

Changes in the correspondence with other comprehensive income concern changes in deferred tax on the measurement of hedging instruments. Other changes in each item are recognised in profit or loss.

The Group does not creat deferred tax liabilities related to positive temporary differences of shares in substidiaries and associates due to the uncertainty as to their utilisation in foreseeable future and parent company is not able to control term of reversal termporary differences.Positive temporary difference connected with the shares in subsidiaries and associastes would be PLN 2,744 milllion and deferred tax liability would be PLN 521 million.

Group's deferred tax after offset of assets and liabilities at each company and the tax group

Deferred tax assets	1,318	552
Income tax liabilities	(920)	(1,616)

15. Inventories

ACCOUNTING POLICIES

Inventories

Inventories are assets held for sale in the ordinary course of business, assets in the production process for sale and materials and supplies that are consumed in production or during the provision of services.

Inventories include:

- materials,
- products,
- semi-finished products and work in progress,
- energy origin rights – purchased, generated or received property rights arising from certificates of origin for energy generated from renewable energy sources, property rights arising from certificates of origin for energy generated in cogeneration and property rights arising from energy efficiency certificates,
- goods (in particular CO_2 emission allowances intended for resale).

Inventories (except for CO_2 emission allowances acquired in order to realise gains) are measured at the lower of cost and net realisable value.

Allowances acquired in order to realise gains from changes in market prices are recognised at fair value less costs to sell.

The cost of inventories is measured in accordance with the following rules:

- materials and goods (except for CO_2 emission allowances and property rights) – in line with the FIFO method;
- CO_2 emission allowances – by way of detailed identification;
- property rights – by way of detailed identification.

As at reporting date, the cost of inventories cannot be higher than their net realisable value. Inventory write-downs are recognised under other operating expenses. When the realisable value of a specific item of inventory is recovered fully or partially, its carrying amount is adjusted by decreasing the write-down.

for 2019 in accordance with EU IFRS (in PLN million)

	As at December 31, 2019			As at December 31, 2018		
	Initial value	Revaluation	Net carrying amount	Initial value	Revaluation	Net carrying amount
Hard coal	1,077	-	1,077	959	-	959
Materials for repairs and operations	660	(32)	628	683	(43)	640
Mazut	43	-	43	52	-	52
Other materials	70	(14)	56	75	(13)	62
TOTAL MATERIALS	**1,850**	**(46)**	**1,804**	**1,769**	**(56)**	**1,713**
Green property rights	1,254	(158)	1,096	736	(160)	576
Yellow property rights	-	-	-	171	(2)	169
Other property rights	77	(1)	76	15	(1)	14
ENERGY ORIGIN RIGHTS	**1,331**	**(159)**	**1,172**	**922**	**(163)**	**759**
CO_2 emission allowances	1,303	-	1,303	4	-	4
Hard coal	125	-	125	140	-	140
Other goods	28	(2)	26	17	(2)	15
TOTAL GOODS	**1,456**	**(2)**	**1,454**	**161**	**(2)**	**159**
OTHER INVENTORIES	**79**	**-**	**79**	**68**	**-**	**68**
TOTAL INVENTORIES	**4,716**	**(207)**	**4,509**	**2,920**	**(221)**	**2,699**

	Year ended December 31, 2019	Year ended December 31, 2018
REVALUATION OF INVENTORIES AS AT JANUARY 1	**(221)**	**(205)**
Recognition of write-downs	(10)	(36)
Reversal of write-downs	19	14
Utilisation of write-downs	1	5
Other changes	4	1
REVALUATION OF INVENTORIES AS AT DECEMBER 31	**(207)**	**(221)**

As described in note 33.3 to these consolidated financial statements, the CO_2 emission allowances include EUA resulting from the additional allocation of the CO_2 emission allowances for 2013-2017. The allowances are measured at each reporting date at fair value. As at December 31, 2019, their fair value amounted to PLN 1,300 million. These allowances are held for trading purposes.

As described in note 25.5 to these financial statements, inventories in the amount of PLN 14 million were pledged as collateral for repayment of liabilities or contingent liabilities.

16. CO_2 emission allowances for captive use

ACCOUNTING POLICIES

CO_2 emission allowances for captive use

A separate item of the statement of financial position presents CO_2 emission allowances for captive use of generation units. EUA received free of charge are presented in the statement of financial position at nominal amount, i.e. at nil value. Purchased emission allowances are recognised at purchase price. The cost of CO_2 emission allowances for captive use is measured by way of detailed identification.

CO_2 emission allowances are received by power generating units belonging to PGE Group, which are covered by the Act dated June 12, 2015 on a scheme for greenhouse gas emission allowance trading. Starting from 2013, only part of emission rights for production of heat will be granted unconditionally, while for production of electricity there is, as a rule, lack of free of charge EUA. Pursuant to Article 10c of Directive 2009/29/EC of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowance trading within the Community, the derogation is possible providing the realization of investment tasks included in National Investment Plan, which allow to reduce CO_2 emission. The condition under which free of charge CO_2 emission rights can be obtained is presentation of factual-financial statements from realization of tasks included in National Investment Plan.

In September 2018, PGE Group submitted another report on investments included in the National Investment Plan in order to obtain CO_2 EUA allocations concerning electricity generated in 2018. The allowances were issued in April 2019. The Group received 14 million EUAs for 2018 and additional 11 million EUAs (held for trading purposes) for years 2013-2017 as described in note 33.3 to these financial statements.

In the case of EUAs for CO_2 emissions related to heating, the allocation schedule is different - in February 2020 EUAs were allocated for the coverage of CO_2 emissions for 2020 (1 million EUAs).

In September 2019, PGE Group submitted further reports on investments included in the National Investment Plan in order to obtain CO_2 EUA allocations for power generating installations, justified by expenses incurred for investment tasks included in the National Investment Plan in the reporting period from July 1, 2018 to June 30, 2019. This period is the last period of allocation of free emission allowances in the current settlement period. The requested allowances should be released to the operator's accounts in the EU register in April 2020.

	As at December 31, 2019		As at December 31, 2018	
EUA	Non-current	Current	Non-current	Current
Quantity (Mg million)	**3**	**18**	**18**	**19**
Value (PLN million)	**240**	**965**	**1,203**	**408**

EUA	Quantity (Mg million)	Value (PLN million)
AS AT JANUARY 1, 2018	**62**	**1,442**
Purchase	39	1,714
Granted free of charge	17	-
Redemption	(70)	(1,311)
Sale	(11)	(234)
AS AT DECEMBER 31, 2018	**37**	**1,611**
Purchase	40	1,477
Granted free of charge	15	-
Redemption	(70)	(1,803)
Reclassification to inventories	(1)	(80)
AS AT DECEMBER 31, 2019	**21**	**1,205**

17. Other current and non-current assets

ACCOUNTING POLICIES

Other assets, including prepayments

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

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

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

Other assets include in particular state receivables, advances for deliveries and services (including prepayments for property, plant and equipment under construction) and dividend receivables.

17.1 Other non-current assets

	As at December 31, 2019	As at December 31, 2018
Prepayments for property, plant and equipment under construction	550	402
Client acquisition costs	104	102
Other non-current assets	22	24
TOTAL OTHER ASSETS	**676**	**528**

Prepayments for property, plant and equipment under construction concern mainly investment projects implemented by the Conventional Generation segment and the Renewables segment. Client acquisition costs relate to PGE Energia Ciepła S.A.'s participation in financing investments in the expansion of heating networks.

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17.2 Other current assets

	As at December 31, 2019	As at December 31, 2018
PREPAYMENTS AND DEFERRED EXPENSES		
Client acquisition costs	44	41
Long-term contracts	35	18
Property and tort insurance	19	22
Logistic costs related to purchase of coal	17	8
IT services	11	9
Company Social Benefits Fund	7	3
Other prepayments and deferred expenses	13	17
OTHER CURRENT ASSETS		
Input VAT receivable	338	265
Excise duty receivable	32	18
Prepaid deliveries	15	8
Other current assets	74	49
TOTAL OTHER ASSETS	**605**	**458**

The amount of input VAT receivable is mainly related to the estimation of sales of electricity not read on the measuring equipment as at the reporting date. The amount of excise duty receivable concerns the exemption from excise duty on electricity produced from renewable energy sources, on the basis of a document confirming the surrender of a certificate of energy origin.

ACCOUNTING POLICIES

Client acquisition costs

Costs incurred prior to contract execution related to performance of its subject matter are classified as other assets and recognised as prepayments if it is likely that future revenue from the customer will cover these costs.

As at December 31, 2019 and December 31, 2018, the Group recognised the following costs settled over time:

	Year ended December 31, 2019	Year ended December 31, 2018
AS AT JANUARY 1	**143**	**125**
Capitalised incremental costs of obtaining a contract	49	56
Amortisation and depreciation	(43)	(38)
Other changes	(1)	-
AS AT DECEMBER 31	**148**	**143**
Current	44	41
Non-current	104	102

Incremental costs of obtaining a contract comprise mainly agency commissions for client acquisition or retention.

An asset is amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.

18. Cash and cash equivalents

ACCOUNTING POLICIES

Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

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

Short-term deposits are placed for different periods, from one day up to one month, depending on the Group's needs for cash.

The balance of cash and cash equivalents comprises the following items:

for 2019 in accordance with EU IFRS (in PLN million)

	As at December 31, 2019	As at December 31, 2018
Cash in hand and at banks	1,093	1,023
Overnight deposits	19	33
Short-term deposits	103	156
Cash in VAT accounts	98	69
TOTAL	**1,313**	**1,281**
Exchange differences on cash in foreign currencies	(2)	(2)
Cash and cash equivalents presented in the statement of cash flows	**1,311**	**1,279**
Undrawn borrowing facilities as at December 31	5,309	8,312
including overdraft facilities	*1,035*	*934*

A detailed description of credit agreements is presented in note 25.1.3 to these financial statements.

The balance of cash includes restricted cash in the amount of PLN 230 million (PLN 98 million in the comparative period) in PGE Dom Maklerski S.A. clients' accounts as collateral for settlements with IRGiT (the Warsaw Commodity Clearing House), cash in VAT accounts in the amount of PLN 98 million (PLN 69 million in the comparative period) as well as securities and collateral of PLN 100 million (PLN 13 million in the comparative period).

19. Assets related to employee welfare activities and liabilities to the Company Social Benefits Fund

ACCOUNTING POLICIES

Company Social Benefits Fund and other Special Funds

The Act on Company Social Benefits Fund of 4 March 1994 (as amended) stipulates that an employer must set up a Company Social Benefits Fund if it has more than 20 full-time employees. The Group companies create such funds and make periodic contributions thereto. The purpose of the fund is to subsidise the Group's social activities and to finance loans to employees and other employee benefits. Contributions to the Company Social Benefits Fund made during the year constitute a cost for the period to which they relate.

Assets and liabilities of the Company Social Benefits Fund are presented in the financial statements on a net basis.

	As at December 31, 2019	As at December 31, 2018
Property, plant and equipment contributed to the fund	-	2
Loans advanced to employees	80	84
Cash	48	44
Other assets of the fund	-	1
Liabilities of the fund	(120)	(124)
NET BALANCE	**8**	**7**
Contribution to the fund during the period	**171**	**141**

Additionally, as described in note 22, PGE Group entities recognise a provision for post-employment benefits (Company Social Benefits Fund).

for 2019 in accordance with EU IFRS (in PLN million)

20. Equity

ACCOUNTING POLICIES

Equity

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

Share capital, reserve capital and other capital reserves in the consolidated financial statements are components of the parent company's equity. Hedging reserve, foreign exchange differences from translation and retained earnings include both the components of the parent company's equity and respective portion of equity of subsidiaries, established in accordance with the consolidation principles. Declared but outstanding contributions to equity are disclosed under called-up share capital not paid as a negative amount.

In the consolidated statement of financial position, equity is divided into:

- Equity attributable to owners of the parent,
- Equity attributable to non-controlling interests

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

In accordance with common practice, the Group monitors the net debt to EBITDA ratios at PGE Group level. Net debt is understood as short- and long-term financial debt (interest-bearing credits and loans, bonds and other debt instruments as well as finance lease liabilities), less cash and cash equivalents and short-term deposits. Restricted cash is not included in calculating net debt.

The Group's aim is to maintain its investment grade credit ratings. The net debt to EBITDA ratio is a central element of the Group's financial forecasts and plans. Given the on-going investment programme, financial leverage is expected to increase in the coming years.

	Year ended December 31, 2019	Year ended December 31, 2018
Net debt / EBITDA	1.60x	1.51x
Net debt / equity	0.26x	0.20x

20.1 Share capital

	As at December 31, 2019	As at December 31, 2018
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 on which these financial statements were prepared, there were no changes in the value of the Company's share capital.

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

The Company is a member of PGE Group, in respect of which the State Treasury holds special rights as long as it remains a shareholder.

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

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

- dissolution of company,
- changes of the use or discontinuance of exploitation of an asset that is a component of critical infrastructure,
- change in the Company's principal business activity,
- sale or lease of, or creation of limited property rights in, the Company's business or its organised part,
- adoption of a budget, plan of investment activities, or a long-term strategic plan,
- relocation of the Company's registered office abroad,

if the implementation of any such resolution could constitute a material threat to the security, continuity or integrity of critical infrastructure operations. The objection is expressed in the form of an administrative decision.

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20.2 Reserve capital

Reserve capital has been accumulated from statutory contributions from profits generated in previous financial years, from surplus of profit distribution in excess of the value of statutory allocations, as well as from merger of PGE S.A. with its subsidiaries.

Under the Commercial Companies Code, the joint-stock companies are required to create reserve capital to cover losses. After each financial year, at least 8% of net profit disclosed in the Company's separate financial statements should be contributed to this capital, until the funds reach at least one-third of the entity's share capital. A part of reserve capital equal to one-third of the share capital may be used exclusively to cover a loss disclosed in separate financial statements and may not be used for any other purposes. Decisions as to the use of reserve capital and other capital reserves may made by the General Meeting.

Reserve capital subject to distribution to shareholders amounted to PLN 13,281 million as at December 31, 2019 and to PLN 13,484 million as at December 31, 2018.

20.3 Hedging reserve

	Year ended December 31, 2019	Year ended December 31, 2018
AS AT JANUARY 1	**(52)**	**83**
Change in hedging reserve:	**(336)**	**(166)**
Measurement of hedging instruments, including:	**(336)**	**(158)**
Recognition of the effective portion of change in fair value of hedging financial instruments in the part considered as effective hedge	*(438)*	*(62)*
Accrued interest on derivatives transferred from hedging reserve and recognised in interest expense	*3*	*(10)*
Currency revaluation of CCIRS transaction transferred from hedging reserve and recognised in net foreign exchange gains (losses)	*91*	*(85)*
Ineffective portion of change in fair value of hedging derivatives recognised in profit or loss	*8*	*(1)*
Measurement of other financial assets	**-**	**(8)**
Deferred tax	**65**	**31**
HEDGING RESERVE AFTER DEFERRED TAX	**(323)**	**(52)**

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

20.4 Foreign exchange differences from translation

Exchange differences on translating subsidiaries comprise the effect of translating financial statements of foreign companies of the Group, i.e. PGE Trading GmbH and PGE Sweden AB (publ) to PLN as part of consolidation procedures.

for 2019 in accordance with EU IFRS (in PLN million)

20.5 Undistributed profit and limitations on dividend payment

Retained earnings which are not subject to distribution are amounts that cannot be paid out as dividend.

	As at December 31, 2019	As at December 31, 2018
Amounts included in the item of retained earnings which are not subject to distribution by the parent:		
Retained earnings of subsidiaries, attributable to shareholders of the parent, including consolidation adjustments	5,037	7,944
Amount of profits recognised by the parent company in retained earnings through other comprehensive income	1	2
Retained earnings subject to distribution	-	-
Net loss of the parent for the period	(1,259)	(203)
TOTAL RETAINED EARNINGS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION	**3,779**	**7,743**

Limitations in the payment of dividends from the reserve capital are described in note 20.2 to these financial statements. As at December 31, 2019, there were no other limitations on dividend payments.

20.6 Equity attributable to non-controlling interests

As at December 31, 2019, equity attributable to non-controlling interests related mainly to the non-controlling interests of EDF's assets in Poland. The acquisition took place on November 13, 2017.

The table below presents changes in equity attributed to non-controlling interests in the reporting periods.

	As at December 31, 2019	As at December 31, 2018
AS AT JANUARY 1	**1,074**	**1,250**
Share of net profit of subsidiaries	33	13
Share of actuarial gains and losses	(1)	(1)
Dividend declared by subsidiaries	(4)	(38)
Purchase of new subsidiaries	8	-
Increase of share capital and acquisition of shares	-	18
Acquisition of non-controlling interests by the Group	(262)	(150)
Inclusion of companies in consolidation	-	8
Cancellation of shares	-	(26)
AS AT DECEMBER 31	**848**	**1,074**

80% of the total value of equity attributable to non-controlling interests constitutes the equity of Kogeneracja S.A. A summary of this subsidiary is presented below.

	ZEW Kogeneracja S.A.
SHARE IN VOTES	**58.07%**
AS AT DECEMBER 31, 2019*	
Current assets	375
Non-current assets	1,638
Current liabilities	193
Non-current liabilities	242
Equity	1,578
Revenue	670
Profit (loss) on continuing operations	13
Dividends declared	-

** The data is different from statutory data due to consolidation procedures.*

20.7 Net profit/loss per share

ACCOUNTING POLICIES

Net profit/(loss) per share

For each period, net profit/(loss) per share are calculated by dividing the net profit or loss attributable to equity holders of the parent for the reporting period by the weighted average number of shares outstanding in that period.

Diluted net profit/(loss) share are calculated by dividing the net profit or loss for a given period attributable to holders of ordinary shares (net of interest on redeemable preference shares convertible into ordinary shares) by the weighted average number of outstanding ordinary shares in that period (adjusted for the effect of dilutive options and dilutive redeemable preference shares convertible into ordinary shares).

During current and comparative reporting period there was no dilutive effect on net profit/(loss) per share.

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	Year ended December 31, 2019	Year ended December 31, 2018
NET PROFIT/(LOSS) ATTRIBUTABLE TO	**(3,928)**	**1,511**
equity holders of the parent	(3,961)	1,498
non-controlling interests	33	13
NET PROFIT/(LOSS) ATTRIBUTABLE TO HOLDERS OF ORDINARY SHARES, APPLIED TO CALCULATE EARNINGS PER SHARE	**(3,961)**	**1,498**
Number of ordinary shares at the beginning of the reporting period	1,869,760,829	1,869,760,829
Number of ordinary shares at the end of the reporting period	1,869,760,829	1,869,760,829
WEIGHTED AVERAGE NUMBER OF OUTSTANDING ORDINARY SHARES USED TO CALCULATE NET PROFIT/(LOSS) PER SHARE	**1,869,760,829**	**1,869,760,829**
EARNINGS AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (IN PLN)	**(2.12)**	**0.80**

20.8 Dividends paid and proposed

In the reporting and comparative period, the Company did not distribute dividends.

21. Provisions

ACCOUNTING POLICIES

Provisions

The Group recognises a provision if the Group companies have a present obligation (legal or constructive) resulting from past events whose settlement is likely to result in an outflow of economic benefits and whose amount can be reliably estimated.

Where the effect of changes in the time value of money is material, the amount of provision matches the current value of expenditure expected to be necessary to settle the obligation. A discount rate is determined before tax; therefore, it reflects the current market assessment of the time value of money and the risk relating specifically to a given liability. A discount rate is not burdened by the risk by which estimated future cash flows have been adjusted.

The unwinding of the discount is recognised as a finance cost.

Provision for post-employment benefits and length-of-service awards

Depending on the entity, employees of Group companies are entitled to the following post-employment benefits:

- retirement and pension benefits – paid once when the employee retires or becomes a pensioner,
- death benefits,
- cash equivalent related to energy tariff for employees of power industry,
- coal allowance given in kind or paid as a cash equivalent,
- benefits from the Company Social Benefits Fund,
- medical benefits.

The Group's employees are also entitled to receive length-of-service awards that are paid after an employee has worked for a specified period of time. The amount of such awards depends on the number of years in service and the average monthly remuneration.

The Group recognises a provision for post-employment benefits and length-of-service awards in order to allocate costs to the periods to which they relate. The provision is recognised as an operating expense in the amount corresponding with accrued future employees' benefits. The present value of these obligations is measured by an independent actuary.

Actuarial gains and losses arising from the change of actuarial assumptions (including change in discount rate) and ex post actuarial adjustments are recognised in other comprehensive income (for post-employment benefits) or in operating expenses of the current period (for length-of-service awards).

Rehabilitation provision

The mining companies which belong to the Group recognise provisions for costs of rehabilitation of post-exploitation mining properties. The amount of the provision is based on the estimated cost of rehabilitation and development works related to final excavations. This cost is divided into the part attributable to stripping cost and the part attributable to mined lignite. The provision is recognised:

- for the part attributable to mined lignite: in the proportion of the extracted lignite as at the reporting date to the total planned volume of extraction over the period of the lignite deposit exploitation,
- for the part attributable to the stripping cost: in the proportion of the volume of the excavation resulting from stripping of overburden as at the reporting date to the planned excavation volume resulting from stripping of overburden at the end of exploitation period.

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The provision is updated in the case of changes in estimated time or amounts of expenses necessary to conduct rehabilitation process, or in case of change of discount rate. Estimation of rehabilitation provision requires making technical, geological, environmental, legal and tax assumptions, as well as schedule, scope and the level of rehabilitation costs. Changes in assumptions mentioned above impact the value of rehabilitation provision and capitalized rehabilitation costs recognized in property, plant and equipment, as well as statement of comprehensive income.

In case of rehabilitation of ash storages (production waste from electricity production) the cost of provision is recognised in operating expenses in proportion to the extent of storage filling.

Provision for rehabilitation of grounds after wind farm construction is created when the farm is brought into use in the present value of estimated costs of dismantling and removal of remaining devices, constructions and buildings and also cost of bringing grounds to condition as close to its state prior to the commissioning of the farm as possible.

Estimates concerning expected costs of rehabilitation are subject to revaluation at least once in a 5-year-period. However, once a year the amount of provision is verified according to actual assumptions in terms of inflation rate, discount rate and the volume of lignite extraction or the extent of storage filling, respectively.

The increase in the provision concerning the given year is recognised in operating expenses or in the initial value of property plant and equipment, respectively. The unwinding of the discount is recognised in finance costs. Changes in the valuation of provisions resulting from the change of assumptions (e.g. macroeconomic factors, way of conducting the rehabilitation, date, etc.), are recognised in the following way:

- for the provisions recognised as the part of the cost of property, plant and equipment: they are added to or deducted from the costs of the asset to which they relate, however the amount deducted from the cost of the asset should not exceed its carrying amount;
- as other operating expenses or other operating income - in other cases.

Provision for shortfall of CO_2 emission allowances

The provision for liabilities due to CO_2 emission allowances is recognised by PGE Group entities with regard to the shortfall of CO_2 emission allowances allocated free of charge. The provision is recognised in the amount reflecting the best estimate of the expenditure required to settle the present obligation as at the reporting date. The estimation of expenditure necessary to fulfil the obligation to surrender CO_2 emission allowances is based on a detailed identification method, taking into account the allocation of both free and purchased allowances to a given year.

The cost of the provision recognised is presented in the statement of comprehensive income under operating activities and recorded as cost of goods sold in accordance with the classification of expenses by function and as cost of taxes and charges in accordance with the classification of expenses by nature.

Provisions for property rights held for surrender

The provision is recognised based on the requirement of the percentage share of the renewable energy and the energy generated from cogeneration units in the total sales of electricity to end users and the volume of sales to end users. To the extent of property rights held for surrender, the provision is recognised at the value of those rights. The part of provision that is not covered by property rights is measured at a reliably estimated amount of future surrender obligation. When making the estimate, the Group takes into account substitution fees and market prices. The provision is recognised in distribution and selling expenses.

The carrying amount of provisions is as follows:

	As at December 31, 2019		As at December 31, 2018	
	Non-current	Current	Non-current	Current
Employee benefits	2,796	270	2,460	245
Rehabilitation provision	6,648	1	3,763	3
Provision for shortage of CO_2 emission allowances	121	3,411	119	1,802
Provisions for property rights held for surrender	-	572	-	423
Provision for non-contractual use of property	62	10	63	10
Other provisions	25	102	23	125
TOTAL PROVISIONS	**9,652**	**4,366**	**6,428**	**2,608**

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Changes in provisions

	Employee benefits	Rehabilitation provision	Provision for shortage of CO_2 emission allowances	Provisions for property rights held for surrender	Provision for non-contractual use of property	Other	Total
January 1, 2019	**2,705**	**3,766**	**1,921**	**423**	**73**	**148**	**9,036**
Actuarial gains and losses	65	-	-	-	-	-	65
Current service costs	110	-	-	-	-	-	110
Past service costs	5	-	-	-	-	-	5
Interest cost	81	123	-	-	-	-	204
Adjustment to discount rate and other assumptions	300	2,637	-	-	-	-	2,937
Benefits paid / Provisions used	(200)	(1)	(1,803)	(640)	-	(26)	(2,670)
Provisions reversed	-	-	(6)	(6)	(9)	(43)	(64)
Provisions recognised – costs	-	43	3,419	784	8	49	4,303
Provisions recognised – expenditure	-	75	-	-	-	-	75
Other changes	-	6	1	11	-	(1)	17
DECEMBER 31, 2019	**3,066**	**6,649**	**3,532**	**572**	**72**	**127**	**14,018**
Change recognised in operating expenses	(214)	(41)	(3,413)	(778)	-	(15)	(4,461)
Change recognised in other operating income/(expense)	-	(835)	-	-	1	9	(825)
Change recognised in other finance income/(costs)	(81)	(123)	-	-	-	-	(204)
Change recognised in assets	-	(1,879)	-	-	-	-	(1,879)
Change recognised in other comprehensive income	(266)	-	-	-	-	-	(266)

	Employee benefits	Rehabilitation provision	Provision for shortage of CO_2 emission allowances	Provisions for property rights held for surrender	Provision for non-contractual use of property	Other	Total
JANUARY 1, 2018	**2,529**	**3,086**	**1,453**	**340**	**83**	**151**	**7,642**
Actuarial gains and losses	179	-	-	-	-	-	179
Current service costs	94	-	-	-	-	-	94
Past service costs	(105)	-	-	-	-	-	(105)
Interest cost	86	103	-	-	-	-	189
Adjustment to discount rate and other assumptions	100	242	-	-	-	-	342
Benefits paid / Provisions used	(181)	(1)	(1,311)	(769)	-	(17)	(2,279)
Provisions reversed	-	(1)	(29)	(9)	(18)	(85)	(142)
Provisions recognised – costs	-	276	1,808	861	8	94	3,047
Provisions recognised – expenditure	-	58	-	-	-	-	58
Purchase of new subsidiaries	1	-	-	-	-	6	7
Deconsolidation of entities from PGE Group	-	-	-	-	-	-	-
Other changes	2	3	-	-	-	(1)	4
DECEMBER 31, 2018	**2,705**	**3,766**	**1,921**	**423**	**73**	**148**	**9,036**
Change recognised in operating expenses	(61)	(38)	(1,779)	(852)	-	(14)	(2,744)
Change recognised in other operating income/(expense)	-	(146)	-	-	9	(9)	(146)
Change recognised in other finance income/(costs)	(86)	(103)	-	-	1	14	(174)
Change recognised in assets	-	(394)	-	-	-	-	(394)
Change recognised in other comprehensive income	(207)	-	-	-	-	-	(207)

for 2019 in accordance with EU IFRS (in PLN million)

21.1 Rehabilitation provision

Provision for rehabilitation of post-exploitation mining properties

The area of PGE Group's surface lignite mines is subject to rehabilitation after mining is completed. According to current plans, costs will be incurred in the years 2030–2065 (in the case of KWB Bełchatów) and 2046–2088 (in the case of KWB Turów).

The Group recognises a provision for rehabilitation of post-exploitation mining properties. The amount of the provision recognised in the financial statements includes also the value of Mine Liquidation Fund created in accordance with the Geological and Mining Law Act. As at December 31, 2019, the provision amounted to PLN 6,127 million (as at December 31, 2018: PLN 3,338 million).

In 2019, the Group updated the data as at the reporting date with respect to the amounts of expenditures necessary to carry out rehabilitation, dates of completion of extraction and commencement of rehabilitation and - as regards the volume of excavations assigned to overburden and to coal - as at the moment of completion of operation of individual excavations.

In particular, significant changes in the assumptions underlying the valuation were made for KWB Turów in connection with the development and adoption of a new Technical Design for the target production from the “Turów” deposit and internal dumping of the overburden. This design assumes the relocation of much larger masses of soil during rehabilitation than assumed in previous years (an increase by about 130%), which also results in extending the planned total rehabilitation period by 5 years. Therefore, the Group commissioned a new valuation of the rehabilitation costs for the excavation in KWB Turów which showed a significant increase in the estimated expenditures necessary to complete the rehabilitation in KWB Turów.

In addition, the Group adjusted the level of discount and inflation rates used to estimate the present value of future expenditure on rehabilitation of excavations in both surface lignite mines. In previous years, the provision was calculated using the projected inflation rate of 2.5% and a discount rate of 3.7%. In 2019, the Group updated its inflation projections for the next two years, i.e. for 2020 and 2021, to 2.85% and 2.58%, respectively, while leaving the long-term inflation projection unchanged at 2.5% and reducing the discount rate to 2.8%.

The largest rehabilitation expenditures in the mines will be incurred in the years 2037-2065 (about 95% of total expenditures) and the discount rate should be adjusted to the timing of these expenditures. Since there are no observable discount rates for payments with such maturities, the Group extrapolates the yield on 10-year treasury bonds.

The adjustment to technical assumptions for rehabilitation and the level of discount and inflation rates used to estimate the present value of provisions for rehabilitation of final excavations in surface lignite mines resulted in an increase in the provision by PLN 2,563 million, an additional cost of PLN 798 million and an increase in assets by PLN 1,765 million.

Estimated changes in the rehabilitation provision due to a change in the discount rate:

	Carrying amount	Discount rate	
		-1 pp	+1 pp
Provision for rehabilitation of post-exploitation mining properties	6,127	2,204	(1,554)

Provision for rehabilitation of ash storage sites

PGE Group power generating units recognise provisions for rehabilitation of ash storage sites. As at December 31, 2019, the provision amounted to PLN 249 million (PLN 195 million as at the end of the comparative period).

Provision for rehabilitation of wind-farm sites

Companies that own wind farms recognise provision for rehabilitation of wind-farm sites. As at December 31, 2019, the provision amounted to PLN 60 million (as at December 31, 2018: PLN 49 million).

Liquidation of property, plant and equipment

The obligation to liquidate assets and rehabilitate the area results from the "Integrated permission for running electric energy and heat energy producing installation" in which the restitution of the area was specified. As at the reporting date, the provision amounts to PLN 213 million (PLN 184 million as at the end of the comparative period) and refers to some assets of the Conventional Generation and Renewables segments.

21.2 Provision for shortage of CO_2 emission allowances

As described in note 16 to these financial statements, PGE Group is entitled to receive CO_2 emissions allowances granted free of charge in connection to expenditures on investment projects included in National Investment Plan. The calculation of the provision also includes these allowances.

21.3 Provision for energy origin units held for redemption

PGE Group companies recognise provision for energy origin rights relating to sales carried out during the reporting period or in the prior reporting periods, in an part unredeemed until the reporting date. As at December 31, 2019, the provision amounts to PLN 572 million (PLN 423 million in the comparative period) and is recognised mainly by PGE Obrót S.A.

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21.4 Provision for non-contractual use of property

PGE Group companies recognise a provision for claims concerning non-contractual use of property. This mainly relates to the distribution company that owns distribution networks. As at the reporting date, the provision amounted to approximately PLN 72 million (including PLN 32 million for litigations). In the comparative period, the provision amounted to PLN 73 million (including PLN 34 million for litigations).

22. Employee benefits

The amount of actuarial provisions recognised in the financial statements results from the valuation prepared by an independent actuary.

The actuary made the following assumptions as at the reporting date to calculate the amount of the obligations:

	As at December 31, 2019	As at December 31, 2018
Expected inflation rate (%)	2.85 in 2020, 2.58 in 2021, 2.5 in 2022 and in subsequent years	2.3 in 2019, 2.5 in 2020, and in subsequent years
Discount rate (%)	2.0	3.0
Expected salary growth rate (%)	2.1–5.0	2.1–4.46
Employee turnover ratio (%)	0.2–12.5	0.0–8.4
Expected medical care costs growth rate (%)	0.0–2.5	0.0–1.8
Expected Social Fund (ZFŚS) contribution growth rate (%)	4.0–13.0	3.6

- The employee attrition probability is based on the historical data on employee turnover at the Group and statistical data on employee attrition in the industry.
- The mortality and life expectancy ratios are based on the Life Expectancy Tables of Poland , published by the Polish Central Statistics Office (GUS), and assume that the Group's employee population is representative of the average Polish population in terms of mortality.
- It was assumed that employees would retire in accordance with the statutory procedure, as prescribed by the Pensions Act, with the exception of employees who meet the conditions for early retirement entitlement.
- The discount rate on future benefits was assumed at 2.0% (December 31, 2018: 3.0%), i.e. at the level of the yield on long-term Treasury bonds listed on the Polish capital market.

The carrying amount of provisions for post-employment benefits and length-of-service awards:

	As at December 31, 2019		As at December 31, 2018	
	Non-current	Current	Non-current	Current
Retirement, pension and death benefits	553	107	498	90
Coal allowance	139	9	131	9
Energy tariff	806	26	702	25
Company Social Benefits Fund	428	14	316	14
Medical benefits	64	3	58	2
TOTAL POST-EMPLOYMENT BENEFITS	**1,990**	**159**	**1,705**	**140**
Length-of-service awards	806	111	755	105
TOTAL ACTUARIAL PROVISIONS	**2,796**	**270**	**2,460**	**245**

for 2019 in accordance with EU IFRS (in PLN million)

Changes in provisions for employee benefits

	Retirement, pension and death benefits	Coal allowance	Energy tariff	Company Social Benefits Fund	Medical benefits	Length-of-service awards	Total
AS AT JANUARY 1, 2019	**588**	**140**	**727**	**330**	**60**	**860**	**2,705**
Actuarial gains and losses	14	-	(37)	50	(1)	39	65
Discount rate adjustment	49	12	116	57	6	60	300
Current service costs	30	2	20	10	2	46	110
Past service costs	-	(1)	7	(1)	-	-	5
Interest cost	18	4	22	9	2	26	81
Benefits paid / Provisions used	(39)	(9)	(23)	(13)	(2)	(114)	(200)
AS AT DECEMBER 31, 2019	**660**	**148**	**832**	**442**	**67**	**917**	**3,066**
Change recognised in operating expenses	(30)	(1)	(27)	(9)	(2)	(145)	(214)
Change recognised in finance income/(costs)	(18)	(4)	(22)	(9)	(2)	(26)	(81)
Change recognised in other comprehensive income	(63)	(12)	(79)	(107)	(5)	-	(266)

	Retirement, pension and death benefits	Coal allowance	Energy tariff	Company Social Benefits Fund	Medical benefits	Length-of-service awards	Total
AS AT JANUARY 1, 2018	**522**	**147**	**648**	**322**	**65**	**825**	**2,529**
Actuarial gains and losses	40	11	37	32	9	50	179
Discount rate adjustment	17	5	39	16	2	21	100
Current service costs	26	1	17	7	1	42	94
Past service costs	(4)	(21)	(12)	(48)	(16)	(4)	(105)
Interest cost	18	5	22	11	2	28	86
Benefits paid / Provisions used	(33)	(8)	(24)	(10)	(3)	(103)	(181)
Purchase of new subsidiaries	-	-	-	-	-	1	1
Other changes	2	-	-	-	-	-	2
AS AT DECEMBER 31, 2018	**588**	**140**	**727**	**330**	**60**	**860**	**2,705**
Change recognised in operating expenses	(23)	20	(5)	41	15	(109)	(61)
Change recognised in other finance income/(costs)	(18)	(5)	(22)	(11)	(2)	(28)	(86)
Change recognised in other comprehensive income	(56)	(16)	(76)	(48)	(11)	-	(207)

Analysis of sensitivity of actuarial provisions to changes in key assumptions as at December 31, 2019

	Carrying amount	Discount rate		Expected average growth rate of the basis of calculation	
		-1 pp	+1 pp	-1 pp	+1 pp
Retirement, pension and death benefits	660	56	(48)	(49)	55
Coal allowance	148	9	(17)	(17)	9
Energy tariff	832	149	(108)	(110)	149
Company Social Benefits Fund	442	71	(56)	(57)	70
Medical benefits	67	8	(7)	(7)	8
Length-of-service awards	917	66	(58)	(59)	65
TOTAL	**3,066**	**359**	**(294)**	**(299)**	**356**

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23. Deferred income and government grants

ACCOUNTING POLICIES

Deferred income and government grants

Deferred income is recognised in accordance with the prudence principle and matching principle. Deferred income comprises:

- cash obtained to finance the acquisition or production of property, plant and equipment and intangible assets. It is accounted for by gradually increasing other operating income by the amount corresponding to depreciation/amortisation charges on these assets in the part financed by the said cash. This applies in particular to partially or fully cancelled loans and credits and grants for the purchase of property, plant and equipment, as well as subsidies for development work or purchase of intangible assets,
- property, plant and equipment and intangible assets received free of charge. It is released to other operating income in parallel with depreciation charges on this property, plant and equipment.

Government grants are recognised when there is reasonable assurance that the subsidy will be received and that the entity will comply with all relevant conditions of the subsidy. If the grant relates to an asset, it is accounted for by gradually increasing other operating income in proportion to depreciation/amortisation charges on these assets.

23.1 Non-current deferred income and government grants

	As at December 31, 2019	As at December 31, 2018
GOVERNMENT GRANTS		
Grants received from NFOŚiGW (State Fund for Environmental Protection and Water Management)	263	258
Cancellation of loans from environmental funds	33	36
Other settlements of government grants	132	123
DEFERRED INCOME		
Grants received and connection fees	35	32
Donations and property, plant and equipment received free of charge	95	109
Other deferred income	58	53
TOTAL NON-CURRENT GRANTS AND DEFERRED INCOME	**616**	**611**

23.2 Current deferred income and government grants

	As at December 31, 2019	As at December 31, 2018
GOVERNMENT GRANTS		
Grants received from NFOŚiGW (State Fund for Environmental Protection and Water Management)	14	17
Cancellation of loans from environmental funds	3	3
Other settlements of government grants	10	9
DEFERRED INCOME		
Grants received and connection fees	2	1
Donations and property, plant and equipment received free of charge	39	40
Other deferred income	12	17
TOTAL CURRENT GRANTS AND DEFERRED INCOME	**80**	**87**

for 2019 in accordance with EU IFRS (in PLN million)

24. Other non-financial liabilities

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

24.1 Other non-financial liabilities – non-current

	As at December 31, 2019	As at December 31, 2018
OTHER NON-CURRENT LIABILITIES		
Contract liabilities	56	10
Estimated liabilities under the Voluntary Redundancy Programme	2	5
TOTAL OTHER NON-CURRENT LIABILITIES	**58**	**15**

24.2 Other current non-financial liabilities

	As at December 31, 2019	As at December 31, 2018
OTHER CURRENT LIABILITIES		
VAT liabilities	176	173
Excise tax liabilities	35	36
Environmental fees	213	266
Payroll liabilities	292	279
Bonuses for employees	238	214
Unused holiday leave	143	132
Liabilities under the Voluntary Redundancy Programmes	6	14
Awards for Management Boards	27	27
Estimated liabilities on account of other employee benefits	6	6
Personal income tax	89	88
Social security liabilities	276	258
Contract liabilities	290	186
Dividends payable	7	8
Other	67	60
TOTAL OTHER CURRENT LIABILITIES	**1,865**	**1,747**

Environmental fees relate mainly to charges for the use of water and gas emission in conventional power plants as well as exploitation charges paid by lignite mines.
"Other" comprises mainly payments to the Employment Pension Programme, the State Fund for Rehabilitation of Persons with Disabilities and withholdings from employee salaries.

Contract liabilities

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

In 2019, the Group recognised revenue amounting to PLN 119 million (PLN 127 million in 2018) which was included in contract liabilities at the beginning of the period.

EXPLANATORY NOTES TO FINANCIAL INSTRUMENTS

25. Financial instruments

ACCOUNTING POLICIES

Financial instruments

Classification and measurement

Financial assets are classified into the following categories of financial instruments:

- measured at amortised cost;
- measured at fair value through other comprehensive income;
- measured at fair value through profit or loss, FVTPL.

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

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

- the objective of the business model is to hold assets in order to collect contractual cash flows;
- contractual cash flows from the instrument are solely payments of principal and interest on the principal amount outstanding (the SPPI test).

A debt financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

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

Debt instruments that do not meet the above conditions are measured at fair value through profit or loss.

Investments in equity instruments are always measured at fair value. If an equity instruments is not held for trading, the Group can make an irrevocable election at initial recognition to measure it at fair value through other comprehensive income. For equity instruments held for trading, changes in fair value are recognised in profit or loss.

All regular way purchase or sale of a financial asset is recognised on the transaction date, i.e. the date on which the entity agreed to purchase a financial asset. A regular way purchase or sale of a financial asset is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

The impairment model is based on expected credit losses and covers the following:

- financial assets measured at amortised cost;
- debt financial assets measured at fair value through other comprehensive income;
- loan commitments when there is a present obligation to disburse;
- financial guarantees issued that are within the scope of IFRS 9;
- lease receivables that are within the scope of IFRS 16;
- contract assets that are within the scope of IFRS 15.

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

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

for 2019 in accordance with EU IFRS (in PLN million)

25.1 Description of significant items within particular categories of financial instruments

25.1.1 Financial receivables and other financial receivables

ACCOUNTING POLICIES

Financial receivables

Financial receivables, including trade receivables, are measured at fair value at the date on which they arise, and subsequently at amortised cost using the effective interest rate method, taking into account an allowance for expected credit losses.

The Group uses simplified methods to measure receivables at amortised cost, unless this would distort information contained in its statement of financial position, in particular where the period until the due date for payment is not long.

In the case of financial receivables, the Group measures loss allowance for expected credit losses at an amount equal to lifetime expected credit losses of the instrument.

The Group measures financial assets at amortised cost, in line with the business model adopted.

	As at December 31, 2019		As at December 31, 2018	
	Non-current	Current	Non-current	Current
Trade receivables	-	3,483	-	3,155
Deposits and loans	174	8	161	7
Receivables from recognised compensations based on the Act on Electricity Prices	-	304	-	-
Deposits, securities and collateral	1	771	1	694
Damages and penalties	-	112	-	193
Other financial receivables	5	137	6	53
FINANCIAL RECEIVABLES	**180**	**4,815**	**168**	**4,102**

Deposits, securities and collateral mainly concern transaction and hedging deposits and the guarantee fund related to trade in electricity and CO_2 allowances.

Trade receivables

The main component of trade receivables are receivables reported by PGE Obrót S.A. Receivables from households account for about 16% of the consolidated balance of trade receivables, while receivables from the corporate clients of PGE Obrót S.A. represent about 61% of the consolidated balance of trade receivables. As at December 31, 2019, the share of PGE Group's three most significant customers accounted for approximately 26% of the total balance. For additional information on trade receivables, see note 26.3.1 to these financial statements.

Trade receivables also include electricity sales accrual.

Other financial receivables

The value of other financial receivables consists mainly of the guarantee fund, compensation for damages and disputed receivables described in note 28.4 to these consolidated financial statements.

25.1.2 Derivatives and other instruments measured at fair value through profit or loss

ACCOUNTING POLICIES

Derivative financial instruments and hedges

Derivative financial instruments used by the Group to hedge against interest rate and currency risks include in particular currency forwards, futures and interest rate swaps (IRSs), as well as CCIRS transactions hedging both the exchange rate and interest rate. Derivative financial instruments of this type are measured at fair value. Derivatives are recognised as assets if their value is positive and as liabilities if their value is negative.

Gains or losses resulting from changes in the fair value of a derivative which does not qualify for hedge accounting and ineffective portion of hedging relationships in cash flow hedges are charged directly to the net profit or loss for the financial year.

The fair value of currency forwards is established by reference to the prevailing forward rates calculated on the basis of market data. The fair value of interest rate swaps is calculated on the basis of yield curves.

for 2019 in accordance with EU IFRS (in PLN million)

	As at December 31, 2019			
	Recognised in profit or loss	Recognised in other comprehensive income	Assets	Liabilities
DERIVATIVES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Currency forwards	(7)	-	13	16
Commodity forwards	277	-	265	8
Commodity SWAP	(152)	-	11	16
Contracts for purchase/sale of coal	(20)	-	6	1
IRS transactions	-	-	-	-
Options	(7)	-	5	-
HEDGING DERIVATIVES				
CCIRS hedges	(97)	11	18	-
IRS hedges	5	(90)	-	106
Currency forward - USD	-	(3)	-	-
Currency forward - EUR	-	(254)	34	332
OTHER ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Investment fund participation units	(3)	-	68	-
TOTAL	**(4)**	**(336)**	**420**	**479**
current			327	372
non-current			93	107

	As at December 31, 2018			
	Recognised in profit or loss	Recognised in other comprehensive income	Assets	Liabilities
DERIVATIVES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Currency forwards	2	-	18	11
Commodity forwards	-	-	6	-
Commodity SWAP	-	-	4	46
Contracts for purchase/sale of coal	-	-	2	7
IRS transactions	8	-	-	-
Options	(12)	-	12	-
HEDGING DERIVATIVES				
CCIRS hedges	16	(31)	113	-
IRS hedges	(4)	(109)	4	24
Currency forward - USD	-	7	2	-
Currency forward - EUR		(25)	4	48
OTHER ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Investment fund participation units	1	-	66	-
TOTAL	**11**	**(158)**	**231**	**136**
current			114	110
non-current			117	26

Commodity and currency forwards

Commodity and currency forward transactions mainly relate to trade in CO_2 emission allowances and to sales of coal. To recognise currency futures, the Group uses hedge accounting.

Options

On January 20, 2017 PGE S.A. purchased a call option to purchase shares of Polimex-Mostostal S.A. from Towarzystwo Finansowe Silesia Sp. z o.o. The option was measured using the Black-Scholes method.

Coal swaps

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

for 2019 in accordance with EU IFRS (in PLN million)

Purchase and sale contracts with physical delivery of coal

PGE Paliwa Sp. z o.o. measures all of its sales and purchase contracts with physical delivery of coal at fair value using the trader-broker model. As at the reporting date, the Company held contracts that would be performed in 2020.

IRS transactions

PGE S.A. entered into IRS transactions to hedge interest rates on credit facilities and bonds issued with a total nominal value of PLN 7,030 million. To recognise these IRS transactions, the Group uses hedge accounting. The impact of hedge accounting on the revaluation reserve is presented in note 20.3 to these consolidated financial statements.

In 2014, PGE S.A. entered into IRS transactions to hedge interest rates on bonds issued with a total nominal value of PLN 1 billion. Payments arising from IRS transactions are correlated with interest payments on bonds. Changes in fair value of IRS transactions are fully recognised in profit or loss. In 2018, the company redeemed the bonds and the IRS hedging transaction was finally settled.

CCIRS hedges

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

In the current period, PGE Sweden bonds were partially redeemed and the CCIRS transaction securing these bonds was settled.

To recognise these CCIRS transactions, the Group uses hedge accounting. The impact of hedge accounting is presented in note 20.3 to these financial statements.

Investment fund participation units

In previous years, PGE S.A. purchased investment certificates from the PGE Ventures Closed-end Private Equity Investment Fund; their value as at the reporting date is PLN 14 million. It also purchased participation units from PGE Towarzystwo Funduszy Inwestycyjnych S.A. in three sub-funds; their value as at the reporting date is PLN 53 million.

25.1.3 Credit facilities, loans, bonds and leases

	As at December 31, 2019		As at December 31, 2018	
	Non-current	Current	Non-current	Current
Credit facilities and loans	7,999	1,382	5,768	2,168
Bonds issued	1,986	12	592	2,177
Leases	874	55	1	2
TOTAL CREDIT FACILITIES, LOANS, BONDS AND LEASES	**10,859**	**1,449**	**6,361**	**4,347**

Currency position and interest rates

As at December 31, 2019

Currency	Reference rate	Amount in respective currency	Value in PLN	Final repayment date
PLN	Variable	8,179	8,179	credit facilities, loans – September 2020 – June 2034; bonds – May 2026 – May 2029
	Fixed	3,158	3,158	credit facilities, loans – September 2019 – December 2028 Leases – March 2020 – March 2101
TOTAL – PLN		**11,337**	**11,337**	
EUR	Variable	69	293	credit facilities and loans – June 2024
	Fixed	139	595	bonds – August 2029
TOTAL – EUR		**208**	**888**	
USD	Variable	22	83	credit facilities and loans – May 2019 – September 2020
TOTAL – USD		**22**	**83**	
TOTAL CREDIT FACILITIES, LOANS, BONDS AND LEASES			**12,308**	

for 2019 in accordance with EU IFRS (in PLN million)

As at December 31, 2018

Currency	Reference rate	Amount in respective currency	Value in PLN	Final repayment date
PLN	Variable	7,083	7,083	credit facilities, loans – January 2019 – December 2028;
	Fixed	290	290	credit facilities, loans – September 2019 – December 2028
TOTAL – PLN		**7,373**	**7,373**	
EUR	Variable	90	387	credit facilities and loans – June 2024
	Fixed	644	2,769	bonds – June 2019 – August 2029
TOTAL – EUR		**734**	**3,156**	
USD	Variable	48	179	credit facilities and loans – May 2019 – September 2020
TOTAL – USD		**48**	**179**	
TOTAL CREDIT FACILITIES, LOANS, BONDS AND LEASES			**10,708**	

Changes in interest-bearing debt in the years ended December 31, 2019 and 2018

	Year ended December 31, 2019	Year ended December 31, 2018
AS AT JANUARY 1	**10,708**	**10,045**
ENTRY INTO FORCE OF IFRS 16, January 1, 2019	**895**	**-**
CHANGE IN OVERDRAFT FACILITIES	**5**	**582**
CHANGE IN credit facilities, loans, bonds and leases	**700**	**81**
Credit facilities, loans and leases contracted / bonds issued / conclusion of new leases	6,737	2,000
Repayment of credit facilities, loans, leases / buy-back of bonds	(6,040)	(2,024)
Interest accrued	302	229
Repayment of interest	(290)	(221)
Foreign exchange differences	(15)	108
Purchase of new subsidiaries	6	-
Other changes	-	(11)
AS AT DECEMBER 31	**12,308**	**10,708**

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Credit facilities and loans

Credit facilities and loans disclosed by PGE Group as at December 31, 2019 and December 31, 2018 include:

Lender	Hedging instrument	Maturity date	Limit in currency	Currency	Interest rate	Liability as at December 31, 2019	Liability as at December 31, 2018
Bank consortium	IRS	2023-09-30	3,630	PLN	Variable	3,649	3,648
European Investment Bank	-	2032-10-26	1,500	PLN	Fixed	1,505	-
Bank Gospodarstwa Krajowego	IRS	2027-12-31	1,000	PLN	Variable	1,001	1,001
European Bank for Reconstruction and Development	IRS	2028-06-06	500	PLN	Variable	502	-
Bank Gospodarstwa Krajowego	IRS	2028-12-31	500	PLN	Variable	500	500
European Investment Bank	-	2032-10-26	490	PLN	Fixed	493	-
Bank Gospodarstwa Krajowego	-	2021-05-31	500	PLN	Variable	455	420
Revolving credit facility	-	2023-12-17	4,100	PLN	Variable	300	-
Nordic Investment Bank	-	2024-06-20	150	EUR	Variable	293	387
Bank Pekao S.A.	-	2021-07-03	500	PLN	Variable	160	148
Bank Pekao S.A.	-	2020-09-21	40	USD	Variable	83	149
PKO BP S.A.	-	2020-04-29	500	PLN	Variable	21	-
Bank Ochrony Środowiska SA	-	2020-10-01	136	PLN	Variable	5	16
Millennium	-	2021-06-16	7	PLN	Fixed	1	2
Bank consortium	-	2019-04-30	1,870	PLN	Variable	-	1,171
Nordic Investment Bank	-	2019-05-28	80	USD	Variable	-	30
Bank Ochrony Środowiska SA	-	2019-03-31	20	PLN	Variable	-	1
European Investment Bank	-	2038-10-16	273	PLN	Fixed	-	-
NFOŚiGW (State Fund for Environmental Protection and Water Management)	-	March 2023 – December 2028	243	PLN	Fixed	204	203
NFOŚiGW (State Fund for Environmental Protection and Water Management)	-	September 2021 – September 2024	212	PLN	Variable	101	127
WFOŚiGW (Provincial Fund for Environmental Protection and Water Management)	-	September 2020 – September 2026	70	PLN	Fixed	2	69
WFOŚiGW (Provincial Fund for Environmental Protection and Water Management)	-	September 2021 – September 2028	352	PLN	Variable	82	40
Loan from shareholders	-	2020-11-06	9	PLN	Fixed	9	9
Loan from shareholders	-	2021-03-02	14	PLN	Fixed	15	15
TOTAL CREDIT FACILITIES						**9,381**	**7,936**

As at December 31, 2019, the value of the available overdrafts at significant PGE Group companies was PLN 1,035 million. The repayment date of used overdraft facilities of PGE Group's key companies is 2020-2021.

In 2019 and after the reporting period, there were no cases of default on repayment or breach of other terms of credit agreements.

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Bonds issued

Issuer	Hedging instrument	Maturity date of the programme	Limit in the programme currency	Currency	Interest rate	Tranche issue date	Tranche maturity date	Liability as at December 31, 2019	Liability as at December 31, 2018
PGE SA	IRS	indefinite	5,000	PLN	Variable	2019-05-21	2029-05-21	1,002	-
						2019-05-21	2026-05-21	401	
PGE Sweden AB (publ)	CCIRS	indefinite	2,000	EUR	Fixed	2014-06-09	2019-06-09	-	2,168
						2014-08-01	2029-08-01	595	601
TOTAL BONDS ISSUED								**1,998**	**2,769**

In the current period, PGE Sweden AB redeemed bonds with a total value of EUR 500 million.

Lease liability

ACCOUNTING POLICIES

Lease liabilities

Lease liability is recognised by the lessee at the commencement date.

At the commencement date, the lessee measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee uses the lessee's incremental borrowing rate.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, the lessee measures the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability which, in each period during the lease term, are the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

PGE Group is a party to a number of lease, tenancy, easement or rental contracts. The underlying assets include land, areas of technical infrastructure, office and utility space, equipment, plants, technical premises, as well as IT infrastructure. Contracts are concluded for a definite or indefinite period of time with a fixed notice period. The Group also has the right to use the land under perpetual usufruct. The Group estimates the term of each lease taking into account relevant facts and circumstances that may affect the extension or shortening of the lease term.

Some contracts include variable fees based on the inflation rate announced by the Central Statistical Office for the previous year. The index-based element determines their variable nature – these charges are taken into account in the measurement of lease liabilities. In some cases, the annual rent is increased by other variable charges, other than variable charges linked to a rate or index. These include, for example, payments of property tax or structure tax. These charges are not included in the measurement of lease liabilities. Leases of land for the construction and operation of windfarms, in addition to the rent, include fees for compensation for the exclusion of land from cultivation for the construction period. These charges are not included in the measurement of the lease liability as no rights to use the assets are transferred to the lessee and no services are provided to the lessee. The same applies to charges relating to compensation for losses for entering the site to carry out operation, maintenance and other work related to the operation of the wind farm park.

Decisions on the right of perpetual usufruct of land are usually granted for a fixed period of 99 years. The fee for perpetual usufruct of land is established as a percentage of the land value. The amount of the annual fee for perpetual usufruct of a land property is revised no more frequently than once every 3 years, if the value of this property changes, thus it will be a variable fee depending on the index or rate, which is included in the measurement of the lease liability.

The Group leases small office equipment (printing equipment, photocopiers, computers, etc.), treated as leases of low-value assets. The Group decided to apply the exemption and not to recognise the right-of-use assets and lease liabilities in respect of these contracts in the statement of financial position.

The Group also applied a practical exemption for short-term leases. This mainly concerns decisions on use of a road or rail lane strip if the decision is issued for less than 12 months.

The Group also takes advantage of a simplification for short-term leases in the case of indefinite property leases with a notice period of less than 12 months, where the leased space was not subject to special adjustments, there are no significant exit barriers (e.g. penalties for early termination) and both parties have a practical possibility to lease such space on the market.

for 2019 in accordance with EU IFRS (in PLN million)

25.1.4 Trade and other financial liabilities

ACCOUNTING POLICIES

Liabilities

A liability is a present obligation of the Company arising from past events the settlement of which is expected to result in an outflow of resources embodying economic benefits.

The Group recognises the following categories of liabilities:

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

Where the effect of the time value of money is material, the amount of liabilities is discounted.

	As at December 31, 2019		As at December 31, 2018	
	Non-current	Current	Non-current	Current
Trade payables	-	1,506	-	1,511
Purchase of PPE and IA	3	1,633	6	1,622
Security deposits received	21	99	38	83
Liabilities on account of LTC	432	36	455	11
Insurance	-	8	-	17
Settlements related with stock market transactions	-	269	-	278
Other	19	85	22	91
TRADE AND OTHER FINANCIAL LIABILITIES	**475**	**3,636**	**521**	**3,613**

25.2 Fair value of financial instruments

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

Bonds issued by PGE Sweden AB (publ) are based on a fixed interest rate. As at December 31, 2019, their value at amortised cost, as disclosed in these financial statements, amounted to EUR 139 million and their fair value was EUR 154 million. Ratios used in measurement are included in Level 1 of the fair value hierarchy.

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

The most significant positions in this category of financial instruments are shares in entities not quoted on active markets. PGE Group is not able to estimate reliably the fair value of shares not-quoted on an active markets, therefore they are measured at cost less impairment losses.

25.3 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 on the difference between the forward rate and transaction price. Forward exchange rates are not modelled as separate risk factor, but are derived from the spot rate and appropriate forward interest rate for foreign currencies in relation to PLN.

In the category of financial assets and financial liabilities at fair value through profit or loss, the Group presents financial instruments related to greenhouse gases emission rights – currency and commodity forwards, contracts for the purchase and sale of coal, commodity SWAPs (Level 2).

In addition, the Group presents CCIRS derivative that hedges foreign exchange rate and interest rate and IRS hedging transaction swapping variable interest rate in PLN to fixed interest rate in PLN (Level 2).

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FAIR VALUE HIERARCHY	As at December 31, 2019 Level 1	Level 2	As at December 31, 2018 Level 1	Level 2
CO_2 emission allowances in trading activities	1,303	-	140	-
Hard coal in trading activities	125	-	4	-
Inventories	**1,428**	**-**	**144**	**-**
Currency forwards	-	13	-	24
Commodity forwards	-	265	-	6
Commodity SWAP	-	11	-	4
Contracts for purchase/sale of coal	-	6	-	2
Valuation of CCIRS	-	18	-	113
Valuation of IRS	-	34	-	4
Options	-	5	-	12
Fund participation units	-	68	-	66
Financial assets	**-**	**420**	**-**	**231**
Currency forwards	-	348	-	59
Commodity forwards	-	8	-	-
Commodity SWAP	-	16	-	46
Contracts for purchase/sale of coal	-	1	-	7
Valuation of IRS	-	106	-	24
Financial liabilities	**-**	**479**	**-**	**136**

Derivatives are presented in note 25.1.2 to these financial statements. 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.

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Terms of individual derivatives and other receivables measured at fair value through profit or loss.

	As at December 31, 2019		As at December 31, 2018		
	Amount in the financial statements in PLN	Notional amount of the instrument in the original currency	Amount in the financial statements in PLN	Notional amount of the instrument in the original currency	Maturity as at December 31, 2019
CCIRS – EUR to PLN	18	- 144	113	514 144	by June 2019 by July 2029
IRS – interest rate to PLN	-	- -	4	- 1,000	-
Options	5	6	12	6	by July 2022
Investment fund participation units	68	66	66	65	n/a
Currency forward - EUR	43	582	4	203	October 2022
Commodity forward – PLN	93	1,572 1,479	6	63 57	by December 2022
Commodity forward – PLN	28	298 66	-	-	by March 2020
Commodity forward – EUR	144	339	-	-	by March 2020
Currency forward - USD	4	46	18	133	by January 2021
Currency forward - USD	-	-	2	7	by February 2019
Commodity SWAP – USD	11	- 16	4	27 3	by December 2020
Currency forward - EUR	-	-	-	10	by January 2021
Contracts for purchase – USD Contracts for sale – USD	6	6 9	2	3 18	by June 2020
Financial assets	**420**	**-**	**231**	**-**	
Currency forward - EUR	338	3,089	48	1,222	December 2023
IRS – interest rate to PLN	106	500 1,000 500 3,630 1,000 400	24	500 3,630	June 2028 December 2027 December 2028 September 2023 May 2029 May 2026
Currency forward - EUR	6	31	7	71	by January 2021
Commodity forward – PLN	8	319 311	-	-	by December 2021
Commodity SWAP – USD	16	16 1	46	136 6	by December 2020
Currency forward - USD	3	36 -	4	108 3	by January 2021
Currency forward - USD	1	12	-	-	by January 2021
Contracts for purchase – USD Contracts for sale – USD	1	- 3	7	- 1	by December 2020
Financial liabilities	**479**		**136**		

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25.4 Statement of comprehensive income

Effect of the individual categories of financial instruments on finance income and costs.

Year ended December 31, 2019	Cash and cash equivalents	Other financial assets	Shares and other equity instruments	Financial instruments measured at fair value	Hedging derivatives	Other financial liabilities	TOTAL
Dividends	-	-	1	-	-	-	1
Interest income/(cost)	12	24	-	-	(53)	(206)	(223)
Revaluation	-	-	-	(11)	1	(1)	(11)
Reversal/(recognition) of impairment losses	-	(1)	5	-	-	(1)	3
Foreign exchange differences	(5)	(16)	-	80	(91)	5	(27)
Gain/(loss) on disposal of investments	-	-	-	-	-	-	-
TOTAL GAIN/ (LOSS)	**7**	**7**	**6**	**69**	**(143)**	**(203)**	**(257)**

Year ended December 31, 2018 restated data	Cash and cash equivalents	Other financial assets	Shares and other equity instruments	Financial instruments measured at fair value	Hedging derivatives	Other financial liabilities	TOTAL
Dividends	-	-	2	-	-	-	2
Interest income/(cost)	19	22	-	(3)	12	(190)	(140)
Revaluation	-	-	-	(10)	(1)	1	(10)
Reversal/(recognition) of impairment losses	-	(3)	(1)	1	-	-	(3)
Foreign exchange differences	(2)	1	-	1	1	(19)	(18)
Gain/(Loss) on disposal of investments	-	-	-	(1)	-	-	(1)
TOTAL GAIN/ (LOSS)	**17**	**20**	**1**	**(12)**	**12**	**(208)**	**(170)**

25.5 Collateral for repayment of receivables and liabilities

The Group uses a number of collateral and its combinations to secure the repayment of credit facilities. The most frequently used are agreements for the assignment of claims, promissory notes and declarations of submission to enforcement. Additionally, the Group uses the power of attorney to bank accounts and assignment of receivables.

As at the reporting date, the value of assets pledged as collateral for repayment of liabilities or contingent liabilities was as follows:

	As at December 31, 2019	As at December 31, 2018
Property, plant and equipment	830	881
Inventories	14	45
Trade receivables	216	62
TOTAL VALUE OF ASSETS PLEDGED AS COLLATERAL FOR LIABILITIES	**1,060**	**988**

Property, plant and equipment reported in the table above are pledged as collateral for investment credit facilities. The most significant item as at December 31, 2019 and December 31, 2018 is the ceiling mortgage over the 858 MW unit in PGE Górnictwo i Energetyka Konwencjonalna S.A., Branch Elektrownia Bełchatów.

Collateral established over inventories comprise mainly pledges related to loans received from environmental funds.

PGE Group companies are obliged to maintain a specific cash balance on its accounts held with PKO BP and Nordea Bank AB according to the rules of the Warsaw Commodity Clearing House and to participate in a guarantee fund. The balance of restricted cash resulting from these two obligations is PLN 256 million as at December 31, 2019 (PLN 98 million in the corresponding period).

26. Objectives and principles of financial risk management

The main goal of financial risk management at PGE Group is to support the process of creating value for shareholders and to implement business strategies of the Group through maintaining the financial risk at the level acceptable for the Group management.

Responsibility for managing financial risk in PGE Group lies with the Management Board of PGE S.A. The Management Board specifies risk appetite, understood as an acceptable level of deterioration of PGE Group's financial results, taking into consideration its current and planned economic and financial situation. The Management Board also decides on the allocation of risk appetite to specific business areas.

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

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

Financial risk is managed at Group level, in an integrated manner. This process is implemented or supervised by PGE Group's Corporate Centre, which is a centre of competences in this area. Exposures to risk generated by business areas are examined on a comprehensive basis, taking into account interdependencies, the possibility of using natural hedging effects and the overall impact on PGE Group's risk profile and financial situation.

The financial risk management model includes:

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

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

PGE Group is exposed to various financial risks:

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

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

26.1 Market risk

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

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

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

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

The PGE Group's market risk management rules also specify the manner of defining risk appetite, limiting exposures to market risk based on Profit-at-Risk and Value-at-Risk and mechanisms for limiting exposure when limits are exceeded.

26.1.1 Commodity risk

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

PGE Group's exposure to commodity risk concerns the following commodity markets:

- electricity;
- CO_2 emission allowances;
- property rights arising from certificates of origin for electricity;
- hard coal;
- natural gas;
- biomass and other fuels.

PGE Group owns lignite mines that deliver production fuel to two power plants operating within the PGE Group. Due to this fact, the Group’s exposure to price risk in this area is not significant.

Selected types of commodity risk (including currency risk) to which PGE Group is exposed:

Risks	Description	Example of exposure source
Risk of changes in electricity prices	▪ PGE Group has a natural long position due to its generation assets and a lack of possibility to place its production on the market at a pre-determined price.	▪ Cost to generate electricity; ▪ Price of electricity sale contracts to retail clients; ▪ Price of transactions to buy/sell energy on the wholesale market;
Risk of changes in the prices of property rights arising from certificates of origin for electricity	▪ PGE Group has a net short position resulting from the obligation to surrender property rights arising from certificates of origin for electricity related to the sale of electricity to end users.	▪ Price of transactions to buy/sell property rights on the wholesale market.
Risk of changes in prices of CO_2 emission allowances	▪ Risk related to changes in the prices of CO_2 emission allowances in EUR and risk of changes in EUR/PLN exchange rate; ▪ PGE Group has a short position given its electricity generation at units participating in the EU-ETS scheme.	▪ Use of generation sources not as planned due to their varying emission levels; ▪ Uncertainty with regard to volume of free allowances received in EU-ETS scheme; ▪ Price of transactions to buy/sell CO_2 emission allowances on the wholesale market;
Risk of fuel price changes (including hard coal, natural gas, biomass, heating oil)	▪ Risk of commodity price changes, including commodities denominated in foreign currency (or indexed to foreign currency) and foreign currency risk; ▪ PGE Group has a short position due to its need to purchase fuel on the market.	▪ Price of transactions to buy/sell fuel on the wholesale market;
Long-term volume risk	▪ Risk related to changes in demand for electricity in the National Power System.	▪ Macroeconomic situation, especially in energy-intensive industries; ▪ Technological changes, especially in energy efficiency; ▪ Climate changes; ▪ Regulations, including preferences for specific sectors of the energy industry; ▪ Degree of integration with foreign power systems.
Short-term volume risk	▪ Risk related to changes in planned electricity sales volumes as a result of changes in end users' demand for electricity.	▪ Trends among retail clients concerning changes in energy providers; ▪ Regulations, including those pertaining to the opportunity to change energy providers; ▪ Short-, mid-term weather changes; ▪ Risk associated to the model for planning demand for energy and quality of source data used in planning.

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

PGE Group's exposure to commodity price risk (as regards raw materials) reflects the volume of external purchases of each raw material, as presented in the table below:

COMMODITY	Year ended December 31, 2019 Tonnage – external purchase (in thousand tonnes)	Year ended December 31, 2019 Purchase costs (PLN million)	Year ended December 31, 2018 Tonnage – external purchase (in thousand tonnes)	Year ended December 31, 2018 Purchase costs (PLN million)
Hard coal	11,105	3,465	12,127	3,051
CO_2 emission allowances for captive use	39,539	1,477	38,835	1,714
Natural gas [m^3 000s]	1,203,724	918	1,131,074	826
Biomass	560	144	467	107
Fuel oil	61	111	60	117
TOTAL		**6,115**		**5,815**

26.1.2 Interest rate risk

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

PGE Group is exposed to interest rate risk as a result of financing the Group companies' operating and investing activities with indebtedness bearing interest at variable interest rates, mainly in the form of credit facilities, loans and bonds issued in domestic or foreign currency and through investments in variable-rate financial assets.

PGE Group controls interest rate risk through a system of limits relating to the maximum potential loss due to changes in interest rates with respect to the consolidated interest rate risk exposure of Group companies. The interest rate risk measure is based on the value-at-risk, understood as a product of the amount of the net interest rate position and the value of a potential change in market interest rates.

Moreover, PGE Group sets out hedging strategies with respect to the consolidated interest rate risk exposure of Group companies using hedging ratios subject to approval by the PGE S.A.'s Risk Committee and Management Board. The hedging strategy and level of interest rate risk are subject to monitoring and are reported to the Risk Committee on a regular basis.

PGE Group companies enter into derivative transactions concerning instruments that are based on interest rate only in order to hedge identified risk exposures. Regulations in force at the PGE Group do not allow, with regard to derivative transactions based on interest rates, to enter into speculative transactions, i.e. transactions which would be aimed at generating additional gains resulting from changes in the level of interest rates, while exposing the Company to the risk of incurring a potential loss on this account.

Bonds issued in the amount of PLN 1 billion under the Bonds issue program of PLN 5 billion bear interest at a variable rate in PLN. Payments relating to those bonds are hedged by IRS contracts.

Bonds issued under the Medium term Eurobonds Issue Programme bear interest at a fixed rate in EUR. Payments relating to those bonds are hedged by CCIRS hedges.

Long-term credit facilities of PLN 1.5 billion under Facilities Agreement signed on December 17, 2014 and December 4, 2015 with Bank Gospodarstwa Krajowego, as well a syndicated facility (term facility tranche) of PLN 3.63 billion under Facility Agreement signed on September 7, 2015 bear interest at variable rates in PLN. Payments on account of these credit facilities are hedged by IRS contracts.

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PGE Group's exposure to interest rate risk and concentration of this risk by currency:

		Type of interest	As at December 31, 2019	As at December 31, 2018
Derivatives – assets exposed to interest rate risk	PLN	Fixed	121	6
		Variable	5	16
	Other currencies	Fixed	-	-
		Variable	226	143
Deposits, cash and debt securities	PLN	Fixed	983	1,070
		Variable	-	4
	Other currencies	Fixed	511	375
		Variable	-	-
Derivatives – liabilities exposed to interest rate risk	PLN	Fixed	(8)	-
		Variable	(106)	(24)
	Other currencies	Fixed	-	-
		Variable	(365)	(112)
Credit facilities, loans, bonds issued, leases	PLN	Fixed	(3,158)	(290)
		Variable	(8,179)	(7,083)
	Other currencies	Fixed	(595)	(2,769)
		Variable	(376)	(566)
Net exposure	PLN	Fixed	(2,062)	786
		Variable	(8,280)	(7,087)
	Other currencies	Fixed	(84)	(2,394)
		Variable	(515)	(535)

Interest on variable-rate financial instruments is updated in periods of less than one year. Interest on fixed-rate financial instruments remains unchanged until maturity.

26.1.3 Currency risk

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

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

- capital expenditures denominated in or indexed to foreign currencies;
- indebtedness denominated in foreign currencies;
- purchase and sales of electricity denominated in foreign currencies;
- fees denominated in or indexed to foreign currency on account of purchase of transmission capacities;
- sales and purchases of CO_2 emission allowances and gas as well as purchases of hard coal and other fuels denominated in or indexed to foreign currencies;
- expenses related to current operation of generation assets denominated in or indexed to foreign currencies;
- investment financial assets denominated in foreign currencies;
- other operating flows denominated in or indexed to foreign currencies.

PGE Group controls currency risk through a system of limits relating to the maximum potential loss due to changes in exchange rates with respect to the consolidated currency risk exposure of Group companies. The currency risk measure is based on the value-at-risk, understood as a product of the amount of the absolute currency position and the value of a potential change in exchange rates.

Moreover, PGE Group sets out hedging strategies with respect to the consolidated currency risk exposure of Group companies using hedging ratios subject to approval by the Company's Risk Committee and Management Board. The hedging strategy and level of currency risk are subject to monitoring and are reported to the Risk Committee on a regular basis.

PGE Group companies enter into derivative transactions concerning instruments that are based on currency only in order to hedge identified risk exposures.

Regulations in force at the PGE Group do not allow, with regard to derivative transactions based on currencies, to enter into speculative transactions, i.e. transactions which would be aimed at generating additional gains resulting from changes in exchange rates, while exposing the Company to the risk of incurring a potential loss on this account.

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The Group's exposure to currency risk by class of financial instruments:

	Total amount in the financial statements in PLN	CURRENCY POSITION AS AT DECEMBER 31, 2019			
		EUR		USD	
		currency	PLN	currency	PLN
Trade and other financial receivables:	4,995	148	629	-	-
Cash and cash equivalents	1,313	117	498	2	8
Derivatives, including:	420	1,108	4,718	62	237
Measured at fair value through profit or loss	*368*	*490*	*2,087*	*62*	*237*
Hedging instruments	*52*	*618*	*2,631*	*-*	*-*
FINANCIAL ASSETS	**6,728**	**1,373**	**5,845**	**64**	**245**
Credit facilities, loans, bonds and leases	12,308	209	888	22	83
Trade and other payables measured at amortised cost	5,040	18	73	39	147
Derivatives, including:	479	3,120	13,287	53	203
Measured at fair value through profit or loss	*40*	*234*	*997*	*41*	*157*
Hedging instruments	*439*	*2,886*	*12,290*	*12*	*46*
FINANCIAL LIABILITIES	**17,827**	**3,347**	**14,248**	**114**	**433**

The carrying amount of derivatives represents their fair value. The value of exposure to currency risk for forwards represents their notional amount in the currency. The value of exposure to currency risk for CCIRSs represents the value of discounted cash flows in the currency leg in the currency.

	Total amount in the financial statements in PLN	CURRENCY POSITION AS AT DECEMBER 31, 2018			
		EUR		USD	
		currency	PLN	currency	PLN
Trade and other financial receivables:	4,270	34	145	2	6
Cash and cash equivalents	1,281	21	89	1	3
Derivatives, including:	165	913	3,926	142	532
Measured at fair value through profit or loss	*42*	*11*	*47*	*135*	*506*
Hedging instruments	*123*	*902*	*3,879*	*7*	*26*
FINANCIAL ASSETS	**5,782**	**968**	**4,160**	**145**	**541**
Credit facilities, loans, bonds and leases	10,708	734	3,156	48	179
Trade and other payables measured at amortised cost	4,137	48	205	17	65
Derivatives, including:	136	1,296	5,573	122	459
Measured at fair value through profit or loss	*64*	*74*	*318*	*122*	*459*
Hedging instruments	*72*	*1,222*	*5,255*	*-*	*-*
FINANCIAL LIABILITIES	**14,981**	**2,078**	**8,934**	**187**	**703**

The carrying amount of derivatives represents their fair value. The value of exposure to currency risk for forwards represents their notional amount in the currency. The value of exposure to currency risk for CCIRSs represents the value of discounted cash flows in the currency leg in the currency.

26.2 Liquidity risk

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

The main objective of liquidity risk management at PGE Group is to ensure and maintain the companies' ability to meet their existing and future financial liabilities, taking into account the cost to obtain liquidity.

Liquidity risk management at PGE Group involves planning and monitoring short- and long-term cash flows from operating, investing and financing activities and taking action intended to secure funds for the activities of PGE Group, while limiting the cost of these actions.

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

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

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

PGE Group uses various sources of financing, such as: overdraft facilities, term and investment facilities, bond and eurobond issues.

As part of the assessment of its liquidity, the Group monitors the level of the net debt/ EBITDA ratio, so as to ensure that the ratings are maintained at the investment grade and, consequently, that the Group's ambitious investment programme can be financed. The ratio is calculated on the basis of the consolidated statements of PGE Group. The value of the debt ratio is presented in note 20 to these financial statements.

The following table presents maturities of the Group's financial liabilities as at respective reporting dates based on contractual undiscounted payments:

AS AT DECEMBER 31, 2019	Carrying amount	Total payments	Up to 3 months	3 to 12 months	1 year to 5 years	More than 5 years
Credit facilities and loans	9,381	10,407	1,089	471	6,057	2,790
Bonds issued	1,998	2,545	-	62	246	2,237
Trade and other payables	4,111	4,111	3,578	58	470	5
Lease liabilities	929	2,241	19	56	240	1,926
Derivatives	479	483	157	109	198	19
TOTAL	**16,898**	**19,787**	**4,843**	**756**	**7,211**	**6,977**

AS AT DECEMBER 31, 2018	Carrying amount	Total payments	Up to 3 months	3 to 12 months	1 year to 5 years	More than 5 years
Credit facilities and loans	7,936	8,554	1,957	335	5,296	966
Bonds issued	2,769	2,974	18	2,185	71	700
Trade and other payables	4,134	4,134	3,402	211	63	458
Lease liabilities	3	3	1	1	1	-
Derivatives	136	137	24	67	46	-
TOTAL	**14,978**	**15,802**	**5,402**	**2,799**	**5,477**	**2,124**

26.3 Credit risk

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

PGE Group companies are exposed to credit risk arising in the following areas:

- principal activities of the companies – credit risk results from, among others, purchases and sales of electricity, heat, property rights arising from certificates of origin for electricity, CO_2 emission allowances, fuels etc. This relates primarily to the possibility of a default by the other party of the transaction, if fair value of the transaction is positive from the point of view of the Group;
- investing activities of companies – credit risk results from transactions resulting from investment projects whose success depends on the financial standing of the Group's suppliers;
- investing free cash of companies – credit risk results from investing free cash of PGE Group companies in securities bearing credit risk, i.e. financial instruments other than those issued by the State Treasury.

PGE Group has a concentration of credit risk related to its trade receivables. The three most significant customers accounted for approx. 26% of the trade receivables balance.

The maximum credit risk exposure of PGE Group's financial assets reflects their carrying amounts.

	Year ended December 31, 2019	Year ended December 31, 2018
Trade and other financial receivables	4,995	4,270
Cash and cash equivalents	1,313	1,281
Derivative instruments – assets	420	231
MAXIMUM EXPOSURE TO CREDIT RISK	**6,728**	**5,782**

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26.3.1 Trade receivables. Other loans and financial receivables

ACCOUNTING POLICIES

Financial receivables

Financial receivables, including trade receivables, are measured at fair value at the date on which they arise, and subsequently at amortised cost using the effective interest rate method, taking into account an allowance for expected credit losses.

The Group uses simplified methods to measure receivables at amortised cost, unless this would distort information contained in its statement of financial position, in particular where the period until the due date is not long.

PGE Group does not monitor changes in the level of credit risk during the life of the instrument. The expected credit loss is estimated in the horizon up to maturity of the instrument.

The companies apply the following rules for estimating and recognising impairment losses on financial receivables:

- for trade receivables from significant clients that are subject to a credit risk assessment procedure, the companies estimate expected credit losses based on a model used to evaluate this risk on the basis of ratings assigned to counterparties; ratings have a likelihood of default assigned, which is adjusted to reflect the impact of macroeconomic factors;
- for receivables from mass or clients not covered by the credit risk assessment procedure, the companies estimate expected credit losses based on an analysis of the likelihood of credit losses in each age bracket;
- in justified cases, the companies might estimate the amount of an impairment loss on a case by case basis.

Impairment losses on receivables are charged to other operating expenses or finance costs, as appropriate. Non-current receivables are measured at present (discounted) value.

Ratios adopted to estimate the value of expected losses calculated according to the provision matrix:

	December 31, 2019		December 31, 2018	
	Impairment loss	% of impairment loss	Impairment loss	% of impairment loss
Not past due receivables	482	0.0–71.43 / 100	457	0.01–71.43 / 100
Past due <30 days	5	0.0–37.63	16	0.0–37.63
Past due 30-90 days	9	0.0–96.09	13	0.0–96.09
Past due 90-180 days	15	0.0–100.0	8	7.02–97.63
Past due 180-360 days	25	24.80–100.0	28	24.8–94.86
Past due > 360 days	281	10.0–100.0	294	10.0–100
TOTAL FINANCIAL ASSETS	**817**		**816**	

The allowance concerns receivables covered by an allowance calculated in accordance with the matrix and allowance determined on a case by case basis.

Ratios adopted to estimate the value of expected losses calculated according to the model for key customers:

Rating level	December 31, 2019		December 31, 2018	
	Impairment loss	% of impairment loss	Impairment loss	% of impairment loss
Highest				
Highest AAA to AA- according to S&P and Fitch, and Aaa to Aa3 according to Moody's	-	--	-	-
Medium-high				
A+ to A- according to S&P and Fitch, and A1 to A3 according to Moody's	-	--	-	-
Medium				
BBB+ to BBB- according to S&P and Fitch, and Baa1 to Baa3 according to Moody's	<1	100.0%	<1	100.0%
TOTAL FINANCIAL ASSETS	**<1**		**<1**	

Trade receivables are, as a rule, paid in 2-3 weeks. In 2019, PGE Group waited on average 34 days for the payment of receivables on average (receivables turnover ratio in the main companies of PGE Group ranged from 11 to 73 days). Trade receivables relate mainly to receivables from energy sold and distribution services. According to the management of PGE Group, there is no additional credit risk that would exceed the level reflected by impairment losses.

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PGE Group reduces and controls the credit risk related to trade transactions in accordance with uniform credit risk management rules implemented at all key PGE Group companies. In the case of trade transactions which due to high value may generate substantial loss in case of failure of business partner to comply with the agreement, the assessment of contractor is carried out before the transaction is conducted, taking into account contractor's financial analysis, its credit history and other factors. Based on the assessment, an internal rating is recognised or PGE Group uses a rating determined by an independent reputable rating agency. A limit for the contractor is set based on the rating. Entering into contracts that would increase exposure above the limit, requires in principle the collateral in line with PGE Group's rules pertaining to credit risk management. The level of used limit is regularly monitored and reported to the Risk Committee, and if it is substantially exceeded, units responsible for contractor's risk are obliged to undertake measures to eliminate them. PGE Group regularly monitors the payment of receivables and uses a system for early recovery taking into consideration deadlines arising from the energy law and high level of repayment of receivables that have been past due for a short period. It also cooperates with credit bureaus and debt collection agencies.

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

	December 31, 2019		December 31, 2018	
	Balance of receivables	% share	Balance of receivables	% share
Poland	3,460	99%	3,081	98%
United Kingdom	23	1%	74	2%
TOTAL	**3,483**	**100%**	**3,155**	**100%**

Ageing of receivables and impairment losses

As at December 31, 2019, impairment losses were recognised for a part of financial assets. Changes in allowances for these classes of financial instruments are presented in the following table:

2019	Trade receivables	Other financial receivables	Bonds	Total financial assets
Impairment losses as at January 1	**(190)**	**(240)**	**(386)**	**(816)**
Utilisation of impairment losses	16	53	-	69
Reversal of impairment losses	8	15	-	23
Recognition of impairment losses	(30)	(63)	-	(93)
Other changes	4	(4)	-	-
Impairment losses as at December 31	**(192)**	**(239)**	**(386)**	**(817)**
Value before impairment loss	**3,675**	**1,751**	**386**	**5,812**
Net carrying amount of the item	**3,483**	**1,512**	**-**	**4,995**

Most of impairment losses on trade receivables relate to the supply and distribution segments. As at December 31, 2019, the total amount of impairment losses on trade receivables of those companies was PLN 189 million (vs. PLN 143 million in 2018).

There are no significant receivables in the Group that would be substantially past due and not covered by an impairment loss, except for disputed receivables from ENEA S.A. described in detail in note 28.4 to these financial statements.

2018	Trade receivables	Other financial receivables	Bonds	Total financial assets
Impairment losses as at January 1	**(170)**	**(203)**	**(386)**	**(759)**
Utilisation of impairment losses	17	9	-	26
Reversal of impairment losses	7	20	-	27
Recognition of impairment losses	(44)	(54)	-	(98)
Other changes	-	(12)	-	(12)
Impairment losses as at December 31	**(190)**	**(240)**	**(386)**	**(816)**
Value before impairment loss	**3,345**	**1,355**	**386**	**5,086**
Net carrying amount of the item	**3,155**	**1,115**	**-**	**4,270**

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Aging analysis of trade receivables, other loans and receivables, taking into account impairment losses, is presented below:

	December 31, 2019			December 31, 2018		
	Gross	Impairment losses	Net carrying amount	Gross	Impairment losses	Net carrying amount
Not past due receivables	4,955	(482)	4,473	4,250	(457)	3,793
Past due <30 days	*218*	*(5)*	*213*	*240*	*(16)*	*224*
Past due 30-90 days	*54*	*(9)*	*45*	*53*	*(13)*	*40*
Past due 90-180 days	*47*	*(15)*	*32*	*28*	*(8)*	*20*
Past due 180-360 days	*55*	*(25)*	*30*	*54*	*(28)*	*26*
Past due > 360 days	*483*	*(281)*	*202*	*461*	*(294)*	*167*
Total past due receivables	857	(335)	522	836	(359)	477
Total financial assets	5,812	(817)	4,995	5,086	(816)	4,270

As at December 31, 2019, more than 36% of the balance of past due trade receivables and other loans and receivables, for which no impairment losses were recognised, relate to sales of energy to end users.

26.3.2 Deposits, cash and cash equivalents

The Group manages credit risk related to cash and cash equivalents by diversification of banks in which surplus cash is placed. All entities with which PGE Group concludes deposit transactions with operate in the financial sector. These can only be banks registered in Poland or branches of foreign banks with investment-grade or higher ratings, adequate solvency ratios and equity as well as strong, stable market position. The share of three major banks in which PGE Group allocated the most significant cash balances as at December 31, 2019, accounted for approximately 81% (70% in the comparative period).

26.3.3 Derivatives

All entities with which PGE Group concludes derivative transactions with operate in the financial sector. These are banks with investment-grade ratings, adequate equity and strong, stable market position. As at the reporting date, PGE Group was party to the derivative transactions, described in detail in note 25.1.2 to these consodliated financial statements.

26.3.4 Guarantees and sureties issued

Guarantees and sureties issued by the PGE Group companies are presented in note 28 to these consolidated financial statements.

26.4 Market (financial) risk – sensitivity analysis

PGE Group is mainly exposed to the risk of changes in EUR/PLN and USD/PLN exchange rates and to the risk of changes in reference interest rates for PLN, EUR and USD. For the purpose of analysing sensitivity to changes of market risk factors, PGE Group uses a scenario analysis, i.e. experts' scenarios reflecting the subjective opinion in relation to future development of market risk factors.

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

In sensitivity analysis related to interest rate risk, PGE Group applies parallel shift of interest rate curve by a potential possible change in reference interest rates in the subsequent year.

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

A sensitivity analysis for each type of market risk to which PGE Group is exposed at the reporting date, indicating the potential effect of changes of individual risk factors by class of financial assets and liabilities on profit or loss before tax is presented in the following tables.

The value of exposure to currency risk for forwards represents their notional amount together with interest accrued until the reporting date, translated into PLN at the closing rate as at December 31, 2018 and as at December 31, 2017 respectively, without discount. In turn, the carrying amount of derivatives represents their fair value.

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Analysis of sensitivity to currency risk

The table below presents the sensitivity of financial instruments to reasonably possible changes in exchange rates, under the assumption that other risk factors remain unchanged.

CLASSES OF FINANCIAL INSTRUMENTS	Amount in the financial statements in PLN	Value at risk	ANALYSIS OF SENSITIVITY TO CURRENCY RISK AS AT DECEMBER 31, 2019			
			EUR/PLN effect on profit or loss/equity		USD/PLN effect on profit or loss/equity	
			+10%	-10%	+10%	-10%
Trade and other financial receivables	4,995	629	63	(63)	-	-
Cash and cash equivalents	1,313	504	50	(50)	1	(1)
Derivatives measured at fair value through profit or loss	300	2,324	(208)	208	24	(24)
Hedging derivatives	18	796	61	(61)	-	-
Interest-bearing credit facilities and loans	(9,381)	376	(29)	29	(8)	8
Bonds issued	(1,998)	595	(60)	60	-	-
Trade and other payables	(4,111)	220	(7)	7	(15)	15
Derivatives measured at fair value through profit or loss	(40)	1,154	(73)	73	(16)	16
EFFECT ON PROFIT OR LOSS			**(203)**	**203**	**(14)**	**14**
Hedging instruments	(386)	11,251	1,026	(1,026)	-	-
EFFECT ON REVALUATION RESERVE			**1,026**	**(1,026)**	**-**	**-**

CLASSES OF FINANCIAL INSTRUMENTS	Amount in the financial statements in PLN	Value at risk	ANALYSIS OF SENSITIVITY TO CURRENCY RISK AS AT DECEMBER 31, 2018			
			EUR/PLN effect on profit or loss/equity		USD/PLN effect on profit or loss/equity	
			+10%	-10%	+10%	-10%
Trade and other financial receivables	4,270	151	15	(15)	14	(14)
Cash and cash equivalents	1,281	92	9	(9)	-	-
Derivatives measured at fair value through profit or loss	42	553	5	(5)	50	(50)
Hedging derivatives	123	3,032	283	(283)	3	(3)
Interest-bearing credit facilities and loans	(7,936)	(566)	(39)	39	(18)	18
Bonds issued	(2,769)	(2,769)	(277)	277	-	-
Trade and other payables	(4,137)	(270)	(21)	21	(7)	7
Derivatives	(136)	(777)	(32)	32	(46)	46
EFFECT ON PROFIT OR LOSS			**(57)**	**57**	**(4)**	**4**
Hedging instruments	69	(1,376)	(421)	421	-	-
EFFECT ON REVALUATION RESERVE			**(421)**	**421**	**-**	**-**

Analysis of sensitivity to interest rate risk

The Group has identified exposure to the risk of changes in the WIBOR and EURIBOR interest rates. The table below presents the sensitivity of financial instruments to reasonably possible changes in interest rates, under the assumption that other risk factors remain unchanged.

FINANCIAL ASSETS AND LIABILITIES	Amount in the financial statements in PLN	Value at risk	ANALYSIS OF SENSITIVITY TO INTEREST RATE RISK AS AT DECEMBER 31, 2019			
			WIBOR effect on profit or loss/equity		EURIBOR effect on profit or loss/equity	
			+50pb	-50pb	+25pb	-25pb
Derivatives measured at fair value through profit or loss – assets	420	208	-	-	-	-
Interest-bearing credit facilities and loans	(9,381)	7,152	(34)	34	(1)	1
Bonds issued	(1,998)	1,403	(7)	7		
Derivatives	(479)	471	-	-	-	-
EFFECT ON PROFIT OR LOSS			**(41)**	**41**	**(1)**	**1**
Hedging instruments	(387)	387	183	(178)	(17)	17
EFFECT ON REVALUATION RESERVE			**183**	**(178)**	**(17)**	**17**

FINANCIAL ASSETS AND LIABILITIES	Amount in the financial statements in PLN	Value at risk	ANALYSIS OF SENSITIVITY TO INTEREST RATE RISK AS AT DECEMBER 31, 2018			
			WIBOR effect on profit or loss/equity		EURIBOR effect on profit or loss/equity	
			+50pb	-50pb	+25pb	-25pb
Derivatives measured at fair value through profit or loss – assets	42	24	-	-	-	-
Interest-bearing credit facilities and loans	(7,936)	7,646	(35)	35	(1)	1
Leases	(4)	4	-	-	-	-
Derivatives	(136)	88	-	-	-	-
EFFECT ON PROFIT OR LOSS			**(35)**	**35**	**(1)**	**1**
CCIRS hedges	145	145	141	(142)	(20)	21
EFFECT ON REVALUATION RESERVE			**141**	**(142)**	**(20)**	**21**

Analysis of sensitivity to commodity price risk

The Group identifies exposure to commodity price risk, including commodities to produce electricity and heat using the Group's generating assets.

The table below presents the analysis of sensitivity to changes of the purchase cost of selected commodities by 10%:

COMMODITY	AS AT DECEMBER 31, 2019			AS AT DECEMBER 31, 2018		
	Cost of commodity	Effect on profit or loss		Cost of commodity	Effect on profit or loss	
		+10%	-10%		+10%	-10%
Hard coal	3,465	347	(347)	3,051	305	(305)
CO_2 emission allowances for captive use	1,477	148	(148)	1,714	171	(171)
Natural gas [m^3 000s]	918	92	(92)	826	83	(83)
Biomass	144	14	(14)	107	11	(11)
Fuel oil	111	11	(11)	117	12	(12)
TOTAL	**6,115**	**612**	**(612)**	**5,815**	**582**	**(582)**

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26.5 Hedge accounting

ACCOUNTING POLICIES

Hedge accounting

Changes in fair value of derivative financial instruments designated as cash flow hedges, CCIRSs and IRSs, are recognised in revaluation reserve in the portion determined to be an effective hedge, while the ineffective portion of the hedge is recognised in profit or loss.

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

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

PGE S.A. hedges cash flow risk resulting from exchange rates related to forward contracts to purchase CO_2 emission allowances, the price of which is denominated in EUR.

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

To recognise these transactions, the Group uses hedge accounting.

The only source of inefficiency in hedge accounting is the CCIRS transaction hedging the interest rate on bonds issued by PGE Sweden AB.

	Year ended December 31, 2019
VALUE OF THE HEDGED ITEM AS AT JANUARY 1	**2,768**
Redemption of bonds	(2,141)
Interest accrual	35
Interest repayment	(53)
Foreign exchange differences	(14)
VALUE OF THE HEDGED ITEM AS AT DECEMBER 31	**595**

Information on hedging instruments – maturity structure as at December 31, 2019. Payments received by the Group are presented with "-" and payments made by the Group are presented with "+".

Derivative	Currency	Up to 1 year	1 year to 5 years	More than 5 years
CCIRS	EUR	11	41	(83)
IRS	PLN	21	71	19
Currency forwards	EUR	179	124	-

The Group estimates that the effect of the ineffective portion of the hedge resulting from the EUR exchange rate and change in WIBOR, recognised in profit or loss, will not have a material impact on future financial statements.

The impact of hedge accounting on the revaluation reserve is presented in note 20.3 to these financial statements.

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EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

27. Statement of cash flows

ACCOUNTING POLICIES

Statement of cash flows

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

27.1 Cash flows from operating activities

(Gain)/loss on investing activities

	Year ended December 31, 2019	Year ended December 31, 2018
Accrual-based valuation of derivatives	(254)	(15)
(Gain)/loss on disposal of property, plant and equipment	(18)	(18)
(Gain)/loss on disposal of non-current financial assets	1	21
Other	7	(2)
TOTAL (GAIN)/LOSS ON INVESTING ACTIVITIES	**(264)**	**(14)**

Change in receivables

	Year ended December 31, 2019	Year ended December 31, 2018
Change in trade and other financial receivables	(725)	(590)
Adjustment for change in deposits	13	14
Adjustment for purchase of new subsidiaries	-	28
Other	(8)	(5)
TOTAL CHANGE IN RECEIVABLES	**(720)**	**(553)**

Change in inventories

	Year ended December 31, 2019	Year ended December 31, 2018
Change in inventories	(1,810)	(809)
Adjustment for purchase of new subsidiaries	-	6
Other	(1)	-
TOTAL CHANGE IN INVENTORIES	**(1,811)**	**(803)**

Change in liabilities other than credit facilities and loans

	Year ended December 31, 2019	Year ended December 31, 2018
Change in trade and other financial payables	(23)	524
Change in other non-financial liabilities	161	29
Adjustment for change in investment liabilities	8	(221)
Adjustment for purchase of new subsidiaries	-	(9)
Other	24	16
TOTAL CHANGE IN LIABILITIES	**170**	**339**

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Change in other non-financial assets, prepayments and CO_2 emission allowances

	Year ended December 31, 2019	Year ended December 31, 2018
Change in other assets	(295)	(70)
Change in CO_2 allowances	406	(169)
Change in accruals and deferrals	(2)	(455)
Adjustment for accounting for connection fees in retained earnings (impact of IFRS 15)	-	414
Adjustment for change in prepayments for fixed assets under construction	137	(30)
Adjustment for change concerning financing/investing activities	(26)	(25)
Other	(11)	2
TOTAL CHANGE IN OTHER NON-FINANCIAL ASSETS, PREPAYMENTS AND CO_2 EMISSION ALLOWANCES	**209**	**(333)**

Change in provisions

	Year ended December 31, 2019	Year ended December 31, 2018
Change in provisions	4,982	1,394
Adjustment for change in actuarial provisions recognised in other comprehensive income	(266)	(207)
Adjustment for change in rehabilitation provisions recognised in assets	(1,879)	(394)
Adjustment for purchase of new subsidiaries	-	(7)
Other	(1)	3
TOTAL CHANGE IN PROVISIONS	**2,836**	**789**

27.2 Cash flows from investing activities

Purchase of property, plant and equipment and intangible assets

In 2019, the largest expenditure on acquisition of property, plant and equipment and intangible assets were made in the following segments:

- Conventional Generation – PLN 3,610 million, including:
  - Branch Opole Power Plant – construction of power units no. 5 and 6 – approximately PLN 776 million,
  - Branch Turów Power Plant – construction of new power unit – approximately PLN 762 million,
  - Branch Turów Power Plant – modernisation of power units no. 1-3 – approximately PLN 171 million,
  - Branch Kopalnia Węgla Brunatnego Bełchatów and Branch Kopalnia Węgla Brunatnego Turów – expenditure on replacement of basic machinery and construction of conveyors in the company's mines – approximately PLN 372 million,
- Distribution – PLN 2,181 million – connection of new customers and modernisation and expansion of grid, stations and lines.

In 2018, the Conventional Generation segment incurred expenditure of PLN 4,159 million, and the Distribution segment – of PLN 1,849 million.

Purchase of financial assets

Expenditure incurred in 2018, amounting to PLN 114 million, concerned mainly investments in Polska Grupa Górnicza, Bank Ochrony Środowiska S.A., ElectroMobility Poland and Investment Funds.

Recognition and release of deposits with maturity over 3 months

Companies in the Conventional Generation segment are obligated to hold funds in the Mine Liquidation Fund, which is collected and deposited as required by the Geological and Mining Law.

27.3 Cash flows from financing activities

Increase of share in Group companies

In 2019, PGE EC S.A. acquired 49.96% of shares in PGE Gaz Toruń sp. z o.o. and became the sole shareholder of this company. The transaction resulted in an outflow of funds from PGE Group in the amount of PLN 275 million.

In addition, PGE EC S.A. acquired 25,634 shares in PGE Ekoserwis sp. z o.o. from minority shareholders. Subsequently, two sale agreements were concluded between PGE S.A. as the buyer and PGE EC S.A. as the seller, concerning all shares in PGE Ekoserwis sp. z o.o. held by PGE EC S.A. The transaction resulted in an outflow of funds from PGE Group in the amount of PLN 7 million.

In 2018, the Group acquired additional shares in subsidiaries, PGE EC S.A. and KOGENARACJA S.A. The price paid for the shares was PLN 13 million and PLN 98 million, respectively.

Proceeds from credit facilities and loans

In the current reporting period, PGE S.A. contracted credit facilities in the total amount of PLN 5,287 million (PLN 2,438 million in 2018). In addition, companies in the Conventional Generation segment received credit facilities and loans from environmental funds in the total amount of approx. PLN 70 million (PLN 106 million in 2018).

Proceeds from issue of bonds

In the current reporting period, the Company issued two tranches of bonds with the total value of PLN 1,400 million. The bonds will be redeemed in 2026 and 2029.

Repayment of loans, credit facilities and finance leases

In the current reporting period, the PGE S.A. repaid credit facilities in the total amount of PLN 3,537 million.

Apart from the above, the item includes mainly repayment of credit facilities and loans contracted with environmental funds by the Conventional Generation segment with a total value of approximately PLN 182 million in the current and PLN 200 million in the previous reporting period.

Redemption of bonds issued

In the current reporting period, there was a partial redemption of bonds worth PLN 2,139 million by PGE Sweden AB (publ), a subsidiary of PGE S.A.

Interest paid

In the current reporting period, the item includes mainly interest on loans and credit facilities in the amount of PLN 196 million, on bonds in the amount of PLN 75 million and on financial instruments (CCIRS and IRS) in the amount of PLN 41 million, on lease liabilities in the amount of PLN 15 million.

In 2018, the item mainly comprises interest on loans and credit facilities in the amount of PLN 148 million, on bonds in the amount of PLN 65 million and on financial instruments (CCIRS and IRS) in the amount of PLN 87 million.

for 2019 in accordance with EU IFRS (in PLN million)

OTHER EXPLANATORY NOTES

28. Contingent liabilities and receivables. Legal claims

ACCOUNTING POLICIES

Contingent liabilities

In accordance with IAS 37, the recognition and measurement of provisions and contingent liabilities requires that the Group estimates the probability of occurrence of potential liabilities. Where the occurrence of an adverse event is probable, the Group recognises an appropriate provision. Where the occurrence of an adverse event is possible but not probable, the Group recognises a contingent liability.

28.1 Contingent liabilities

	As at December 31, 2019	As at December 31, 2018
Contingent return of grants from environmental funds	505	756
Legal claims	248	222
Bank guarantee liabilities	1,846	177
Employees' claims	-	1
Other contingent liabilities	37	36
TOTAL CONTINGENT LIABILITIES	**2,636**	**1,192**

Contingent return of grants from environmental funds

The liabilities represent the value of possible future reimbursements of funds received by PGE Group companies from environmental funds for certain investment projects. The funds will be reimbursed if investment projects for which they were granted, do not bring the expected environmental effect.

Legal claims

Dispute with Worley Parsons

The contingent liability is mainly related to the dispute with WorleyParsons. WorleyParsons made a claim for payment of PLN 59 million due to the claimant and for the return of the amount that in the claimant's opinion was unduly collected by PGE EJ 1 sp. z o.o. from a bank guarantee, and later the claim extended to PLN 104 million (i.e. by PLN 45 million). On March 31, 2018, the company filed a response to WorleyParsons' expanded claim. The Group has not recognised the claims and believes that the court is unlikely to award them to the claimant.

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

Since October 2017, PGE EO S.A. was a party to legal disputes in which Energa-Obrót S.A. demanded the annulment of a legal relation that were to arise as a result of the execution of master agreements to sell energy origin certificates resulting from electricity origin certificates at FW Kisielice in 2009, FW Koniecwałd (Malbork) and FW Galicja. Energa-Obrót S.A.'s demands in all of the lawsuits are based on the allegation that executory agreements (to sell specific energy origin certificates) were executed in a way that circumvented the Public Procurement Law. Alternatively, if the Agreement is considered as an agreement on award of a public procurement, Energa Obrót S.A. was claiming absolute invalidity of the Agreements due to them being executed in a way that circumvented the Public Procurement Law.

Having claimed that the agreements concluded in 2009 were invalid, Energa-Obrót S.A. refused to purchase the energy certificates of origin concerning electricity produced from renewable sources at FW Kisielice, FW Koniecwałd (Malbork) and FW Galicja, which constituted a breach of the agreements and resulted in contractual penalties of PLN 80 million being imposed (including PLN 35 million recognised as revenues in the current period and PLN 45 million recognised in previous years).

In addition, through motions filed in September 2017, Energa Obrót S.A. summoned PGE Energia Odnawialna S.A. and PGE Energia Natury sp. z o.o. (currently acquired by PGE Energia Odnawialna S.A.) for amicable resolution of disputes for the payment of claims concerning considerations paid on the basis of invalid contracts from 2009. The parties failed to reach agreement at the meetings that were held in November and December 2017.

Throughout the duration of the disputes, PGE Group did not recognize any claims made against it.

On February 27, 2020 a settlement was concluded between PGE EO S.A. and Energa-Obrót S.A., which amicably ended all disputes concerning framework agreements on sale of energy origin certificates. The settlement does not affect the results presented in the financial statements of PGE Group.

Bank guarantee liabilities

These liabilities comprise bank guarantees provided as collateral for settlements with the Warsaw Commodity Clearing House. As at December 31, 2019, the total amount of bank guarantees was PLN 1,846 million (PLN 177 million in the corresponding period).

Other contingent liabilities

Other contingent liabilities mainly comprise a potential claim by WorleyParsons (as described above), amounting to PLN 33 million.

28.2 Other significant issues related to contingent liabilities

Non-contractual use of property

As described in note 21.4 to these financial statements, PGE Group recognises provision for disputes under court proceedings concerning non-contractual use of properties intended for distribution activities. In addition, PGE Group is involved in disputes at an earlier stage of proceedings and it cannot be excluded that the number and value of similar disputes will increase in the future.

Contractual liabilities related to purchase of fuels

According to the concluded agreements for the purchase of fuels (mainly coal and gas), PGE Group companies are obliged to collect the minimum volume of fuels and not to exceed the maximum level of collection of gas fuel in particular periods. Failure to collect the minimum volumes of fuels specified in the contracts, may result in extra fees being imposed (in case of gas fuel, the volume not collected by power plants but paid up may be collected within the next three contractual years).

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

28.3 Contingent receivables

As at the reporting date, PGE Group held PLN 33 million in contingent receivables resulting from the imbalance between purchases and sales of energy in the domestic market (PLN 27 million in the comparative period) and from potential return of overpaid excise duty of PLN 72 million. The Group is waiting for the Supreme Administrative Court's decision on what excise duty rate should be applied to settle the excise duty relief for the surrender of Property Rights arising from renewable energy sources before January 1, 2019.

In PGE Group's opinion, the rate in force at the time of sale of electricity generated from renewable energy sources to the final user, i.e. 20 PLN/MWh, should be used to settle the said relief. This position was sustained by the judgment of the Regional Administrative Court in Rzeszów of October 8, 2019.

On November 20, 2019, the tax authority filed a cassation appeal against the above mentioned ruling of the Provincial Administrative Court.

28.4 Other legal claims and disputes

Compensation for conversion of shares

Former shareholders of PGE GiEK S.A. filed motions to courts to summon PGE S.A. to a conciliation hearing concerning payment of compensation for incorrect (in their opinion) determination of the exchange ratio of shares of PGE Górnictwo i Energetyka S.A. into shares of PGE S.A. during a consolidation process that took place in 2010. The total value of claims resulting from summons to a conciliation hearing made by the former shareholders of PGE Górnictwo i Energetyka S.A. amounts to over PLN 10 million.

Irrespective of the foregoing, on November 12, 2014 Socrates Investment S.A. (an entity which purchased claims from former PGE Górnictwo i Energetyka S.A. shareholders) filed a lawsuit to impose a compensation in the total amount of over PLN 493 million (plus interest) for damage 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. At present, the first instance court proceedings are pending. A hearing concerning appointment of an expert was held on November 20, 2018. The next court hearing has not been scheduled.

Moreover, a similar claim was raised by Pozwy sp. z o.o., a buyer of claims from the former shareholders of PGE Elektrownia Opole S.A. Through a lawsuit filed at the District Court in Warsaw against PGE GiEK S.A., PGE S.A. and PwC Polska sp. z o.o. ("Defendants"), Pozwy sp. z o.o. demanded from the Defendants, in solidum, or jointly damages for Pozwy sp. z o.o. totalling over PLN 260 million with interest for allegedly incorrect (in its opinion) determination of exchange ratio for PGE Elektrownia Opole S.A. shares for PGE Górnictwo i Energetyka Konwencjonalna S.A. shares in a merger of these companies. This lawsuit was served on PGE S.A. on March 9, 2017, and the deadline for responding to it was set by the court as July 9, 2017. The following companies: PGE S.A. and PGE GiEK S.A. submitted a response to the claim on July 8, 2017. On September 28, 2018, the District Court in Warsaw ruled in the first instance and the lawsuit by Pozwy sp. z o.o. against PGE S.A., PGE GiEK S.A. and PWC Polska sp. z o.o. was dismissed. On April 8, 2019, PGE S.A. received a copy of the appeal filed by the claimant on December 7, 2018. A response to the appeal was prepared on April 23, 2019.

for 2019 in accordance with EU IFRS (in PLN million)

PGE Group companies have not recognised the claims made 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 in a fair and correct manner. The value of shares subject to the process of consolidation was established by an independent company, PwC Polska sp. z o.o. Additionally, merger plans of the companies mentioned above, including the exchange ratios, were examined for accuracy and reliability by an expert appointed by the registration court; no irregularities were found. Next, the court registered the mergers of the aforementioned companies.

PGE Group has not recognised a provision for this claim.

Claims for annulment of resolutions adopted by the General Meetings

On January 29, 2019, PGE S.A. received a copy of a lawsuit filed to the District Court of Warsaw by one of its shareholders. In the lawsuit, the shareholder is seeking annulment of resolutions No 7, 9 and 20 of the Company's Ordinary General Meeting held on July 19, 2018. On February 28, 2019, the Company submitted a response to the lawsuit.

At a hearing held on November 27, 2019, the claimant withdrew the claim for annulment of resolutions No 7, 9 and 20 of the Ordinary General Meeting of July 19, 2018, as a result of which the District Court in Warsaw issued a decision to discontinue the proceedings regarding this case.

Termination by Enea S.A. of agreements for sale of certificates

In October and November 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 from Enea S.A. termination of long-term contracts for purchase of renewable energy origin certificates, so called "green certificates". In the explanatory statement of the termination, Enea S.A. claimed that the companies significantly breached the provisions of these contracts, i.e. failed to re-negotiate contractual provisions in accordance with the adaptive clause, as requested by Enea S.A. in July 2015 in connection with an alleged change in legal regulations having impact on performance of these contracts.

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

Due to the fact that according to PGE Group termination notices presented by Enea S.A. were submitted in breach of contractual terms, as at December 31, 2019, the Group recognised contractual penalty and compensation receivables of PLN 153 million (of which PLN 19 million was recognised as present-period revenues). According to PGE Group companies, based on available legal opinions, a favourable resolution in the above disputes is more probable than an unfavourable one.

The estimated volume of green certificates covered by the contracts with Enea S.A. amounts to approximately 2,675 thousand MWh. The above amount was calculated for the period from the date of termination of the contracts to the end of the expected initial term of the contracts.

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 energy origin certificates based on these contracts. Enea S.A. refused to pay these receivables, claiming that they were offset by receivables from the Group's companies related to compensation for alleged damages arising as a result of the companies' failure to re-negotiate the contracts. According to Group companies, such offsets are groundless because Enea S.A.'s receivables concerning the payment of compensation never arose and there are no grounds for acknowledging Enea S.A.'s claim that the companies breached contractual provisions. The proceedings are pending, and the next hearings are scheduled for April, June and September 2020.

29. Future investment commitments

As at December 31, 2019, PGE Group committed to incur capital expenditures on property, plant and equipment of approximately PLN 4,572 million. These amounts relate mainly to construction of new power units, modernisation of Group's assets and purchase of machinery and equipment.

	As at December 31, 2019	As at December 31, 2018
Conventional Generation	2,363	3,694
Distribution	1,405	1,199
Renewables	363	177
District Heating	227	114
Supply	1	-
Other activities	213	187
TOTAL FUTURE INVESTMENT COMMITMENTS	**4,572**	**5,371**

The most significant future investment commitments concern:

- Conventional Generation:
  - Branch Opole Power Plant – construction of power units no. 5 and 6 – approximately PLN 202 million,
  - Branch Bełchatów Power Plant – upgrade of FGD unit – approximately PLN 299 million,
  - Branch Turów Power Plant – modernisation of power units no. 1-3 – approximately PLN 115 million,
  - Branch Turów Power Plant – construction of new power unit no. 7 – approximately PLN 907 million.
- Distribution – investment commitments related to network distribution assets with the total value of approximately PLN 1,405 million,
- Renewables – investment commitments related to the design and construction of Starza, Rybice and Karnice II wind farms – approximately PLN 176 million,
- Other activity, PGE EJ1 sp. z o.o. – agreement for owners engineer in the investment process related to construction of the first Polish nuclear power plant – approximately PLN 152 million (basic scope). An optional scope includes the amount of approx. PLN 1,120 million.

PGE Group's entity PGE EJ 1 Sp. z o.o. is directly responsible for preparing the investment process, consisting in conducting environmental and site surveys and obtaining all of the necessary decisions for construction of the first Polish nuclear power plant and for carrying out this investment project. Decisions with regard to the continuation of the Programme will be made based on decisions by the public administration authorities concerning a role of nuclear energy in Polish fuel mix, mode for the procurement of nuclear power plant technology, investment financing model and an updated Programme for Poland's Nuclear Power. The current scope of the Programme conducted by PGE EJ 1 Sp. z o.o. provides for carrying environmental and site surveys at two potential locations (Lubiatowo-Kopalino and Żarnowiec) and in preparing an Environmental impact assessment report and a Site report. PGE Group intends to continue providing financial support for PGE EJ1 sp. z o.o., as is necessary to continue works under the existing scope of works. A decision on the investment project that consists in constructing a nuclear power plant depends, in particular, on the preparation of the dedicated financing model.

On January 30, 2020, PGE GiEK S.A. concluded an agreement for the construction of two CCGT units in PGE GiEK S.A. Branch Zespół Elektrowni Dolna Odra on a turnkey basis. The value of the agreement for the construction of the units, together with the self-start option, is PLN 3,701 million.

30. Tax settlements

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

From the point of view of business entities, the most important is the taxation of income (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 in 2019 were as follows: corporate income tax rate – 19%, for smaller enterprises a 9% rate is likely; basic value added tax rate – 23%, reduced: 8%, 5%, 0%, furthermore some goods and products are subject to a VAT tax exemption.

The tax system in Poland is characterised by a significant changeability of tax regulations, their high complexity and high potential fees for commitment of a tax crime or violation. Tax settlements and other activity areas are conditioned by regulations (customs or currency inspections) and can be subject to inspections by respective authorities that are entitled to issue fines and penalties with penalty interest. Inspections may cover tax settlements for the period of 5 years after the end of calendar year in which the tax was due.

Tax group

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

Companies included in the tax group must meet a number of requirements including: appropriate level of equity, parent's stake in PGK companies of at least 75%, lack of capital ties between subsidiaries, no tax arrears, share in total revenue of at least 2% (counted at tax group level), and execution of transactions with related parties from outside the tax group only on market terms. Any violation of these requirements will result in the tax group being dissolved and losing its taxpayer status. When the tax group is dissolved, each of its member companies will become an independent payer of corporate income tax.

VAT split payment mechanism

The Group uses funds received from counterparties in VAT accounts to pay its liabilities that contain VAT. The level of funds in these VAT accounts at a given date depends mainly on the number of the Group's counterparties that decide to use this mechanism and on the relation between the payment dates of receivables and liabilities. As at December 31, 2019, the cash balance in these VAT accounts totalled PLN 98 million.

Reporting of tax schemes (MDR)

In 2019, new legal regulations that introduced mandatory reporting of the so-called tax schemes (Mandatory Disclosure Rules, MDR) came into force. As a general rule, a tax scheme means an activity whose main or one of the main benefits is the achievement of a tax advantage. In addition, events with so called special or other special hallmarks, defined in the regulations, were indicated as a tax scheme. The reporting obligation applies to three types of entities: promoters, facilitators and beneficiaries. MDR regulations are complex and imprecise in many areas, which raises doubts as to their practical application.

Excise tax

As a result of the incorrect implementation of EU regulations in the Polish legal system, in 2009 PGE GiEK S.A. initiated proceedings regarding reimbursement of the improperly paid excise tax for the period from January 2006 to February 2009. The irregularity consisted in taxing electricity at the first stage of sales, i.e. at the sale by producers, when it was the sale to final customers that should have been taxed.

Having examined the company's complaints with regard to the restitution claims against decisions issued by tax authorities refusing to confirm the 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 could be sought only in civil courts. Given the above, PGE GiEK S.A. decided to withdraw from the proceedings as regards restitution claims. Currently, the actions concerning the overpaid excise tax are pending in the civil courts. On January 10, 2020, the District Court issued a ruling in a case brought by PGE GiEK against the State Treasury – the Minister of Finance. The court dismissed the claim. On February 3, 2020, the Company appealed against the decision of the first instance to the Warsaw Court of Appeals.

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.

Property tax

Tax on property constitutes a significant burden on certain PGE Group companies. Regulations concerning property tax are unclear in certain areas and give rise to a variety of interpretation doubts. Tax authorities, i.e. municipality leader, mayor or city president, have often issued inconsistent tax interpretations in similar cases. Due to the above, PGE Group companies have been and may be parties to court proceedings concerning property tax. If the Group considers that an adjustment of settlements is likely due to such a proceeding, it recognises an appropriate provision.

Uncertainty related to tax settlements

Regulations on value added tax, corporate income tax, and social security contributions are subject to frequent amendments, with the effect being lack of appropriate points of reference, conflicting interpretations, and scarcity of established precedents which could be followed. Furthermore, the applicable tax laws lack clarity, which leads to differences in opinions and diverse interpretations of tax regulations, both between various public authorities and between public authorities and businesses.

Tax settlements and other regulated areas of activity (e.g. customs or foreign exchange control) are subject to inspection by administrative bodies, which are authorised to impose high penalties and fines, and any additional tax liabilities arising from such inspections must be paid with high interest. Consequently, tax risk in Poland is higher than in countries with more stable tax systems.

The amounts presented and disclosed in the financial statements may therefore change in the future as a result of a final decision by a tax inspection authority.

On July 15t, 2016, the tax legislation was amended to reflect the provisions of the General Anti-Abuse Rule (“GAAR”). GAAR is intended to prevent the creation and use of abusive arrangements to avoid paying taxes in Poland. Under GAAR, tax avoidance is an arrangement the main purpose of which is to obtain a tax advantage which is contrary to the objectives and purpose of the tax legislation. According to GAAR, such measures do not lead to the achievement of a tax benefit if the scheme used was artificial. Any arrangements involving separation of transactions or operations without a sufficient rationale, engaging intermediaries where no business or economic rationale exists, any offsetting elements, and any arrangements that operate in a similar way, may be viewed as an indication of the existence of an abusive arrangement subject to GAAR. The new regulations will require much more judgement to be exercised when assessing the tax consequences of particular transactions.

The GAAR clause should be applied with respect to arrangements made after its effective date as well as arrangements that were made before its effective date but benefits of the tax advantage obtained through the arrangement continued or still continue after that date. Implementation of the above regulations will provide Polish tax inspection authorities with grounds to challenge certain legal arrangements made by taxpayers, including restructuring or reorganisation of corporate groups.

The Group discloses and measures current and deferred assets or liabilities in compliance with the requirements of IAS 12 *Income Taxes*, based on the taxable income (tax loss), tax base, unused tax losses, unused tax credits and tax rates, taking into consideration uncertainties related to tax settlements. Whenever it is uncertain whether and to what extent a tax authority would accept accounting for individual transactions, the Group accounts for such transactions taking into consideration an uncertainty assessment.

31. Information on related parties

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

31.1 Associates and jointly controlled entities

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

	Year ended December 31, 2019	Year ended December 31, 2018
Sales to associates and jointly controlled entities	13	20
Purchases from associates and jointly controlled entities	2,394	2,085

	As at December 31, 2019	As at December 31, 2018
Trade receivables from associates and jointly controlled entities	3	7
Trade liabilities to associates and jointly controlled entities	164	120

The value of purchases and balance of liabilities result from transactions with Polska Grupa Górnicza Sp. z o.o and Polimex-Mostostal S.A.

31.2 State Treasury-controlled companies

The State Treasury is the dominant shareholder in 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 parties. 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.

	Year ended December 31, 2019	Year ended December 31, 2018
Sales to related parties	2,016	2,114
Purchases from related parties	5,585	4,702

	As at December 31, 2019	As at December 31, 2018
Trade receivables from related parties	266	230
Trade liabilities to related parties	612	682

The largest transactions with companies in which the State Treasury holds a stake concern transactions with Polskie Sieci Elektroenergetyczne S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A., Jastrzębska Spółka Węglowa S.A., PKP Cargo S.A., PKO Bank Polski S.A., Grupa LOTOS S.A., Zakłady Azotowe PUŁAWY S.A., PKN Orlen S.A., TAURON Dystrybucja S.A., Bank Gospodarstwa Krajowego.

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

31.3 Management remuneration

The key management comprises the Management and Supervisory Boards of the parent company and significant subsidiaries.

PLN '000	Year ended December 31, 2019	Year ended December 31, 2018
Short-term employee benefits (salaries and salary related costs)	34,214	36,163
Post-employment benefits	1,672	4,624
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**35,886**	**40,787**
Remuneration of key management personnel of entities of non-core operations	22,875	19,664
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**58,761**	**60,451**

PLN '000	Year ended December 31, 2019	Year ended December 31, 2018
Management Board of the parent company	7,201	7,858
including post-employment benefits	*199*	-
Supervisory Board of the parent company	733	685
Management Boards – subsidiaries	24,348	29,211
Supervisory Boards – subsidiaries	3,604	3,033
TOTAL	**35,886**	**40,787**
Remuneration of key management personnel of entities of non-core operations	22,875	19,664
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**58,761**	**60,451**

PGE Group companies (direct and indirect subsidiaries) apply a rule according to which management board members are employed on the basis of management services contracts. The above remuneration is included in other costs by nature disclosed in note 7.2 Costs by nature and function.

32. Entity authorised to audit of financial statements

The entity authorised to audit the separate financial statements of PGE Polska Grupa Energetyczna S.A. for 2019 and consolidated financial statements of PGE Group for 2019, is Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp. k., under an agreement executed on April 26, 2019. Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp. k. is also an entity authorised to audit annual financial statements of selected PGE Group companies.

The entity authorised to audit the separate financial statements of PGE S.A. for 2018, as well as to audit the consolidated financial statements of PGE Group for 2018 was Ernst & Young Audyt Polska sp. z o.o. sp. k., under an agreement executed on July 17, 2017. Ernst & Young Audyt Polska sp. z o.o. sp. k. also audited financial statements of selected PGE Group companies.

The amount of remuneration of entities authorised to audit financial statements of PGE Polska Grupa Energetyczna S.A. and subsidiaries of the Group is disclosed in the following table.

PLN '000	Year ended December 31, 2019	Year ended December 31, 2018
Remuneration of the audit firm for:		
Audit of annual financial statements	3,278	3,187
Other assurance services, including review of interim financial statements	792	1,358
TOTAL	**4,070**	**4,545**

33. Significant events during and after the reporting period

33.1 Act amending the act on excise duty and certain other acts

On December 28, 2018, an act amending the act on excise duty and certain other acts was adopted. The Act aims to stabilise electricity prices for final customers in 2019. The Act on Electricity Prices had already been amended twice, i.e. on February 21, 2019 and on June 13, 2019. In addition, the Act on Compensation System for Energy Intensive Sectors and Subsectors, which has an effect on the Act, was adopted on July 19, 2019.

The key provisions of the amended Act on Electricity Prices are as follows:

- As of January 1, 2019, the excise duty on electricity has been reduced from PLN 20 to PLN 5 per MWh. The transition fee, paid each month by electricity customers, was reduced by 95%.
- In 2019, supply companies are obliged to provide final customers with electricity at prices set in accordance with the Act. The pricing rules and beneficiaries of the Act are different in the first and in the second half-year of 2019.
- From January 1, 2019 to June 30, 2019, electricity prices paid by final customers are to correspond to prices set as at December 31, 2018 in the tariffs approved by the President of ERO or at prices applied as at June 30, 2018, if prices paid by final consumers differ from those specified in the tariffs. All final customers have the right to keep paying prices set in 2018. An exception to that rule are energy intensive companies which are to submit by September 12, 2019 a relevant statement disclaiming the right to use the electricity prices and fees reduced by the Act.
- In the period from July 1, 2019 to December 31, 2019:
    - Households (including residential buildings, garages, holiday homes and allotments) are subject to prices applicable in 2018. In turn, micro and small enterprises, hospitals, public finance sector entities and state organisational units are obliged to submit a relevant statement if they wish to apply prices of 2018. The deadline for submission of such statements ended on August 13, 2019.
    - Medium and large companies are not entitled to energy price from 2018. These entities may apply to Zarządca Rozliczeń S.A. for funding intended to cover an increase in electricity prices in accordance with the rules on the grant of de minimis aid.
    - Energy intensive companies are not beneficiaries of the Act on Electricity Prices in this period. Energy intensive companies may apply for support under the Act on Compensation System for Energy Intensive Sectors and Subsectors.
- Retail companies (such as PGE Obrót S.A.) are entitled to receive compensation for the reduction in prices. Compensation depends on the average weighted electricity prices and on other unit costs of supply companies published by the URE President and also on the volumes sold. Compensations are granted at companies' request.

In the reporting period, PGE Group adjusted electricity prices applicable to households that pay tariff prices or derivative prices and electricity prices specified in the price lists for tariffs A, B, C and R, in accordance with the Act. In case of other beneficiaries of the Act in Electricity Prices, in the first half-year of 2019, PGE Group used prices set forth in the concluded agreements, because prices charged to such beneficiaries could only be changed if implementing regulations were published, and those have been published after June 30, 2019. As a consequence, supply companies are obliged to adjust the prices to all final customers by September 13, 2019, with the effect from January 1, 2019.

Effects on reporting

In assessing the reporting effects on the consolidated financial statements, the Group analysed, in particular:

- The difference between revenue estimated in accordance with the Act and the unavoidable costs to satisfy the obligation to perform contracts at the level of individual companies – including mainly PGE Obrót S.A.,
- A positive energy balance between the value of electricity produced and sales to final customers,
- The value of due compensations for both first half and second half of 2019.
- Uncertainties related to the estimation of revenue reduction and compensations due.

As far as onerous contracts are concerned within the meaning of IAS 37, the Group is of the opinion that there were no such contracts as at December 31, 2018 and during 2019 at the level of the consolidated financial statements due to the positive margin generated between the cost of producing energy and its sale to the final customer. Accordingly, consolidated figures of PGE Group do not include the recognition and reversal of respective provisions.

In turn, in the Supply segment the difference between the revenues estimated in accordance with the Act and unavoidable costs to satisfy the obligation to perform contracts amounts to PLN 261 million as at December 31, 2018 (surplus of costs over revenue). Costs, as a rule, include only those costs that are directly related to the contract that the entity would have avoided if it did not perform the contract. Calculating a loss on a contract in the meaning of IAS 37 did not include future operating losses. The provision was recognised in the records of the Supply segment during 2019.

For the period from January 1, 2019 to December 31, 2019, the Group recognised income from expected and received compensations in the amount of PLN 1,148 million, of which PLN 845 million was received by the reporting date, and further PLN 286 million by the date of these financial statements.

The final amount of compensations will depend on the actual consumption of energy by end users in 2019, determined on the basis of readings of meters for the period from January 1 to June 30 and from July 1 to December 31, 2019, respectively, and after the completion of the ERO procedure related to the recognition of individual own costs of the Company. This value may differ from the Group's estimates.

33.2 Onerous contracts resulting from, among other, the approval of a tariff for G tariff group customers

On January 3, 2020, the President of the ERO approved the tariff for PGE Obrót S.A. for G tariff group customers who do not use free market offers for the sale of electricity in the period from 18 January 2020 to 31 March 2020. The approved price level does not fully cover the purchase prices of electricity, property rights and own costs, resulting in the loss of profitability of sales made by PGE Obrót S.A. to G tariff group customers who do not use free market offers for the sale of electricity and customers from this tariff group who use free market offers, where the sales price is correlated with the price approved by the President of ERO.

Effects on reporting

As far as onerous contracts are concerned within the meaning of IAS 37, the Group is of the opinion that there were no such contracts as at December 31, 2019 due to the positive margin generated between the cost of producing energy and its sale to the final customer. Accordingly, consolidated figures of PGE Group do not include the recognition of respective provisions.

In turn, as at December 31, 2019, the Supply segment estimated the provision for onerous contracts at the amount of PLN 336 million.

The estimated amount of the provision for onerous contracts in connection with the approval of the tariff for households was determined on the assumption that these rates will apply in the period from January 18, 2020 to December 31, 2020 (in the period from January 1, 2020 to January 17, 2020 in accordance with the rates applicable in 2019). Costs, as a rule, include only those costs that are directly related to the contract that the entity would have avoided if it did not perform the contract.

Furthermore, the analysis of revenue resulting from other contacts concluded by the companies in the Supply segment and unavoidable costs of their fulfilment as at December 31, 2019 indicated the existence of contracts qualifying as onerous contracts within the meaning of IAS 37.

The provision recognised at the Supply segment level does not affect the results of PGE Group.

33.3 Granting of additional CO_2 emission allowances for PGE's installations

As a result of settlement of capital expenditures in PGE Group, in April 2019 generation assets acquired from EDF group in 2017 received additional allocation of CO_2 emission allowances in the amount of approximately 11 million tonnes for the years 2013-2017. These allowances are held for trading purposes.

The allowances received were included in Inventories (note 15) and Other operating income (note 7.3). The allowances are measured at each reporting date at fair value. As at December 31, 2019, their fair value amounted to PLN 1,300 million and the valuation of related forward contracts (commodity and currency contracts) is PLN 146 million.

33.4 Establishment of Eko-Inwestycje Fund

On July 30, 2019, PGE S.A., PGE EC S.A., PGE GiEK S.A. and PGE EO S.A. concluded an investment agreement with Towarzystwo Funduszy Inwestycyjnych Energia S.A. according to which a closed-end private equity fund was to be established under the name of "Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych Eko-Inwestycje".

The fund will focus its activities on the implementation of investment projects of a complementary nature in relation to the core activity of the PGE Group, consistent with its strategy, aimed at the development of new business lines. The investment policy of the Fund provides for specific categories of Fund's investments, market areas and criteria for managing the Fund's assets in the selection of those investments. The fund will pursue its investment objective by investing funds in entities operating in market areas related to:

- electromobility,
- increasing flexibility and optimisation of energy systems,
- energy efficiency services,
- reducing the emissions of the power industry, improving its efficiency, reliability and production flexibility, including investments in highly-efficient generation sources,
- using digital technologies to improve the cost efficiency of production and supporting processes in the energy sector.

The assumed investment horizon covers a period of at least 5 years, unless the detailed investment conditions justify a shorter period.

Investors will be obliged to make payments to the Fund in the total amount of not less than PLN 1.5 billion until the end of the Fund adjustment period, i.e. until the end of the 36th month from the date of Fund registration, based on the schedule specified in the agreement, with the majority of payments falling in 2020. The funds transferred to the Fund will be derived, among other things, from the sale of a part of additional CO_2 emission allowances. The Fund was established for an indefinite period. The Fund may be dissolved no sooner than after 7 years from entering the Fund in the register of investment funds.

33.5 Events after the reporting period

PGE S.A. identifies, on an ongoing basis, the risk factors that will potentially affect the Group's performance in connection with the COVID-19 pandemic. On the other hand, the dynamics of the situation and the lack of realistic predictions concerning its duration and economic impact make it impossible at this stage to precisely estimate the financial impact of the pandemic on PGE Group. The outbreak of the pandemic has led to expectations of economic slowdown in 2020 in the global economy and in Poland. These are reflected, among others, in the revision of market projections for GDP, industrial output and investments.

At present, due to the reduced level of economic activity, the Group identifies the risk of further reduction in domestic electricity consumption, which may result in a decrease in revenues and margins from energy generation, distribution and sales in the Distribution, Supply, Conventional Generation and District Heating segments. As regards production activities, the majority of sales were contracted in previous periods, therefore in the short term the negative impact of lower production volumes in the Conventional Generation segment should be significantly limited. The negative effect should be related to potential reductions on the part of the Transmission System Operator, resulting in lower production from lignite, which is characterized by a relatively stable cost structure. The PGE Group expects, however, an impact on contracting volumes and prices for subsequent periods, but at this stage this impact cannot be estimated. The actual impact will depend on the consumption profile, changes in consumption in particular tariff groups and the duration of the pandemic, or its effect on the global economic slowdown.

At the same time, PGE Group identifies the risk of growth of overdue receivables in connection with the expected deterioration of PGE customers' liquidity. It will depend on the scale of the reduction of economic activity and on the effects of the government's protective measures for entrepreneurs.

PGE Group's plants are of strategic importance for maintaining undisturbed production and supply of electricity and heat. In many cases, this involves additional costs resulting from changing work organisation and purchasing protective materials.

Regardless of the impact on the financial performance, there may be a greater demand for cash resulting from the need to increase security deposits in connection with purchases of CO_2 emission allowances. It is likely that the average collection period will deteriorate. The above effects will result in the need to contract additional financial liabilities, which may also be reflected in finance costs incurred by the PGE Group.

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

34. Approval of the financial statements

These consolidated financial statements were authorised for issue by the Management Board on March 31, 2020.

Warsaw, March 31, 2020

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	**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**	

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

35. Glossary of terms and acronyms

Below is a list of the terms and abbreviations most frequently used in these consolidated financial statements

Acronym	Full name
CCIRS	Cross Currency Interest Rate Swaps
CGU	Cash Generating Unit
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
EUA	CO_2 emission allowances (European Union Allowances)
FLZG	Extraction Facilities Decommissioning Fund
PGE Capital Group, PGE Group, Group, PGE CG	PGE Polska Grupa Energetyczna S.A. Capital Group
IRGiT	Warsaw Commodity Clearing House
IRS	Interest Rate Swap
LTC	Long-term capacity and electricity sales contracts
IFRIC	Interpretations of the International Financial Reporting Interpretations Committee
KOGENARACJA S.A.	Zespół Elektrociepłowni Wrocławskich KOGENARACJA S.A.
KPI	National Investment Plan
IFRS	International Financial Reporting Standards
EU IFRSs	International Financial Reporting Standards as endorsed by the European Union
NFOŚiGW	National Fund for Environmental Protection and Water Management
IP	Investment property
TSO	Transmission System Operator
ROUA	Right-of-use assets
PGE S.A., Company, Parent Company	PGE Polska Grupa Energetyczna S.A
PGE EC S.A.	PGE Energia Cieplna S.A.
PGE EO S.A.	PGE Energia Odnawialna S.A.
PGE GiEK S.A.	PGE Górnictwo i Energetyka Konwencjonalna S.A.
PGE PGK	Tax Group
RPUL	Right to perpetual usufruct of land
PPE	Property, plant and equipment
Financial statements, consolidated financial statements	Consolidated financial statements of PGE Group
POLPX	Polish Power Exchange (Towarowa Giełda Energii)
ERO	Energy Regulatory Office
Act on Electricity Prices	Act amending the act on excise duty and certain other acts
WACC	Weighted Average Cost of Capital
WFOŚiGW	Provincial Fund for Environmental Protection and Water Management
IA	Intangible assets
ZFŚS	Company Social Benefits Fund