Management Board's report on activities of the PGE Capital Group for the 3-month period

ended March 31, 2021

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KEY FINANCIAL RESULTS OF THE PGE CAPITAL GROUP

Key financial data	Unit	Period ended March 31, 2021	Period ended March 31, 2020	% change
Sales revenues	PLN million	11 900	12 591	-5%
EBIT	**PLN million**	**1 164**	**773**	**51%**
EBITDA	**PLN million**	**2 206**	**1 770**	**25%**
EBITDA margin	%	19%	14%	
Net profit	**PLN million**	**835**	**485**	**72%**
Capital expenditures	**PLN million**	**839**	**957**	**-12%**
Net cash from operating activities	PLN million	-398	218	-
Net cash from investing activities	PLN million	-845	-2 263	-63%
Net cash from financial activities	PLN million	-36	2 748	-

Key financial data		As at March 31, 2021	As at December 31, 2020	% change
Working capital	PLN million	783	71	1 003%
Net debt/ LTM EBITDA*	**x**	**1.42**	**1.41**	

** LTM EBITDA - Last Twelve Months EBITDA.*

1. PGE Capital Group

1.1. Characteristics of activities

Capital Group of PGE Polska Grupa Energetyczna S.A. ("PGE Capital Group", the "Capital Group", "PGE Group", the "Group") is the largest vertically integrated producer of electricity and heat in Poland. With a mix of own fuel sources, generation assets and distribution network, PGE Group provides a safe and reliable supply of electricity to more than five million households, businesses and institutions. Moreover, PGE Group is the largest heat producer in the country.

The parent company of PGE Capital Group is PGE Polska Grupa Energetyczna S.A. (also "PGE S.A.", "PGE", the "Company", the "Issuer"). PGE Group organizes its activities in seven business segments:

CONVENTIONAL GENERATION

Core business of the segment includes extraction of lignite, production of electricity and heat from conventional sources.

DISTRICT HEATING

The core business of the segment includes production of electricity and heat from conventional sources as well as transmission and distribution of heat.

RENEWABLES

The core business of the segment includes electricity generation from renewable sources and in pumped-storage power plants and provision of ancillary services.

SUPPLY

The core business of the segment includes wholesale trading of electricity on domestic and international market, sale of electricity to final off-takers, trading of CO_2 allowances and energy certificates and fuels and provision of services of the Corporate Centre to companies from the PGE Group.

DISTRIBUTION

The core business of the segment includes supply of electricity to final off-takers through the grid and HV, MV and LV infrastructure.

CIRCULAR ECONOMY

The core business of the segment is the management of combustion by-products.

OTHER OPERATIONS

Other operations include provision of services, through the subsidiaries, to PGE Group, which include organisation of capital raising in form of Eurobonds, provision of IT, payroll and HR services, transportation, management of investment funds and investing in start-ups.

The composition of the Capital Group is presented in note 1.3 to the consolidated financial statements.

2. Electricity market and regulatory and business environment

2.1. Macroeconomic environment

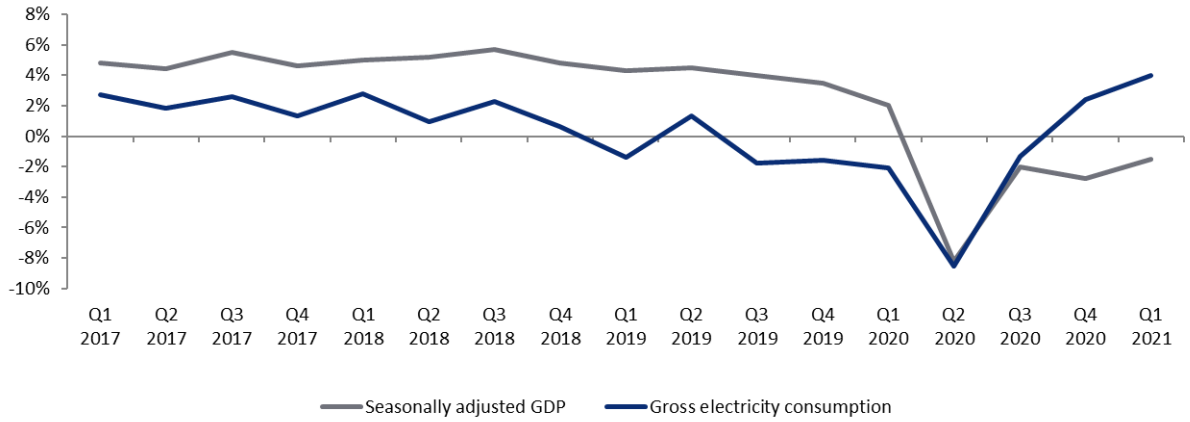
PGE Group's main operating area is Poland, and the domestic macroeconomic backdrop has a substantial impact on Group's results. At the same time, the condition of Poland's economy remains largely tied to the situation across the European Union and in global markets. The Group's financial results are affected by both the situation in specific segments of the economy and the financial markets, which affect the terms of PGE Group's debt financing.

As a rule of thumb, there is a historical correlation between change in electricity demand and change in the rate of economic growth in Poland. Considering PGE Group's position on the Polish power generation market, as well as its substantial share in the electricity sales and distribution market, changes in power and heat demand may have a significant impact on the Group's results.

The COVID-19 pandemic and efforts to rebuild the economy had a major impact in the first quarter of 2021 on the global and national economic situation, and in consequence on the energy market. Uncertainty over the pandemic is still high but the vaccination program is making it possible to gradually lift the restrictions that have been hurting the economy. A nearly 4% y/y increase in gross electricity consumption in the first quarter of 2021 is the effect of lower air temperatures on a year-on-year basis.

Economic trends in the first quarter of 2021 remained under the influence of the pandemic restrictions, which mainly affected manufacturing and services. Analysts nonetheless agree that 2021 should be a time for rebuilding the global and the Polish economy. The Central Statistical Office of Poland informs that GDP decrease is slowing down and amounted to -1.2% in the first quarter of 2021. Bank Pekao economists expect GDP growth in the entire 2021 to exceed 5%, in comparison with an approx. 3% decline in 2020. Any further impact of the pandemic on GDP will depend on its duration and the time it takes to full efficiency, especially in services and manufacturing.

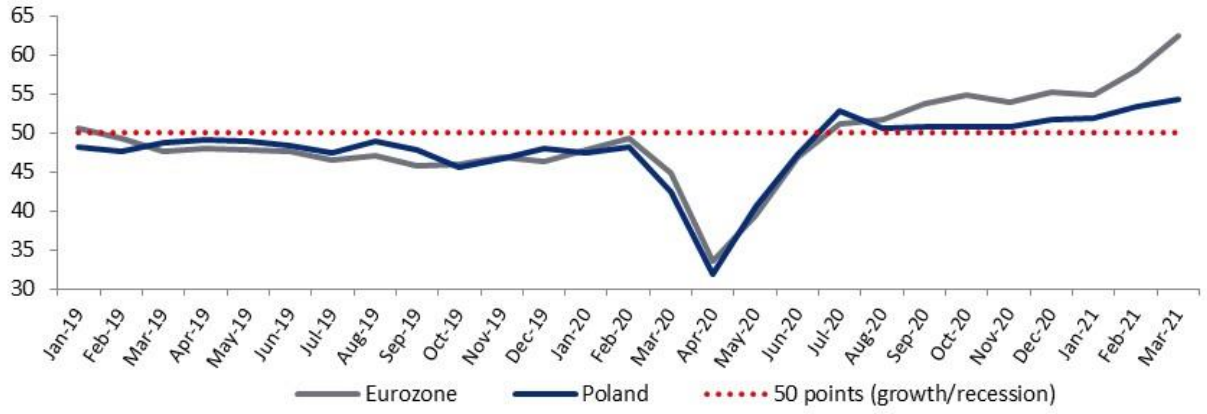
Diagram: Seasonally adjusted GDP change vs. change in domestic gross electricity consumption.



Source: Bank Pekao, Ministry of Economic Development, PSE S.A.

The Purchasing Managers' Index ("PMI") reflects the positive impact of the efforts being undertaken to rebuild the economy following the COVID-19 pandemic. The manufacturing PMI figures for Poland in the first quarter of 2021 showed optimism. In January 2021, the PMI reached 51.9 points, in February 2021 it was 53.4 points, while in March it was 54.3 points. The rising trend in the first quarter of 2021 is the longest PMI growth sequence since 2013. The average manufacturing PMI in Poland in the first quarter of 2021 was 53.2 points, denoting a 14% y/y increase. A score above 50.0 points means that the surveyed managers expect the situation in the sector to improve. Polish industry is influenced by the condition of industry in the Eurozone, where PMI in the first quarter of 2021 reached 58.4 points, compared to 47.3 points last year (up by 23.5% y/y). In March 2021, manufacturing PMI for the Eurozone reached 62.5 points, the highest level in history, i.e. since 1997. The growth rate of this indicator reflects an extremely fast improvement in the sector. At the same time, the rapidly expanding economic activity is being blocked by extended delivery times for raw materials and components, resulting from market shortages due to both strong demand for industrial goods and disruptions in logistics stemming from COVID-19 restrictions.

Diagram: Manufacturing PMI in Poland and Eurozone (in points).



Source: Markit Economics

Development in the Polish economy is reflected by inter alia dynamics in overall industrial production. In March 2021, industrial production sold was 18.9% higher than in March 2020, when a 2.5% decline had been recorded in comparison with 2019. In the entire first quarter of 2021, industrial production sold was 7.9% higher than in the same period last year, when an increase of 0.9% had been recorded vs. the first quarter of 2019. The consumer price index remained in an uptrend in the first quarter of 2021. Inflation reached 2.7% in January 2021 and went up to 3.2% in March 2021. This growth was driven by fuel and food prices, which outpaced the decline in clothing prices. Analysts surveyed by the National Bank of Poland expect average annual CPI inflation to reached approx. 3.4% in 2021. A majority of these analysts believe that in 2021-2023 inflation will be above the National Bank of Poland's inflation target (2.5%).

2.2. Market environment

SITUATION IN THE NATIONAL POWER SYSTEM (NPS)

Table: Domestic electricity consumption (GWh).

	Q1 2021	Q1 2020	% change
Domestic electricity consumption	**45 260**	**43 533**	**4%**
Wind farms	3 657	5 161	-29%
Industrial thermal hard-coal fired power plants	24 382	19 258	27%
Industrial thermal lignite fired power plants	10 318	9 163	13%
Industrial gas-fired power plants	3 416	3 566	-4%
International trading balance	2 122	2 768	-23%
Other (industrial plants, hydro power plants, other RES)[1]	1 365	3 617	-62%

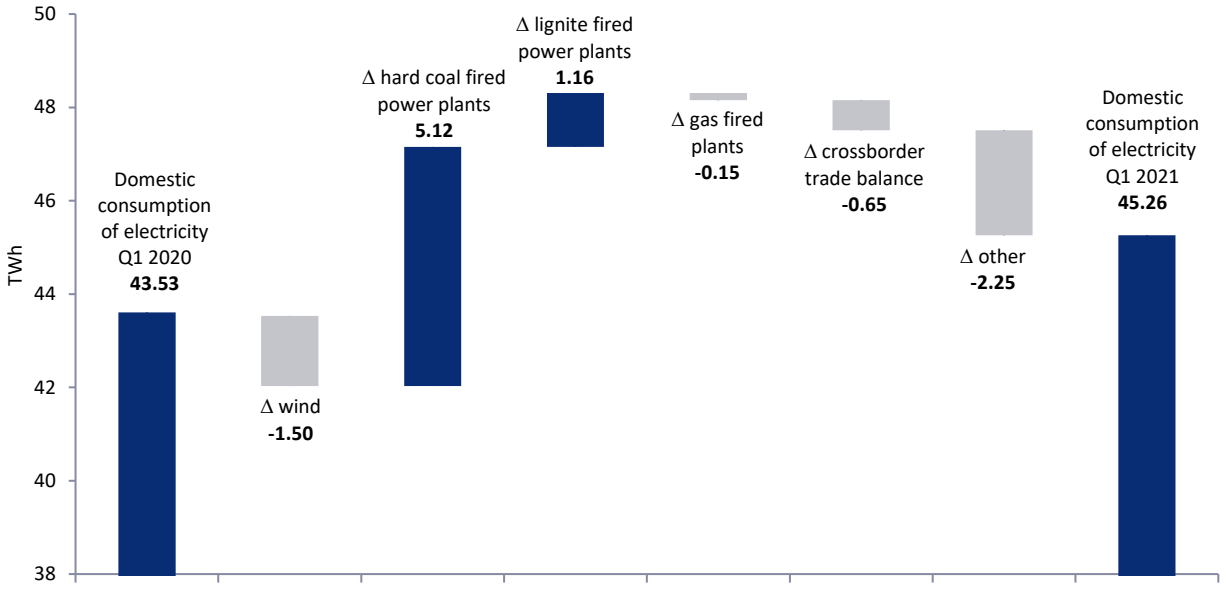
Source: PSE S.A. data

[1] From January 2021, power stations located at industrial complexes are classified as utility thermal power stations. It is not possible to historically classify them this way, which is why 2021 should be treated as a transitional period.
The new classification results from changes introduced to PSE S.A.'s IT systems in connection with the necessity to introduce changes resulting from the following documents approved by the President of the Energy Regulatory Office ("URE"): Amendments no. 1/2020 of Balancing Terms, Update Sheet no. CK/13/2020 for the Transmission Network Code ("IRiESP") – Terms for use, operation and planning of network development, and Update Sheet no. CB/28/2020 IRiESP – System balancing and managing system constraints.

Q1 2021

Domestic demand for electricity increased in the first quarter of 2021 (mainly due to low temperatures and an increase in the Polish economy's energy intensity due to the lesser impact of the COVID-19 pandemic) by 1.7 TWh compared to the base year. Due to weak windiness, wind generation decreased by 1.5 TWh y/y. In addition, due to the situation in neighboring countries, net imports decreased by 0.7 TWh y/y. As a result, more energy produced in utility hard coal-fired power plants (+5.1 TWh) and lignite-fired power plants (+1.2 TWh) was needed to balance the power system.

Chart: Energy balance in the NPS in the first quarter of 2021 y/y (TWh).



Source: own work based on data from PSE S.A.

ELECTRICITY PRICES – DOMESTIC MARKET

Day-ahead market (RDN)

Market/measure	Unit	Q1 2021	Q1 2020	% change
RDN – average price	PLN/MWh	263	177	49%
RDN – trading volume	TWh	7.90	7.35	7%

Analysis – selected price factors affecting RDN quotations

Factor	Unit	Q1 2021	Q1 2020	% change
CO_2 emission rights	EUR/t	37.95	22.04	72%
Polish Steam Coal Market Index PSCMI-1[2]	PLN/GJ	11.53	11.99	-4%
Wind generation NPS	TWh	3.66	5.16	-29%
Ratio: wind generation/ NPS consumption	%	8%	12%	
Ratio: international trading/ NPS consumption	%	5%	6%	

In the first quarter of 2021, the average electricity price on the day-ahead market was PLN 263/MWh and was higher by 49% than average price (PLN 177/MWh) in same period in the preceding year. The increase in energy prices was attributable to the increased energy demand for electricity (by 1.7 TWh), net imports lower by 23% compared to the first quarter of 2020 and decrease by 29% in generation from NPS wind sources.

[2]PSCMI 1- Polish Steam Coal Market Index 1 - average level of prices of coal dust sold to industrial-scale power plants in Poland.

Chart: Average monthly prices at the day-ahead market in 2020-2021 (TGE).*

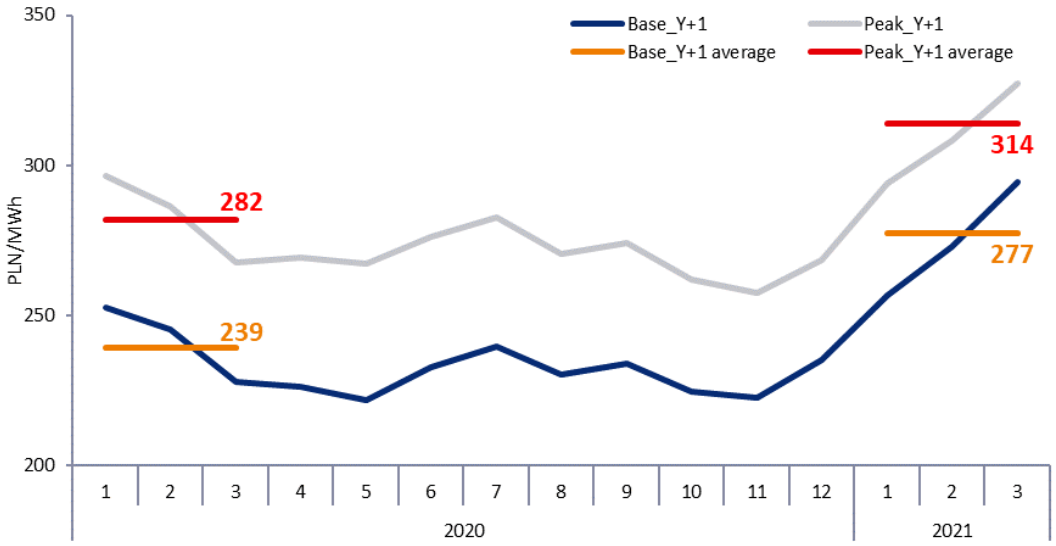
** Average monthly RDN prices calculated on the base of hourly quotations (fixing).*

Forward market

Market/measure	Unit	Q1 2021	Q1 2020	% change
BASE Y+1 – average price	PLN/MWh	277	239	16%
BASE Y+1 – trading volume	TWh	20.03	34.58	-42%
PEAK5 Y+1 – average price	PLN/MWh	314	282	11%
PEAK5 Y+1 – trading volume	TWh	2.11	3.47	-39%

Electricity prices on forward market are shaped by the similar fundamental factors, as the prices on the Day-Ahead Market described in the previous section. The observed forward market price increase y/y for the whole year for BASE_Y+1 is related to increased demand for electricity and very high prices of CO_2.

Chart: Average monthly prices on the forward market in 2020-2021 (TGE).*

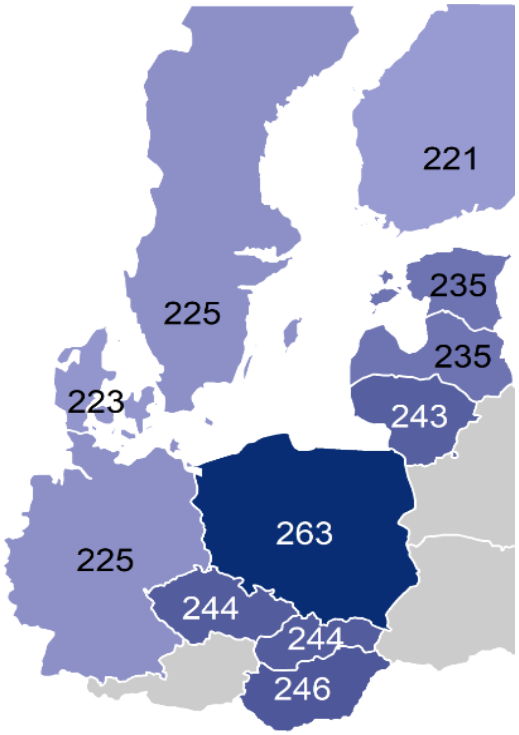


** Monthly average index level for forward contracts for the next year (Y+1), baseload and peak, weighted by the trading volume.*

International market

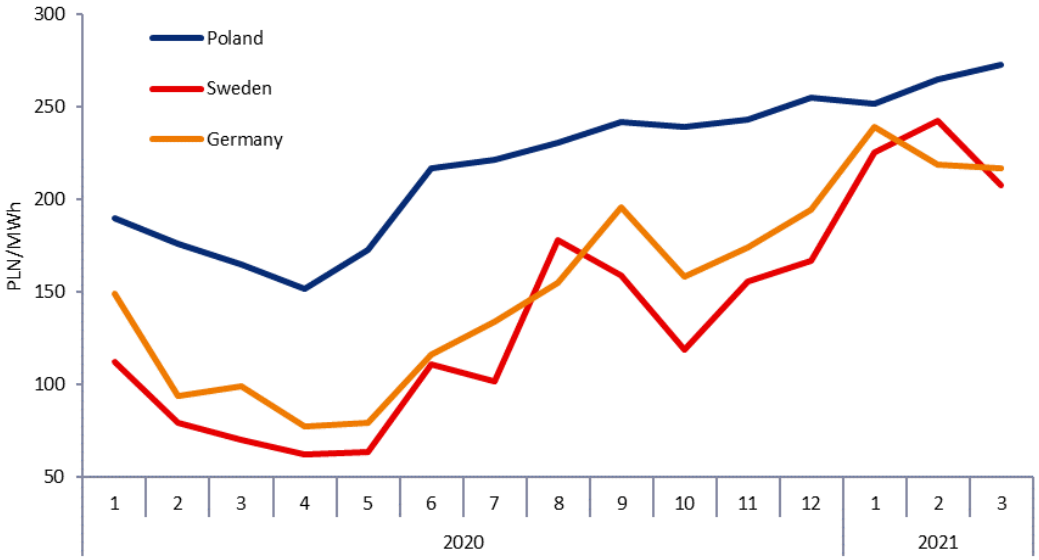
Wholesale market (comparison of day-ahead markets)

Chart: Comparison of average electricity prices on Polish market and on European markets in the first quarter of 2021 (prices in PLN/MWh, average exchange rate EUR/PLN 4.55).



Source: TGE, EEX, Nordpool

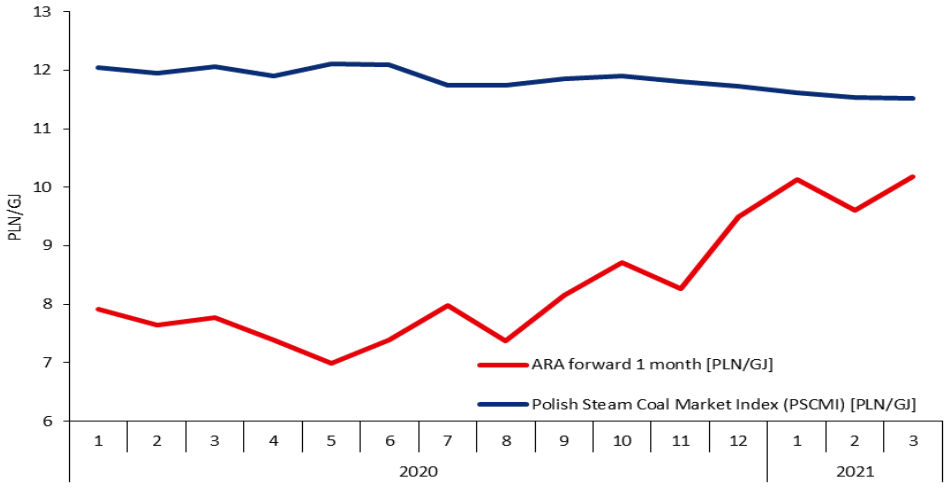
Chart: Evolution of spot market prices.



Source: TGE, EEX, Nordpool

In the first quarter of 2021, the y/y increase in prices on neighbouring markets ranged between PLN 111 and PLN 138/MWh (i.e. approx. 197-258%), whereas in Poland the average prices were higher by PLN 86/MWh y/y (approx. 49%). The price spread between Poland and neighbouring countries is largely due to differences in realized coal prices in the country and abroad. The price of hard coal in ARA (Amsterdam-Rotterdam-Antwerp) ports rose by 28% y/y, while the domestic PSCMI 1 decreased by 4% over the same period. Transmission capacities on cross-border connections which increased in the second half of 2019 enabled the import of higher volumes of cheap energy which contributed to higher correlation of wholesale prices observed in Poland and abroad and in domestic prices approaching the level recorded on neighbouring markets.

Chart: Hard coal indices ARA vs PSCMI 1[3].

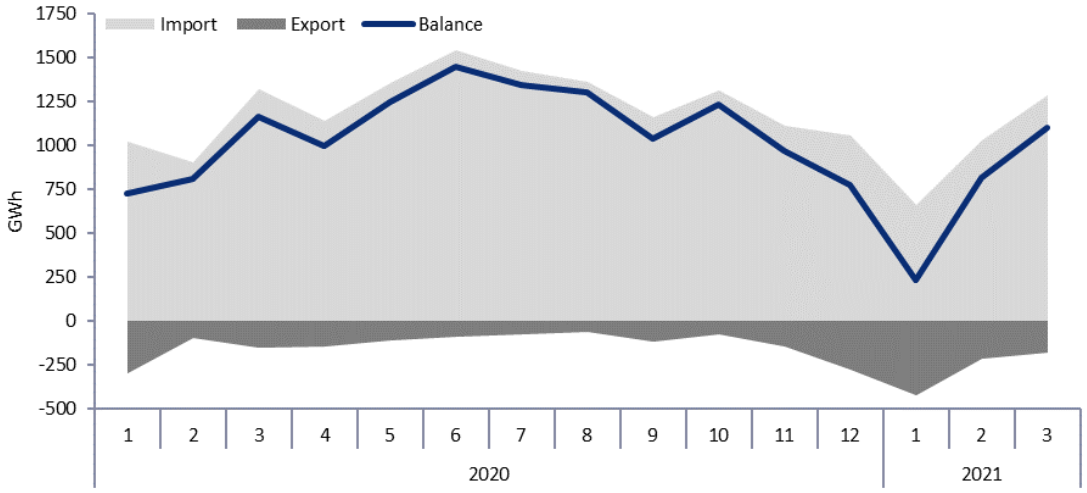


Source: ARP, Bloomberg (API21MON OECM Index), own work.

[3] The comparison is illustrative only. Methodologies of counting the ARA and PSCMI1 indexes are different. Among other things, the ARA index includes insurance and delivery costs. The PSCMI 1 is an ex-mine index without insurance and delivery costs. Standards for calculating the caloric values are also different (ARA – 25.12 GJ/t vs. PSCMI1 caloric value - range 20-24 GJ/t). The aim is to compare the trend and not the absolute level. For illustration purposes ARA index is recalculated from USD/t to PLN/GJ.

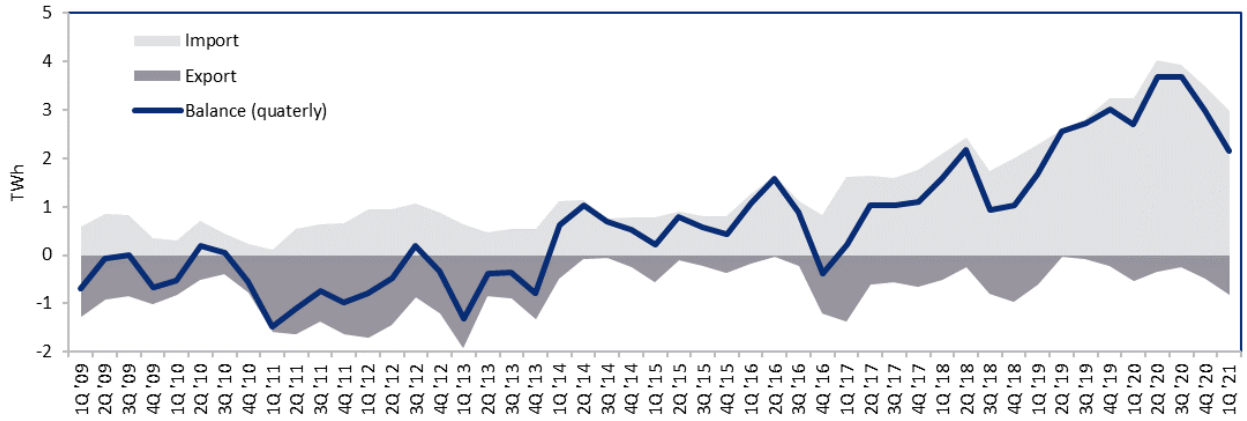
International trading

Chart: Monthly imports, exports and cross-border exchange balance in 2020-2021.



Source: own work based on PSE S.A. data.

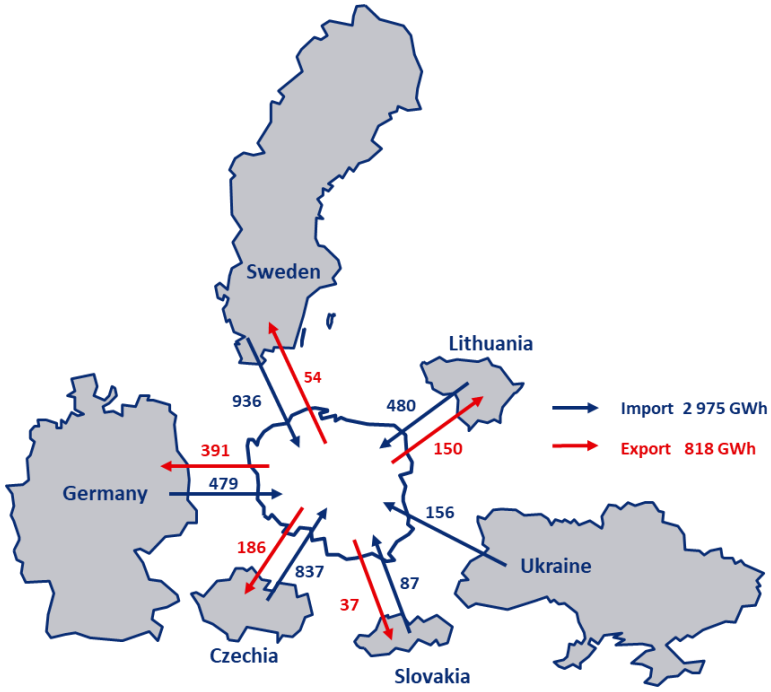
Chart: Quarterly trading volumes – import, export and international trading balance in years 2009-2021.



Source: own work based on PSE S.A. data.

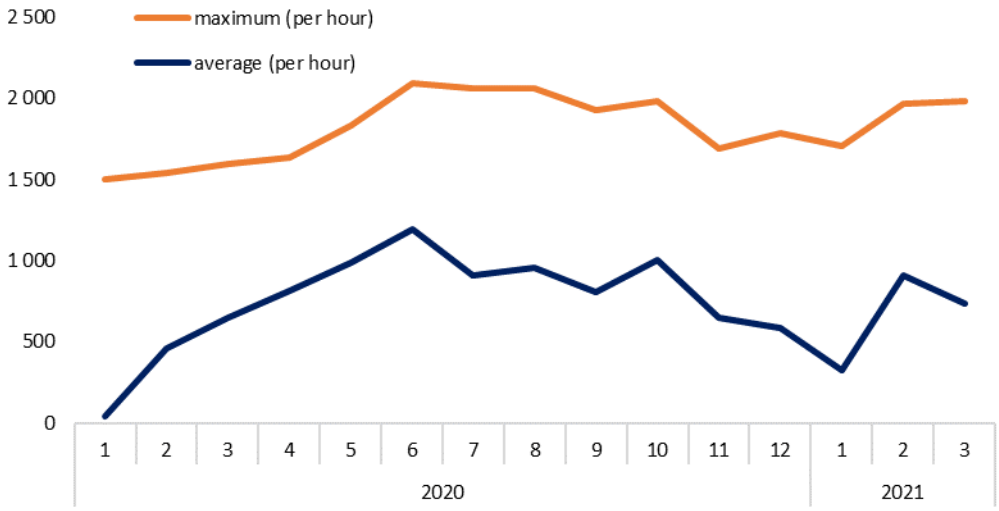
In the first quarter of 2021, Poland remained a net importer of electricity, and the trade balance was 2.2 TWh (import 3.0 TWh, export 0.8 TWh) and was lower by 0.5 TWh y/y (i.e. by approx. 20% y/y). The international trading balance was impacted mostly by import from Sweden (0.9 TWh), Czechia (0.8 TWh), Germany (0.5 TWh) and Lithuania (0.5 TWh).

Diagram: Geographical structure of commercial exchange in the first quarter of 2021 (in GWh).



Source: own work based on PSE S.A. data.

Chart: Parallel exchange balance[4]: average vs. maximum hourly flow in particular months.



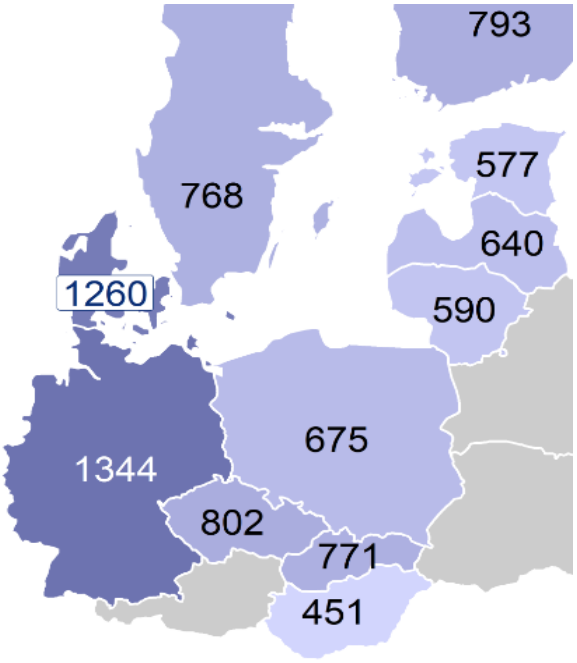
Source: own work based on PSE S.A. data.

[4] Parallel exchange – exchange between synchronised system on borders with Germany, Czechia and Slovakia

Retail market

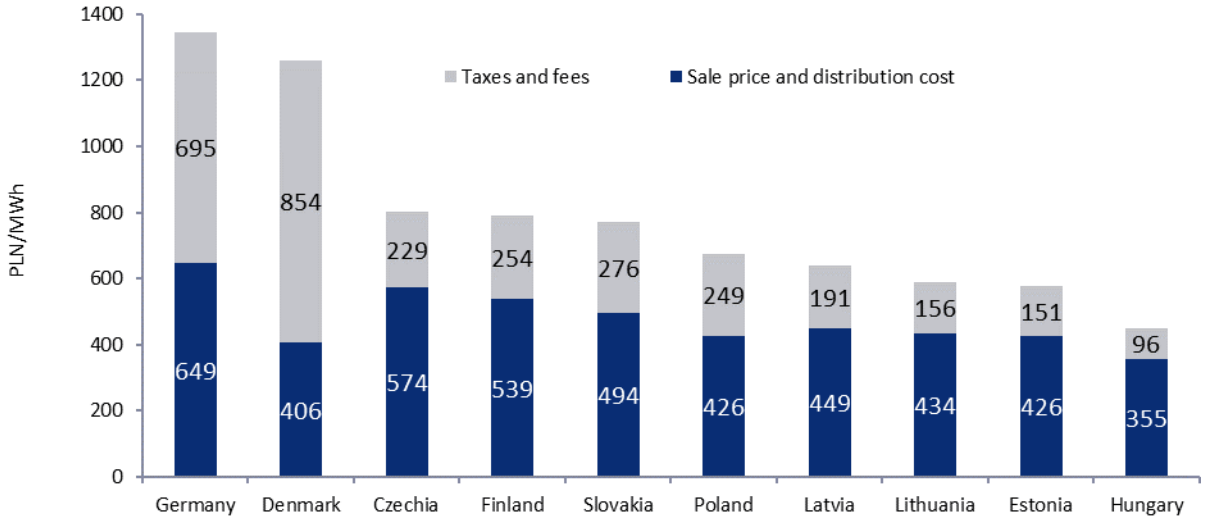
The diversity of electricity prices for retail customers in the European Union depends both on the level of the wholesale prices of electricity and fiscal system, regulatory mechanism and support schemes in particular countries. In Poland in the second half of 2020[5] an additional burden (over sale price and cost of electricity distribution) for individual customers accounted for 37% of the electricity price and in comparison to EU average of 40%. In Denmark and Germany the proportion of additional charges in the price of electricity exceeded 50%.

Chart: Comparison of average prices for individual customers in selected EU countries in the second half of 2020 (prices in PLN/MWh, average exchange rate EUR/PLN 4.47).



Source: own work based on Eurostat data.

Diagram: The share of additional charges in electricity prices for the individual customers in selected EU countries in the second half of 2020 (prices in PLN/MWh, average exchange rate EUR/PLN 4.47).



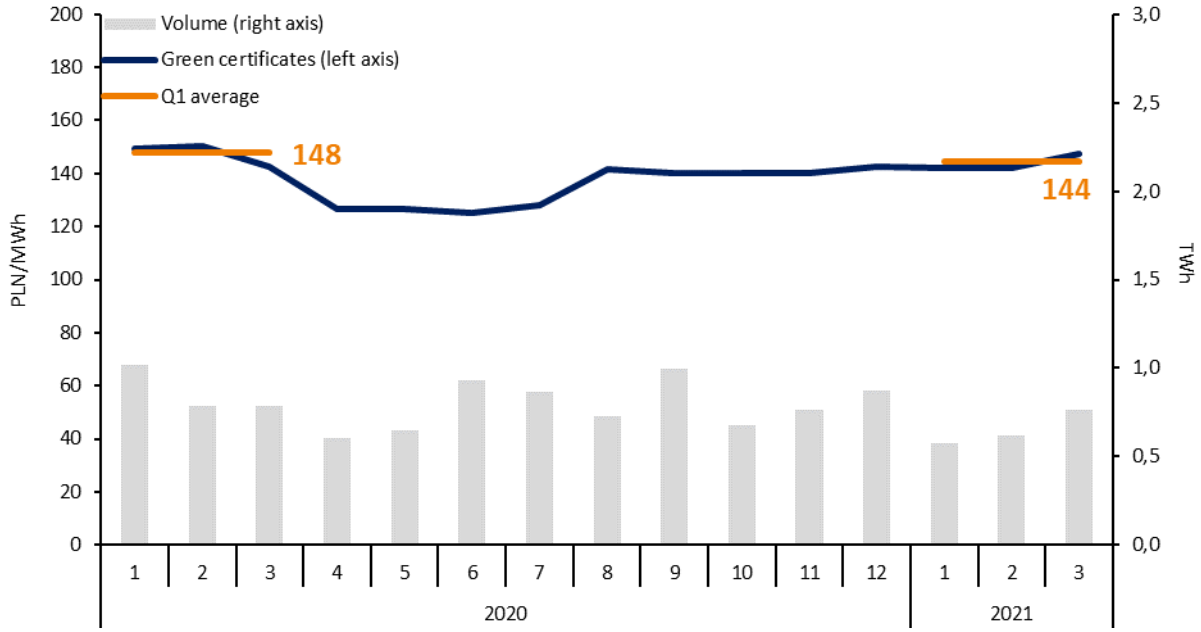
Source: own work based on Eurostat data.

[5] Eurostat data on retail market are published in semi-annual intervals.

2.3. Prices of certificates

In the first quarter of 2021 the average price of green certificates (index TGEozea) reached PLN 144 PLN/MWh and was lower by 3% compared to the analogical period of the previous year. An obligation to redeem green certificates has remained at the same level (19.5%) as in 2020. The decreased demand for certificates is related mainly to lower pace of electricity contractation for final off-takers and uncertainty with regard to the redemption requirement in 2022. Moreover, a 15-year support period for first installations that had entered the system in 2005, ended in 2020.

Chart: Average quarterly prices of green certificates (TGEozea).



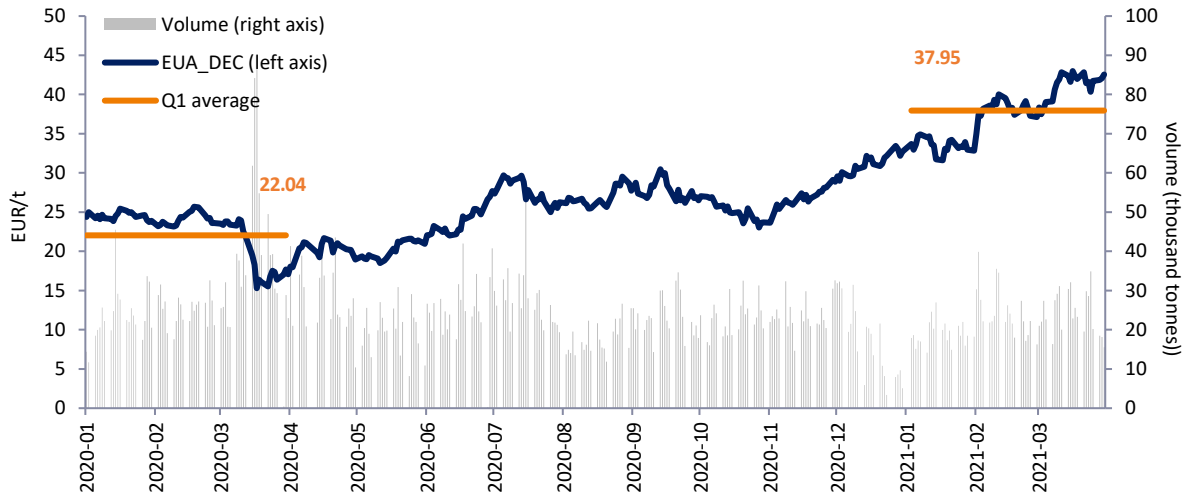
Source: Own work based on TGE quotations.

2.4. Prices of CO2 emission rights

EUA (European Union Allowances) prices are one of the key factors determining wholesale energy prices and PGE Group's financial results. Installations emitting CO_2 in the process of electricity or heat production bear the expenses for purchasing EUA allowances to cover the deficit (i.e. the difference between CO_2 emissions at PGE Group's generating units and the free-of-charge allowances received under derogation in accordance with the National Investment Plan). Wherein, last allocations granted free of charge were planned for realisation of investment tasks for 2019. It means that the free allocations for electricity generation, in accordance with the currently used method, ended when 2019 allowances were received.

Following a slump caused by the outbreak of the COVID-19 pandemic in mid-March 2020, the prices of CO_2 emission allowances began recovering until reaching dynamic growth from November 2020. In the first quarter of 2021, the weighted average price of EUA DEC 21 was EUR 37.95/t and was considerably higher than the average price of EUR 22.04/t for the EUR DEC 20 instrument in the similar period of the previous year.

Chart: Prices of CO_2 emission rights.



Source: own work based on ICE exchange quotations.

CO_2 EMISSION RIGHTS GRANTED FREE OF CHARGE

The Group received emission allowance allocations for heat generation for 2020 on April 23, 2021, after verification of asset and financial reports for investments included in the National Investment Plan. Allocations for electricity producers are no longer awarded from 2020. The allocations of emission allowances for heat for 2021 presented in the table constitute an expectation based on Directive (EU) 2018/410 of the European Parliament and of the Council of March 14, 2018, and Commission Delegated Regulation (EU) 2019/331 of December 19, 2018.

Table: Emission of CO_2 in the first quarter of 2021 broken down into electricity and heat production compared to the allocation of CO_2 emission allowances for 2021 (in tonnes).

Product	CO_2 emissions in Q1 2021*	Allocation of CO_2 emission rights for 2021
Electricity	15 664 672	-
Heat	2 176 004	723 004
TOTAL	**17 840 676**	**723 004**

** Estimates, emissions not verified - the emissions will be settled and certified by the authorised verifier of CO_2 emission on the ground of yearly reports of volume of CO_2 emissions.*

2.5. Regulatory environment

DOMESTIC REGULATORY ENVIRONMENT

PGE Group operates in an environment with a significant impact of domestic and foreign regulations. Presented below is a summary of the most significant decisions, which took place in the first quarter of 2021 and which could have an impact on PGE's operations in the coming years.

Segments	Regulation	Regulation objectives	Latest conclusions	Next stage	Impact on PGE Group
	Draft act on compensation for the increase in electricity prices in 2020.	The draft assumes: ▪ Introduction of compensation for the increase in electricity prices in 2020 as compared to prices in 2019. ▪ The compensation would be available to end customers in households whose taxable income did not exceed the first tax bracket in 2019 and who will consume at least 63kWh of electricity in 2020. ▪ The compensation would be paid in 2021 by trading companies at the request of the customer, through appropriate corrections to the invoices. ▪ The act provides for 4 compensation thresholds depending on the amount of energy consumption. ▪ The costs of compensation payments (an amount equal to the sum of the compensation paid to end customers) are to be financed with funds from the sale of 25 million CO_2 emission allowances which form part of the national auction pool for the new EU ETS trading period starting on January 1, 2021. ▪ Trading companies will be reimbursed upon an application submitted to Zarządca Rozliczeń S.A. For applications involving more than 4 million power take-off points, reimbursement would be made within 6 months of the date of application.	Public consultations on the bill were held until **March 14, 2020**.	All work on the bill in the proposed draft was suspended. Currently, the Ministry of Climate and Environment is working on a bill aimed at protecting the most vulnerable household consumers from energy price increases.	To the greatest extent, the draft affects the operation of the Supply segment. It entails additional obligations imposed on trading companies, such as: notifying customers of their right to compensation, accepting and verifying requests, payment of compensation, and inspection activities in consultation with the competent head of the tax office. The draft stipulates that electricity distribution companies qualify end customers to one of the four groups eligible for compensation, and this compensation is to depend on the consumption of electricity at a given power take-off point.
	The bill on the amendment to the Energy Law. Parliamentary document: 808	The amendment to the Energy Law contains a number of changes of systemic importance, including: ▪ comprehensive arrangements concerning the energy storage issue, ▪ the introduction of the obligation to install remote reading meters, the appointment of an energy market information operator whose role will be to establish and develop a central market information system.	**On April 15, 2021** the bill was passed by the Sejm.	Senate vote on draft bill.	The proposed solutions will affect all operating segments of the PGE Group, in particular the segments of Trade and Distribution.

	The bill on the amendment to the Energy Law and the Renewable Energy Sources Act GLC list: UD 162	The bill includes proposals for legislation to abolish the exchange obligation and to tighten liability for electricity market manipulations. The ERO President will have at their disposal appropriate tools to prevent abuses and attempted abuses in the electricity market. The abolition of the obligation is included in the Polish Electricity Market Reform Implementation Plan.	Comments submitted during public consultations were published on **April 8, 2021.**	Submitted for further work in the Council of Ministers.	The proposed change to abolish the exchange obligation will have no adverse impact on the PGE Group's operations .
	The bill amending the Act on the capacity market.	The bill promoter's intention is to align the Act on the capacity market to the provisions of Regulation (EU) 2019/943 of the European Parliament and of the Council of June 5, 2019 on the internal market for electricity and to improve the capacity mechanism taking into account lessons learned from organisation of capacity auctions to date and the associated processes (promulgation of regulations and rules, definition of auction parameters, certification processes).	The European Affairs Committee adopted the bill by circulation on **March 3, 2021**.	Consideration of the bill by the Standing Committee of the Council of Ministers for discussion.	The amendment is of key importance for PGE Group, the holder of a significant stake in the capacity market.
	Draft act on promoting electricity generation in offshore wind farms.	The draft act provides for enabling the development of offshore wind power generation. Offshore wind farms are important for the fulfilment of international commitments in the field of renewable energy in the long term. The key to these is to create legal regulations that will stimulate the growth of this sector. The draft provides for: ▪ A support system for the offshore technology, adjusted to its technical and economic conditions, consisting in granting the so-called right to cover the negative balance to be calculated on the basis of the offshore installation's LCOE. ▪ modifications of administrative procedures related to the investment process, taking into account the specificity of the project to construct offshore wind farms.	**On January 22, 2021** the act was signed by the President of Poland. It entered into force on **February 18, 2021**.	Amendments to the bill were submitted as part of work on the draft Act amending the Act - Energy Law. Parliamentary publication no.: 808	The act is of key importance for the development of offshore wind farms and thus for PGE Baltica sp. z o.o., a company responsible for the implementation of the Offshore Programme at the PGE Group and coordinating preparations for the construction of three wind farms.
	The bill amending the Act on renewable energy sources and certain other acts.	The bill envisages in particular: ▪ abolishing the concession obligation for facilities below 1MW, ▪ extending the life of the discount/FIT (guaranteed tariff scheme)/FIP (surcharge to the market price) support system by 5 years (possibility to enter the system while retaining a 15 years' period of support), ▪ introducing the obligation for the Minister of Climate to publish, in advance, RES energy volumes to be subject to support over the next 4 years, ▪ increasing the PV capacity threshold for PV above which it is required to include facilities and protection zones around them in local zoning plans.	Draft bill adopted by the Council of Ministers on **April 13, 2021.**	Draft submitted to parliamentary works.	The bill regards mainly the RES segment, extending the period within which new RES projects may apply for support. It also facilitates planning the development of this segment by introducing the obligation for the Minister of Climate to publish the schedule and capacity volumes for RES which may apply for support in the next 4 years.
	The bill amending the Act on the greenhouse gas emissions trading scheme and certain other acts.	The bill is meant to transpose Directive (EU) 2018/410 of the European Parliament and of the Council of March 14, 2018 amending Directive 2003/87/EC to enhance cost-effective emission reductions and low-carbon investments, and Decision (EU) 2015/1814 ("**Directive 2018/410**"), which establishes the so-called Modernisation Fund to operate in 2021-2030 and finance the modernisation of large power	**On April 15, 2021** the bill was passed by the Sejm.	Senate vote on draft bill .	Depending on the final reading of the regulation, it can open the way to apply for financing for PGE Capital Group projects.

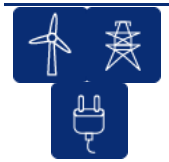
		facilities as well as smaller-scale projects (insulation of single-family dwellings, modernisation of district heating sources and systems, development of low-carbon dispersed generation). Although the bill does not prejudge what projects will receive financing, it provides that the function of the national operator of the Modernisation Fund will be held by the National Fund for Environmental Protection and Water Management (*Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej*, NFOŚiGW). In consequence, the Fund will provide project financing within the framework of the NFOŚiGW's priority programmes.			
	The bill on amendments to the Electromobility and Alternative Fuels Act and certain other acts .	Within the scope of its regulations, the bill transposes into Polish law a number of EU directives, including in particular Directive (EU) 2019/944 of the European Parliament and of the Council of 5 June 2019 on common rules for the internal market in electricity and amending Directive 2012/27/EU, as regards the construction of charging stations by DSOs. The proposed act in its latest wording provides for the removal of the so-called intervention mechanism for building the charging infrastructure. According to the proposed act, DSOs will not be responsible for the construction of missing charging points in municipalities that were required by the Act on electromobility to reach a certain number of charging points.	After confirmation, the European Affairs Committee adopted the draft bill by circulation on **April 21, 2021**.	Consideration of the draft bill by the Standing Committee of the Council of Ministers.	The proposed regulations will have no adverse impact on the operations of the PGE Group. The removal of the so-called intervention mechanism is associated with the abolition of obligations imposed on PGE Dystrybucja and PGE Obrót.
	The regulation of the Council of Ministers on the maximum quantity and value of electricity from renewable energy sources that may be sold by auction in 2021.	The aim of this regulation is to enable auctions to take place in 2021, thus continuing the upward trend in the use of renewable energy sources, which will contribute to the fulfilment of new EU obligations.	The draft regulation was published on **December 22, 2020** and, bypassing public consultations, was promulgated on **December 28, 2020.** The regulation entered into force on **January 12, 2021.**		The regulations will make it possible to place the Group's photovoltaic projects in auctions scheduled for 2021.
	Draft regulation of the Minister of Climate and Environment on reference price for electricity from renewable sources in 2021 and periods applicable to producers that win auctions in 2021	Important parameters for renewables auctions that are to be held in 2021. Small changes in relation to the 2020 prices.	Regulation adopted on **April 16, 2021**		

	Draft regulation of the Minister of Climate and Environment amending regulation on detailed rules for setting and calculating tariffs and settlements concerning heat supplies	The draft introduces the possibility of a one-time, quick change of tariff for heating, calculated using the cost method due to the considerable change in CO_2 emission allowance prices. The proposed solution provides a simplified procedure, without the necessity to examine and analyse the entire tariff for heating.	Regulation signed on April 24, 2021. Published on **April 28, 2021,** entered into force on the next day after publication.	The regulation has a positive impact on the District Heating segment, and particularly on heat generation at heating plants. Indirectly, the regulation has a positive impact on revenue from heat from cogeneration units.
	Draft Act amending the Act on disclosure of information about the environment and its protection, public involvement in environmental protection and environmental impact studies and certain other acts.	The draft act aims to transpose the EIA Directive (specifying the principles of environmental impact assessment) as regards Article 11(1) and (3), i.e. regulations concerning public access to justice in the area of the environment by granting environmental organisations new powers affecting the possibility to use decisions on environmental conditions of projects significantly affecting the environment and to obtain further investment decisions in the investment and construction process.	Regulation signed on April 20, 2021 by the President of Poland. Published on **April 28, 2021,** enters into force after 14 days after publication.	The Act affects all business segments of the PGE Group that implement infrastructural investments.
	Draft act amending the Energy Efficiency Act and certain other acts.	The draft introduces a number of amendments dictated by the need to implement Directive 2018/2002/EU (EED). From the point of view of PGE Group, the most important amendments: ▪ introduction of additional (in addition to energy efficiency certificates) measures to achieve the energy saving target. These include programmes and financial instruments for projects aimed at improving energy efficiency on the part of final off-takers, ▪ creating opportunities for obligated entities to implement co-financing programmes, in order to finance or co-finance projects aimed at improving energy efficiency. The beneficiaries of such programmes may include final off-takers. Obligated entities holding a license to trade in gaseous fuels, electricity and heat may implement subsidy programmes to finance or co-finance: replacement of furnaces or boilers fired with solid fuels, thermal upgrading of buildings, upgrade of lighting, connection to the heating network.	The bill was signed by the President of Poland . Published on **May 7, 2021,** enters into force after 14 days after publication.	The proposed amendment will have a neutral impact on companies from the PGE Capital Group. The proposed changes may have a positive impact on the achievement of the goal specified in the EED Directive.

INTERNATIONAL REGULATORY ENVIRONMENT

Segments	Regulation	Regulation objectives	Latest conclusions	Next stage	Impact on PGE
			European Green Deal		
	Regulation of the European Parliament and of the Council establishing the framework for achieving climate neutrality (European Climate Law).	Enshrining the 2050 climate-neutrality objective in EU law and definition of the new 2030 emission reduction target.	On **10-11 December 2020,** the European Council adopted an emission reduction target of at least 55% by 2030 compared to the 1990 level. A provisional agreement on the European Climate Law was reached at a trilogue on **April 21, 2021**. COREPER (Committee of the Permanent Representatives of the Governments of the Member States to the European Union) approved the adoption of the agreement on **May 5, 2021**. The European Parliament's Committee on Environment approved the agreement on **May 10, 2021**. In this situation, the final adoption of the text of the agreement during a PE plenary session on **June 23-24, 2021**, and the Council should be a formality. The agreed provisions concern climate targets for 2030, 2040, 2050 and beyond 2050 as well as matters such as: greenhouse gas budget for the period 2030-2050, scientific advisory, establishment of the European Scientific Advisory Board on Climate Change, sector-specific roadmaps for stakeholders to climate neutrality. The key conclusions include: ▪ A climate neutrality target by 2050 specified for the entire EU. After 2050, the EU should strive for negative emissions, ▪ The 2030 target was confirmed as "at least 55% compared to 1990 levels by 2030," with contribution of net removals by carbon sinks to this target limited to 225 MtCO2Eq, which in effect could increase the actual reductions target to 57% by 2030, ▪ Establishment of an indicative greenhouse gas budget for the entire EU for 2030-2050, specifying the volume of greenhouse gases that the EU can emit without putting at risk its commitments under the Paris Agreement, which will be published by the European Commission together with a proposed target for 2040 (most likely in 2024).	The legislative process is expected to be formally completed **in the first half of 2021.** Relevant legislative proposals implementing the European Climate Law are expected to be published **in mid-July 2021** (the Fit for 55 package).	Improved competitiveness of renewable sources and, in the short term, of gas units, at the expense of high-carbon fuel-based generation units. Increase in operating costs of conventional electricity generation.
	Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading within the EU (ETS Directive) as well as implementing and delegated acts, Decision (EU) 2015/1814 of the European Parliament	Combating climate change and performance of obligations resulting from the Paris Agreement. Development of investment incentives through a CO_2 price signal to	On **February 5, 2021,** the EC completed public consultations on a detailed form for the revision of the ETS Directive and the revision of the MSR decision. Within the considered directions of revision of the ETS system, apart from raising the emission reduction target itself through a change in parameters such as LRF (Linear Reduction Factor) and MSR, it is assumed that the scope of the EU ETS will be extended to the transport and buildings sectors. The future of free allocation of allowances to industry will depend on the final decisions regarding the introduction of the CBAM (*Carbon Border Adjustment Mechanism*). The European Commission is currently working on assessing the impact of the revised ETS directive and MSR decision.	Legal proposals for the next revision of the EU ETS inter alia the ETS directive and potentially MSR decision are expected in **mid-July 2021.**	Improvement in the competitiveness of renewable sources and – in short-term-gas units to the detriment of generation assets using high-emission fuels. Increase in operating costs for conventional generation of electricity.

Segments	Regulation	Regulation objectives	Latest conclusions	Next stage	Impact on PGE
	and of the Council concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme (MSR Decision).	develop low-emission sources.			Option to obtain direct investment support from 2021 from the Modernisation Fund. Another revision of the ETS Directive and MSR decision is likely to cause a further increase in prices of emission allowances.
	Directive 2018/2001 on the promotion of the use of energy from renewable sources (Renewable Energy Directive) Directive 2012/27/EU on energy efficiency (EED Directive) Directive 2003/96/EC restructuring the Community framework for the taxation of energy products and electricity (ETD Directive)	Adaptation of legislation related to the promotion of renewable energy, energy efficiency and taxation of energy to the new climate target.	Public consultations on reviewing the EU directives on renewable energy and energy efficiency were completed on **February 9, 2021**. In accordance with an assessment published in 2020 of the effects of a more ambitious EU climate target for 2030, in reference to the 55% reduction target, the share of energy from renewable sources for 2030 should reach 38% to 40% (currently this target is at 32%) and energy efficiency gains of 36%-39% for final energy consumption and 39-41% for primary energy consumption (currently the energy efficiency gain targeted is 32.5%). The European Commission is currently working in assessing the impact of the review of the Renewable Energy Directive, EED Directive and ETD Directive.	Legislative conclusions on the review of the ETD, renewable energy and EED Directives are expected to be published in **mid-July 2021.**	Improvement in the competitiveness of low-emission sources of energy in comparison with high-emission sources. Larger share of renewable sources in the Polish energy mix by 2030.

Segments	Regulation	Regulation objectives	Latest conclusions	Next stage	Impact on PGE
	Regulation on guidelines for trans-European energy infrastructure (revision of the TEN-E Regulation).	Establishing guidelines for the development of trans-European energy infrastructure areas contributing to the achievement of the EU's climate targets by 2030 and climate neutrality by 2050. Establishing new criteria for projects of common interests ("PCI").	**On December 15, 2020**, the EC presented a legislative proposal to revise the TEN-E Regulation. The regulation provides a framework for identifying so-called projects of common interests (PCIs) that can receive financial support under the "Connecting Europe" facility. The revision project provides for new solutions for offshore infrastructure development, establishing priority corridors for offshore networks (including the Baltic Sea area), development of a framework for offshore grid planning and the introduction of a new infrastructure category for hybrid offshore projects. In the field of smart power grids, proposed regulations provide for the integration of new forms of energy generation, storage and consumption and modification of the eligibility conditions for these projects. **On March 26, 2021** a draft report on the TEN-E regulation was presented by the rapporteur to the European Parliament Committee on Industry, Research and Energy ("ITRE"). The deadline for submitting corrections to the ITRE report draft was **April 21, 2021.** The ENVI, TRAN and REGI committees also provided opinions on the legislative proposal. At the Council level, technical works are under-way on the specific proposals contained in the European Commission's legislative proposal.	The report is expected to be adopted by the European Parliament's ITRE on **July 15, 2021.** Trilogues could begin in **the second half of 2021.** The new rules would come into force as of **January 1, 2022**. The first PCI list in the form of a delegated act on the basis of regional groups' contributions is to be published as an EC delegated act by **November 30, 2023**.	Defining rules for the implementation of projects of common interest – a potential opportunity to obtain support for PGE CG investments.
The regulations concerning the financial perspective 2021-2027 and financing for sustainable economic growth					
	Regulation of the European Parliament and of the Council establishing a Recovery and Resilience Facility.	Providing a financial framework for recovery of the EU economy after the COVID-19 pandemic and and implementing reforms aimed at increasing its resilience to economic shocks.	On **December 18, 2020**, following negotiations, the EP and the Council reached a political agreement on this Regulation. The text of the agreement was formally adopted by the European Parliament and Council on **February 10, 2021**. On **12 February 2021**, the EC published technical guidelines to this Regulation with respect to the "do no harm" principle. According to these guidelines, support from the Recovery and Resilience Facility may be granted to investments in gas-based generation sources and gas-fired cogeneration in Member States facing significant challenges in moving away from coal, provided that: ▪ this support will contribute to the achievement of the EU decarbonisation objectives for the years 2030 and 2050; ▪ such sources will emit less than 250 g CO_2e/kWh or will be adapted to use renewable or decarbonised gases. The Regulation was published on **February 18, 2021** and entered into force on **February 19, 2021.**	On April 30, 2021, Poland's National Reconstruction Plan was approved at a Council of Ministers meeting and subsequently submitted to the European Commission.	A chance for co-financing of projects submitted to NRP.

Segments	Regulation	Regulation objectives	Latest conclusions	Next stage	Impact on PGE
	The Regulation of the European Parliament and of the Council (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment, changing the regulation (EU) 2019/2088 (the Taxonomy Regulation) and delegated act to this regulation determining technical screening criteria.	Facilitation of funding for sustainable economic growth in EU.	The Taxonomy Regulation was published in the Official Journal of the European Union on **June 22, 2020** and entered into force on **July 12, 2020**. **On April 21, 2021** the European Commission initially adopted delegated act establishing detailed technical screening criteria on the basis of which economic activities will be assessed to determine whether an activity is environmentally sustainable in relation to climate change prevention and adaptation. This act does not contain technical screening criteria for gas and nuclear power. In accordance with the aforementioned act, the following activities are considered environmentally sustainable without having to meet additional technical screening criteria: ▪ generation of electric energy from wind, ▪ generation of electric energy and cogeneration of heating/cooling using PV technologies, ▪ generation of electric energy using concentrated solar power, ▪ energy storage. Sources that generate electricity using biomass only are considered environmentally sustainable if they meet certain technical screening criteria. The construction and operation of distribution networks is considered environmentally sustainable if the following technical screening criteria are met, i.e. the distribution infrastructure or device is in a power system that meets one of the following conditions: ▪ the power system is connected to the European system, i.e. the interconnected control areas of EU Member States, Norway, Switzerland and the United Kingdom, ▪ more than 67% of newly connected generation capacity in the system is below the generation threshold value of 100 gCO2e/kWh measured on a PCF basis, over a rolling five-year period, ▪ the average system grid emissions factor, calculated as the total annual emission from energy generation connected to the system divided by the total annual net energy generation in that system, is below the threshold value of 100 gCO2e/kWh measured on a PCF basis, over a rolling five-year average period.	Expected completion of the legislative process for this delegated act – **fourth quarter of 2021**. Expected preparation by the EC of an additional delegated act specifying detailed technical screening criteria for gas and nuclear energy – **third quarter of 2021**. Further out, legislation is expected on financial support for certain activities, mainly in the power sector (especially gas), that will contribute to greenhouse gas emission reductions by supporting the transition to a climate-neutral economy.	Impact on availability and cost of funding obtained by PGE Group companies for investments. The matter of recognising nuclear power and gas as environmentally sustainable will be resolved under the additional delegated act. The obligation to include information on the share in the trade, CAPEX and OPEX of environmentally sustainable activities in the statement on non-financial information or consolidated statement on non-financial information.

ADDITIONAL INFORMATION WITH REGARD TO INTERNATIONAL REGULATORY ENVIRONMENT

Segments	Proceeding	Objective of the action brought	Key events	Next stage	Impact on PGE Group
Action brought against the European Commission's decision not to raise objections to the Polish Capacity Market (SA 46100), case file no T-167/19					
	Proceedings brought by Tempus Energy Germany and T Energy Sweden against the European Commission (case file no. T-167/19).	The objective of the action is to annul the European Commission's Decision not to raise objections to the Polish Capacity Market (SA. 46100) issued as part of the aid procedure.	On **March 14, 2019** Tempus Energy Germany and T Energy Sweden brought an action against the EC decision concerning the Polish Capacity Market (case T-167/19). The summary of main reproaches and arguments brought up in the complaint was published in the EU Official Journal on **May 6, 2019**. From the published abstract it results, that in their action brought they argue that the EC failed, in particular, to initiate formal investigation proceedings (the second stage of the capacity evaluation mechanism) and that the demand side response (DSR) suffered alleged discriminatory treatment within the Polish Capacity Market.	The proceedings pending before the European Court of Justice concerning the appeal in the case Tempus Energy and Tempus Energy Technology versus the EC (case file no. C-57/19 P) may have an impact on the action brought.	Depending on the outcome of the dispute, the case may have an impact on the conditions for the performance of and entering into the capacity contracts within Polish Capacity Market.
Complaint against Poland lodged by Czechia (Case C-121/21) including an application for interim measures					
	Proceeding in the case Czechia v. Poland (Case C-121/21)		**On February 26, 2021** Czechia ledged an interstate complaint against Poland with the Court of Justice concerning the prolongation of the mining concession for KWB Turów. The complaint was accompanied by an application for interim measures in the form of an immediate half of KWB Turów's operation. A summary of the complaint and key arguments was published in the Official EU Journal on **April 19, 2021**. **On May 21, 2021** the Vice-President of the Court of Justice of the European Union issued an order on an interim measure as follows: "Poland must immediately cease lignite extraction activities in the Turów mine until a judgment of the Court brings case C-121/21 to an end. An interim measure does not rule on the merits of the case.	In the next stage, the complaint and arguments of the Czech side will be examined in the proceedings before the Court of Justice of the European Union.	Depending on the outcome of the application for interim measures and the demands specified in the complaint, the case may have an impact on the further operation of the energy complex in Turów. The member state against which the interim measure is applied determines the way in which the interim measure is performed.

3. Activities of PGE Capital Group

3.1. Main business segments

	 Conventional Generation	 District Heating	 Renewables	 Distribution	 Supply
Key assets of the segment	5 conventional power plants 2 CHP plants 2 lignite mines	14 CHP plants	17 wind farms 5 photovoltaic power plants 29 run-of-river hydro power plants 4 pumped-storage power plants, including 2 with natural flow	295 897 kms of distribution lines	-
Installed capacity electricity/heat	12 831 MWe/1 329 MWt	2 344 MWe/6 496 MWt	2 326 MWe	-	-
Electricity volumes	Net electricity generation 13.35 TWh	Net electricity generation 3.01 TWh	Net electricity generation 0.73 TWh	Electricity distribution volume 9.52 TWh	Sales to final off-takers 9.60 TWh*
Heat volumes	Heat production 2.48 PJ	Heat production 21.01 PJ	-	-	-
Market position	PGE Group is the leader of lignite mining in Poland (92%) PGE Group is also a national leader in electricity and district heat generation		PGE Group is the largest electricity producer from RES with market share of approx. 10% (excluding production from biomass and bio-gas)	Second domestic electricity distributor with regard to number of customers	Leader in wholesale and retail trading in Poland

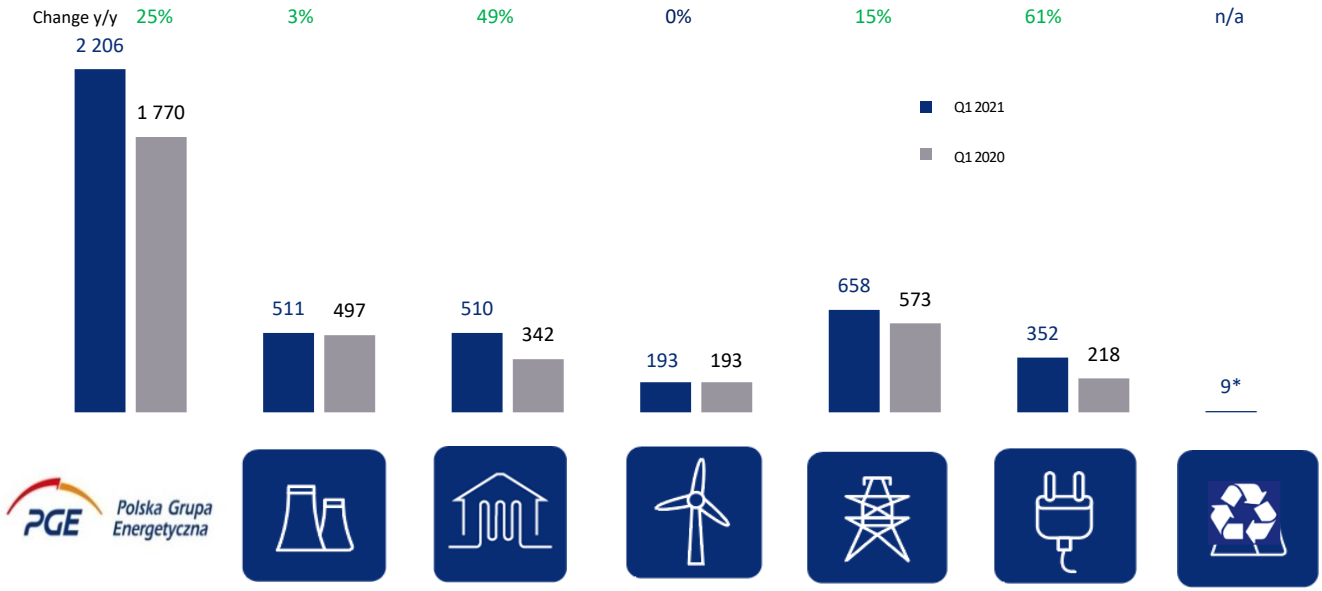
**Data for PGE Obrót S.A.*

3.2. PGE Group's key financial results

The best way to measure the profitability of energy companies is EBITDA. This is a result before depreciation, amortization, income tax and financial activities, including interest from drawn debt. It approximately reflects cash flows from operating activities and makes it possible to compare the results of companies regardless of the value of their assets, level of debt and existing income tax rates.

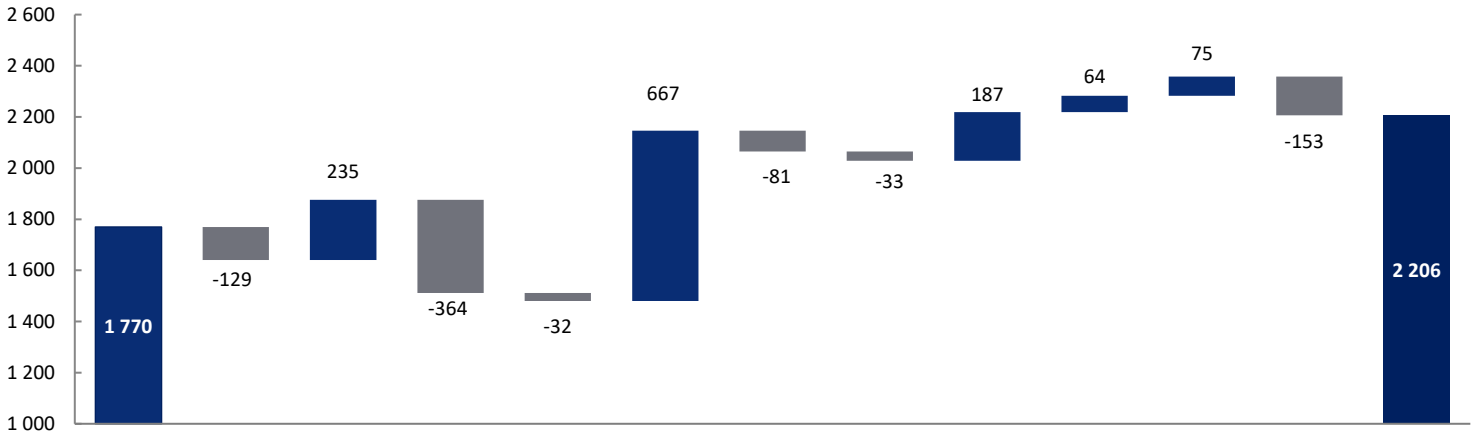
PGE Group's consolidated results are composed of the financial results of each of its operating segments. The Distribution segment, the Conventional Generation segment and the District Heating segment made the largest contribution to the Group's result for the first quarter of 2021, participating respectively in 30%, 23% and 23% of the Group's EBITDA. Supply segment contributed 16% and Renewables segment contributed 9% the Group's EBITDA.

EBITDA of the Capital Group by segments (PLN million)



** The chart does not show data for the first quarter of 2020, because in that period companies from the Circular Economy segment were presented in Conventional Generation, District Heating and Other Operations.*

Chart: Key factors affecting EBITDA in PGE Capital Group (in PLN million).



	EBITDA Q1 2020	Result on the sale of electricity at producers*	Revenues from heat sales	CO_2 costs **	Fuel costs	Capacity Market ***	Revenues from ancillary services ****	Revenues from certificates	Result on the sale of electricity to final customers *****	Margin on distribution services ******	Personnel costs	Other	EBITDA Q1 2021
Change		**-129**	**235**	**-364**	**-32**	**667**	**-81**	**-33**	**187**	**64**	**75**	**-153**	
EBITDA Q1 2020	**1 770**	4 330	770	1 629	1 284	0	179	102	73	1 044	1 425	-390	
EBITDA Q1 2021		4 201	1 005	1 993	1 316	667	98	69	260	1 108	1 350	-543	**2 206**

** Revenue from the sale of electricity reduced by the purchase cost of electricity.*

*** Costs do not include forward valuations, recognised in other operations*

**** Managerial perspective.*

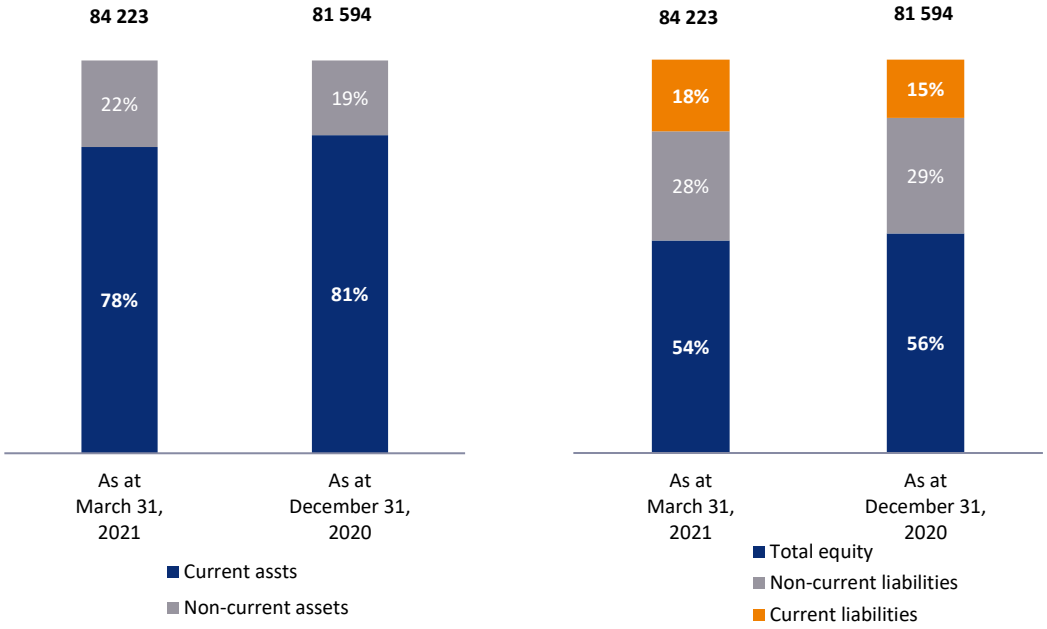
**** RUS – Ancillary services, agreements with the TSO.*

***** Including margin adjustment on certificates at PGE Group.*

****** Including revenues from distribution services, transmission services (TSO), balance of transferred fees and costs of electricity purchased to cover balancing difference.*

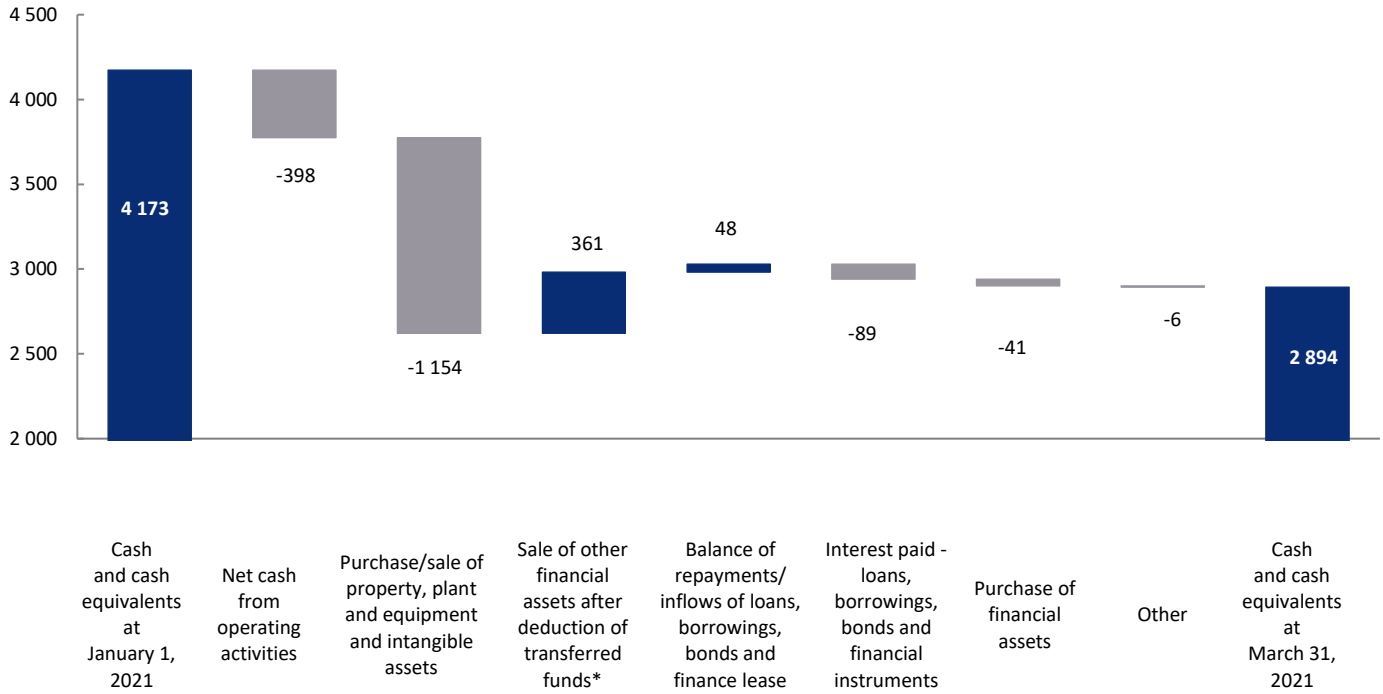
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Chart: Structure of assets and equity and liabilities (in PLN million).



CONSOLIDATED STATEMENT OF CASH FLOWS

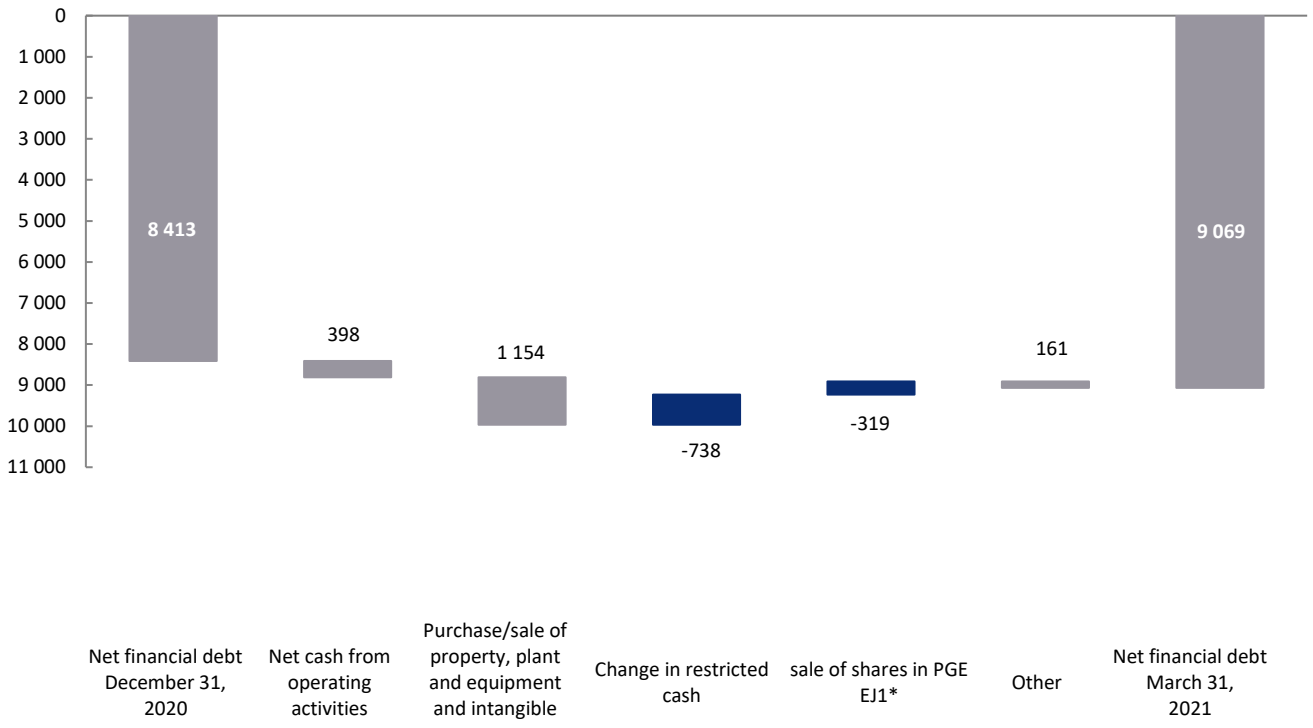
Chart: Net change in cash (in PLN million).



Impact on level of cash		**-398**	**-1 154**	**361**	**48**	**-89**	**-41**	**-6**	
Cash and cash equivalents	**4 173**								**2 894**

** Mainly sale of shares in PGE EJ 1 (value reduced by cash and cash equivalents of the sold company) and bonds of PGE EJ 1*

Chart: Net debt (in PLN million).



Impact on level of net debt		**398**	**1 154**	**-738**	**-319**	**161**	
Financial net debt	**8 413**						**9 069**

**Funds from sale of PGE EJ1 (PLN 372 million) reduced by cash and cash equivalents of the sold company (PLN 53 million).*

KEY RESULTS IN BUSINESS SEGMENTS (IN PLN MILLION)

** The charts do not show data for the first quarter of 2020, because in that period companies from the Circular Economy segment were presented in Conventional Generation, District Heating and Other Operations.*

BALANCE OF ENERGY OF PGE CAPITAL GROUP

Balance of electricity

Table: Sales, purchase, production and consumption of electricity in the PGE Capital Group (TWh).

Volume	Q1 2021	Q1 2020	% change
A. Sales of electricity outside the PGE Capital Group:	**27.05**	**29.66**	**-9%**
*Sales to end-users**	*9.67*	*10.74*	*-10%*
Sales on the wholesale and balancing market	*17.38*	*18.92*	*-8%*
B. Purchases of electricity from outside of PGE Group (wholesale and balancing market)	11.35	15.57	-27%
C. Net production of electricity in units of PGE Capital Group	17.09	15.36	11%
D. Own consumption DSO, lignite mines, pumped-storage power plants (D=C+B-A)	**1.39**	**1.27**	**9%**

** Sale mainly by PGE Obrót S.A. and PGE Energia Ciepła S.A.*

The total volume of purchased and generated electricity is higher than the volume of electricity sold. The difference presented in point D results from the necessity to cover grid losses in the distribution business (Distribution System Operator), consumption of energy at lignite mines and consumption of energy at pumped-storage power plants.

The lower buying and selling in wholesale market results from a lower level of contracted purchases and sales in derivative transactions. The Capital Group to a lesser degree pursued market purchase for the needs of decreased sale on the bilateral market.

Decrease in volume of sales to end-users in the first quarter of 2021 is a consequence of lower demand for electricity in the corporate customers segment.

Production of electricity

Table: Electricity production (TWh).

Electricity production volume	Q1 2021	Q1 2020	% change
ELECTRICITY PRODUCTION IN TWh, including:	**17.09**	**15.36**	**11%**
Lignite-fired power plants	8.58	7.21	*19%*
Coal-fired power plants	4.54	4.12	*10%*
including co-combustion of biomass	*0.01*	*0.01*	*0%*
Coal-fired CHP plants	1.69	1.64	*3%*
Gas-fired CHP plants	1.45	1.42	*2%*
Biomass-fired CHP plants	0.09	0.11	*-18%*
Communal waste-fired CHP plants	0.01	0.01	*0%*
Pumped-storage power plants	0.20	0.22	*-9%*
Hydroelectric plants	0.14	0.13	*8%*
Wind power plants	0.39	0.50	*-22%*
including RES generation	0.64	0.76	-16%

Higher generation volume in the first quarter of 2021 mainly results from increased NPS demand due to low outside temperatures, lower net imports and decreased wind generation.

Higher generation at lignite-fired power plants (increase by 1.4 TWh) results from higher average load factors at the Turów power plant by 60 MW, i.e. by 48% and at the Bełchatów power plant at units 2-14 by 16 MW, i.e. by 6%. In addition, the unit no. 3 at Turów power plant was in modernisation.

Higher production in coal-fired power plants (up by 0.4 TWh) results from increased generation at Rybnik power plant, what is a consequence of shorter (by 3 437 h) reserve downtime of units 3-8.

Production at coal-fired CHP plants, gas-fired CHP plants, hydro power plants and waste-to-energy plants remained at similar level as in the base period.

Lower generation from biomass CHP plants is a consequence of technical conditions in Szczecin CHP Plant, where higher heat generation (due to lower outside temperatures) led to lower electricity generation.

Lower generation at wind farms results from worse wind conditions in the first quarter of 2021. Load factor at wind farms in the first quarter of 2021 was lower by 16 p.p. on average.

Decreased production in pumped-storage power plants results from the nature of these generation units which were used less extensively by PSE S.A. in the first quarter of 2021.

Table: Production of heat (PJ).

Heat production volume	Q1 2021	Q1 2020	% change
Heat production in PJ, including:	**23.50**	**20.28**	**16%**
Lignite-fired power plants	1.04	0.96	8%
Coal-fired power plants	0.25	0.24	4%
Coal-fired CHP plants	17.06	14.85	15%
Gas-fired CHP plants	4.31	3.87	11%
Biomass-fired CHP plants	0.74	0.27	174%
CHP plants fuelled by municipal waste	0.04	0.05	-20%
Other CHP plants	0.06	0.04	50%

External temperatures contributed more than any other factor to higher generation of heat in the first quarter of 2021 (y/y). As compared to 2020, the average temperatures for the first quarter of 2021 were by 1.6°C lower, which translated into increased production of heat.

Sales of heat

In the first quarter of 2021 the heat sales volume in PGE Capital Group totalled 22.96 PJ and was higher by 3.21 PJ y/y. The above results were caused mainly by higher demand for heat due to the lower average outside temperatures in 2021.

3.3. Operational segments

CONVENTIONAL GENERATION

Segment description and its business model

This segment includes lignite mining and generation of electricity in conventional sources.

Conventional Generation

Main revenue items	PLN m
Sale of electricity *	3 335
Capacity Market	509
Sale of heat including sale of contracted capacity and heat distribution	78

Electricity generation **13.35 TWh**

Heat generation **2.48 PJ**

Main cost items	PLN m
Fees for CO_2 emissions	1 645
Personnel expenses	705
Cost of production fuels used	664
Depreciation and amortisation, liquidation, write-offs including capitalised amortisation	471 1
External services	328

Main result items	PLN m
EBIT	41
EBITDA reported	511

** managerial perspective.*

The main source of revenue in the Conventional Generation segment is revenue from the **sale of electricity** on the wholesale market, based on electricity prices that are shaped by supply and demand mechanisms, taking into account the variable costs of generation. At the same time, the segment's key cost items, given their size and volatility, and thus their impact on operating results, are the **cost of production fuels**, mainly hard coal and natural gas, as well as **fees for CO_2 emissions**. Lignite-based production, which is of key significance for the Group, is based on own mines, therefore its cost is relatively stable and reflected mainly in fixed-cost items, i.e. personnel costs, third-party services and depreciation.

Revenue from the Capacity Market, a mechanism introduced to prevent electricity shortages in the NPS, constitutes a significant item in the segment's revenue in 2021. PGE GiEK S.A.'s power plants receive fees for performing the capacity obligation (a Capacity Market entity being on standby to supply electricity to the system and the obligation to supply specified capacity to the system when the system is under threat). Capacity Market revenue compensated for **revenue from ancillary services**. The cold intervention reserve and operational capacity reserve services were discontinued, while revenue from capacity reallocation remained.

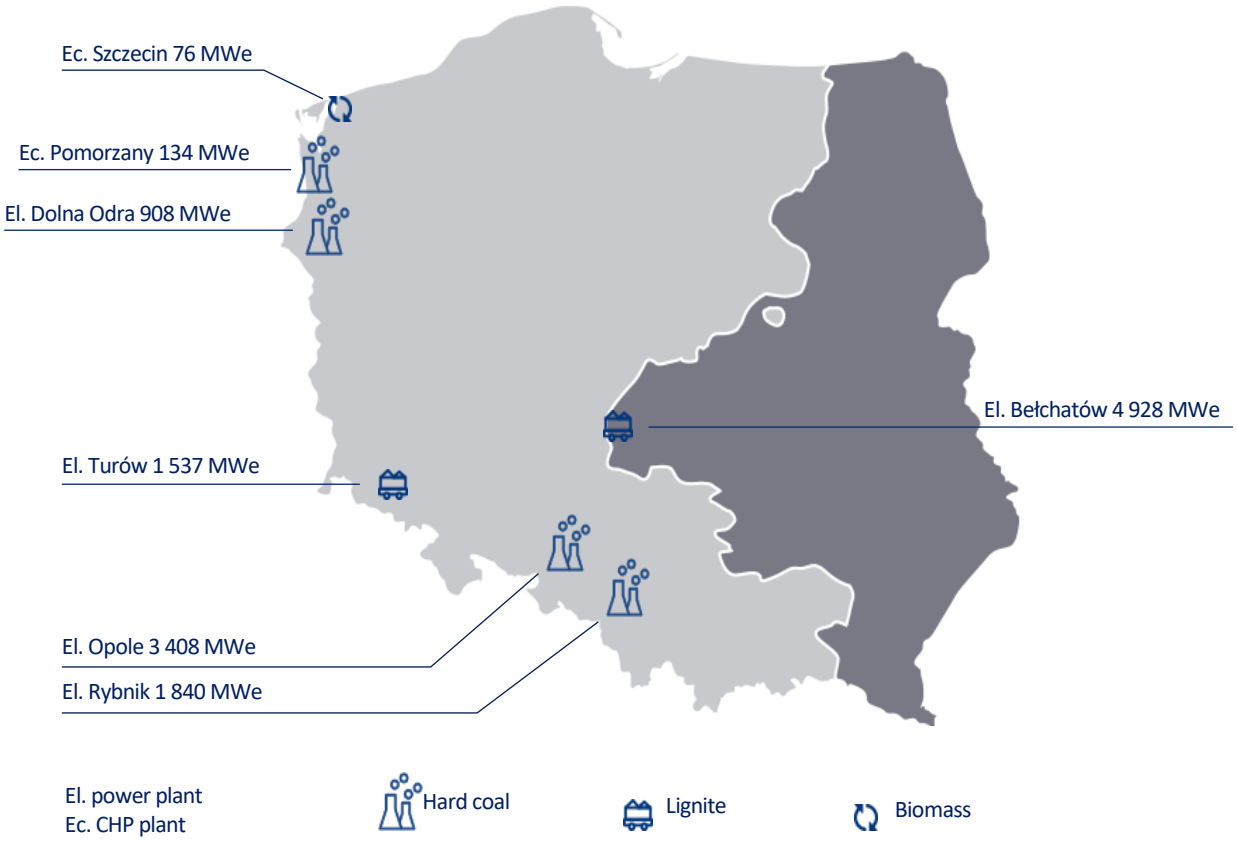
In addition, this segment generates **revenues from sales of heat** produced both at industrial plants and at the Szczecin CHP plant and Pomorzany CHP plant which form part of ZEDO.

ASSETS

Conventional Generation segment consists of: 2 lignite mines, 5 conventional power plants and 2 CHP plants.

Conventional Generation is the leader of lignite mining (its share in the extraction market of this raw material accounting for 92%[6] of domestic extraction), it is also the largest generator of electricity as it generates approx. 34%[7] of domestic gross electricity production. The generation is based on lignite extracted from mines owned by the company as well as hard coal and biomass.

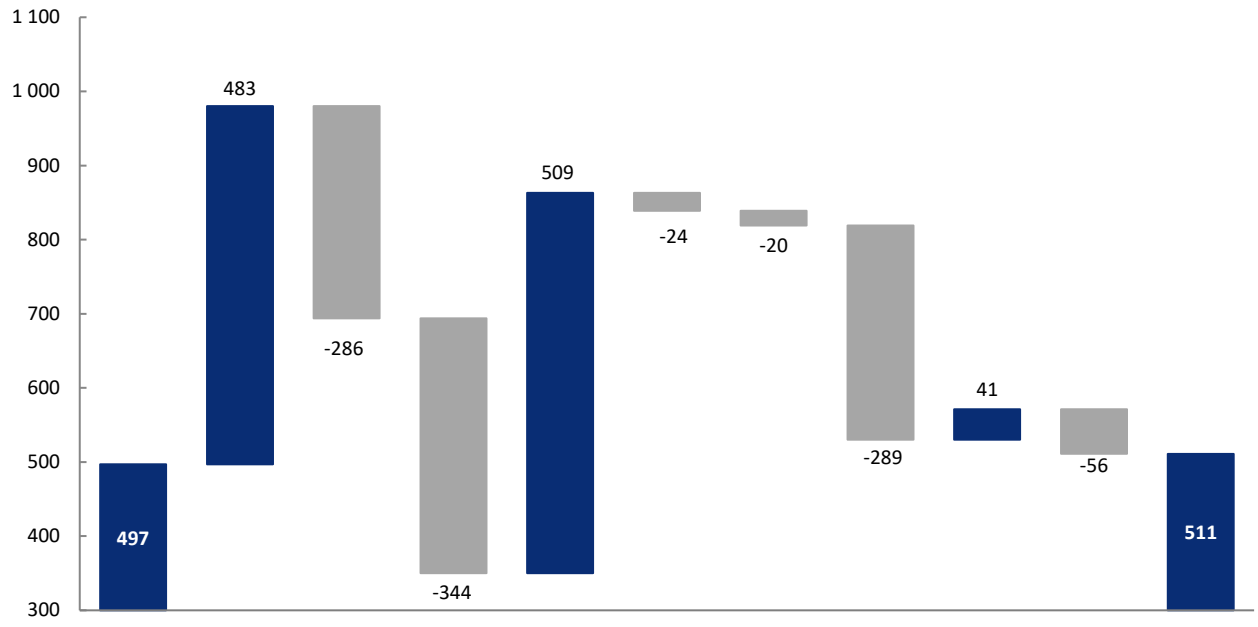
Diagram: Main assets of the Conventional Generation segment with their installed capacity.



[6] Own calculations based on data from Central Statistical Office of Poland.
[7] Own calculations based on data from PSE S.A.

KEY FACTORS FOR THE RESULTS OF THE SEGMENT

Chart: Key changes of EBITDA in Conventional Generation (in PLN million) – managerial perspective).



	EBITDA Q1 2020	Electricity production difference in volume	Electricity production difference in price	Result on the optimization of the electricity trade	Capacity Market*	Revenues from agreement with TSO	Costs of fuel	Costs of CO_2 **	Personnel expenses	Other	EBITDA Q1 2021
Change		**483**	**-286**	**-344**	**509**	**-24**	**-20**	**-289**	**41**	**-56**	
EBITDA Q1 2020	**497**	3 038		444	0	114	644	1 356	746	353	
EBITDA Q1 2021		3 235		100	509	90	664	1 645	705	409	**511**

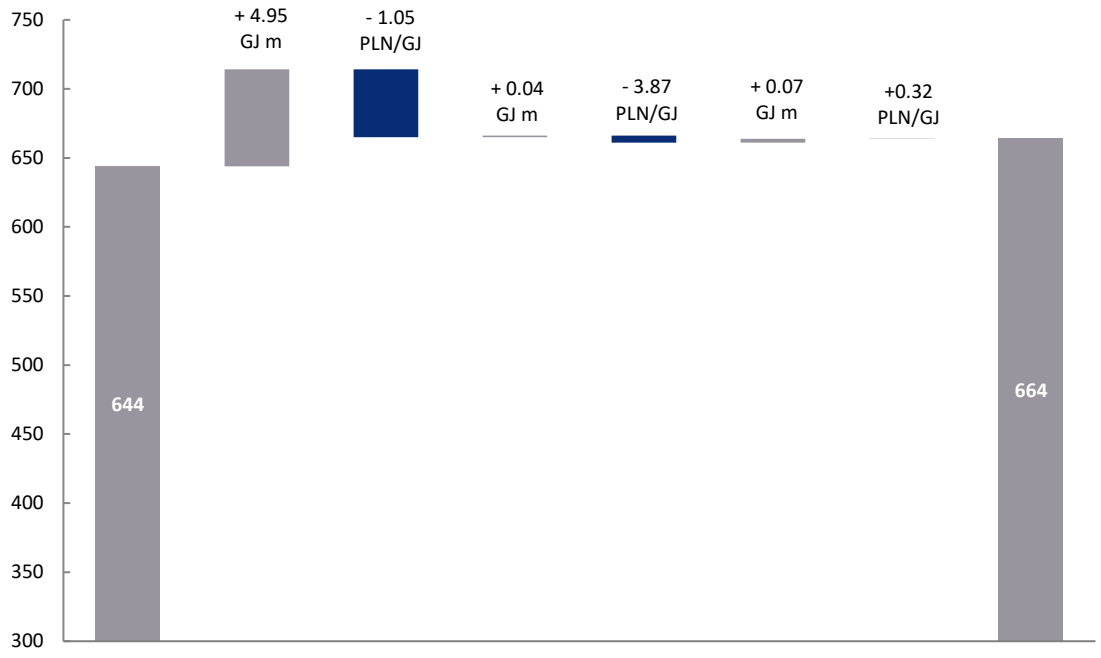
** Managerial perspective*

***Costs do not include forward valuations, recognised in other operations.*

Key factors affecting the EBITDA result of Conventional Generation segment on y/y basis included:

- **Higher electricity production volume** in PGE GiEK by 1.76 TWh due to increased degree of use of units by PSE S.A. resulting from low outside temperatures, lower net import and lower wind generation (see p. 2.2 of this report).
- **Decrease in electricity sales prices** due to lower prices of forward contracts with delivery in 2021 as compared to contracts with 2020 delivery.
- **Lower result on optimisation of electricity portfolio** due to decreased volume of electricity trading by 4.88 TWh, with lower margin realized on electricity trading.
- **Capacity Market**, a mechanism, which was not present in the base period.
- **Lower revenues from ancillary control services,** mainly as a result of lack of revenues cold reserve and from the Operational Capacity Reserve.
- **Higher fuel consumption costs** mainly hard coal, due to increased generation based on this fuel (see p. 2.2 of this report). Main changes on different types of fuel are presented in the chart below.
- **Higher CO_2 costs** as a result of higher CO2 emissions volume by 1.9 million tons due to generation higher by 1.76 TWh. Main changes are shown in the chart below.
- **Lower personnel expenses** due to ongoing process to optimise salaries.

Chart: Costs of production fuels consumption in Conventional Generation (in PLN million).

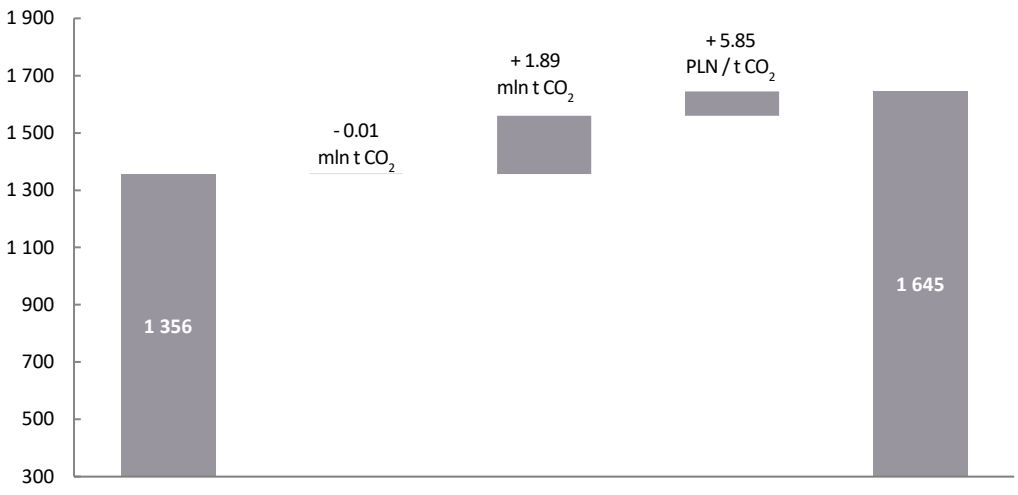


Change		**70**	**-49**	**1**	**-5**	**3**	**0**	
Cost of fuels Q1 2020	**644**		591		34		19	
Cost of fuels Q1 2021			612		30		22	**664**

Table: Data on use of production fuels consumption in Conventional Generation.

Fuel type	Q1 2021		Q1 2020	
	Volume (tons ths)	Cost (PLN million)	Volume (tons ths)	Cost (PLN million)
Hard coal	2 064	612	1 829	591
Biomass	160	30	142	34
Fuel oil – light and heavy	13	22	11	19
TOTAL		**664**		**644**

Chart: CO_2 costs in Conventional Generation segment (in PLN million).



Change		**1**	**203**	**85**	
CO_2 costs Q1 2020	**1 356**				
CO_2 costs Q1 2021					**1 645**

Table: Data on CO_2 costs in Conventional Generation.

Data regarding CO_2	**Q1 2021**	**Q1 2020**	**% change**
Allocation of free allowances for CO_2 emissions (tons)	28 829	39 671	-27%
CO_2 emission* (tons)	14 621 443	12 726 777	15%
Average CO_2 costs (PLN/t CO_2)	112.73	106.88	5%

** Estimates, emissions not verified - the emissions will be settled and certified by the authorised verifier of CO_2 emission on the ground of yearly reports of volume of CO_2 emissions.*

CAPITAL EXPENDITURES

Table: Capital expenditures incurred in Conventional Generation segment in the first quarter of 2021 and 2020.

PLN million	**Q1 2021**	**Q1 2020**	**% change**
Investments in generating capacities, including:	412	301	37%
▪ Development	242	94	157%
▪ Modernisation and replacement	170	207	-18%
Other	5	15	-67%
TOTAL	**417**	**316**	**32%**
Capitalised costs of overburden removal in mines	0	54	-
TOTAL with capitalized costs of overburden removal	**417**	**370**	**13%**

KEY CAPITAL EXPENDITURES IN THE CONVENTIONAL GENERATION SEGMENT

Key development investments:

- Annex no. 1 to the contract to build a capacity offtake system for units 9 and 10 as part of the investment "Construction of two gas-and-steam units at PGE GiEK S.A.'s Dolna Odra branch" was signed on January 5, 2021.
- An agreement was signed with Energoprojekt Katowice S.A. on February 2, 2021 to draft an environmental impact report and obtain a decision on environmental conditions for the project "Construction of new low-emission unit at Rybnik power plant," and work began on an application to PSE S.A. for issue of conditions for connecting to the National Power System.
- On February 25, 2021 syndicate of Mitsubishi Hitachi Power Europe GmbH, Tecnicas Reunidas S.A., Budimex S.A. signed an Annex no. 10 with PGE GiEK S.A. to the contract for construction of unit no. 7 in the Turów power plant. The annex includes prolongation of the contract realization by 6 months until April 30, 2021 and change in the Contractor's remuneration. On March 31, 2021 PGE GiEK S.A. and the consortium signed a regulatory run completion protocol for unit 7 at Turów power plant. A 720-hour test run for unit 7 began.

  On April 30, 2021 information was taken on another delay in commissionings of the unit. The unit was officially, by protocol, put into operation on May 14, 2021.
- Installing piles for machinery building at unit 10 and for a boiler room chimney for units 9 and 10 was completed on March 29, 2021 as part of the investment "Construction of two gas-and-steam units at PGE GiEK S.A.'s Dolna Odra branch".

Key modernisation investments aimed at reducing emissions to the environment:

- Final handover and commissioning of modernised electrostatic precipitator no. 5 at Turów power plant took place on January 26, 2021.
- Final handover of modernised electrostatic precipitator at unit 2 of Opole power plant took place on February 5, 2021.
- A modernised flue-gas desulphurisation system for units 9 and 10 at Bełchatów power plant was put into operation on February 10, 2021.
- Construction of the 3rd catalytic layer in the SCR reactor (selective catalytic reduction – system for converting nitrogen oxide particles into water and nitrogen) for unit 8 at Rybnik power plant began on February 19, 2021.
- An agreement was signed with Eltur-Serwis Sp. z o.o. on March 3, 2021 for the modernisation of the electrostatic precipitator at Turów's unit 6.
- A test run for an SCR system at Dolna Odra's unit 5 was launched on March 9, 2021.
- The electrostatic precipitator of units 7 and 6 at Rybnik plant was put into operation on March 25, 2021.
- The final handover of the SNCR system (reducing NOx via selective non-catalytic reduction) for unit 2 at Opole plant took place on March 30, 2021.

KEY PROJECTS IN Q1 2021

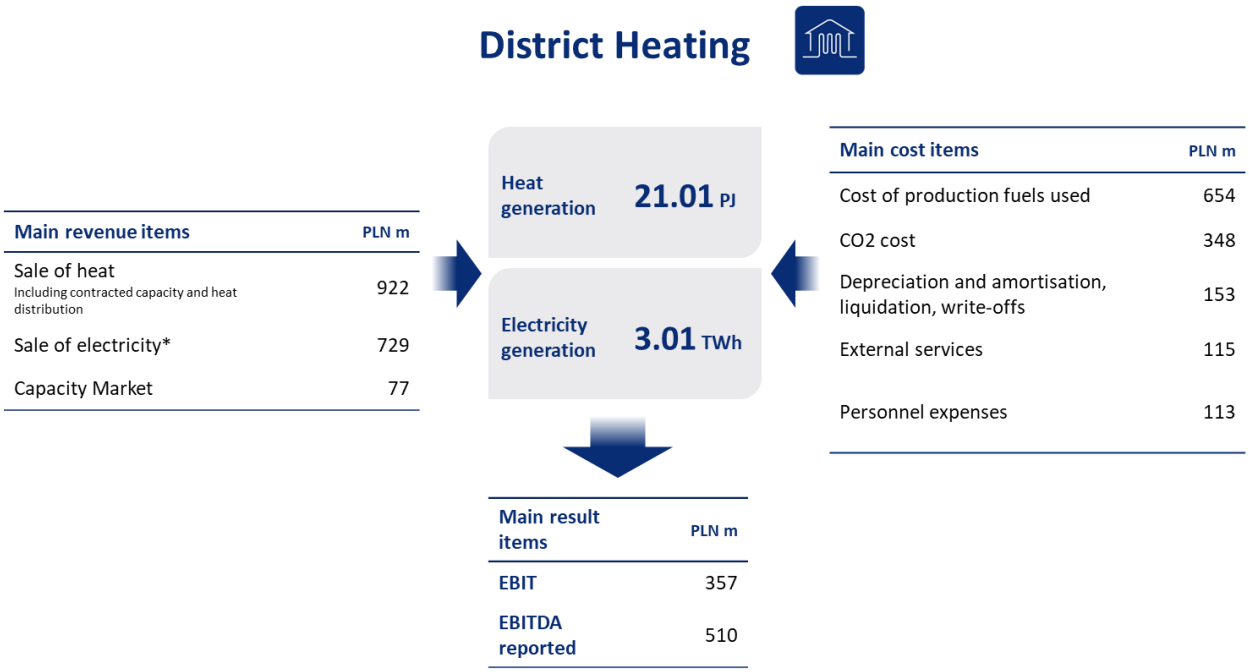
Aim of the project	Budget (net, without costs of financing)	Capital expenditures incurred so far (net, without costs of financing)	Capital expenditures in Q1 2021 (net, without costs of financing)	Fuel/ Net efficiency	Contractor	Expected date of completion	Status
Construction of new unit in Turów power plant							
Construction of power unit no. 7 with a capacity of 490 MW in Turów power plant	PLN 4.4 billion	PLN 3.8 billion	PLN 39 million	Lignite/ 43.1%	Syndicate of companies: MHPSE, Budimex and Tecnicas Reunidas	**Q2 2021**	The unit no. 7 was officially, by protocol, commissioned on May 14, 2021.
Construction of new units in Dolna Odra power plant							
Construction of two CCGT units no. 9 and 10 in Dolna Odra power plant	PLN 4.3 billion	PLN 228 million	PLN 167 million*	Natural gas/ 63%	Syndicate of companies: General Electric (consortium leader) and Polimex Mostostal	**December 2023**	At the end of March 2021, the progress of work under the project was estimated at approx. 25%. Construction work related to excavations and installing piles for the main buildings – machine facility and boiler room for units 9 and 10 – is in progress at the construction site.

** Expenditures incurred do not include expenses in the form of advances paid to the General Contractor for the Project.*

DISTRICT HEATING

Segment description and its business model

Core business of the District Heating segment includes production of heat and electricity from conventional sources as well as distribution of heat.



Main revenue items	PLN m
Sale of heat Including contracted capacity and heat distribution	922
Sale of electricity*	729
Capacity Market	77

Main cost items	PLN m
Cost of production fuels used	654
CO2 cost	348
Depreciation and amortisation, liquidation, write-offs	153
External services	115
Personnel expenses	113

Main result items	PLN m
EBIT	357
EBITDA reported	510

**managerial perspective*

As in the case of Conventional Generation, this segment's significant revenues are **revenues from electricity sales**, however, they are usually directly related to generation of heat which in turn depends on demand that is highly seasonal and depends on external temperatures. This is why, in contrast to industrial power plants in Conventional Generation, as a rule, CHP plants do not have any considerable impact on the development of prices for electricity on the wholesale market.

Revenues from the sale and distribution of heat are regulated revenues. Energy companies independently set tariffs and present them to the President of the Energy Regulatory Office (the "ERO President") for approval. Heat production at PGE Group takes place in cogeneration units, which tariffs for heat are calculated using a simplified approach (compared to tariffs based on a full cost structure), based on reference prices, conditioned on average sales prices for heat generated in units with specific fuel other than cogeneration units. They are published each year by the ERO President. Tariffs for heat production for cogeneration units in a given tariff year thus reflect changes in the costs of heat-generation units (not co-generation units) in the previous calendar year. The cost approach is applied in the case of tariffs for heat distribution, which allows to cover justified costs (mainly the costs of heat losses and property tax) and a return on invested capital, in line with guidelines from the ERO President. Distribution tariffs for heat are in place at branches in Gorzów and Zgierz, as well as by Kogeneracja S.A., PGE Toruń and Zielona Góra CHP.

Generation of heat and electricity is directly related to key variable costs of the segment, i.e. **the cost of production fuel used** (in particular, hard coal and gas) and **the cost of fees for CO_2 emissions**.

Electricity production in high-efficiency cogeneration is additionally remunerated. Until 2018, CHPs generated revenue from the **sale of energy origin certificates**, i.e. cogeneration certificates (yellow and red). From 2019, due to a change in support model, they receive support at a level covering increased operating costs related to production. For large units, this are set on an individual basis. The support mechanism in the form of certificates is in place also for biomass-fired generating assets. This type of production is additionally remunerated by awarding origin certificates, i.e. green certificates, the sale of which generates additional revenue. Tithin the segment such revenues is obtained at biomass unit in Kielce CHP.

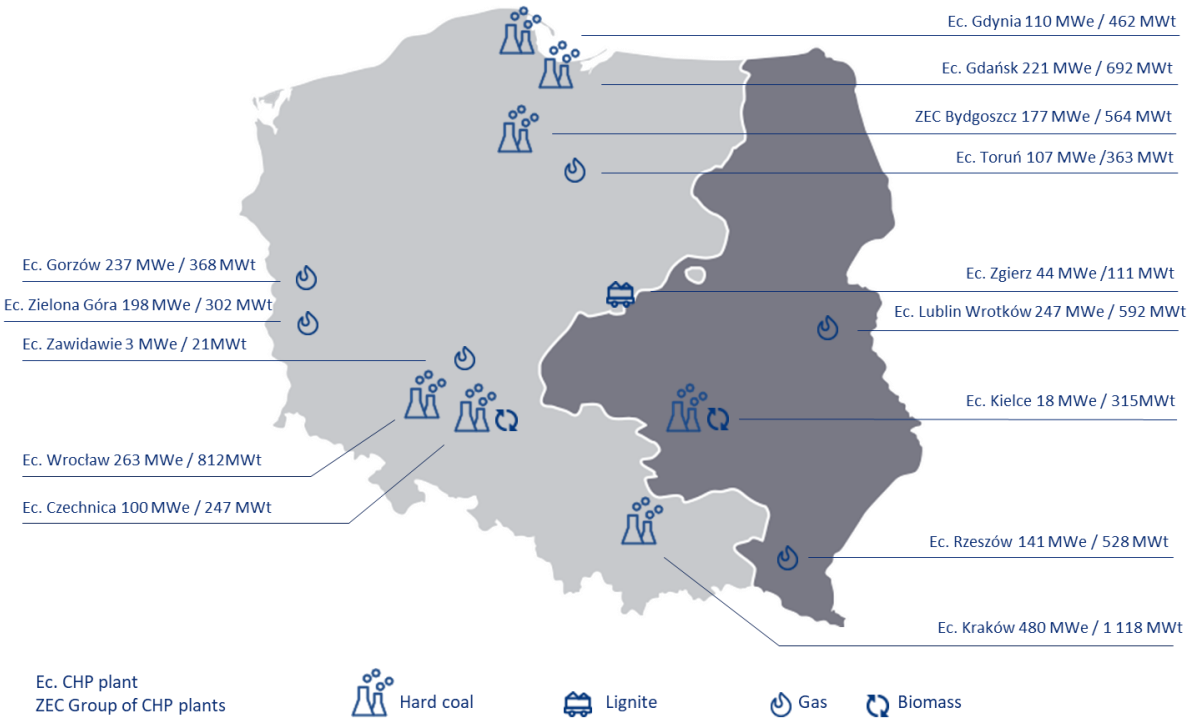
Revenue from the Capacity Market, a mechanism introduced to prevent electricity shortages in the National Power System, constitutes a significant item in the segment's revenue, starting from 2021. CHP plants receive fees for performing the capacity obligation (a Capacity Market entity being on standby to supply electricity to the system and the obligation to supply specified capacity to the system when the system is under threat).

ASSETS

District Heating within PGE Capital Group combines CHP plants separated from the EDF Polska assets acquired on November 14, 2017 and CHP plants separated from PGE GiEK. Since January 2, 2019 the following companies has been included in the segment: PGE EC S.A., Kogeneracja S.A., Elektrociepłownia Zielona Góra S.A., PGE Toruń S.A., PGE Gaz Toruń sp. z o.o., PEC Zgierz sp. z o.o. and Megazec sp. z o.o.

District Heating is the largest heat producer in Poland. Generation is based mainly on hard coal and gas.

Diagram: Main assets of the District Heating segment and their installed capacity.

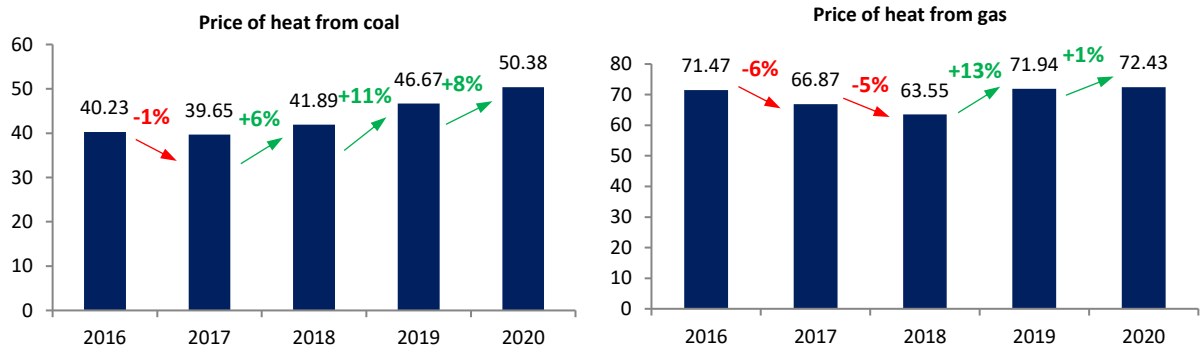


TARIFFS IN DISTRICT HEATING

Description of tariffs in the segment

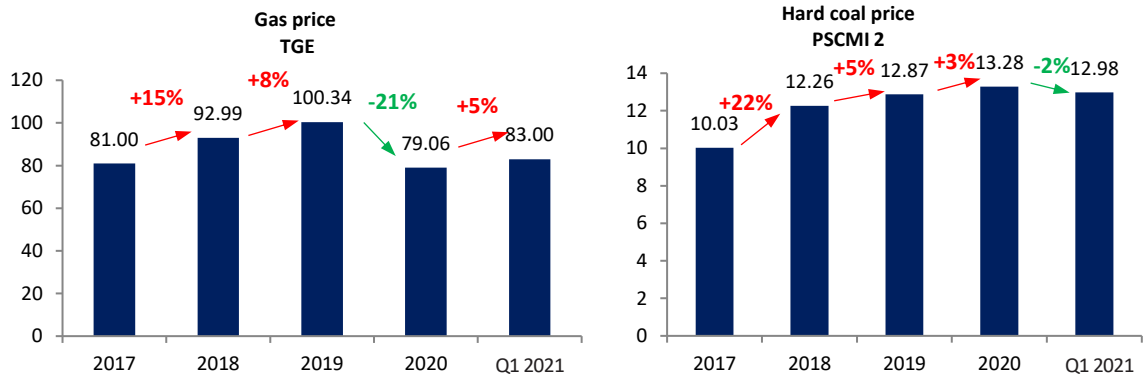
Due to the fact that the income on heat sales for CHP plant are tariffed as part of the so-called simplified method, they are characterised by a relative delay in the transfer of costs (annual or two-year). They are based on the year-to-year dynamics of average costs (including fuels used) incurred by entities that are not co-generation entities for the year preceding the time of tariff establishment.

Charts: Changes in the reference price of heat for hard coal and natural gas (PLN/GJ).



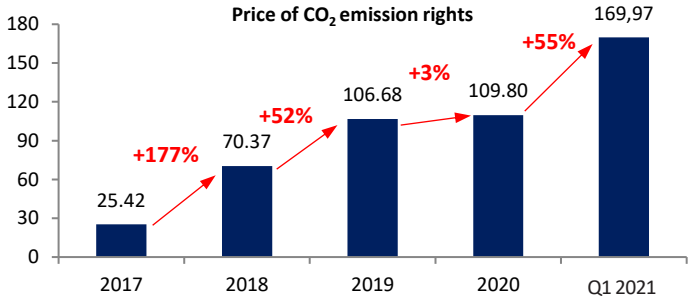
Source: ERO.

Charts: Changes in costs of fuels – hard coal (PLN/GJ) – PSCMI 2[8] and gas (PLN/MWh) -TGE.



Source: ARP, TGE.

Chart: Changes in price of CO_2 emission rights (PLN/t).



Source: ICE.

[8]PSCMI 2- Polish Steam Coal Market Index 2 - The average prices for pulverised coals sold to industrial and municipal heat plants, other industrial customers and other domestic customers in Poland.

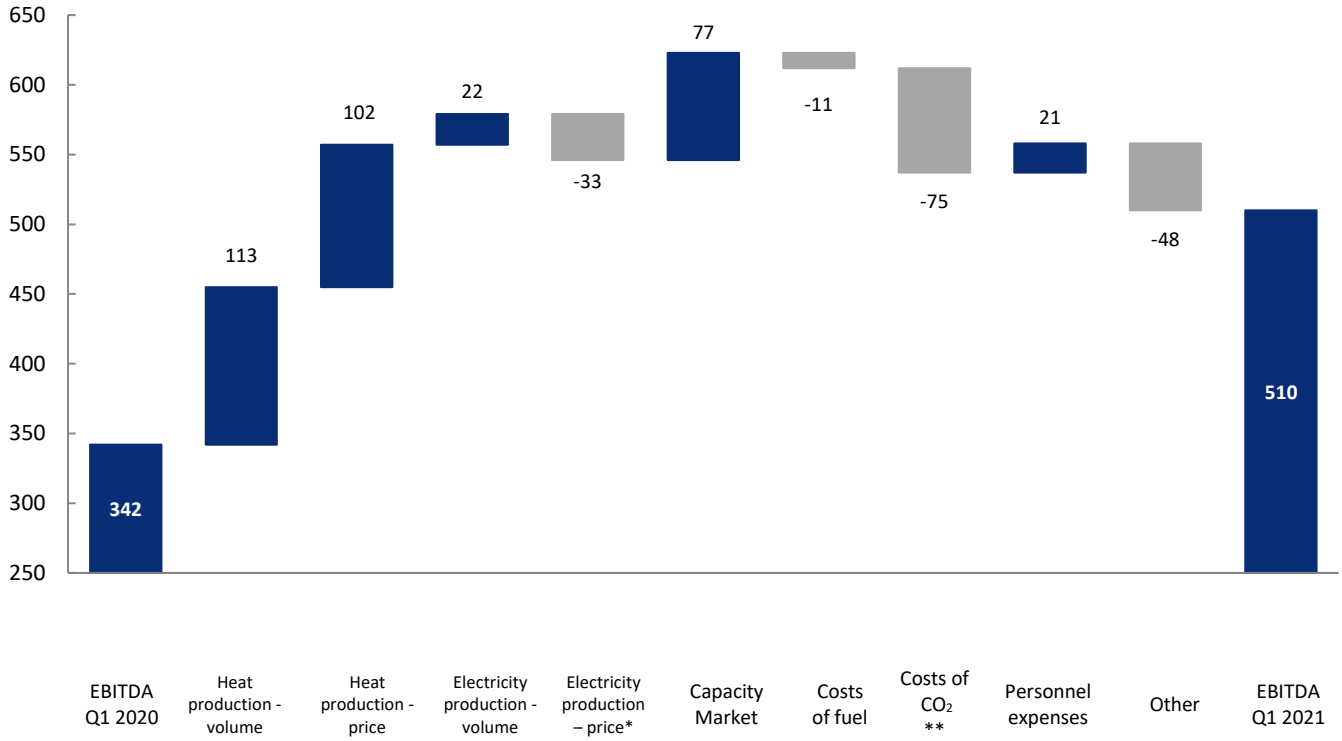
Reflecting previous cost increases, the reference price of heat produced from hard coal increased by 8% in 2020. It is a base to the increase in heat prices for co-generation entities establishing the tariff during 2021. In the first quarter of 2021 the average market price of coal decreased by 2%, while the average price of CO2 emission rights increased by 55%.

Tariffs for the production of heat from gas in 2021 are set based on an increase in the reference price (+1%), whereas in the first quarter of 2021 gas prices are already higher than in previous periods. Prices stand at PLN 8/MWh and are largely due to forward contracts.

Weather conditions also substantially affect the segment's results. Temperatures directly shape the level of heat demand. Simultaneously, the level of heat production determines the level of electricity production in co-generation, which is an additional source of revenues that decisively affects the CHP plant's profitability.

KEY FACTORS FOR THE RESULTS OF THE SEGMENT

Chart: Key changes of EBITDA in District Heating (in PLN million) – managerial perspective.



Change		**113**	**102**	**22**	**-33**	**77**	**-11**	**-75**	**21**	**-48**	
EBITDA Q1 2020	**342**	707		740		0	643	273	134	55	
EBITDA Q1 2021		922		729		77	654	348	113	103	**510**

** Includes costs of certificates redemption regarding electricity sales to final off-takers.*

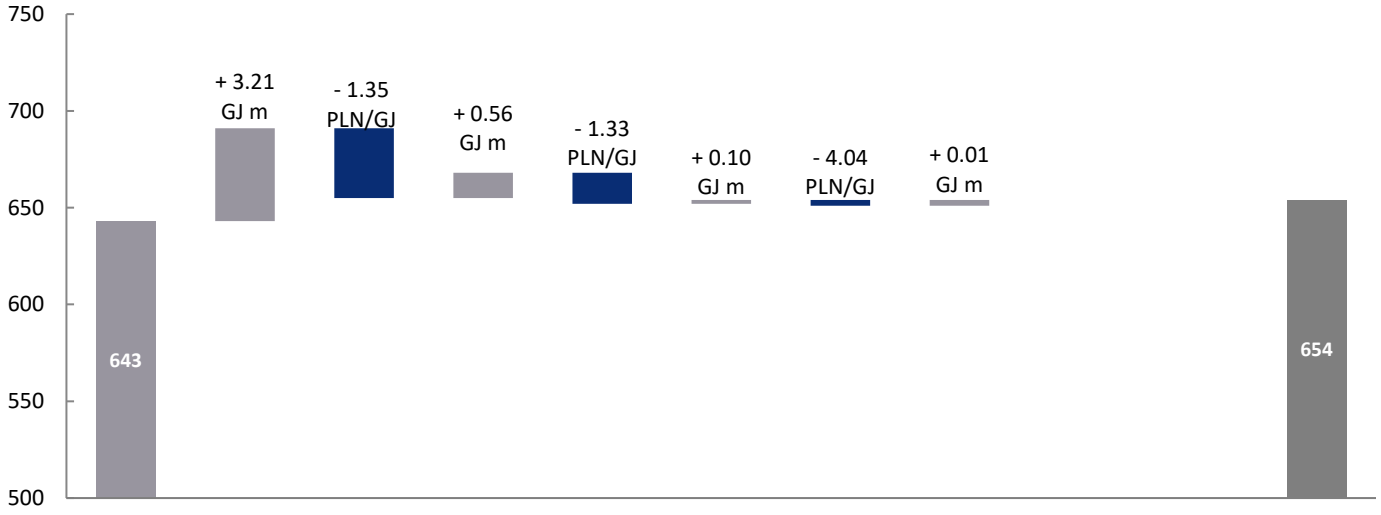
*** Costs do not include forward valuations, recognised in other operations.*

Key factors affecting the EBITDA result of District Heating segment on y/y basis included:

- **Higher volume of heat production** in the first quarter of 2021 y/y is a result of lower outside temperatures - as compared to analogical period of 2020 the average temperatures were by 1.6°C lower, what translated into increased heat production (by 2.8 PJ).
- **Increase of heat sale price** is a result of increased tariffs for heat for the CHP plants following the publication by the ERO of new reference prices for heat production in units not being co-generation units.
- **Higher electricity production volume** in the segment by 0.1 TWh as a result of increased electricity production in co-generation at Kraków CHP plant, due to lower outside temperatures.

- **Decrease of electricity sale prices** due to lower forward contracts with 2021 delivery as compared to the contracts with 2020 delivery.
- **Capacity Market**, a mechanism, which was not present in the base period.
- **Higher fuel consumption costs** are caused by increased volume of hard coal consumption and higher heat generation. The details are shown in the chart below.
- **Higher CO_2 costs** are mainly a result of higher price of allowances and lower allocation of allowances granted free of charge. The details are shown in the chart below.
- **Lower personnel expenses** result mainly from decreased employment y/y.

Chart: Consumption costs of production fuels in District Heating (in PLN million).

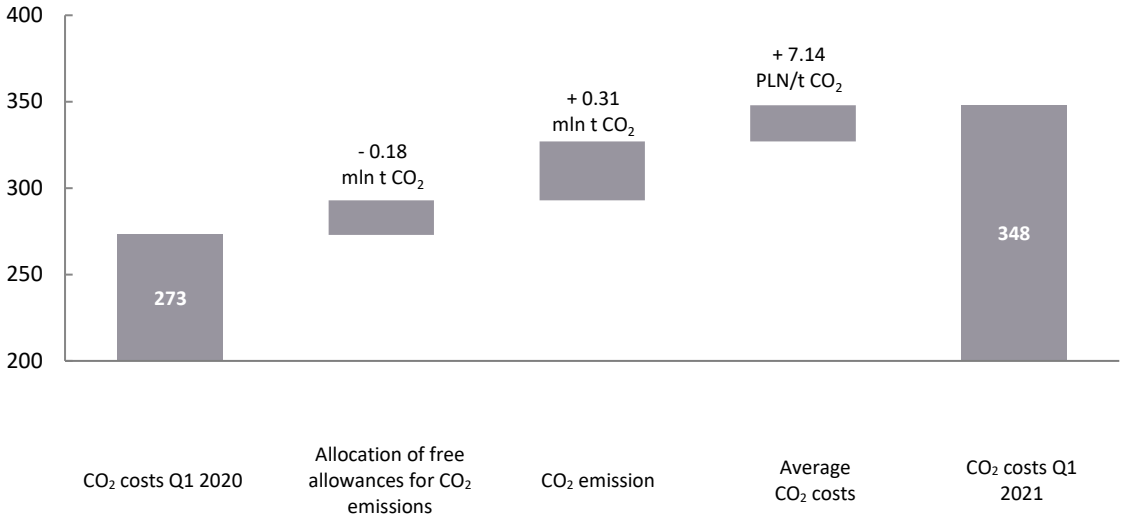


	Costs of fuel Q1 2020	Hard coal volume	Hard coal price	Gas volume	Gas price	Biomass volume	Biomass price	Light and heavy oil volume	Light and heavy oil price	Other raw materials	Costs of fuel Q1 2021
Change		**48**	**-36**	**13**	**-16**	**2**	**-3**	**3**	**0**	**0**	
Costs of fuel Q1 2020	**643**										
Costs of fuel Q1 2021		358		265		11		4		5	
Change		370		262		10		7		5	**654**

Table: Data on use of production fuels consumption in District Heating.

Fuel type	Q1 2021 Volume (tons ths)	Q1 2021 Cost (PLN million)	Q1 2020 Volume (tons ths)	Q1 2020 Cost (PLN million)
Hard coal	1 193	370	1 064	358
Gas (cubic metres ths)	391 245	262	376 422	265
Biomass	64	10	49	11
Fuel oil and other raw materials		12		9
TOTAL		**654**		**643**

Chart: CO_2 costs in District Heating (PLN million).



Change		**20**	**34**	**21**	
CO_2 costs Q1 2020	**273**				
CO_2 costs Q1 2021					**348**

Table: Data on CO_2 costs in District Heating.

Data regarding CO_2	Q1 2021	Q1 2020	% change
Allocation of free allowances for CO_2 emissions (tons)	234 470	415 444	-44%
CO_2 emission* (tons)	3 219 233	2 909 577	11%
Average CO_2 costs (PLN/t CO_2)	116.60	109.46	7%

** Estimates, emissions not verified - the emissions will be settled and certified by the authorised verifier of CO_2 emission on the ground of yearly reports of volume of CO_2 emissions.*.

CAPITAL EXPENDITURES

Table: Capital expenditures incurred in District Heating segment in the first quarter of 2021 and 2020.

PLN million	Q1 2021	Q1 2020	% change
Investments in generating capacities, including:	112	33	239%
▪ Development	93	16	481%
▪ Modernisation and replacement	19	17	12%
Other	8	10	-20%
TOTAL	**120**	**43**	**179%**

RENEWABLES

Segment description and its business model

This segment is involved in the generation of electricity from renewable sources and in pumped storage power plants.

Renewables

Main revenue items	PLN m
Sale of electricity	199
Capacity Market	71
Sale of certificates	44
Ancillary services	8

Electricity generation **0.73 TWh**

Main cost items	PLN m
Depreciation and amortisation	89
Use of energy incl. energy to pump water at pumped-storage plants	57 57
External services	28
Personnel expenses	27
Taxes and fees incl. real estate tax	18 16

Main result items	PLN m
EBIT	104
EBITDA reported	193

The Renewables segment is based mainly on revenues from the sale of electricity, however contrary to production at industrial plants within the Conventional Generation segment, this revenue is subject to a larger degree to changes in weather conditions and prices on the spot market due to the renewables sales model in place. Electricity output volume translates into property rights (green certificates) and revenue from the sale of energy origin certificates obtained by the segment's assets, excluding hydropower plants over 5 MWe.

Revenue from the Capacity Market, a mechanism introduced to prevent electricity shortages in the National Power System, constitutes a significant item in the segment's revenue, starting from 2021. Selected power plants in the Renewables segment receive fees for performing the capacity obligation (a Capacity Market entity being on standby to supply electricity to the system and the obligation to supply specified capacity to the system when the system is under threat). Capacity Market revenue compensated for revenue from ancillary services. The readiness intervention reserve service was discontinued.

On the cost side, the most important items include: depreciation of segment assets, use of energy to pump water at pumped-storage plants and third-party services, mainly the repair services. Property tax and employee wages also constitute a significant cost item in this segment.

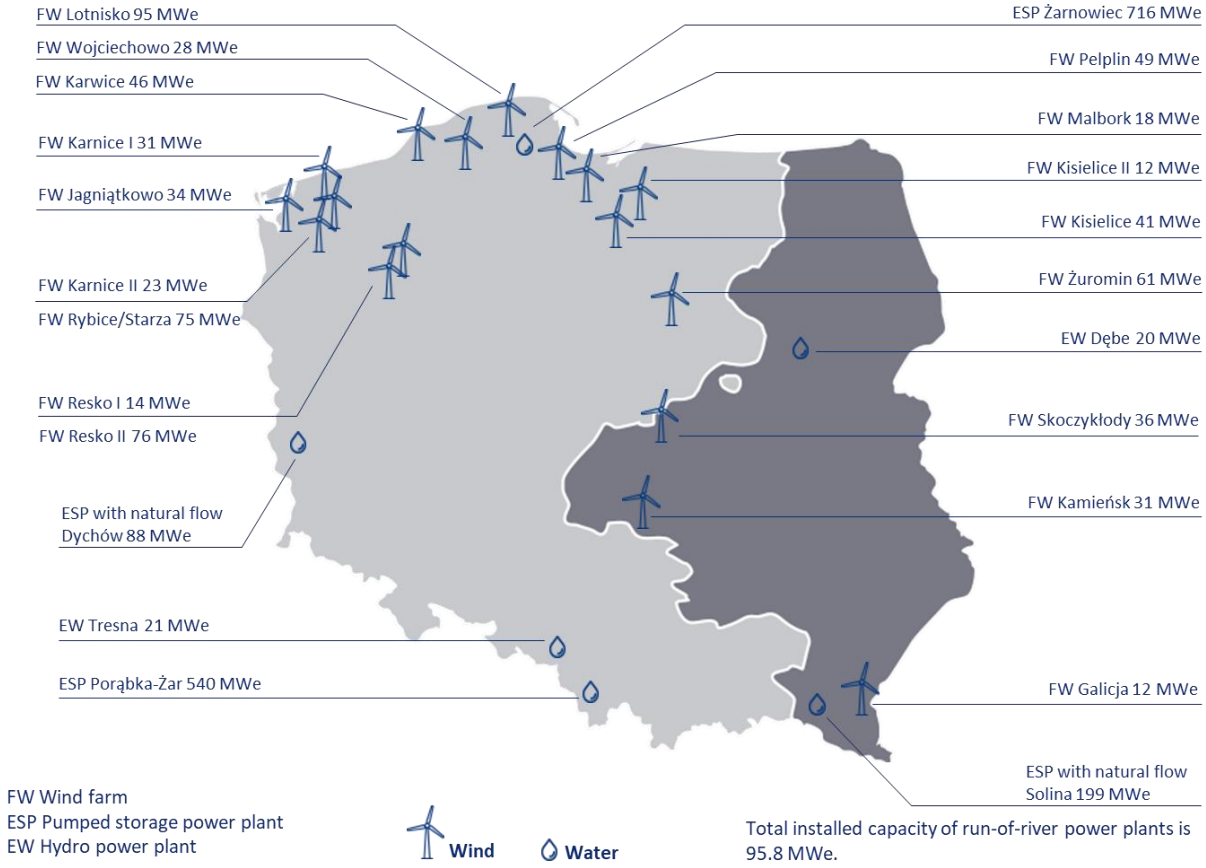
Assets

The PGE Capital Group's operations in renewable energy are managed by the PGE Energia Odnawialna S.A. Due to the profile of operations, the segment includes PGE Baltica sp. z o.o. This company is responsible for all activities related to off-shore wind farms.

Assets in the segment include:

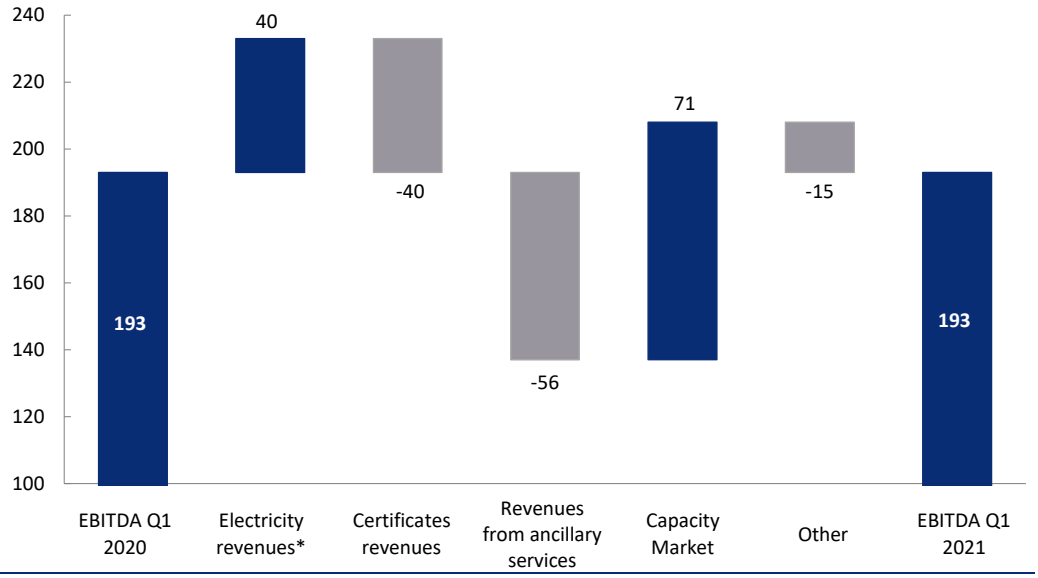
- 17 wind farms,
- 5 photovoltaic power plants,
- 29 run-of-river hydro power plants,
- 4 pumped-storage power plants, including 2 with natural flow.

Diagram: Main assets of the Renewables segment and their installed capacity.



KEY FACTORS FOR THE RESULTS OF THE SEGMENT

Chart: Key changes of EBITDA in Renewables (in PLN million) – managerial perspective.



Change		**40**	**-40**	**-56**	**71**	**-15**	
EBITDA Q1 2020	**193**	159	84	64	0	114	
EBITDA Q1 2021		199	44	8	71	129	**193**

** The sum of electricity revenues includes revenues from main generation technologies (wind, water, PV)*

Key factors affecting the y/y results of Renewables included:

- **Increase in revenues from electricity sales** results from: higher electricity sale price by PLN 91/MWh y/y, what translated into increase of revenues by approx. PLN 67 million; offset by lower sales volume by 159 GWh, what caused revenues decrease of approx. PLN 27 million.
- **Lower revenues from sales of certificates** result from: decreased generation volume by 187 GWh, what translated into decrease of revenues by approx. PLN 29 million; lower average sale price of certificates by PLN 32/MWh y/y, what translated into decrease of revenues by approx. PLN 11 million.
- **Lower sales revenues from ancillary services** result mainly from change in agreement for provision of services and withdrawal of Readiness Interventional Reserve among others.
- **Capacity Market, a mechanism, which was not present in the base period.**
- **Decrease in other** results mainly from higher operating costs - in connection with new assets commissioned from the second quarter to the end of 2020: 3 wind farms and 4 PV plants. Additionally, from the beginning of 2021 pumped-storage units are obligated to pay grid fees in full in order to pump water that is used to generate electricity. The change in model was caused by the discontinuation of certain ancillary services.

CAPITAL EXPENDITURES

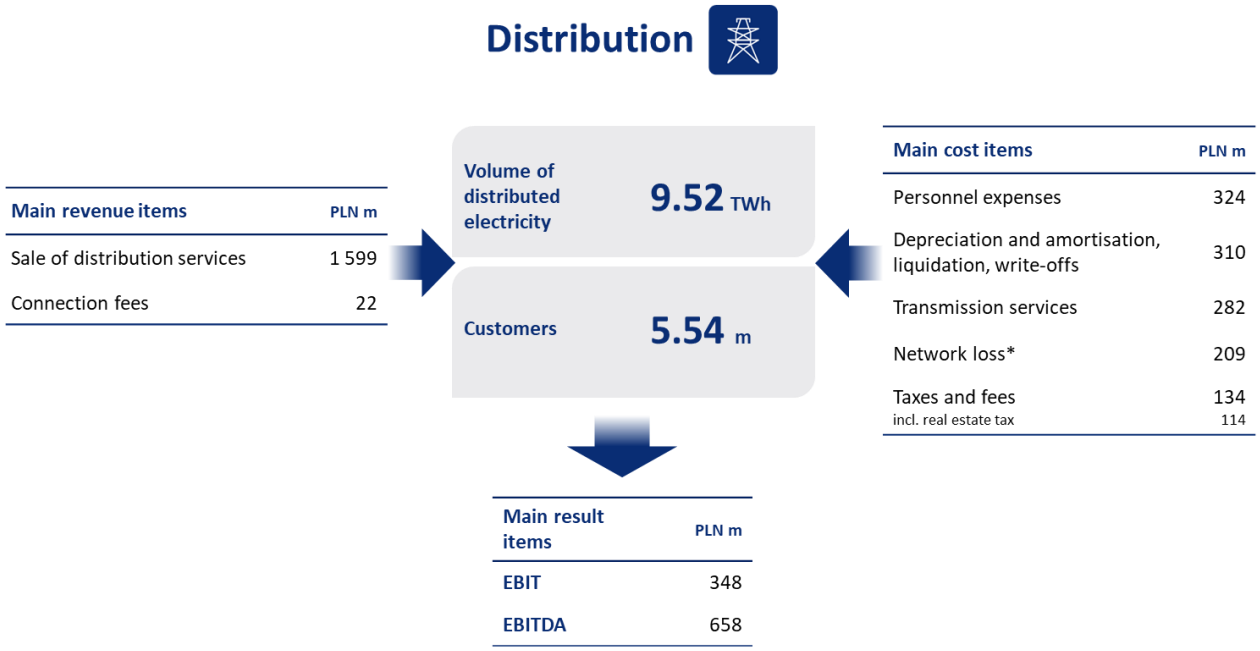
Table: Capital expenditures (excluding acquisitions) incurred in Renewables segment in the first quarter of 2021 and 2020.

PLN million	Q1 2021	Q1 2020	% change
Investments in generating capacities, including:	18	90	-80%
▪ Development	6	86	-93%
▪ Modernisation and replacement	12	4	200%
Other	2	2	0%
TOTAL	**20**	**92**	**-78%**

DISTRIBUTION

Segment description and its business model

Core business of the segment includes supply of electricity to final off-takers through the grid and HV, MV and LV infrastructure.



** managerial perspective.*

Segment revenue is based on a tariff for electricity distribution services, which is approved by the ERO President every year at company request and is regulated. The tariff allow costs related to the distribution system operator's on-going activities to be transferred. These are both justified operating costs, depreciation, as well as costs related to the necessity to cover grid losses on electricity distribution or the purchase of transmission services from the TSO. At the same time, the tariff reflects the **costs transferred in fees** such as the RES fee, the transition fee, the co-generation fee and – from 2021 – the capacity fee.

The key element shaping the Distribution segment's result is **return on company's invested capital**. This is based on the Regulatory Asset Base ("RAB"), which is established on the basis of completed investments and taking into account asset depreciation. The Regulatory Asset Base serves as the basis for calculating return on capital, using weighted average cost of capital, which is published by the ERO President in accordance with a set formula and using as the risk free rate the average yield on 10-year State Treasury bonds with the longest maturity during the 36-month period preceding the tariff application submission, quoted on the Treasury BondSpot market. In addition, return on capital depends on the achievement of individual quality targets set by the ERO President for performance indicators including: interruption time, interruption frequency, connection time and (not yet included) time to provide metering and settlement data.

VOLUME, CUSTOMERS AND OPERATING DATA

PGE Dystrybucja S.A. operates in the area of 129 829 sq. km and delivers electricity to approximately 5.54 million customers.

Diagram: Area of PGE distribution grid.

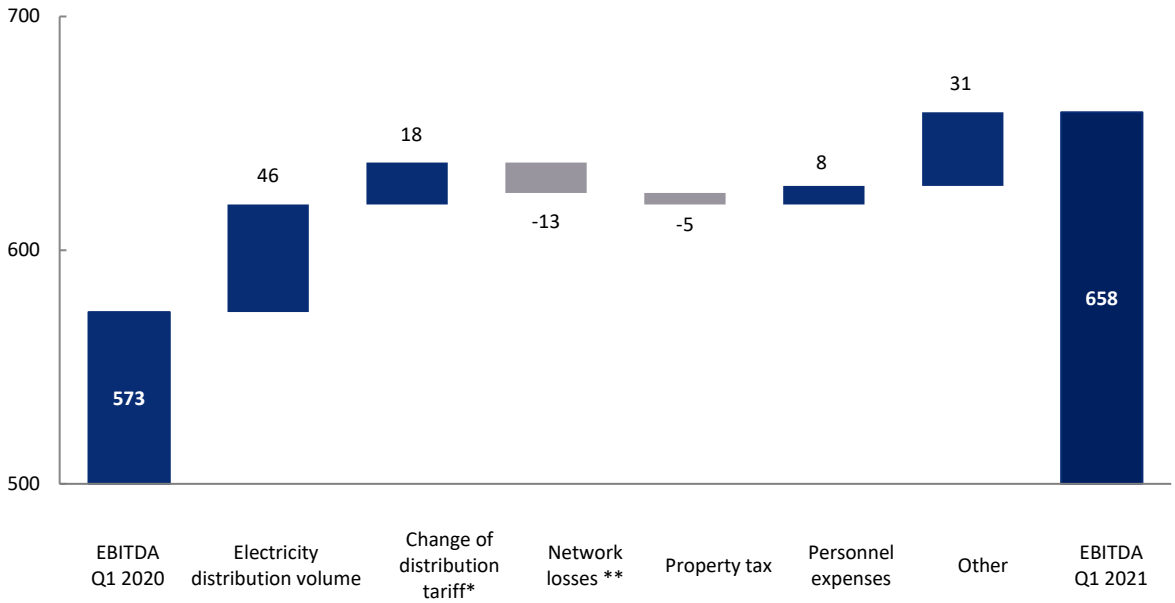
Table: Volume of distributed energy and number of customers in the first quarter of 2021 and 2020.

Tariff	Volume (TWh)*		Number of customers according to power take-off points	
	Q1 2021	Q1 2020	Q1 2021	Q1 2020
A tariff group	1.25	1.31	111	109
B tariff group	3.65	3.54	12 579	12 214
C+R tariff groups	1.82	1.79	486 165	483 296
G tariff group	2.80	2.53	5 045 375	4 983 190
TOTAL	**9.52**	**9.17**	**5 544 230**	**5 478 809**

** with additional estimation of sales.*

KEY FACTORS FOR THE RESULTS OF THE SEGMENT

Chart: Key changes of EBITDA in Distribution (in PLN million) – managerial perspective.



Change		**46**	**18**	**-13**	**-5**	**8**	**31**	
EBITDA Q1 2020	**573**	1 188		196	109	332	22	
EBITDA Q1 2021		1 252		209	114	324	53	**658**

** Excluding cost of transmission services from PSE S.A.*
*** Adjusted for revenues from the Balancing market.*

Key factors affecting results of Distribution segment y/y included:

- **Increased volume of distributed energy** by 0.35 TWh resulting mainly from higher demand by households.
- **Increase in rates in tariff for 2021** by PLN 1.8/MWh compared to the tariff for the corresponding period of the previous year, that translated into an increase in revenues from the sale of distribution services. The increase of average tariff is caused mainly by change in electricity consumption structure. There was mainly an increase in the demand of households with the highest level of distribution fees.
- **Higher costs of energy purchases to cover network losses** mainly as a result of non-cash impact of additional estimation of electricity purchase due to a significant change in the electricity purchase price.
- **Increase of costs of tax on real estate** in connection with an increase of: grid assets value as a result of investments; tax rates on land and buildings.
- **Decrease in personnel expenses** due to ongoing process to optimise costs.
- **Change in other** resulting mainly from higher revenues from sale of other distribution services, mainly of a sanctioning nature and release of provisions related to claims concerning non-contractual use of properties as a result of a significant increase in the number of court cases being ruled in favour of the company.

CAPITAL EXPENDITURES

Table: Capital expenditures incurred in Distribution segment in the first quarter of 2021 and 2020.

PLN million	Q1 2020	Q1 2019	% change
Development investments	139	202	-31%
Modernisation and replacement	135	199	-32%
Other	13	26	-50%
TOTAL	**287**	**427**	**-33%**

KEY DEVELOPMENTS IN THE DISTRIBUTION SEGMENT

In the first quarter of 2021 the largest expenditures in amount of PLN 129 million were incurred for connection of new off-takers.

SUPPLY

Segment description and its business model

Supply segment activities include Group's wholesale and retail trading of electricity. Wholesale trading includes mainly electricity trading on behalf of and for Conventional Generation segment, District Heating segment and Renewables segment.

Supply

Main revenue items*	PLN m
Sale of CO_2 emission rights	6 639
Sale of electricity	3 369
Sales management	205
Sale of fuels including related services	132 2
Sale of gas	105

Volume of electricity sales to final off-takers*	9.60 TWh
Customers*	5.41 million

Main cost items	PLN m
Purchase of CO_2 emission rights	6 651
Purchase of electricity	2 806
Redemption of energy origin certificates	255
Purchase of fuels including transport costs	134 4
Segment operating expenses	187
Purchase of gas	101

Main result items	PLN m
EBIT	343
EBITDA	352

** Data for PGE Obrót S.A.*

As part of retail-market activities, the key source of **segment's revenue is sale of electricity** to final customers. This is sale to business and institutional clients, which constitutes more than 70% of the sales volume, and to retail clients. The segment's revenue also includes the **sale of fuels**, mainly: pulverised coal and fat coal, which is sold by PGE Paliwa sp. z o.o., and **sale of gas.**

Electricity sales are matched by the **costs to purchase electricity on the wholesale market** and **costs to redeem certificates** as part of the support system for renewable sources and energy efficiency.

The Supply segment also incurs costs related to the Group's corporate centre.

VOLUME, CUSTOMERS AND OPERATING DATA

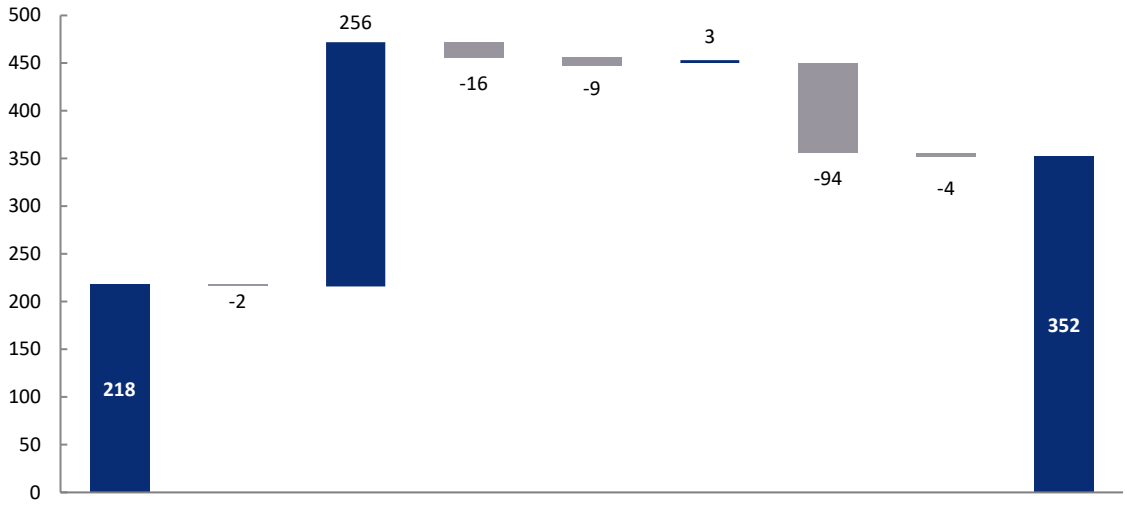
Table: Volume of electricity sales to final off-takers and number of customers in the first quarter of 2021 and 2020.

Tariff	Volume (TWh)*		Number of customers according to power take-off points*	
	Q1 2021	Q1 2020	Q1 2021	Q1 2020
A tariff group	1.76	2.38	141	154
B tariff group	3.42	3.81	11 859	12 617
C+R tariff groups	1.70	1.91	422 446	448 026
G tariff group	2.72	2.50	4 975 916	4 888 102
TOTAL	**9.60**	**10.60**	**5 410 362**	**5 348 899**

** Data for PGE Obrót S.A.*

KEY FACTORS FOR THE RESULTS OF THE SEGMENT

Chart: Key changes of EBITDA in Supply (in PLN million) – managerial perspective.



	EBITDA Q1 2020	Result on electricity - volume	Result on electricity - margin	Revenues from services provided to other segments of the PGE Group	Result on sale of fuels	Personnel expenses	Balance of provisions for onerous contracts	Other	EBITDA Q1 2021
Change		**-2**	**256**	**-16**	**-9**	**3**	**-94**	**-4**	
EBITDA Q1 2020	**218**	32		235	7	99	94	51	
EBITDA Q1 2021		286		219	-2	96	0	55	**352**

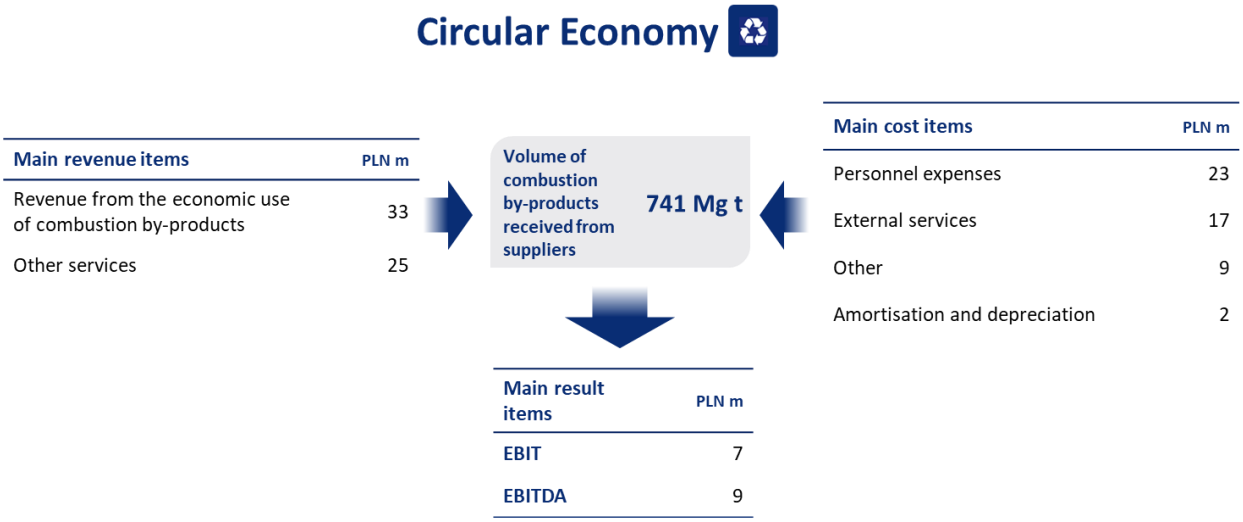
Key factors affecting EBITDA of Supply segment y/y included:

- **Higher result on electricity,** due to lowered base in the sale of tariffed products in previous year – the ERO President set the prices for households at a level which did not cover actual costs of electricity purchase. The last year's low base was also an effect of lower demand due to COVID-19, what resulted in re-selling certain volumes on the spot market below purchase prices in forward transactions.
- **Decrease of revenues from services performed within the Group** resulting mainly from lower revenues from the Agreement for Commercial Management of Generation Capacities as a consequence of lower trading value of electricity under management.
- **Lower result on fuel sales**, mainly due to the high base in the previous year, when the beneficial shape of the international coal forward curve reduced the measurement of inventories.
- **Decreased personnel expenses** in connection with ongoing process to optimisation process in this area.
- **Negative impact of balance of provisions for onerous contracts** in PGE Obrót resulting from high base level in the analogical period of the previous year. At the end of the first quarter of 2020, the result was due to reversal of provision for onerous contracts, that mainly related to lack of coverage of part of justified operating costs in the tariff for households approved by the ERO President.

CIRCULAR ECONOMY

Segment description and its business model

The core business of Circular Economy segment is the management of combustion by-products in the PGE Group.



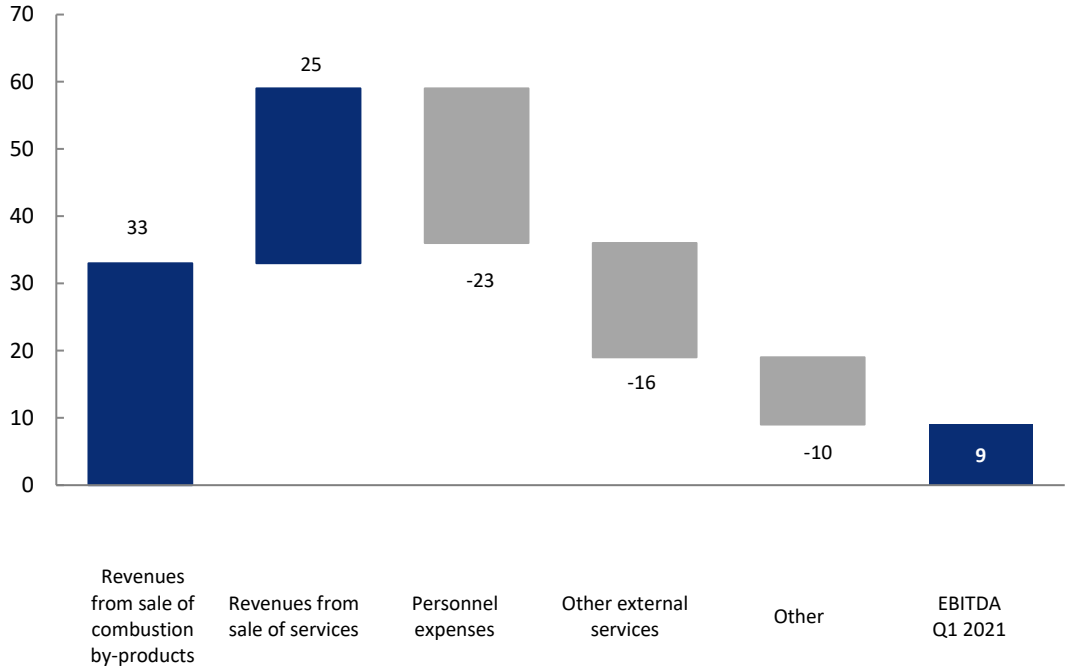
From the beginning of 2021, PGE Group reports a new operating segment – Circular Economy, which includes the following companies: PGE Ekoserwis S.A., EPORE S.A., Zower sp. z o.o. The management of combustion by-products at PGE Group turns waste into high-value substances that are used in other branches of economy (cement industry, construction, road-building, mining) and thus reduces the volume of ultimate waste generated.

The main revenue source in the Circular Economy segment is **revenue from the economic use of combustion by-products**, which includes revenue from the sale of products manufactured on the basis of combustion by-products in internal production processes and the sale of services related to the management of combustion by-products. The level of revenue depends on multiple factors, including commercial potential for selling combustion by-products, in processed and unprocessed form, seasonality of industries purchasing combustion by-products, seasonality of suppliers of combustion by-products (power plants, combined heat-and-power plants), volumes collected, efficiency of production infrastructure, capabilities for storing combustion by-products as materials inventories intended for production, as well as market conditions.

Revenue from other services includes revenue from the sale of continuous and ad hoc services provided to electricity and heat producers, including the operation of ash handling systems and equipment, operation of technological lines, operation of mill facilities and operation of fuel and combustion by-product storage sites.

KEY FACTORS FOR THE RESULTS OF THE SEGMENT

Chart: Key factors affecting EBITDA in Circular Economy segment (in PLN million) – managerial perspective.



Factors affecting EBITDA *	**33**	**25**	**-23**	**-16**	**-10**	
EBITDA Q1 2021						**9**

**The chart does not show data for the first quarter of 2020, because in that period companies from the Circular Economy segment were presented in Conventional Generation, District Heating and Other Operations.*

Key factors affecting EBITDA of Circular Economy segment y/y included:

- **Revenue from sale of combustion by-products**: ash, slag, gypsum obtained in the process of hard coal and lignite combustion.
- **Revenue from sale of services**, concerning services in the field of coal storage site operations and heavy equipment rentals, mainly to PGE Group companies.
- **Personnel costs** necessary for the proper functioning of the segment.
- **Third-party service costs**, mainly concerning services in the field of transporting waste from production units.

3.4. Significant events of the reporting period and subsequent events

IMPACT OF THE COVID-19 PANDEMIC ON PGE GROUP'S OPERATIONS

PGE Group identifies, on an ongoing basis, the risk factors that affect the Group's performance in connection with the COVID-19 pandemic. In the first quarter of 2021, the impact of the pandemic on financial performance remained limited. The nature and scale of possible further effects are difficult to estimate. What will be important is the duration of the epidemic, its potential increased severity and extent, as well as its impact on economic growth in Poland. At the same time, the accuracy of estimates remains difficult in view of a number of other factors affecting the power market, including the level of demand for electricity.

The outbreak of the pandemic has led to the economic slowdown in 2020 in the global economy and in Poland. As restrictions are being lifted, the economic situation is gradually improving. These are reflected, among others, in the revision of market projections for GDP, industrial output and investments.

Nevertheless, another implementation of restrictions may result in the reduced level of economic activity, which may create risk that the lower level of domestic electricity consumption will continue periodically, what may have impact on the decrease in revenues and margins from energy generation, distribution and sales in the Conventional Generation, Distribution, Supply, as well as in District Heating segment. Most of the production for 2021 was contracted in previous years, which is why the potential negative impact of lower volumes on the Conventional Generation segment was largely limited.

If the pandemic situation were to deteriorate, the Supply segment would face the risk of a decline in demand for electricity, which could result in lower sales to end users and a higher cost to balance electricity. Also in the Distribution segment, a lower volume of deliveries made to final off-takes would directly translate into lower revenues earned on this account.

As at March 31, 2021, the impact of the expected increase in payment congestion, especially regarding receivables from small and medium-sized enterprises, was not significant. As it is described in note 2.4 to the consolidated financial statements, the Group created additional write-offs on receivables in the amount of PLN 16 million. On the other hand, depending on the further epidemiological and economic situation, the risk of deteriorated liquidity of PGE Group and increased impairment losses on overdue receivables still exists and is monitored on an ongoing basis. Currently, the Group does not expect the occurrence to be more material and does not identify any liquidity risk.

PGE Group's plants are of strategic importance for maintaining undisturbed production and supply of electricity and heat in Poland. The COVID-19 pandemic has affected the change of work organisation, especially with respect to PGE Group's generation units. In many cases, this involves additional costs resulting from, for example, the purchase of protective materials for employees. Since the beginning of the pandemic, the Group has introduced work rules that aim to reduce, as much as possible, the health risk for employees. As one of the largest employers in Poland, with approx. 40 thousand employees, PGE Group takes a number of measures related to the organisation of the companies and work to ensure business continuity, protect the health and life of its employees, including the implementation of teleworking and rotational work, raising awareness of, in particular, the basic principles of protection against coronavirus, prevention and quarantine. PGE has established a Crisis Team to collect information from all Group companies, monitor the situation in individual companies on an ongoing basis and take appropriate steps.

The production branches also have plans for operation with increased absenteeism that are developed and verified on an ongoing basis, and as plants of strategic importance from the point of view of maintaining undisturbed production and supply of electricity and heat, they are in constant contact with local authorities responsible for monitoring the situation in the country in all locations of PGE Group entities.

In the area of retail customer service, PGE Group focused primarily on expanding remote service channels.

Due to the introduction of appropriate countermeasures at the early stage of the pandemic, PGE Group has been continuously producing electricity and heat and ensuring their uninterrupted supply.

PGE Group has been monitoring the further impact of the COVID-19 pandemic on the financial condition of the PGE Group and is preparing for various scenarios. The pandemic has accelerated the introduction of measures to prepare the entire organisation to changes in order to tackle the decarbonisation challenges faced by energy companies. This will require considerable financial expenditure. All potential savings scenarios for both capital expenditures and operating costs were analysed in order to focus on the most important development projects related to the core business of PGE Group.

CHANGES IN THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Management Board members

From January 1, 2021 till March 31, 2021 the Management Board had worked in following composition:

Name and surname of the Management Board	Position	
Wojciech Dąbrowski	President of the Management Board	from February 20, 2020
Wanda Buk	Vice-President for Regulatory Affairs	from September 1, 2020
Paweł Cioch	Vice-President for Corporate Affairs	from February 24, 2020
Paweł Strączyński	Vice-President for Finance	from February 24, 2020
Paweł Śliwa	Vice-President for Innovations	from February 20, 2020
Ryszard Wasiłek	Vice-President for Operations	from February 20, 2020

Mr Paweł Strączyński - Vice-President for Finance – submitted his decision to resign from the position as of March 31, 2021.

As at the publication date of this report, the Management Board works in following composition:

Name and surname of the Management Board	Position	
Wojciech Dąbrowski	President of the Management Board	from February 20, 2020
Wanda Buk	Vice-President for Regulatory Affairs	from September 1, 2020
Paweł Cioch	Vice-President for Corporate Affairs	from February 24, 2020
Paweł Śliwa	Vice-President for Innovations	from February 20, 2020
Ryszard Wasiłek	Vice-President for Operations	from February 20, 2020

Supervisory Board members

From January 1, 2021 the Supervisory Board had worked in following composition:

Name and surname	Position
Anna Kowalik	Chairman of the Supervisory Board
Artur Składanek	Vice-Chairman of the Supervisory Board – independent
Grzegorz Kuczyński	Secretary of the Supervisory Board - independent
Janina Goss	Supervisory Board Member - independent
Tomasz Hapunowicz	Supervisory Board Member - independent
Mieczysław Sawaryn	Supervisory Board Member - independent
Jerzy Sawicki	Supervisory Board Member - independent
Radosław Winiarski	Supervisory Board Member

On January 14, 2021 the Minister of State Assets (representing the State Treasury) by way of a declaration appointed Mr Marcin Kowalczyk to the Supervisory Board as of January 14, 2021.

As at March 31, 2021 and as the publication date of this report, the Supervisory Board worked in following composition:

Name and surname	Position
Anna Kowalik	Chairman of the Supervisory Board
Artur Składanek	Vice-Chairman of the Supervisory Board – independent
Grzegorz Kuczyński	Secretary of the Supervisory Board - independent
Janina Goss	Supervisory Board Member - independent
Tomasz Hapunowicz	Supervisory Board Member - independent
Marcin Kowalczyk	Supervisory Board Member
Mieczysław Sawaryn	Supervisory Board Member - independent
Jerzy Sawicki	Supervisory Board Member - independent
Radosław Winiarski	Supervisory Board Member

From January 1, 2021 the committees have worked in following compositions:

Name and surname of the member of the Supervisory Board	Audit Committee	Corporate Governance Committee	Strategy and Development Committee	Appointment and Remuneration Committee
Janina Goss	Member			Member
Tomasz Hapunowicz		Member Chairman	Member	
Anna Kowalik	Member		Member	Member
Grzegorz Kuczyński	Member Chairman	Member		
Mieczysław Sawaryn			Member	Member Chairman
Jerzy Sawicki		Member	Member	Member
Artur Składanek	Member		Member Chairman	
Radosław Winiarski	Member		Member	

On February 16, 2021 the Supervisory Board adopted resolution on appointing Mr Marcink Kowalczyk to the Strategy and Development Committee.

As at March 31, 2021 and as the publication date of this report the committees worked in following compositions:

Name and surname of the member of the Supervisory Board	Audit Committee	Corporate Governance Committee	Strategy and Development Committee	Appointment and Remuneration Committee
Janina Goss	Member			Member
Tomasz Hapunowicz		Chairman	Member	
Marcin Kowalczyk			Member	
Anna Kowalik	Member		Member	Member
Grzegorz Kuczyński	Chairman	Member		
Mieczysław Sawaryn			Member	Chairman
Jerzy Sawicki		Member	Member	Member
Artur Składanek	Member		Chairman	
Radosław Winiarski	Member		Member	

ACTIVITIES RELATED TO NUCLEAR ENERGY

Business partnership and sale of 100% shares in PGE EJ 1 to the State Treasury

Until the end of the first quarter of 2021, company PGE EJ 1 (set up in 2010) was part of the PGE Capital Group. In 2014, a shareholder agreement was signed, pursuant to which Enea S.A., KGHM Polska Miedź S.A. and TAURON Polska Energia S.A. each purchased from PGE a 10% stake in PGE EJ1 (30% in total).

In the first quarter of 2021, talks regarding the acquisition by the State Treasury of 100% shares in PGE EJ1 from PGE and other partners continued. The intention to conclude such transaction was expressed in the Letter of Intent signed on October 1, 2020 between PGE, KGHM Polska Miedź S.A., TAURON Polska Energia S.A., Enea S.A. and the State Treasury.

The business model for Polish nuclear power plants envisaged in the Nuclear Power Programme updated in October 2020, provides for the State Treasury's acquisition of 100% of shares in the special purpose company responsible for investments in nuclear power in Poland, i.e. PGE EJ1 Sp. z o.o.

On March 26, 2021 PGE, KGHM Polska Miedź S.A., TAURON Polska Energia S.A., Enea S.A. and the State Treasury concluded an agreement to sell 100% shares in PGE EJ 1 to the State Treasury. In accordance with the provisions of the agreement, PGE sold to the State Treasury 3 727 661 shares of PGE EJ1, constituting 70% of the share capital of PGE EJ1 and representing 70% of votes at the Assembly of Partners. The sale price for all shares amounted to PLN 531 362 000, out of which PGE received PLN 371 953 400.

In accordance with the provisions of the agreement, the transfer of ownership of shares took place on the payment date by the State Treasury what was made on March 31, 2021. On that day, PGE ceased to be the parent company of PGE EJ 1 sp z o.o. within the meaning of the Commercial Companies Code.

Following the transaction, PGE EJ1 is no longer a company of the PGE Capital Group.

Sale of shares in PGE EJ1 constitutes the implementation of one of the activities provided in the PGE Group's Strategy until 2030 announced on October 19, 2020.

Compensations from WorleyParsons

On March 26, 2021 roku PGE, KGHM Polska Miedź S.A., TAURON Polska Energia S.A. and Enea S.A. signed with PGE EJ1 an annex to the agreement dated April 15, 2015 regarding WorleyParsons, according to which PGE, KGHM Polska Miedź S.A., TAURON Polska Energia S.A. and Enea S.A. are proportionally responsible for liabilities or are proportionally entitled to claims that may potentially arise as a result of resolution of a dispute with WorleyParsons, up to the level of claims together with accrued interest as at March 26, 2021.

Detailed information are described in note 22.1 to the consolidated financial statements.

LEGAL ASPECTS

The issue of compensation regarding the conversion of shares

Information on the issue of compensation regarding the conversion of shares are described in note 22.4 to the consolidated financial statements.

INFORMATION CONCERNING PROCEEDINGS IN FRONT OF COURT, BODY APPROPRIATE FOR ARBITRATION PROCEEDINGS OR IN FRONT OF PUBLIC ADMINISTRATION AUTHORITIES

Significant proceedings pending in front of courts, competent arbitration authority or public administration authority are described in note 22.4 to the consolidated financial statements.

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

Information on termination by Enea S.A. of agreements for sale of certificates are described in note 22.4 to the consolidated financial statements.

INFORMATION CONCERNING THE GUARANTEES FOR LOANS GRANTED BY THE COMPANY OR A SUBSIDIARY

Within the Group, as at March 31, 2021 PGE S.A. and subsidiaries did not grant guarantees to other entities or to a subsidiary, where a value of guarantees constitutes at least 10% of the Company's equity.

INFORMATION ON ISSUE, REDEMPTION AND REPAYMENT OF DEBT SECURITIES AND OTHER SECURITIES

Information on issue, redemption and repayment of debt securities and other securities is described in p. 4.1 of the foregoing report and in note 1.3 to the consolidated financial statements.

TRANSACTIONS WITH RELATED ENTITIES

Information about transactions with related entities is presented in note 24.2 to the consolidated financial statements.

APPROVAL OF THE ENERGY POLICY OF POLAND UNTIL 2040 ("PEP2040")

On February 2, 2021, the Council of Ministers approved the Energy Policy of Poland until 2040. PEP2040 is a vision for Poland's energy transition strategy, presenting inter alia, a proposed structure of electricity generating units. According to PEP2040, the share of zero-emission units will grow and the share of coal units will decrease. Until the preparation date of this information, the full content of PEP2040 has not yet been published. Based on publicly available information, in the opinion of Company/PGE Group, the assumptions adopted to assess the recoverable amount of generation assets are in line with PEP2040, however, future changes in the electricity market may differ from the adopted assumptions. Possible future differences compared to the adopted assumptions may lead to significant changes in the financial situation and financial results of the PGE Group and will be included in future financial statements.

SUBMITTING OF AN INITIAL NON-BINDING OFFER FOR ACQUISITION OF SHARES IN FORTUM GROUP'S ASSETS BY A CONSORTIUM WITH PARTICIPATION OF PGE

On October 27, 2020, an investment consortium, a part of which is PGE, has submitted an initial, non—binding offer to purchase district heating and cooling businesses in Estonia, Lithuania, Latvia and Poland from Fortum Holding B.V. The participants of the consortium are: PGE, Polskie Górnictwo Naftowe i Gazownictwo S.A., PFR Inwestycje FIZ (Closed-end investment fund) which is managed by Polski Fundusz Rozwoju S.A. (Polish Development Fund) and IFM Investors Pty Ltd.

On November 16, 2020 PGE and Polskie Górnictwo Naftowe i Gazownictwo S.A. (the "Partners"), submitted a revised, initial non-binding offer to acquire assets owned by Fortum Holding B. V.

Under the revised Offer, the Partners are bidding for the district heating business operated by Fortum Holding B.V. exclusively in Poland. PGE further announces that the Partners abandoned their original intention to purchase the Fortum Group's assets operating in Estonia, Lithuania and Latvia, and decided they would not participate in the investment consortium with PFR Inwestycje FIZ and IFM Investors Pty Ltd.

Currently, joint works towards the submission of a binding offer are being continued. The core business of Fortum Holding B.V.'s Polish subsidiary is generation, distribution and sale of heat and the generation of electricity.

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

Current reports of PGE S.A.:

Submitting of an initial non-binding offer for acquisition of shares in Fortum Group's assets

Submitting of an initial non-binding offer for acquisition of shares in Fortum Group's assets - 2

SIGNING OF AN INVESTMENT AGREEMENT WITH ØRSTED REGARDING OFFSHORE WIND PROJECTS

On February 10, 2021, entities from PGE and Ørsted group concluded an agreement, according to which the parties determined their share at 50% in two offshore projects developed until now by PGE: Baltica 2 (with potential capacity of approximately 1.5 GW) and Baltica 3 (with potential capacity of approximately 1 GW), which together form Baltica wind farm.

The Investment Agreement constitutes a legal framework for the establishment of a joint venture dedicated to the development, construction and operation of the Baltica 2 and Baltica 3 offshore wind power farms.

On May 6, 2021, following the fulfilment of the conditions precedent the transaction was finalised. As part of the transaction the Ørsted group subscribed for the shares representing 50% of the share capital of Elektrownia Wiatrowa Baltica – 2 sp. z o.o. ("Baltica 2") and Elektrownia Wiatrowa Baltica – 3 sp. z o.o. ("Baltica 3") – the companies developing two offshore windfarms: Baltica 2 and Baltica 3. Upon the registration of the share capital increase, Ørsted and PGE will become 50/50 partners in the joint ventures.

The total subscription price for 50% of the shares in Baltica 2 and Baltica 3 amounted to the equivalent of approx. PLN 686 million. Upon the fulfilment of certain assumptions, the relevant investors from Ørsted group will be required to provide Baltica 2 and Baltica 3 with additional cash contributions which may amount in total up to PLN 1 024 million.

At the closing of the transaction the entities from both Ørsted and PGE groups entered into a number of documents separately for each Baltica 2 and Baltica 3, including notably:

- the shareholders' agreements regulating, inter alia, the corporate governance of the joint ventures, functioning of integrated project teams, obligations of the parties related to the funding of and providing for other support to the joint ventures, restrictions regarding the transfer of interest on the joint ventures as well as the consequences of any events of default and change of control;
- the development services agreements regulating the provision of development services to the joint ventures by the respective affiliates of both parties;
- the resource provisions agreements based on which both parties will delegate personnel to the joint venture;
- the shareholder loan agreements under which the shareholders will provide debt financing (in addition to equity financing) to the joint ventures;
- the corporate guarantees issued by both PGE and Ørsted Wind Power A/S under which both parties guarantee the commitments of their respective subsidiaries in the development stage of the projects.

Current reports of PGE S.A.:

Signing of an investment agreement with Ørsted regarding offshore wind projects

Closing of the transaction regarding offshore wind projects

DELAY IN COMMISSIONING OF UNIT NO. 7 IN TURÓW POWER PLANT

On February 25, 2021 PGE GiEK, after detailed analysis of the Consortium's proposal for change in the schedule and price of the contract with regard to methodic accuracy of assumptions taken, reasons for delay and planned methods of further management of the project execution, concluded a settlement agreement in front of the mediator that concerns designing and turn-key construction of power unit in Turów power plant, being realized by consortium including companies: Mitsubishi Hitachi Power System GmbH (Consortium leader), Tecnicas Reunidas S.A. and Budimex S.A. The value of the Agreement was increased by approx. PLN 108 million net, i.e. to PLN 3 755 million net. The commissioning date of the unit was postponed by 6 months i.e. until April 30, 2021.

On April 30, 2021 the Management Board of PGE had taken about the another postponement of the completion of the investment, resulting in changing the commissioning date of the unit no. 7, assumed for April 30, 2021 to May 14, 2021. The agreement for the construction of the new unit in Turów power plant, contains - as a standard course of action - contractual penalty clause in specified cases. Parties to the agreement will analyze precise reasons for the delay also for possible penalty clauses.

Current reports of PGE S.A.:

Signing of the settlement agreement regarding the unit in Turów

Delay of the commissioning of the unit no. 7 in Turów power plant

CZECHIA'S COMPLAINT AGAINST POLAND REGARDING PROLONGATION OF MINING CONCESSION FOR KWB TURÓW MINE

PGE GiEK S.A.'s concession for the mining of lignite and accompanying minerals at the "Turów" lignite deposit was prolonged by 6 years through a decision of the Minister of Climate dated March 20, 2020.

On September 30, 2020 the Czech Republic lodged a letter with the European Commission pursuant to art. 259 of the Treaty on the Functioning of the European Union initiating a proceeding against Poland regarding the continued functioning of the energy complex in Turów. The charges against Poland concerned the issue of administrative decisions permitting further extractive activities at the KWB Turów mine. The actions taken by Polish authorities allegedly constituted a breach of EU law, including the water framework directive, directive on the assessment of the effects of certain plans and programmes on the environment, directive on public access to environmental information and directive on the assessment of the effects of certain public and private projects on the environment.

On December 17, 2020 the European Commission issued a reasoned opinion in which it agreed with some of the infringements alleged by Czechia, at the same time indicating that the prolongation of KWB Turów's functioning did not infringe on the provisions of the water framework directive. The European Commission also emphasised that some of the other infringements alleged by Czechia were unfounded.

On February 22, 2021 the Czech government decided to lodge a complaint against Poland. The complaint was referred to the Court of Justice of the European Union on February 26, 2021 and entered into the register under the signature C-121/21. A summary of the complaint and key arguments were published in the EU Official Journal on April 19, 2021. The Member States are parties to the proceedings, which excludes the possibility of participation of natural and legal persons, even if the case concerns their activities directly.

On May 21, 2021 the Vice-President of the Court of Justice of the European Union issued an order on an interim measure as follows: "Poland must immediately cease lignite extraction activities in the Turów mine until a judgment of the Court brings case C-121/21 to an end." An interim measure does not rule on the merits of the case. As grounds for adopting the interim measure, the Court asserted that the continued extraction of lignite at KWB Turów will lead to deterioration in the level of groundwater in Czech territory. At the same time, this circumstance is yet to be proven by Czechia.

The order on the interim measure cannot be appealed, although pursuant to art. 163 of the Rules of Procedure of the Court of Justice of the European Union: "On application by a party, the order may at any time be varied or cancelled on account of a change in circumstances".

The member state against which the interim measure is applied determines the way in which the interim measure is performed.

The operation of the Turów lignite mine is conducted in compliance with the provisions of national law and European environmental standards, on the ground of legally obtained licence. In PGE's opinion, currently there are no grounds for the suspension of the operation of the Turów power complex.

FULFILMENT OF CONDITIONS TO CONLUDE THE AGREEMENT FOR CONSTRUCTION OF GAS AND STEAM CHP PLANT IN SIECHNICE (NEW CZECHNICA CHP PLANT)

On March 1, 2021 the Management Board of KOGENERACJA S.A. decided on:

- conditional approval of selection of the offer by consortium consisting of Polimex Mostostal S.A. (Consortium Leader) and Polimex Energetyka sp. z o.o. (Consortium Partner) submitted in the procurement procedure titled „Turn-key construction of CCGT combined heat and power plant for Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. in Siechnice",
- giving consent for conditional signing of the agreement with the above mentioned consortium.

On March 5, 2021 the Supervisory Board of the company adopted resolution on giving consent to pursue the above investment, in connection with which new fixed assets will be created with a value exceeding PLN 10 000 000, provided that the Energy Regulatory Office (ERO) President grants a co-generation individual premium to the Company for unit New Czechnica CHP plant, on the ground of the Act of December 14, 2018 on promotion of electricity from highly-efficient co-generation.

On March 12, 2021 the company received a co-generation individual premium for unit New Czechnica CHP plant, by the decision by the ERO President.

On April 1, 2021, the Extraordinary General Meeting of the company adopted resolution on giving consent to acquisition of non-current assets, within the meaning of the Accounting Act of September 29, 1994, exceeding PLN 10 000 000 through giving consent

to pursue agreement for construction of CCGT combined heat and power plant in Siechnice, on the ground of agreements with a syndicate of: Polimex Mostostal S.A. and Polimex Energetyka sp. z o.o. with a value of PLN 1.2 billion net and the corresponding LTSA with a value of PLN 118 million net.

Thus, on April 1, 2021 the last condition was fulfilled with regard to the acceptance of the selection of the consortium and the agreement shall be signed to pursue New Czechnica CHP plant.

Current reports of PGE S.A.:

Conditional approval of offer for construction of New Czechnica CHP plant

Fulfilment of conditions necessary to sign a contract for construction of gas New Czechnica CHP plant

GRANTING OF CONTRACTS FOR DIFFERENCE FOR PGE'S OFFSHORE WIND FARMS

On April 7, 2021, the ERO President awarded right to cover negative balance of electricity (the "Contract for Difference", "CfD") to the Baltica 3 and Baltica 2 offshore wind farms with a total capacity of up to 2.5 GW. The right to the CfD guarantees a price at a maximum of PLN 319.60/MWh in accordance with the Decree of the Minister of Climate and Environment of Poland and the Act of December 17, 2020 on promoting electricity generation in offshore wind farms. The CfD award is subject to final approval from the European Commission.

RECOMMENDATION NOT TO PAY DIVIDEND FOR 2020

On April 27, 2021, the Management Board of PGE decided on the recommendation not to pay dividend for 2020 to the PGE's shareholders. Decision was taken in accordance with the dividend policy, particularly following the analysis of the Company's indebtedness in the context of the implementation of the investment program, in line with the assumptions of the PGE Group's Strategy until 2030.

PROLONGATION OF COAL MINING CONCESSION FOR KWB TURÓW TO 2044

On April 28, 2021 the Minister of Climate and Environment prolonged the existing concession for the mining of lignite and associated minerals at the "Turów" deposit to 2044.

According to the Minister of Climate and Environment, the continued mining of lignite and accompanying minerals at the "Turów" deposit is compliant with the rational deposit management concept therefore the issue of the decision making it possible for the mining facility to continue operating was justified.

SHUT-DOWN OF 10 UNITS AT BEŁCHATÓW POWER PLANT

On May 17, 2021, 10 units of Bełchatów power plant with a total capacity of approx. 3 900 MW were shut down as a result of reasons at the side of PSE S.A. The causes of the event are investigated. All units were put back to operation on May 18, 2021.

PLANNED TRANSFER OF COAL ASSETS TO THE NATIONAL ENERGY SECURITY AGENCY

On May 21, 2021, the following project was published in the list of legislative and program works of the Council of Ministers: "Transformation of the electricity sector in Poland. Separation of generation coal assets from companies with State Treasury shareholding ". According to the draft project, the asset spin-off process will be pursued through acquisition by the State Treasury from PGE S.A., ENEA S.A., TAURON Polska Energia S.A. all assets related to the generation of electricity in hard coal-fired and lignite-fired power plants, including service companies providing services to them. Due to the inseparability of lignite-fired energy complexes, lignite mines will also be among the acquired assets. Assets related to hard coal mining will not be transferred to the entity dealing with generation of electricity in coal units. CHP plants will not be subject to separation, as they are planned to be modernized towards low and zero-emission sources. Then, the State Treasury will integrate the acquired assets within one entity. The integrator is to be PGE GiEK S.A. The integration will take place through the merger of the companies acquired by the State Treasury or their contribution for a capital increase to PGE GiEK S.A. PGE GiEK will be operating under the name of the National Energy Security Agency (Polish "NABE"). NABE will be a self-sufficient entity that, as part of its operations, will carry out maintenance and modernisation investments necessary to maintain the efficiency of the coal-fired units in operation. Transaction

is to take place following appropriate business and economic analyses, including due diligence and valuations of selected assets. The method of settlement of the transaction, due to the indebtedness of the generation companies towards parent entities in their capital groups, will be subject to detailed arrangements between the State Treasury and the current owners.

According to the assumptions of the project, after the separation of coal generation assets, energy companies will focus on the implementation of low and zero-emission investments, and NABE, operating in the form of a company with 100% State Treasury shareholding, will be the owner of coal-based generation assets. The role of NABE will be to ensure the necessary power balance in the energy system, limiting itself to the necessary replacement investments and gradual decommissioning of coal-fired units along with the progressive capacity increase from low and zero-emission sources, ensuring the country's energy security. The planned date of adoption of the draft by the Council of Ministers is the second quarter of 2021.

Currently, the assumptions of the program have not been presented, in particular regarding the date of transfer of the coal assets, the valuation of the assets and the method of settlement of debt and other liabilities related to the assets. Therefore, it is currently not possible to determine the impact of the spin-off on the future financial statements of PGE and the PGE Capital Group.

4. Other elements of the report

4.1. Significant changes in organisation of the Capital Group

Changes which occurred in the PGE Capital Group's structure in the period from January 1, 2021 until the publication date of this report, are presented in note 1.3 to consolidated financial statements and described below.

ESTABLISHMENT OF COMPANIES

Segment	Entity	Date of establishment/ registration in the National Court Register	Comment
Renewables	Elektrownia Wiatrowa Baltica-6 sp. z o.o.	February 25, 2021	On December 17, 2020 PGE S.A. set up an one-person limited liability company with headquarters in Warsaw. Current name of the company is: Elektrownia Wiatrowa Baltica-6 sp. z o.o. The share capital the company is PLN 1 250 000.
Other Operations	Rybnik 2050 sp. z o.o. in organisation	February 1, 2021/ Not yet registered	On February 1, 2021 PGE S.A. set up an one-person limited liability company with headquarters in Rybnik. Current name of the company is: Rybnik 2050 sp. z o.o. in organisation. The share capital the company is PLN 50 000.

ACQUSITION OR DISPOSAL OF SHARES BY THE COMPANIES

Segment	Shares of the company	Date of transaction/ registration in the National Court Register	Comment
Other Operations	PGE EJ 1 sp. z o.o. („PGE EJ 1") – sale by PGE S.A. of all shares of PGE EJ 1 (the share sale agreement)	March 31, 2021	On March 26, 2021 PGE S.A., Enea S.A., TAURON Polska Energia S.A. and KGHM Polska Miedź S.A. (as the sellers) and the State Treasury (as the buyer) signed an agreement for sale of all possessed shares in PGE EJ 1, i.e. 5 325 230 shares of this company, with a total nominal value of PLN 750 857 430, representing 100% of the share capital. Transfer of ownership of shares to the State Treasury took place on March 31, 2021. PGE S.A. held 3 727 661 shares representing 70% of the share capital of PGE EJ 1. As a result of the share purchase agreement, PGE ceased to be the parent company of PGE EJ 1 sp z o.o. within the meaning of the Commercial Companies Code, thus PGE EJ 1 is no longer part of PGE Group.
District Heating	Przedsiębiorstwo Energetyki Cieplnej S.A. with seat in Bogatynia („PEC Bogatynia") – sale by PGE GiEK S.A. of all shares of PEC Bogatynia (the share sale agreement)	April 15, 2021/ May 5, 2021 (entry in the register of shareholders)	On April 15, 2021 PGE GiEK as a seller and PGE Energia Ciepła S.A. as a buyer concluded an agreement for the sale of all held by PGE GiEK S.A. inscribed shares in PEC Bogatynia, i.e. 101 036 shares, with a total nominal value of PLN 10 103 600, representing 34.93% of the share capital. Transfer of ownership of shares to PGE Energia Ciepła S.A. took place on May 5, 2021 (upon entry in the register of PEC Bogatynia shareholders indicating PGE Energia Ciepła S.A. as the buyer of these shares, under the above-mentioned share sale agreement).
District Heating	„Przedsiębiorstwo Energetyki Cieplnej" sp. z o.o. with seat in Bełchatów („PEC Bełchatów") – sale	April 15, 2021	On April 15, 2021 PGE GiEK as a seller and PGE Energia Ciepła S.A. as a buyer concluded an agreement for the sale of all held by PGE GiEK S.A. inscribed shares in PEC Bełchatów, i.e. 14 411 shares, with a total nominal value of PLN 7 205 500, representing 17.05% of the share capital. Transfer of ownership of shares to PGE Energia Ciepła S.A. took place on April 15, 2021.

Segment	Shares of the company	Date of transaction/ registration in the National Court Register	Comment
	by PGE GiEK S.A. of all shares of PEC Bełchatów (the share sale agreement)		

INCREASE OF SHARE CAPITAL OF SUBSIDIARIES

Segment	Entity	Date of registration in the National Court Register	Comment
Renewables	Elektrownia Wiatrowa Baltica-1 sp. z o.o.	January 25, 2021	On October 28, 2020 the Extraordinary Assembly of Partners of the company adopted resolution on a share capital increase from PLN 20 700 000 to PLN 22 545 000,i.e. by PLN 1 845 000. The share capital increase was taken up and paid by PGE S.A. in cash. PGE S.A. holds 100% in the share capital.
Renewables	PGE Baltica 5 sp. z o.o.	March 22, 2021	On February 11, 2021 the Extraordinary Assembly of Partners of the company adopted resolution on a share capital increase from PLN 2 778 000 to PLN 46 768 000, i.e. by PLN 43 990 000. The share capital increase was taken up and paid by PGE S.A. in cash. PGE S.A. holds 100% in the share capital.
Renewables	Elektrownia Wiatrowa Baltica-3 sp. z o.o.	March 15, 2021	On February 11, 2021 the Extraordinary Assembly of Partners of the company adopted resolution on a share capital increase from PLN 83 900 000 to PLN 127 422 000 i.e. by PLN 43 522 000. The share capital increase was taken up and paid by PGE Baltica 5 sp. z o.o. in cash. PGE Baltica 5 sp. z o.o. holds 100% in the share capital.
Renewables	Elektrownia Wiatrowa Baltica-1 sp. z o.o.	March 11, 2021	On February 18, 2021 the Extraordinary Assembly of Partners of the company adopted resolution on a share capital increase from PLN 22 545 000 to PLN 32 545 000 i.e. by PLN 10 000 000. The share capital increase was taken up and paid by PGE S.A. in cash. PGE S.A. holds 100% in the share capital.
Renewables	PGE Baltica 6 sp. z o.o.	March 15, 2021	On February 18, 2021 the Extraordinary Assembly of Partners of the company adopted resolution on a share capital increase from PLN 1 344 000 to PLN 36 516 000 i.e. by PLN 35 172 000. The share capital increase was taken up and paid by PGE S.A. in cash. PGE S.A. holds 100% in the share capital.
Renewables	Elektrownia Wiatrowa Baltica-2 sp. z o.o.	April 28, 2021	On February 18, 2021 the Extraordinary Assembly of Partners of the company adopted resolution on a share capital increase from PLN 65 200 000 to PLN 99 947 500 i.e. by PLN 34 747 500. The share capital increase was taken up and paid by PGE Baltica 6 sp. z o.o. in cash. PGE Baltica 6 sp. z o.o. holds 100% in the share capital.
Renewables	Elektrownia Wiatrowa Baltica-3 sp. z o.o.	Not yet registered	On May 6, 2021 the Extraordinary Assembly of Partners of Elektrownia Wiatrowa Baltica-3 sp. z o.o. adopted resolution on a share capital increase from PLN 127 422 000 to PLN 254 844 000, i.e. by PLN 127 422 000, through issue of new 254 844 shares of the company with a nominal value of PLN 500 each. In addition, the Extraordinary Assembly of Partners of the company decided to exclude the pre-emptive right of the former sole partner of the company, i.e. PGE Baltica 5 sp. z o.o., to acquire all newly created shares in the increased share capital and decided that all newly created shares of the company would be acquired by the new partner, i.e. Ørsted Baltica 3 Holding sp. z o.o. with seat in Warsaw. In connection with the above resolution, the increase in the company's share capital was covered by a cash contribution by the new partner of the company: EUR 19 727 173 , DKK 158 934 766 and PLN 200 721 000, with part of the contribution in amount of PLN 127 422 allocated to cover the nominal value of the new shares, and the remaining part of the cash contribution constituting the surplus over the nominal value of the new shares in the amount of PLN 73 299 000, EUR 19 727 173 and DKK 158 934 766 was allocated to the company's reserve capital. As a result of increasing the company's share capital and taking up its new shares, PGE Baltica 5 sp.

			z o.o. and Ørsted Baltica 3 Holding sp. z o.o. will have the same number of shares in the company, each representing 50% of its share capital, and the company will become a jointly controlled entity.
Renewables	Elektrownia Wiatrowa Baltica-2 sp. z o.o.	Not yet registered	On May 6, 2021 the Extraordinary Assembly of Partners of Elektrownia Wiatrowa Baltica-2 sp. z o.o. adopted resolution on a share capital increase from PLN 99 947 500 to PLN 199 895 000, i.e. by PLN 99 947 500, through issue of new 199 895 shares of the company with a nominal value of PLN 500 each. In addition, the Extraordinary Assembly of Partners of the company decided to exclude the pre-emptive right of the former sole partner of the company, i.e. PGE Baltica 6 sp. z o.o., to acquire all newly created shares in the increased share capital and decided that all newly created shares of the company would be acquired by the new partner, i.e. Ørsted Baltica 2 Holding sp. z o.o. with seat in Warsaw. In connection with the above resolution, the increase in the company's share capital was covered by a cash contribution by the new partner of the company: EUR 15 499 922 , DKK 124 877 316 and PLN 156 913 750, with part of the contribution in amount of PLN 99 947 500 allocated to cover the nominal value of the new shares, and the remaining part of the cash contribution constituting the surplus over the nominal value of the new shares in the amount of PLN 56 966 250, EUR 15 499 922 and DKK 124 877 316 was allocated to the company's reserve capital. As a result of increasing the company's share capital and taking up its new shares, PGE Baltica 6 sp. z o.o. and Ørsted Baltica 2 Holding sp. z o.o. will have the same number of shares in the company, each representing 50% of its share capital, and the company will become a jointly controlled entity.

MERGERS

Segment	Acquiring company/acquired company	Date of transaction/ registration in the National Court Register	Comment
Renewables	PGE Energia Odnawialna S.A./ ECO – POWER sp. z o.o.	March 31, 2021/ April 30, 2021	On March 31, 2021 the Extraordinary General Meeting of PGE Energia Odnawialna S.A. (Acquiring company) and the Extraordinary Assembly of Partners ECO - POWER sp. z o.o. (acquired company) adopted resolutions on the merger of the companies in mode of art. 492 § 1 p. 1 of the Polish Commercial Companies Code (merger through acquisition), through transferring of all assets of the acquired company to the acquiring company without issue of new shares in exchange for the shares in the share capital of the acquired company pursuant to art. 516 of the Polish Commercial Companies Code and dissolution of the acquired company without its liquidation. PGE Energia Odnawialna S.A. was the sole shareholder of ECO – POWER sp. z o.o.

DE-MERGERS

Segment	Spun off company /acquiring company	Date of transaction/ registration in the National Court Register	Comment
District Heating	PGE GiEK S.A./PGE Energia Ciepła S.A.	April 15, 2021/ Not yet registered	On April 15, 2021 the Extraordinary General Meetings of PGE GiEK S.A. and PGE Energia Ciepła S.A. adopted resolutions to divide PGE GiEK S.A. (divided company) through partial division pursuant to art. 529 § 1 point 4 of the Polish Commercial Companies Code by transferring to PGE Energia Ciepła S.A. (acquiring company) certain assets of the divided company in the

	form of a part of a branch of this company, i.e. branch ZEDO, in the scope covering the Szczecin CHP plant, Pomorzany CHP plant and the district heating system in Gryfino, constituting an organised part of enterprise, functionally related to the generation of electricity as well as electricity and heat in cogeneration and the distribution of heat. The transfer of the organised part of enterprise to the acquiring company will be performed through a reduction in the divided company's supplementary capital and an increase in the acquiring company's share capital by PLN 120 347 940 to PLN 2 501 281 240 as a result of the issue of 12 034 794 registered shares of the acquiring company, with a nominal value of PLN 10 each. As the sole shareholder of the divided company, PGE acquired all of the newly-issued shares in the increased share capital of the acquiring company.

TRANSFORMATION OF COMPANIES

Segment	Company in transformation/transformed company	Date of transaction/ registration in the National Court Register	Comment
Other Operations	PGE Ekoserwis sp. z o.o. *after transformation:* PGE Ekoserwis S.A.	December 2, 2020/ February, 5 2021	On December 2, 2020 the Extraordinary Assembly of Partners of PGE Ekoserwis sp. z o.o. adopted resolution on transformation of the company into a joint stock company under name PGE Ekoserwis S.A. PGE Ekoserwis S.A. was established on February 5, 2021 as a result of an entry into the register of entrepreneurs of the National Court Register. Currently PGE S.A. holds 222 850 shares, constituting 95.08% in the share capital of PGE Ekoserwis S.A.
Other Operations	EPORE sp. z o.o. *after transformation:* EPORE S.A.	December 21, 2020/ January 13, 2021	On December 21, 2020 the Extraordinary Assembly of Partners of EPORE sp. z o.o. adopted resolution on transformation of the company into a joint stock company under name EPORE S.A. EPORE S.A. was established on January 13, 2021 as a result of an entry into the register of entrepreneurs of the National Court Register. PGE GiEK S.A. is the sole shareholder of the company, holding 100% in the share capital of EPORE S.A.

LIQUIDATION OF COMPANIES

Segment	Company in liquidation	Date of transaction/ registration in the National Court Register	Comment
Supply	PGE Trading GmbH with seat in Berlin ("PGE Trading")	March 1, 2021/ PGE Trading has not been removed from the commercial register kept by the District Court in Berlin-Charlottenburg	On March 1, 2021 the Extraordinary Assembly of Partners of PGE Trading, in which PGE holds 100% of the share capital, adopted resolution on dissolution of PGE Trading and appointment of a liquidator to carry out liquidation activities of PGE Trading.

4.2. Publication of financial forecasts

PGE S.A. did not publish financial forecasts.

4.3. Information about shares and other securities

SHAREHOLDERS WITH A SIGNIFICANT STAKE

According to the best knowledge, on the ground of the letter from the Ministry of the State Treasury of April 27, 2016, the State Treasury holds 1 072 984 098 ordinary shares of the Company, representing 57.39% of the Company's share capital and entitling to 1 072 984 098 votes on the General Meeting of the Company, constituting 57.39% of total votes.

Table: Shareholders holding directly or indirectly by subsidiaries at least 5% of the total votes at the General Meeting of PGE S.A.

Shareholder	Number of shares	Number of votes	% in total votes on General Meeting
State Treasury	1 072 984 098	1 072 984 098	57.39%
Others	796 776 731	796 776 731	42.61%
Total	**1 869 760 829**	**1 869 760 829**	**100.00%**

Shares of the parent company owned by the members of management and supervisory authorities

Table: Shares of PGE S.A. held and managed directly by the managers of the Company.

Shareholder	Position	Number of shares at March 31, 2021	Nominal value of shares at March 31, 2021
			(PLN)
Management Board of PGE S.A.		**300**	**3 075**
Paweł Strączyński*	Vice-President of the Management Board	300	3 075

**Mr Paweł Strączyński submitted his resignation from the position of the Vice-President of the Management Board as of March 31, 2021.*

5. Statement on the reliable preparation of the financial statements

To the best knowledge of the Management Board of PGE S.A., the quarterly consolidated financial statements and comparative data, were prepared in accordance with the governing accounting principles, presents a fair, true and reliable view of the material and financial situation of PGE Capital Group and its financial result.

The report of the Management Board on the activities of PGE Capital Group presents a true view of the development, achievements and situation of the Capital Group.

6. Approval of the Management Board's Report

The foregoing Management Board's Report on activities of PGE Capital Group was approved for publication by the Management Board of the parent company on May 25, 2021.

Warsaw, May 25, 2021

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

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

Glossary

AKPiA	Control, measurement and automation apparatus area
Ancillary control services (ACS)	services provided to the transmission system operator, which are indispensable for the proper functioning of the National Power System and ensure the keeping of required reliability and quality standards.
Achievable capacity	the maximum sustained capacity of a generating unit or generator, maintained continuously by a thermal generator for at least 15 hours or by a hydroelectric generator for at least five hours, at standardized operating conditions, as confirmed by tests.
ARA	USD hard coal price index in EU. Loco in harbours Amsterdam-Rotterdam-Antwerp
Balancing market	a technical platform for balancing electricity supply and demand on the market. The differences between the planned (announced supply schedules) and the actually delivered/off-taken volumes of electricity are settled here. The purpose of the balancing market is to balance transactions concluded between individual market participants and actual electricity demand. The participants of the balancing market can be the generators, customers for electricity understood as entities connected to a network located in the balancing market area (including off-takers and network customers), trading companies, electricity exchanges and the TSO as the balancing company.
Base, baseload	standard product on the electricity market: a constant hourly power supply per day in a given period, for example week, month, quarter or year.
BAT	Best Available Technology
Best Practices	Document „Best Practice for GPW Listed Companies 2016" adopted by the resolution of the GPW Supervisory Board of October 13, 2015 and effective from January 1, 2016.
Biomass	solid or liquid substances of plant or animal origin, subject to biodegradation, obtained from agricultural or forestry products, waste and remains or industries processing their products as well as certain other biodegradable waste in particular agricultural raw materials.
Black energy	popular name for energy generated as a result of combustion of black coal or lignite.
CCGT	Combined Cycle Gas Turbine
Circular economy	system that minimises the consumption of resources and the level of waste as well as emissions and energy losses by creating a closed loop of processes in which waste from one process is used as resources in other processes so as to maximally reduce the quantity of production waste
Co-combustion	the generation of electricity or heat based on a process of combined, simultaneous combustion in one device of biomass or biogas together with other fuels; part of the energy thus generated can be deemed to be energy generated with the use of renewable sources.
Co-generation	the simultaneous generation of heat and electricity or mechanical energy in the course of one and the same technological process.
Constrained generation	the generation of electricity to ensure the quality and reliability of the national power system; this applies to generating units in which generation must continue due to the technical limitations of the operation of the power system and the necessity of ensuring its adequate reliability.
CVC fund	Corporate Venture Capital; in the CVC model, portfolio companies, aside from financial support, receive the opportunity to verify their ideas in a corporate setting
Distribution	transport of energy through distribution grid of high (110 kV), medium (15kV) and low (400V) voltage in order to supply the customers.
Distribution System Operator (DSO)	a power company engaging in the distribution of gaseous fuels or electricity, responsible for traffic in the gas or electricity distribution systems, current and long-term security of operation of the system, the operation, maintenance, repairs and indispensable expansion of the distribution network, including connections to other gas or power systems.
Energy cluster	civil-law arrangement that may include natural persons, legal entities, scientific units, research institutes or local government units, concerning the generation, distribution or trade in energy and energy demand balancing, with this energy being from renewable sources or other sources or fuels, within a distribution grid with nominal voltage below 110 kV, within the operational area of the given cluster, not exceeding the area of one district (powiat) in the meaning of the act on district authorities) or 5 municipalities (gmina) in the meaning of the act on municipal authorities; an energy cluster is represented by a coordinator, which is a cooperative, association, foundation appointed for this purpose or any member of the energy cluster indicated in the civil-law arrangement
ERO	Energy Regulatory Office (pol. URE).
EUA	European Union Allowances: transferable CO_2 emission allowances; one EUA allows an operator to release one tonne of CO_2.

EU ETS	European Union Greenhouse Gas Emission Trading Scheme) EU emission trading scheme. Its operating rules are set out in the ETS Directive, amended by the Directive 2009/29/EC of the European Parliament and of the Council of April 23, 2009 (OJ EU L. of 2009, No. 140, p. 63—87).
EV	Electric vehicle
FIT/FIP	Feed-in-Tariff (FIT) and Feed-in-Premium (FIP): system of subsidies to the market price of electricity performed by Zarządca Rozliczeń S.A.
Generating unit	a technically and commercially defined set of equipment belonging to a power company and used to generate electricity or heat and to transmit power.
GJ	Gigajoule, a unit of work/heat in the SI system, 1 GJ = 1000/3.6 kWh = approximately 278 kWh.
GPZ	main power supply point, a type of transformer station used for the processing or distribution of electricity or solely for the distribution of electricity.
Green certificate	popular name for energy generated from renewable energy sources.
GW	gigawatt, a unit of capacity in the SI system, 1 GW = 10^9 W.
GWe	one gigawatt of electric capacity.
GWt	one gigawatt of heat capacity.
HCl	hydrogen chloride.
Hg	mercury.
HICP	Harmonised Index of Consumer Prices
High Voltage Network (HV)	a network with a nominal voltage of 110 kV.
IED	Industrial Emissions Directive
IGCC	Integrated Gasification Combined Cycle.
Installed capacity	the formal value of active power recorded in the design documentation of a generating system as being the maximum achievable capacity of that system, confirmed by the acceptance protocols of that system (a historical value, it does not change over time.
IRiESP	the Transmission Network Operation and Maintenance Manual required to be prepared by a transmission system operator pursuant to the Energy Law; instructions prepared for power networks that specify in detail the terms and conditions of using these networks by system users as well as terms and conditions for traffic handling, operation and planning the development of these networks; sections on transmission system balancing and system limitation management, including information on comments received from system users and their consideration, are submitted to the ERO President for approval by way of a decision.
IRZ	Cold Intervention Reserve Service – service consisting of maintaining power units ready for energy production. Energy is produced on request of PSE S.A.
KRI	Key Risk Indicator
KSE	the National Power System, a set of equipment for the distribution, transmission and generation of electricity, forming a system to allow the supply of electricity in the territory of Poland.
KSP	the National Transmission System, a set of equipment for the transmission of electricity in the territory of Poland.
kV	kilo volt, an SI unit of electric potential difference, current and electromotive force; 1kV= 103 V.
kWh	kilowatt-hour, a unit of electric energy in the SI system defined as the volume of electricity used by the 1 kW equipment over one hour. 1 kWh = 3,600,000 J = 3.6 MJ.
kWp	a power unit dedicated to determining the power of photovoltaic panels, means the amount of electricity in the peak of production.
Low Voltage Network (LV)	a network with a nominal voltage not exceeding 1 kV.
LTC	long-term contracts on the purchase of capacity and electricity entered into between Polskie Sieci Elektroenergetyczne S.A. and electricity generators in the years 1994-2001.
Medium-voltage network (MV)	an energy network with a nominal voltage higher than 1 kV but lower than 110 kV.
MEV	Minimum Energy Volumes.
MSR	Market Stability Reserve (relating to CO_2)
MW	a unit of capacity in the SI system, 1 MW = 10^6 W.
MWe	one megawatt of electric power.

MWt	one megawatt of heat power.
NAP	National emissions Allocation Plan, prepared separately for the national emission trading system and for the EU emission trading system by the National Administrator of the Emission Trading System.
NAP II	National CO_2 emissions Allocation Plan for the years 2008-2012 prepared for the EU emission trading system adopted by the Ordinance of the Council of Ministers of July 1, 2008 (Dz. U. of 2008, No. 202, item 1248).
NH_3	ammonia
Nm^3	normal cubic meter; a unit of volume from outside the SI system signifying the quantity of dry gas in 1 m3 of space at a pressure of 101.325 Pa and a temperature of 0°C.
NO_x	nitrogen oxides.
N:W ratio	Ration of volume of overburden removed in m^3 to the mass of extracted coal in tons
OTF	Organised Trading Facilities
Operational Capacity Reserve (ORM)	ORM constitutes of generation capacities of active Production Schedular Units (JGWa) in operation or layover, representing excess capacity over electricity demand available to the TSO under the Energy Sale Agreements and on the Balancing Market in unforced generation
Peak, peakload	a standard product on the electricity market; a constant power supply from Monday to Friday, each hour between 7:00 a.m. and 10:00 p.m. (15-hour standard for the Polish market) or between 8:00 a.m. and 8:00 p.m. (12-hour standard for the German market) in a given period, for example week, month, quarter or year.
Peak power pumped storage plants	special type of hydro-power plant allowing for electricity storage. It uses the upper reservoir, to which water is pumped from the lower reservoir using electricity (usually excessive in system). The pumped storage facilities provide ancillary control services for the national power system. In periods of increased demand for electricity, water from the upper reservoir is released through the turbine. This way, electricity is produced.
PJ	Petajoule, a unit of work/heat in the SI system, 1 PJ = approx. 278 GWh
Property rights	negotiable exchange-traded rights under green and co-generation certificates
Prosumer	end customer who purchases electricity under a comprehensive agreement and generates electricity only from renewable sources at a micro-installations for own purposes, unrelated to economic activities
PSCMI1	Polish Steam Coal Market Index 1 - average level of prices of coal dust sold to industrial-scale power plants in Poland
RAB	Regulatory Asset Base.
Red certificate	a certificate confirming generation of electricity in co-generation with heat.
Red energy	popular name for electricity co-generated with heat.
Regulator	the President of ERO, fulfilling the tasks assigned to him in the energy law. The regulator is responsible for, among others, giving out licenses for energy companies, approval of tariffs for energy companies, appointing Transmission System Operators and Distribution System Operators.
Renewable Energy Source (RES)	a source of generation using wind power, solar radiation, geothermal energy, waves, sea currents and tides, flow of rivers and energy obtained from biomass, landfill biogas as well as biogas generated in sewage collection or treatment processes or the disintegration of stored plant or animal remains.
RIG	Readiness Interventional Reserve - the power plant's readiness to provide the active power generation service or its consumption at the request of PSE.
SAIDI	System Average Interruption Duration Index - index of average system interruption time (long, very long and disastrous), expressed in minutes per customer per year, which is the sum of the interruption duration multiplied by the number of consumers exposed to the effects of this interruption during the year, divided by the total number of off-takers. SAIDI does not include interruptions lasting less than three minutes and is determined separately for planned and unplanned interruptions. It applies to breakdowns in the low (LV), medium (MV) and high voltage (HV), wherein SAIDI in quality tariff does not include interruptions on low voltage.
SAIFI	System Average Interruption Frequency Index - index of average system amount of interruptions (long, very long and disastrous), determined as number of off-takers exposed to the effects of all such interruptions during the year divided by the total number of off-takers. SAIFI does not include interruptions lasting less than three minutes and is determined separately for planned and unplanned interruptions. It applies to breakdowns in the low (LV), medium (MV) and high voltage (HV), wherein SAIFI in quality tariff does not include interruptions on low voltage .
SCR	Selective catalytic reduction
SNCR	Selective non-catalytic reduction

Start-up	early-stage company established in order to build new products or services and characterised by a high level of uncertainty. The most common features of start-ups are: short operational history (up to 10 years), innovativeness, scalability, higher risk than in the case of traditional businesses but also potential higher returns on investment
Tariff	the list of prices and rates and terms of application of the same, devised by an energy enterprise and introduced as binding on the customers specified therein in the manner defined by an act of parliament.
Tariff group	a group of customers off-taking electricity or heat or using services related to electricity or heat supply to whom a single set of prices or charges and terms are applied.
TGE	Towarowa Giełda Energii S.A. (Polish Power Exchange), a commodity exchange on which trading can take place in electricity, liquid or gas fuels, extraction gas, emission allowances and property rights whose price depends directly or indirectly on electric energy, liquid or gas fuels and emission allowances, admitted to commodity exchange trading.
TPA, TPA rule	Third Party Access, the owner or operator of the network infrastructure to third parties in order to supply goods/services to third party customers.
Transmission of electricity	transport of electricity through high voltage (220 and 400 kV) transmission network from generators to distributors.
Transmission System Operator (TSO)	a power company engaging in the transmission of gaseous fuels or electric energy, responsible for traffic in a gas or power transmission system, current and long-term security of operation of that system, the operation, maintenance, repair and indispensable expansion of the transmission system, including connections with other gas or power systems. In Poland, for the period from July 2, 2014 till December 31, 2030 Polskie Sieci Elektroenergetyczne S.A. was chosen as a TSO in the field of electricity transmission.
TWh	terawatt hour, a multiple unit for measuring of electricity unit in the system SI. 1 TWh is 10^9 kWh.
Ultra-high-voltage network (UHV)	an energy network with a voltage equal to 220 kV or higher.
V (volt)	electrical potential unit, electric voltage and electromotive force in the International System of Units (SI), 1 V= 1J/1C = (1 kg x m^2) / (A x s^3).
W (watt)	a unit of power in the International Systems of Units (SI), 1 W = 1J/1s = 1 kg x m^2 x s^{-3}.
Yellow certificate	a certificate confirming generation of energy in gas-fired power plants and CCGT power plants.
Yellow energy	popular name for energy generated in gas-fired power plants and CCGT power plants.