PGE Polska Grupa Energetyczna S.A.
Quarterly financial report
for the 3-month period

ended March 31, 2020
in accordance with IFRS EU (in PLN million)

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended March 31, 2020 *(unaudited)*	Period ended March 31, 2019 *(unaudited) restated data**
STATEMENT OF PROFIT OR LOSS			
SALES REVENUES	*6.1*	**12,591**	**9,561**
Cost of goods sold	*6.2*	(11,282)	(8,105)
GROSS PROFIT ON SALES		**1,309**	**1,456**
Distribution and selling expenses	*6.2*	(348)	(291)
General and administrative expenses	*6.2*	(272)	(252)
Net other operating income/expenses	*6.3*	84	(54)
OPERATING PROFIT		**773**	**859**
Net finance costs, including:	*6.4*	(157)	(116)
Interest income calculated using the effective interest rate method		*11*	*9*
Share of profit / (loss) of entities accounted for using the equity method	*6.5*	(7)	10
GROSS PROFIT		**609**	**753**
Income tax	*8*	(124)	(141)
NET PROFIT FOR THE REPORTING PERIOD		**485**	**612**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss in the future:			
Valuation of debt financial instruments	*17.2*	(11)	4
Valuation of hedging instruments	*17.2*	185	(54)
Foreign exchange differences from translation of foreign entities		5	-
Deferred tax	*8*	(33)	10
Items that may not be reclassified to profit or loss in the future:			
Actuarial gains and losses from valuation of provisions for employee benefits		(30)	-
Deferred tax	*8*	6	-
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**122**	**(40)**
TOTAL COMPREHENSIVE INCOME		**607**	**572**
NET PROFIT ATTRIBUTABLE TO:			
– equity holders of the parent company		432	585
– non-controlling interests		53	27
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
– equity holders of the parent company		554	545
– non-controlling interests		53	27
EARNINGS AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (IN PLN)		**0.23**	**0.31**

** restatement of comparative data is described in note 3 to these consolidated financial statements*

for the 3-month period ended March 31, 2020, in accordance with IFRS EU (in PLN million)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at March 31, 2020 (unaudited)	As at December 31, 2019 audited
NON-CURRENT ASSETS			
Property, plant and equipment		59,668	59,690
Investment property		45	47
Intangible assets		733	735
Right-of-use assets		1,315	1,303
Financial receivables	15.1	190	180
Derivatives and other assets measured at fair value through profit or loss	16	90	93
Shares and other equity instruments		48	58
Shares accounted for using the equity method	11	705	715
Other non-current assets		1,049	676
CO_2 emission allowances for captive use	14	237	240
Deferred income tax assets	12.1	907	1,318
		64,987	**65,055**
CURRENT ASSETS			
Inventories	13	2,807	4,509
CO_2 emission allowances for captive use	14	2,855	965
Income tax receivables		18	59
Derivatives and other assets measured at fair value through profit or loss	16	327	327
Trade and other financial receivables	15.1	7,284	4,815
Other current assets		663	605
Cash and cash equivalents	15.2	2,027	1,313
		15,981	**12,593**
ASSETS CLASSIFIED AS HELD FOR SALE		**2**	**2**
TOTAL ASSETS		**80,970**	**77,650**
EQUITY			
Share capital	17.1	19,165	19,165
Reserve capital		19,669	19,669
Hedging reserve	17.2	(182)	(323)
Foreign exchange differences from translation		4	(1)
Retained earnings		4,186	3,779
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**42,842**	**42,289**
Equity attributable to non-controlling interests		901	848
TOTAL EQUITY		**43,743**	**43,137**
NON-CURRENT LIABILITIES			
Non-current provisions	18	9,765	9,652
Loans, borrowings, bonds and lease	19.1	10,897	10,859
Derivatives	16	366	107
Deferred income tax liabilities	12.2	285	920
Deferred income and government grants		614	616
Other financial liabilities	19.2	476	475
Other non-financial liabilities	20	58	58
		22,461	**22,687**
CURRENT LIABILITIES			
Current provisions	18	5,795	4,366
Credit facilities, loans, bonds and leases	19.1	4,348	1,449
Derivatives	16	143	372
Trade and other financial liabilities	19.2	2,314	3,636
Income tax liabilities		279	58
Deferred income and government grants		77	80
Other non-financial liabilities	20	1,810	1,865
		14,766	**11,826**
TOTAL LIABILITIES		**37,227**	**34,513**
TOTAL EQUITY AND LIABILITIES		**80,970**	**77,650**

for the 3-month period ended March 31, 2020, in accordance with IFRS EU (in PLN million)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserve capital	Hedging reserve	Foreign exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total equity
Note	*17.1*		*17.2*					
JANUARY 1, 2020	**19,165**	**19,669**	**(323)**	**(1)**	**3,779**	**42,289**	**848**	**43,137**
Net profit for the reporting period	-	-	-	-	432	432	53	485
Other comprehensive income	-	-	141	5	(24)	122	-	122
COMPREHENSIVE INCOME	**-**	**-**	**141**	**5**	**408**	**554**	**53**	**607**
Retained earnings distribution	-	-	-	-	-	-	-	-
Dividend		-	-	-	-	-	-	-
Other changes	-	-	-	-	(1)	(1)	-	(1)
TRANSACTIONS WITH OWNERS	**-**	**-**	**-**	**-**	**(1)**	**(1)**	**-**	**(1)**
MARCH 31, 2020	**19,165**	**19,669**	**(182)**	**4**	**4,186**	**42,842**	**901**	**43,743**

	Share capital	Reserve capital	Hedging reserve	Foreign exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total equity
Note	*17.1*		*17.2*					
JANUARY 1, 2019	**19,165**	**19,872**	**(52)**	**(1)**	**7,743**	**46,727**	**1,074**	**47,801**
Net profit for the reporting period	-	-	-	-	585	585	27	612
Other comprehensive income	-	-	(40)	-	-	(40)	-	(40)
COMPREHENSIVE INCOME			**(40)**	**-**	**585**	**545**	**27**	**572**
Retained earnings distribution	-	-	-	-	-	-	-	-
Dividend	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	1	1	-	1
TRANSACTIONS WITH OWNERS	**-**	**-**	**-**	**-**	**1**	**1**	**-**	**1**
MARCH 31, 2019	**19,165**	**19,872**	**(92)**	**(1)**	**8,329**	**47,273**	**1,101**	**48,374**

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CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Period ended March 31, 2020 *(unaudited)*	Period ended March 31, 2019 *(unaudited)*
CASH FLOWS FROM OPERATING ACTIVITIES			
Gross profit		609	753
Income tax paid		(128)	(300)
Adjustments for:			
Share in (profit)/loss of equity-accounted entities		7	(10)
Depreciation, amortisation, disposal and impairment losses		996	939
Interest and dividend, net		76	56
(Gain)/loss from investing activities		260	6
Change in receivables		(2,489)	(312)
Change in inventories		1,702	(47)
Change in liabilities, excluding credit facilities and loans		(425)	(146)
Change in other non-financial assets, prepayments and CO_2 emission allowances		(1,969)	(1,497)
Change in provisions		1,509	1,187
Other		70	98
NET CASH FROM OPERATING ACTIVITIES		**218**	**727**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets		(2,249)	(1,863)
Recognition of deposits with maturity over 3 months		(20)	(94)
Termination of deposits with maturity over 3 months		10	83
Acquisition of financial assets and increase of share in Group companies		(2)	(7)
Other		(2)	8
NET CASH FROM INVESTING ACTIVITIES		**(2,263)**	**(1,873)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from credit facilities, loans		3,161	1,822
Repayment of loans, credit facilities and leases		(343)	(651)
Interest and commission paid		(77)	(68)
Other		7	-
NET CASH FROM FINANCING ACTIVITIES		**2,748**	**1,103**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**703**	**(43)**
Net foreign exchange differences		16	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	*15.2*	**1,311**	**1,279**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	*15.2*	**2,014**	**1,236**

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

1. General information

1.1 Information on the parent

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

As at January 1, 2020, the Company's Management Board was as follows:

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

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

As at March 31, 2020 and as at the date of publication of these financial statements, the composition of the Management Board is as follows:

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

Ownership structure

The parent's ownership structure was as follows:

	State Treasury	Other shareholders	Total
As at December 31, 2019	57.39%	42.61%	100.00%
As at March 31, 2020	57.39%	42.61%	100.00%

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

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

1.2 Information on PGE Group

PGE Group includes the parent, PGE Polska Grupa Energetyczna S.A., 66 consolidated subsidiaries, 4 associates and 1 jointly controlled entity. For additional information about subordinated entities included in the consolidated financial statements please refer to note 1.3.

These consolidated financial statements of PGE Group cover the period from January 1 to March 31, 2020 and contain comparative figures for the period from January 1 to March 31, 2019 and as at December 31, 2019.

These condensed consolidated interim financial statements do not cover all of the information and disclosures required in annual financial statements and they should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2019, approved for publication on March 31, 2020.

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

PGE Group companies' core activities are as follows:

- production of electricity,
- distribution of electricity,
- wholesale and retail trade in electricity, energy origin rights, CO_2 emission allowances and natural gas,
- production and distribution of heat,

provision of other services related to these activities. Business activities are conducted under appropriate concessions granted to particular Group companies.

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Going concern

These financial statements have been prepared on the assumption that significant Group companies will continue as going concerns for a period of at least 12 months from the reporting date. As at March 31, 2019, the subsidiary, PGE Obrót S.A., reports negative equity, primarily due to negative developments on the retail electricity trading market. PGE Obrót S.A., like other PGE Group companies, has access to financing provided by PGE S.A., therefore the going concern for this company is justified.

Apart from the issue concerning PGE Obrót S.A., as at the date of authorisation of these financial statements for publication, no circumstances were identified which would indicate any threat to significant Group companies continuing as going concerns.

Changes in accounting policies

The same accounting rules (policies) and calculation methods were applied in these financial statements as in the most recent annual financial statements. These financial statements should be read in conjunction with PGE Group's audited consolidated financial statements for the year ended December 31, 2019, approved for publication on March 31, 2020.

1.3 PGE Group's composition

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

	Entity	Entity holding stake	Stake held by PGE Group companies as at March 31, 2020	Stake held by PGE Group companies as at December 31, 2019
	SEGMENT: SUPPLY			
1.	PGE Polska Grupa Energetyczna S.A. Warsaw	Parent		
2.	PGE Dom Maklerski S.A. Warsaw	PGE S.A.	100.00%	100.00%
3.	PGE Trading GmbH Berlin	PGE S.A.	100.00%	100.00%
4.	PGE Obrót S.A. Rzeszów	PGE S.A.	100.00%	100.00%
5.	ENESTA sp. z o.o. Stalowa Wola	PGE Obrót S.A.	87.33%	87.33%
6.	PGE Centrum sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
7.	PGE Paliwa sp. z o.o. Kraków	PGE EC S.A.	100.00%	100.00%
	SEGMENT: CONVENTIONAL GENERATION			
8.	PGE Górnictwo i Energetyka Konwencjonalna S.A. Bełchatów	PGE S.A.	100.00%	100.00%
9.	ELBIS sp. z o.o. Rogowiec	PGE S.A.	100.00%	100.00%
10.	MegaSerwis sp. z o.o. Bogatynia	PGE S.A.	100.00%	100.00%
11.	„ELMEN" sp. z o.o. Rogowiec	PGE S.A.	100.00%	100.00%
12.	"Przedsiębiorstwo Usługowo-Produkcyjne „ELTUR-SERWIS" sp. z o.o. Bogatynia"	PGE S.A.	100.00%	100.00%
13.	Przedsiębiorstwo Transportowo-Sprzętowe „BETRANS" sp. z o.o. Bełchatów	PGE S.A.	100.00%	100.00%
14.	Przedsiębiorstwo Wulkanizacji Taśm i Produkcji Wyrobów Gumowych BESTGUM POLSKA sp. z o.o. Rogowiec	PGE S.A.	100.00%	100.00%
15.	RAMB sp. z o.o. Piaski	PGE S.A.	100.00%	100.00%
16.	EPORE sp. z o.o. Bogatynia	PGE GiEK S.A.	85.38%	85.38%
17.	„Energoserwis – Kleszczów" sp. z o.o. Rogowiec	PGE GiEK S.A.	51.00%	51.00%
	SEGMENT: DISTRICT HEATING			
18.	PGE Energia Ciepła S.A. * Warsaw	PGE S.A.	100.00%	100.00%
19.	PGE Toruń S.A. Toruń	PGE EC S.A.	95.22%	95.22%
20.	PGE Gaz Toruń sp. z o.o. Warsaw	PGE EC S.A.	100.00%	100.00%
21.	Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. Wrocław	PGE EC S.A.	58.07%	58.07%

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	Entity	Entity holding stake	Stake held by PGE Group companies as at March 31, 2020	Stake held by PGE Group companies as at December 31, 2019
22.	Elektrociepłownia Zielona Góra S.A. Zielona Góra	KOGENERACJA S.A.	98.40%	98.40%
23.	MEGAZEC sp. z o.o. Bydgoszcz	PGE S.A.	100.00%	100.00%
24.	Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. Zgierz	PGE EC S.A.	50.98%	50.98%
25.	PGE Ekoserwis sp. z o.o. Wrocław	PGE S.A.	95.08%	95.08%
	SEGMENT: RENEWABLES			
26.	PGE Energia Odnawialna S.A. Warsaw	PGE S.A.	100.00%	100.00%
27.	Elektrownia Wiatrowa Baltica-1 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
28.	Elektrownia Wiatrowa Baltica-2 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
29.	Elektrownia Wiatrowa Baltica-3 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
30.	Elektrownia Wiatrowa Baltica-4 sp. z o.o. (formerly: PGE Inwest 17 sp. z o.o.) Warsaw	PGE S.A.	100.00%	100.00%
31.	Elektrownia Wiatrowa Baltica-5 sp. z o.o. (formerly: PGE Inwest 18 sp. z o.o.) Warsaw	PGE S.A.	100.00%	100.00%
32.	PGE Baltica sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
33.	PGE Klaster sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
34.	PGE Soleo 1 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
35.	PGE Soleo 2 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
36.	PGE Soleo 3 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
37.	PGE Soleo 4 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
38.	PGE Soleo 5 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
39.	PGE Soleo 6 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
40.	PGE Soleo 7 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
	SEGMENT: DISTRIBUTION			
41.	PGE Dystrybucja S.A. Lublin	PGE S.A.	100.00%	100.00%
	SEGMENT: OTHER ACTIVITIES			
42.	PGE EJ 1 sp. z o.o. Warsaw	PGE S.A.	70.00%	70.00%
43.	PGE Systemy S.A. Warsaw	PGE S.A.	100.00%	100.00%
44.	PGE Sweden AB (publ) Stockholm	PGE S.A.	100.00%	100.00%
45.	PGE Synergia sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
46.	„Elbest" sp. z o.o. Bełchatów	PGE S.A.	100.00%	100.00%
47.	Elbest Security sp. z o.o. Bełchatów	PGE S.A.	100.00%	100.00%
48.	PGE Inwest 2 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
49.	PGE Ventures sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
50.	PGE Inwest 8 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%

	Entity	Entity holding stake	Stake held by PGE Group companies as at March 31, 2020	Stake held by PGE Group companies as at December 31, 2019
51.	PGE Inwest 9 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
52.	PGE Inwest 10 sp. z o.o. Warsaw	PGE S.A	100.00%	100.00%
53.	PGE Inwest 11 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
54.	PGE Inwest 12 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
55.	PGE Inwest 13 S.A. Warsaw	PGE S.A.	100.00%	100.00%
56.	PGE Inwest 14 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
57.	PGE Nowa Energia sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
58.	PGE Inwest 16 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
59.	PGE Inwest 19 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
60.	Towarzystwo Funduszy Inwestycyjnych Energia S.A. Warsaw	PGE S.A.	100.00%	100.00%
61.	BIO-ENERGIA sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
62.	Przedsiębiorstwo Transportowo-Usługowe „ETRA" sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
63.	Energetyczne Systemy Pomiarowe sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
64.	ZOWER sp. z o.o. Czerwionka-Leszczyny	PGE EC S.A.	100.00%	100.00%
65.	Przedsiębiorstwo Usługowo-Handlowe TOREC sp. z o.o. Toruń	PGE Toruń S.A.	50.04%	50.04%
66.	4Mobility S.A. Warsaw	PGE Nowa Energia sp. z o.o.	51.47%	51.47%
67.	Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych Eko-Inwestycje Warsaw	PGE Group companies	100.00%	100.00%

* Elektrownia Rybnik (Rybnik Power Plant) belonging to PGE EC S.A. until December 31, 2019 is presented in note 5 to these financial statements in the Conventional Generation segment.

The table above includes the following changes in the structure of PGE Group companies subject to full consolidation which took place during the period ended March 31, 2020:

- On January 2, 2020, the demerger of PGE EC S.A. was entered in the National Court Register. The demerger was effected by way of transfer from PGE EC S.A. to PGE GiEK S.A. an organized part of the enterprise covering Elektrownia Rybnik (Rybnik Power Plant). The transaction did not affect these consolidated financial statements.

2. Basis for preparation of the financial statements

2.1 Statement of compliance

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

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

2.2 Presentation and functional currency

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

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

	March 31, 2020	December 31, 2019	March 31, 2019
USD	4.1466	3.7977	3.8365
EUR	4.5523	4.2585	4.3013

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2.3 New standards and interpretations published, not yet effective

The following standards, changes in already effective standards and interpretations are not endorsed by the European Union or are not effective as at January 1, 2020:

Standard	Description of changes	Effective date
IFRS 14 Regulatory Deferral Accounts	Accounting and disclosure principles for regulatory deferral accounts.	Standard in the current version will not be effective in the EU
Amendments to IFRS 10 and IAS 28	Deals with the sale or contribution of assets between an investor and its joint venture or associate.	Postponed indefinitely
IFRS 17 Insurance contracts	Defines a new approach to recognising revenue and profit/loss in the period in which insurance services are provided	January 1, 2021
Amendments to IAS 1	The amendments concern the presentation of financial statements	January 1, 2022

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

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

2.4 Professional judgment of management and estimates

Judgments and estimates made by the management in the process of applying accounting rules that are described below had the most significant impact on the amounts presented in the consolidated financial statements, including in other explanatory notes. The estimates are based on the best knowledge of the Management Board relating to current and future operations and events in particular areas. Detailed information on the assumptions made is presented below or in respective explanatory notes.

- In the previous reporting periods PGE Group recognised impairment losses on assets, in particular of property, plant and equipment. In the reporting period, the Group did not identify premises for performing impairment tests and for reversing impairment losses recognised in previous periods. Estimate of recoverable amount of property, plant and equipment is based on a number of significant assumptions to the factors, realisation of which is uncertain and mostly beyond PGE Group's control. The Group believes that it has assumed the most accurate volumes and values. Nevertheless, realisation of the particular assumptions may diverge from the ones established by the Group.
- On December 28, 2018, an act amending the act on excise duty and certain other acts was adopted. The Act, as amended, regulated prices for final customers of electricity for 2019 and introduced a system of compensation for energy companies offering reduced prices. In connection with the provisions of the Act, the Group made estimates of revenues from compensation due and estimates of reductions in revenues. The estimates were related to the previous reporting period but it is possible that they will be adjusted in the current reporting period. For details, see note 24.1 to these financial statements.
- Provisions are liabilities of uncertain amount or timing. During the reporting period, the Group changed estimates regarding the validity or amounts of some provisions.
- Uncertainties concerning tax treatment are described in note 22 to the consolidated financial statements.
- At the reporting date, due to the short duration of the COVID-19 pandemic, the Group did not observe any extension of the receivables repayment period or liquidity problems. The analysis did not reveal any impact of the pandemic on the amount of expected credit losses as at March 31, 2020. The Group analyses the market situation on an ongoing basis and, if the situation deteriorates, it will update the models used to estimate the expected credit losses. For the purpose of estimating expected credit losses, counterparties were divided into two groups: strategic counterparties that are internally rated on the basis of a scoring model and other counterparties for whom expected credit losses are estimated on the basis of a provision matrix. If the collection of receivables in one of the groups of counterparties deteriorates, the Group will modify the assumptions used in the scoring model to more conservative ones and the percentages indicating the recoverability of receivables in particular time intervals in the provision matrix. For a more detailed description of the impact of the pandemic on PGE Group's operations, see Note 24.3 of these statements.

for the 3-month period ended March 31, 2020, in accordance with IFRS EU (in PLN million)

3. Changes in accounting principles and data presentation

New standards and interpretations which became effective on January 1, 2020

The accounting principles (policies) applied in preparing these financial statements are consistent with those applied in preparing the separate consolidated financial statements for 2019, except as stated below. The following amendments to IFRSs are applied in these financial statements in line with their effective dates. The following amendments did not have material impact on the presented and disclosed financial information or they were not applicable to the Group's transactions:

- Amendments to the Conceptual Framework – These amendments aim to harmonise the Conceptual Framework;
- Amendments to IFRS 3 – These changes clarify the definition of economic activity;
- Amendments to IAS 1 and IAS 8 – The amendments concern the definition of 'material';
- Amendments to IFRS 9, IAS 39 and IFRS 7 – The amendments concern the reform of the benchmark rate.

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

Changes in applied accounting policies and data presentation

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Period ended March 31, 2019 *published data*	Change in the recognition of forwards related to trading of coal and CO_2 allowances	Period ended March 31, 2019 *restated data*
SALES REVENUES	9,561	-	9,561
Cost of goods sold	(8,105)	-	(8,105)
GROSS PROFIT ON SALES	**1,456**	**-**	**1,456**
Distribution and selling expenses	(291)	-	(291)
General and administrative expenses	(252)	-	(252)
Net other operating income/expenses	37	(91)	(54)
OPERATING PROFIT	**950**	**(91)**	**859**
Net finance costs	(207)	91	(116)
Share of profit of entities accounted for using the equity method	10	-	10
GROSS PROFIT	**753**	**-**	**753**

4. Fair value hierarchy

Derivatives

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

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

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

for the 3-month period ended March 31, 2020, in accordance with IFRS EU (in PLN million)

FAIR VALUE HIERARCHY	As at March 31, 2020 Level 1	As at March 31, 2020 Level 2	As at December 31, 2019 Level 1	As at December 31, 2019 Level 2
CO_2 emission allowances in trading activities	1	-	1,303	-
Hard coal in trading activities	68	-	125	-
Inventories	**69**	**-**	**1,428**	**-**
Currency forwards	-	298	-	13
Commodity forwards	-	16	-	265
Commodity SWAP	-	12	-	11
Contracts for purchase/sale of coal	-	2	-	6
Valuation of CCIRS	-	20	-	18
Valuation of IRS	-	-	-	34
Options	-	1	-	5
Fund participation units	-	68	-	68
Financial assets	**-**	**417**	**-**	**420**
Currency forwards	-	104	-	348
Commodity forwards	-	17	-	8
Commodity SWAP	-	2	-	16
Contracts for purchase/sale of coal	-	21	-	1
Valuation of IRS	-	365	-	106
Financial liabilities	**-**	**509**	**-**	**479**

Derivatives are presented in note 16 to these financial statements. During the current and comparative reporting periods, there have been no transfers of financial instruments between the first and the second level of fair value hierarchy.

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

5. Information on operating segments

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

Relevant assets are assigned to the held concessions on lignite mining and generation and distribution of electricity and heat, which was presented in detailed information on operating segments. For its concessions concerning electricity and heat the Group incurs annual charges dependent on the level of turnover, whereas for conducting licensed extraction of lignite the exploitation charges as well as fees for the use of mining are borne. The exploitation charges depend on the current rate and the volume of the extraction.

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

- Conventional Generation comprises exploration and mining of lignite and generation of electricity from conventional sources as well as ancillary services.
- District heating comprises the generation of electricity from cogeneration units and the transmission and distribution of heat.
- Renewables comprise generation of electricity in pumped-storage power plants and from renewable sources.
- Supply includes sales and purchases of electricity and natural gas on the wholesale market, trading in CO_2 emissions allowances and energy origin rights, sales and purchases of fuel, as well as sales of electricity and rendering services to final customers.
- Distribution comprises management over local distribution networks and transmission of electricity in these networks.
- Other operations comprise services rendered by the subsidiaries for the Group, e.g. fund raising, IT, telecommunication, accounting and HR, and transport services. Additionally, the other operations segment comprises the activities of a subsidiary whose main business is preparation and implementation of a nuclear power plant construction project, investments in startups.

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

Seasonality of business segments

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

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

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

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

for the 3-month period ended March 31, 2020, in accordance with IFRS EU (in PLN million)

5.1 Information on business segments

Information on business segments for the period ended March 31, 2020

	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
STATEMENT OF PROFIT OR LOSS								
Sales to external customers	4,699	945	210	6,650	1,618	24	(1,555)	12,591
Inter-segment sales	2,105	793	100	3,517	23	101	(6,639)	-
TOTAL SEGMENT REVENUE	**6,804**	**1,738**	**310**	**10,167**	**1,641**	**125**	**(8,194)**	**12,591**
Cost of goods sold	(6,503)	(1,443)	(175)	(9,637)	(1,310)	(117)	7,903	(11,282)
EBIT	**59**	**195**	**119**	**210**	**261**	**(14)**	**(57)**	**773**
Depreciation, amortisation, disposal and impairment losses recognised in profit or loss	438	147	74	8	312	21	(3)	997
EBITDA	**497**	**342**	**193**	**218**	**573**	**7**	**(60)**	**1,770**
GROSS PROFIT								**609**
Income tax								(124)
NET PROFIT FOR THE REPORTING PERIOD								**485**
ASSETS AND LIABILITIES								
Segment's assets excluding trade receivables	35,659	7,938	4,116	2,423	19,106	833	(703)	69,372
Trade receivables	3,471	932	163	8,484	871	82	(8,839)	5,164
Shares accounted for using the equity method								705
Unallocated assets								5,729
TOTAL ASSETS								**80,970**
Segment's liabilities excluding trade liabilities	15,029	2,313	481	2,420	1,962	139	(2,726)	19,618
Trade liabilities	3,720	689	35	5,222	254	53	(8,683)	1,290
Unallocated liabilities								16,319
TOTAL LIABILITIES								**37,227**
OTHER INFORMATION ON BUSINESS SEGMENT								
Capital expenditures	368	40	91	4	426	41	(22)	948
Increases in ROUA	2	3	1	1	1	1	-	9
TOTAL CAPITAL EXPENDITURES	**370**	**43**	**92**	**5**	**427**	**42**	**(22)**	**957**
Impairment losses on financial and non-financial assets	21	(6)	-	9	2	-	(3)	23
Other non-monetary expenses *)	1,546	303	8	168	59	14	96	2,194

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

for the 3-month period ended March 31, 2020, in accordance with IFRS EU (in PLN million)

Information on business segments for the period ended March 31, 2019

restated data	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
STATEMENT OF PROFIT OR LOSS								
Sales to external customers	3,106	1,294	249	3,365	1,518	27	2	9,561
Inter-segment sales	1,619	722	13	2,075	23	87	(4,539)	-
TOTAL SEGMENT REVENUE	**4,725**	**2,016**	**262**	**5,440**	**1,541**	**114**	**(4,537)**	**9,561**
Cost of goods sold	(4,193)	(1,646)	(165)	(5,132)	(1,134)	(101)	4,266	(8,105)
EBIT	**272**	**244**	**100**	**135**	**346**	**(6)**	**(232)**	**859**
Depreciation, amortisation, disposal and impairment losses recognised in profit or loss	411	149	65	8	299	18	(11)	939
EBITDA	**683**	**393**	**165**	**143**	**645**	**12**	**(243)**	**1,798**
GROSS PROFIT								**753**
Income tax								(141)
NET PROFIT FOR THE REPORTING PERIOD								**612**
ASSETS AND LIABILITIES								
Segment's assets excluding trade receivables	40,625	8,164	3,287	1,499	17,994	682	(1,172)	71,079
Trade receivables	835	753	79	5,096	912	84	(4,049)	3,710
Shares accounted for using the equity method								788
Unallocated assets								3,217
TOTAL ASSETS								**78,794**
Segment's liabilities excluding trade liabilities	9,168	1,827	399	2,448	1,800	105	(1,467)	14,280
Trade liabilities	1,941	808	48	2,334	214	40	(3,937)	1,448
Unallocated liabilities								14,692
TOTAL LIABILITIES								**30,420**
OTHER INFORMATION ON BUSINESS SEGMENT								
Capital expenditures	630	27	11	5	344	41	(55)	1,003
Increases in ROUA	-	-	-	-	-	5	-	5
TOTAL CAPITAL EXPENDITURES	**630**	**27**	**11**	**5**	**344**	**46**	**(55)**	**1,008**
Impairment losses on financial and non-financial assets	21	40	33	6	2	-	-	102
Other non-monetary expenses *)	976	171	8	46	48	10	138	1,397

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

for the 3-month period ended March 31, 2020, in accordance with IFRS EU (in PLN million)

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

6. Revenue and expenses

6.1 Revenue from sales

Revenue from sales in the period ended March 31, 2020, by category

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

	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
Revenue from contracts with customers	6,800	1,730	259	10,166	1,627	125	(8,190)	**12,517**
Revenue from LTC compensations	-	3	-	-	-	-	-	**3**
Revenue from leases	4	5	51	1	14	-	(4)	**71**
TOTAL REVENUE FROM SALES	**6,804**	**1,738**	**310**	**10,167**	**1,641**	**125**	**(8,194)**	**12,591**

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

Type of goods or services	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
Revenue from sales of goods and products, without excluding taxes and fees	6,800	1,704	259	9,957	1,632	24	(7,840)	**12,536**
Taxes and fees collected on behalf of third parties	*(1)*	*(1)*	-	*(32)*	*(19)*	-	-	***(53)***
Revenue from sales of goods and products, including:	**6,799**	**1,703**	**259**	**9,925**	**1,613**	**24**	**(7,840)**	**12,483**
Sale of electricity	5,298	777	159	3,983	1	-	(2,139)	**8,079**
Sale of distribution services	4	3	-	13	1,561	-	(22)	**1,559**
Sale of heat	58	707	-	5	-	-	-	**770**
Sale of energy origin rights	14	4	84	-	-	-	3	**105**
Regulatory system services	114	-	15	-	-	-	-	**129**
Sale of natural gas	-	-	-	108	-	-	(59)	**49**
Sale of fuel	-	-	-	247	-	-	(147)	**100**
Sale of CO_2 emission allowances	1,276	200	-	5,569	-	-	(5,474)	**1,571**
Other sales of goods and materials	35	12	1	-	51	24	(2)	**121**
Revenue from sales of services	**1**	**27**	**-**	**241**	**14**	**101**	**(350)**	**34**
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**6,800**	**1,730**	**259**	**10,166**	**1,627**	**125**	**(8,190)**	**12,517**

Revenue from sales in the period ended March 31, 2019, by category

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

restated data	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustment s	Total
Revenue from contracts with customers	4,724	2,013	207	5,440	1,530	114	(4,535)	**9,493**
Revenue from LTC compensations	-	1	-	-	-	-	-	**1**
Revenue from leases	1	2	55	-	11	-	(2)	**67**
TOTAL REVENUE FROM SALES	**4,725**	**2,016**	**262**	**5,440**	**1,541**	**114**	**(4,537)**	**9,561**

for the 3-month period ended March 31, 2020, in accordance with IFRS EU (in PLN million)

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

Type of goods or services *restated data*	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
Revenue from sales of goods and products, without excluding taxes and fees	4,694	1,981	206	5,261	1,530	25	(4,204)	**9,493**
Taxes and fees collected on behalf of third parties	-	*(1)*	-	*(38)*	*(14)*	-	-	***(53)***
Revenue from sales of goods and products, including:	**4,694**	**1,980**	**206**	**5,223**	**1,516**	**25**	**(4,204)**	**9,440**
Sale of electricity	4,430	1,140	175	3,390	1	-	(2,480)	**6,656**
Sale of distribution services	4	3	-	13	1,463	-	(22)	**1,461**
Sale of heat	65	703	-	5	-	-	(1)	**772**
Sale of energy origin rights	9	5	19	8	-	-	(3)	**38**
Regulatory system services	104	-	10	-	-	-	-	**114**
Sale of natural gas	-	-	-	157	-	-	(14)	**143**
Sale of fuel	-	-	-	425	-	-	(305)	**120**
Sale of CO_2 emission allowances;	45	122	-	1,225	-	-	(1,379)	**13**
Other sales of goods and materials	37	7	2	-	52	25	-	**123**
Revenue from sales of services	**30**	**33**	**1**	**217**	**14**	**89**	**(331)**	**53**
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**4,724**	**2,013**	**207**	**5,440**	**1,530**	**114**	**(4,535)**	**9,493**

6.2 Costs by nature and function

	Period ended March 31, 2020	Period ended March 31, 2019 *restated data*
COSTS BY NATURE		
Depreciation, amortisation and impairment losses	989	959
Materials and energy consumption	1,520	1,464
External services	606	562
Taxes and fees	2,169	1,463
Employee benefits expenses	1,425	1,327
Other costs by nature	68	64
TOTAL COST BY NATURE	**6,777**	**5,839**
Change in products	(12)	(20)
Cost of products and services for the entity's own needs	(221)	(254)
Distribution and selling expenses	(348)	(291)
General and administrative expenses	(272)	(252)
Cost of goods and materials sold	5,358	3,083
COST OF GOODS SOLD	**11,282**	**8,105**

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

6.2.1 Depreciation, amortisation, disposal and impairment losses

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

Period ended	Depreciation, amortisation, disposal					Impairment losses		
March 31, 2020	PPE	IA	ROUA	IP	TOTAL	PPE	IA	TOTAL
Cost of goods sold	915	18	14	1	**948**	30	-	**30**
Distribution and selling expenses	3	1	-	-	**4**	-	-	**-**
General and administrative expenses	8	4	2	-	**14**	1	-	**1**
RECOGNISED IN PROFIT OR LOSS	**926**	**23**	**16**	**1**	**966**	**31**	**-**	**31**
Change in products	(14)	-	-	-	**(14)**	-	-	**-**
Cost of products and services for the entity's own needs	5	1	-	-	**6**	-	-	**-**
TOTAL	**917**	**24**	**16**	**1**	**958**	**31**	**-**	**31**

for the 3-month period ended March 31, 2020, in accordance with IFRS EU (in PLN million)

Period ended March 31, 2019	Depreciation, amortisation, disposal				Impairment losses		
	PPE	IA	ROUA	TOTAL	PPE	IA	TOTAL
Cost of goods sold	870	18	9	**897**	23	-	**23**
Distribution and selling expenses	3	1	-	**4**	-	-	**-**
General and administrative expenses	8	5	2	**15**	-	-	**-**
RECOGNISED IN PROFIT OR LOSS	**881**	**24**	**11**	**916**	**23**	**-**	**23**
Cost of products and services for the entity's own needs	20	-	-	**20**	-	-	**-**
TOTAL	**901**	**24**	**11**	**936**	**23**	**-**	**23**

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

Under "Depreciation, amortisation, disposal", the Group recognised the net disposals of PPE and IA of PLN 8 million.

6.3 Other operating income and expenses

	Period ended March 31, 2020	Period ended March 31, 2019 *restated data*
NET OTHER OPERATING INCOME/(EXPENSES)		
Valuation and exercise of derivatives, including:	76	(91)
- CO_2	*69*	-
- Coal	*7*	*(91)*
Penalties, fines and compensations	21	71
Donations given	(10)	-
Grants	9	7
(Recognition)/Reversal of impairment losses on receivables	(7)	(43)
Reversal/(Recognition) of other provisions	(4)	16
Gain on disposal of PPE/IA	2	3
Other	(3)	(17)
TOTAL NET OTHER OPERATING INCOME/(EXPENSES)	**84**	**(54)**

6.4 Finance income and costs

	Period ended March 31, 2020	Period ended March 31, 2019 *restated data*
NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS		
Dividends	-	-
Interest, including:	(63)	(53)
Interest income calculated using the effective interest rate method	*11*	*9*
Revaluation	(8)	(4)
Reversal/(recognition) of impairment losses	2	(1)
Foreign exchange differences	(15)	(3)
Gain on disposal of investments	-	1
TOTAL NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS	**(84)**	**(60)**
OTHER NET FINANCE INCOME/(COSTS)		
Interest expense on non-financial items	(59)	(52)
Interest on statutory receivables	-	-
Recognition of provisions	(9)	-
Other	(5)	(4)
TOTAL NET OTHER FINANCE INCOME/(COSTS)	**(73)**	**(56)**
TOTAL NET FINANCE INCOME/(COSTS)	**(157)**	**(116)**

Interest expenses mainly relate to bonds issued and credit and loans incurred as well as leases. In the current period, interest expenses on lease liabilities amounted to PLN 11 million.

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

for the 3-month period ended March 31, 2020, in accordance with IFRS EU (in PLN million)

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

Period ended March 31, 2020	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
SHARE IN VOTES	15.32%	16.48%	25.00%	34.93%	49.79%
Revenue	1,832	337	-	5	18
Profit (loss) on continuing operations	(136)	57	(1)	1	4
Share of profit of equity-accounted entities before consolidation adjustments	**(21)**	**9**	**-**	**-**	**2**
Elimination of unrealised gains and losses	3	-	-	-	-
SHARE OF PROFIT (LOSS) OF EQUITY-ACCOUNTED ENTITIES	**(18)**	**9**	**-**	**-**	**2**

Period ended March 31, 2019	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
SHARE IN VOTES	15.32%	16.48%	25.00%	34.93%	47.30%
Revenue	2,375	340	-	5	70
Profit (loss) on continuing operations	51	15	(1)	-	1
Share of profit of equity-accounted entities before consolidation adjustments	**8**	**2**	**-**	**-**	**-**
Elimination of unrealised gains and losses	-	-	-	-	-
SHARE OF PROFIT (LOSS) OF EQUITY-ACCOUNTED ENTITIES	**8**	**2**	**-**	**-**	**-**

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

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

7. Impairment losses on assets

	Period ended March 31, 2020	Period ended March 31, 2019
IMPAIRMENT LOSSES ON PROPERTY, PLANT AND EQUIPMENT		
Recognition of impairment losses	43	130
Reversal of impairment losses	12	107
IMPAIRMENT LOSSES ON RIGHT-OF-USE ASSETS		
Recognition of impairment losses	-	-
Reversal of impairment losses	-	-
IMPAIRMENT LOSSES ON INVENTORY		
Recognition of impairment losses	7	37
Reversal of impairment losses	15	4

8. Income tax

Main components of income tax expense for the period ended March 31, 2020, and March 31, 2019 were as follows:

	Period ended March 31, 2020	Period ended March 31, 2019
INCOME TAX RECOGNISED IN THE STATEMENT OF PROFIT OR LOSS		
Current income tax	375	145
Deferred income tax	(249)	6
Adjustments to deferred income tax	(2)	(10)
INCOME TAX EXPENSE RECOGNISED IN THE STATEMENT OF PROFIT OR LOSS	**124**	**141**
INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME		
On actuarial gains (losses) on valuation of employee benefit provisions	(6)	-
On valuation of hedging instruments	33	(10)
(Tax benefit)/tax expense recognised in other comprehensive income (equity)	**27**	**(10)**

for the 3-month period ended March 31, 2020, in accordance with IFRS EU (in PLN million)

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

9. Significant additions and disposals of property, plant and equipment, intangible assets and right-of-use assets

In the current reporting period, PGE Group purchased property, plant and equipment and intangible assets worth PLN 948 million and obtained right-of-use assets worth PLN 9 million. The largest expenditure was incurred by the Conventional Generation segment (PLN 370 million) and the Distribution segment (PLN 427 million). The key expenditure items included: construction of a new unit at the Turów power plant (PLN 66 million) and connection of new customers (PLN 188 million).

In the current period, there were no significant disposals of property, plant and equipment.

10. Future investment commitments

As at March 31, 2020, PGE Group committed to incur capital expenditures on property, plant and equipment of approximately PLN 9,121 million. These amounts relate mainly to construction of new power units, modernisation of Group's assets and purchase of machinery and equipment.

	As at March 31, 2020	As at December 31, 2019
Conventional Generation	6,744	2,363
Distribution	1,544	1,405
District Heating	349	227
Renewables	288	363
Supply	4	1
Other activities	192	213
TOTAL FUTURE INVESTMENT COMMITMENTS	**9,121**	**4,572**

The most significant future investment commitments concern:

- Conventional Generation:
  - Branch Bełchatów Power Plant – upgrade of FGD unit – approximately PLN 299 million,
  - Branch Opole Power Plant – modernisation of power units no. 1-4 – approximately PLN 186 million,
  - Branch Turów Power Plant – modernisation of power units no. 1-3 – approximately PLN 74 million,
  - Branch Turów Power Plant – construction of new power unit no. 7 – approximately PLN 836 million,
  - Branch Zespół Elektrowni Dolna Odra – construction of two CCGT units and agreement on maintenance services for two gas turbines – approximately PLN 4,366 million,
- Distribution – investment commitments related to network distribution assets with the total value of approximately PLN 1,544 million,
- Renewables – investment commitments related to the design and construction of Starza, Rybice and Karnice II wind farms – approximately PLN 90 million,
- Other activity, PGE EJ1 sp. z o.o. – agreement for owners engineer in the investment process related to construction of the first Polish nuclear power plant – approximately PLN 141 million (basic scope). An optional scope includes the amount of approx. PLN 1,119 million.

PGE EJ 1 sp. z o.o. is a subsidiary of PGE Group, established in 2010. The current scope of the Programme conducted by PGE EJ 1 Sp. z o.o. provides for carrying environmental and site surveys at two potential locations (Lubiatowo-Kopalino and Żarnowiec) and in preparing a Project environmental impact assessment report and a Site report.

PGE Group intends to continue providing financial support for PGE EJ1 sp. z o.o., as is necessary to continue works under the existing scope of works and approved financial plan.

Decisions with regard to the continuation of the Programme will be made based on decisions by the public administration authorities concerning a role of nuclear energy in Polish fuel mix, mode for the procurement of nuclear power plant technology, investment financing model and an updated Programme for Poland's Nuclear Power.

for the 3-month period ended March 31, 2020, in accordance with IFRS EU (in PLN million)

11. Shares accounted for using the equity method

	As at March 31, 2020	As at December 31, 2019
Polska Grupa Górnicza Sp. z o.o., Katowice	548	570
Polimex-Mostostal S.A., Warsaw	122	112
ElectroMobility Poland S.A., Warsaw	14	14
PEC Bogatynia Sp. z o.o., Bogatynia	8	8
Energopomiar Sp. z o.o. , Gliwice	13	11
SHARES ACCOUNTED FOR USING THE EQUITY METHOD	**705**	**715**

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**	**49.79%**
AS AT MARCH 31, 2020					
Current assets	2,036	971	31	5	29
Non-current assets	10,042	645	30	21	18
Current liabilities	4,220	714	4	2	12
Non-current liabilities	4,644	262	-	-	8
NET ASSETS	**3,574**	**640**	**57**	**24**	**27**
Share in net assets	**547**	**106**	**14**	**8**	**13**
Goodwill	1	16	-	-	-
SHARES ACCOUNTED FOR USING THE EQUITY METHOD	**548**	**122**	**14**	**8**	**13**

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**	**49.79%**
AS AT DECEMBER 31, 2019					
Current assets	2,226	964	40	5	28
Non-current assets	10,220	718	18	21	18
Current liabilities	4,040	779	1	2	15
Non-current liabilities	4,695	320	-	-	8
NET ASSETS	**3,711**	**583**	**57**	**24**	**23**
Share in net assets	**569**	**96**	**14**	**8**	**11**
Goodwill	1	16	-	-	-
SHARES ACCOUNTED FOR USING THE EQUITY METHOD	**570**	**112**	**14**	**8**	**11**

12. Deferred tax in the statement of financial position

12.1 Deferred income tax assets

	As at March 31, 2020	As at December 31, 2019
Difference between tax value and carrying amount of property, plant and equipment	2,792	3,403
Rehabilitation provision	994	984
Provisions for employee benefits	691	677
Provision for purchase of CO_2 emission allowances	988	671
Difference between tax value and carrying amount of financial liabilities	315	429
Difference between carrying amount and tax value of right-of-use assets	170	171
Tax losses	110	160
Other provisions	115	151
Difference between tax value and carrying amount of financial assets	176	146
LTC compensations	89	89
Difference between tax value and carrying amount of inventories	14	21
Energy infrastructure acquired free of charge and connection fees received	30	31
Other	9	14
TOTAL DEFERRED INCOME TAX ASSETS	**6,493**	**6,947**

for the 3-month period ended March 31, 2020, in accordance with IFRS EU (in PLN million)

12.2 Deferred tax liabilities

	As at March 31, 2020	As at December 31, 2019
Difference between tax value and carrying amount of property, plant and equipment	4,663	5,281
CO_2 emission allowances	431	476
Difference between tax value and carrying amount of financial assets	489	447
Difference between carrying amount and tax value of lease liabilities	187	169
Receivables from recognised compensations – Act on Electricity Prices	3	58
Difference between tax value and carrying amount of energy origin units	41	25
Difference between tax value and carrying amount of financial liabilities	-	12
Other	57	81
TOTAL DEFERRED TAX LIABILITIES	**5,871**	**6,549**

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

Deferred tax assets	907	1,318
Deferred income tax liabilities	(285)	(920)

13. Inventories

	As at March 31, 2020	As at December 31, 2019
Hard coal	828	1,077
Materials for repairs and operations	662	628
Heavy oil	40	43
Other materials	64	56
TOTAL MATERIALS	**1,594**	**1,804**
Green property rights	1,000	1,096
Other property rights	32	76
TOTAL ENERGY ORIGIN RIGHTS	**1,032**	**1,172**
CO_2 emission allowances held for sale	1	1,303
Hard coal held for sale	68	125
Other goods	24	26
TOTAL GOODS	**93**	**1,454**
OTHER INVENTORIES	**88**	**79**
TOTAL INVENTORIES	**2,807**	**4,509**

In the corresponding period, the CO_2 emission allowances included EUA resulting from the additional allocation of the CO_2 emission allowances for 2013-2017. These allowances were held for trading purposes and were sold in the first quarter of 2020.

14. CO_2 emission allowances for captive use

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

In September 2019, PGE Group submitted further reports on investments included in the National Investment Plan in order to obtain CO_2 EUA allocations for power generating installations, justified by expenses incurred for investment tasks included in the National Investment Plan in the reporting period from July 1, 2018 to June 30, 2019. This period is the last period of allocation of free emission allowances in the current settlement period. The requested allowances (12 million of EUA allowanced) were released to the operator's accounts in the EU register in April 2020.

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

EUA	As at March 31, 2020 Non-current	As at March 31, 2020 Current	As at December 31, 2019 Non-current	As at December 31, 2019 Current
Quantity (Mg million)	**3**	**46**	**3**	**18**
Value (PLN million)	**237**	**2,855**	**240**	**965**

EUA	Quantity (Mg million)	Value (PLN million)
AS AT JANUARY 1, 2019	**37**	**1,611**
Purchase	40	1,477
Granted free of charge	15	-
Redemption	(70)	(1,803)
Reclassification to inventories	(1)	(80)
AS AT DECEMBER 31, 2019	**21**	**1,205**
Purchase	42	3,277
Granted free of charge	1	-
Sale	(15)	(1,390)
AS AT MARCH 31, 2020	**49**	**3,092**

15. Selected financial assets

15.1 Trade and other financial receivables

	As at March 31, 2020		As at December 31, 2019	
	Non-current	Current	Non-current	Current
Trade receivables	-	5,164	-	3,483
Deposits and loans	184	12	174	8
Receivables from recognised compensations based on the Act on Electricity Prices	-	17	-	304
Deposits, securities and collateral	-	1,883	1	771
Damages and penalties	-	121	-	112
Other financial receivables	6	87	5	137
FINANCIAL RECEIVABLES	**190**	**7,284**	**180**	**4,815**

The increase in trade receivables is mainly attributable to the sale of CO_2 emission allowances which the Group received in the previous year.

Deposits, securities and collateral mainly concern transaction and hedging deposits and the guarantee fund related to transactions on the electricity and CO_2 markets.

15.2 Cash and cash equivalents

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

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

	As at March 31, 2020	As at December 31, 2019
Cash in hand and at banks	1,780	1,093
Overnight deposits	15	19
Short-term deposits	60	103
Cash in VAT accounts	172	98
TOTAL	**2,027**	**1,313**
Exchange differences on cash in foreign currencies	(13)	(2)
Cash and cash equivalents presented in the statement of cash flows	**2,014**	**1,311**
Undrawn borrowing facilities as at the reporting date	2,474	5,309
including overdraft facilities	*1,507*	*1,035*

A detailed description of credit agreements is presented in note 19.1 to these financial statements.

The balance of cash includes restricted cash in the amount of PLN 479 million (PLN 230 million in the comparative period) in PGE Dom Maklerski S.A. clients' accounts as collateral for settlements with IRGiT (the Warsaw Commodity Clearing House), cash in VAT accounts in the amount of PLN 172 million (PLN 98 million in the comparative period) as well as securities and collateral of PLN 103 million (PLN 100 million in the comparative period).

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

	As at March 31, 2020	
	Assets	Liabilities
DERIVATIVES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		
Currency forwards	11	4
Commodity forwards	16	17
Commodity SWAP	12	2
Contracts for purchase/sale of coal	2	21
Options	1	-
HEDGING DERIVATIVES		
CCIRS hedges	20	-
IRS hedges	-	365
Currency forward - USD	2	-
Currency forward - EUR	285	100
OTHER ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		
Investment fund participation units	68	-
TOTAL	**417**	**509**
current	327	143
non-current	90	366

	As at December 31, 2019	
	Assets	Liabilities
DERIVATIVES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		
Currency forwards	13	16
Commodity forwards	265	8
Commodity SWAP	11	16
Contracts for purchase/sale of coal	6	1
Options	5	-
HEDGING DERIVATIVES		
CCIRS hedges	18	-
IRS hedges	-	106
Currency forward - USD	-	-
Currency forward - EUR	34	332
OTHER ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		
Investment fund participation units	68	-
TOTAL	**420**	**479**
current	327	372
non-current	93	107

Commodity and currency forwards

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

Options

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

Coal swaps

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

Purchase and sale contracts with physical delivery of coal

PGE Paliwa Sp. z o.o. measures all of its sales and purchase contracts with physical delivery of coal at fair value using the trader-broker model. As at the reporting date, the Company held contracts that would be performed in 2021.

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IRS transactions

PGE S.A. entered into IRS transactions to hedge interest rates on credit facilities and bonds issued with a total nominal value of PLN 7,030 million. To recognise these IRS transactions, the Group uses hedge accounting. The impact of hedge accounting on the revaluation reserve is presented in note 17.2 to these consolidated financial statements.

CCIRS hedges

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

Investment fund participation units

In previous years, PGE S.A. purchased investment certificates from the PGE Ventures Closed-end Private Equity Investment Fund; their value as at the reporting date is PLN 14 million. It also purchased participation units from PGE Towarzystwo Funduszy Inwestycyjnych S.A. in three sub-funds; their value as at the reporting date is PLN 52 million.

17. Equity

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

17.1 Share capital

	As at March 31, 2020	As at December 31, 2019
1,470,576,500 Series A ordinary Shares with a nominal value of PLN 10.25 each	15,073	15,073
259,513,500 Series B ordinary Shares with a nominal value of PLN 10.25 each	2,660	2,660
73,228,888 Series C ordinary Shares with a nominal value of PLN 10.25 each	751	751
66,441,941 Series D ordinary Shares with a nominal value of PLN 10.25 each	681	681
TOTAL SHARE CAPITAL	**19,165**	**19,165**

All of the Company's shares are paid up.
After the reporting date and until the date on which these financial statements were prepared, there were no changes in the value of the Company's share capital.

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

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

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

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

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

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

for the 3-month period ended March 31, 2020, in accordance with IFRS EU (in PLN million)

17.2 Hedging reserve

	Period ended March 31, 2020	Year ended December 31, 2019
AS AT JANUARY 1	**(323)**	**(52)**
Change in hedging reserve:	**174**	**(336)**
Measurement of hedging instruments, including:	**185**	**(336)**
Recognition of the effective portion of change in fair value of hedging financial instruments in the part considered as effective hedge	*226*	*(438)*
Accrued interest on derivatives transferred from hedging reserve and recognised in interest expense	*1*	*3*
Currency revaluation of CCIRS transaction transferred from hedging reserve and recognised in net foreign exchange gains (losses)	*(42)*	*91*
Ineffective portion of change in fair value of hedging derivatives recognised in profit or loss	*-*	*8*
Measurement of other financial assets	**(11)**	**-**
Deferred tax	**(33)**	**65**
HEDGING RESERVE AFTER DEFERRED TAX	**(182)**	**(323)**

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

17.3 Dividends paid and proposed

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

18. Provisions

The carrying amount of provisions is as follows:

	As at March 31, 2020		As at December 31, 2019	
	Non-current	Current	Non-current	Current
Employee benefits	2,832	271	2,796	270
Rehabilitation provision	6,712	1	6,648	1
Provision for shortage of CO_2 emission allowances	130	5,041	121	3,411
Provisions for property rights held for surrender	-	378	-	572
Provision for non-contractual use of property	66	9	62	10
Other provisions	25	95	25	102
TOTAL PROVISIONS	**9,765**	**5,795**	**9,652**	**4,366**

Changes in provisions

	Employee benefits	Rehabilitation provision	Provision for shortage of CO_2 emission allowances	Provisions for property rights held for surrender	Provision for non-contractual use of property	Other	Total
JANUARY 1, 2020	**3,066**	**6,649**	**3,532**	**572**	**72**	**127**	**14,018**
Actuarial gains and losses	30	-	-	-	-	-	30
Current service costs	27	-	-	-	-	-	27
Interest expense	15	44	-	-	-	-	59
Benefits paid / Provisions used	(35)	-	-	(430)	-	(15)	(480)
Provisions reversed	-	-	-	(1)	(5)	(5)	(11)
Provisions recognised – costs	-	11	1,639	237	8	11	1,906
Provisions recognised – expenditure	-	9	-	-	-	-	9
Other changes	-	-	-	-	-	2	2
MARCH 31, 2020	**3,103**	**6,713**	**5,171**	**378**	**75**	**120**	**15,560**

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

18.1 Rehabilitation provision

Provision for rehabilitation of post-exploitation mining properties

PGE Group recognises provisions for rehabilitation of post-exploitation mining properties. The amount of the provision recognised in the financial statements includes also the value of Mine Liquidation Fund created in accordance with the Geological and Mining Law Act. As at March 31, 2019, the provision amounted to PLN 6,188 million (as at December 31, 2019: PLN 6,127 million).

Provision for rehabilitation of ash storage sites

PGE Group power generating units recognise provisions for rehabilitation of ash storage sites. As at March 31, 2020, the provision amounted to PLN 251 million (PLN 249 million as at the end of the comparative period).

Provision for rehabilitation of wind-farm sites

Companies that own wind farms recognise provision for rehabilitation of wind-farm sites. As at March 31, 2020 and December 31, 2019, the provision amounted to PLN 60 million.

Liquidation of property, plant and equipment

As at the reporting date, the provision amounts to PLN 214 million (PLN 213 million as at the end of the comparative period) and refers to some assets of the Conventional Generation and Renewables segments.

18.2 Provision for shortage of CO_2 emission allowances

As described in note 14 to these financial statements, PGE Group is entitled to receive CO_2 emissions allowances granted free of charge in connection to expenditures on investment projects included in National Investment Plan. The calculation of the provision also includes these allowances.

18.3 Provision for energy origin units held for redemption

PGE Group companies recognise provision for energy origin rights relating to sales carried out during the reporting period or in the prior reporting periods, in an part unredeemed until the reporting date. As at March 31, 2020, the provision amounts to PLN 378 million (PLN 572 million in the comparative period) and is recognised mainly by PGE Obrót S.A.

18.4 Provision for non-contractual use of property

PGE Group companies recognise a provision for claims concerning non-contractual use of property. This mainly relates to the distribution company that owns distribution networks. As at the reporting date, the provision amounted to approximately PLN 75 million (including PLN 33 million for litigations). In the comparative period, the provision amounted to PLN 72 million (including PLN 32 million for litigations).

19. Financial liabilities

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

Bonds issued by PGE Sweden AB (publ) are based on a fixed interest rate. As at March 31, 2020, their value at amortised cost, as disclosed in these consolidated financial statements, amounted to PLN 640 million and their fair value was PLN 713 million.

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19.1 Credit facilities, loans, bonds and leases

	As at March 31, 2020		As at December 31, 2019	
	Non-current	Current	Non-current	Current
Credit facilities and loans	7,989	4,262	7,999	1,382
Bonds issued	2,026	28	1,986	12
Leases	882	58	874	55
TOTAL CREDIT FACILITIES, LOANS, BONDS AND LEASES	**10,897**	**4,348**	**10,859**	**1,449**

Credit facilities and loans

Among loans and borrowings presented above as at March 31, 2020 and December 31, 2019, PGE Group presents mainly the following facilities:

Lender	Hedging instrument	Maturity date	Limit in currency	Currency	Interest rate	Liability as at March 31, 2020	Liability as at December 31, 2019
Bank consortium	IRS	2023-09-30	3,630	PLN	Variable	3,628	3,649
Revolving credit facility	-	2023-12-17	4,100	PLN	Variable	3,602	300
European Investment Bank	-	2032-10-26	1,500	PLN	Fixed	1,515	1,505
Bank Gospodarstwa Krajowego	IRS	2027-12-31	1,000	PLN	Variable	1,007	1,001
European Bank for Reconstruction and Development	IRS	2028-06-06	500	PLN	Variable	505	502
Bank Gospodarstwa Krajowego	IRS	2028-12-31	500	PLN	Variable	504	500
European Investment Bank	-	2032-10-26	490	PLN	Fixed	496	493
Nordic Investment Bank	-	2024-06-20	150	EUR	Variable	313	293
Bank Pekao S.A.	-	2020-09-21	40	USD	Variable	128	83
Bank Gospodarstwa Krajowego	-	2021-05-31	500	PLN	Variable	93	455
PKO BP S.A.	-	2020-04-29	500	PLN	Variable	51	21
Bank Pekao S.A.		2020-12-15	20	PLN	Variable	7	-
Bank Ochrony Środowiska SA	-	2020-10-01	136	PLN	Variable	3	5
Millennium	-	2021-06-16	7	PLN	Fixed	1	1
Bank Pekao S.A.	-	2021-07-03	500	PLN	Variable	-	160
European Investment Bank	-	2038-10-16	273	PLN	Fixed	-	-
NFOŚiGW (State Fund for Environmental Protection and Water Management)	-	March 2023 – December 2028	243	PLN	Fixed	192	204
NFOŚiGW (State Fund for Environmental Protection and Water Management)	-	September 2021 - September 2024	212	PLN	Variable	94	101
WFOŚiGW (Provincial Fund for Environmental Protection and Water Management)	-	September 2020 - September 2026	70	PLN	Fixed	1	2
WFOŚiGW (Provincial Fund for Environmental Protection and Water Management)	-	September 2021 - September 2028	352	PLN	Variable	82	82
Loan from shareholders	-	2020-11-06	9	PLN	Fixed	10	9
Loan from shareholders	-	2021-03-02	14	PLN	Fixed	15	15
Loan from shareholders	-	2023-01-30	4	PLN	Fixed	4	-
TOTAL CREDIT FACILITIES AND LOANS						**12,251**	**9,381**

As at March 31, 2020, the value of the available overdrafts at significant PGE Group companies was PLN 1,507 million. The repayment date of used overdraft facilities of PGE Group's key companies is 2020-2021.

In 2020 and after the reporting period, there were no cases of default on repayment or breach of other terms of credit agreements.

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Bonds issued

Issuer	Hedging instrument	Maturity date of the programme	Limit in the programme currency	Currency	Interest rate	Tranche issue date	Tranche maturity date	Liability as at March 31, 2020	Liability as at December 31, 2019
PGE SA	IRS	indefinite	5,000	PLN	Variable	2019-05-21	2029-05-21	1,010	1,002
						2019-05-21	2026-05-21	404	401
PGE Sweden AB (publ)	CCIRS	indefinite	2,000	EUR	Fixed	2014-08-01	2029-08-01	640	595
TOTAL BONDS ISSUED								**2,054**	**1,998**

19.2 Trade and other financial liabilities

	As at March 31, 2020		As at December 31, 2019	
	Non-current	Current	Non-current	Current
Trade liabilities	-	1,290	-	1,506
Purchase of PPE and IA	2	672	3	1,633
Security deposits received	27	97	21	99
Liabilities on account of LTC	430	36	432	36
Insurance	-	14	-	8
Settlements related with stock market transactions	-	56	-	269
Other	17	149	19	85
TRADE AND OTHER FINANCIAL LIABILITIES	**476**	**2,314**	**475**	**3,636**

“Other” liabilities include, among others, PGE Dom Maklerski S.A.'s liabilities towards clients on account of funds deposited.

20. Other non-financial liabilities

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

20.1 Other non-financial liabilities – non-current

	As at March 31, 2020	As at December 31, 2019
OTHER NON-CURRENT LIABILITIES		
Contract liabilities	56	56
Estimated liabilities under the Voluntary Redundancy Programme	2	2
TOTAL OTHER NON-CURRENT LIABILITIES	**58**	**58**

20.2 Other current non-financial liabilities

	As at March 31, 2020	As at December 31, 2019
OTHER CURRENT LIABILITIES		
VAT liabilities	407	176
Excise tax liabilities	35	35
Environmental fees	85	213
Payroll liabilities	194	292
Bonuses for employees	170	238
Unused holiday leave	193	143
Liabilities under the Voluntary Redundancy Programmes	4	6
Awards for Management Boards	24	27
Estimated liabilities on account of other employee benefits	50	6
Personal income tax	55	89
Social security liabilities	226	276
Contract liabilities	269	290
Dividends payable	8	7
Other	90	67
TOTAL OTHER CURRENT LIABILITIES	**1,810**	**1,865**

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

Contract liabilities

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

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OTHER EXPLANATORY NOTES

21. Contingent liabilities and receivables. Legal claims

21.1 Contingent liabilities

	As at March 31, 2020	As at December 31, 2019
Contingent return of grants from environmental funds	492	505
Legal claims	177	248
Bank guarantee liabilities	-	1,846
Share purchase option	4	-
Perpetual usufruct of land	95	-
Other contingent liabilities	39	37
TOTAL CONTINGENT LIABILITIES	**807**	**2,636**

Contingent return of grants from environmental funds

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

Legal claims

Dispute with Worley Parsons

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

Bank guarantee liabilities

These liabilities comprised bank guarantees provided in 2019 as collateral for settlements with the Warsaw Commodity Clearing House. As at December 31, 2019, the total amount of bank guarantees was PLN 1,846 million. In January 2020, an offsetting agreement was concluded between the PGE Group companies under which, in accordance with the Regulations of the Exchange Clearing House, security deposits within the energy group may be offset, owing to which offsetting positions within the PGE Group were offset and thus no longer required security.

Perpetual usufruct of land

Contingent liabilities on account of perpetual usufruct of land are related to the received update of annual fees for perpetual usufruct. Branches of PGE GiEK S.A. have appealed against the decisions received to the Local Government Appeal Courts. The value of the contingent liability was measured as the difference between the discounted sum of updated perpetual usufruct fees for the entire period for which the perpetual usufruct was established and the liability on account of perpetual usufruct of land which was recognised in the accounting records on the basis of previously applicable fees.

Other contingent liabilities

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

21.2 Other significant issues related to contingent liabilities

Non-contractual use of property

As described in note 18.4 to these financial statements, PGE Group recognises provision for disputes under court proceedings concerning non-contractual use of properties intended for distribution activities. In addition, PGE Group is involved in disputes at an earlier stage of proceedings and it cannot be excluded that the number and value of similar disputes will increase in the future.

Contractual liabilities related to purchase of fuels

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

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

21.3 Contingent receivables

As at the reporting date, PGE Group held PLN 18 million in contingent receivables resulting from the imbalance between purchases and sales of energy in the domestic market (PLN 33 million in the comparative period) and from potential return of overpaid excise duty of PLN 72 million. The Group is waiting for the Supreme Administrative Court's decision on what excise duty rate should be applied to settle the excise duty relief for the surrender of Property Rights arising from renewable energy sources before January 1, 2019.

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

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

21.4 Other legal claims and disputes

Compensation for conversion of shares

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

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

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

PGE Group companies have not recognised the claims made by Socrates Investment S.A., Pozwy sp. z o.o. and the rest of shareholders requesting conciliatory settlements. According to PGE S.A., these claims are groundless and the entire consolidation process was conducted in a fair and correct manner. The value of shares subject to the process of consolidation was established by an independent company, PwC Polska sp. z o.o. Additionally, merger plans of the companies mentioned above, including the exchange ratios, were examined for accuracy and reliability by an expert appointed by the registration court; no irregularities were found. Next, the court registered the mergers of the aforementioned companies.

PGE Group has not recognised a provision for this claim.

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

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

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

Due to the fact that according to PGE Group termination notices presented by Enea S.A. were submitted in breach of contractual terms, as at March 31, 2020, the Group recognised contractual penalty and compensation receivables of PLN 157 million (of which PLN 4 million was recognised as present-period revenues). According to PGE Group companies, based on available legal opinions, a favourable resolution in the above disputes is more probable than an unfavourable one.

The estimated volume of green certificates covered by the contracts with Enea S.A. amounts to approximately 2,660 thousand MWh. The above amount was calculated for the period from the date of termination of the contracts to the end of the expected initial term of the contracts.

In addition, PGE GiEK S.A., PGE Energia Natury PEW sp. z o.o. (acquired by PGE EO S.A.) and PGE EO S.A. filed lawsuits against Enea S.A. for the payment of receivables totalling PLN 47 million concerning invoices issued to Enea S.A. for the sale of energy origin certificates based on these contracts. Enea S.A. refused to pay these receivables, claiming that they were offset by receivables from the Group's companies related to compensation for alleged damages arising as a result of the companies' failure to re-negotiate the contracts. According to Group companies, such offsets are groundless because Enea S.A.'s receivables concerning the payment of compensation never arose and there are no grounds for acknowledging Enea S.A.'s claim that the companies breached contractual provisions. Proceedings in all of the cases are pending.

22. Tax settlements

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

From the point of view of business entities, the most important is the taxation of income (corporate income tax), taxation of turnover (value added tax, excise tax) followed by taxation of assets (real estate tax and vehicle tax). Other payments classified as quasi-taxes must also be mentioned. Among these there are social security charges.

Basic tax rates in 2020 were as follows: corporate income tax rate – 19%, for smaller enterprises a 9% rate is likely; basic value added tax rate – 23%, reduced: 8%, 5%, 0%, furthermore some goods and products are subject to a VAT tax exemption.

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

Tax group

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

Companies included in the tax group must meet a number of requirements including: appropriate level of equity, parent's stake in PGK companies of at least 75%, lack of capital ties between subsidiaries, no tax arrears, share in total revenue of at least 2% (counted at tax group level), and execution of transactions with related parties from outside the tax group only on market terms. Any violation of these requirements will result in the tax group being dissolved and losing its taxpayer status. When the tax group is dissolved, each of its member companies will become an independent payer of corporate income tax. Following the introduction of provisions on counteracting the effects of COVID-19, the requirement to achieve a share in revenues of at least 2% for 2020 has been suspended.

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

The Group uses funds received from counterparties in VAT accounts to pay its liabilities that contain VAT. The level of funds in these VAT accounts at a given date depends mainly on the number of the Group's counterparties that decide to use this mechanism and on the relation between the payment dates of receivables and liabilities. As at March 31, 2020, the cash balance in these VAT accounts totalled PLN 172 million.

On January 1, 2020, regulations under which entrepreneurs are required to make payments to their counterparties - active VAT payers - for goods or services purchased with a value exceeding PLN 15 thousand only to their accounts that have been registered with the tax office (the so-called white list) came into force. As a rule, payment to an account not registered with the tax office excludes the right to consider such expenditure as a tax-deductible expense. Only by notifying the tax authority in a specific form and time of the payment made to an account not included in the "white list" can the right to settle the expense as a tax-deductible expense be retained.

Reporting of tax schemes (MDR)

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

Excise tax

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

Having examined PGE GiEK S.A.'s complaints with regard to the restitution claims against decisions issued by tax authorities refusing to confirm the overpayment of excise tax, administrative courts ruled that PGE GiEK S.A. did not bear the economic burden of the improperly calculated excise tax (which in the context of the resolution by the Supreme Administrative Court of June 22, 2011, file no. I GPS 1/11, precludes the return of overpaid amounts). According to the Supreme Administrative Court, the claims that PGE GiEK S.A. sought, especially using economic analyses, are of an offsetting nature and therefore could be sought only in civil courts. Given the above, PGE GiEK S.A. decided to withdraw from the proceedings as regards restitution claims. Currently, the actions concerning the overpaid excise tax are pending in the civil courts. On January 10, 2020, the District Court issued a ruling in a case brought by PGE GiEK against the State Treasury – the Minister of Finance. The court dismissed the claim. On February 3, 2020, the Company appealed against the decision of the first instance to the Warsaw Court of Appeals.

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

Property tax

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

Uncertainty related to tax settlements

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

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

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

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

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

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

23. Information on related parties

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

23.1 Associates and jointly controlled entities

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

	Period ended March 31, 2020	Period ended March 31, 2019
Sales to associates and jointly controlled entities	4	6
Purchases from associates and jointly controlled entities	466	452

	As at March 31, 2020	As at December 31, 2019
Trade receivables from associates and jointly controlled entities	2	3
Trade liabilities to associates and jointly controlled entities	239	164

The value of purchases and balance of liabilities result mainly from transactions with Polska Grupa Górnicza Sp. z o.o.

23.2 State Treasury-controlled companies

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

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

	Period ended March 31, 2020	Period ended March 31, 2019
Sales to related parties	515	499
Purchases from related parties	1,328	1,380

	As at March 31, 2020	As at December 31, 2019
Trade receivables from related parties	246	266
Trade liabilities to related parties	528	612

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

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

23.3 Management remuneration

The key management comprises the Management and Supervisory Boards of the parent company and significant subsidiaries.

PLN '000	Period ended March 31, 2020	Period ended March 31, 2019
Short-term employee benefits (salaries and salary related costs)	9,815	8,838
Post-employment benefits	1,045	364
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**10,860**	**9,202**
Remuneration of key management personnel of entities of non-core operations	6,506	4,792
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**17,366**	**13,994**

PLN '000	Period ended March 31, 2020	Period ended March 31, 2019
Management Board of the parent company	2,060	2,037
including post-employment benefits	*180*	-
Supervisory Board of the parent company	217	190
Management Boards – subsidiaries	7,462	6,087
Supervisory Boards – subsidiaries	1,121	888
TOTAL	**10,860**	**9,202**
Remuneration of key management personnel of entities of non-core operations	6,506	4,792
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**17,366**	**13,994**

PGE Group companies (direct and indirect subsidiaries) apply a rule according to which management board members are employed on the basis of management services contracts. The above remuneration is included in other costs by nature disclosed in note 6.2 Costs by nature and function.

24. Significant events during and after the reporting period

24.1 Act amending the act on excise duty and certain other acts

On December 28, 2018, an act amending the act on excise duty and certain other acts was adopted. The Act aimed to stabilise electricity prices for final customers in 2019. The Act, among other things, froze the level of electricity prices for final off-takers and introduced a compensation scheme for retail companies.

In 2019, the Group recognised income from expected and received compensations in the amount of PLN 1,148 million, of which PLN 845 million was received by December 31, 2019, and further PLN 286 million by the date of these financial statements.

The final amount of compensations will depend on the actual consumption of energy by end users in 2019, determined on the basis of readings of meters for the period from January 1 to June 30 and from July 1 to December 31, 2019, respectively, and after the completion of the ERO procedure related to the recognition of individual own costs of the Company. This value may differ from the Group's estimates.

24.2 Onerous contracts resulting from, among other, the approval of a tariff for G tariff group customers

On January 3, 2020, the President of the ERO approved the tariff for PGE Obrót S.A. for G tariff group customers who do not use free market offers for the sale of electricity in the period from 18 January 2020 to 31 March 2020. The approved price level does not fully cover the purchase prices of electricity, property rights and own costs, resulting in the loss of profitability of sales made by PGE Obrót S.A. to G tariff group customers who do not use free market offers for the sale of electricity and customers from this tariff group who use free market offers, where the sales price is correlated with the price approved by the President of ERO. The Management Board of PGE Obrót S.A. commenced the procedure of applying to the President of the Energy Regulatory Office for another tariff for the sale of electricity for the period from April 1 to December 31, 2020. Above actions aimed at obtaining such electricity sales prices that will allow to cover the actual electricity contracting costs, property rights and operating expenses of this company.

As of the date of preparation of these financial statements, the President of ERO has not made any decision on the submitted tariff application for the period from April 1 to December 31, 2020, therefore the company operates on the basis of a provisional tariff applicable until March 31, 2020.

Effects on reporting

As far as onerous contracts are concerned within the meaning of IAS 37, the Group is of the opinion that there were no such contracts as at March 31, 2020 due to the positive margin generated between the cost of producing energy and its sale to the final customer. Accordingly, consolidated figures of PGE Group do not include the recognition, use and reversal of respective provisions.

In turn, in the first quarter of 2020, the Supply segment reversed PLN 100 million from the provision for onerous contracts recognised in 2019. This had no effect on the results of PGE Group.

24.3 Impact of the COVID-19 pandemic on PGE Group's operations

PGE Group identifies, on an ongoing basis, the risk factors that will potentially affect the Group's performance in connection with the COVID-19 pandemic. The pandemic situation escalated in Poland in mid-March 2020, therefore its impact on PGE Group's financial performance as at March 31, 2020 is still limited. The effect of the pandemic may become apparent in subsequent periods.

The outbreak of the pandemic has led to expected slowdown of economic in 2020 in the global economy and in Poland. These are reflected, among others, in the revision of market projections for GDP, industrial output and investments.

Due to the reduced level of economic activity, PGE Group identifies the risk of further reduction in domestic electricity consumption. PGE's estimates indicate that electricity consumption in April 2020 fell by about 10% year on year. This will affect the decrease in revenues and margins from energy generation, distribution and sales in the Distribution, Supply, Conventional Generation and District Heating segments. Gradual unfreezing of the economy should improve this situation, whereas a prolonged freeze on business activity over the next months will affect PGE Group's liquidity due to the expected increase of payment backlogs, especially as regards receivables from small and medium-sized enterprises. However, the nature and scale of possible effects are difficult to estimate at the time of publication of these statements. What will be important is the duration of the epidemic, its potential severity and extent, as well as its impact on economic growth in Poland. Measures aimed at introducing mechanisms to mitigate the negative impact of the pandemic on the Polish economy will also be important.

A decline in demand for electricity affects the utilisation of generation units. A part of the PGE Group's generation units is held in the so-called spinning reserve and secures potential shortages of supplies from renewable sources, imports or those that result from failures of other commercial power plants in Poland. The majority of production was contracted in previous periods, therefore in the short term the negative impact of lower production volumes on the Conventional Generation segment should be significantly limited. The negative effect should be related to potential reductions on the part of the Transmission System Operator, resulting in lower production from lignite, which is characterized by a relatively stable cost structure. The PGE Group expects, however, an impact on contracting volumes and prices for subsequent periods, but at this stage this impact cannot be estimated.

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 42 thousand employees, PGE Group takes a number of measures to protect the health and life of its employees, including the implementation of teleworking, raising awareness of, in particular, the basic principles of protection against coronavirus, prevention, quarantine, as well as those related to the organisation of the company and work to ensure business continuity. 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 non-standard 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 and in all locations of PGE Group entities.

Along with the outbreak of the pandemic, Customer Service Offices were closed, and all communication with PGE customers was routed through remote channels. The Group has also stopped sending collectors to customers' houses. As of May 18, along with further stages of unfreezing the Polish economy, PGE Group has been gradually returning to serving its customers in office, while observing special safety rules. From an operational point of view, owing to the introduction of appropriate countermeasures at the early stage of the pandemic, PGE has been continuously producing electricity and heat and ensuring their uninterrupted supply.

PGE Group has been monitoring the 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.

for the 3-month period ended March 31, 2020, in accordance with IFRS EU (in PLN million)

II. PGE POLSKA GRUPA ENERGETYCZNA S.A. QUARTERLY FINANCIAL INFORMATION FOR THE 3-MONTH PERIOD ENDED MARCH 31, 2020, IN ACCORDANCE WITH IFRS EU

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	Period ended March 31, 2020 *(unaudited)*	Period ended March 31, 2019 *(unaudited)* *restated data**
STATEMENT OF PROFIT OR LOSS		
SALES REVENUES	**9,698**	**4,795**
Cost of goods sold	(9,416)	(4,557)
GROSS PROFIT ON SALES	**282**	**238**
Distribution and selling expenses	(5)	(4)
General and administrative expenses	(57)	(49)
Other operating income/(expenses)	(9)	1
OPERATING PROFIT	**211**	**186**
Finance income/(costs), including:	43	30
Interest income calculated using the effective interest rate method	*44*	*34*
GROSS PROFIT	**254**	**216**
Income tax	(32)	(41)
NET PROFIT FOR THE REPORTING PERIOD	**222**	**175**
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified to profit or loss in the future:		
Valuation of hedging instruments	(301)	(30)
Deferred tax	57	6
Items that may not be reclassified to profit or loss in the future:		
Actuarial gains and losses from valuation of provisions for employee benefits	-	-
Deferred tax	-	-
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET	**(244)**	**(24)**
TOTAL COMPREHENSIVE INCOME	**(22)**	**151**
NET PROFIT AND DILUTED NET PROFIT PER SHARE (IN PLN)	**0.12**	**0.09**

** restatement of comparative data is described in note 1 to this quarterly financial information*

for the 3-month period ended March 31, 2020, in accordance with IFRS EU (in PLN million)

SEPARATE STATEMENT OF FINANCIAL POSITION

	As at March 31, 2020 *(unaudited)*	As at December 31, 2019 *(unaudited)*
NON-CURRENT ASSETS		
Property, plant and equipment	160	162
Intangible assets	-	-
Right-of-use assets	20	21
Financial receivables	10,317	10,955
Derivatives and other assets measured at fair value through profit or loss	101	105
Shares in subsidiaries	30,013	29,995
Shares in associates and jointly controlled entities	101	101
Deferred tax assets	93	16
	40,805	**41,355**
CURRENT ASSETS		
Inventories	704	3
Income tax receivables	-	37
Trade and other receivables	13,469	7,889
Derivatives	1,245	446
Other current assets	817	487
Cash and cash equivalents	868	221
	17,103	**9,083**
TOTAL ASSETS	**57,908**	**50,438**
EQUITY		
Share capital	19,165	19,165
Reserve capital	19,669	19,669
Hedging reserve	(316)	(72)
Retained earnings/(accumulated losses)	(1,037)	(1,258)
	37,481	**37,504**
NON-CURRENT LIABILITIES		
Non-current provisions	19	18
Credit facilities, loans, bonds, leases	9,564	9,521
Derivatives	365	106
Other liabilities	16	20
	9,964	**9,665**
CURRENT LIABILITIES		
Current provisions	1	1
Credit facilities, loans, bonds, cash pooling, leases	5,234	2,015
Derivatives	1,234	338
Trade and other liabilities	3,686	760
Income tax liabilities	238	-
Other non-financial liabilities	70	155
	10,463	**3,269**
TOTAL LIABILITIES	**20,427**	**12,934**
TOTAL EQUITY AND LIABILITIES	**57,908**	**50,438**

for the 3-month period ended March 31, 2020, in accordance with IFRS EU (in PLN million)

SEPARATE STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserve capital	Hedging reserve	Retained earnings	Total equity
AS AT JANUARY 1, 2020	**19,165**	**19,669**	**(72)**	**(1,258)**	**37,504**
Net profit for the reporting period	-	-	-	222	**222**
Other comprehensive income	-	-	(244)	-	**(244)**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**(244)**	**222**	**(22)**
Retained earnings distribution	-	-	-	-	**-**
Other changes	-	-	-	(1)	**(1)**
AS AT MARCH 31, 2020	**19,165**	**19,669**	**(316)**	**(1,037)**	**37,481**

	Share capital	Reserve capital	Hedging reserve	Retained earnings	Total equity
AS AT JANUARY 1, 2019	**19,165**	**19,872**	**(2)**	**(201)**	**38,834**
Net profit for the reporting period	-	-	-	175	**175**
Other comprehensive income	-	-	(24)	-	**(24)**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**(24)**	**175**	**151**
Retained earnings distribution	-	-	-	-	**-**
Other changes	-	-	-	-	**-**
AS AT MARCH 31, 2019	**19,165**	**19,872**	**(26)**	**(26)**	**38,985**

for the 3-month period ended March 31, 2020, in accordance with IFRS EU (in PLN million)

SEPARATE STATEMENT OF CASH FLOWS

	Period ended March 31, 2020 *(unaudited)*	Period ended March 31, 2019 *(unaudited)*
CASH FLOWS FROM OPERATING ACTIVITIES		
Gross profit	**254**	**216**
Income tax paid	122	**(52)**
Adjustments for:		
Depreciation, amortisation and impairment losses	3	3
Interest and dividend, net	(40)	(34)
(Gain)/loss on investing activities	102	8
Change in receivables	(5,499)	(1,333)
Change in inventories	(701)	(33)
Change in liabilities, excluding credit facilities and loans	2,868	(74)
Change in other non-financial assets	(258)	(353)
Change in provisions	-	-
Foreign exchange differences	(9)	-
Other	-	1
NET CASH FROM OPERATING ACTIVITIES	**(3,158)**	**(1,651)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	(2)	(1)
(Purchase)/buy-back of bonds issued by PGE Group companies	610	148
Sale of other financial assets	-	-
Acquisition of subsidiaries	(18)	-
Purchase of other financial assets	-	-
Dividends received	-	-
Loans granted/(repaid) under the cash pooling agreement	589	566
Loans granted	(1,039)	(400)
Interest received	66	50
Repayment of loans granted	861	-
NET CASH FROM INVESTING ACTIVITIES	**1,067**	**363**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from credit facilities, loans	3,108	1,809
Proceeds from issue of bonds	-	-
Repayment of credit facilities, loans and leases	(301)	(569)
Redemption of bonds	-	-
Interest paid	(77)	(76)
Other	-	(3)
NET CASH FROM FINANCING ACTIVITIES	**2,730**	**1,161**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**639**	**(127)**
Net foreign exchange differences	9	(1)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**219**	**233**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	**858**	**106**

for the 3-month period ended March 31, 2020, in accordance with IFRS EU (in PLN million)

1. Changes in accounting principles and data presentation

New standards and interpretations which became effective on January 1, 2020

New standards and interpretations that became effective on January 1, 2020, as described in more detail in note 3 to the consolidated financial statements, had no impact on the Company's separate financial statements.

Changes in accounting principles

In June 2019, the Company decided to change the presentation of derivatives relating to the trade in CO_2 emission allowances by way of moving their disclosure from financial activities to operating activities. The trade in CO_2 emission allowances for the benefit of PGE Group forms part of the Company's core activities, and therefore the new presentation reflects the nature of activities in a more suitable manner.

The Company has restated the comparative data presented in the statement of comprehensive income. The restatement is presented in the table below.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME	Period ended ended March 31, 2019 published data	Change in the recognition of forwards related to trading in CO_2 allowances	Period ended March 31, 2019 restated data
STATEMENT OF PROFIT OR LOSS			
SALES REVENUES	**4,795**	**-**	**4,795**
Cost of goods sold	(4,531)	(26)	(4,557)
GROSS PROFIT ON SALES	**264**	**(26)**	**238**
OPERATING PROFIT	**212**	**(26)**	**186**
Net finance income/(costs)	4	26	30
GROSS PROFIT	**216**	**-**	**216**
NET PROFIT FOR THE REPORTING PERIOD	**175**	**-**	**175**

III. Approval of quarterly financial report

This financial report, containing PGE Group's condensed interim consolidated financial statements and PGE S.A.'s quarterly financial information for the 3-month period ended March 31, 2020, was approved for publication by the Management Board on May 26, 2020.

Warsaw, May 26, 2020

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

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

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

Glossary of terms and acronyms

Below is a list of the terms and abbreviations most frequently used in these consolidated financial statements

Acronym	Full name
CCIRS	Cross Currency Interest Rate Swaps
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
EUA	CO_2 emission allowances (European Union Allowances)
ECH	Exchange Clearing House
PGE Capital Group, PGE Group, Group, PGE CG	PGE Polska Grupa Energetyczna S.A. Capital Group
IRGiT	Warsaw Commodity Clearing House
IRS	Interest Rate Swap
LTC	Long-term capacity and electricity sales contracts
KOGENERACJA S.A.	Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A.
KPI	National Investment Plan
IFRS	International Financial Reporting Standards
EU IFRSs	International Financial Reporting Standards as endorsed by the European Union
NFOŚiGW	National Fund for Environmental Protection and Water Management
IP	Investment property
ROUA	Right-of-use assets
PGE S.A., Company, Parent Company	PGE Polska Grupa Energetyczna S.A
PGE EC S.A.	PGE Energia Ciepła S.A.
PGE EO S.A.	PGE Energia Odnawialna S.A.
PGE GiEK S.A.	PGE Górnictwo i Energetyka Konwencjonalna S.A.
PGK	PGE Tax group
RPUL	Right to perpetual usufruct of land
PPE	Property, plant and equipment
Financial statements, consolidated financial statements	Consolidated financial statements of PGE Group
ERO	Energy Regulatory Office
Act on Electricity Prices	Act amending the act on excise duty and certain other acts
WFOŚiGW (Provincial Fund for Environmental Protection and Water Management)	Provincial Fund for Environmental Protection and Water Management
IA	Intangible assets