



PGE Polska Grupa  
Energetyczna S.A.

Quarterly financial report for  
the 3-month period

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ended March 31, 2021

in accordance with IFRS EU (in PLN million)



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## I. PGE GROUP CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 3-MONTH PERIOD ENDED MARCH 31, 2021, IN ACCORDANCE WITH IFRS EU CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended March 31, 2021 <i>(unaudited)</i>	Period ended March 31, 2020 <i>(unaudited)</i>
<b>STATEMENT OF PROFIT OR LOSS</b>			
<b>REVENUE FROM SALES</b>	6.1	<b>11,900</b>	<b>12,591</b>
Cost of goods sold	6.2	(10,158)	(11,282)
<b>GROSS PROFIT ON SALES</b>		<b>1,742</b>	<b>1,309</b>
Distribution and selling expenses	6.2	(417)	(348)
General and administrative expenses	6.2	(260)	(272)
Net other operating income / expenses	6.3	99	84
<b>OPERATING PROFIT</b>		<b>1,164</b>	<b>773</b>
Net finance costs, including:	6.4	(134)	(157)
<i>Interest income calculated using</i>			
<i>effective interest rate method</i>		8	11
Share of profit/(loss) of entities accounted for using the equity method	6.5	(6)	(7)
<b>GROSS PROFIT/(LOSS)</b>		<b>1,024</b>	<b>609</b>
Income tax	8	(189)	(124)
<b>NET PROFIT/(LOSS) FOR THE REPORTING PERIOD</b>		<b>835</b>	<b>485</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Items that may be reclassified to profit or loss in the future:</b>			
Valuation of debt financial instruments		7	(11)
Valuation of hedging instruments		83	185
Foreign exchange differences from translation of foreign entities		1	5
Deferred tax	8	(18)	(33)
<b>Items that may not be reclassified to profit or loss in the future:</b>			
Actuarial gains and losses from valuation of provisions for employee benefits		-	(30)
Deferred tax	8	-	6
<b>OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET</b>		<b>73</b>	<b>122</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>908</b>	<b>607</b>
<b>NET PROFIT/(LOSS) ATTRIBUTABLE TO:</b>			
– equity holders of the parent company		808	432
– non-controlling interests		27	53
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>			
– equity holders of the parent company		880	554
– non-controlling interests		28	53
<b>EARNINGS AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (IN PLN)</b>		<b>0.43</b>	<b>0.23</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at March 31, 2021 <i>(unaudited)</i>	As at December 31, 2020 <i>audited</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		61,170	61,741
Investment property		40	41
Intangible assets		639	646
Right-of-use assets		1,271	1,309
Financial receivables	16.1	206	191
Derivatives and other assets measured at fair value through profit or loss	17	170	132
Shares and other equity instruments		64	57
Shares accounted for using the equity method	11	154	152
Other non-current assets		812	839
CO <sub>2</sub> emission allowances for captive use	14	41	39
Deferred income tax assets	12.2	1,204	1,351
		<b>65,771</b>	<b>66,498</b>
<b>CURRENT ASSETS</b>			
Inventories	13	2,583	3,123
CO <sub>2</sub> emission allowances for captive use	14	6,150	1,735
Income tax receivables		4	8
Derivatives and other assets measured at fair value through profit or loss	17	371	423
Trade and other financial receivables	16.1	4,874	4,812
Other current assets		1,562	799
Cash and cash equivalents	16.2	2,902	4,189
		<b>18,446</b>	<b>15,089</b>
<b>ASSETS CLASSIFIED AS HELD FOR SALE</b>			
		<b>6</b>	<b>7</b>
<b>TOTAL ASSETS</b>			
		<b>84,223</b>	<b>81,594</b>
<b>EQUITY</b>			
Share capital	18.1	19,165	19,165
Reserve capital		18,410	18,410
Hedging reserve	18.2	58	(13)
Foreign exchange differences from translation		6	5
Retained earnings		5,758	4,951
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>			
		<b>43,397</b>	<b>42,518</b>
Equity attributable to non-controlling interests		856	983
<b>TOTAL EQUITY</b>			
		<b>44,253</b>	<b>43,501</b>
<b>NON-CURRENT LIABILITIES</b>			
Non-current provisions	19	11,270	11,207
Loans, borrowings, bonds and leases	20.1	9,348	10,025
Derivatives	17	229	385
Deferred income tax liabilities	12.2	363	345
Deferred income and government grants		592	600
Other financial liabilities	20.2	442	448
Other non-financial liabilities	21.1	63	65
		<b>22,307</b>	<b>23,075</b>
<b>CURRENT LIABILITIES</b>			
Current provisions	19	9,079	7,311
Loans, borrowings, bonds and leases	20.1	2,127	1,384
Derivatives	17	32	63
Trade and other financial liabilities	20.2	3,082	3,504
Income tax liabilities		300	476
Deferred income and government grants		77	77
Other non-financial liabilities	21.2	2,966	2,203
		<b>17,663</b>	<b>15,018</b>
<b>TOTAL LIABILITIES</b>			
		<b>39,970</b>	<b>38,093</b>
<b>TOTAL EQUITY AND LIABILITIES</b>			
		<b>84,223</b>	<b>81,594</b>

## 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
<b>Note</b>	18.1		18.2					
<b>JANUARY 1, 2021</b>	<b>19,165</b>	<b>18,410</b>	<b>(13)</b>	<b>5</b>	<b>4,951</b>	<b>42,518</b>	<b>983</b>	<b>43,501</b>
Net profit for the reporting period	-	-	-	-	808	808	27	835
Other comprehensive income	-	-	71	1	-	72	1	73
<b>COMPREHENSIVE INCOME</b>	<b>-</b>	<b>-</b>	<b>71</b>	<b>1</b>	<b>808</b>	<b>880</b>	<b>28</b>	<b>908</b>
Entity's exit from PGE Group (PGI EJ1)	-	-	-	-	-	-	(155)	(155)
Other changes	-	-	-	-	(1)	(1)	-	(1)
<b>MARCH 31, 2021</b>	<b>19,165</b>	<b>18,410</b>	<b>58</b>	<b>6</b>	<b>5,758</b>	<b>43,397</b>	<b>856</b>	<b>44,253</b>

	Share capital	Reserve capital	Hedging reserve	Foreign exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total equity
<b>Note</b>	18.1		18.2					
<b>JANUARY 1, 2020</b>	<b>19,165</b>	<b>19,669</b>	<b>(323)</b>	<b>(1)</b>	<b>3,779</b>	<b>42,289</b>	<b>848</b>	<b>43,137</b>
Net profit for the reporting period	-	-	-	-	432	432	53	485
Other comprehensive income	-	-	141	5	(24)	122	-	122
<b>COMPREHENSIVE INCOME</b>	<b>-</b>	<b>-</b>	<b>141</b>	<b>5</b>	<b>408</b>	<b>554</b>	<b>53</b>	<b>607</b>
Other changes	-	-	-	-	(1)	(1)	-	(1)
<b>MARCH 31, 2020</b>	<b>19,165</b>	<b>19,669</b>	<b>(182)</b>	<b>4</b>	<b>4,186</b>	<b>42,842</b>	<b>901</b>	<b>43,743</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Period ended March 31, 2021 <i>(unaudited)</i>	Period ended March 31, 2020 <i>(unaudited)</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Gross profit		1,024	609
Income tax paid		(213)	(128)
<b>Adjustments for:</b>			
Share of (profit)/loss of equity-accounted entities		6	7
Depreciation, amortisation, disposal and impairment losses		1,042	996
Interest and dividend, net		71	76
(Profit) / loss on investing activities		(58)	260
Change in receivables		(108)	(2,489)
Change in inventories		531	1,702
Change in CO <sub>2</sub> emission allowances for captive use		(4,417)	(1,888)
Change in liabilities, excluding loans and borrowings		733	(425)
Change in other non-financial assets, prepayments		(778)	(81)
Change in provisions		1,768	1,509
Other		1	70
<b>NET CASH FROM OPERATING ACTIVITIES</b>		<b>(398)</b>	<b>218</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment and intangible assets		(1,164)	(2,249)
Sale of property, plant and equipment and intangible assets		10	-
Recognition of deposits with maturity over 3 months		(8)	(20)
Termination of deposits with maturity over 3 months		-	10
Purchase of financial assets		(41)	(2)
Sale of other financial assets after offsetting cash		361	-
Other		(3)	(2)
<b>NET CASH FROM INVESTING ACTIVITIES</b>		<b>(845)</b>	<b>(2,263)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from loans, borrowings		98	3,161
Repayment of loans, borrowings, leases		(50)	(343)
Interest paid		(89)	(77)
Other		5	7
<b>NET CASH FROM FINANCING ACTIVITIES</b>		<b>(36)</b>	<b>2,748</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>			
		<b>(1,279)</b>	<b>703</b>
<i>Net exchange differences</i>		(6)	16
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD</b>	16.2	<b>4,173</b>	<b>1,311</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF PERIOD</b>	16.2	<b>2,894</b>	<b>2,014</b>

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

### 1. General information

#### 1.1 Information on the parent

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

As at January 1, 2021 and March 31, 2021 the composition of the Company's Management Board was as follows:

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

On March 31, 2021 Mr. Paweł Strączyński resident as Vice-President of the Management Board, effective March 31, 2021.

On the date on which these financial statements were published, the Company's Management Board was as follows:

- Wojciech Dąbrowski – President of the Management Board,
- Wanda Buk – Vice-President of the Management Board,
- Paweł Cioch – Vice-President of the Management Board,
- Paweł Śliwa – Vice-President of the Management Board,
- Ryszard Wasilek – 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, 2020	57.39%	42.61%	100.00%
As at March 31, 2021	57.39%	42.61%	100.00%

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

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

#### 1.2 Information on PGE Group

PGE Group includes the parent, PGE Polska Grupa Energetyczna S.A., along with 72 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, 2021 to March 31, 2021 and include comparative data for the period from January 1, 2020 to March 31, 2020 and as at December 31, 2020. These condensed consolidated interim financial statements do not include all of the information and disclosures required in annual financial statements and they should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2020, approved for publication on March 22, 2021.

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

PGE Group companies' core activities are as follows:

- production of electricity,
- distribution of electricity,
- wholesale and retail trade in electricity, energy origin rights, CO<sub>2</sub> emission allowances and natural gas,
- production and distribution of heat,
- provision of other services related to these activities

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



## Going concern

These financial statements were prepared under the assumption that the key Group companies will continue operating as a going concern for at least 12 months from the reporting date. Subsidiary PGE Obrót S.A. reported negative equity as at March 31, 2021, largely due to negative changes on the retail electricity trading market. PGE Obrót S.A. - like other PGE Group companies - has access to financing through PGE S.A., in connection with which this company's going concern assumption is justified.

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

## Changes in accounting policies

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

## 1.3 PGE Group's composition

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

Entity	Entity holding stake	Stake held by Group entities as at March 31, 2021	Stake held by Group entities as at December 31, 2020
<b>SEGMENT: SUPPLY</b>			
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 (in liquidation) 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%
<b>SEGMENT: CONVENTIONAL GENERATION</b>			
8. PGE GiEK 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. ELTUR-SERWIS sp. z o.o. Bogatynia	PGE S.A.	100.00%	100.00%
13. „BETRANS” sp. z o.o. Bełchatów	PGE S.A.	100.00%	100.00%
14. 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. „Energoserwis – Kleszczów” sp. z o.o. Rogowiec	PGE GiEK S.A.	51.00%	51.00%
<b>SEGMENT: DISTRICT HEATING</b>			
17. PGE Energia Ciepła S.A. Warsaw	PGE S.A.	100.00%	100.00%
18. PGE Toruń S.A. Toruń	PGE EC S.A.	95.22%	95.22%
19. PGE Gaz Toruń sp. z o.o. Warsaw	PGE EC S.A.	100.00%	100.00%
20. Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. Wrocław	PGE EC S.A.	58.07%	58.07%
21. Elektrociepłownia Zielona Góra S.A. Zielona Góra	KOGENERACJA S.A.	98.40%	98.40%
22. MEGAZEC sp. z o.o. Bydgoszcz	PGE S.A.	100.00%	100.00%

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

Entity	Entity holding stake	Stake held by Group entities as at March 31, 2021	Stake held by Group entities as at December 31, 2020
52. PGE Sweden AB (publ) Stockholm	PGE S.A.	100.00%	100.00%
53. PGE Synergia sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
54. „Elbest” sp. z o.o. Bełchatów	PGE S.A.	100.00%	100.00%
55. Elbest Security sp. z o.o. Bełchatów	PGE S.A.	100.00%	100.00%
56. PGE Inwest 2 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
57. PGE Ventures sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
58. PGE Inwest 8 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
59. PGE Inwest 9 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
60. PGE Inwest 10 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
61. PGE Inwest 11 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
62. PGE Inwest 12 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
63. PGE Inwest 13 S.A. Warsaw	PGE S.A.	100.00%	100.00%
64. PGE Inwest 14 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
65. PGE Nowa Energia sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
66. Towarzystwo Funduszy Inwestycyjnych Energia S.A. Warsaw	PGE S.A.	100.00%	100.00%
67. Rybnik 2050 sp. z o.o. w organizacji Warsaw	PGE S.A.	100.00%	-
68. BIO-ENERGIA sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
69. Przedsiębiorstwo Transportowo-Uslugowe „ETRA” sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
70. Energetyczne Systemy Pomiarowe sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
71. Przedsiębiorstwo Usługowo-Handlowe TOREC sp. z o.o. Toruń	PGE Toruń S.A.	51.05%	51.05%
72. 4Mobility S.A. Warsaw	PGE Nowa Energia sp. z o.o.	51.47%	51.47%
73. PIMERGE S.A. Wrocław	PGE Ventures sp. z o.o.	89.87%	89.87%

The table above includes the following changes in the structure of PGE Group companies subject to full consolidation which took place during the period ended March 31, 2021:

- Rybnik 2050 sp. z o.o. w organizacji was formed on February 1, 2021. The company was not yet registered at the National Court Register as of the date on which this report was prepared.
- On March 1, 2021, an Extraordinary General Meeting of PGE Trading adopted a resolution to dissolve PGE Trading and appoint a liquidator to liquidate PGE Trading.
- An agreement to sell all shares in PGE EJ1 sp. z o.o. to the State Treasury was signed on March 26, 2021. The ownership of the shares was transferred on March 31, 2021. In connection with this sale, PGE Group recorded a gross loss of PLN 19 million in its consolidated financial statements. The selling price may be adjusted due to the company's valuation as at the date of sale, but it shouldn't have significant impact on the result on sale.
- On March 31, 2021 an Extraordinary General Meeting of PGE EO S.A. (acquiring company) and Extraordinary General Meeting of ECO - POWER sp. z o.o. (acquired company) adopted resolutions to merge the companies by transferring the entire assets of the acquired company to the acquiring company without issuing new shares by the acquiring company in exchange for shares in the acquired company. The merger was registered at the National Court Register on April 30, 2021.

## Events after the reporting period

As stated in note 25.3 of these financial statements, a 50% stake in Elektrownia Wiatrowa Baltica - 2 sp. z o.o. and Elektrownia Wiatrowa Baltica - 3 sp. z o.o. was sold to Ørsted on May 6, 2021. PGE Group is losing control over these two companies as a result of the transaction. Starting from the sale date, Elektrownia Wiatrowa Baltica - 2 sp. z o.o. and Elektrownia Wiatrowa Baltica - 3 sp. z o.o. will constitute a joint operation in the meaning of IFRS 11 *Joint Arrangements*.

## 2. Basis for preparation of financial statements

### 2.1 Statement of compliance

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

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

### 2.2 Presentation and functional currency

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

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

	March 31, 2021	December 31, 2020	March 31, 2020
USD	3.9676	3.7584	4.1466
EUR	4.6603	4.6148	4.5523

### 2.3 New standards and interpretations published, not yet effective

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

Standard	Description of changes	Effective date
IFRS 14 Regulatory Deferral Accounts	Accounting and disclosure principles for regulatory deferral accounts.	Standard in the current version will not be effective in the EU
Amendments to IFRS 10 and IAS 28	Contains guidelines on the sale or contribution of assets between an investor and its joint venture or associate.	Deferred indefinitely
IFRS 17 Insurance contracts	Defines a new approach to recognising revenue and profit/loss in the period in which insurance services are provided	January 1, 2023
Amendments to IAS 1	The amendments concern the presentation of financial statements.	January 1, 2023
Amendments resulting from IFRS annual improvement cycle 2018-2020	Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 mainly concern the resolution of inconsistencies and clarification of terminology.	January 1, 2022
Amendments to IFRS 3	Amendments to References to the Conceptual Framework	January 1, 2022
Amendments to IAS 16	Proceeds from property, plant and equipment before intended use	January 1, 2022
Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract	January 1, 2022
Amendments to IFRS 16	Covid-19-Related Rent Concessions	April 1, 2021
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	January 1, 2023

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

## 2.4 Professional judgement of management and estimates

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

- In the previous reporting periods PGE Group recognised impairment losses on assets, in particular property, plant and equipment. In the present period, the Group did not identify any need to conduct impairment tests or reverse impairment losses recognised in previous reporting periods. Estimates of recoverable amount of property, plant and equipment are based on a number of significant assumptions to the factors, realisation of which is uncertain and mostly beyond PGE Group's control. According to the Group, the most accurate volumes and values were applied but actual figures may differ from the Group's assumptions.
- 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 settlements are described in note 23 to these consolidated financial statements.
- No significant extensions in the payment of receivables or problems with liquidity resulting from the COVID-19 pandemic were observed as of the reporting date. Following the pandemic's outbreak, in 2020 the Group updated its models for estimating expected credit losses. For the purposes of estimating expected credit losses, counterparties were split into two groups: strategic counterparties, which have been internally assigned ratings based on a scoring model, and other counterparties, for which expected credit losses are estimated based on a provision matrix. For the first group of counterparties, the basis for calculating expected credit losses was changed. Losses are currently calculated on the basis of Credit Default Swap (CDS) prices, while for the other group of counterparties percentage coefficients in each time interval of the provision matrix were updated to a level corresponding to the current recovery rate for receivables. As a result of these two changes, the amount of provisions for expected credit losses at March 31, 2021 was PLN 16 million higher than it would have been had the previous rules been applied. A more extensive description of the impact of the pandemic on PGE Group's business is presented in note 25.1 to these financial statements.

## 3. Changes in accounting principles and data presentation

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

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

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

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

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

In the category of financial assets and financial liabilities at fair value through profit or loss, the Group presents financial instruments related to greenhouse gas emissions trading – currency and commodity forwards, contracts to buy and sell coal, commodity swaps (Level 2).

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

	Assets at March 31, 2021		Liabilities at March 31, 2021	
	Level 1	Level 2	Level 1	Level 2
<b>FAIR VALUE HIERARCHY</b>				
CO <sub>2</sub> emission allowances in trading activities	1	-	-	-
Hard coal in trading activities	124	-	-	-
<b>INVENTORIES</b>	<b>125</b>	-	-	-
Currency forwards		9	-	4
Commodity forwards		73	-	-
Commodity SWAP		11	-	15
Contracts for purchase/sale of coal		1	-	1
Options		25	-	-
<b>DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	-	<b>119</b>		<b>20</b>
CCIRS hedges	-	92	-	-
IRS hedges	-	-	-	229
Currency forward - USD	-	3	-	-
Currency forward - EUR	-	275	-	12
<b>HEDGING DERIVATIVES</b>	-	<b>370</b>	-	<b>241</b>
Investment fund participation units	-	52	-	-
<b>OTHER ASSETS / LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	-	<b>52</b>	-	-
	Assets at December 31, 2020		Liabilities at December 31, 2020	
	Level 1	Level 2	Level 1	Level 2
<b>FAIR VALUE HIERARCHY</b>				
CO <sub>2</sub> emission allowances in trading activities	1	-	-	-
Hard coal in trading activities	144	-	-	-
<b>INVENTORIES</b>	<b>145</b>	-	-	-
Currency forwards		3	-	4
Commodity forwards		11	-	4
Commodity swaps		11	-	13
Contracts for purchase/sale of coal		17	-	18
Options		16	-	-
<b>DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	-	<b>58</b>		<b>39</b>
CCIRS hedges	-	64	-	-
IRS hedges	-	-	-	385
Currency forward - USD	-	-	-	1
Currency forward - EUR	-	381	-	23
<b>HEDGING DERIVATIVES</b>	-	<b>445</b>	-	<b>409</b>
Investment fund participation units	-	52	-	-
<b>OTHER ASSETS / LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	-	<b>52</b>	-	-

Derivative instruments are presented in note 17 to these financial statements. During the current and comparative reporting periods, there were no transfers of financial instruments between the first and second level of the fair value hierarchy.

## EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### EXPLANATORY NOTES TO OPERATING SEGMENTS

#### 5. Information on operating segments

PGE Group companies conduct their business activities based on relevant concessions, including primarily concessions for the generation, trade and distribution of electricity, generation, transmission and distribution of heat, granted by the President of the Energy Regulatory Office, along with concessions for lignite mining, granted by the Minister of the Environment. Generally, concessions are issued for a period between 10 and 50 years.

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

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

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

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

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

#### Seasonality of business segments

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

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

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

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

## 5.1 Information on business segments

### Information on business segments for the period ended March 31, 2021

	Conventional Generation	District Heating	Renewables	Supply	Distribution	Circular Economy	Other Activity	Adjustmen ts	Total
<b>STATEMENT OF PROFIT OR LOSS</b>									
Sales to external customers	4,271	1,309	197	4,428	1,657	21	15	2	11,900
Inter-segment sales	1,577	575	126	6,070	20	37	87	(8,492)	-
<b>TOTAL SEGMENT REVENUE</b>	<b>5,848</b>	<b>1,884</b>	<b>323</b>	<b>10,498</b>	<b>1,677</b>	<b>58</b>	<b>102</b>	<b>(8,490)</b>	<b>11,900</b>
Cost of goods sold	(5,607)	(1,436)	(201)	(9,743)	(1,273)	(42)	(92)	8,236	(10,158)
<b>EBIT</b>	<b>41</b>	<b>357</b>	<b>104</b>	<b>343</b>	<b>348</b>	<b>7</b>	<b>(4)</b>	<b>(32)</b>	<b>1,164</b>
Depreciation, amortisation, liquidation and impairment recognised in profit or loss	470	153	89	9	310	2	16	(7)	1,042
<b>EBITDA</b>	<b>511</b>	<b>510</b>	<b>193</b>	<b>352</b>	<b>658</b>	<b>9</b>	<b>12</b>	<b>(39)</b>	<b>2,206</b>
<b>GROSS PROFIT</b>	-	-	-	-	-	-	-	-	<b>1,024</b>
Income tax	-	-	-	-	-	-	-	-	(189)
<b>NET PROFIT FOR THE REPORTING PERIOD</b>	-	-	-	-	-	-	-	-	<b>835</b>
<b>ASSETS AND LIABILITIES</b>									
Segment assets excluding trade receivables	40,931	8,399	4,265	1,807	19,446	68	355	(1,003)	74,268
Trade receivables	1,850	597	185	11,429	1,025	38	71	(11,242)	3,953
Equity-accounted interests	-	-	-	-	-	-	-	-	154
Unallocated assets	-	-	-	-	-	-	-	-	5,848
<b>TOTAL ASSETS</b>	-	-	-	-	-	-	-	-	<b>84,223</b>
Segment liabilities excluding trade liabilities	17,972	2,218	514	4,524	2,039	48	102	(1,073)	26,344
Trade liabilities	6,915	1,049	32	4,509	382	11	24	(11,695)	1,227
Unallocated liabilities	-	-	-	-	-	-	-	-	12,399
<b>TOTAL LIABILITIES</b>	-	-	-	-	-	-	-	-	<b>39,970</b>
<b>OTHER INFORMATION ON BUSINESS SEGMENT</b>									
Capital expenditures	416	116	18	2	285	4	17	(30)	828
Increases in right-of-use assets	1	4	2	1	2	-	1	-	11
<b>TOTAL INVESTMENT EXPENDITURES</b>	<b>417</b>	<b>120</b>	<b>20</b>	<b>3</b>	<b>287</b>	<b>4</b>	<b>18</b>	<b>(30)</b>	<b>839</b>
Impairment losses on financial and non-financial assets	43	(4)	-	1	4	-	-	-	44
Other non-monetary expenses *)	1,795	375	10	319	42	(1)	7	-	2,547

\*) Non-monetary expenses include mainly changes in provisions such as: rehabilitation provision, provision for CO<sub>2</sub> emission rights, provision for seniority bonuses, employee tariff and non-financial liabilities concerning employee benefits that are recognised in profit or loss and other comprehensive income.



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

	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activity	Adjustmen ts	Total
<b>STATEMENT OF PROFIT OR LOSS</b>								
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)	-
<b>TOTAL SEGMENT REVENUE</b>	<b>6,804</b>	<b>1,738</b>	<b>310</b>	<b>10,167</b>	<b>1,641</b>	<b>125</b>	<b>(8,194)</b>	<b>12,591</b>
Cost of goods sold	(6,503)	(1,443)	(175)	(9,637)	(1,310)	(117)	7,903	(11,282)
<b>EBIT</b>	<b>59</b>	<b>195</b>	<b>119</b>	<b>210</b>	<b>261</b>	<b>(14)</b>	<b>(57)</b>	<b>773</b>
Depreciation, amortisation, liquidation and impairment recognised in profit or loss	438	147	74	8	312	21	(3)	997
<b>EBITDA</b>	<b>497</b>	<b>342</b>	<b>193</b>	<b>218</b>	<b>573</b>	<b>7</b>	<b>(60)</b>	<b>1,770</b>
<b>GROSS PROFIT</b>	-	-	-	-	-	-	-	<b>609</b>
Income tax	-	-	-	-	-	-	-	(124)
<b>NET PROFIT FOR THE REPORTING PERIOD</b>	-	-	-	-	-	-	-	<b>485</b>
<b>ASSETS AND LIABILITIES</b>								
Segment 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
<b>TOTAL ASSETS</b>	-	-	-	-	-	-	-	<b>80,970</b>
Segment liabilities, except for 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
<b>TOTAL LIABILITIES</b>	-	-	-	-	-	-	-	<b>37,227</b>
<b>OTHER INFORMATION ON BUSINESS SEGMENT</b>								
Capital expenditures	368	40	91	4	426	41	(22)	948
Increases in right-of-use assets	2	3	1	1	1	1	-	9
<b>TOTAL INVESTMENT EXPENDITURES</b>	<b>370</b>	<b>43</b>	<b>92</b>	<b>5</b>	<b>427</b>	<b>42</b>	<b>(22)</b>	<b>957</b>
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<sub>2</sub> emission rights, provision for seniority bonuses, employee tariff and non-financial liabilities concerning employee benefits that are recognised in profit or loss and other comprehensive income.

## EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

### 6. Revenue and costs

#### 6.1 Revenue from sales

##### Revenue from sales for the period ended March 31, 2021, by category

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

	Conventional Generation	District Heating	Renewables	Supply	Distribution	Circular Economy	Other Activity	Adjustments	Total
Revenue from contracts with customers	5,845	1,874	322	10,497	1,661	58	101	(8,483)	11,875
Revenues from LTC compensations	-	1	-	-	-	-	-	-	1
Revenue from support for high-efficiency cogeneration	-	2	-	-	-	-	-	-	2
Revenue from leases	3	7	1	1	16	-	1	(7)	22
<b>TOTAL REVENUE FROM SALES</b>	<b>5,848</b>	<b>1,884</b>	<b>323</b>	<b>10,498</b>	<b>1,677</b>	<b>58</b>	<b>102</b>	<b>(8,490)</b>	<b>11,900</b>

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

Type of goods or services	Conventional Generation	District Heating	Renewables	Supply	Distribution	Circular Economy	Other Activity	Adjustments	Total
Revenue from sale of goods and products, without excluding taxes and fees	5,848	1,859	322	10,311	1,939	20	10	(8,137)	12,172
Taxes and fees collected on behalf of third parties	(3)	(1)	-	(38)	(290)	-	-	-	(332)
<b>Revenue from sale of goods and products, including:</b>	<b>5,845</b>	<b>1,858</b>	<b>322</b>	<b>10,273</b>	<b>1,649</b>	<b>20</b>	<b>10</b>	<b>(8,137)</b>	<b>11,840</b>
Sale of electricity	4,104	824	199	3,369	1	-	-	(1,316)	7,181
Capacity market	513	77	71	10	-	-	-	-	671
Sale of distribution services	5	3	-	13	1,599	-	-	(20)	1,600
Sale of heat	78	922	-	5	-	-	-	-	1,005
Sale of energy origin rights	20	4	44	-	-	-	-	-	68
Regulatory system services	90	-	8	-	-	-	-	-	98
Sale of natural gas	-	-	-	105	-	-	-	(56)	49
Sale of fuel	-	-	-	132	-	-	-	(72)	60
Sale of CO <sub>2</sub> emission allowances	1,018	28	-	6,639	-	-	-	(6,664)	1,021
Other sale of goods and materials	17	-	-	-	49	20	10	(9)	87
<b>Revenue from sale of services</b>	<b>-</b>	<b>16</b>	<b>-</b>	<b>224</b>	<b>12</b>	<b>38</b>	<b>91</b>	<b>(346)</b>	<b>35</b>
<b>REVENUE FROM CONTRACTS WITH CUSTOMERS</b>	<b>5,845</b>	<b>1,874</b>	<b>322</b>	<b>10,497</b>	<b>1,661</b>	<b>58</b>	<b>101</b>	<b>(8,483)</b>	<b>11,875</b>

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

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

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

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

Type of goods or services	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activity	Adjustments	Total
Revenue from sale of goods and products, without excluding taxes and fees	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)
<b>Revenue from sale of goods and products, including:</b>	<b>6,799</b>	<b>1,703</b>	<b>259</b>	<b>9,925</b>	<b>1,613</b>	<b>24</b>	<b>(7,840)</b>	<b>12,483</b>
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 <sub>2</sub> emission allowances	1,276	200	-	5,569	-	-	(5,474)	1,571
Other sale of goods and materials	35	12	1	-	51	24	(2)	121
<b>Revenue from sale of services</b>	<b>1</b>	<b>27</b>	<b>-</b>	<b>241</b>	<b>14</b>	<b>101</b>	<b>(350)</b>	<b>34</b>
<b>REVENUE FROM CONTRACTS WITH CUSTOMERS</b>	<b>6,800</b>	<b>1,730</b>	<b>259</b>	<b>10,166</b>	<b>1,627</b>	<b>125</b>	<b>(8,190)</b>	<b>12,517</b>

## 6.2 Costs by nature and function

	Period ended March 31, 2021	Period ended March 31, 2020
<b>COSTS BY NATURE</b>		
Depreciation, amortisation and impairment losses	1,044	989
Materials and energy	1,543	1,520
External services	556	606
Taxes and fees	2,648	2,169
Employee benefits expenses	1,351	1,425
Other costs by nature	80	68
<b>TOTAL COST BY NATURE</b>	<b>7,222</b>	<b>6,777</b>
Change in product inventories	(10)	(12)
Cost of products and services for internal purposes	(133)	(221)
Distribution and selling expenses	(417)	(348)
General and administrative expenses	(260)	(272)
Cost of goods and materials sold	3,756	5,358
<b>COST OF GOODS SOLD</b>	<b>10,158</b>	<b>11,282</b>

### 6.2.1 Depreciation, amortisation, liquidation and impairment

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

Period ended March 31, 2021	Depreciation, amortisation, disposal					Impairment		
	Property, plant and equipment	Intangible assets	Right-of-use assets	Investment property	TOTAL	Property, plant and equipment	Intangible assets	TOTAL
Cost of goods sold	952	13	12	1	978	45	(1)	44
Distribution and selling expenses	3	1	-	-	4	-	-	-
General and administrative expenses	9	4	3	-	16	-	-	-
<b>RECOGNISED IN PROFIT OR LOSS</b>	<b>964</b>	<b>18</b>	<b>15</b>	<b>1</b>	<b>998</b>	<b>45</b>	<b>(1)</b>	<b>44</b>
Change in product inventories	-	-	-	-	-	-	-	-
Cost of products and services for internal purposes	2	-	-	-	2	-	-	-
<b>TOTAL</b>	<b>966</b>	<b>18</b>	<b>15</b>	<b>1</b>	<b>1,000</b>	<b>45</b>	<b>(1)</b>	<b>44</b>

Period ended March 31, 2020	Depreciation, amortisation, disposal					Impairment	
	Property, plant and equipment	Intangible assets	Right-of- use assets	Investment property	TOTAL	Property, plant and equipment	TOTAL
Cost of goods sold	915	18	14	1	948	30	30
Distribution and selling expenses	3	1	-	-	4	-	-
General and administrative expenses	8	4	2	-	14	1	1
<b>RECOGNISED IN PROFIT OR LOSS</b>	<b>926</b>	<b>23</b>	<b>16</b>	<b>1</b>	<b>966</b>	<b>31</b>	<b>31</b>
Change in product inventories	(14)	-	-	-	(14)	-	-
Cost of products and services for internal purposes	5	1	-	-	6	-	-
<b>TOTAL</b>	<b>917</b>	<b>24</b>	<b>16</b>	<b>1</b>	<b>958</b>	<b>31</b>	<b>31</b>

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

In the item 'Depreciation/amortisation and liquidation' the Group recognised in the current and comparative period PLN 8 million net as liquidation of property, plant and equipment and intangible assets.

### 6.3 Other operating income and expenses

	Period ended March 31, 2021	Period ended March 31, 2020
<b>NET OTHER OPERATING INCOME/(EXPENSES)</b>		
Measurement and exercise of derivatives, including:	74	76
- CO <sub>2</sub>	73	69
- Coal	1	7
Penalties, fines and compensations received	14	21
(Recognition)/reversal of other provisions	10	(4)
Grants received	8	9
(Recognition)/reversal of impairment losses on receivables	4	(7)
Gain on sale of property, plant and equipment / intangible assets	3	2
Other	(14)	(13)
<b>TOTAL NET OTHER OPERATING INCOME/(EXPENSES)</b>	<b>99</b>	<b>84</b>

### 6.4 Finance income and finance costs

	Period ended March 31, 2021	Period ended March 31, 2020
<b>NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS</b>		
Dividends	-	-
Interest, including	(65)	(63)
<i>Interest income calculated using the effective interest method</i>	8	11
Impairment	10	(8)
Reversal/(recognition) of impairment	(2)	2
Exchange differences	(10)	(15)
Loss on sale of investment	(19)	-
<b>TOTAL NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS</b>	<b>(86)</b>	<b>(84)</b>
<b>NET OTHER FINANCE INCOME/(COSTS)</b>		
Interest cost on non-financial items	(46)	(59)
Interest on statutory receivables	-	-
Recognition of provisions	(1)	(9)
Other	(1)	(5)
<b>TOTAL NET OTHER FINANCE INCOME/(COSTS)</b>	<b>(48)</b>	<b>(73)</b>
<b>TOTAL NET FINANCE INCOME/(COSTS)</b>	<b>(134)</b>	<b>(157)</b>

Interest costs mainly relate to outstanding bonds, credit facilities, loans and leases. The interest cost on liabilities reached PLN 10 million in the current report (PLN 11 million in the comparative period).

The interest cost on non-financial items concerns land rehabilitation provisions and employee benefit provisions.

The loss on disposal of an investment, amounting to PLN 19 million, concerns the sale of shares in PGE EJ 1 sp. z o.o.

## 6.5 Share of profit of equity-accounted entities

Period ended March 31, 2021	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
<b>SHARE IN VOTES</b>	<b>15.32%</b>	<b>16.48%</b>	<b>25.00%</b>	<b>34.93%</b>	<b>49.79%</b>
Revenue	1,956	421	-	7	17
Result on continuing operations	(148)	-	(1)	1	3
<b>Share of profit of equity-accounted entities before consolidation adjustments</b>	<b>(23)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>
Elimination of unrealised gains and losses	(7)	-	-	-	-
Impairment	23	-	-	-	-
<b>SHARE OF PROFIT OF EQUITY-ACCOUNTED ENTITIES</b>	<b>(7)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>
<b>Period ended March 31, 2020</b>	<b>Polska Grupa Górnicza</b>	<b>Polimex Mostostal</b>	<b>ElectroMobility Poland</b>	<b>PEC Bogatynia</b>	<b>Energopomiar</b>
<b>SHARE IN VOTES</b>	<b>15.32%</b>	<b>16.48%</b>	<b>25.00%</b>	<b>34.93%</b>	<b>49.79%</b>
Revenue	1,832	337	-	5	18
Result on continuing operations	(136)	57	(1)	1	4
<b>Share of profit of equity-accounted entities before consolidation adjustments</b>	<b>(21)</b>	<b>9</b>	<b>-</b>	<b>-</b>	<b>2</b>
Elimination of unrealised gains and losses	3	-	-	-	-
<b>SHARE OF PROFIT OF EQUITY-ACCOUNTED ENTITIES</b>	<b>(18)</b>	<b>9</b>	<b>-</b>	<b>-</b>	<b>2</b>

The Group performs a consolidation adjustment related to margin on coal sales between Polska Grupa Górnicza and PGE Group.

## 7. Impairment of assets

	Period ended March 31, 2021	Period ended March 31, 2020 <i>restated data</i>
<b>IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT</b>		
Recognition of impairment	47	34
Reversal of impairment loss	2	3
<b>IMPAIRMENT OF INTANGIBLE ASSETS</b>		
Recognition of impairment loss	-	-
Reversal of impairment loss	1	-
<b>IMPAIRMENT OF INVENTORIES</b>		
Recognition of impairment loss	2	7
Reversal of impairment loss	3	15

## 8. Income tax

### Tax in the statement of comprehensive income

The main elements of the tax burden for the period ended March 31, 2021 and March 31, 2020 were as follows:

	Period ended March 31, 2021	Period ended March 31, 2020
<b>INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS</b>		
Current income tax	42	375
Adjustments concerning current income tax from prior years	-	-
Deferred income tax	144	(249)
Adjustments of deferred income tax	3	(2)
<b>INCOME TAX EXPENSE RECOGNISED IN STATEMENT OF PROFIT OR LOSS</b>	<b>189</b>	<b>124</b>
<b>INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME</b>		
From actuarial gains and losses from valuation of provisions for employee benefits	-	(6)
From measurement of hedging instruments	18	33
<b>(Tax benefit) / tax burden recognised in other comprehensive income (equity)</b>	<b>18</b>	<b>27</b>

## EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

In the present period, PGE Group purchased property, plant and equipment and intangible assets worth PLN 828 million, along with the right-of-use for underlying assets worth PLN 12 million. The largest expenditures were incurred in the Conventional Generation segment (PLN 417 million) and the Distribution segment (PLN 287 million). The key expenditure items were as follows: construction of new unit (no. 7) at Elektrownia Turów (PLN 70 million), construction of two new gas-and-steam units at Elektrownia Dolna Odra (PLN 172 million) and connection of new customers to DSO grid (PLN 129 million). These values include borrowing costs.

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

### 10. Future investment commitments

As at March 31, 2021, PGE Group committed to incur capital expenditures on property, plant and equipment of approximately PLN 7,233 million. These amounts relate mainly to construction of new power units, modernisation of Group's assets and the purchase of machinery and equipment.

	As at March 31, 2021	As at December 31, 2020
Conventional Generation	5,594	5,790
Distribution	1,269	1,346
Renewables	188	185
District Heating	171	190
Circular Economy	5	-
Supply	3	3
Other Activity	3	175
<b>TOTAL FUTURE INVESTMENT COMMITMENTS</b>	<b>7,233</b>	<b>7,689</b>

The most significant future investment commitments concern:

- Conventional Generation:
  - Branch Elektrownia Bełchatów - modernisation of flue gas desulphurisation system - approx. PLN 130 million,
  - Branch Elektrownia Turów – construction of new power unit no. 7 – approx. PLN 548 million,
  - Branch Zespół Elektrowni Dolna Odra - construction of two gas-and-steam units and contract for service for two gas turbines - approx. PLN 4,090 million,
- Distribution – investment commitments mainly related to network distribution assets with the total value of approximately PLN 1,269 million,

The decrease in future investment commitments in the Other Activity segment is related to the sale of PGE EJ1 sp. z o.o., which had been responsible for these commitments.

### 11. Shares accounted for using the equity method

	As at March 31, 2021	As at December 31, 2020
Polska Grupa Górnicza S.A., Katowice	-	-
Polimex - Mostostal S.A., Warsaw	127	127
ElectroMobility Poland S.A., Warsaw	14	14
PEC Bogatynia Sp. z o.o., Bogatynia	-	-
Energopomiar Sp. z o.o., Gliwice	13	11
<b>EQUITY-ACCOUNTED INTERESTS</b>	<b>154</b>	<b>152</b>

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
<b>SHARE IN VOTES</b>	<b>15.32%</b>	<b>16.48%</b>	<b>25.00%</b>	<b>34.93%</b>	<b>49.79%</b>
<b>AT MARCH 31, 2021</b>					
Current assets	1,645	1,131	13	5	30
Non-current assets	8,283	650	41	20	18
Current liabilities	6,638	907	1	2	9
Non-current liabilities	2,828	201	-	-	14
<b>NET ASSETS</b>	<b>462</b>	<b>673</b>	<b>53</b>	<b>23</b>	<b>25</b>
<b>Share in net assets</b>	<b>71</b>	<b>111</b>	<b>14</b>	<b>7</b>	<b>13</b>
Goodwill	1	16	-	-	-
Impairment of investment	(72)	-	-	(7)	-
<b>EQUITY-ACCOUNTED INTERESTS</b>	<b>-</b>	<b>127</b>	<b>14</b>	<b>-</b>	<b>13</b>

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

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

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

## 12. Deferred tax in statement of financial position

### 12.1 Deferred income tax assets

	As at March 31, 2021	As at December 31, 2020
Difference between tax value and carrying amount of property, plant and equipment	2,651	2,776
Rehabilitation provision	1,253	1,242
Provision for cost of CO <sub>2</sub> emissions	1,553	1,206
Provisions for employee benefits	715	723
Difference between tax value and carrying amount of liabilities	330	316
Difference between tax value and carrying amount of financial assets	422	395
Difference between carrying amount and tax value of right-of-use assets	165	171
Tax losses	620	111
Other provisions	140	157
LTC compensations	79	79
Energy infrastructure acquired free of charge and connection payments received	28	28
Difference between tax value and carrying amount of inventories	13	11
Other	15	4
<b>TOTAL DEFERRED INCOME TAX ASSETS</b>	<b>7,984</b>	<b>7,219</b>

## 12.2 Deferred tax liabilities

	As at March 31, 2021	As at December 31, 2020
Difference between tax value and carrying amount of property, plant and equipment	4,970	5,000
Difference between tax value and present carrying amount of financial assets	812	713
Difference between carrying amount and tax value of lease liabilities	178	181
CO <sub>2</sub> emission allowances	1,058	199
Difference between tax value and carrying amount of energy origin units	19	31
Receivables from recognised compensation - Act on electricity prices	17	16
Difference between tax value and present carrying amount of financial liabilities	10	8
Other	79	65
<b>TOTAL DEFERRED TAX LIABILITIES</b>	<b>7,143</b>	<b>6,213</b>

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

Deferred income tax assets	1,204	1,351
Deferred income tax liabilities	(363)	(345)

## 13. Inventories

	As at March 31, 2021	As at December 31, 2020
Hard coal	644	963
Repair and maintenance materials	707	676
Mazut	34	29
Other materials	63	70
<b>TOTAL MATERIALS</b>	<b>1,448</b>	<b>1,738</b>
Green energy origin rights	903	1,140
Other energy origin rights	7	3
<b>TOTAL ENERGY ORIGIN RIGHTS</b>	<b>910</b>	<b>1,143</b>
CO <sub>2</sub> emission allowances held for sale	1	1
Hard coal held for sale	124	144
Other goods	20	25
<b>TOTAL GOODS</b>	<b>145</b>	<b>170</b>
<b>OTHER INVENTORIES</b>	<b>80</b>	<b>72</b>
<b>TOTAL INVENTORIES</b>	<b>2,583</b>	<b>3,123</b>

## 14. CO<sub>2</sub> emission allowances for captive use

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

In the case of EUAs for CO<sub>2</sub> emissions related to district heating, the allocation schedule for 2021 has not yet been approved, and EUAs which were allocated in February covered CO<sub>2</sub> emissions for 2020 (1 million EUAs).

EUA	At March 31, 2021		At December 31, 2020	
	Non-current	Current	Non-current	Current
Quantity (Mg million)	1	57	1	20
Value (PLN million)	41	6,150	39	1,735
EUA	Quantity (Mg million)		Value (PLN million)	
<b>AT JANUARY 1, 2020</b>		<b>21</b>		<b>1,205</b>
Purchase		78		6,629
Granted free of charge		13		-
Redemption		(61)		(3,414)
Sale		(30)		(2,646)
<b>AT DECEMBER 31, 2020</b>		<b>21</b>		<b>1,774</b>
Purchase		49		5,620
Redemption		(2)		(168)
Sale		(10)		(1,035)
<b>AT MARCH 31, 2021</b>		<b>58</b>		<b>6,191</b>



## 15. Other current and non-current assets

### 15.1 Other non-current assets

	As at March 31, 2021	As at December 31, 2020
Advances for property, plant and equipment	686	711
Cost to acquire customers	105	105
Other non-current assets	21	23
<b>TOTAL OTHER ASSETS</b>	<b>812</b>	<b>839</b>

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

### 15.2 Other current assets

	As at March 31, 2021	As at December 31, 2020
<b>PREPAYMENTS</b>		
Cost to acquire customers	52	50
Long-term contracts	46	43
Property and tort insurance	18	14
Logistics costs related to coal purchases	13	17
IT services	12	16
Social Fund	2	10
Other prepayments	74	20
<b>OTHER CURRENT ASSETS</b>		
VAT receivables	1,251	519
Excise tax receivables	12	17
Advances for deliveries	5	11
Other current assets	77	82
<b>TOTAL OTHER ASSETS</b>	<b>1,562</b>	<b>799</b>

The amount of VAT is related to an estimate of electricity sales unread on metering equipment as of the reporting date and transactions in CO<sub>2</sub> emissions trading. The increase in VAT in comparison with the preceding period mainly results from an increase in the scale of transactions along with growth in CO<sub>2</sub> allowance prices.

## 16. Selected financial assets

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

### 16.1 Trade and other financial receivables

	At March 31, 2021		At December 31, 2020	
	Non-current	Current	Non-current	Current
Trade receivables	-	3,953	-	3,602
Deposits and loans	194	5	185	6
Bonds	-	-	-	40
Receivables from recognised compensation - Act on electricity prices	-	85	-	85
Deposits, security and collateral	4	662	2	788
Damages and penalties	-	107	-	102
Other financial receivables	8	62	4	189
<b>FINANCIAL RECEIVABLES</b>	<b>206</b>	<b>4,874</b>	<b>191</b>	<b>4,812</b>

Deposits, security and collateral mainly concern transaction and hedging deposits for transactions on the electricity and CO<sub>2</sub> markets.

PGE Obrót has recognised a receivable from the Settlements Manager concerning applications adjusting the amount of price difference and financial compensation received for the period from January 1 to December 31, 2019, amounting to PLN 85 million.

## 16.2 Cash and cash equivalents

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

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

	As at March 31, 2021	As at December 31, 2020
Cash on hand and cash at bank	2,518	1,415
Overnight deposits	-	309
Short-term deposits	131	1,423
Cash in VAT accounts	253	1,042
<b>TOTAL</b>	<b>2,902</b>	<b>4,189</b>
Exchange differences on cash in foreign currencies	(8)	(16)
<b>Cash and cash equivalents presented in the statement of cash flows</b>	<b>2,894</b>	<b>4,173</b>
Unused credit facilities at the reporting date	6,455	6,556
<i>including overdraft facilities</i>	<i>1,810</i>	<i>1,811</i>

A detailed description of credit agreements is presented in note 20.1 of these financial statements.

The value of cash includes restricted cash amounting to PLN 139 million (PLN 93 million in the comparative period) in customer accounts at PGE Dom Maklerski S.A., which constitute collateral for settlements with clearinghouse IRGiT, funds in VAT accounts amounting to PLN 253 million (PLN 1,042 million in the comparative period) and PLN 110 million in tender deposits (PLN 104 million in the comparative period).

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

	At March 31, 2021	
	Assets	Liabilities
<b>DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		
Currency forwards	9	4
Commodity forwards	73	-
Commodity SWAP	11	15
Contracts for purchase/sale of coal	1	1
Options	25	-
<b>HEDGING DERIVATIVES</b>		
CCIRS hedges	92	-
IRS hedges	-	229
Currency forward - USD	3	-
Currency forward - EUR	275	12
<b>Other assets carried at fair value through profit or loss</b>		
Investment fund participation units	52	-
<b>TOTAL</b>	<b>541</b>	<b>261</b>
current	371	32
non-current	170	229

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

### Commodity and currency forwards

Commodity and currency forward transactions mainly relate to trade in CO<sub>2</sub> emission allowances and coal sales. The Group uses hedge accounting to account for currency forwards related to the purchase of CO<sub>2</sub> allowances.

### Options

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

### Coal swaps

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

### Purchase and sale contracts with physical delivery of coal

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

### IRS transactions

PGE S.A. executed IRS transactions to hedge interest rates on credit facilities 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 18.3 to these consolidated financial statements.

### CCIRS hedges

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

### Investment fund participation units

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

## 18. Equity

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

### 18.1 Share capital

	As at March 31, 2021	As at December 31, 2020
1,470,576,500 Series A ordinary Shares with a nominal value of PLN 10.25 each	15,073	15,073
259,513,500 Series B ordinary Shares with a nominal value of PLN 10.25 each	2,660	2,660
73,228,888 Series C ordinary Shares with a nominal value of PLN 10.25 each	751	751
66,441,941 Series D ordinary Shares with a nominal value of PLN 10.25 each	681	681
<b>Total share capital</b>	<b>19,165</b>	<b>19,165</b>

All of the Company's shares are paid up.

After the reporting date and until the date of preparation of the foregoing financial statements there were no changes in the value of the Company's share capital.

#### Shareholder rights - State Treasury rights concerning the Company's activities

The Company is a part of PGE Group, where the State Treasury holds special rights as long as it remains a shareholder.

The State Treasury's special right applicable to PGE Group entities derive from the Act of March 18, 2010 on special rights of the Minister of Energy and their exercise at certain companies and groups operating in the electricity, oil and gas sectors (Polish Journal of Laws of 2016, item 2012). The Act specifies the special rights available to the Minister of Energy related to companies and groups operating in the electricity, oil and gas sectors whose assets are disclosed in the register of buildings, installations, equipment and services considered as critical infrastructure.

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

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

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

### 18.2 Hedging reserve

	Period ended March 31, 2021	Year ended December 31, 2020
<b>AS AT JANUARY 1</b>	<b>(13)</b>	<b>(323)</b>
<b>Change in hedging reserve:</b>	<b>89</b>	<b>383</b>
<b>Measurement of hedging instruments, including:</b>	<b>82</b>	<b>387</b>
<i>Recognition of the effective part of change in fair value of hedging instruments in the part considered as effective hedge</i>	91	420
<i>Accrued interest on derivatives transferred from hedging reserve and recognised in interest expense</i>	(2)	17
<i>Currency revaluation of CCIRS transaction transferred from hedging reserve and recognised in the result on foreign exchange differences</i>	(7)	(51)
<i>Ineffective portion of changes in fair value of hedging derivatives recognised in profit or loss</i>	-	1
<b>Measurement of other financial assets</b>	<b>7</b>	<b>(4)</b>
<b>Deferred tax</b>	<b>(18)</b>	<b>(73)</b>
<b>HEDGING RESERVE AFTER DEFERRED TAX</b>	<b>58</b>	<b>(13)</b>

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

### 18.3 Dividends paid and recommended for payment

On April 27, 2021 the Management Board of PGE S.A. decided to recommend that a dividend for 2020 will not be distributed. The decision was in line with the dividend policy, particularly after analysing the Company's debt in the context of its investment program in accordance with PGE Group's Strategy 2030.

## 19. Provisions

The carrying amount of provisions is as follows:

	At March 31, 2021		At December 31, 2020	
	Non-current	Current	Non-current	Current
Employee benefits	3,013	269	3,007	276
Rehabilitation provision	8,176	-	8,110	1
Provision for cost of CO <sub>2</sub> emissions	-	8,143	-	6,318
Provision for energy origin units held for redemption	-	507	-	589
Provision for non-contractual use of property	48	5	58	5
Other provisions	33	155	32	122
<b>TOTAL PROVISIONS</b>	<b>11,270</b>	<b>9,079</b>	<b>11,207</b>	<b>7,311</b>

### Changes in provisions

	Employee benefits	Rehabilitation provision	Provision for cost of CO <sub>2</sub> emissions	Provisions for energy origin rights held for redemption	Provision for non-contractual use of property	Other	Total
<b>JANUARY 1, 2021</b>	<b>3,283</b>	<b>8,111</b>	<b>6,318</b>	<b>589</b>	<b>63</b>	<b>154</b>	<b>18,518</b>
Actuarial gains and losses	-	-	-	-	-	-	-
Current employment costs	29	-	-	-	-	-	29
Past employment costs	1	-	-	-	-	-	1
Interest costs	11	35	-	-	-	-	46
Adjustment of discount rate and other assumptions	-	-	-	-	-	-	-
Benefits paid / Provisions used	(42)	-	(168)	(342)	-	(20)	(572)
Provisions reversed	-	(3)	-	-	(11)	(5)	(19)
Provisions recognised - costs	-	20	1,993	260	1	48	2,322
Provisions recognised - expenditures	-	12	-	-	-	-	12
Sale of subsidiaries	(1)	-	-	-	-	-	(1)
Other changes	1	1	-	-	-	11	13
<b>MARCH 31, 2021</b>	<b>3,282</b>	<b>8,176</b>	<b>8,143</b>	<b>507</b>	<b>53</b>	<b>188</b>	<b>20,349</b>

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

### 19.1 Provision for employee benefits

Provisions for employee benefits mainly include:

- post-employment benefits - PLN 2,378 million (PLN 2,379 million as at December 31, 2020),
- seniority bonuses - PLN 904 million (PLN 904 million as at December 31, 2020),

## 19.2 Rehabilitation provision

### Provision for rehabilitation of post-mining properties

PGE Group creates provisions for the rehabilitation of post-mining properties. The amount of the provision recognised in the financial statements includes the value of the Mine Liquidation Fund created in accordance with the Geological and Mining Law. The provision as at March 31, 2021 amounted to PLN 7,524 million and as at December 31, 2020 to PLN 7,463 million.

### Provision for rehabilitation of ash landfills

PGE Group's generating assets create provisions for the rehabilitation of ash landfills. As at March 31, 2021, this provision amounted to PLN 328 million (PLN 318 million at the end of the comparative period).

### Provisions for wind farm decommissioning and restoration

Wind farm owners create provisions for decommissioning and restoration. As at March 31, 2021, this provision amounted to PLN 34 million (PLN 71 million at the end of the comparative period).

### Liquidation of property, plant and equipment

As at the reporting date, the provision amounted to PLN 290 million (PLN 259 million as at the end of the comparative period) and refers to certain assets in the Conventional Generation and Renewables segments.

## 19.3 Provision for CO<sub>2</sub> emissions cost

As described in note 14 to these financial statements, the Group no longer receives free emission allowances for electricity generation from 2020. The Group is only eligible to receive free allowances for heating generation. In connection with this, the estimate of this provision as at March 31, 2021, increased to PLN 8,143 (PLN 6,318 million at the end of the comparative period).

## 19.4 Provision for energy origin rights held for redemption

PGE Group companies create a provision for energy origin rights concerning sales generated in the reporting period or previous periods, in the part yet to be redeemed as at the reporting date. The provision as at March 31, 2021 amounted to PLN 507 million (PLN 589 million in the comparative period) and was created mainly by PGE Obrót S.A.

## 19.5 Provision for claims concerning non-contractual use of property

PGE Group companies recognise a provision for claims related to the non-contractual use of property. This issue mainly concerns the distribution company that owns distribution networks. As at the reporting date the provision amounted to approximately PLN 53 million (of which 27 million relate to litigations). In the comparative period, the provision amounted to PLN 63 million (of which PLN 32 million related to litigations).

## 19.6 Settlements with prosumers

2020 saw a considerable increase in the number of prosumer installations, mainly due to the assistance available in the "My electricity" program. According to the Energy Market Agency, installed PV capacity in Poland grew by 159% to 3.96 GW in 2020 vs. 1.53 GW at the end of 2019. The Act on renewable energy sources of February 20, 2015 introduced a settlement system for prosumers and energy cooperatives that generates losses for the obligated supplier (i.e. PGE Obrót S.A.); the higher the percentage of electricity introduced to the grid that is compensated by the prosumer's or energy cooperative's own use, the higher these losses are.

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

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

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

## 20. Financial liabilities

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

Bonds issued by PGE Sweden AB (publ) are based on a fixed interest rate. Their amortised cost presented in these financial statements as at March 31, 2021 amounted to PLN 656 million and their fair value amounted to PLN 725 million.

## 20.1 Loans, borrowings, bonds and leases

	At March 31, 2021		At December 31, 2020	
	Non-current	Current	Non-current	Current
Loans and borrowings	6,458	2,060	7,105	1,318
Bonds issued	2,041	21	2,035	10
Leases	849	46	885	56
<b>TOTAL LOANS, BORROWINGS, BONDS AND LEASES</b>	<b>9,348</b>	<b>2,127</b>	<b>10,025</b>	<b>1,384</b>

### Loans and borrowings

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

Lender	Hedging instrument	Maturity	Limit in currency	Currency	Interest rate	Liability at 31-03-2021	Liability at 31-03-2020
Bank consortium	IRS	2023-09-30	3,630	PLN	Variable	3,629	3,636
European Investment Bank	-	2034-08-25	1,500	PLN	Fixed	1,516	1,505
Bank Gospodarstwa Krajowego	IRS	2027-12-31	1,000	PLN	Variable	878	876
European Bank for Reconstruction and Development	IRS	2028-06-07	500	PLN	Variable	502	501
Bank Gospodarstwa Krajowego	IRS	2028-12-31	500	PLN	Variable	502	500
European Investment Bank	-	2034-08-25	490	PLN	Fixed	496	493
Nordic Investment Bank	-	2024-06-20	150	EUR	Variable	222	219
Bank Pekao S.A.	-	2021-09-21	40	USD	Variable	148	149
Millennium S.A.	-	2021-06-16	7	PLN	Fixed	1	1
Bank Gospodarstwa Krajowego	-	2021-05-31	1,000	PLN	Variable	-	-
PKO BP S.A.	-	2022-04-29	300	PLN	Variable	-	-
Revolving credit facility (bank consortium)	-	2022-12-16	4,100	PLN	Variable	-	-
Bank Pekao S.A.	-	2024-12-22	500	PLN	Variable	-	-
European Investment Bank	-	2038-10-16	273	PLN	Fixed	-	-
NFOŚiGW	-	March 2023 - December 2028	215	PLN	Fixed	147	157
NFOŚiGW	-	September 2021 - June 2035	697	PLN	Variable	355	279
WFOŚiGW	-	September 2021 - September 2026	70	PLN	Fixed	6	6
WFOŚiGW	-	September 2021 - September 2028	207	PLN	Variable	116	101
<b>TOTAL LOANS AND BORROWINGS</b>						<b>8,518</b>	<b>8,423</b>

As at March 31, 2021, the value of the available overdrafts at significant PGE Group companies was PLN 1,810 million. The repayment dates for the available overdraft facilities of PGE Group's key companies are in 2021-2024.

In the period ended March 31, 2021 and after the reporting period no failures to make payment or other breaches of credit agreement terms were recorded.

### Outstanding bonds

Issuer	Security instrument	Program maturity date	Program limit in currency	Currency	Interest rate	Tranche issue date	Tranche buy-back date	Liability at 31-03-2021	Liability at 31-03-2020
PGE S.A.	IRS	indefinite	5,000	PLN	Variable	2019-05-21	2029-05-21	1,004	1,001
						2019-05-21	2026-05-21	402	400
PGE Sweden AB (publ)	CCIRS	indefinite	2,000	EUR	Fixed	2014-08-01	2029-08-01	656	644
<b>TOTAL OUTSTANDING BONDS</b>								<b>2,062</b>	<b>2,045</b>

## 20.2 Trade and other financial liabilities

	At March 31, 2021		At December 31, 2020	
	Non-current	Current	Non-current	Current
Trade liabilities	-	1,227	-	1,357
Settlements related to transactions on exchange	-	941	-	856
Purchase of property, plant and equipment and intangible assets	3	649	6	1,050
Security deposits received	30	90	30	96
Liabilities related to LTC	395	22	395	22
Insurance	-	-	-	8
Other	14	153	17	115
<b>TRADE AND OTHER FINANCIAL LIABILITIES</b>	<b>442</b>	<b>3,082</b>	<b>448</b>	<b>3,504</b>

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

## 21. Other non-financial liabilities

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

### 21.1 Other non-current non-financial liabilities

	As at March 31, 2021	As at December 31, 2020
<b>OTHER NON-CURRENT LIABILITIES</b>		
Liabilities related to a contract	62	64
Estimated liabilities due to Voluntary Leave Programs	1	1
<b>TOTAL OTHER NON-CURRENT LIABILITIES</b>	<b>63</b>	<b>65</b>

### 21.2 Other current non-financial liabilities

	As at March 31, 2021	As at December 31, 2020
<b>OTHER CURRENT LIABILITIES</b>		
VAT liabilities	1,567	540
Excise tax liabilities	23	33
Environmental fees	97	202
Payroll liabilities	179	284
Bonuses for employees	150	272
Unused annual holiday leave	156	113
Estimated liability related to branch holidays: "Barbórka" and "Dzień Energetyka"	27	1
Liabilities due to Voluntary Leave Programs	1	1
Bonuses for the Management Board	21	20
Estimated liabilities concerning other employee benefits	14	5
Personal income tax	56	95
Liabilities from social insurances	227	269
Liabilities related to a contract	332	296
Liabilities related to dividends	7	7
Other	109	65
<b>TOTAL OTHER CURRENT LIABILITIES</b>	<b>2,966</b>	<b>2,203</b>

Liabilities related to VAT mainly concern transactions in CO<sub>2</sub> emissions rights. The increase in VAT by PLN 1,027 million in comparison with the previous period mainly results from an increase in the scale of transactions along with growth in CO<sub>2</sub> allowance prices.

The item 'Other' largely includes liabilities related to settlements within the Company Social Benefits Fund, settlement of inventory surpluses, contributions to the Employee Pensions Program and amounts withheld from employees' salaries.

#### Liabilities related to a contract

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



## OTHER EXPLANATORY NOTES

### 22. Contingent liabilities and receivables, legal claims

#### 22.1 Contingent liabilities

	As at March 31, 2021	As at December 31, 2020
Contingent return of grants from environmental funds	457	461
Legal claims	117	186
Liabilities related to bank guarantees and sureties securing exchange transactions	60	75
Contractual fines and penalties	70	70
Usufruct of land	67	67
Other contingent liabilities	9	37
<b>Total contingent liabilities</b>	<b>780</b>	<b>896</b>

#### Contingent return of grants from environmental funds

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

#### Legal claims

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

#### Bank guarantee liabilities

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

#### Contractual penalties - contract liabilities related to the purchase of fuels

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

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

#### Usufruct of land

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

### 22.2 Other significant issues related to contingent liabilities

#### Non-contractual use of property

As described in note 19.5 of these financial statements, PGE Group recognises a provision for disputes under court proceedings concerning non-contractual use of properties for distribution activities. In addition, PGE Group is a party to disputes at an earlier stage of proceedings, and it cannot be ruled out that the volume and value of similar disputes will increase in the future.

### 22.3 Contingent receivables

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

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

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

## 22.4 Other court cases and disputes

### Compensation for conversion of shares

Former shareholders of PGE GiEK S.A. petitioned the courts to summon PGE S.A. to conciliatory hearings concerning payment of compensation for incorrect (in their opinion) determination of the exchange ratio of shares of PGE Górnictwo i Energetyka S.A. into shares of PGE S.A. during a consolidation process that took place in 2010. The total value of claims resulting from these summons to conciliatory hearings lodged by former shareholders of PGE Górnictwo i Energetyka S.A. exceeds PLN 10 million.

Regardless of the above, on November 12, 2014 Socrates Investment S.A. (an entity which purchased claims from former PGE Górnictwo i Energetyka S.A. shareholders) filed a lawsuit seeking more than PLN 493 million in compensation (plus interest) for damages incurred in respect of incorrect (in their opinion) determination of the exchange ratio of shares in the merger of PGE Górnictwo i Energetyka S.A. and PGE S.A. The Company filed a response to the lawsuit, and first-instance proceedings are in progress. A hearing to appoint a court expert was held on November 20, 2018. A first-instance court proceeding is currently under-way. In a ruling dated April 19, 2019 the court appointed experts to draft an opinion on this matter. The experts' opinion was not yet drafted as of the date on which these financial statements were prepared. The date of the next hearing will be set ex officio.

Furthermore, a similar claim was raised by Pozwy sp. z o.o., an entity that purchased claims from former PGE Elektrownia Opole S.A. shareholders. Pozwy sp. z o.o. filed a claim at the District Court in Warsaw against PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE S.A. and PwC Polska sp. z o.o. ("Defendants"), demanded from the Defendants, in solidum, or jointly damages for Pozwy sp. z o.o. totalling over PLN 260 million with interest for allegedly incorrect (in its opinion) determination of the exchange ratio for PGE Elektrownia Opole S.A. shares for PGE Górnictwo i Energetyka Konwencjonalna S.A. shares in a merger of these companies. This lawsuit was delivered to PGE S.A. on March 9, 2017, and the deadline for responding to it was set by the court as July 9, 2017. PGE S.A. and PGE GiEK S.A. filed a response to the claim on July 8, 2017. On September 28, 2018, the District Court in Warsaw ruled in the first instance - the lawsuit by Pozwy sp. z o.o. against PGE S.A., PGE GiEK S.A. and PwC Polska sp. z o.o. was rejected. On April 8, 2019 PGE S.A. received a copy of an appeal lodged by the claimant on December 7, 2018. A response to the appeal was drafted on April 23, 2019. A hearing was held on December 21, 2020. The Appeals Court ruled to repeal the District Court's ruling in its entirety and referred the case to the District Court for re-examination. On January 22, 2021 PGE S.A. and PGE GiEK S.A. appealed the ruling to the Supreme Court, requesting that the appealed ruling be repealed entirely and the case referred to the Appeals Court for re-examination. At a closed-door hearing on April 27, 2021 the Supreme Court reversed the judgement. The case will therefore be re-examined by the Court of Appeal. PGE S.A. and PGE GiEK S.A. are currently awaiting the justification for the Supreme Court's decision in the final judgment on which the reasons for the decision will be based.

PGE Group companies do not accept the claims being raised by Socrates Investment S.A., Pozwy sp. z o.o. and the rest of shareholders requesting conciliatory settlements. According to PGE S.A., these claims are groundless and the entire consolidation process was conducted fairly and correctly. The value of shares subject to the process of consolidation was established by an independent firm, PwC Polska sp. z o.o. Additionally, the merger plans of these companies, including the exchange ratios, were examined for accuracy and reliability by an expert appointed by the registration court; no irregularities were found. Then, the court registered the mergers of the aforementioned companies.

PGE Group did not create a provision for this claim.

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

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

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

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

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

## 23. Tax settlements

Tax obligations and rights are specified in Poland's constitution, tax regulations and ratified international agreements. According to the tax code, tax is defined as public, unpaid, obligatory and non-returnable cash liability toward the State Treasury, provincial or other regional authorities resulting from the tax regulation. Taking into account the subject criterion, the current taxes in Poland can be divided into five groups: income tax, turnover tax, asset tax, activity tax and other fees not classified elsewhere.

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

Basic tax rates were as follows in 2021: corporate income tax rate – 19%, for smaller enterprises a 9% rate is possible; basic value added tax rate – 23%, reduced: 8%, 5%, 0%, furthermore some goods and products are subject to a VAT tax exemption.

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

### Tax group

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

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

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

The Group intends to effectively use the funds received from counterparties in VAT accounts to pay its liabilities that contain VAT. The level of funds in these VAT accounts on any given day depends mainly on how many of PGE Group's counterparties decide to use this mechanism and the relation between the payment deadlines for receivables and liabilities. As of March 31, 2021 the cash balance in these VAT accounts totalled PLN 253 million.

### Reporting of tax arrangements (MDR)

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

### Excise tax

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

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

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

### **Real estate tax**

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

### **Uncertainty concerning tax settlements**

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

Tax settlements and other activity areas are conditioned by regulations (customs or currency controls) and can be subject to controls of respective authorities that are authorised to issue fines and penalties, and all additional tax liabilities resulting from such audits must be paid with high interest. This means that tax risk in Poland is higher than in countries with more stable tax systems.

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

The Tax Ordinance Act contains provisions from the General Anti-Abuse Clause (GAAR). GAAR is intended to prevent the formation and use of artificial legal structures created in order to avoid paying tax in Poland. GAAR defines tax avoidance as an activity performed primarily to obtain a tax benefit contrary under the circumstances to the subject and aim of the tax law. According to GAAR, such an activity does not result in a tax benefit if it is artificial. All proceedings regarding unjustified division of operations, involving intermediaries despite a lack of economic justification, mutually offsetting elements or other similar activities may be treated as a condition for the existence of artificial activities subject to GAAR. These new regulations will require a much greater judgement in assessing the tax effects of transactions.

The GAAR clause is to be applied in relation to transactions executed after its entry into force and to transactions that were executed prior to its entry into force but in the case of which tax benefits were or continue to be obtained after GAAR went into force. The implementation of these regulations will make it possible for Polish tax inspection authorities to question legal arrangements and agreements made by taxpayers such as group restructuring and reorganisation.

The Group recognises and measures current and deferred income tax assets and liabilities using IAS 12 Income Tax, based on profit (tax loss), tax base, unsettled tax losses, unused tax exemptions and tax rates, taking into account assessment of uncertainties related to tax settlements. If there is uncertainty over where or not and in what scope the tax authority will accept tax accounting for transactions, the Group recognises these settlements taking into account an uncertainty assessment.

## 24. Information on related parties

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

### 24.1 Associates and jointly controlled entities

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

	Period ended March 31, 2021	Period ended March 31, 2020*
Sales to associates and jointly controlled entities	60	80
Purchases from associates and jointly controlled entities	534	466
	As at March 31, 2021	As at December 31, 2020
Trade receivables from associates and jointly controlled entities	194	93
Trade liabilities to associates and jointly controlled entities	207	243

\*restated data

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

### 24.2 State Treasury-controlled companies

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

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

	Period ended March 31, 2021	Period ended March 31, 2020
Sales to related parties	898	515
Purchases from related parties	1,562	1,328
	As at March 31, 2021	As at December 31, 2020
Trade receivables from related parties	406	254
Trade liabilities to related parties	589	582

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

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

### 24.3 Management Board and Supervisory Board remuneration

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

PLN 000s	Period ended March 31, 2021	Period ended March 31, 2020
Short-term employee benefits (salaries and salary related costs)	9,981	9,815
Post-employment benefits	-	1,045
<b>TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL</b>	<b>9,981</b>	<b>10,860</b>
Remuneration of key management personnel of entities of non-core operations	6,084	6,506
<b>TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL</b>	<b>16,065</b>	<b>17,366</b>
PLN 000s	Period ended March 31, 2021	Period ended March 31, 2020
Management Board of the parent company	2,164	2,060
including post-employment benefits	-	180
Supervisory Board of the parent company	210	217
Management Boards – subsidiaries	6,597	7,462
Supervisory Boards – subsidiaries	1,010	1,121
<b>TOTAL</b>	<b>9,981</b>	<b>10,860</b>
Remuneration of key management personnel of entities of non-core operations	6,084	6,506
<b>TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL</b>	<b>16,065</b>	<b>17,366</b>

PGE Group companies (direct and indirect subsidiaries) apply a rule whereby management board members are employed on the basis of management services contracts. The cost of this remuneration is presented, by nature and function, in note 5.2 other costs by nature.

## 25. Significant events during and after the reporting period

### 25.1 Impact of COVID-19 on PGE Group's business

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

The onset of the pandemic caused an economic slowdown in 2020 globally and in Poland. As the pandemic restrictions are being lifted, the economic situation is now gradually improving. This is seen in corrections of market forecasts for GDP, industrial production and investments.

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

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

As at March 31, 2021, the impact of a predicted increase in payment backlogs, especially in receivables from SMEs, was not material. As described in note 2.4 to these consolidated financial statements, the Group has recognised additional impairment losses of PLN 16 million. Depending on the further development of the pandemic and economic situation, PGE Group is still subject to liquidity risk and the risk of higher impairment of overdue receivables, both of which are monitored on an on-going basis. The Group currently does not expect this risk to become material and has not identified liquidity risk.

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

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

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

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

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

### 25.2 Preliminary proposal to purchase stake in Fortum's assets

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

On November 16, 2020 PGE and Polskie Górnictwo Naftowe i Gazownictwo S.A. (Partners) submitted a modified preliminary, non-binding proposal to purchase assets from Fortum Holding B.V.

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

Joint work is currently in progress on a binding proposal.

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



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

### 25.3 Investment agreement with Ørsted for offshore wind farm projects

On February 10, 2021 PGE Group entities and Ørsted signed an agreement giving each of the parties a 50% stake in two offshore wind farm projects. PGE is currently implementing the two projects: Baltica 2 (with planned capacity of approx. 1.5 GW) and Baltica 3 (with planned capacity of approx. 1 GW).

PGE Baltica 6 sp. z o.o., PGE Baltica 5 sp. z o.o. (PGE's subsidiaries) ("Existing Shareholders"), Orsted Baltica 2 Holding sp. z o.o., Orsted Baltica 3 Holding sp. z o.o., (subsidiaries of Ørsted Wind Power A/S ("OWPAS"), hereinafter jointly referred to as "Investors"), Elektrownia Wiatrowa Baltica – 2 sp. z o.o. ("EWB2") and Elektrownia Wiatrowa Baltica – 3 sp. z o.o. ("EWB3") signed an investment agreement for the Investors to invest in Baltica 2 and Baltica 3.

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

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

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

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

The total price for the 50% stake in EWB2 and EWB3 constitutes the equivalent of approx. PLN 686 million. The increased price includes in particular contributions made by PGE to the companies after the investment agreement was signed. Once the relevant assumptions are met, Ørsted entities will be required to make additional contributions to EWB2 and EWB3, which can amount to a total of PLN 1,024 million.

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

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

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

PGE GIEK S.A.'s concession for the mining of lignite and accompanying minerals at the "Turów" lignite deposit was prolonged through a decision of the Minister of Climate dated March 20, 2020. On September 30, 2020 the Czech Republic lodged a letter with the European Commission pursuant to Art. 259 of the Treaty on the Functioning of the European Union initiating a proceeding against Poland regarding the continued functioning of the energy complex in Turów. The charges against Poland concerned the issue of administrative decisions permitting further extractive activities at the KWB Turów mine. The actions taken by Polish authorities allegedly constituted a breach of EU law, including the water framework directive, directive on the assessment of the effects of certain plans and programmes on the environment, directive on public access to environmental information and directive on the assessment of the effects of certain public and private projects on the environment.

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

On February 22, 2021 the Czech government decided to lodge a complaint against Poland. The complaint was referred to the Court of Justice of the European Union on February 26, 2021. On April 19, 2021 a summary of the complaint and key arguments was published in the Official EU Journal. The parties to this proceeding are member states, which precludes the participation of natural and legal persons even if the case directly concerns their activities.

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

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

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

Extractive operations at the KWB Turów mine are in compliance with domestic law and European environmental standards on the basis of on a lawfully acquired concession. According to PGE, there are currently no grounds for ceasing operations at the energy complex in Turów.

## **25.5 Planned transfer of coal assets to National Energy Security Agency**

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

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

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



## II. PGE Polska Grupa Energetyczna S.A. Quarterly financial information for the 3-month period ended March 31, 2021, in accordance with IFRS EU (in PLNm)

### SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	3 months ended March 31, 2021 <i>(unaudited)</i>	3 months ended March 31, 2020 <i>(unaudited)</i>
<b>STATEMENT OF PROFIT OR LOSS</b>		
<b>REVENUE FROM SALES</b>	<b>9,920</b>	<b>9,698</b>
Cost of goods sold	(9,673)	(9,416)
<b>GROSS PROFIT ON SALES</b>	<b>247</b>	<b>282</b>
Distribution and selling expenses	(5)	(5)
General and administrative expenses	(54)	(57)
Other operating income / (expenses)	-	(9)
<b>OPERATING PROFIT</b>	<b>188</b>	<b>211</b>
Finance income / (costs), including <i>Interest income calculated using the effective interest method</i>	(4) 28	43 44
<b>GROSS PROFIT</b>	<b>184</b>	<b>254</b>
Income tax	12	(32)
<b>NET PROFIT FOR THE REPORTING PERIOD</b>	<b>196</b>	<b>222</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
<b>Items that may be reclassified to profit or loss:</b>		
Measurement of hedging instruments	174	(301)
Deferred tax	(33)	57
<b>Items that may not be reclassified to profit or loss:</b>		
Actuarial gains and losses from valuation of provisions for employee benefits	-	-
Deferred tax	-	-
<b>OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET</b>	<b>141</b>	<b>(244)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>337</b>	<b>(22)</b>
<b>NET PROFIT AND DILUTED NET PROFIT PER SHARE (IN PLN)</b>	<b>0.10</b>	<b>0.12</b>

## SEPARATE STATEMENT OF FINANCIAL POSITION

	As at March 31, 2021 <i>(unaudited)</i>	As at December 31, 2020 <i>(audited)</i>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	152	155
Right-of-use assets	20	20
Financial receivables	9,140	9,139
Derivatives and other assets measured at fair value through profit or loss	169	132
Shares in subsidiaries	29,492	29,401
Shares in subsidiaries, jointly controlled entities and associates	101	101
Deferred income tax assets	94	119
	<b>39,168</b>	<b>39,067</b>
<b>CURRENT ASSETS</b>		
Inventories	1	1
Trade and other receivables	15,447	9,762
Derivatives	1,226	1,244
Shares in subsidiaries	-	369
Other current assets	257	54
Cash and cash equivalents	1,942	3,507
	<b>18,873</b>	<b>14,937</b>
<b>TOTAL ASSETS</b>	<b>58,041</b>	<b>54,004</b>
<b>EQUITY</b>		
Share capital	19,165	19,165
Reserve capital	18,410	18,410
Hedging reserve	(147)	(288)
Retained earnings	1,938	1,742
	<b>39,366</b>	<b>39,029</b>
<b>NON-CURRENT LIABILITIES</b>		
Non-current provisions	20	19
Loans, borrowings, bonds and leases	7,881	8,602
Derivatives	229	385
Other liabilities	14	17
	<b>8,144</b>	<b>9,023</b>
<b>CURRENT LIABILITIES</b>		
Current provisions	52	21
Loans, borrowings, bonds, cash pooling, leases	4,020	2,150
Derivatives	1,222	1,243
Trade and other liabilities	3,696	1,583
Income tax liabilities	252	456
Other non-financial liabilities	1,289	499
	<b>10,531</b>	<b>5,952</b>
<b>TOTAL LIABILITIES</b>	<b>18,675</b>	<b>14,975</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>58,041</b>	<b>54,004</b>

## SEPARATE STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserve capital	Hedging reserve	Retained earnings	Total equity
<b>AS AT JANUARY 1, 2021</b>	<b>19,165</b>	<b>18,410</b>	<b>(288)</b>	<b>1,742</b>	<b>39,029</b>
Net profit for the reporting period	-	-	-	196	<b>196</b>
Other comprehensive income	-	-	141	-	<b>141</b>
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>-</b>	<b>-</b>	<b>141</b>	<b>196</b>	<b>337</b>
<b>AS AT MARCH 31, 2021</b>	<b>19,165</b>	<b>18,410</b>	<b>(147)</b>	<b>1,938</b>	<b>39,366</b>

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

## SEPARATE STATEMENT OF CASH FLOWS

	Period ended March 31, 2021 <i>(unaudited)</i>	Period ended March 31, 2020 <i>(unaudited)</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Gross profit	184	254
Income tax paid	3	122
<b>Adjustments for:</b>		
Depreciation, amortisation and impairment losses	3	3
Interest and dividend, net	(28)	(40)
(Gain) / loss on investing activities	23	102
Change in receivables	(7,119)	(5,499)
Change in inventories	1	(701)
Change in liabilities, excluding loans and borrowings	2,707	2,868
Change in other non-financial assets	(214)	(258)
Change in provisions	(8)	-
Exchange differences	9	(9)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>(4,439)</b>	<b>(3,158)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment and intangible assets	(1)	(2)
(Purchase) / buy-back of bonds issued by PGE Group companies	-	610
Sale of other financial assets	374	-
Expenditure on purchase of shares in subsidiaries	(91)	(18)
Origination / (repayment) of loans granted under cash pooling agreement	1,407	589
Loans granted	(2,040)	(1,039)
Interest received	53	66
Loans repaid	3,252	861
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>2,954</b>	<b>1,067</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from loans, borrowings	-	3,108
Repayment of loans, borrowings, leases	(1)	(301)
Interest paid	(69)	(77)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>(70)</b>	<b>2,730</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,555)</b>	<b>639</b>
Net exchange differences	(9)	9
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD</b>	<b>3,493</b>	<b>219</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF PERIOD</b>	<b>1,938</b>	<b>858</b>

### 1. Changes in accounting principles and data presentation

New standards and interpretations that went into force on January 1, 2021 and had no impact on the Company's separate financial statements are described in note 2.3 to the consolidated financial statements.

### III. APPROVAL OF QUARTERLY FINANCIAL REPORT

This quarterly report, containing PGE Group's condensed consolidated financial statements and PGE S.A.'s quarterly financial information for the 3-month period ended March 31, 2021, was approved for publication by the Management Board on May 25, 2021.

Warsaw, May 25, 2021

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

**President of the  
Management Board**

**Wojciech Dąbrowski**

**Vice-President of the  
Management Board**

**Wanda Buk**

**Vice-President of the  
Management Board**

**Paweł Cioch**

**Vice-President of the  
Management Board**

**Paweł Śliwa**

**Vice-President of the  
Management Board**

**Ryszard Wasilek**

Signature of person  
responsible for drawing  
up these financial  
statements

**Michał Skiba**  
Director, Reporting and  
Tax Department

## Glossary of terms and abbreviations

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

Abbreviation	Full term
CCIRS	Cross Currency Interest Rate Swap
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
EUA	European Union Allowances
PGE Group, Group	PGE Polska Grupa Energetyczna S.A. Group
IRGIT	Izba Rozliczeniowa Giełd Towarowych S.A.
IRS	Interest Rate Swap
LTC	Long-term capacity and electricity sale contracts
KOGENERACJA S.A.	Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A.
IFRS	International Financial Reporting Standards
IFRS EU	International Financial Reporting Standards approved by the European Union
NFOŚiGW	National Fund for Environmental Protection and Water Management
Investment property	Investment property
Right-of-use assets	Right-of-use assets
PGE S.A., Company, Parent	PGE Polska Grupa Energetyczna S.A.
PGE EC S.A.	PGE Energia Ciepła S.A.
PGE EO S.A.	PGE Energia Odnawialna S.A.
PGE GIEK S.A.	PGE GIEK S.A.
PGE PGK	PGE's tax group
Property, plant and equipment	Property, plant and equipment
Financial statements, consolidated financial statements	PGE Group's consolidated financial statements
Act on electricity prices	Act on amendment of the excise tax act and certain other acts
WFOŚiGW	Voivodship Fund for Environmental Protection and Water Management
Intangible assets	Intangible assets