PGE Polska Grupa Energetyczna S.A.

Consolidated financial statements for the year 2020

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

SELECTED FINANCIAL DATA OF PGE GROUP

	Year ended December 31		Year ended December 31	
	2020	2019	2020	2019
	in PLN million	in PLN million	in EUR million	in EUR million
Sales revenue	**45.766**	**37.627**	**10.229**	**8.747**
Operating profit/(loss)	1.408	(4.175)	315	(971)
Gross profit/(loss)	314	(4.703)	70	(1.093)
Net profit/(loss) for the reporting period	**148**	**(3.928)**	**33**	**(913)**
Net profit/(loss) attributable to shareholders of the parent company	110	(3.961)	25	(921)
Comprehensive income	273	(4.421)	61	(1.028)
Net cash from operating activities	10.256	6.820	2.292	1.585
Net cash from investing activities	(6.037)	(6.865)	(1.349)	(1.596)
Net cash from financing activities	(1.357)	77	(303)	18
Net change in cash and cash equivalents	2.862	32	640	7
Net profit/(loss) per share (in PLN/EUR per share)	**0,06**	**(2,12)**	**0,01**	**(0,49)**
Diluted net profit/(loss) per share (in PLN/EUR per share)	**0,06**	**(2,12)**	**0,01**	**(0,49)**
Weighted average number of outstanding ordinary shares used to calculate earnings/(loss) per share	1.869.760.829	1.869.760.829	1.869.760.829	1.869.760.829

	As at		As at	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
	in PLN million	in PLN million	in EUR million	in EUR million
Non-current assets	66.498	65.055	14.410	15.277
Current assets	15.089	12.593	3.270	2.957
Assets classified as held for sale	7	2	2	0
Total assets	**81.594**	**77.650**	**17.681**	**18.234**
Equity	43.501	43.137	9.426	10.130
Equity attributable to shareholders of the parent company	42.518	42.289	9.213	9.930
Share capital	**19.165**	**19.165**	**4.153**	**4.500**
Non-current liabilities	23.075	22.687	5.000	5.327
Current liabilities	15.018	11.826	3.254	2.777
Number of shares at the end of the reporting period	1.869.760.829	1.869.760.829	1.869.760.829	1.869.760.829
Carrying amount per share (in PLN/EUR per share)	**22,74**	**22,62**	**4,93**	**5,31**
Diluted carrying amount per share (in PLN/EUR per share)	**22,74**	**22,62**	**4,93**	**5,31**

The above selected financial data were transferred into EUR according to the following rules:

▪ *particular positions of assets and liabilities are based on the average exchange rate of the National Bank of Poland valid as at December 31, 2020 - 4,6148 EUR/PLN and December 31, 2019 – 4,2585 EUR/PLN.*

▪ *particular positions of statement of comprehensive income and statement of cash flows – according to the exchange rate constituting the arithmetic average of average exchange rates published by the National Bank of Poland as of every last day of month during the period January 1 – December 31, 2020 – 4,4742 EUR/PLN; and for period January 1 – December 31, 2019 - 4,3018 EUR/PLN.*

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of PGE Polska Grupa Energetyczna S.A. for the year 2020 (in PLN million)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2020	Year ended December 31, 2019
STATEMENT OF PROFIT OR LOSS			
SALES REVENUE	*7.1*	**45,766**	**37,627**
Cost of goods sold	*7.2*	(41,611)	(40,134)
GROSS PROFIT / (LOSS) ON SALES		**4,155**	**(2,507)**
Distribution and selling expenses	*7.2*	(1,492)	(1,361)
General and administrative expenses	*7.2*	(1,189)	(1,099)
Net other operating income/(expenses)	*7.3*	(66)	792
OPERATING PROFIT/(LOSS)		**1,408**	**(4,175)**
Net finance costs, including:	*7.4*	(542)	(471)
Interest income calculated using the effective interest rate method		*32*	*36*
Share of profit / (loss) of entities accounted for using the equity method	*7.5*	(552)	(57)
GROSS PROFIT / (LOSS)		**314**	**(4,703)**
Income tax expense	*8.1*	(166)	775
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD		**148**	**(3,928)**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss in the future:			
Valuation of debt financial instruments	*20.3*	(4)	-
Valuations of hedging instruments	*20.3*	387	(336)
Foreign exchange differences from translation of foreign entities	*20.4*	6	-
Deferred tax	*8.1*	(73)	65
Items that may not be reclassified to profit or loss in the future:			
Actuarial gains and losses from valuation of provisions for employee benefits	*22*	(235)	(266)
Deferred tax	*8.1*	46	49
Share of other comprehensive income of entities accounted for using the equity method	*7.5*	(2)	(5)
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**125**	**(493)**
TOTAL COMPREHENSIVE INCOME		**273**	**(4,421)**
NET PROFIT/(LOSS) ATTRIBUTABLE TO:			
– shareholders of the parent company		110	(3,961)
– non-controlling interests		38	33
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
– shareholders of the parent company		235	(4,453)
– non-controlling interests		38	32
NET PROFIT/(LOSS) AND DILUTED NET PROFIT/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY (IN PLN)	*20.7*	**0.06**	**(2.12)**

The accounting principles as well as the additional explanatory notes
constitute integral parts of the consolidated financial statements

of PGE Polska Grupa Energetyczna S.A. for the year 2020 (in PLN million)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at December 31, 2020	As at December 31, 2019
NON-CURRENT ASSETS			
Property, plant and equipment	9	61,741	59,690
Investment property	10	41	47
Intangible assets and goodwill	11	646	735
Rights of use assets	12	1,309	1,303
Financial receivables	25.1.1	191	180
Derivatives and other assets measured at fair value through profit or loss	25.1.2	132	93
Shares, interests and other capital instruments		57	58
Shares and interests accounted for using the equity method	13	152	715
Other non-current assets	17.1	839	676
CO_2 emission allowances for captive use	16	39	240
Deferred income tax assets	14.1	1,351	1,318
		66,498	**65,055**
CURRENT ASSETS			
Inventories	15	3,123	4,509
CO_2 emission allowances for captive use	16	1,735	965
Income tax receivables		8	59
Derivatives and other assets measured at fair value through profit or loss	25.1.2	423	327
Trade receivables and other financial receivables	25.1.1	4,812	4,815
Other current assets	17.2	799	605
Cash and cash equivalents	18	4,189	1,313
		15,089	**12,593**
ASSETS CLASSIFIED AS HELD FOR SALE		**7**	**2**
TOTAL ASSETS		**81,594**	**77,650**
EQUITY			
Share capital	20.1	19,165	19,165
Reserve capital	20.2	18,410	19,669
Hedging reserve	20.3	(13)	(323)
Foreign exchange differences from translation	20.4	5	(1)
Retained earnings	20.5	4,951	3,779
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY		**42,518**	**42,289**
Equity attributable to non-controlling interests	20.6	983	848
TOTAL EQUITY		**43,501**	**43,137**
NON-CURRENT LIABILITIES			
Non-current provisions	21	11,207	9,652
Credits, loans, bonds and leases	25.1.3	10,025	10,859
Derivative instruments	25.1.2	385	107
Deferred income tax liabilities	14.2	345	920
Deferred income and government grants	23.1	600	616
Other financial liabilities	25.1.4	448	475
Other non-financial liabilities	24	65	58
		23,075	**22,687**
CURRENT LIABILITIES			
Current provisions	21	7,311	4,366
Credits, loans, bonds and leases	25.1.3	1,384	1,449
Derivative instruments	25.1.2	63	372
Trade payables and other financial liabilities	25.1.4	3,504	3,636
Income tax liabilities		476	58
Deferred income and government grants	23.2	77	80
Other non-financial liabilities	24	2,203	1,865
		15,018	**11,826**
TOTAL LIABILITIES		**38,093**	**34,513**
TOTAL EQUITY AND LIABILITIES		**81,594**	**77,650**

of PGE Polska Grupa Energetyczna S.A. for the year 2020 (in PLN million)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserve capital	Hedging reserve	Foreign exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total equity
Note	*20.1*	*20.2*	*20.3*	*20.4*			*20.6*	
JANUARY 1, 2019	**19,165**	**19,872**	**(52)**	**(1)**	**7,743**	**46,727**	**1,074**	**47,801**
Net profit/(loss) for reporting period	-	-	-	-	(3,961)	(3,961)	33	(3,928)
Other comprehensive income	-	-	(271)	-	(221)	(492)	(1)	(493)
COMPREHENSIVE INCOME	**-**	**-**	**(271)**	**-**	**(4,182)**	**(4,453)**	**32**	**(4,421)**
Retained earnings distribution	-	(203)	-	-	203	-	-	-
Dividend	-	-	-	-	-	-	(4)	(4)
Acquisition of new subsidiary	-	-	-	-	-	-	8	8
Settlement of purchase of additional shares in subsidiaries	-	-	-	-	14	14	(262)	(248)
Other changes	-	-	-	-	1	1	-	1
DECEMBER 31, 2019	**19,165**	**19,669**	**(323)**	**(1)**	**3,779**	**42,289**	**848**	**43,137**
Net profit/(loss) for reporting period	-	-	-	-	110	110	38	148
Other comprehensive income	-	-	310	6	(191)	125	-	125
COMPREHENSIVE INCOME	**-**	**-**	**310**	**6**	**(81)**	**235**	**38**	**273**
Retained earnings distribution	-	(1,259)	-	-	1,259	-	-	-
Dividend	-	-	-	-	-	-	(3)	(3)
Capital increase by minority shareholders	-	-	-	-	-	-	114	114
Settlement of purchase of additional shares in subsidiaries	-	-	-	-	(6)	(6)	(14)	(20)
DECEMBER 31, 2020	**19,165**	**18,410**	**(13)**	**5**	**4,951**	**42,518**	**983**	**43,501**

of PGE Polska Grupa Energetyczna S.A. for the year 2020 (in PLN million)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended December 31, 2020	Year ended December 31, 2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Gross profit/(loss)		**314**	**(4,703)**
Income tax paid		(359)	(555)
Adjustments for:			
Share of (profit)/ loss of entities accounted for using the equity method		552	57
Depreciation, liquidation and write-downs		4,558	11,316
Interest and dividend, net		293	245
(Profit) / loss on investing activities	*27.1*	244	(264)
Change in receivables	*27.1*	(1)	(720)
Change in inventories	*27.1*	1,370	(1,811)
Change in CO_2 emission allowances		(569)	406
Change in liabilities, excluding loans and credits	*27.1*	764	170
Change in other non-financial assets, prepayments	*27.1*	(253)	(197)
Change in provisions	*27.1*	3,347	2,836
Other		(4)	40
NET CASH FROM OPERATING ACTIVITIES		**10,256**	**6,820**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment and intangible assets		48	30
Acquisition of property, plant and equipment and intangible assets	*27.2*	(5,930)	(6,907)
Opening of term deposits – over 3 months	*27.2*	(494)	(256)
Closing of term deposits – over 3 months	*27.2*	481	243
Acquisition of financial assets	*27.2*	(51)	(15)
Consolidation of companies	*27.2*	(122)	-
Other		31	40
NET CASH FROM INVESTING ACTIVITIES		**(6,037)**	**(6,865)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase of shareholdings in CG companies	*27.3*	(17)	(282)
Proceeds from share issue for non-controlling shareholders		56	-
Proceeds from acquired loans, credits	*27.3*	4,451	5,359
Proceeds from issue of bonds		-	1,400
Repayment of loans, credits and leases	*27.3*	(5,507)	(3,916)
Redemption of bonds issued		-	(2,139)
Dividends paid to shareholders	*27.3*	(2)	(4)
Interest paid	*27.3*	(373)	(358)
Other		35	17
NET CASH FROM FINANCING ACTIVITIES		**(1,357)**	**77**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**2,862**	**32**
Net foreign exchange differences		*14*	*(2)*
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	*18*	**1,311**	**1,279**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	*18*	**4,173**	**1,311**

of PGE Polska Grupa Energetyczna S.A. for the year 2020 (in PLN million)

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

1. General information

1.1 Information on the parent company

PGE Polska Grupa Energetyczna S.A. was established on the basis of the Notary Deed of August 2, 1990 and registered in the District Court in Warsaw, the 16th Commercial Department, on September 28, 1990. The company was entered in the National Court Register maintained by the District Court for the capital city of Warsaw, the 12th Commercial Department of the National Court Register, under number KRS 0000059307. The registered office of the parent company is located in Warsaw, at 2 Mysia Street.

As at January 1, 2020 the composition of the Management Board was as follows:

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

On February 19, 2020, the Supervisory Board dismissed all existing members of the Management Board from the Management Board with effect as of February 19, 2020. At the same time, the Supervisory Board appointed Mr Wojciech Dąbrowski, Mr Paweł Śliwa, Mr Ryszard Wasiłek as members of the Management Board of the 11th term of office as of February 20, 2020 and Mr Paweł Cioch and Mr Paweł Strączyński as of February 24, 2020.

On August 18, 2020, the Supervisory Board appointed Ms Wanda Buk as member of the Management Board as of September 1, 2020.

At December 31, 2020 and at the date of publication of these financial statements, the composition of the Board of Directors is 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 Wasiłek – Vice President of the Management Board.

Ownership structure

The shareholding structure of the parent company was as follows:

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

The ownership structure as at the particular reporting dates is presented on the basis of the information available in the Company.

According to information available to the Company, as at the date of publication of these financial statements, the State Treasury was the only shareholder holding at least 5% of the total number of votes at the General Meeting of PGE S.A.

1.2 Information on the PGE Capital Group

The PGE Capital Group consists of the parent company PGE Polska Grupa Energetyczna S.A., 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 the PGE Capital Group cover the period from January 1, 2020 to December 31, 2020 and include comparative figures for the period from January 1, 2019 to December 31, 2019.

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

The major object of the PGE Capital Group is conducting business activities in the following areas:

- generation of electricity,
- distribution of electricity,
- wholesale and retail trade in electricity, energy origin rights, CO_2 emission allowances and gas,
- generation and distribution of heat,
- provision of other services related to the aforementioned areas.

Business activities are conducted under appropriate concessions granted to the particular entities making up the composition of the PGE Capital Group. The PGE Capital Groups conducts business activities primarily in the territory of Poland.

of PGE Polska Grupa Energetyczna S.A. for the year 2020 (in PLN million)

Going concern

These consolidated financial statements have been prepared based on the assumption that the major companies of the Group will continue as a going concern for a period of at least 12 months from the reporting date. As at December 31, 2020, the subsidiary PGE Obrót S.A. shows negative values of equity, which is mainly the result of negative changes on the regulated retail electricity trading market. PGE Obrót S.A. – like the other PGE Group companies – has access to financing provided by PGE S.A., therefore the going concern assumption for this company is justified.

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

1.3 Composition of the PGE Capital Group

During the reporting period, the PGE Capital Group consisted of the following direct and indirect subsidiaries subject to consolidation:

	Company name	Shareholder	Shares held by PGE CG companies as at December 31, 2020	Shares held by PGE CG companies as at December 31, 2019
	SEGMENT: TRADE			
1.	PGE Polska Grupa Energetyczna S.A. Warsaw	Parent company		
2.	PGE Dom Maklerski S.A. Warsaw	PGE S.A.	100.00%	100.00%
3.	PGE Trading GmbH Berlin	PGE S.A.	100.00%	100.00%
4.	PGE Obrót S.A. Rzeszów	PGE S.A.	100.00%	100.00%
5.	ENESTA sp. z o.o. Stalowa Wola	PGE Obrót S.A.	87.33%	87.33%
6.	PGE Centrum sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
7.	PGE Paliwa sp. z o.o. Kraków	PGE EC S.A.	100.00%	100.00%
	SEGMENT: CONVENTIONAL POWER GENERATION			
8.	PGE Górnictwo i Energetyka Konwencjonalna S.A. Bełchatów	PGE S.A.	100.00%	100.00%
9.	ELBIS sp. z o.o. Rogowiec	PGE S.A.	100.00%	100.00%
10.	MegaSerwis sp. z o.o. Bogatynia	PGE S.A.	100.00%	100.00%
11.	„ELMEN" sp. z o.o. Rogowiec	PGE S.A.	100.00%	100.00%
12.	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.	EPORE sp. z o.o. Bogatynia	PGE GiEK S.A.	100.00%	85.38%
17.	„Energoserwis – Kleszczów" sp. z o.o. Rogowiec	PGE GiEK S.A.	51.00%	51.00%
	SEGMENT: HEAT GENERATION			
18.	PGE Energia Ciepła S.A. Warsaw	PGE S.A.	100.00%	100.00%
19.	PGE Toruń S.A. Toruń	PGE EC S.A.	95.22%	95.22%
20.	PGE Gaz Toruń sp. z o.o. Warsaw	PGE EC S.A.	100.00%	100.00%
21.	Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. Wrocław	PGE EC S.A.	58.07%	58.07%
22.	Elektrociepłownia Zielona Góra S.A. Zielona Góra	KOGENERACJA S.A.	98.40%	98.40%
23.	MEGAZEC sp. z o.o. Bydgoszcz	PGE S.A.	100.00%	100.00%

of PGE Polska Grupa Energetyczna S.A. for the year 2020 (in PLN million)

	Company name	Shareholder	Shares held by PGE CG companies as at December 31, 2020	Shares held by PGE CG companies as at December 31, 2019
24.	Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. Zgierz	PGE EC S.A.	100.00%	50.98%
25.	PGE Ekoserwis sp. z o.o. Wrocław	PGE S.A.	95.08%	95.08%
	SEGMENT: RENEWABLE POWER GENERATION			
26.	PGE Energia Odnawialna S.A. Warsaw	PGE S.A.	100.00%	100.00%
27.	Elektrownia Wiatrowa Baltica-1 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
28.	Elektrownia Wiatrowa Baltica-2 sp. z o.o. Warsaw	PGE Baltica 6 sp. z o.o.	100.00%	-
		PGE S.A.	-	100.00%
29.	Elektrownia Wiatrowa Baltica-3 sp. z o.o. Warsaw	PGE Baltica 5 sp. z o.o.	100.00%	-
		PGE S.A.	-	100.00%
30.	Elektrownia Wiatrowa Baltica-4 sp. z o.o. (formerly PGE Inwest 17 sp. z o.o.) Warsaw	PGE S.A.	100.00%	100.00%
31.	Elektrownia Wiatrowa Baltica-5 sp. z o.o. (formerly PGE Inwest 18 sp. z o.o.) Warsaw	PGE S.A.	100.00%	100.00%
32.	Elektrownia Wiatrowa Baltica-6 sp. z o.o. under organisation Warsaw	PGE S.A.	100.00%	-
33.	PGE Baltica 1 sp. z o.o. Warsaw	PGE S.A.	100.00%	-
34.	PGE Baltica 2 sp. z o.o. Warsaw	PGE S.A.	100.00%	-
35.	PGE Baltica 3 sp. z o.o. Warsaw	PGE S.A.	100.00%	-
36.	PGE Baltica 4 sp. z o.o. Warsaw	PGE S.A.	100.00%	-
37.	PGE Baltica 5 sp. z o.o. (formerly PGE Inwest 16 sp. z o.o.) Warsaw	PGE S.A.	100.00%	100.00%
38.	PGE Baltica 6 sp. z o.o. (formerly PGE Inwest 19 sp. z o.o.) Warsaw	PGE S.A.	100.00%	100.00%
39.	PGE Baltica sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
40.	PGE Klaster sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
41.	PGE Soleo 1 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
42.	PGE Soleo 2 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
43.	PGE Soleo 3 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
44.	PGE Soleo 4 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
45.	PGE Soleo 5 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
46.	PGE Soleo 6 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
47.	PGE Soleo 7 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
48.	ECO-POWER sp. z o.o. Warsaw	PGE EO S.A.	100.00%	-
	SEGMENT: DISTRIBUTION			
49.	PGE Dystrybucja S.A. Lublin	PGE S.A.	100.00%	100.00%
	SEGMENT: OTHER ACTIVITIES			
50.	PGE EJ 1 sp. z o.o. Warsaw	PGE S.A.	70.00%	70.00%
51.	PGE Systemy S.A. Warsaw	PGE S.A.	100.00%	100.00%
52.	PGE Sweden AB (publ) Stockholm	PGE S.A.	100.00%	100.00%

of PGE Polska Grupa Energetyczna S.A. for the year 2020 (in PLN million)

	Company name	Shareholder	Shares held by PGE CG companies as at December 31, 2020	Shares held by PGE CG companies as at December 31, 2019
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.	BIO-ENERGIA sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
68.	Przedsiębiorstwo Transportowo-Usługowe „ETRA" sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
69.	Energetyczne Systemy Pomiarowe sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
70.	ZOWER sp. z o.o. Rybnik	PGE EC S.A.	100.00%	100.00%
71.	Przedsiębiorstwo Usługowo-Handlowe TOREC sp. z o.o. Toruń	PGE Toruń S.A.	50.05%	50.05%
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%	42.37%
	Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych Eko-Inwestycje Warsaw	GK PGE	-	100.00%

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

- On January 2, 2020 the National Court Register registered the division of PGE EC S.A. under which an organised part of the enterprise of PGE EC S.A., i.e. the Rybnik power plant, was transferred to PGE GiEK S.A. The transaction had no impact on these consolidated financial statements.
- On May 29, 2020 PGE GiEK S.A. purchased a 14.62% shares in EPORE sp. z o.o. and became the sole shareholder of the company. The ownership title to the shares was transferred to PGE GiEK S.A. on June 18, 2020. As a result of the transaction, the Group's equity decreased by PLN 11 million, including capital attributable to non-controlling interests decreased by PLN 5 million.
- On October 14, 2019 the Extraordinary General Meeting of PIMERGE S.A. adopted a resolution to increase the share capital of the company. As a result of the capital increase, the shareholding of PGE CG increased from 42.37% to 89.87% and PIMERGE S.A. became an entity subject to consolidation. The registration of the company's capital increase and consolidation took place on July 1, 2020. As a result of the settlement of the acquisition, PGE CG recognised goodwill in the amount of PLN 2 million.
- On July 30, 2020 PGE EO S.A. acquired 100% shares in ECO-POWER sp. z o.o. The ownership title to the shares was transferred to PGE EO S.A. on July 31, 2020.
- On August 17, 2020, the Meeting of Investors of FIZAN Eko-Inwestycje passed a resolution to dissolve the Fund. The liquidation of FIZAN Eko-Inwestycje was carried out and on November 23, 2020 it was deleted from the Register of Investment Funds.

- On September 24, 2020, PGE S.A. established 4 single-member limited liability companies PGE Baltica 1 to 4. In November 2020, all four companies were registered in the National Court Register.
- On December 18, 2020 PGE EC purchased a 49.02% shares in PEC Zgierz sp. z o.o. and became the sole shareholder of the company. As a result of the transaction, the Group's equity decreased by PLN 8 million, including capital attributable to non-controlling interests decreased by PLN 8 million.
- On December 17, 2020, PGE S.A. established the company Elektrownia Wiatrowa Baltica 6 sp. z o.o. On February 25, 2021 the company was registered in the National Court Register.

On October 1, 2020 a letter of intent was signed regarding the purchase by the State Treasury all shares in PGE EJ1 sp. z o.o. In the Company's opinion, as at December 31, 2020, the criteria under IFRS 5 *Non-current assets held for sale and discontinued operations* necessary to classify the company as assets held for sale were not met. Revenue of EJ1 sp. z o.o. for 2020 amounted to PLN 2 million, while costs equalled to PLN 30 million. As at December 31, 2020 total assets equalled PLN 564 million and liabilities PLN 33 million.

1.4 Settlement of the new acquisitions

Settlement of the acquisition of ECO-POWER sp. z o.o.

On July 31, 2020 PGE EO purchased from FEN Wind Farm B.V. 100% of shares in ECO-POWER sp. z o.o. ECO-POWER owns a wind farm commissioned in 2015 and consisting of 12 wind turbines with a total capacity of 36 MW.

In accordance with the requirements of IFRS 3 *Business combinations*, an analysis was performed to determine whether the acquired assets and liabilities meet the definition of a business and the transaction should be accounted for under IFRS 3 as a business combination, or whether the acquired assets do not constitute a business and the transaction should be accounted for as an asset acquisition.

Following a concentration test, the Group concluded that the transaction constituted an asset acquisition and was recognised as such in these consolidated financial statements.

The total value of cash transferred under the transaction amounted to PLN 150 million. The acquired assets are fixed assets, mainly wind towers with foundations and earthing, access roads and individual elements of wind farm equipment such as turbines, masts and rotor blades.

Settlement of the acquisition of PIMERGE S.A.

On July 1, 2020 a capital increase in PIMERGE S.A. was registered. As a result of the capital increase, the shareholding of PGE CG increased from 42.37% to 89.87% and PIMERGE S.A. became an entity subject to consolidation.

As a result of the settlement of the acquisition, PGE CG recognised goodwill in the amount of PLN 2 million (net assets of PLN 1 million were acquired for PLN 3 million).

2. Basis for preparation of the financial statements

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards approved by the European Union. The EU IFRSs comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretation Committee ("IFRIC")).

2.2 Presentation and functional currency

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

At the reporting date, for the purpose of translation of items denominated in currencies other than PLN, the following exchange rates were applied:

	December 31, 2020	December 31, 2019
USD	3.7584	3.7977
EUR	4.6148	4.2585

of PGE Polska Grupa Energetyczna S.A. for the year 2020 (in PLN million)

2.3 New standards and interpretations published, not yet effective

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

Standard	Description of changes	Effective date
IFRS 14 Regulatory Deferral Accounts	The principles of accounting and disclosure for regulatory deferral accounts.	In its current version, the standard will not be effective in the EU.
Amendments to IFRS 10 and IAS 28	The guidelines concerning sales transactions or an investor's contribution of assets to an associate or a joint venture.	Work on the approval of the changes has been suspended indefinitely
IFRS 17 Insurance contracts	The standard defines a new approach to revenue recognition and profit/loss in a period of providing insurance services	January 1, 2023
Amendments to IAS 1	Changes relate to the presentation of financial statements – classification of liabilities as current and non-current	January 1, 2023
Amendments to IAS 1	Changes relate to the presentation of the financial statements – disclosures of accounting policies applied	January 1, 2023
Amendments to IAS 8	Changes relate to disclosures of accounting policies applied, including changes in accounting estimates and adjustment of errors	January 1, 2023
Amendments related to the review of IFRSs, cycle 2018-2020	Changes to IFRS 1, IFRS 9, IFRS 16 and IAS 41 relate mainly to the resolution of inconsistencies and clarifying terminology	January 1, 2022
Amendments to IFRS 3	Changes to the references to the conceptual framework	January 1, 2022
Amendments to IAS 16	Revenue received prior to bringing a fixed asset into use	January 1, 2022
Amendments to IAS 37	Onerous Contracts — cost of fulfilling a contract	January 1, 2022
Amendments to IFRS 4	Extension of the temporary exemption from IFRS 9	January 1, 2021
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16 – stage 2	Changes relate to the reform of reference interest rates	January 1, 2021
Amendments to IFRS 16	COVID-19 Related Rent Concessions	June 1, 2020

The PGE Capital Groups intends to accept the aforementioned standards and changes to standards and interpretations as published by the International Accounting Standards Board, but not effective as at the reporting date, after they have entered into force.

The above regulations will not have a material impact on the future financial statements of the PGE Capital Group.

3. Impairment test for property, plant and equipment, intangible assets and goodwill

Property, plant and equipment constitute the most important part of the PGE Capital Group's assets. In view of its changing macroeconomic environment, the PGE Capital Group periodically reviews circumstances indicating a loss of the recoverable value of its property. In its evaluation of the market situation, the PGE Capital Group uses both its own analytical tools and support provided by independent consulting entities. In previous reporting periods, the PGE Capital Group made significant impairment write-downs on property, plant and equipment in the Conventional Power Generation segment and the Renewable Power Generation segment. The impairment write-down relating to the Renewable Power Generation segment was also to a considerable extent reversed in previous periods.

In the first half of 2020, the Group analysed the circumstances and identified the factors that could materially contribute to changes in the value of its assets. The tests carried out made it necessary to recognise impairment write-downs on property, plant and equipment of the Conventional Power Generation segment in the amount of PLN 530 million. The analyses of the circumstances relating to property, plant and equipment of the Renewable Power Generation and Heat Generation segments did not indicate any need to carry out impairment tests.

In the fourth quarter of 2020, the Group analysed the circumstances and did not identify any significant factors that may have contributed to a change in the value of property, plant and equipment held in the segments indicated above.

In accordance with IAS 36, the Group conducted impairment concerning goodwill allocated to Heat Generation segment. Moreover, in respect of PGE Klaster Sp. z o.o., which is a subsidiary of PGE Energia Odnawialna S.A., an impairment test was performed due to commissioning of new wind farms.

Macroeconomic assumptions

The main price-related assumptions, i.e. those concerning the prices of electricity, CO_2 emission allowances, coal, and natural gas, as well as the assumptions concerning the volumes of generation in the majority of plants operated by the Group came from a report prepared by an independent expert, taking into consideration the Company's own assessments made on the basis of the current situation in the market for the firsts 2 years of the forecast period.

Electricity price forecasts assume a fall in prices in 2021 relative to 2020 prices, followed by increases in subsequent years at an average annual rate of around 5% over the period until 2030.

CO_2 emission allowance price forecasts provide for a dynamic growth of market prices in the subsequent years.

Hard coal price forecasts indicate price declines until 2026 in relation to 2020 prices, to be followed by increases of up to a few percentage points in the subsequent years.

Natural gas price forecasts indicate an increase in prices in 2021 compared to those of 2020, with an average annual growth rate of approximately 16% and continued gas price increases of around 3,5% per year in the subsequent years.

Price forecasts for energy origin property rights indicate an increase in the first two years of the period to be followed by an average annual decrease of about 7% between 2023 and 2031, which is related to the gradually decreasing redemption obligation.

Forecasts of revenue from the capacity market in the years 2021-2025 are based on the results of completed major auctions for these years of supply, taking into account the mechanisms of the agreement for the reallocation of revenue among the companies belonging to the PGE Capital Group. The forecast for the period from the year 2025 was prepared by a team of experts from PGE S.A. on the basis of assumptions concerning future cash flows for power generation units based, among other things, on the results of already completed auctions and forecasts prepared by an external expert. As of July 1, 2025 power generation units failing to meet the emission criterion of 550 g CO_2/kWh will be excluded from the capacity market, with the exception of units holding long-term contracts entered into within the scope of major auctions for the years 2021-2025.

The availability of power generation units was estimated on the basis of overhaul plans and failure frequency statistics.

On February 2, 2021, the Council of Ministers approved “The Energy Policy of Poland until 2040”. This document provides a vision for Poland's energy transition, showing, among other things, a planned structure of power generation units. According to the Policy, the share of zero-carbon units is to be increased and the share of coal-fired units is to be reduced. Before the date of this information, the whole text of the Policy had not yet been published. Based on publicly available information, in the opinion of the PGE Group, the assumptions adopted in the assessment of the recoverable value of generation assets are consistent with the Policy. Nevertheless, future changes in the electricity market may diverge from the adopted assumptions. Possible future differences between factual circumstances and the adopted assumptions may lead to significant changes in the financial position and results of the PGE Group and will be recognised in future financial statements.

3.1 Analysis of the circumstances relating to the Conventional Power Generation segment

In previous reporting periods, the PGE Capital Group made significant impairment write-downs on property, plant and equipment in the Conventional Power Generation segment. The key assumptions adopted for asset impairment tests performed as at June 30, 2020 are described in the interim consolidated financial statements of the PGE Capital Group for the 6 months’ period ended June 30, 2020.

In Q4 2020, the Company analysed the existing circumstances to verify whether a further write-down or a reversal of the earlier write-downs is necessary.

The key analysed factors included the following:

- the current market situation, including the impact of the COVID-19 pandemic on the energy market,
- a confirmation of the validity of long-term forecasts,
- a confirmation that the investment plan is up to date,
- regulations applicable to the forcing price,
- assumptions concerning the so-called capacity market.

The conducted analysis of the circumstances of the Conventional Power Generation segment indicated that demand for electricity was returning to stable levels after decreases at the beginning of the year related to the COVID-19 pandemic. In 2020, demand for electricity decreased by 3.9 TWh y/y (-2.3% y/y). The lower demand for power from NPS in the period was the result of the impact of the coronavirus pandemic on the economy and was fully deferred in the first half of the year. In contrast, the second half of the year saw a recovery of the economy, which resulted in a year-on-year increase in demand for electricity by 0.5 TWh. Long-term forecasts of electricity, coal and CO_2 emission allowance prices available to the PGE Capital Group did not change significantly, thus they did not have a significant impact on the level of achieved margins. Forecasts regarding the level of support for the capacity market did not change significantly either, and are at a similar level. Furthermore, a change in regulatory conditions regarding the forcing price may result in an increase in forecast revenue from electricity. A significant change from the point of view of the Conventional Power Generation segment may be the change of the cost catalogue on the basis of which prices for the forced delivery and forced reception of electricity in generating units using lignite as the basic fuel are determined. For these units, the new regulation introduces a method for calculating the cost of the basic fuel based only on variable costs of fuel production. However, the long-term impact of changes will be possible to estimate after a minimum of one year of the functioning of these solutions. In view of the above, in the opinion of the PGE Capital Group, as at the reporting date there are no circumstances indicating the necessity to write down property, plant and equipment in the Conventional Power Generation segment, nor to reverse any write-downs recognised in the previous periods.

3.2 Impairment tests of goodwill allocated to the Heat Generation segment

On November 30, 2020, impairment tests were carried out. Due to the fact that the goodwill is allocated to the assets of Heat Generation segment, in practice the impairment test involved verification of cash generating units by determining their recoverable values and then comparison these values with fixed assets enlarged by the goodwill.

In practice, it is very difficult to determine a fair value of a very large group of assets which do not have an active market or comparable transactions. With respect to whole cogeneration plants whose value in a local market should be determined, there are no observable fair values. Therefore, the recoverable value of the analysed assets was determined by way of estimating their use value by means of the discounted net cash flows method based on the financial forecasts prepared for the period from December 2020 to the year 2030. In the Group's opinion, the adoption of financial forecasts for periods longer than five years is justifiable in view of the significant and long-term impact of the estimated changes in the regulatory environment. Thanks to adopting longer-term forecasts, the estimates of recoverable values may be more reliable. In the case of the generation units whose useful economic life extends beyond 2030, the Group determined their residual value for the remaining period of operation. The energy market, and in particular the district heating market, is a regulated market in Poland and as such it is subject to many regulations and cannot be freely shaped based on business decisions alone. The objectives of the Energy Law include taking effective regulatory measures to ensure energy security. This means that the regulatory environment is aimed at ensuring the stable functioning of heat suppliers in a given area so as to satisfy the needs of customers in the long term. According to the provisions of the Energy law, the ERO President may, even in extreme cases, order an energy company to carry out activities covered by the concession (for a period not longer than 2 years), if the public interest so requires. If such activity generates a loss, the energy company is entitled to receive compensation from the State Treasury.

In view of the above, the Company does not assume a finite asset life due to the regulatory environment, which limits the possibility of discontinuing operations. Moreover, what can be observed in the heat generation sector is an extended useful life of equipment (boilers, turbine sets), which is operated much longer than it would appear from the original assumptions. Therefore, the impairment tests included the assumption of continuation of operations (in the form of residual value), with expenditures on the current assets maintained at a replacement level in the long term due to, among others, the public interest in the form of ensuring heat supply. The approach to useful life is consistent with the asset maintenance strategy of the PGE Capital Group.

Specific assumptions relating to the segment

The key assumptions determining the assessed use value of the tested CGUs include the following:

- recognising the particular branches of PGE EC S.A. as separate CGUs, i.e. Branch No. 1 in Kraków (Kraków CHP Plant), Wybrzeże Branch (Gdańsk CHP Plant, Gdynia CHP Plant), Rzeszów Branch (Rzeszów CHP Plant), Lublin Branch (Lublin Wrotków CHP Plant), Bydgoszcz Branch (Bydgoszcz I CHP Plant, Bydgoszcz II CHP Plant), Gorzów Wielkopolski Branch (CHP Plant in Gorzów Wielkopolski), Zgierz Branch (CHP Plant in Zgierz), Kielce Branch (CHP Plant in Kielce) as separate CGUs;
- recognising the three generation facilities belonging to KOGENERACJA, i.e. Wrocław CHP Plant, Czechnica CHP Plant and Zawidawie CHP Plant as one CGU;
- for the period from 2021 onwards, it was assumed that generators from the PGE Capital Group did not obtain free CO_2 emission allowances for electricity generation;
- the allocation of free CO_2 emission allowances in the period 2021-2030 for district heating and high-efficiency cogeneration was taken into account. The allocation of free allowances for heat generation for the years from 2021 to 2030 is regulated by EU Directive 2018/410 of March 14, 2018 amending Directive 2003/87/EC to strengthen cost-effective emission reductions and low-carbon investments and Decision (EU) 2015/1814. Another regulation clarifying the allocation of free CO_2 emission allowances is the Commission delegated Regulation (EU) 2019/331 of December 19, 2018 determining transitional Union-wide rules for harmonised free allocation of emission allowances pursuant to Article 10a of Directive 2003/87/EC of the European Parliament and of the Council (the so-called FAR – Free Allocation Rules) (entered into force on February 28, 2019 – the Polish version on February 27, 2019). The Directive is reflected in the amended Act of July 4, 2019 amending the Act on the greenhouse gas emission trading scheme and certain other acts. Under Article 10a of the Directive, Member States may apply for an allocation of free CO_2 emission allowances for heat in the amount of 30% in the period from 2021 to 2030, with the 30% value relating to the gas benchmark and supply of heat for municipal purposes;
- adopting the assumption for CHP plants that there is support from the capacity market or its equivalent during the residual period;
- taking into account the support system for high-efficiency cogeneration over the maximum period of 15 years, for gas-fired units for which the statutory period expires after 2030, support is also included in the residual value;
- maintaining generation capacities thanks to asset replacement projects;
- taking into account highly advanced development investment projects and including them in the Company's investment plan;
- adopting the weighted average cost of capital after taxation for the forecast period at the level of 7%.

Some important regulatory assumptions adopted for the purpose of impairment tests are beyond the control of the PGE Capital Group and their fulfilment in the future is uncertain. This applies in particular to issues relating to the shape of the Polish capacity market after July 1, 2025 or the allocation of free CO_2 emission allowances. In these areas the Group relies on the present assumptions concerning the development of regulatory changes, which are burdened with risk. Future changes in the regulations with respect to the PGE's present expectations may influence the assessment of the recoverable value of the generation assets in the Heat Generation segment and assign to its goodwill.

Nevertheless, according to the Group, the adoption of the aforementioned assumptions is justified in view of expected changes in the regulatory environment. These assumptions, which were reflected in cash flows, constitute, according to the Group, a realistic scenario for their functioning and effective duration. Nevertheless, it cannot be ruled out that the final shape and duration of such solutions can be very much different from the adopted ones.

As at 30 November 2020, the value of the tested goodwill equalled PLN 189 million. As a result of the performed impairment test, the Group identified a surplus of the value in use of the tested assets over their carrying amount and concluded that there was no need to make an impairment write-down.

Sensitivity analysis

In accordance with IAS 36, the Group performed a sensitivity analysis for the generating units of the Heat Generation segment.

The impact of changes in the key assumptions on the value in use of assets as at November 30, 2020 for the Heat Generation segment is presented below.

Parameter	Change	Impact on value in use in PLN billion	
		Increase	Decrease
Change in electricity price in whole forecast period	1%	0.5	-
	-1%	-	0.5

A 1% drop in the price of electricity would reduce the value in use of the assets by PLN 0.5 billion.

Parameter	Change	Impact on value in use in PLN billion	
		Increase	Decrease
Change in WACC	+ 0.5 p.p.	-	2.2
	- 0.5 p.p.	2.8	0

An increase in WACC by 0.5 p.p. would reduce the value in use of the assets by PLN 2.2 billion.

3.3 Description of the circumstances relating to the Renewable Power Generation segment

In 2019, the PGE Group reversed impairment write-downs on property, plant and equipment recognised in previous reporting periods in the Renewable Power Generation segment. The key assumptions adopted for asset impairment tests performed in 2019 are described in the consolidated financial statements of the PGE Capital Group for the year 2019.

During the current reporting period, the Group analysed the existing circumstances to verify whether further write-downs or the reversal of the earlier write-downs is necessary. On June 25, 2020, two new wind farms “Starza/Rybice” and “Karnice II” owned by PGE Klaster sp. z o.o., belonging to the Renewable Power Generation segment, were commissioned. In connection with the commissioning of the wind farms, PGE Klaster sp. z o.o. conducted impairment tests of its fixed assets as at December 31, 2020 and verified its value.

The following separate cash-generating units “CGUs” are identified and analysed within the Renewable Power Generation segment:

- all pumped storage power plants,
- all other hydroelectric power plants,
- individual PGE EO wind farms,
- all PGE Klaster wind farms.

Analysis of the circumstances of the CGUs in PGE EO S.A.

The analysis of the circumstances comprised the following most relevant factors:

- the financial plan,
- a confirmation that the investment plan is up to date,
- the prices of electricity and energy origin property rights,
- assumptions concerning the so-called capacity market,
- estimates of margins on electricity generation and sales in future periods, in the light of forecasts of energy prices.

The conducted analysis of the circumstances of the CGUs in PGE EO S.A. indicated that the generating units in the Wind area were implementing the financial plan above the assumed values, which was the result of higher prices of property rights and higher production volumes due to better wind conditions. In the Water area, due to lower than assumed electricity sale prices, a deviation from the financial plan was observed. Nevertheless, lower results were compensated by lower than assumed investment expenditures, which had a neutral impact on the estimated value of these CGUs based on the income approach. Forecasts of electricity prices and property rights available to the PGE Capital Group did not change significantly, thus their impact on forecast results is neutral. Moreover, forecasts concerning the level of support for the capacity market did not change significantly, either and are at a similar level. In view of the above, in the opinion of the PGE Capital Group, as at the reporting date there are no circumstances indicating the necessity to write down property, plant and equipment in the Renewable Power Generation segment with respect to the CGUs in PGE EO S.A., nor to reverse any write-downs recognised in the previous periods.

Some important regulatory assumptions adopted for the purpose of impairment tests are beyond the control of the PGE Capital Group and their fulfilment in the future is uncertain. This applies in particular to forecasts concerning prices of energy origin property rights, the uncertainty of which results from the unstable legal and regulatory situation relating to the operation of the energy origin property rights system.

Impairment test of property, plant and equipment of PGE Klaster sp. z o.o.

In connection with the commissioning of the wind farms, PGE Klaster sp. z o.o. identified circumstances that could indicate the necessity of reversing the write-down recognised in previous years on the value of incurred expenditures. Therefore, impairment tests of property, plant and equipment were carried out as at December 31, 2020 and its value was verified. The impairment tests were performed as at December 31, 2020 for the Karnice II and Rybice wind farms by determining their recoverable value. The recoverable value of the analysed assets was determined based on an estimation of their value in use by means of the discounted net cash flow method, on the basis of financial projections prepared for the assumed useful life of the wind farms.

Specific assumptions

- the assumptions relating to electricity generation were based on the best knowledge of PGE CG,
- the weighted average cost of capital (WACC) over the duration of the auction price support was assumed at 5.5% and over the remainder of the projection period at 7.0%.

As a result of the impairment test of property, plant and equipment, the Group concluded that it was necessary to reverse the impairment write-downs on the wind farm assets as at the reporting date.

The table below shows the value of the reversals of the write-downs on the PGE Klaster wind farm assets as at the end of 2020.

As at December 31, 2020	Discount rate	Tested value	Reversal of write-down	Value after write-down
Wind farms	5.5% / 7.0%	591	144	735

Sensitivity analysis

In accordance with IAS 36, the Group performed a sensitivity analysis for the wind farms of PGE Klaster sp. z o.o. The impact of the change in WACC on the value in use of the assets as at 31 December 2020 is presented below:

Parameter	Change	Impact on value in use in PLN million	
		Increase	Decrease
Change in WACC	+ 0.5 p.p.	-	35.3
	- 0.5 p.p.	38.2	-

An increase in WACC by 0.5 p.p. would reduce the value in use of the assets by PLN 35.3 million.

3.4 Property, plant and equipment in the Distribution segment

As at the reporting date the book value of property, plant and equipment related to distribution activities was approximately PLN 19 billion and represented approximately 30% of total consolidated property, plant and equipment. Their recoverable value depends mainly on the tariff approved by the President of the Energy Regulatory Office. Regulated (tariff) income determined annually ensures the coverage of reasonable operating costs, depreciation, taxes, purchase of energy to compensate for a balance difference, costs carried forward and the achievement of a return on capital employed in distribution activities at a reasonable level. The level of return on capital employed as well as depreciation depends on the so-called Regulatory Value of Assets.

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

4. Selected accounting principles

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

These consolidated financial statements of the PGE Capital Group were prepared on the basis of the financial statements of the parent company, the financial statements of its subsidiaries, associates and jointly controlled entity. The financial statements of the entities under consolidation were prepared for the same reporting period, on the basis of the uniform accounting principles.

All balances of settlements, revenue and expenses arising among the PGE Group entities and unrealised intragroup profits are eliminated in full.

Subsidiaries are subject to consolidation as of the date on which the Group obtains control over them and cease to be subject to consolidation as of the date on which such control ceases. The parent company exercises control over a subsidiary when it holds, directly or indirectly through its subsidiaries, more than a half of the voting rights in a given company, unless it is possible to prove that such ownership does not constitute the exercise of control. The parent company exercises control when, by virtue of its involvement in another entity, it has rights to variable financial results and has the ability to exert impact on the amount of such financial results by exercising authority over that entity. Exercising control may also occur when the parent company does not own more than a half of votes in a subsidiary.

Accounting for the establishment of the PGE Capital Group and subsequent transformations within the Group in the consolidated financial statements

Issues related to acquisitions and business combinations are in principle regulated by IFRS 3 *Business Combinations*, however this standard excludes from its scope transactions among entities under common control. At the time of their merger, the entities on the basis of which the PGE Group was established were controlled by the State Treasury. Therefore, in the Company's opinion, the contribution transaction fulfilled the criteria of the definition of a transaction under common control and, consequently, it is excluded from the scope of IFRS 3.

The combinations of businesses under common control were accounted for using the pooling of interests method. Thus, the consolidated financial statements reflect the continuity of common control and do not reflect changes in the value of net assets to fair values (or the recognition of new assets) or the valuation of goodwill.

Subsequent combinations within the PGE Group were recognised as transactions between entities under common control and were therefore accounted for within the Capital Group's equity with no impact on goodwill.

Acquisitions of companies from unrelated entities are accounted for using the acquisition method, in accordance with IFRS 3.

Joint venture and joint control

In connection with participation in a joint venture (a joint contractual arrangement that confers a right to a share of net assets), such a share is recognised as an investment in the financial statements and is accounted for using the equity method.

Joint control is a contractually agreed division of control within the scope of a contractual arrangement that occurs only when decisions on significant activities require the unanimous consent of the parties exercising joint control.

Investments in associates

Associates are entities over which the parent company, directly or indirectly through subsidiaries, exercises significant influence, but not control or joint control.

Investments in associates are accounted for using the equity method.

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

In accordance with IFRS *3 Business Combinations, the* PGE Group identifies and measures acquired assets, liabilities and goodwill or gain from a bargain purchase. Such measurement is based on a number of significant assumptions, including the selection of the appropriate method, the management's plans for the use of the acquired assets, financial forecasts (including price trajectories identifying major revenue and cost items), legislative changes, etc. On the other hand, the settlement of a transaction is affected by the appropriate determination of the purchase price (including the contingent portion). The applied assumptions can have a significant impact on the determination of the fair value of acquired assets and liabilities and the determination of the value of goodwill or gain from a bargain purchase. Goodwill is tested for impairment together with relevant cash generating units.

Translation of items denominated in foreign currencies

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

- monetary items are translated using the simplified method and the closing rate quoted by the National Bank of Poland,
- non-monetary items measured at historical cost in a foreign currency are translated using the exchange rate effective as at the date of the initial transaction,
- non-monetary items measured at fair value in a foreign currency are translated using the exchange rate effective as at the date when the fair value was determined.

Exchange differences resulting from translation are recognised in profit or loss or, where accounting policies so specify, in the value of assets.

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

5. Changes in accounting principles and data presentation

New standards and interpretations effective as of January 1, 2020

The accounting principles used in drawing up these financial statements are consistent with those followed in the preparation of the separate financial statements for the year 2019, with the exceptions presented below. The changes to the IFRSs referred to below were applied in these financial statements as of their respective effective dates. The changes listed below did not have any material impact on the presented and disclosed financial information or did not apply to transactions entered into by the Group:

- Amendments to the conceptual framework – Changes relate to the unification of the conceptual framework;
- Amendments to IFRS 3 – Changes relate to clarifying the definition of a business activity;
- Amendments to IAS 1 and IAS 8 – Changes relate to the definition of the term "material";
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Changes relate to the reform of reference interest rates,

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

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

6. Information on the business segments

ACCOUNTING PRINCIPLES

Operating segments

An operating segment is a component of the Group:

- that engages in economic activities in connection with which it may earn revenue and incur expenses,
- whose operating results are regularly reviewed by the Group's chief operating decision making body and which uses such results in deciding on the allocation of resources to the segment and in assessing the segment's performance,
- for which separate financial information is available.

Due to the types of production processes as well as the system of regulations in force within the PGE Capital Group, the following sectoral segments are distinguished:

- Conventional Power Generation,
- Heat Generation,
- Renewable Power Generation,
- Trade,
- Distribution,
- Other activities, which include the activities of subsidiaries other than the activities of the aforementioned segments, but not material enough to establish separate segments.

Segment revenue is revenue generated from either sales to external customers or transactions with other segments within the Group, which are reported in the Group's statement of profit or loss and are directly attributable to a given segment along with the appropriate portion of revenue that can be reasonably attributed to that segment. Segment costs comprise the cost of sales to external customers and the cost of transactions with other segments within the Group that result from the operating activities of the segment and are directly attributable to the segment along with the appropriate portion of the entity's expenses that can be reasonably attributed to that segment. Segment result is the difference between segment revenue and segment cost.

Segment assets are operating assets that are employed by a segment in its operating activities and that are either directly attributable to the segment or can be reasonably attributed to the segment. Segment liabilities are operating liabilities that result from the operating activities of a segment and that are either directly attributable to the segment or can be reasonably attributed to the segment. Segment assets and liabilities do not include income tax settlements.

The companies of the PGE Capital Group conduct their activities on the basis of relevant concessions, including in particular concessions for the generation, trading and distribution of electricity, generation, transmission and distribution of heat, granted by the President of the Energy Regulatory Office, as well as concessions for the mining of lignite from deposits granted by the Minister of the Environment. Concessions are generally granted for periods from 10 to 50 years. The key concessions in the PGE Capital Group expire in the years 2020-2038.

The concessions for lignite mining, electricity and heat generation as well as electricity and heat distribution have corresponding assets allocated to them, as shown in the detailed information on the operating segments. In connection with the electricity and heat concessions, the PGE Group incurs annual fees dependent on revenue. In the case of the activities related to the mining of lignite, the Company incurs extraction fees dependent on applicable rates and mining volumes, as well as mining usage fees. In 2020, the PGE Group's costs related to concessions amounted to approximately PLN 17 million (PLN 17 million in 2019), while the mining fee and the mining usage fee amounted to PLN 113 million in 2020 and PLN 118 million in 2019.

The PGE Capital Group presents information on its operating segments for the current and comparative reporting periods in accordance with IFRS 8 *Operating Segments*. The division of the reporting system of the PGE Capital Group is based on its sectoral segments:

- Conventional Power Generation comprises lignite exploration and extraction, electricity generation from conventional sources, as well as related ancillary activities.
- Heat Generation comprises the generation of electricity in cogeneration sources as well the transmission and distribution of heat.
- Renewable Power Generation includes electricity generation in pumped storage hydro power plants and from renewable sources.
- Trade comprises the sale and purchase of electricity and gas on the wholesale market, trade in emission allowances and property rights resulting from certificates of origin, the purchase and supply of fuels, the sale of electricity and the provision of services to end customers.
- Distribution comprises the management of local distribution networks and the transmission of electricity through these networks.
- Other activities include the provision of services by subsidiaries for the benefit of the Capital Group, e.g. arranging financing, providing IT, accounting, HR and transport services. In addition, the segment of other activities includes the activities of subsidiaries whose main activity is the preparation and implementation of the nuclear power plant construction project as well as investments in start-ups.

The PGE Capital Group is organised and managed by segments based on the type of products and services offered. Each segment constitutes a strategic business unit offering different products and serving different markets. The allocation of particular entities to operating segments is presented in note 1.3 to these consolidated financial statements. As a matter of principle, the PGE Capital Group settles transactions between segments as if they concerned unrelated entities - on an arm's length basis. Analysing the results of particular operating segments, the management of the PGE Capital Group pays attention first of all to achieved EBITDA.

Beginning in 2019, the PGE Capital Group established a new segment of Heat Generation. In the previous periods the assets and results of this segment had been recognised and analysed within the Conventional Power Generation segment.

The new presentation layout is intended to improve transparency and strengthen oversight of the implementation of the Strategy for Heat Generation, which is one of the Group's key growth areas.

Seasonality of the business segments' activities

The main factors influencing demand for electricity and heat include atmospheric factors such as air temperature, wind power, precipitation, socio-economic factors such as the number of energy consumers, prices of energy carriers, economic development and GDP, as well as technological factors such as technological progress and product manufacturing technologies. Each of these factors influences the technical and economic conditions for generation and distribution of energy carriers, and thus affects the results achieved by the companies of the PGE Capital Group.

The level of electricity sales throughout the year is variable and depends primarily on the atmospheric factors such as air temperature and the length of day. Increased demand for electricity is particularly visible during the winter period, while lower demand is observed in the summer. Moreover, seasonal changes are visible among selected groups of end users. Seasonality effects are more significant for households than the industrial sector.

In the Renewable Power Generation segment, electricity is generated from environmental resources such as water, wind and sun. Meteorological conditions are an important factor affecting electricity production in this segment.

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

of PGE Polska Grupa Energetyczna S.A. for the year 2020 (in PLN million)

6.1 Information on sectoral segments

Information on sectoral segments for 2020

	Conventional Power Generation	Heat Generation	Renewable Power Generation	Trade	Distribution	Other activities	Adjustments	Total
STATEMENT OF PROFIT OR LOSS								
Sales to external customers	18,777	3,010	754	18,380	6,308	88	(1,551)	45,766
Sales among segments	6,474	1,889	337	10,637	88	413	(19,838)	-
TOTAL SEGMENT REVENUE	**25,251**	**4,899**	**1,091**	**29,017**	**6,396**	**501**	**(21,389)**	**45,766**
Cost of goods sold	(24,638)	(4,217)	(614)	(27,109)	(5,033)	(455)	20,455	(41,611)
EBIT	**(647)**	**304**	**405**	**577**	**1,093**	**(138)**	**(186)**	**1,408**
Depreciation, liquidation and write-downs recognised in profit or loss	2,372	643	192	35	1,213	156	(53)	4,558
EBITDA	**1,725**	**947**	**597**	**612**	**2,306**	**18**	**(239)**	**5,966**
GROSS PROFIT	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**314**
Income tax expense	-	-	-	-	-	-	-	(166)
NET PROFIT FOR REPORTING PERIOD	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**148**
ASSETS AND LIABILITIES								
Segment assets, excluding trade receivables	36,404	8,143	4,326	1,890	19,439	817	(747)	70,272
Trade receivables	623	730	180	3,891	892	75	(2,789)	3,602
Shares and interests accounted for using the equity method	-	-	-	-	-	-	-	152
Unallocated assets	-	-	-	-	-	-	-	7,568
TOTAL ASSETS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**81,594**
Segment liabilities, excluding trade payables	16,652	2,179	532	3,585	2,186	121	(1,197)	24,058
Trade payables	986	490	48	2,343	302	47	(2,859)	1,357
Unallocated liabilities	-	-	-	-	-	-	-	12,678
TOTAL LIABILITIES	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**38,093**
OTHER INFORMATION ON SEGMENT								
Capital expenditures	2,370	656	709	15	1,646	164	(127)	5,433
Increases in ROUA	2	15	6	1	34	6	(2)	62
TOTAL CAPITAL EXPENDITURES	**2,372**	**671**	**715**	**16**	**1,680**	**170**	**(129)**	**5,495**
Acquisition of PPE, IA and IP as part of acquisition of new companies*	-	-	251	-	-	2	2	255
Write-downs on financial and non-financial assets	860	55	(141)	9	31	56	(89)	781
Other non-monetary expenses**	6,309	907	30	254	775	36	326	8,637

** Including goodwill*

*** Changes of a non-monetary nature relate to provisions for, among others, land rehabilitation, CO_2 emission rights, jubilee awards, employee tariffs and non-financial liabilities for employee benefits recognised in profit or loss and other comprehensive income*

of PGE Polska Grupa Energetyczna S.A. for the year 2020 (in PLN million)

Information on sectoral segments for 2019

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

** Changes of a non-monetary nature relate to provisions for, among others, land rehabilitation, CO_2 emission rights, jubilee awards, employee tariffs and non-financial liabilities for employee benefits recognised in profit or loss and other comprehensive income*

of PGE Polska Grupa Energetyczna S.A. for the year 2020 (in PLN million)

6.2 Information on geographical areas

The geographical breakdown of sales revenue for 2020 and 2019 is presented in the table below.

	Year ended December 31, 2020	Year ended December 31, 2019
OPERATING REVENUE		
Domestic market	42,859	37,477
EU countries	2,907	150
TOTAL SALE REVENUE	**45,766**	**37,627**

The geographical breakdown of assets as at December 31, 2020 and December 31, 2019 is presented in the table below.

	As at December 31, 2020	As at December 31, 2019
OTHER INFORMATION ON THE AREA		
Domestic market	73,854	72,232
EU countries	20	21
TOTAL ASSETS ALLOCATED TO SEGMENTS	**73,874**	**72,253**
Domestic market	7,449	4,567
EU countries	119	115
TOTAL ASSETS NOT ALLOCATED TO SEGMENTS	**7,568**	**4,682**
Domestic market	152	715
TOTAL SHARES AND INTERESTS RECOGNISED UNDER THE EQUITY METHOD	**152**	**715**
TOTAL ASSETS	**81,594**	**77,650**

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

7. Revenue and expenses

7.1 Sales revenue

ACCOUNTING PRINCIPLES

Revenue from contracts with customers

Revenue is recognised in the manner reflecting the transfer of promised goods or services to a customer in the amount reflecting consideration to which the Company expects to be entitled in exchange for the specified good or service transferred.

The Company recognises revenue at the time of satisfying a performance obligation by transferring a promised good or service to a customer. A good is transferred at the time when the customer obtains control of that good.

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

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

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

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

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

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

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

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

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

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

Revenue from wholesale of electricity

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

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

Revenues from the sales of heat in the Heat Generation segment

Revenue is measured at the currently applicable tariff rates, subject to the approval of the President of ERO. The tariff rates relate to thermal power ordered, heat energy sold and the heat carrier. Revenue invoiced for the sales of heat is the product of the tariff rates described above and sales volumes.

Quantitative heat sales are derived from readings of metering and billing systems. Readings are taken on specified working days of each calendar month, including dates close to the end of a month. Therefore, for the purposes of financial reporting, sales volumes are adjusted for the period between the last reading date of a month and the end of that month.

Revenue from the sales of heat is recognised when heat is delivered in accordance with the obtained readings, including adjustments.

Revenue from the sales of electricity distribution services in the Distribution segment

Revenue from the sales of electricity distribution services results from documented sales increased by adjustments of the sales of electricity distribution services that were not invoiced in a given period and decreased by the value of adjustments of such sales in the previous period. Adjustments of sales are made at least at the end of each quarter.

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

Revenues from the sales of electricity and gaseous fuel in the Trade segment

The Group earns revenue from the sales of electricity and natural gas to end users and on the wholesale market. Revenue from the sales of electricity is recognised on the basis of the sales month indicated in invoices.
Due to the continuous character of energy supplies, for the purposes of proper recognition in the account books, the Group adjusts sales revenue (invoiced sales) by the amount of energy supplied but not invoiced in a given period. Adjustments of electricity sales are carried out at the end of each month.

The calculation of the value of adjusted sales is made separately for each energy consumption point and separately for individual price components and types of tariff charges. Adjustments of electricity volumes are calculated based on the average daily energy consumption for a given consumption point, determined on the basis of the following:

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

Adjustments of electricity volumes for a newly acquired electricity consumption point (with no history of electricity consumption in the billing system) are determined on the basis of the volume declared by the customer.

In the case of electricity consumption points billed on the basis of forecast invoices, adjustments make sales realistic by recalculating the charges for the forecast amount of electricity according to the current rates applicable in the forecast period.

Operating lease revenue

Operating lease revenue is recognised in profit or loss for a given period on a straight-line basis over the lease term, unless another systematic basis is more representative of the distribution of decreasing benefits derived from the use of the leased asset over time.

of PGE Polska Grupa Energetyczna S.A. for the year 2020 (in PLN million)

The undiscounted lease payments to be received annually in the subsequent periods are presented in the table below.

Maturity dates	Year ended December 31, 2020	Year ended December 31, 2019
up to 1 year	55	247
from 1 to 2 years	49	46
from 2 to 3 years	46	41
from 3 to 4 years	44	39
from 4 to 5 years	43	37
over 5 years	700	665

Sales revenue for 2020 broken down by category

The table below presents a reconciliation between the disclosure of revenue broken down by category and information on revenue that the entity discloses for each reportable segment.

	Conventional Power Generation	Heat Generation	Renewable Power Generation	Trade	Distribution	Other activities	Adjustments	Total
Revenue from contracts with customers	25,236	4,829	890	28,943	6,343	500	(21,371)	**45,370**
Revenue from recognised compensation under the Electricity Pricing Act	-	-	-	68	-	-	-	**68**
Revenue from support for high-efficiency cogeneration	-	19	-	-	-	-	-	**19**
Revenue from PPA compensation	-	31	-	-	-	-	-	**31**
Operating lease revenue	15	20	201	6	53	1	(18)	**278**
TOTAL SALES REVENUE	**25,251**	**4,899**	**1,091**	**29,017**	**6,396**	**501**	**(21,389)**	**45,766**

The total revenue amount includes approximately PLN 47 million in sales transactions whose value was not ultimately established as at the end of the reporting period. The PGE Group makes estimates of revenue the most important of which relate to revenue from the sales of electricity gaseous fuel and distribution services in the Trade and Distribution segments, as well as revenue from support for high efficiency cogeneration in the Heat Generation segment.

Lease payments recognised as income in 2020 amounted to PLN 278 million (PLN 261 million in 2019). The Group did not achieve revenue from operating lease relating to variable lease payments that do not depend on any index or rate.

The table below presents revenue from contracts with customers broken down by category reflecting how economic factors affect the nature, amount and timing of payments as well as the uncertainty of revenue and cash flows.

Type of good or service	Conventional Power Generation	Heat Generation	Renewable Power Generation	Trade	Distribution	Other activities	Adjustments	Total
Revenue from sales of goods and products, without excluding taxes and fees	25,167	4,738	890	28,175	6,362	75	(20,036)	**45,371**
Taxes and fees collected on behalf of third parties	*(4)*	*(2)*	-	*(125)*	*(74)*	-	-	***(205)***
Revenue from sales of goods and products, including:	**25,163**	**4,736**	**890**	**28,050**	**6,288**	**75**	**(20,036)**	**45,166**
Sales of electricity	21,430	2,418	599	15,742	3	-	(8,317)	**31,875**
Sales of distribution services	14	12	-	48	6,066	-	(84)	**6,056**
Sales of heat	165	2,033	-	10	-	-	(1)	**2,207**
Sales of energy origin property rights	52	11	238	-	-	-	24	**325**
Regulatory system services	482	-	48	-	-	-	(1)	**529**
Sales of natural gas	-	-	-	289	-	-	(145)	**144**
Sales of other fuels	-	-	-	688	-	-	(363)	**325**
Sales of CO_2 emission allowances	2,897	202	-	11,271	-	-	(11,145)	**3,225**
Other sales of goods and materials	123	60	5	2	219	75	(4)	**480**
Revenue from sales of services	**73**	**93**	-	**893**	**55**	**425**	**(1,335)**	**204**
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**25,236**	**4,829**	**890**	**28,943**	**6,343**	**500**	**(21,371)**	**45,370**

of PGE Polska Grupa Energetyczna S.A. for the year 2020 (in PLN million)

Timing of transfer of goods or services	Conventional Power Generation	Heat Generation	Renewable Power Generation	Trade	Distribution	Other activities	Adjustments	Total
Revenue from sales of goods and services transferred to the customer over time	22,091	4,463	647	16,089	6,069	-	(8,548)	**40,811**
Revenue from sales of goods and services transferred to the customer at a particular point in time	3,145	366	243	12,854	274	500	(12,823)	**4,559**
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**25,236**	**4,829**	**890**	**28,943**	**6,343**	**500**	**(21,371)**	**45,370**

Sales revenue for 2019 broken down by category

The table below presents a reconciliation between the disclosure of revenue broken down by category and information on revenue that the entity discloses for each reportable segment.

	Conventional Power Generation	Heat Generation	Renewable Power Generation	Trade	Distribution	Other activities	Adjustments	Total
Revenue from contracts with customers	19,226	5,992	847	16,189	6,108	498	(12,663)	**36,197**
Revenue from recognised compensation under the Electricity Pricing Act	4	26	-	1,118	-	-	-	**1,148**
Revenue from support for high-efficiency cogeneration	-	29	-	-	-	-	-	**29**
Revenue from PPA compensation	-	(8)	-	-	-	-	-	**(8)**
Operating lease revenue	15	19	192	5	47	3	(20)	**261**
TOTAL SALES REVENUE	**19,245**	**6,058**	**1,039**	**17,312**	**6,155**	**501**	**(12,683)**	**37,627**

The total revenue amount includes approximately PLN 51 million in sales transactions whose value was not ultimately established as at the end of the reporting period. The PGE Group makes estimates of revenue the most important of which related to revenue from the sales of electricity gaseous fuel and distribution services in the Trade and Distribution segments, as well as revenue from support for high efficiency cogeneration in the Heat Generation segment.

The table below presents revenue from contracts with customers broken down by category reflecting how economic factors affect the nature, amount and timing of payments as well as the uncertainty of revenue and cash flows.

Type of good or service *data restated*	Conventional Power Generation	Heat Generation	Renewable Power Generation	Trade	Distribution	Other activities	Adjustments	Total
Revenue from sales of goods and products, without excluding taxes and fees	19,129	5,893	845	15,450	6,125	104	(11,312)	**36,234**
Taxes and fees collected on behalf of third parties	*(3)*	*(8)*	-	*(138)*	*(74)*	-	-	***(223)***
Revenue from sales of goods and products, including:	**19,126**	**5,885**	**845**	**15,312**	**6,051**	**104**	**(11,312)**	**36,011**
Sales of electricity	18,276	3,923	594	12,113	4	-	(8,918)	**25,992**
Sales of distribution services	17	13	-	49	5,828	-	(88)	**5,819**
Sales of heat	159	1,864	-	10	-	-	-	**2,033**
Sales of energy origin property rights	61	22	195	8	-	-	(39)	**247**
Regulatory system services	361	-	51	-	-	-	-	**412**
Sales of natural gas	-	-	-	508	-	-	(46)	**462**
Sales of other fuels	-	-	-	1,247	-	-	(839)	**408**
Sales of CO_2 emission allowances	99	12	-	1,375	-	-	(1,374)	**112**
Other sales of goods and materials	153	51	5	2	219	104	(8)	**526**
Revenue from sales of services	**100**	**107**	**2**	**877**	**57**	**394**	**(1,351)**	**186**
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**19,226**	**5,992**	**847**	**16,189**	**6,108**	**498**	**(12,663)**	**36,197**

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

of PGE Polska Grupa Energetyczna S.A. for the year 2020 (in PLN million)

7.2 Expenses by kind and function

ACCOUNTING PRINCIPLES

Cost of goods sold

Cost of goods sold includes the following:

- the costs of manufacturing products incurred in a given reporting period, adjusted by a change in the inventories (finished goods, semi-finished products and work in progress) and adjusted by the cost of manufacturing products for the Company's own purposes,
- the value of electricity, goods and materials sold at cost, changes in the fair value measurements of financial instruments related to lignite measured at fair value, and changes in the measurement of lignite inventories measured at fair value.

The costs of manufacturing that can be allocated directly to revenue achieved by entities influence their financial result for the reporting period in which such revenue occurs.

The costs of manufacture which can be allocated only indirectly to revenue or other benefits achieved by entities influence their financial result in the part in which they relate to a given reporting period, ensuring that they are commensurate with revenue or other economic benefits

	Year ended December 31, 2020	Year ended December 31, 2019
EXPENSES BY KIND		
Depreciation and write-downs	4,581	11,417
Consumption of materials and energy	5,181	5,370
Third party services	2,597	2,548
Taxes and charges	8,454	5,483
Employee benefits expenses	5,450	5,464
Other expenses by kind	312	327
TOTAL COSTS BY TYPE	**26,575**	**30,609**
Change in products	-	(28)
Cost of services for entity's captive use	(818)	(1,333)
Distribution and selling expenses	(1,492)	(1,361)
General and administrative expenses	(1,189)	(1,099)
Value of goods and materials sold	18,535	13,346
COST OF GOODS SOLD	**41,611**	**40,134**

As presented in note 3.1 to these financial statements, in 2020, as a result of the impairment tests carried out for the item Depreciation and write-downs, the Group recognised impairment write-downs on property, plant and equipment in the amount of PLN 530 million.

The increase in the value of goods and materials sold is due to the increase in the purchase of electricity from the exchange for the purpose of securing sales to end users, which is caused by the introduction of the 100% exchange obligation and the increase in average electricity prices on the market.

7.2.1 Depreciation, liquidation and write-downs

The recognition of depreciation, liquidation and impairment write-down on property, plant and equipment, intangible assets, rights to use assets and investment properties in the statement of comprehensive income is set out below.

Year ended	Depreciation and liquidation					Write-downs		
December 31, 2020	PPE	IA	ROUA	IP	TOTAL	PPE	ROUA	TOTAL
Cost of goods sold	3,622	75	51	3	**3,751**	651	1	**652**
Distribution and selling expenses	12	3	1	-	**16**	-	-	**-**
General and administrative expenses	37	87	11	-	**135**	4	-	**4**
RECOGNISED IN PROFIT OR LOSS	**3,671**	**165**	**63**	**3**	**3,902**	**655**	**1**	**656**
Change in products	(3)	-	-	-	**(3)**	-	-	**-**
Cost of services for entity's captive use	25	-	1	-	**26**	-	-	**-**
TOTAL	**3,693**	**165**	**64**	**3**	**3,925**	**655**	**1**	**656**
Other operating revenue	-	-	-	-	**-**	2	-	**2**
Other operating expenses	-	-	-	-	**-**	(3)	-	**(3)**

of PGE Polska Grupa Energetyczna S.A. for the year 2020 (in PLN million)

Year ended December 31, 2019	Depreciation and liquidation PPE	IA	ROUA	IP	TOTAL	Write-downs PPE	IA	TOTAL
Cost of goods sold	3,592	82	47	2	**3,723**	7,517	(4)	**7,513**
Distribution and selling expenses	15	3	-	-	**18**	-	-	**-**
General and administrative expenses	30	18	9	-	**57**	5	-	**5**
RECOGNISED IN PROFIT OR LOSS	**3,637**	**103**	**56**	**2**	**3,798**	**7,522**	**(4)**	**7,518**
Change in products	3	-	-	-	**3**	-	-	**-**
Cost of services for entity's captive use	97	-	1	-	**98**	-	-	**-**
TOTAL	**3,737**	**103**	**57**	**2**	**3,899**	**7,522**	**(4)**	**7,518**
Other operating revenue	-	-	-	-	**-**	(1)	-	**(1)**
Other operating expenses	-	-	-	-	**-**	3	-	**3**

In 2020, the Group carried out impairment tests for property, plant and equipment, which resulted in write-downs in the total amount of PLN 530 million. A detailed description is provided in note 3.1 to these financial statements.

Other write-downs made during the reporting period mainly relate to capital expenditures incurred in the entities for which impairment was recognised in previous periods.

Under Depreciation and liquidation, the Group recognised in the current period an amount of PLN 105 million for the net value of the liquidation of PPE and IA.

7.2.2 Consumption of materials and energy

	Year ended December 31, 2020	Year ended December 31, 2019
Generation fuel costs	4,144	4,203
Consumption of materials used in repairs and operations	489	602
Energy consumption	252	245
Other	296	320
TOTAL MATERIALS AND ENERGY CONSUMPTION	**5,181**	**5,370**

7.2.3 Third party services

	Year ended December 31, 2020	Year ended December 31, 2019
Transmission services	1,438	1,362
Third party services – overhauls and operation	510	517
Transport services	143	174
IT services	110	107
Telecommunications services	21	22
Rents and leases	18	16
Consulting services	39	49
Other	318	301
TOTAL COSTS OF THIRD PARTY SERVICES	**2,597**	**2,548**

7.2.4 Taxes and charges

	Year ended December 31, 2020	Year ended December 31, 2019
CO_2 emissions fees	6,200	3,414
Environmental fees	1,148	1,037
Property tax	932	864
Other	174	168
TOTAL TAXES AND CHARGES	**8,454**	**5,483**

of PGE Polska Grupa Energetyczna S.A. for the year 2020 (in PLN million)

7.2.5 Costs of employee benefits and structure of employment

	Year ended December 31, 2020	Year ended December 31, 2019
Payroll	3,938	3,914
Cost of social insurance	754	744
Cost of pension benefits	58	49
Jubilee benefits, allowances in kind	123	122
Other post-employment benefits	47	39
Change in provision for employee benefits	(85)	47
Costs related to Voluntary Leave Programmes	28	-
Other employee benefits expenses	587	549
TOTAL EMPLOYEE BENEFITS EXPENSES, INCLUDING:	**5,450**	**5,464**
Items recognised in cost of goods sold	4,122	3,964
Items recognised in distribution and selling expenses	312	350
Items recognised in general and administrative expenses	759	744
Cost of services for entity's captive use	257	406

Under Other employee benefits expenses, the Group recognised, among other things, the costs of employee pension schemes, the contribution to the Company Social Benefits Fund, the costs of medical care and training.

The number of employees in the PGE Capital Group (in full-time positions) was as follows:

	As at December 31, 2020	As at December 31, 2019
Conventional Power Generation	20,610	21,530
Heat Generation	4,014	4,248
Renewable Power Generation	595	595
Trade	2,347	2,433
Distribution	10,038	10,272
Other consolidated companies	2,537	2,856
TOTAL EMPLOYMENT	**40,141**	**41,934**

7.3 Other operating income and expenses

ACCOUNTING PRINCIPLES

Other operating income and expenses

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

	Year ended December 31, 2020	Year ended December 31, 2019
NET OTHER OPERATING INCOME/(EXPENSES)		
Effect of revaluation of provisions for costs of land rehabilitation	(306)	(835)
Valuation and exercise of derivatives, including:	170	289
- CO_2	*155*	*261*
- Lignite	*15*	*28*
Penalties, fines, damages	149	117
(Creation)/Reversal of write-downs on receivables	(105)	(68)
Grants	34	25
Gain on disposal of PPE/IA	31	6
Reversal/(creation) of other provisions	(21)	6
Donations given	(19)	(25)
PPE/IA and other infrastructure received free of charge	15	14
Asset surpluses, disclosures/Settlement of inventory shortages	9	(17)
Liquidation of PPE/IA	(8)	(8)
Repair of damage and failure	(7)	(8)
Revenues from additional CO_2 emission allowances	-	1,300
Other	(8)	(4)
TOTAL NET OTHER OPERATING INCOME/(EXPENSES)	**(66)**	**792**

of PGE Polska Grupa Energetyczna S.A. for the year 2020 (in PLN million)

7.4 Finance income and expenses

ACCOUNTING PRINCIPLES

Finance income and expenses

Interest income and expenses are recognised successively, on an accrual basis, taking into consideration the effective interest rate method with respect to the net book value of a given financial instrument as at the reporting date, in compliance with the materiality principle.

Dividends are recognised at the time when shareholders' rights to receive them are established.

	Year ended December 31, 2020	Year ended December 31, 2019
NET FINANCE INCOME/(EXPENSES) FROM FINANCIAL INSTRUMENTS		
Dividends	2	1
Interest, including:	(269)	(223)
Interest income calculated using the effective interest rate method	*32*	*36*
Revaluation of financial assets	12	(11)
Reversal of write-downs	1	3
Foreign exchange differences	(33)	(27)
Loss on disposal of investments	(13)	-
TOTAL NET FINANCE EXPENSES RELATING TO FINANCIAL INSTRUMENTS	**(300)**	**(257)**
OTHER NET FINANCE INCOME/(EXPENSES)		
Interest expense on non-financial items	(229)	(204)
Interest on liabilities to state budget	(1)	(1)
Reversal of provisions	(1)	(2)
Other	(11)	(7)
TOTAL OTHER NET FINANCE INCOME/(EXPENSES)	**(242)**	**(214)**
TOTAL NET FINANCE INCOME/(EXPENSES)	**(542)**	**(471)**

Interest costs mainly relate to issued bonds, taken credits and loans, as well as leases. The costs of interest on lease liabilities in the current period amounted to PLN 42 million (PLN 41 million in 2019).

Interest expense on non-financial items relates to provisions for land rehabilitation and provisions for employee benefits.

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

2020	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**	**49.79%**
Revenue	7,476	1,498	-	15	76
Result from continuing operations	(1,838)	105	(4)	(1)	1
Share in result of entities accounted for using the equity method	**(282)**	**17**	**(1)**	**-**	**-**
Elimination of unrealised gains and losses	7	-	-	-	-
Impairment write-down	(286)	-	-	(7)	-
SHARE IN RESULT OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	**(561)**	**17**	**(1)**	**(7)**	**-**

2019	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**	**49.79%**
Revenue	9,012	1,510	-	15	50
Result from continuing operations	(427)	22	(5)	(1)	2
Share in result of entities accounted for using the equity method	**(65)**	**4**	**(1)**	**-**	**1**
Elimination of unrealised gains and losses	4	-	-	-	-
SHARE IN RESULT OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	**(61)**	**4**	**(1)**	**-**	**1**

The Group makes a consolidation adjustment for the margin on the sales of coal between Polska Grupa Górnicza and the Group.

of PGE Polska Grupa Energetyczna S.A. for the year 2020 (in PLN million)

8. Income tax expense

ACCOUNTING PRINCIPLES

Income tax expense

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

The statement of profit or loss presents the factual income tax expense for a given reporting period established by the Group's entities in accordance with the applicable provisions of the Corporate Income Tax Act as well as changes in deferred income tax assets and liabilities not settled against equity.

8.1 Tax in the statement of comprehensive income

The major items of the income tax expense for the periods ended December 31, 2020 and December 31, 2019 are as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS		
Current income tax expense	810	572
Deferred income tax	(649)	(1,337)
Adjustments to deferred income tax	5	(10)
INCOME TAX EXPENSE RECOGNISED IN STATEMENT OF PROFIT OR LOSS	**166**	**(775)**
INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME		
On actuarial gains (losses) on valuation of employee benefit provisions	(46)	(49)
On valuation of hedging instruments	73	(65)
(Tax benefit)/tax charge recognised in other comprehensive income (equity)	**27**	**(114)**

8.2 Effective tax rate

The reconciliation of income tax on the gross financial result before tax at the statutory interest rate with income tax calculated according to the tax rate applicable to the Group is as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
PROFIT/(LOSS) BEFORE TAX	**314**	**(4,703)**
Tax at statutory rate effective in Poland – 19%	60	(894)
ITEMS ADJUSTING INCOME TAX		
Adjustments to deferred income tax	5	(10)
Non-deductible costs	139	65
Creation of rehabilitation provisions with respect to which no deferred tax was recognised	15	110
Non-taxable income	(27)	(9)
Other adjustments	(26)	(37)
INCOME TAX EXPENSE AT EFFECTIVE TAX RATE **Income tax (charge) in the consolidated financial statements**	**166**	**(775)**
EFFECTIVE TAX RATE	**53%**	**16%**

The increase in non-deductible costs is mainly due to the write-down on PGG S.A. shares made in 2020.

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

9. Property, plant and equipment

ACCOUNTING PRINCIPLES

Property, plant and equipment

Property, plant and equipment comprise the following assets:

- maintained for the purpose of their utilisation in production processes or in the delivery of goods or the provision of services, for the purpose of making them available for use to other entities under rental agreements, or for administrative purposes, and
- expected to be used for periods longer than one year.

Property, plant and equipment are valued at the net value, i.e. the initial value (or at the cost assumed for non-current assets used before the date of transition to IFRSs) less depreciation and impairment write-downs. The initial value of property, plant and equipment includes their purchase price plus all costs related directly to their purchase and adjustment to the condition making them available for use. Such costs include also the expected costs of the decommissioning of property, plant and equipment, their disposal, and the restoration of a particular location of a given asset to its original condition. The obligation to incur such costs occurs at the time of the installation of an asset or its usage for purposes other than the manufacture of inventories. As at the time of purchasing or manufacturing a component of property, plant and equipment, the Group identifies and distinguishes all their constituents significant in view of the purchase price or manufacturing cost of the whole asset and depreciates each such a constituent separately. The Group also recognises the costs of general overhauls and periodic maintenance inspections as an element of a component of property, plant and equipment.

The basis for calculating depreciation charges is a purchase price/manufacturing cost of a component of property, plant and equipment less its residual value. Depreciation starts when an asset is available for use. Depreciation of property, plant and equipment takes place on the basis of a depreciation plan specifying the expected economic useful life of a component of property, plant and equipment. The applied depreciation method reflects the process of the Group's consuming the economic benefits related to a given asset. General overhauls and periodic maintenance inspections constituting components of property, plant and equipment assets are depreciated for the period from the month following the end of an overhaul/inspection to the month in which the next overhaul/inspection starts.

For the particular groups of property, plant and equipment, the following ranges of economic useful lives are used:

Group of assets	Average remaining depreciation period in years	Most frequently applied depreciation periods in years
Buildings, premises and civil engineering structures	17	20 – 60
Machinery and technical equipment	14	4 – 40
Means of transport	6	4 – 14
Other property, plant and equipment	14	5 – 10

The method of depreciation, rates of depreciation and residual values of property, plant and equipment are reviewed annually. All changes resulting from conducted reviews are recognised as changes in estimates and possible adjustments of depreciation charges are made in the year in which a review is made and in the subsequent periods.

Property, plant and equipment under construction are assets in the course of being constructed or assembled; they are recognised at their acquisition prices or manufacturing costs less possible impairment write-downs. Property, plant and equipment under construction are not depreciated until construction is completed and the item of property, plant and equipment is brought into use.

Borrowing costs

Borrowing costs include interest and other costs incurred by the Group in connection with the borrowing of financial resources. Borrowing costs which can be allocated directly to the purchase, construction or generation of a given asset are capitalised as a part of the purchase price or the manufacturing cost of such an asset. Other borrowing costs are recognised as costs of the period. In the case of foreign exchange differences occurring in connection with loans and credits in foreign currencies, the Group capitalises them up to the amount in which they are regarded as an adjustment of interest costs.

Impairment of non-financial non-current assets

As at every reporting date the Group estimates whether there are any circumstances indicating the possibility of impairment of any non-financial non-current assets. If the Group determines that there are such circumstances or if it becomes necessary to conduct an annual test checking whether particular assets have been impaired, the Group estimates the recoverable value of a given asset or a cash generating unit to which a given asset belongs.

The recoverable value of an asset or a cash generating unit corresponds to its fair value less the costs of selling such an asset or a relevant cash generating unit or its use value, whichever is higher. The recoverable value is determined for particular assets unless a given asset does not generate cash flows which are mostly independent of cash flows generated by other assets or groups of assets. If the book value of an asset is higher than its recoverable value, impairment occurs and the asset needs to be written down to the established recoverable value. In the estimation of value in use, forecast cash flows are discounted to their current value based on the discount rate before taking into consideration the consequences of taxation, which reflect the current market estimate of the time value of money and risks typical for a given asset. Impairment write-downs on assets used in the continued activities are recognised in the categories of costs corresponding to the function of an asset in the case of which impairment has been identified.

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Stripping costs

If the conditions specified in interpretation IFRIC 20 are met, the mines recognise also so-called stripping assets, i.e. the costs of overburden removal incurred during the production stage, as a component of property, plant and equipment. The value of the stripping asset at the production stage is determined based on a model that takes into account, among other things, the estimated value of the overall N-W ratio (the ratio of the amount of overburden to lignite) and the actual annual N-W ratio. This ratio is calculated as the ratio of the remaining quantity of overburden to the remaining lignite resources to be removed from the date of application of IFRIC 20 until the end of lignite extraction from a given deposit component. The ratio is determined on the basis of the mines technical team's best knowledge as at the end of every financial year; it may change if new information concerning the size of a particular deposit and its deposition is acquired in parallel to progress in the mining operations.

The stripping asset is depreciated systematically by means of the natural method based on the volume of lignite extracted from a given part of the deposit.

Measurement of the stripping asset at the production stage

The value of the asset related to stripping operations at the stage of production is established on the basis of a model including, among other things, the estimated value of the general N:W ratio.

Final pits rehabilitation costs in the opencast lignite mines

The opencast lignite mines operating in the PGE Group recognise in the value of property, plant and equipment the estimated rehabilitation costs of the final pits attributable to excavated overburden in the proportion corresponding to the ratio of the volume of the open pit attributable to overburden as at the reporting date to the planned volume of the open pit attributable to overburden as at the end of the mining period.

The asset related to land rehabilitation costs is depreciated systematically by means of the natural method based on the volume of lignite extracted from a given open pit.

Property, plant and equipment subject to operating leases

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

Assets leased under operating leases are presented in the statement of financial position according to the nature of the assets.

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

	As at December 31, 2020	As at December 31, 2019
Land	227	226
Buildings and structures	24,613	24,315
Technical equipment	26,264	25,852
Means of transport	376	370
Other property, plant and equipment	3,350	2,832
PPE under construction	6,911	6,095
NET VALUE OF PROPERTY, PLANT AND EQUIPMENT	**61,741**	**59,690**

of PGE Polska Grupa Energetyczna S.A. for the year 2020 (in PLN million)

Change in property, plant and equipment by group

	Land	Buildings and structures	Technical equipment	Means of transport	Other PPE	PPE under constructio n	Total
GROSS BOOK VALUE							
AS AT JANUARY 1, 2020	**256**	**43,633**	**56,468**	**879**	**8,805**	**6,965**	**117,006**
Capital expenditures	-	-	3	1	-	5,353	5,357
Settlement of PPE under construction	5	1,838	2,845	78	171	(4,937)	-
Liquidation, sale	(1)	(163)	(366)	(21)	(9)	(87)	(647)
Acquisition of new subsidiaries	-	57	182	-		2	241
Effect of changes in assumptions for rehabilitation provision	-	14	21	-	877	-	912
Transfers between groups	-	(118)	118	-	-	-	-
Other	-	5	19	(10)	(1)	(25)	(12)
AS AT DECEMBER 31, 2020	**260**	**45,266**	**59,290**	**927**	**9,843**	**7,271**	**122,857**
DEPRECIATION AND WRITE-DOWNS							
AS AT JANUARY 1, 2020	**30**	**19,318**	**30,616**	**509**	**5,973**	**870**	**57,316**
Depreciation and net value of liquidation included in costs by nature	3	1,438	1,946	66	232	8	3,693
Write-downs	-	21	687	-	298	(352)	654
Liquidation, sale	-	(159)	(361)	(19)	(9)	-	(548)
Transfers between groups	-	43	140	-	-	(183)	-
Other	-	(8)	(2)	(5)	(1)	17	1
AS AT DECEMBER 31, 2020	**33**	**20,653**	**33,026**	**551**	**6,493**	**360**	**61,116**
NET VALUE AS AT DECEMBER 31, 2020	**227**	**24,613**	**26,264**	**376**	**3,350**	**6,911**	**61,741**

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

Significant increases and decreases in property, plant and equipment

The highest capital expenditures were incurred by the Conventional Power Generation segment (PLN 2,370 million) and the Distribution segment (PLN 1,646 million). The main expenditure items included: construction of unit no. 7 in the Turów Power Plant (PLN 504 million) and construction of units nos. 9 and 10 in the Dolna Odra Power Plant (PLN 57 million). Expenditures for connecting new customers to the distribution network incurred by the Distribution segment amounted to PLN 694 million.

Borrowing costs

During the year ended December 31, 2020, the PGE Group recognised borrowing costs in property, plant and equipment in the amount of approximately PLN 87 million (PLN 136 million in the comparative period). The average capitalisation rate of borrowing costs in the year ended December 31, 2020 amounted to 36% (49% in the comparative period).

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Capitalised deposit preparation costs

In the current period, in accordance with the requirements of IFRIC 20, expenditures incurred for the removal of overburden during the production stage were capitalised at PLN 145 million. At the same time in the current reporting period, the Group recognised depreciation of capitalised stripping costs of PLN 110 million, and an impairment write-down of PLN 87 million. Capitalised stripping costs are presented under "Other property, plant and equipment".

Capitalisation of changes in the measurement of the rehabilitation provision

Under the property, plant and equipment, PGE Group recognises changes in the rehabilitation provision allocated to overburden, the provision for rehabilitation of wind farm sites and the provision for liquidation of property, plant and equipment. As at December 31, 2020, the net value of the capitalised portion of the rehabilitation provisions (net of the impairment write-down and depreciation) amounted to PLN 1,750 million (including the provision for final pits rehabilitation of PLN 1,609 million). In the comparative period, the net value of the capitalised part of the rehabilitation provisions was PLN 1,146 million (including the provision for final pits rehabilitation of PLN 1,031 million). The capitalised part of the rehabilitation provision is presented under the items: "Land" and "Other property, plant and equipment".

Depreciation periods for property, plant and equipment

The rates of depreciation charges are established on the basis of the expected economic useful life of a particular component of property, plant and equipment as well as estimates concerning its residual value. Capitalised overhauls are depreciated over a period remaining until the next planned overhaul.

Economic useful life periods are verified at least once during the course of a financial year. The relevant depreciation periods are presented in notes 9, 11 and 12.

Carried out in 2020, the verification of economic useful life periods for property, plant and equipment resulted in an increase in depreciation costs for 2020 by the combined amount of approximately PLN 33 million.

Property, plant and equipment subject to operating leases

The table below shows changes in property, plant and equipment under operating leases by class of an underlying asset.

Changes in property, plant and equipment subject to operating leases

	Land	Buildings and structures	Technical equipment	Other PPE	Total
GROSS BOOK VALUE					
AS AT JANUARY 1, 2020	**28**	**527**	**531**	**2**	**1,088**
Capital expenditures	-	1	-	-	1
Settlement of PPE under construction	-	4	4	(8)	-
Liquidation, sale	-	(1)	(1)	-	(2)
Other	(1)	(5)	(1)	9	2
AS AT DECEMBER 31, 2020	**27**	**526**	**533**	**3**	**1,089**
DEPRECIATION AND WRITE-DOWNS					
AS AT JANUARY 1, 2020	**4**	**313**	**403**	**-**	**720**
Depreciation and net value of liquidation included in costs by nature	-	28	29	-	57
Liquidation, sale	-	(1)	(1)	-	(2)
Other	(2)	-	(1)	1	(2)
AS AT DECEMBER 31, 2020	**2**	**340**	**430**	**1**	**773**
NET VALUE AS AT DECEMBER 31, 2020	**25**	**186**	**103**	**2**	**316**

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	Land	Buildings and structures	Technical equipment	Other PPE	Total
GROSS BOOK VALUE					
AS AT JANUARY 1, 2019	**27**	**518**	**513**	**-**	**1,058**
Capital expenditures	-	-	-	3	3
Settlement of PPE under construction	-	9	20	-	29
Liquidation, sale	-	-	(2)	-	(2)
Other	1	-	-	(1)	-
AS AT DECEMBER 31, 2019	**28**	**527**	**531**	**2**	**1,088**
DEPRECIATION AND WRITE-DOWNS					
AS AT JANUARY 1, 2019	**4**	**286**	**376**	**-**	**666**
Depreciation and net value of liquidation included in costs by nature	-	26	28	-	54
Write-downs	-	1	-	-	1
Other	-	-	(1)	-	(1)
AS AT DECEMBER 31, 2019	**4**	**313**	**403**	**-**	**720**
NET VALUE AS AT DECEMBER 31, 2019	**24**	**214**	**128**	**2**	**368**

The amounts presented in the table above mainly relate to the contract for the provision of regulatory system services by the Group's pumped storage power plants.

The provision of regulatory system services consists in the dispatch and use of generation units by the transmission system operator for the purpose of interventional balancing of active and reactive capacities in the National Power System (NPS) to ensure the current operational security of the NPS. The Group assessed that the agreement for the provision of regulatory system services concluded with Polskie Sieci Elektroenergetyczne S.A. contains a lease. The Group, as a lessor, separated the part of the property, plant and equipment covered by this lease agreement.

10. Investment property

ACCOUNTING PRINCIPLES

Investment property

At the time of their initial recognition investment properties are valued at their acquisition prices or manufacturing costs, including the costs of related transactions. If an investment property is purchased, the cost comprises the purchase price plus any costs directly attributable to the purchase transaction, such as legal fees and property transfer tax.

Investment properties in the PGE Group companies mainly comprise buildings located on the territory of the respective company, leased to third parties in whole or in part. From the point of view of the materiality of the consolidated financial statements, the fair value of investment properties is not significantly higher than their valuation based on the historical cost convention.

In the current period, the Group recognised capital expenditures on investment properties in the amount of PLN 1 million, while depreciation costs amounted to PLN 3 million.

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11. Intangible assets and goodwill

ACCOUNTING PRINCIPLES

Intangible assets

As intangible assets, the Group recognises identifiable non-cash assets without a physical form such as:

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

Intangible assets acquired in a separate transaction are initially recognised at acquisition or production cost (in the case of development work). After the initial recognition, intangible assets are stated at their purchase prices or manufacturing costs less amortisation and impairment write-downs. Expenditures incurred on intangible assets generated by the Company itself, with the exception of capitalised expenditures incurred on development work, are not capitalised and are included in the cost of the period in which they are incurred.

The Group estimates whether the economic useful life of an intangible asset is definite or indefinite and, if it is definite, it estimates its length on the basis of production volume or any other measure constituting a basis for determining the length of economic useful life. The economic useful life of an intangible asset is regarded as indefinite if, on the basis of an analysis of relevant factors, there exists no foreseeable length of time in which such an asset will generate cash flows for the Group.

The value subject to amortisation is amortised over a period corresponding to the estimated economic useful life of an intangible asset. Amortisation starts on the first day of the month following the month in which an asset is available for use.

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

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

The amortisation period and the amortisation method for an intangible asset are reviewed at the end of each financial year. Any changes resulting from the review are recognised as a change in estimates. The amortisation periods for intangible assets are as follows:

Asset group	Average remaining period of amortisation in years	Applied total periods of amortisation in years
Patents and licences	4	3-10
Costs of completed development work	4	3-15
Other	9	3-25

	As at December 31, 2020	As at December 31, 2019
Costs of completed development work	3	3
Goodwill	204	205
Software	166	195
Other licences and patents	10	32
Other intangible assets	162	157
HV not brought into use	101	143
NET VALUE OF INTANGIBLE ASSETS	**646**	**735**

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Changes in intangible assets by group

	Costs of completed development work	Goodwill	Software	Other licences and patents	Other intangible assets	HV not brought into use	Total
GROSS BOOK VALUE							
AS AT JANUARY 1, 2020	**21**	**205**	**796**	**150**	**235**	**153**	**1,560**
Capital expenditures	1	-	-	-	-	75	**76**
Settlement of intangible assets not brought into use	-	-	50	4	12	(66)	**-**
Transfers between groups	-	-	41	(39)	(2)	-	**-**
Liquidation, sale	(4)	-	(69)	(1)	-	(61)	**(135)**
Acquisition of new subsidiaries	-	2	-	-	-	-	**2**
Other	-	(3)	(13)	-	5	7	**(4)**
AS AT DECEMBER 31, 2020	**18**	**204**	**805**	**114**	**250**	**108**	**1,499**
DEPRECIATION AND WRITE-DOWNS							
AS AT JANUARY 1, 2020	**18**	**-**	**601**	**118**	**78**	**10**	**825**
Amortisation, liquidation, write-down	1	-	85	6	12	61	**165**
Transfers between groups	-	-	21	(20)	(1)	-	**-**
Liquidation, sale	(4)	-	(69)	(1)	-	(61)	**(135)**
Other	-	-	1	1	(1)	(3)	**(2)**
AS AT DECEMBER 31, 2020	**15**	**-**	**639**	**104**	**88**	**7**	**853**
NET VALUE AS AT DECEMBER 31, 2020	**3**	**204**	**166**	**10**	**162**	**101**	**646**

	Costs of completed development work	Goodwill	Software	Other licences and patents	Purchased perpetual usufruct of land	Other intangible assets	HV not brought into use	Total
GROSS BOOK VALUE								
AS AT JANUARY 1, 2019	**19**	**198**	**682**	**143**	**366**	**244**	**160**	**1,812**
Capital expenditures	-	-	-	-	-	-	140	**140**
Settlement of intangible assets not brought into use	-	-	118	13	-	14	(145)	**-**
Liquidation, sale	-	-	(20)	(2)	-	(2)	-	**(24)**
Reclassification to ROUA	-	-	-	-	(366)	(14)	-	**(380)**
Acquisition of new subsidiaries	2	7	-	1	-	-	-	**10**
Other	-	-	16	(5)	-	(7)	(2)	**2**
AS AT DECEMBER 31, 2019	**21**	**205**	**796**	**150**	**-**	**235**	**153**	**1,560**
AMORTISATION AND WRITE-DOWNS								
AS AT JANUARY 1, 2019	**18**	**-**	**532**	**104**	**14**	**90**	**8**	**766**
Amortisation, liquidation	1	-	75	17	-	10	-	**103**
Write-downs	-	-	-	4	-	(9)	1	**(4)**
Liquidation, sale	-	-	(20)	(2)		(2)		**(24)**
Reclassification to ROUA	-	-	-	-	(14)	(3)	-	**(17)**
Acquisition of new subsidiaries	-	-	-	1	-	-	-	**1**
Other	(1)	-	14	(6)	-	(8)	1	**-**
AS AT DECEMBER 31, 2019	**18**	**-**	**601**	**118**	**-**	**78**	**10**	**825**
NET VALUE AS AT DECEMBER 31, 2019	**3**	**205**	**195**	**32**	**-**	**157**	**143**	**735**

Intangible assets not brought into use

The presented amount of intangible assets not brought into use as at December 31, 2020 relates primarily to projects for the implementation of IT systems in the Capital Group and expenditures incurred on the exploration and evaluation of lignite deposits in the Złoczew field.

Goodwill

As at the reporting date of December 31, 2020, goodwill was allocated to the following segments:

- Heat Generation – PLN 192 million,
- Renewable Power Generation – PLN 4 million,
- Other Activities – PLN 8 million.

12. Right-of-use assets

ACCOUNTING PRINCIPLES

Under IFRS 16, an agreement is a lease agreement or contains a lease component if it transfers the right to control the use of an identified asset for a given period in return for consideration.

The scope of application of IFRS 16 excludes lease agreements concerning exploration for or use of lignite deposits, including in particular agreements for establishing mining usufruct and perpetual usufruct of land, rental agreements and similar land lease agreements concerning mining pits, forelands and spoil heaps. In accordance with the Group's interpretation, agreements concerning the exploitation of lignite deposits are excluded from the scope of application of IFRS 16.

The Group defines a lease term as an irrevocable period during which the lessee has the right of use the underlying asset, together with the following:

- periods for which the lease may be extended if it can be assumed with reasonable certainty that the lessee will exercise this right; and
- periods during which the lease may be terminated if it can be assumed with reasonable certainty that the lessee will not exercise this right.

In determining the lease term and estimating the length of the irrevocable lease term, the Group applies the definition of an agreement and determines the term of an agreement's enforceability. A lease ceases to be enforceable when both the lessee and the lessor have the right to terminate the lease agreement without the other party's consent, with the consequence that a penalty is at most minor. The concept of a penalty includes all kinds of economic “disadvantages” that create barriers to terminating an agreement.

If only the lessee has the right to terminate the lease agreement, this right is regarded as an option for the lessee to terminate the lease agreement that the entity takes into account in determining the lease term. If only the lessor has the right to terminate the lease agreement, the irrevocable lease term covers the period covered by the option to terminate the lease agreement.

The lease term begins at the commencement date, i.e. when the underlying asset is made available for use by the lessee, and includes any rent-free periods granted by the lessor to the lessee.

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

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

The lessee's marginal rate of interest is the interest rate that the lessee would have to pay to borrow funds necessary to purchase an asset of a value similar to that of the asset under the right of use for a similar period, with similar security, and in a similar economic environment.

The lessee recognises an asset constituting the right of use an asset at the commencement date.

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

- short-term leases, i.e. leases whose term is not longer than 12 months and which do not include a purchase option;
- leases for which the underlying asset is of low value and is not sub-leased. The Group recognises that the base asset has a low value (the value of a new asset regardless of the age of the leased asset) if it does not exceed the amount of PLN 18,000.

The choice of the exemption for short-term leases is made according to the base class of the asset to which the right of use applies. The Group takes advantage of the exemption for all concluded lease agreements. The choice of the exemption for leases where the underlying asset is of a low value is made in relation to individual leases.

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At the commencement date, the lessee measures an asset constituting the right of use an asset at cost. The cost of an asset with the right of use should include the following:

- the amount of the initial measurement of the lease liability,
- any lease payments made on or before the commencement date, less any lease incentives received,
- any initial direct costs incurred by the lessee, and
- an estimate of the costs to be incurred by the lessee to dismantle and remove the underlying asset, to refurbish the site on which it is located, or to restore the underlying asset to the condition required by the lease terms, unless such costs are incurred for the purpose of creating inventories. The lessee assumes the obligation to cover these costs on the commencement date or as a result of using the underlying asset for a given period.

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

- less total depreciation (amortisation) and total impairment write-downs. Depreciation is charged throughout the lease term, from the moment an asset has been made available for use. No depreciation is made on the right of use an asset classified as fixed assets held for sale.
- adjusted for the revaluation of the liability (e.g. due to a change in lease payments).

For the particular groups of rights to use assets, the following ranges of economic useful lives are used:

Group of assets	Average remaining depreciation period in years	Applied total depreciation periods in years
Land lease and rental agreements	14	3-70
RPUL	52	12-90
Easement agreements	9	25-35
Buildings and structures	5	2-60
Other	4	1-26

	As at December 31, 2020	As at December 31, 2019
Land lease and rental agreements	227	212
RPUL	933	897
Easement agreements	21	59
Buildings and structures	97	99
Other	31	36
NET VALUE OF THE RIGHT OF USE ASSETS	**1,309**	**1,303**

Changes in the right of use assets by group

	Leases and rental of land	RPUL	Easements	Buildings and structures	Other	Total
GROSS BOOK VALUE						
AS AT JANUARY 1, 2020	238	929	64	119	50	1,400
Liquidation	-	-	(44)	(3)	(3)	(50)
Changes, revaluation of liability	14	20	1	8	1	44
Contracts concluded in the current period	5	38	4	7	8	62
Other	13	(5)	-	3	(3)	8
AS AT DECEMBER 31, 2020	**270**	**982**	**25**	**134**	**53**	**1,464**
AMORTISATION AND WRITE-DOWNS						
AS AT JANUARY 1, 2020	26	32	5	20	14	97
Depreciation	17	18	2	18	9	64
Write-downs	-	-	-	-	1	1
Liquidation, sale	-	(1)	(3)	(1)	(2)	(7)
AS AT DECEMBER 31, 2020	**43**	**49**	**4**	**37**	**22**	**155**
NET VALUE AS AT DECEMBER 31, 2020	**227**	**933**	**21**	**97**	**31**	**1,309**

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	Leases and rental of land	RPUL	Easements	Buildings and structures	Other	Total
GROSS BOOK VALUE						
AS AT JANUARY 1, 2019	**-**	**-**	**-**	**-**	**-**	**-**
Adoption of IFRS 16	182	561	42	86	24	895
Reclassification from PPE/IA	35	366	14	-	17	432
Changes, revaluation of liability	1	1	1	13	-	16
Contracts concluded in the current period	4	3	7	23	9	46
Other	16	(2)	-	(3)	-	11
AS AT DECEMBER 31, 2019	**238**	**929**	**64**	**119**	**50**	**1,400**
AMORTISATION AND WRITE-DOWNS						
AS AT JANUARY 1, 2019	**-**	**-**	**-**	**-**	**-**	**-**
Reclassification from PPE/IA	18	14	3	-	7	42
Depreciation	14	18	2	16	7	57
Write-downs	(6)	-	-	4	2	-
Other	-	-	-	-	(2)	(2)
AS AT DECEMBER 31, 2019	**26**	**32**	**5**	**20**	**14**	**97**
NET VALUE AS AT DECEMBER 31, 2019	**212**	**897**	**59**	**99**	**36**	**1,303**

13. Shares and interests accounted for using the equity method

	As at December 31, 2020	As at December 31, 2019
Polska Grupa Górnicza S.A., Katowice	-	570
Polimex - Mostostal S.A., Warszawa	127	112
ElectroMobility Poland S.A., Warszawa,	14	14
PEC Bogatynia Sp. z o.o., Bogatynia	-	8
Energopomiar Sp. z o.o., Gliwice	11	11
SHARES ACCOUNTED FOR USING THE EQUITY METHOD	**152**	**715**

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**	**49.79%**
AS AT DECEMBER 31, 2020					
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
NET ASSETS	**1,863**	**675**	**54**	**23**	**23**
Share in net assets	**285**	**111**	**14**	**7**	**11**
Goodwill	1	16	-	-	-
Impairment write-down	(286)	-	-	(7)	-
SHARES ACCOUNTED FOR USING THE EQUITY METHOD	**-**	**127**	**14**	**-**	**11**

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

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14. Deferred tax in the statement of financial position

ACCOUNTING PRINCIPLES

Deferred income tax

In connection with temporary differences between the value of assets and liabilities disclosed in the account books and their tax value and tax loss recoverable in the future, the Group establishes the amounts of deferred income tax liabilities and assets.

Deferred income tax liabilities are recognised with respect to all positive temporary differences.

Deferred income tax assets are recognised with respect to all negative temporary differences up to the amount for which it is probable that the Company will achieve taxable income, which will make it possible to deduct negative temporary differences.

The Group separately recognises deferred tax assets due to negative temporary differences connected with recognition of lease liabilities in consequence of the implementation of IFRS 16 and deferred tax liabilities due to positive temporary differences related to RPUL.

The current book value of deferred income tax assets and liabilities is verified as at every reporting date. Deferred income tax assets and liabilities are regarded as non-current items. The Group offsets deferred tax assets and liabilities at the level of the tax capital group and at the level of individual companies of the PGE Capital Group.

14.1 Deferred income tax assets

	As at December 31, 2020	As at December 31, 2019
Difference between tax and current book values of property, plant and equipment	2,776	3,403
Provision for land rehabilitation	1,242	984
Provision for employee benefits	723	677
Provision for purchase of CO_2 emission allowances	1,206	671
Difference between tax and current book values of liabilities	316	429
Difference between carrying amount and tax value of right-of-use assets	171	171
Tax losses	111	160
Other provisions	157	151
Difference between tax and current book values of financial assets	395	146
Compensations for PPA	79	89
Difference between tax and current book values of financial assets	11	21
Infrastructure acquired free of charge and received grid connection fees	28	31
Other	4	14
DEFERRED INCOME TAX ASSETS	**7,219**	**6,947**

Change in deferred income tax assets

	Year ended December 31, 2020	Year ended December 31, 2019
AS AT JANUARY 1	**6,947**	**4,168**
Changes in correspondence with profit or loss	906	2,474
Changes in correspondence with retained earnings	-	-
Changes in correspondence with other comprehensive income	45	49
Recognition of deferred income tax in connection with demerger of subsidiaries	-	254
Other changes	(679)	2
AS AT DECEMBER 31	**7,219**	**6,947**

The changes in correspondence with other comprehensive income relate to the change in deferred tax on the portion of the provision for employee benefits relating to post-employment benefits. The other changes in each item were recognised in profit or loss.

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14.2 Deferred tax liabilities

	As at December 31, 2020	As at December 31, 2019
Difference between tax and current book values of property, plant and equipment	5,000	5,281
CO_2 emission allowances	199	476
Difference between tax and current book values of financial assets	713	447
Difference between balance sheet and tax value of lease liabilities	181	169
Receivables from recognised compensation under the Electricity Pricing Act	16	58
Difference between tax and current book values of energy origin property rights	31	25
Difference between tax and current book values of financial liabilities	8	12
Other	65	81
DEFERRED TAX LIABILITIES	**6,213**	**6,549**

Change in deferred income tax – liabilities

	Year ended December 31, 2020	Year ended December 31, 2019
AS AT JANUARY 1	**6,549**	**5,232**
Changes in correspondence with profit or loss	262	1,127
Changes in correspondence with retained earnings	-	-
Changes in correspondence with other comprehensive income	72	(65)
Recognition of deferred income tax in connection with demerger of subsidiaries	-	254
Acquisition of new subsidiaries	8	-
Other changes	(678)	1
AS AT DECEMBER 31	**6,213**	**6,549**

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

The Group does not recognise a deferred tax liability for positive temporary differences related to investments in subsidiaries and associates as it is not probable that such differences will be reversed in the foreseeable future. Negative temporary differences associated with investments in subsidiaries and associates would amount to PLN 4,813 million and the deferred tax asset would amount to PLN 914 million.

The Group's deferred tax after offsetting assets and liabilities in the particular companies and the tax group

Deferred tax assets	1,351	1,318
Income tax liabilities	(345)	(920)

15. Inventories

ACCOUNTING PRINCIPLES

Inventories

Inventories are assets held for sale in the course of ordinary business activities; they are in the course of being manufactured for the purpose of selling or have the form of materials or products consumed in production processes or in the provision of services.

Inventories include the following:

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

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

Rights acquired to realise gains from market price fluctuations are recognised at fair value less costs to sell.

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Inventory outflows are measured in accordance with the following rules:

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

As at the reporting date, the purchase prices or manufacturing costs of inventories used in their valuation may not be higher than their possible net price. Write-downs on inventories are recognised as operating costs. If a given component of inventories regains previously lost value in part or in whole, its value is updated by decreasing the value of the previous write-down.

	As at December 31, 2020			As at December 31, 2019		
	Initial value	Revaluation	Net book value	Initial value	Revaluation	Net book value
Coal	963	-	963	1,077	-	1,077
Repair and maintenance materials	701	(25)	676	660	(32)	628
Mazout	29	-	29	43	-	43
Other materials	86	(16)	70	70	(14)	56
TOTAL MATERIALS	**1,779**	**(41)**	**1,738**	**1,850**	**(46)**	**1,804**
Green property rights	1,269	(129)	1,140	1,254	(158)	1,096
Yellow property rights	-	-	-	-	-	-
Other property rights	4	(1)	3	77	(1)	76
ENERGY ORIGIN RIGHTS	**1,273**	**(130)**	**1,143**	**1,331**	**(159)**	**1,172**
CO_2 emission allowances	1	-	1	1,303	-	1,303
Coal	144	-	144	125	-	125
Other goods	19	6	25	28	(2)	26
TOTAL GOODS	**164**	**6**	**170**	**1,456**	**(2)**	**1,454**
OTHER INVENTORIES	**72**	**-**	**72**	**79**	**-**	**79**
TOTAL INVENTORIES	**3,288**	**(165)**	**3,123**	**4,716**	**(207)**	**4,509**

	Year ended December 31, 2020	Year ended December 31, 2019
REVALUATION OF INVENTORIES AS AT 1 JANUARY	**(207)**	**(221)**
Creation of write-down	(32)	(10)
Reversal of write-down	64	19
Use of write-down	2	1
Fair value measurement	20	-
Other changes	(12)	4
REVALUATION OF INVENTORIES AS AT DECEMBER 31	**(165)**	**(207)**

16. CO_2 emission allowances for captive use

ACCOUNTING PRINCIPLES

CO_2 emission allowances for captive use

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

CO_2 emission allowances are received by power generation units belonging to the PGE Capital Group and covered by the Act on a scheme for greenhouse gas emission allowance trading of June 12, 2015. Since 2013 only a part of emission allowances related to heat generation has been allocated unconditionally; in principle, there are no free emission allowances for electricity generation. Pursuant to Article 10c of Directive 2009/29/EC, a possibility of temporary derogation from the principle of no free emission allowances for electricity generation was introduced, provided that investment projects included in the National Investment Plan (NIP) are implemented. The condition for receiving free emission allowances for electricity generation is the submission of annual financial and material reports on the implementation of investment projects included in the National Investment Plan.

In September 2019, the PGE Capital Group submitted reports on the implementation of investment projects included in the NIP to obtain free emission allowances for electricity generation plants. The requested 12 million emission allowances were issued to the operator holding accounts in the EU Register in April 2020.

In September 2020, the PGE Capital Group submitted reports on the implementation of investment projects included in the NIP in connection with expenditures incurred for the implementation of investment projects for the period from July 1, 2019 to June 30, 2020, which is the last reporting period in the current accounting period. In accordance with the provisions of the Regulation of the Council of

Ministers of 8 April 2014 on the list of electricity generating plants covered by the greenhouse gas emission allowance trading scheme, the plants belonging to the PGE Capital Group are not entitled to the allocation of free emission allowances in 2020.

Emission allowances	As at December 31, 2020		As at December 31, 2019	
	Long-term	Short-term	Long-term	Short-term
Quantity (Mg million)	1	20	3	18
Value (PLN million)	39	1,735	240	965

Emission allowances	Quantity (Mg million)	Value (PLN million)
AS AT JANUARY 1, 2019	37	1,611
Purchase	40	1,477
Granted free of charge	15	-
Redemption	(70)	(1,803)
Reclassification to inventories	(1)	(80)
AS AT DECEMBER 31, 2019	21	1,205
Purchase	78	6,629
Granted free of charge	13	-
Redemption	(61)	(3,414)
Sales	(30)	(2,646)
AS AT DECEMBER 31, 2020	21	1,774

17. Other current and non-current assets

ACCOUNTING PRINCIPLES

Other assets, including prepayments

The Group recognises assets as prepayments if the following conditions are met:

- they result from past events – expenses incurred for operational purposes of entities,
- their value can be assessed reliably,
- they relate to future reporting periods.

Prepayments are measured at the amount of incurred and reliably determined expenses related to future periods and future economic benefits.

Other assets include in particular receivables under public law regulations, advances for goods and services (including advances for property, plant and equipment under construction) and receivables under dividends.

17.1 Other non-current assets

	As at December 31, 2020	As at December 31, 2019
Prepayments for property, plant and equipment under construction	711	550
Customer acquisition costs	105	104
Other non-current assets	23	22
TOTAL OTHER ASSETS	839	676

Prepayments for property, plant and equipment under construction relate mainly to investment projects carried out by the Conventional Power Generation segment. Customer acquisition costs relate to co-financing by PGE Energia Ciepła S.A. of investments in the development of district heating networks and agency commissions in PGE Obrót S.A.

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17.2 Other current assets

	As at December 31, 2020	As at December 31, 2019
PREPAYMENTS AND DEFERRED EXPENSES		
Customer acquisition costs	50	44
Long-term contracts	43	35
Property and tort insurance	14	19
Logistic costs related to purchase of coal	17	17
IT services	16	11
CSBF	10	7
Other prepayments and deferred expenses	20	13
OTHER CURRENT ASSETS		
Input VAT receivables	519	338
Excise tax receivables	17	32
Prepayments for deliveries	11	15
Other current assets	82	74
TOTAL OTHER ASSETS	**799**	**605**

The amount of input VAT receivables is mainly related to the estimated sales of electricity not read on metering equipment as at the reporting date. The amount of excise tax receivables relates to the exemption from excise tax on electricity generated from renewable energy sources, based on a document confirming the redemption of an energy certificate of origin.

ACCOUNTING PRINCIPLES

Customer acquisition costs

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

As at December 31, 2020 and December 31, 2019, the Group recognised the following costs to be settled over time:

	Year ended December 31, 2020	Year ended December 31, 2019
AS AT JANUARY 1	**148**	**143**
Capitalised incremental costs of obtaining a contract	53	49
Depreciation	(46)	(43)
Other changes	-	(1)
AS AT DECEMBER 31	**155**	**148**
Short-term	50	44
Long-term	105	104

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

The asset is depreciated on a systematic basis, taking into account the period over which the goods or services to which it relates are transferred to the customer.

18. Cash and cash equivalents

ACCOUNTING PRINCIPLES

Cash and cash equivalents

Cash comprises cash in hand and deposits payable on demand.

Cash equivalents comprise short-time investments with large liquidity, easily exchangeable into particular amounts of cash and exposed to a minimum risk of impairment.

Short-term deposits are placed for various maturities, ranging from one day to one month, depending on the Group's current cash requirement.

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

	As at December 31, 2020	As at December 31, 2019
Cash at bank and in hand	1,415	1,093
Overnight deposits	309	19
Short-term deposits	1,423	103
Funds in VAT accounts	1,042	98
TOTAL	**4,189**	**1,313**
Exchange differences on cash in foreign currencies	(16)	(2)
Balance of cash and cash equivalents presented in statement of cash flows	**4,173**	**1,311**
Undrawn credit facilities as at December 31	6,556	5,309
including overdraft facilities	*1,811*	*1,035*

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

The balance of cash includes restricted cash in the amount of PLN 93 million (PLN 230 million in the comparative period) held in the accounts of customers of PGE Dom Maklerski S.A. as securities for settlements with the Warsaw Commodity Clearing House, cash in VAT accounts in the amount of PLN 1,042 million (PLN 98 million in the comparative period) as well as securities and sureties of PLN 104 million (PLN 100 million in the comparative period).

19. Assets and liabilities of the Company Social Benefits Fund

ACCOUNTING PRINCIPLES

The Company Social Benefits Fund and other Special Funds

Pursuant to the Social Benefits Fund Act of 4 March 1994, as amended, a Company Social Benefit Fund is established by entities employing more than 20 people calculated in full-time positions. The companies making up the Group establish such a fund and make periodic contributions to it. The objective of the Fund is to subsidise the Group's social activities, loans granted to employees, as well as other social costs. Contributions to the Company Social Benefits Fund made during the course of a year constitute costs incurred in a given period.

The assets and liabilities of the Company Social Benefits Fund are shown in the financial statements on a net basis.

	As at December 31, 2020	As at December 31, 2019
Property, plant and equipment contributed to Fund	-	-
Loans granted to employees	76	80
Cash and cash equivalents	55	48
Fund's liabilities	(120)	(120)
BALANCE AFTER COMPENSATION	**11**	**8**
Contribution to Fund during period	**198**	**171**

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

20. Equity

ACCOUNTING PRINCIPLES

Equity

Equity is recognised at par value, divided into its types and in accordance with the legal regulations and the provisions of the Company Statutes.

Share capital, reserve capital and other reserves in the consolidated financial statements are the equity of the parent company. Hedging reserve, foreign exchange differences from translation and retained earnings include both the components of the parent company's equity and respective portions of equity of subsidiaries, established in accordance with the consolidation principles. Declared but unpaid capital contributions are recognised as due capital contributions with a negative value.

In the consolidated statement of financial position, equity is presented broken down into:

- equity attributable to shareholders of the parent company,
- equity attributable to non-controlling interests.

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

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

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

	Year ended December 31, 2020	Year ended December 31, 2019
Net debt / EBITDA	1.41x	1.60x
Net debt/equity	0.19x	0.26x

20.1 Share capital

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

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

Shareholder rights – the State Treasury's rights related to the Company's operations

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

The State Treasury's special rights which may be exercised with respect to the companies belonging to the PGE Capital Group are specified in the Act of March 18, 2010 on special rights of a minister competent for energy affairs and their exercise with respect to certain capital companies or capital groups conducting business activities in the electricity, petrol, and gaseous fuels sectors (the consolidated text: Journal of Laws of 2020, item 2173). The Act specifies special rights held by the minister competent for state assets with respect to capital companies or capital groups conducting business activities in the electricity, petrol, and gaseous fuels sectors whose assets are disclosed in the standardised specification of facilities, installations, equipment and services included in the composition of the critical infrastructure.

On the basis of the provisions in question, the minister responsible for state assets may object to a resolution adopted by the Management Board or any other legal action carried out by the Management Board, the object of which is the disposal of an asset posing a threat to the functioning, continuity of operation and integrity of critical infrastructure. An objection could also be filed against the Company governing bodies' resolutions concerning the following issues:

- the dissolution of the Company,
- changes in the use of, or refusal to use, an asset constituting a component of the critical infrastructure,
- changes in the objects of the Company,
- the disposal or lease of an enterprise or its organised part, or the establishment of a limited property right thereon,
- the adoption of a material and financial plan, a capital expenditures plan, or a long-term strategic plan,
- the transfer of the Company's registered office abroad,

if the implementation of such a resolution could constitute a real threat to the functioning, operational continuity, and integrity of the critical infrastructure. An objection of the minister in charge of state assets is expressed – after consultation with the minister responsible for energy affairs – in the form of an administrative decision.

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20.2 Reserve capital

Reserve capital comprises mainly statutory contributions from profits generated in the previous financial years as well as from surpluses from the distribution of profits over the statutorily required contributions and from mergers of PGE S.A. with its subsidiaries.

According to the requirements of the Commercial Companies Code, entities with the status of joint-stock companies are obliged to establish reserve capital to finance losses. Each year this capital is increased with at least 8% of the Company's profit for a given financial year as shown in its separate financial statements until this capital has reached the amount of at least one third of the Company's share capital. Reserve capital equal to one third of the share capital may be used only to finance losses disclosed in an entity's standalone financial statements and may not be distributed for other purposes. The use of reserve capital and other capital reserve is determined by the General Meeting.

As at December 31, 2020, reserve capital subject to distribution among shareholders amounted to PLN 12,022 million and PLN 13,281 million as at December 31, 2019.

20.3 Hedging reserve

	Year ended December 31, 2020	Year ended December 31, 2019
AS AT JANUARY 1	**(323)**	**(52)**
Change in hedging reserve, including:	**383**	**(336)**
Measurement of hedging instruments, including:	**387**	**(336)**
Recognition of the effective portion of change in fair value of hedging financial instruments in the part considered as effective hedge	*420*	*(438)*
Accrued interest on derivatives transferred from hedging reserve and recognised in interest expense	*17*	*3*
Currency revaluation of CCIRS transaction transferred from hedging reserve and recognised in foreign exchange gains/losses	*(51)*	*91*
Ineffective portion of change in fair value of hedging derivatives recognised in profit or loss	*1*	*8*
Measurement of other financial instruments	**(4)**	**-**
Deferred tax	**(73)**	**65**
HEDGING RESERVE AFTER DEFERRED TAX	**(13)**	**(323)**

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

20.4 Foreign exchange differences from translation

Exchange differences from translation of subsidiaries include the effect of translating financial statements of foreign companies of the Group, i.e. PGE Trading GmbH and PGE Sweden AB (publ) into PLN within consolidation procedures.

20.5 Undistributed financial result and dividend payment restrictions

Non-distributable retained profits are amounts which may not be paid out in the form of dividend.

	As at December 31, 2020	As at December 31, 2019
Amounts included in retained earnings not distributable by the parent company:		
Retained earnings of subsidiaries attributable to equity holders of the parent company, including consolidation adjustments	3,209	5,037
Amount of profits recognised by the parent company in retained earnings through other comprehensive income	(2)	1
Retained earnings from previous years subject to distribution	-	-
Net profit/(loss) of the parent company for the period	1,744	(1,259)
TOTAL RETAINED EARNINGS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION	**4,951**	**3,779**

As at the date of these financial statements, no proposal for the distribution of profit for 2020 had been adopted.

Dividend payment restrictions are described in note 20.2 to these financial statements. As at December 31, 2020, there were no other restrictions on the payment of dividends.

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20.6 Equity attributable to non-controlling interests

As at December 31, 2020, the equity attributable to non-controlling interests mostly related to non-controlling shareholders of the acquired EDF assets in Poland. The acquisition took place on November 13, 2017.

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

	As at December 31, 2020	As at December 31, 2019
AS AT JANUARY 1	**848**	**1,074**
Share of net profit of subsidiaries	38	33
Share of actuarial gains and losses	-	(1)
Dividend declared by subsidiaries	(3)	(4)
Acquisition of new subsidiaries	-	8
Increase of share capital and acquisition of shares	114	-
Purchase of non-controlling interests by the Capital Group	(14)	(262)
AS AT DECEMBER 31	**983**	**848**

Of the total equity attributable to non-controlling interests, 70% is the equity of Kogeneracja S.A. A summary of information on this subsidiary is presented below.

	ZEW Kogeneracja S.A.
SHARE OF VOTES	**58.07%**
AS AT DECEMBER 31, 2020*	
Current assets	526
Non-current assets	1,614
Current liabilities	344
Non-current liabilities	230
Equity	1,565
Revenue	783
Result from continuing operations	(13)
Dividends declared	-

**Data differs from statutory data due to consolidation procedures*

20.7 Earnings/loss per share

ACCOUNTING PRINCIPLES

Net earnings/(loss) per share

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

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

During the current and comparative reporting periods there was no dilutive effect on net earnings /(loss) per share.

	Year ended December 31, 2020	Year ended December 31, 2019
NET PROFIT/(LOSS) ATTRIBUTABLE TO	**148**	**(3,928)**
shareholders of the parent company	110	(3,961)
non-controlling interests	38	33
NET PROFIT/(LOSS) ATTRIBUTABLE TO HOLDERS OF ORDINARY SHARES, APPLIED TO CALCULATE EARNINGS PER SHARE	**110**	**(3,961)**
Number of ordinary shares at the beginning of the reporting period	1,869,760,829	1,869,760,829
Number of ordinary shares at the end of the reporting period	1,869,760,829	1,869,760,829
WEIGHTED AVERAGE NUMBER OF OUTSTANDING ORDINARY SHARES USED TO CALCULATE EARNINGS/(LOSS) PER SHARE	**1,869,760,829**	**1,869,760,829**
NET PROFIT/(LOSS) AND DILUTED NET PROFIT/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY (IN PLN)	**0.06**	**(2.12)**

20.8 Dividends paid and proposed

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

21. Provisions

ACCOUNTING PRINCIPLES

Provisions

The Group establishes provisions when the Group has a (legal or customarily expected) liability resulting from past events and when it is probable that meeting this liability will result in the necessary outflow of economic benefits and it is possible to assess reliably the amount of such a liability.

If the consequence of changes in time value of money is significant, the amount of a provision corresponds to the current value of expenditures expected to be necessary to meet such a liability. The discount rate is determined before taxation, i.e. the discount rate reflects the current market assessment of the time value of money and the risk related specifically to a given liability. The discount rate is not effected by the risk used to adjust the estimates of future cash flows.

Reversals of discounts are charged to finance costs.

Provisions for benefits to be paid after employment period and jubilee awards

Depending on the company, employees of the Group's companies are entitled to receive the following post-employment benefits:

- a retirement severance benefit payable on a one-off basis at the time of an employee's retirement,
- a death benefit,
- a cash equivalent resulting from the tariff for power industry employees,
- a coal allowance given in a particular quantity in kind or payable in the form of a cash equivalent,
- benefits from the Company Social Benefits Fund,
- health care.

Employees of the Group's companies are also entitled to jubilee awards payable after an employee has worked a particular number of years. The amount of jubilee awards depends on an employee's service period and average salary.

The Group creates the provision for post-employment benefits in order to allocate related costs to particular periods. The provision is charged to operating costs in amounts corresponding to the value of future rights acquired gradually by the present employees. The current value of such liabilities is calculated by an independent actuary.

Actuarial gains and losses resulting from changes in actuarial assumptions (including changes in the discount rate) and ex post actuarial adjustments are recognised in other comprehensive income with respect to post-employment benefits and in operating costs of the reporting period with respect to jubilee awards.

Provision for land rehabilitation

The lignite mines belonging to the Group create provisions for the cost of land rehabilitation to be carried out after the termination of mining operations. The amount of the provision is based on the estimated cost of rehabilitation and development works related to final excavations. This cost is divided into a part attributable to excavated overburden and a part attributable to lignite. The provision is created:

- for the part related to extracted lignite: in the proportion corresponding to the ratio of lignite extracted as at the reporting date to the planned total extraction of lignite from the deposit during the whole mining period,
- for the part related to removed overburden: in the proportion corresponding to the ratio of the volume of the open pit related to overburden as at the reporting date to the planned volume of the open pit related to overburden as at the end of the mining period.

The provision is revaluated in the event of changes in the estimated rehabilitation period, changes in expenditures necessary for rehabilitation or changes in the discount rate. The estimation of a rehabilitation provision requires the adoption of technical and geological, environmental, legal, and tax assumptions, as well as a schedule, scope and level of rehabilitation process costs. Any changes in the aforementioned assumptions influence the value of the rehabilitation provision, the value of the capitalised rehabilitation costs recognised in property, plant and equipment as well as the statement of comprehensive income.

With respect to the rehabilitation of the ash (power generation waste) disposal sites, the cost of creating the provision is charged to operating costs in proportion to the degree of a particular site's filling.

A provision for rehabilitation of wind farm construction sites is created when a farm is brought into use in the present value of estimated costs of dismantling and removal of remaining devices, structures and buildings and also cost of returning the sites to a condition as close to its state prior to the construction of the farm as possible.

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

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The increase in the provision concerning a given year is recognised in operating expenses or in the initial value of property plant and equipment, respectively. The effect discount reversal is recognised in finance costs. A change in the valuation of the provision resulting from changes in the assumptions (e.g. macroeconomic factors, land rehabilitation methods, time of particular operations, etc.) is recognised as follows:

- for provisions recognised as a part of manufacturing costs of a component of property plant and equipment – it is added to or subtracted from the purchase price or manufacturing cost of a particular asset, with the reservation that the amount subtracted from the purchase price or manufacturing cost of an asset should not be larger than its book value,
- in other operating expenses or other operating income – for other cases.

Provision for the shortage of greenhouse gas emission allowances

The PGE Capital Group maintains a provision for liabilities related to emission allowances with respect to the shortage of emission allowances granted free of charge. The provision is created in the amount of the most appropriate estimate of expenditures necessary to fulfil the present obligation as at the reporting date. The assessment of expenditures necessary to fulfil the obligation to redeem CO_2 emission allowances is carried out based on the method of detailed identification, taking into account the allocation of both free and purchased allowances to a particular year.

The cost of the created provision is presented in the statement of comprehensive income in operating activities and recorded as cost of sales in the case of classifying expenses by kind and as taxes and fees in the case of the comparative variant.

Provision for value of property rights held for redemption

The provision is created based on the requirement for a certain percentage share of renewable energy and energy from cogeneration units in total sales of electricity to the final customer and the volume of sales to the end user. Up to the amount of property rights held for redemption, the provision is recognised at the value of such rights. The part of provision that is not covered by property rights is measured at a reliably estimated amount of the future property rights redemption obligation. In making such an estimate, the Group takes into account, among other things, the amount of the substitute fee and the market price. The cost of the provision is recognised in the cost of sales.

The current book value of the provisions is as follows:

	As at December 31, 2020		As at December 31, 2019	
	Long-term	Short-term	Long-term	Short-term
Employee benefits	3,007	276	2,796	270
Provision for land rehabilitation	8,110	1	6,648	1
Provision for the shortage of CO_2 emission allowances	-	6,318	121	3,411
Provision for value of property rights held for redemption	-	589	-	572
Claims related to non-contractual use of real property	58	5	62	10
Other provisions	32	122	25	102
TOTAL PROVISIONS	**11,207**	**7,311**	**9,652**	**4,366**

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Change in provisions

	Employee benefits	Provision for land rehabilitation costs	Provision for the shortage of CO_2 emission allowances	Provision for property rights to be redeemed	Provision for non-contractual use of real property	Other	Total
JANUARY 1, 2020	**3,066**	**6,649**	**3,532**	**572**	**72**	**127**	**14,018**
Actuarial gains and losses	40	-	-	-	-	-	40
Current employment costs	121	-	-	-	-	-	121
Past employment costs	(10)	-	-	-	-	-	(10)
Interest costs	61	168	-	-	-	-	229
Adjustment to 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)
Established reserves - costs	-	55	6,318	966	7	80	7,426
Provisions recognised – expenditure	-	43	-	-	-	-	43
Acquisitions of companies in the Group	-	14	-	-	-	-	14
Other changes	2	10	-	-	-	(6)	6
December 31, 2020	**3,283**	**8,111**	**6,318**	**589**	**63**	**154**	**18,518**
Change charged to operating costs	(147)	(55)	(6,197)	(964)	-	(35)	(7,398)
Change charged to other operating income/(costs)	-	(306)	-	-	9	(28)	(325)
Change recognised in other finance income/(costs)	(61)	(168)	-	-	-	(2)	(231)
Change charged to assets	-	(912)	-	-	-	-	(912)
Change charged to other comprehensive income	(235)	-	-	-	-	-	(235)

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

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21.1 Provision for land rehabilitation

Provision for the rehabilitation of mine pits

After the termination of mining operations the areas of the Group's opencast lignite mines will undergo the process of land rehabilitation. According to the current plans, costs will be incurred in the years 2030-2065 in the case of the Bełchatów Lignite Mine Branch and in the years 2045-2077 in the case of the Turów Lignite Mine Branch.

The Group creates provisions for land rehabilitation costs. The amount of the provision presented in the financial statements includes also the value of the Mining Plant Liquidation Plan established in accordance with the Geology and Mining Law Act. As at 31 December 2020 the value of the provision was PLN 7,463 million (as at 31 December 2019 – PLN 6,127 million).

In 2020, the Group updated some of the assumptions adopted for the valuation of the provision for rehabilitation of mine pits. In particular, significant changes in the assumptions for valuation were made for the Turów Lignite Mine in connection with the updated valuation of the costs of liquidating the pit after the termination of mining operations. The prepared revaluation of the costs assumes that during rehabilitation works smaller earth masses will have to be moved as compared to the assumptions adopted in the study from the previous year (a decrease of approximately 30%) and greater volumes of water will occur during the flooding of the pit, which also results in shortening the planned total period of rehabilitation by 15 years.

Furthermore, the Group adjusted the discount rate used in assessing the present value of future expenditures on the rehabilitation of the pits in both opencast lignite mines. In the previous year, the value of the provision was calculated using a discount rate of 2.8%. In 2020, the Group changed the discount rates used to estimate the value of these provisions and adopted the following discount rates depending on the expected period over which expenditures for pit rehabilitation will be incurred:

- for expenditures expected to be incurred within 15 years of the balance sheet date – 1.3%,
- for expenditures expected to be incurred between 16 and 25 years after the balance sheet date – 1.6%,
- for expenditures expected to be incurred more than 25 years after the balance sheet date – 1.9%.

The mines will incur the largest expenditures on the rehabilitation of the pits in the years 2037-2058 (more than 90% of total expenditures) and the discount rate should be adjusted to the time of incurring such expenditures. In view of the fact that there are no observable discount rates for payments with aforementioned maturity, the Company uses the interest rate for ten-year treasury bonds.

The adjustments in the land rehabilitation technical assumptions and the discount rate used to assess the present value of the provisions for the rehabilitation of final pits in the opencast lignite mines resulted in increasing the value of the provision by PLN 1,119 million, an additional cost of PLN 251 million and an increase in the value of assets by PLN 868 million.

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

	Value in statement	Discount rate	
		-1 p.p.	+1 p.p.
Provision for the rehabilitation of mine pits	7,463	2.432	(1.787)

Provision for the rehabilitation of the ash disposal sites

The power plants create a provision for the rehabilitation of the furnace waste disposal sites. As at December 31, 2020, the provision amounted to PLN 318 million (PLN 249 million as at the end of the comparative period).

Provision for the rehabilitation of the wind farm sites

The companies that own wind farms create a provision for the rehabilitation of wind farm sites. As at December 31, 2020, the provision amounted to PLN 71 million (PLN 60 million as at the end of the comparative period).

Property, plant and equipment liquidation costs

As at the reporting date, the provision amounted to PLN 259 million (PLN 213 million as at the end of the comparative period) and referred to some assets of the Conventional Power Generation and Renewable Power Generation segments.

21.2 Provision for the shortage of CO_2 emission allowances

As described in note 16 to these financial statements, as of 2020 the Group does not receive free emission allowances for electricity generation. The Group is only entitled to free allowances for heat generation. Accordingly, there occurred an increase in the estimate of the provision: as at December 31, 2020 it amounted to PLN 6,318 million (PLN 3,532 million at the end of the comparative period).

21.3 Provision for property rights to be redeemed

The PGE Group companies create a provision for the value of energy origin property rights relating to sales carried out during the reporting period or in the prior reporting periods, for the part unredeemed before the reporting date. As at December 31, 2020, the provision amounted to PLN 589 million (PLN 572 million in the comparative period) and was recognised mainly by PGE Obrót S.A.

21.4 Provision for non-contractual use of real property

The PGE Group companies recognise a provision for claims concerning non-contractual use of real property. This matter mainly relates to the distribution company, which owns distribution networks. The provision recognised as at the reporting date amounted in total to approximately PLN 73 million (including PLN 32 million for cases under litigation). In the comparative period, the provision amounted to PLN 72 million (including PLN 32 million for cases under litigation).

21.5 Settlements with prosumers

In 2020, there was a significant increase in prosumer installations, mainly as a result of the "My Electricity" support programme. According to the Energy Market Agency, the installed PV capacity in Poland increased by 159% to the level of 3.96 GW in 2020 versus 1.53 GW at the end of 2019. The Renewable Energy Sources Act of 20 February 2015 introduced a billing system for prosumers and energy cooperatives that generates losses for the obligated seller (i.e. PGE Obrót S.A.). Such losses rise in proportion to the percentage of electricity supplied to the grid by prosumers or energy cooperatives that can compensate with their own consumption.

Thus, for the energy taken from the grid, the prosumer does not bear the variable costs of distribution services. On the other hand, the trading company, which is only an intermediary in the sale of distribution services, has to pay the Distribution Grid Operator the full fee for electricity consumed by prosumers. Although they do not provide distribution services, the companies within the Trade segment have to bear the related costs due to the fact that they are parties to the comprehensive contract with the consumer.

The growing losses on the operations of PGE Obrót related to the fees for distribution services lead to considerations on the possible establishment of provisions for contracts generating such liabilities. However, due to difficulties in estimating the number of new prosumer installations, their capacity and energy consumption, as well as the period of their operation and announced new regulations, the calculation of reliable amounts may be burdened with a considerable error. Moreover, taking into account the fact that losses on agreements with prosumers result from systemic regulations, in the Group's opinion, these agreements should be analysed jointly with agreements whose performance is the obligation of PGE Obrót S.A. as a seller.

Accordingly, as at the balance sheet date, the conditions for establishing provisions for contracts giving rise to liabilities within the meaning of IAS 37 are not met.

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22. Employee benefits

The amount of actuarial provisions recognised in the financial statements results from the valuation prepared by an independent actuary. As at the reporting date, the actuary adopted the following assumptions to calculate the amounts of the provisions:

	As at December 31, 2020	As at December 31, 2019
Forecast inflation rate (%)	2.58 in 2021, 2.5 in 2022 and onwards	2.85 in 2020, 2. 58 in 2021, 2.5 in 2022 and onwards
Discount rate (%)	1.3	2.0
Average assumed annual growth of bases (%)	0.0 – 3.03	2.1 - 5.0
Employee turnover rate (%)	0.0 – 15.0	0.2 - 12.5
Forecast increase rate for the value of medical services (%)	2.5 - 2.58	0.0 - 2.5
Forecast increase rate for the value of allowance for Company Social Benefits Fund (%)	0.0 - 4.0	4.0 - 13.0

- The employee attrition probability is based on the historical data on employee turnover in the Group and statistical data on employee attrition in the industry.
- Mortality and the likelihood of living up to a certain age are adopted in accordance with the Life Expectancy Table published by the Chief Statistical Office, assuming that the population of the Group employees corresponds to the average for Poland with respect to mortality.
- A statutory mode of retirement for employees was adopted according to the detailed rules set out in the Act amending the Act on pensions from the Social Insurance Fund and certain other acts of 16 November 2016.
- The discount rate of 1.3% was adopted for discounting future payments of benefits as at the reporting date (December 31, 2019: 2.0%), i.e. at the level of profitability of securities issued by the State Treasury and listed on the Polish capital market.

Current book value of provisions for post-employment benefits and jubilee awards:

	As at December 31, 2020		As at December 31, 2019	
	Long-term	Short-term	Long-term	Short-term
Retirement severance and death benefits	557	105	553	107
Coal allowances in kind	132	9	139	9
Energy tariff	951	32	806	26
Company Social Benefits Fund	501	17	428	14
Health care	71	4	64	3
TOTAL POST-EMPLOYMENT BENEFITS	**2,212**	**167**	**1,990**	**159**
Jubilee awards	795	109	806	111
TOTAL ACTUARIAL PROVISIONS	**3,007**	**276**	**2,796**	**270**

Changes in provisions for employee benefits

	Retirement severance and death benefits	Coal allowances in kind	Energy tariff	CSBF	Health care	Jubilee awards	Total
AS AT JANUARY 1, 2020	**660**	**148**	**832**	**442**	**67**	**917**	**3,066**
Actuarial gains and losses	(8)	(6)	33	22	3	(4)	40
Discount rate adjustment	33	8	97	48	5	40	231
Current employment costs	30	1	26	13	2	49	121
Past employment costs	(9)	-	6	(5)	(1)	(1)	(10)
Interest costs	13	3	17	9	1	18	61
Benefits paid / Provisions used	(58)	(8)	(27)	(17)	(3)	(115)	(228)
Other changes	1	(5)	(1)	6	1	-	2
AS AT DECEMBER 31, 2020	**662**	**141**	**983**	**518**	**75**	**904**	**3,283**
Change charged to operating costs	(21)	(1)	(32)	(8)	(1)	(84)	(147)
Change recognised in finance income/(costs)	(13)	(3)	(17)	(9)	(1)	(18)	(61)
Change charged to other comprehensive income	(25)	(2)	(130)	(70)	(8)	-	(235)

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

Analysis of sensitivity of the actuarial provisions as at 31 December 2020 to changes in the key assumptions

	Value in statement	Financial discount rate		Planned increases in bases	
		-1 p.p.	+ 1 p.p.	-1 p.p.	+ 1 p.p.
Retirement severance and death benefits	662	56	(48)	(48)	55
Coal allowances in kind	141	13	(12)	(12)	13
Energy tariff	983	178	(138)	(140)	177
Company Social Benefits Fund	518	85	(67)	(69)	85
Health care	75	8	(8)	(8)	9
Jubilee awards	904	67	(58)	(58)	66
TOTAL	**3,283**	**407**	**(331)**	**(335)**	**405**

23. Deferred income and government grants

ACCOUNTING PRINCIPLES

Deferred income and government grants

Deferred income is accounted for in compliance with the prudence principle and the revenue-and-cost matching principle. Deferred income includes the following items:

- funds received for financing the purchase or manufacture of property, plant and equipment as well as intangible assets. This is accounted for by gradually increasing other operating income by an amount corresponding to the depreciation charges on such assets in the part financed by the said funds. This applies in particular to partially or fully remitted loans and credits and grants for the purchase of property, plant and equipment, as well as grants for development work or purchase of intangible assets,
- property, plant and equipment and intangible assets received free of charge. Write-downs on these revenues are recognised in other operating income in parallel with the depreciation charges on such property, plant and equipment.

Government grants are recognised if there is reasonable certainty that a grant will be acquired and all related conditions will be fulfilled. If a grant is related to an asset, then its accounting consists in gradually increasing other operating income by the amount corresponding to depreciation charges on such assets.

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23.1 Long-term deferred income and government grants

	As at December 31, 2020	As at December 31, 2019
GOVERNMENT GRANTS		
Grants from National Fund for Environmental Protection	275	263
Environmental funds loans remission	30	33
Other settlements of government grants	124	132
DEFERRED INCOME		
Grants received and connection charges	35	35
Donations and property, plant and equipment received free of charge	80	95
Other deferred income	56	58
TOTAL LONG-TERM GRANTS AND DEFERRED INCOME	**600**	**616**

23.2 Short-term deferred income and government grants

	As at December 31, 2020	As at December 31, 2019
GOVERNMENT GRANTS		
Grants from National Fund for Environmental Protection	17	14
Environmental funds loans remission	3	3
Other settlements of government grants	12	10
DEFERRED INCOME		
Grants received and connection charges	2	2
Donations and property, plant and equipment received free of charge	38	39
Other deferred income	5	12
TOTAL SHORT-TERM GRANTS AND DEFERRED INCOME	**77**	**80**

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24. Other non-financial liabilities

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

24.1 Other non-current non-financial liabilities

	As at December 31, 2020	As at December 31, 2019
TOTAL OTHER NON-CURRENT LIABILITIES		
Contract liabilities	64	56
Estimates of liabilities under Voluntary Leave Programme	1	2
TOTAL OTHER NON-CURRANT LIABILITIES	**65**	**58**

24.2 Other current non-financial liabilities

	As at December 31, 2020	As at December 31, 2019
OTHER CURRENT LIABILITIES		
Liabilities related to output VAT	540	176
Excise tax liabilities	33	35
Environmental fees	202	213
Payroll liabilities	284	292
Bonuses for employees	272	238
Accrued annual leave entitlements	113	143
Liabilities under Voluntary Leave Programmes	1	6
Awards for Management Boards	20	27
Estimates of other employee benefit liabilities	5	6
Personal income tax	95	89
Social insurance liabilities	269	276
Contract liabilities	296	290
Dividends payable	7	7
Other	66	67
TOTAL OTHER CURRENT LIABILITIES	**2,203**	**1,865**

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

Contract liabilities

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

In 2020, the Group recognised revenue of PLN 165 million (PLN 119 million in 2019) that was included in the balance of contract liabilities at the beginning of the period.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

25. Financial instruments

ACCOUNTING PRINCIPLES

Financial instruments

Classification and valuation

Financial assets are allocated to the following categories of financial instruments:

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

The classification of financial assets is based on a business model and characteristic features of cash flows.

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

- the adopted business model provides for the maintenance of a given asset for the purpose of collecting cash flows resulting from an agreement;
- cash flows resulting from an agreement and related to a given instrument comprise exclusively the repayment of the principal amount and interest on the unpaid part of the principal amount – (the SPPI test).

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

- the adopted business model provides for the maintenance of a given asset for the purpose of collecting cash flows resulting from an agreement and the sale of such an asset;
- cash flows resulting from an agreement and related to a given instrument comprise exclusively the repayment of the principal amount and interest on the unpaid part of the principal amount – (the SPPI test).

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

Investments in equity instruments are always measured at fair value. The Group may make an irrevocable decision to recognise changes in fair value in other comprehensive income unless the instrument is held for trading. In the case of equity instruments held for trading, changes in fair value are recognised in profit or loss.

All standard transactions of purchase and sale of financial assets are recognised at the transaction date, i.e. the date when the entity commits itself to purchase a given asset. Standard transactions of purchase or sale of financial assets are transactions of purchase or sale in which the date of delivery of assets to the other party is generally determined by the laws or customs of a given market.

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

- financial assets measured at amortised cost;
- debt financial assets measured at fair value through other comprehensive income;
- commitments to grant a credit if there is currently an obligation to provide it;
- granted financial guarantees that fall within the scope of IFRS 9;
- receivables under lease agreements falling within the scope of IFRS 16;
- contractual assets that are within the scope of IFRS 15.

The Group allocates financial liabilities to one of the following categories:

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

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25.1 Description of significant items within the particular categories of financial instruments

25.1.1 Financial receivables and other financial receivables

ACCOUNTING PRINCIPLES

Financial receivables

Financial receivables, including trade receivables, are measured as at the date they arise at fair value, and then at amortised cost using the effective interest rate, including write-downs for expected credit loss.

The Group applies simplified methods of valuation of receivables measured at amortised cost if it does not distort the information contained in the statement of financial position, in particular when the period until the payment of receivables is not long.

For financial receivables, the Group assesses the amount of a write-down related to expected credit losses in the amount equal to expected credit losses during the whole lifetime of an instrument.

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

	As at December 31, 2020		As at December 31, 2019	
	Long-term	Short-term	Long-term	Short-term
Trade receivables	-	3,602	-	3,483
Deposits and loans	185	6	174	8
Bonds	-	40	-	-
Receivables for recognised compensation under the Electricity Pricing Act	-	85	-	304
Deposits, securities and sureties	2	788	1	771
Damages and penalties	-	102	-	112
Other financial receivables	4	189	5	137
FINANCIAL RECEIVABLES	**191**	**4,812**	**180**	**4,815**

Deposits, securities and sureties mainly relate to transaction and hedging deposits as well as the guarantee fund related to trade in electricity and emission allowances.

Trade receivables

The main component of trade receivables is receivables reported by PGE Obrót S.A. Receivables from households represent approximately 17% of the consolidated balance of trade receivables, while receivables from corporate customers of PGE Obrót S.A. represent approximately 62% of the consolidated balance of trade receivables. As at December 31, 2020, the share of the three largest customers of the PGE Capital Group amounted to approximately 9% of the balance of this item. Additional information on trade receivables is presented in note 26.3.1 to these financial statements.

Trade receivables also include adjustments to estimates of electricity sales.

Other financial receivables

Other financial receivables mainly comprise the guarantee fund, damages and disputed receivables described in note 28.4 to these consolidated financial statements.

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

ACCOUNTING PRINCIPLES

Derivative financial instruments and hedges

Derivative instruments used by the Group to hedge against interest rate and currency exchange rate risks include in particular forwards, futures and interest rate swap contracts, as well as CCIRS transactions to hedge the exchange rate and interest rate. Financial derivative instruments of this type are measured at fair value. Derivative instruments are recognised as assets if their value is positive or as liabilities if their value is negative.

Gains and losses from changes in the fair value of derivative instruments that do not meet the conditions of hedge accounting and the ineffective part of hedging relationships in cash flow hedges are charged directly to profit or loss for the financial year.

The fair value of currency forward contracts is determined by reference to the current forward rates calculated on the basis of market data. The fair value of interest rate swap contracts is calculated on the basis of yield curves.

of PGE Polska Grupa Energetyczna S.A. for the year 2020 (in PLN million)

	As at December 31, 2020			
	Recognised in profit or loss	Recognised in other comprehensive income	Assets	Liabilities
DERIVATIVES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Currency forwards	(117)	-	3	4
Commodity forwards	231	-	11	4
Commodity SWAP	-	-	11	13
Contracts for purchase/sale of coal	(89)	-	17	18
IRS transactions	-	-	-	-
Options	11	-	16	-
HEDGING DERIVATIVES				
CCIRS hedging transactions	37	(7)	64	-
IRS hedging transactions	(73)	(261)	-	385
Currency forward - USD	-	(1)	-	1
Currency forward - EUR	-	656	381	23
OTHER ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Investment fund participation units	(4)	-	52	-
TOTAL	**(4)**	**387**	**555**	**448**
short-term part			423	63
long-term part			132	385

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

Commodity and currency forwards

Commodity and currency forward transactions mainly relate to trade in CO_2 emission allowances and lignite sales. To recognise forward currency transactions, the Group applies hedge accounting.

Options

PGE S.A. acquired from Towarzystwo Finansowe Silesia Sp. z o.o. a call option to purchase shares in Polimex-Mostostal S.A. The option was measured using the Black-Scholes method.

Coal swaps

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

of PGE Polska Grupa Energetyczna S.A. for the year 2020 (in PLN million)

Purchase and sales contracts with physical delivery of coal

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

IRS transactions

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

CCIRS hedging transactions

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

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

Investment fund participation units

In the current reporting period, the Group redeemed its FIZAN Eko-Inwestycje certificates and FIZAN Ventures certificates.

As at the reporting date, the Company held participation units in three sub-funds of Towarzystwo Funduszy Inwestycyjnych Energia S.A., whose value as at the reporting date was PLN 53 million.

25.1.3 Credits, loans, bonds and leases

	As at December 31, 2020		As at December 31, 2019	
	Long-term	Short-term	Long-term	Short-term
Credits and loans	7,105	1,318	7,999	1,382
Bonds issued	2,035	10	1,986	12
Lease	885	56	874	55
TOTAL CREDITS, LOANS, BONDS AND LEASES	**10,025**	**1,384**	**10,859**	**1,449**

Currency position and interest rates

As at December 31, 2020

Currency	Reference rate	Value in currency	Value in PLN	Repayment deadline
PLN	Variable	7,294	7.294	credits, loans – Sep. 2021 – Jun. 2035; bonds – May 2026 – May 2029
	Fixed	3,103	3.103	credits, loans – Mar. 2023 – Aug. 2038 leases – Apr. 2021 – Mar. 2101
TOTAL PLN		**10,397**	**10.397**	
EUR	Variable	47	219	credits and loans – Jun. 2024
	Fixed	140	644	bonds – Aug. 2029
TOTAL EUR		**187**	**863**	
USD	Variable	40	149	credits and loans – Sep. 2021
TOTAL USD		**40**	**149**	
TOTAL CREDITS, LOANS, BONDS AND LEASES			**11.409**	

As at December 31, 2019

Currency	Reference rate	Value in currency	Value in PLN	Repayment deadline
PLN	Variable	8,179	8,179	credits, loans – Sep. 2020 – Jun. 2034; bonds – May 2026 – May 2029
	Fixed	3,158	3,158	credits, loans – Sep. 2019 – Dec. 2028 leases – Mar. 2020 – Mar. 2101
TOTAL PLN		**11,337**	**11,337**	
EUR	Variable	69	293	credits and loans – Jun. 2024
	Fixed	139	595	bonds – Aug. 2029
TOTAL EUR		**208**	**888**	
USD	Variable	22	83	credits and loans – May 2019 – Sep. 2020
TOTAL USD		**22**	**83**	
TOTAL CREDITS, LOANS, BONDS AND LEASES			**12,308**	

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Change in interest-bearing debt for the years ended December 31, 2020 and December 31, 2019

	Year ended December 31, 2020	Year ended December 31, 2019
AS AT JANUARY 1	**12,308**	**10,708**
EFFECTIVE DATE OF IFRS 16 – January 1, 2019	**-**	**895**
CHANGE IN OVERDRAFT FACILITIES	**(572)**	**5**
CHANGE IN CREDITS, LOANS, BONDS AND LEASES	**(327)**	**700**
Taken credits and loans / issued bonds / new lease agreements	4,387	6,737
Recognition of new lease agreements	62	-
Repayment of credits, loans, leases / redemption of bonds/	(4,871)	(6,040)
Interest accrued	240	302
Payment of interest	(290)	(290)
Acquisition of new subsidiaries	111	6
Conversion of loan into equity	(57)	-
Foreign exchange differences	71	(15)
Other changes	20	-
AS AT DECEMBER 31	**11,409**	**12,308**

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Credits and loans

Creditor	Hedging instrument	Date of maturity	Limit in currency	Currency	Interest rate	Liability as at 31-12-2020	Liability as at 31-12-2019
Bank consortium	IRS	2023-09-30	3,630	PLN	Variable	3,636	3,649
European Investment Bank	-	2034-08-25	1,500	PLN	Fixed	1,505	1,505
Bank Gospodarstwa Krajowego	IRS	2027-12-31	1,000	PLN	Variable	876	1,001
European Bank for Reconstruction and Development	IRS	2028-06-07	500	PLN	Variable	501	502
Bank Gospodarstwa Krajowego	IRS	2028-12-31	500	PLN	Variable	500	500
European Investment Bank	-	2034-08-25	490	PLN	Fixed	493	493
Nordic Investment Bank	-	2024-06-20	150	EUR	Variable	219	293
Bank Pekao S.A.	-	2021-09-21	40	USD	Variable	149	83
Millennium	-	2021-06-16	7	PLN	Fixed	1	1
Bank Gospodarstwa Krajowego	-	2021-05-31	1,000	PLN	Variable	-	455
Revolving credit facility (bank consortium)	-	2022-12-16	4,100	PLN	Variable	-	300
Bank Pekao S.A.	-	2024-12-22	500	PLN	Variable	-	160
PKO BP S.A.	-	2022-04-29	300	PLN	Variable	-	21
Bank Ochrony Środowiska SA	-	2020-10-01	136	PLN	Variable	-	5
European Investment Bank	-	2038-10-16	273	PLN	Fixed	-	-
NFOŚiGW	-	March 2023 – December 2028	215	PLN	Fixed	157	204
NFOŚiGW	-	September 2021 - June 2035	697	PLN	Variable	279	101
WFOŚiGW	-	September 2020 - September 2026	70	PLN	Fixed	6	2
WFOŚiGW	-	September 2021 - September 2028	207	PLN	Variable	101	82
Loan from partners	-	2020-11-06	9	PLN	Fixed	-	9
Loan from partners	-	2021-03-02	14	PLN	Fixed	-	15
TOTAL BANK CREDITS						**8,423**	**9,381**

As at December 31, 2020, the value of available overdraft facilities in the major companies of the PGE Capital Group amounted to PLN 1,811 million. The repayment dates of granted overdraft facilities in the current accounts of the major PGE Group companies fall in the years 2021 – 2024.

In 2020 and after the reporting date there were no defaults or breaches of other terms and conditions of the credit agreements.

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Bonds issued

Issuer	Hedging instrument	Date maturity of programme	Limit in programme currency	Currency	Interest rate	Tranche issue date	Tranche maturity date	Liability as at December 31, 2020	Liability as at December 31, 2019
PGE SA	IRS	indefinite	5,000	PLN	Variable	2019-05-21	2029-05-21	1,001	1,002
						2019-05-21	2026-05-21	400	401
PGE Sweden AB (publ)	CCIRS	indefinite	2,000	EUR	Fixed	2014-08-01	2029-08-01	644	595
TOTAL BONDS ISSUED								**2,045**	**1,998**

Leases

ACCOUNTING PRINCIPLES

Lease liabilities

Lease liabilities are recognised by the lessee at the commencement date.

At the commencement date, the lessee measures the lease liability at the present value of the lease payments outstanding at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. Otherwise, the lessee uses the lessee's incremental borrowing rate.

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

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

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

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

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

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

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

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

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

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

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25.1.4 Trade payables and other financial liabilities

ACCOUNTING PRINCIPLES

Liabilities

Liabilities constitute the Company's present obligation resulting from past events whose fulfilment, according to expectations, will cause an outflow of resources containing economic benefits.

The Group recognises the following categories of liabilities:

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

If the consequences of changes in the time value of money are significant, liabilities are presented at discounted value.

	As at December 31, 2020		As at December 31, 2019	
	Long-term	Short-term	Long-term	Short-term
Trade payables	-	1,357	-	1,506
Purchase of PPE and IA	6	1,050	3	1,633
Security deposits received	30	96	21	99
Liabilities on account of LTC	395	22	432	36
Insurance	-	8	-	8
Settlements related with stock market transactions	-	856	-	269
Other	17	115	19	85
TRADE PAYABLES AND OTHER FINANCIAL LIABILITIES	**448**	**3,504**	**475**	**3,636**

The item “Other” includes, among others, liabilities of PGE Dom Maklerski S.A. to customers for cash received from them.

25.2 Fair value of financial instruments

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

Bonds issued by PGE Sweden AB (publ) are based on a fixed interest rate. As at December 31, 2020, their value at amortised cost, as disclosed in these financial statements, amounted to EUR 140 million and their fair value was EUR 162 million. The indexes used in valuation belong to Level 1 of the fair value hierarchy.

In case of the fixed rate credit obtained from the European Investment Bank, the amortised cost disclosed in the financial statements as at the reporting date amounted to PLN 1,998 million and its fair value amounted to PLN 2,198 million. The indexes used in valuation belong to Level 2 of the fair value hierarchy.

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

The most significant items in this category of financial instruments are shares in entities not listed on active markets. The PGE Capital Group is not able to reliably determine the fair value of shares in companies not listed on active markets, therefore they are presented at cost, adjusted for impairment write-downs, if necessary.

25.3 Fair value hierarchy

Derivative instruments

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 whose prices are denominated in these currencies) obtained from active markets. The fair value of derivative instruments is determined based on discounted future cash flows related from concluded transactions, calculated on the basis of the difference between the forward price and the transaction price. Forward exchange rates are not modelled as a separate risk factor, but are derived from the spot rate and the corresponding forward interest rate for the foreign currency in relation to PLN.

In the category of financial assets and liabilities measured at fair value through profit or loss, the Group recognises financial instruments related to trade in CO_2 emission allowances – currency and commodity forwards, coal purchase and sales contracts, and commodity SWAPs (Level 2).

Additionally, the Group presents the CCIRS derivative hedging instrument for foreign exchange and interest rate and the IRS transactions hedging replacing a floating rate in PLN with a fixed rate in PLN (Level 2).

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FAIR VALUE HIERARCHY	As at December 31, 2020 Level 1	As at December 31, 2020 Level 2	As at December 31, 2019 Level 1	As at December 31, 2019 Level 2
CO_2 emission allowances in trading activities	1	-	1,303	-
Hard coal in trading activities	144	-	125	-
Inventories	**145**	**-**	**1,428**	**-**
Currency forwards	-	384	-	13
Commodity forwards	-	11	-	265
Commodity SWAP	-	11	-	11
Contracts for purchase/sales of coal	-	17	-	6
Valuation of CCIRS transactions	-	64	-	18
Valuation of IRS transactions	-	-	-	34
Options	-	16	-	5
Fund participation units	-	52	-	68
Financial assets	**-**	**555**	**-**	**420**
Currency forwards	-	28	-	348
Commodity forwards	-	4	-	8
Commodity SWAP	-	13	-	16
Contracts for purchase/sales of coal	-	18	-	1
Valuation of IRS transactions	-	385	-	106
Financial liabilities	**-**	**448**	**-**	**479**

Derivatives are presented in note 25.1.2 to these financial statements. During the current and comparative reporting periods, there were no transfers of financial instruments between level 1 and level 2 of the fair value hierarchy.

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The terms and conditions of the particular derivatives and other receivables measured at fair value through profit or loss are set out below.

	As at December 31, 2020		As at December 31, 2019		
	Value in financial statement in PLN	Par value in original currency	Value in financial statement in PLN	Par value in original currency	Maturity as at December 31, 2020
CCIRS – EUR to PLN	64	144	18	144	until July 2029
Options	16	6	5	6	until July 2022
Investment fund participation units	52	48	68	66	n/d
Currency forward - EUR	382	2,735	43	582	December 2024
Commodity forward – PLN	11	871 882	93	1,572 1,479	until December 2022
Commodity forward – PLN	-	- -	28	298 66	until March 2020
Commodity forward – EUR	-	-	144	339	until March 2020
Currency forward - USD	2	7	4	46	until April 2021
Currency forward - USD	-	-	-	-	until February 2019
Commodity SWAP – USD	11	4	11	16	until September 2021
Contracts for purchase – USD Contracts for sales – USD	17	56	6	6 9	August 2021
Financial assets	**555**	**-**	**420**	**-**	
Currency forward – EUR	24	120	338	3,089	December 2023
IRS – interest rate to PLN	385	500 1,000 500 3,630 1,000 400	106	500 1,000 500 3,630 1,000 400	June 2028 December 2027 December 2028 September 2023 May 2029 May 2026
Currency forward - EUR	-	-	6	31	until January 2021
Commodity forward – PLN	4	258 254	8	319 311	December 2022
Commodity SWAP – USD	13	3	16	16 1	December 2021
Currency forward - USD	2	32	3	36 -	September 2021
Currency forward - USD	1	4	1	12	April 2021
Currency forward - USD	1	23	-	-	December 2022
Contracts for purchase – USD Contracts for sales – USD	18	- 8	1	- 3	April 2021
Financial liabilities	**448**		**479**		

25.4 Statement of comprehensive income

Impact of the particular categories of financial instruments on finance income and costs

Year ended December 31, 2020	Cash and cash equivalents	Other financial assets	Shares, interests and other capital instruments	Financial instruments measured at fair value	Financial hedging derivatives	Other financial liabilities	TOTAL
Dividends	-	-	2	-	-	-	2
Interest income / (costs)	3	25	-	-	(82)	(215)	(269)
Revaluation	-	-	(8)	20	-	-	12
Reversal / (Establishment) of write-downs	-	(2)	3	-	-	-	1
Foreign exchange differences	(9)	227	-	-	-	(251)	(33)
Gain/(Loss) on disposal of investments	-	-	(13)	-	-	-	(13)
TOTAL PROFIT / (LOSS)	**(6)**	**250**	**(16)**	**20**	**(82)**	**(466)**	**(300)**

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Year ended December 31, 2019	Cash and cash equivalents	Other financial assets	Shares, interests and other capital instruments	Financial instruments measured at fair value	Financial hedging derivatives	Other financial liabilities	TOTAL
Dividends	-	-	1	-	-	-	1
Interest income / (costs)	12	24	-	-	(53)	(206)	(223)
Revaluation	-	-	-	(11)	1	(1)	(11)
Reversal / (Establishment) of write-downs	-	(1)	5	-	-	(1)	3
Foreign exchange differences	(5)	(16)	-	80	(91)	5	(27)
Gain/(Loss) on disposal of investments	-	-	-	-	-	-	-
TOTAL PROFIT / (LOSS)	**7**	**7**	**6**	**69**	**(143)**	**(203)**	**(257)**

25.5 Security for payment of receivables and payables

In order to secure the repayment of its credits, the Group uses a number of individual security instruments and their combinations. The most frequently used instruments include claims transfer agreements, bills of exchange and declarations of voluntary submissions to enforcement procedures. Additionally, the Group uses powers of attorney to use bank accounts and assignments of receivables.

As at the reporting date the following assets constituted security for the repayment of liabilities and contingent liabilities:

	As at December 31, 2020	As at December 31, 2019
Property, plant and equipment	900	830
Inventories	-	14
Trade receivables	206	216
TOTAL VALUE OF ASSETS CONSTITUTING SECURITY FOR REPAYMENT OF LIABILITIES	**1,106**	**1,060**

Property, plant and equipment shown in the table above constitute security for obtained investment credits. As at December 31, 2020 and December 31, 2019, the most significant item was the capped mortgage on the 858 MW power generation unit in PGE Górnictwo i Energetyka Konwencjonalna S.A., Bełchatów Power Plant Branch.

In accordance with the regulations of the Warsaw Commodity Clearing House, the PGE Group companies are obliged to maintain a certain balance of cash on accounts held with PKO BP Bank and Santander Bank Poland to participate in the guarantee fund. The balance of cash reported as restricted cash under these two obligations amounted to PLN 93 million as at 31 December 2020 (PLN 230 million in the comparative period).

26. Objectives and principles of financial risk management

The primary objective of financial risk management in the PGE Capital Group is to support the process of creating the Group's value for shareholders and the implementation of the Group's business strategy by reducing and maintaining financial risk at the level acceptable to the Group's management.

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

The organisation of the financial risk management function in the PGE Capital Group is based on the principle of organisational independence of an entity responsible for risk measurement and control (the Risk and Insurance Department in PGE Polska Grupa Energetyczna S.A.) of business units being risk owners. Risk reports are submitted directly to the Risk Committee and Audit Committee of the Supervisory Board of PGE S.A., as well as the Management Board of PGE S.A.

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

From the perspective of the whole PGE Capital Group, financial risk is measured in an integrated manner. The process is conducted or supervised within the framework of the Corporate Centre of the PGE Capital Group, which is a centre of competencies in this area. Exposures to risk faced by the particular business areas are examined on a comprehensive basis, taking into account interdependencies among exposures, the possibility of using natural hedging effects and their overall impact on the PGE Capital Group's risk profile and financial position.

The financial risk management model includes the following elements:

- collecting and analysing market and risk exposure data broken down by individual financial risk categories;
- measuring financial risk, for example by means of Value-at-Risk (VaR) and Profit-at-Risk (PaR), for individual risk factors and jointly for all material risk factors;
- managing the consolidated exposure of the PGE Capital Group in relation to the capital at risk and the risk limits established on its basis (among others, by defining and implementing hedging strategies).

In the key areas where financial risks occur, the PGE Capital Group implemented internal regulations setting out the principles for the management of such risks.

The PGE Capital Group is exposed to various types of financial risks:

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

The exposure of the PGE Capital Group to individual financial risks depends on the extent of its activities in the commodity and financial markets.

26.1 Market risk

The market risk comprises the commodity risk, the interest rate risk, and the currency risk.

The main objective of market risk management in the PGE Capital Group is to maintain the risk resulting from the conducted commercial and financial activities at the acceptable level and to support the implementation of the business strategy as well as to maximise the Group's value for shareholders.

The procedures implemented in the PGE Capital Group for the purpose of managing individual categories of market risk relating to commercial and financial activities trading and financial activities specify, among other things:

- the purpose, scope and principles of risk management;
- scopes of responsibility for risk management;
- management and operational processes within the framework of risk management for commercial activities in the electricity and related products markets and for financial activities;
- the ways of identifying sources of risk exposure;
- the methods for measuring and monitoring risk exposure.

The market risk management principles implemented in the PGE Capital Group further define how the appetite for market risk is determined, how market risk exposures are limited based on the measures of Profit-at-Risk and Value-at-Risk and the mechanisms for hedging risk when limits are exceeded.

26.1.1 Commodity risk

Commodity risk is related to the possibility of deterioration in the financial result in the commercial area due to changes in commodity prices.

The exposure of the PGE Capital Group to the commodity price risk concerns first of all the following commodities:

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

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

Selected types of commodity risk (including currency risk) to which PGE Group is exposed (exclusive of applied risk hedging strategies)

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

The PGE Group has a strategy of securing its key exposures in the area of electricity and related products trading; it corresponds to appetite for risk in a mid-term perspective. The level of hedging for an open position is set taking into account the variability of prices of electricity and related products, the liquidity of specific markets, the financial position of the Group, as well as the Group's strategic objectives.

The PGE Capital Group's exposure to the commodity price risk (in respect of raw materials) is determined by the volumes of external purchases of individual raw materials. These volumes are presented in the table below:

	Year ended December 31, 2020		Year ended December 31, 2019	
COMMODITY	Tonnage – external purchase (thousand tonnes)	Purchase costs (PLN million)	Tonnage – external purchase (thousand tonnes)	Purchase costs (PLN million)
Coal	9,796	2,993	11,105	3,465
CO_2 emission allowances for captive use	78,769	6,629	39,539	1,477
Natural gas [thousand m^3].	1,305,773	774	1,203,724	918
Biomass	584	140	560	144
Heating oil	49	74	61	111
TOTAL		**10,610**		**6,115**

26.1.2 Interest rate risk

Interest rate risk is related to the possibility of deterioration in the financial result due to changes in interest rates.

The exposure of the PGE Capital Group to the interest rate risk arises mainly from the fact that the Group companies finance their operating and investing activities by obtaining funds based on a variable interest rate, primarily in the form of credits, loans and bonds issued in domestic and foreign currencies, as well as from investments in financial assets bearing variable interest rates.

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

Moreover, the PGE Capital Group establishes hedging strategies with respect to its exposure to the interest rate risk in the form of hedging ratios subject to approval of the Risk Committee and the PGE Management Board. The implementation of hedging strategies and the level of interest rate risk are subject to monitoring and are reported regularly to the Risk Committee.

The PGE Capital Group companies enter into interest rate derivative transactions only for the purpose of hedging identified risk exposures. The regulations in force in the PGE Capital Group do not allow, with regard to interest rate derivative transactions, entering into speculative transactions, i.e. transactions which would be aimed at generating additional profits resulting from changes in the level of interest foreign currency exchange rates, while exposing the Group to the risk of incurring a potential loss on this account.

Bonds issued in the amount of PLN 1.4 billion under the PLN 5 billion bonds issue programme bear interest at a variable rate in PLN. Payments relating to these bonds are hedged by IRS contracts.

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

The Group also has long-term credits in the combined amount of PLN 1.5 billion under the Credit Agreements entered into on December 17, 2014 and December 4, 2015 with Bank Gospodarstwa Krajowego, as well a syndicated loan (a term tranche) of PLN 3.63 billion under the Credit Agreement of September 7, 2015. These credits bear interest at variable rates in PLN. Payments under these credits are secured by IRS contracts.

The outbreak of the COVID-19 pandemic entailed a significant reduction in the dynamics of economic development, although the uncertainty about the development of the economic situation did not noticeably affect the interest rate risk occurring in the PGE Capital Group. Long-term debt liabilities based on a variable interest rate were 100% hedged by IRS and CIRS contracts.

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The exposure of the PGE Capital Group to the interest rate risk and the concentration of this risk by currency:

		Type of interest rate	As at December 31, 2020	As at December 31, 2019
Derivatives – assets exposed to interest rate risk	PLN	Fixed	11	121
		Variable	16	5
	Other currencies	Fixed	-	-
		Variable	476	226
Deposits, cash, debt securities, leases	PLN	Fixed	3,708	983
		Variable	-	-
	Other currencies	Fixed	739	511
		Variable	-	-
Derivatives – liabilities exposed to interest rate risk	PLN	Fixed	(4)	(8)
		Variable	(385)	(106)
	Other currencies	Fixed	-	-
		Variable	(59)	(365)
Credits, loans, issued bonds and leases	PLN	Fixed	(3,103)	(3,158)
		Variable	(7,294)	(8,179)
	Other currencies	Fixed	(644)	(595)
		Variable	(368)	(376)
Net exposure	PLN	Fixed	612	(2,062)
		Variable	(7,663)	(8,280)
	Other currencies	Fixed	95	(84)
		Variable	49	(515)

Variable interest rates of financial instruments are reviewed in periods shorter than one year. Interest on financial instruments with fixed rates is constant during the whole period until their maturity.

26.1.3 Currency risk

Currency risk is related to the possibility of deterioration in the financial result due to changes in currency exchange rates.

The main sources of the exposure of the PGE Capital Group to the currency risk are set out below:

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

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

Moreover, the PGE Capital Group establishes hedging strategies with respect to its exposure to the currency risk in the form of hedging ratios subject to approval of the Risk Committee and the Management Board. The implementation of hedging strategies and the level of currency risk are subject to monitoring and are reported regularly to the Risk Committee.

The PGE Capital Group companies enter into currency exchange rate derivative transactions only for the purpose of hedging identified risk exposures.

The regulations in force in the PGE Capital Group do not allow, with regard to currency exchange rate derivative transactions, entering into speculative transactions, i.e. transactions which would be aimed at generating additional profits resulting from changes in the level of foreign currency exchange rates, while exposing the Group to the risk of incurring a potential loss on this account.

The outbreak of the COVID-19 pandemic entailed a significant reduction in the dynamics of economic development, and uncertainty as to its possible severity and scope weakened the PLN exchange rate and increased the dynamics of its fluctuations. In the case of the PGE Capital Group, the increase in currency exchange rate risk translated mainly into an increase in the average cost of hedging currency exposure resulting from the current operating activities conducted in 2020. In connection with the adopted currency risk management strategy based on minimising and hedging exposure to risk, the cost of servicing liabilities in foreign currencies, in the medium and long term, did not change significantly due to the hedging measures taken before the outbreak of the pandemic.

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

	Total amount in statements, in PLN	CURRENCY POSITION AS AT DECEMBER 31, 2020			
		EUR		USD	
		Currency	PLN	Currency	PLN
Trade receivables and other financial receivables	5,003	156	720	1	4
Cash and cash equivalents	4,189	158	729	1	4
Derivatives, including:	555	2,924	13,493	90	356
Measured at fair value through profit or loss	*58*	*-*	*-*	*90*	*356*
Hedging instruments	*445*	*2,924*	*13,493*	*-*	*-*
FINANCIAL ASSETS	**9,747**	**3,238**	**14,942**	**92**	**364**
Credits, loans, bonds and leases	11,409	187	863	40	149
Trade and other payables measured at amortised cost	3,952	196	902	10	37
Derivatives, including:	448	120	554	70	262
Measured at fair value through profit or loss	*40*	*-*	*-*	*66*	*247*
Hedging instruments	*408*	*120*	*554*	*4*	*15*
FINANCIAL LIABILITIES	**15,809**	**503**	**2,319**	**120**	**448**

The book value of derivative instruments is the result of valuation to fair value. The value of exposure to currency risk for forwards represents their nominal amount in a given currency. The value of exposure to currency risk for CCIRSs represents the value of discounted cash flows of the currency leg in a given currency.

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

The book value of derivative instruments is the result of valuation to fair value. The value of exposure to currency risk for forwards represents their nominal amount in a given currency. The value of exposure to currency risk for CCIRSs represents the value of discounted cash flows of the currency leg in a given currency.

26.2 Liquidity risk

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

The main objective of liquidity risk management in the PGE Capital Group is to ensure and maintain its companies' ability to meet its current and future financial liabilities, taking into consideration the costs of acquiring liquidity.

In the PGE Capital Group, managing liquidity risk consists, among other things, in planning and monitoring cash flows in both the short- and long-term perspectives with respect to the conducted operating, investing, and financing activities and undertaking actions aimed at ensuring resources for the activities of the PGE Capital Group and, simultaneously, minimizing the costs of such activities.

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

Long-term liquidity risk management allows the PGE Capital Group to determine its borrowing capacity and supports decisions regarding the financing of long-term investments.

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The PGE Capital Group uses a central financing model according to which, as a matter of principle, external financing agreements are entered into by PGE S.A. Its subsidiaries within the PGE Capital Group take advantage of various intra-group financing sources such as loans, bonds, bank account consolidation agreements or real cash pooling agreements.

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

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

The table below shows the maturity of the Group's financial liabilities at the reporting dates by maturity date based on contractual undiscounted payments.

AS AT DECEMBER 31, 2020	Value in statement	Total payments	Up to 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years
Credits and loans	8,423	9,049	187	1,241	5,274	2,347
Bonds issued	2,045	2,381	-	41	166	2,174
Trade payables and other financial liabilities	3,096	3,096	2,508	142	441	5
Settlements with exchanges, mainly related to purchase of CO_2 emission allowances(*)	856	856	856	-	-	-
Lease liabilities	941	2,322	18	55	239	2,010
Derivative instruments	448	450	42	147	242	19
TOTAL	**15,809**	**18,154**	**3,611**	**1,626**	**6,362**	**6,555**

(*)Settlements are related to variation margins whose value depends on the current price of CO_2 emission allowances.

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

26.3 Credit risk

Credit risk is connected with a potential credit event which may have the form of a business partner's insolvency, partial payment of liabilities, significant delay in the payment of liabilities or any other default with respect to contractual conditions (in particular a failure to make a delivery of or to accept goods under a concluded contract or to pay damages and contractual penalties).

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

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

There is a concentration of credit risk in the PGE Capital Group related to trade receivables. The three most significant customers accounted for approximately 9% of the trade receivables balance.

The maximum exposure to credit risk resulting from the financial assets of the PGE Capital Group is equal to the book values of these items.

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	Year ended December 31, 2020	Year ended December 31, 2019
Trade receivables and other financial receivables	5,003	4,995
Cash and cash equivalents	4,189	1,313
Derivatives – assets	555	420
MAXIMUM EXPOSURE TO CREDIT RISK	**9,747**	**6,728**

26.3.1 Trade receivables. Other loans and financial receivables

ACCOUNTING PRINCIPLES

Financial receivables

Financial receivables, including trade receivables, are measured as at the date they arise at fair value, and then at amortised cost using the effective interest rate, including write-downs for expected credit loss.

The Group applies simplified methods of valuation of receivables measured at amortised cost if it does not distort the information contained in the statement of financial position, in particular when the period until the payment of receivables is not long.

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

The companies apply the following principles for estimating and recognising impairment write-downs on other financial receivables:

- for receivables from significant customers covered by the credit risk assessment procedure, the companies estimate expected credit losses on the basis of the model used to assess this risk based on ratings allocated to particular business partners; ratings are assigned the likelihood of bankruptcy adjusted by the impact of macroeconomic factors;
- for receivables from mass customers or customers not covered by the credit risk assessment procedure, the companies estimate expected credit losses on the basis of an analysis of the probability of incurring credit losses in the particular ageing ranges;
- in justified cases, the companies may assess the amount of a write-down on an individual basis.

Write-downs on receivables are recognised as other operating costs or financial costs, respectively. Long-term receivables are measured at current (discounted) value.

The ratios adopted for estimating expected losses calculated according to the provision matrix:

	December 31, 2020		December 31, 2019	
	Write-down amount	Write-down percentage	Write-down amount	Write-down percentage
Receivables not overdue	479	0.0 – 0.17/ 100	482	0.0 - 71.43/ 100
Overdue < 30 days	37	0.0 – 2.9/ 100	5	0.0 - 37.63
Overdue 30-90 days	28	0.0 – 87.48/ 100	9	0.0 - 96.09
Overdue 90-180 days	18	100.0	15	0.0 - 100.0
Overdue 180-360 days	30	100.0	25	24.80 - 100.0
Overdue > 360 days	296	100.0	281	10.0 - 100.0
TOTAL FINANCIAL ASSETS	**888**		**817**	

The write-down relates to receivables written down according to the matrix and on an individual basis (100%).

The ratios adopted for estimating expected losses calculated according to the key customers model:

Rating level	December 31, 2020		December 31, 2019	
	Write-down amount	Write-down percentage	Write-down amount	Write-down percentage
Highest Highest AAA to AA- according to S&P and Fitch, and Aaa to Aa3 according to Moody's	-	-	-	-
Medium-high A+ to A- according to S&P and Fitch and A1 to A3 according to Moody's	-	-	-	-
Medium BBB+ to BBB- according to S&P and Fitch and Baa1 to Baa3 according to Moody's	<1	100.0	<1	100.0
TOTAL FINANCIAL ASSETS	**<1**		**<1**	

Trade receivables typically have payment terms of 14-21 weeks. In 2020, the PGE Group waited on average 30 days for the payment of receivables (receivables turnover ratio in the main companies of the PGE Group ranged from 6 to 75 days). Trade receivables mainly relate to receivables for energy sold and distribution services. In the opinion of the management of the PGE Capital Group, there is no additional risk of non-payment of receivables above the level determined by the impairment write-down.

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The PGE Capital Group mitigates and controls the credit risk related to trade transactions in accordance with uniform credit risk management principles implemented in all key companies of the PGE Capital Group. In the case of commercial transactions, which due to their high value may generate significant losses as a result of the counterparty's default, a counterparty assessment is carried out prior to the transaction, taking into account a financial analysis, the counterparty's credit history and other factors. Based on the assessment, the PGE Capital Group assigns an internal rating or uses a rating assigned by an independent reputable rating agency. Based on the rating, a limit is set for the counterparty. Entering into contracts that would increase exposures above set limits generally requires the establishment of security in accordance with the credit risk management principles in force in the PGE Capital Group. The level of used limits is monitored and reported on a regular basis, and in the event of material overruns, the units responsible for counterparty risk management are required to take action to eliminate them. The PGE Capital Group monitors on an ongoing basis the payment of receivables and applies early collection, taking into account deadlines resulting from the energy law and a high level of repayment of receivables with short overdue periods. It also cooperates with business intelligence agencies and debt collection companies.

The outbreak of the COVID-19 pandemic contributed to a significant increase in the likelihood of credit risk materialisation, thus prompting PGE and the other companies that had adopted the common credit risk management principles to tighten the criteria for granting internal ratings and credit limits to counterparties. The Group developed internal guidelines aimed at reducing the credit risk by identifying industries that are particularly sensitive or relatively insensitive to the pandemic crisis and adjusting the criteria for credit decisions concerning counterparties in these industries accordingly. These guidelines are monitored and updated on an ongoing basis to ensure their adequacy for the changing economic situation.

As at the reporting date, there was no significant extension of the receivables payment period or liquidity problems resulting from the COVID-19 pandemic. Nevertheless, the Group updated the models used to estimate expected credit losses. For the purpose of estimating expected credit losses, counterparties were divided into two groups: strategic counterparties that are 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 former group of counterparties, the basis for calculating expected credit losses was changed – as at December 31, 2020, losses were calculated based on Credit Default Swap (CDS) quotations, while for the latter group of counterparties, the percentage ratios in the different time intervals of the provision matrix were updated to a level corresponding to the current collectability of receivables. As a result of these two changes, the level of provisions for expected credit losses at December 31, 2020 was PLN 16 million higher than if the provisions had been made under the previous rules. A more detailed description of the impact of the pandemic on the operations of the PGE Capital Group is included in note 33.3 to these financial statements.

The credit risk on trade receivables on a geographical basis is presented in the table below:

	December 31, 2020		December 31, 2019	
	Balance of receivables	Share %	Balance of receivables	Share %
Poland	3,600	100%	3,460	99%
Germany	2	<1%	-	-
United Kingdom	-	-	23	1%
TOTAL	**3,602**	**100%**	**3,483**	**100%**

Ageing of receivables and impairment write-downs

As at December 31, 2020, some financial assets were subject to impairment write-downs. The table below presents changes in impairment write-downs for these classes of financial instruments:

2020	Trade receivables	Other financial receivables	Bonds	Total financial assets
Write-down as at January 1	**(192)**	**(239)**	**(386)**	**(817)**
Use of write-downs	16	9	-	25
Reversal of write-downs	65	21	-	86
Creation of write-downs	(104)	(87)	-	(191)
Other changes	13	(4)	-	9
Write-down as at December 31	**(202)**	**(300)**	**(386)**	**(888)**
Value before impairment write-down	**3,804**	**1,701**	**386**	**5,891**
Net position value (book value)	**3,602**	**1,401**	**-**	**5,003**

Most of impairment write-downs on trade receivables relate to the Distribution segment. As at December 31, 2020, the total amount of impairment write-downs on trade receivables of the segment was PLN 156 million (PLN 143 million in 2019).

The Group has no significant items of receivables that were significantly overdue at the reporting date, but were not written down, except for the disputed receivables from Enea S. A. described in detail in note 28.4 to these financial statements.

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2019	Trade receivables	Other financial receivables	Bonds	Total financial assets
Write-down as at January 1	**(190)**	**(240)**	**(386)**	**(816)**
Use of write-downs	16	53	-	69
Reversal of write-downs	8	15	-	23
Creation of write-downs	(30)	(63)	-	(93)
Other changes	4	(4)	-	-
Write-down as at December 31	**(192)**	**(239)**	**(386)**	**(817)**
Value before impairment write-down	**3,675**	**1,751**	**386**	**5,812**
Net position value (book value)	**3,483**	**1,512**	**-**	**4,995**

The ageing analysis of trade receivables, other loans and receivables, taking into account impairment write-downs, is presented below:

	December 31, 2020			December 31, 2019		
	Gross	Write-downs	Net book value	Gross	Write-downs	Net book value
Receivables not overdue	**4,981**	**(479)**	**4,502**	**4,955**	**(482)**	**4,473**
Overdue < 30 days	*276*	*(37)*	*239*	*218*	*(5)*	*213*
Overdue 30-90 days	*80*	*(28)*	*52*	*54*	*(9)*	*45*
Overdue 90-180 days	*29*	*(18)*	*11*	*47*	*(15)*	*32*
Overdue 180-360 days	*44*	*(30)*	*14*	*55*	*(25)*	*30*
Overdue > 360 days	*481*	*(296)*	*185*	*483*	*(281)*	*202*
Total overdue receivables	**910**	**(409)**	**501**	**857**	**(335)**	**522**
Total financial assets	**5,891**	**(888)**	**5,003**	**5,812**	**(817)**	**4,995**

As at December 31, 2020, more than 47% of the balance of overdue trade receivables and other loans and receivables for which no impairment write-downs were made were related to the sales of energy to end users.

26.3.2 Deposits, cash and cash equivalents

The Group manages the credit risk related to cash deposits by diversifying the group of banks where such deposits are held. All entities with which the PGE Capital Group enters into deposit transactions conduct business activities in the financial sector. They are exclusively banks registered in Poland or conducting business activities in Poland in the form of branches of foreign banks with at least investment grade ratings and adequate liquidity ratings, considerable equity capital as well as strong and stable market positions. The share of the three major banks where the PGE Capital Group holds the largest cash balances as at December 31, 2020 was approximately 82% (81% in the comparative period).

26.3.3 Derivative instruments

All entities with which the PGE Capital Group enters into derivative transactions conduct business activities in the financial sector. These are banks with investment grade ratings, adequate equity capital as well as strong and stable market positions. As at the reporting date, the PGE Capital Group was a party to derivative transactions described in detail in note 25.1.2 to these consolidated financial statements.

26.3.4 Granted guarantees and sureties

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

26.4 Market (financial) risk – sensitivity analysis

The PGE Capital Group is mainly exposed to the EUR/PLN exchange rate risk and to the risk of changes in reference interest rates of PLN and EUR. It also has positions in USD, whose scale is smaller and therefore the risk associated with them for the Group is low. For the purpose of an analysis of sensitivity to changes in market risk factors, the PGE Capital Group uses the scenario analysis method, i.e. expert scenarios reflecting subjective evaluation of future development of market risk factors.

The scenario analyses presented in this item aim to analyse the impact of changes in the market risk factors on consolidated financial results. With respect to the interest rate risk and the currency risk, the analysis focuses exclusively on these items that fulfil the definition of financial instruments.

In the analysis of sensitivity to the interest rate risk, the PGE Capital Group uses the parallel shift of the interest rate curve by a potentially possible change in the reference interest rates during the next year.

In the case of an analysis of sensitivity to changes in interest rates, the effect of changes in the risk factors would be charged in the consolidated statement of comprehensive income to the item of interest income/costs or the item of revaluation of financial instruments measured at fair value.

The table below presents a sensitivity analysis for every type of the market risk to which the PGE Capital Group was exposed as at the reporting date, showing how the gross financial result would be influenced potentially by changes in the particular risk factors according to the classes of financial assets and liabilities.

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The value of exposure to the currency risk for forwards represents their nominal amount together with interest accrued until the reporting date, translated into PLN at the closing rate as at December 31, 2020 and as at December 31, 2019 respectively, without discount. The book value of derivative instruments is the result of valuation to fair value.

Currency exchange risk sensitivity analysis

The table below shows the sensitivity of financial instruments to reasonably possible changes in exchange rates, with all other risk factors remaining unchanged.

CLASSES OF FINANCIAL INSTRUMENTS	Value in statement in PLN	Value exposed to risk	CURRENCY RISK SENSITIVITY ANALYSIS AS AT DECEMBER 31, 2020			
			EUR/PLN impact on profit or loss/equity		USD/PLN impact on profit or loss/equity	
			+10%	-10%	+10%	-10%
Trade receivables and other financial receivables	5,003	724	72	(73)	-	-
Cash and cash equivalents	4,189	733	73	(73)	-	-
Derivatives measured at fair value	58	356	-	-	32	(32)
Hedging derivatives	445	872	66	(66)	-	-
Interest-bearing credits and loans	(8,423)	368	(22)	22	(15)	15
Bonds issued	(2,045)	644	(64)	64	-	-
Trade payables and other financial liabilities	(3,952)	939	(86)	86	(4)	4
Derivatives measured at fair value	(40)	161	-	-	(16)	16
IMPACT ON FINANCIAL RESULT			**(39)**	**(39)**	**(3)**	**3**
Hedging instruments	36	12,838	1,228	(1,228)	(11)	11
IMPACT ON HEDGING RESERVE			**1,228**	**(1,228)**	**(11)**	**11**

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

Interest rate risk sensitivity analysis

The Group identifies its exposure to the risk of changes in the WIBOR and EURIBOR interest rates. The table below shows the sensitivity of financial instruments to reasonably possible changes in interest rates, with all other risk factors remaining unchanged.

FINANCIAL ASSETS AND LIABILITIES	Value in statement in PLN	Value exposed to risk	INTEREST RATE RISK SENSITIVITY ANALYSIS AS AT DECEMBER 31, 2020 WIBOR impact on profit or loss/equity		EURIBOR impact on profit or loss/equity	
			+50pb	–50pb	+25pb	–25pb
Derivatives at fair value through profit or loss – assets	48	47	-	-	-	-
Interest-bearing credits and loans	(8,423)	6,261	(29)	29	(1)	1
Bonds issued	(2,045)	1,401	(7)	7		
Derivative instruments	(40)	35	-	-	-	-
IMPACT ON FINANCIAL RESULT			**(41)**	**41**	**(1)**	**1**
Hedging instruments	36	36	178	(147)	(17)	17
IMPACT ON HEDGING RESERVE			**178**	**(147)**	**(17)**	**17**

FINANCIAL ASSETS AND LIABILITIES	Value in statement in PLN	Value exposed to risk	INTEREST RATE RISK SENSITIVITY ANALYSIS AS AT DECEMBER 31, 2019 WIBOR impact on profit or loss/equity		EURIBOR impact on profit or loss/equity	
			+50pb	–50pb	+25pb	–25pb
Derivatives at fair value through profit or loss – assets	420	208	-	-	-	-
Interest-bearing credits and loans	(9,381)	7,152	(34)	34	(1)	1
Bonds issued	(1,998)	1,403	(7)	7		
Derivative instruments	(479)	471	-	-	-	-
IMPACT ON FINANCIAL RESULT			**(41)**	**41**	**(1)**	**1**
Hedging instruments	(387)	387	183	(178)	(17)	17
IMPACT ON HEDGING RESERVE			**183**	**(178)**	**(17)**	**17**

Commodity price change risk sensitivity analysis

The Group identifies exposure to the risk of changes in commodity prices, including raw materials for electricity generation.

The table below presents a sensitivity analysis for 10% changes in the purchase prices of selected commodities:

COMMODITY	AS AT DECEMBER 31, 2020 Commodity purchase cost	Impact on profit or loss		AS AT DECEMBER 31, 2019 Commodity purchase cost	Impact on profit or loss	
		+10%	-10%		+10%	-10%
Coal	2,993	299	(299)	3,465	347	(347)
CO_2 emission allowances for captive use	6,629	663	(663)	1,477	148	(148)
Natural gas [thousand m^3]	774	77	(77)	918	92	(92)
Biomass	140	14	(14)	144	14	(14)
Heating oil	74	7	(7)	111	11	(11)
TOTAL	**10,610**	**1,060**	**(1,060)**	**6,115**	**612**	**(612)**

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26.5 Hedge accounting

ACCOUNTING PRINCIPLES

Hedge accounting

Changes in the fair value measurement of derivative financial instruments designated as CCIRS and IRS cash flow hedges are recognised in the revaluation reserve for the portion that constitutes an effective hedge, while the ineffective portion of the hedge is recognised in profit or loss.

The amounts of the cumulative change in the measurement of the fair value of a hedging instrument previously recognised in the revaluation reserve are transferred to profit or loss in the period or periods during which the hedged item affects profit or loss. Alternatively, where a hedge of a forecast transaction results in the recognition of a non-financial asset or non-financial liability, the Group excludes such an amount from equity and includes it in the initial cost or another book value of a non-financial asset or non-financial liability.

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

PGE S.A. hedges the risk of changes in cash flows resulting from foreign exchange rates in connection with forward contracts for the purchase of carbon emission allowances whose price is expressed in EUR.

PGE S.A. also applies hedge accounting to IRS transactions hedging the interest rate in connection with its financial liabilities under loan agreements such as the Loan Agreement with a consortium of banks entered into on September 7, 2015 and the Loan Agreement with Bank Gospodarstwa Krajowego entered into on December 17, 2014. Under these IRS transactions, banks-counterparties pay PGE S.A. interest based on a variable rate in PLN and PGE S.A. pays interest based on a fixed rate in PLN.

To recognise these IRS transactions, the PGE Capital Group uses hedge accounting.

The source of ineffectiveness for hedge accounting is solely the CCIRS transaction hedging the interest rate on bonds issued by PGE Sweden AB.

	Year ended December 31, 2020
VALUE OF HEDGED ITEM AS AT JANUARY 1	**595**
Interest accrued	19
Payment of interest	(19)
Foreign exchange differences	49
VALUE OF HEDGED ITEM AS AT DECEMBER 31	**644**

Information on hedging instruments – maturity structure as at December 31, 2020. Payments received by the Group are presented with a "minus" sign and payments made by the Group are presented with a "plus" sign.

Derivative	Currency	Up to 1 year	From 1 year to 5 years	Over 5 years
CCIRS	EUR	10	45	(129)
IRS	PLN	131	239	19
Currency forwards	EUR	338	21	-

The Group assesses that the ineffective part of the hedge resulting from the EUR exchange rate and the change in WIBOR and recognised in profit or loss will not have a material impact on future financial statements of the PGE Capital Group.

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

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EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

27. Statement of cash flows

ACCOUNTING PRINCIPLES

Statement of cash flows

The statement of cash flows is drawn up using the indirect method.

27.1 Cash flows from operating activities

(Profit) / loss on investing activities

	Year ended December 31, 2020	Year ended December 31, 2019
Accrual valuation of derivative instruments	235	(254)
(Gain)/loss on disposal of property, plant and equipment	(32)	(18)
(Gain)/loss on disposal of non-current financial assets	11	1
Other	30	7
TOTAL (GAIN)/LOSS ON INVESTING ACTIVITIES	**244**	**(264)**

Change in receivables

	Year ended December 31, 2020	Year ended December 31, 2019
Change in trade receivables and other financial receivables	(8)	(725)
Deposit balance adjustment	10	13
Other	(3)	(8)
TOTAL CHANGE IN RECEIVABLES	**(1)**	**(720)**

Change in inventories

	Year ended December 31, 2020	Year ended December 31, 2019
Change in inventories	1,386	(1,810)
Adjustment for transfer of investment materials to PPE	(18)	-
Other	2	(1)
TOTAL CHANGE IN INVENTORIES	**1,370**	**(1,811)**

Change in liabilities, excluding credits and loans

	Year ended December 31, 2020	Year ended December 31, 2019
Change in trade payables and other financial payables	(160)	(23)
Change in other non-financial liabilities	345	161
Adjustment for change in investment liabilities	580	8
Other	(1)	24
TOTAL CHANGE IN LIABILITIES	**764**	**170**

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Change in other non-financial assets and prepayments

	Year ended December 31, 2020	Year ended December 31, 2019
Change in other assets	(357)	(295)
Change in accruals and deferrals	(19)	(2)
Adjustment for change in prepayments for fixed assets under construction	161	137
Adjustment for change concerning financing/investing activities	(35)	(26)
Other	(3)	(11)
TOTAL CHANGE IN OTHER NON-FINANCIAL ASSETS AND PREPAYMENTS	**(253)**	**(197)**

Change in provisions

	Year ended December 31, 2020	Year ended December 31, 2019
Change in provisions	4,500	4,982
Adjustment for change in actuarial provisions recognised in other comprehensive income	(235)	(266)
Adjustment for change in rehabilitation provisions recognised in assets	(912)	(1,879)
Other	(6)	(1)
TOTAL CHANGES IN PROVISIONS	**3,347**	**2,836**

27.2 Cash flows from investing activities

Acquisition of property, plant and equipment and intangible assets

In 2020, the largest expenditures on the acquisition of property, plant and equipment as well as intangible assets were incurred by the following segments:

- Conventional Power Generation – PLN 2,903 million, including:
  - Dolna Odra Power Plant Complex Branch – construction of units 9 and 10, approximately PLN 602 million (including advance payments of PLN 550 million), adaptation of units 5-8 to the requirements of the BAT conclusions, approximately PLN 104 million,
  - Turów Power Plant Branch – construction of a new power generation unit, approximately PLN 530 million, modernisation of units 1-3, approximately PLN 154 million,
  - Opole Power Plant Branch – modernisation of units 1-4, approximately PLN 254 million, including PLN 75 million to adapt the units to the BAT conclusions,
  - Bełchatów Power Plant Branch – adaptation of units 3-12,14 to the requirements of BAT conclusions, approximately PLN 197 million, medium overhauls of units 5,6,9,10, approximately PLN 66 million, limited modernisation of unit 2, approximately PLN 33 million
  - Bełchatów Lignite Mine Branch and Turów Lignite Mine Branch – expenditure on replacement of basic machinery and construction of conveyors in the company's lignite mines, approximately PLN 186 million
- Distribution – PLN 1,925 million, including mainly new customer connections as well as modernisation and expansion of networks, substations and power lines.

In 2019, the Conventional Power Generation segment incurred expenditures of PLN 3,610 million and the Distribution segment – PLN 2,181 million.

Consolidation of companies

In 2020, the PGE Capital Group acquired shares in ECO-POWER sp. z o.o. Expenditures on the acquisition of the company amounted to PLN 150 million, while acquired cash amounted to PLN 28 million.

Recognition and release of deposits with maturity over 3 months

The companies in the Conventional Power Generation segment are obligated to hold funds in the Mine Liquidation Fund, in accordance with the provisions of the Geological and Mining Law.

27.3 Cash flows from financing activities

Increase of shareholdings in CG companies

In 2020, the PGE Capital Group acquired additional shares in the subsidiaries of EPORE sp. z o.o. (PLN 11 million) and PEC Zgierz sp. z o.o. (PLN 6 million), this increasing its shareholdings in these companies to 100%.

In 2019 the Group acquired additional shares in the subsidiaries PGE Gaz Toruń sp. z o.o. and PGE Ekoserwis sp. z o.o. The prices paid for these shareholdings were PLN 275 million and PLN 7 million, respectively.

Proceeds from obtained loans and credits

In the current reporting period, PGE S.A. used available credits in the total amount of PLN 4,100 million (PLN 5,287 million in 2019). Additionally, the companies of the Conventional Power Generation segment obtained loans and credits from environmental funds in the amount of approximately PLN 249 million (PLN 70 million in 2019).

Proceeds from issue of bonds

In the previous reporting period PGE S.A. issued two tranches of bonds with a total value of PLN 1,400 million. The bonds will be redeemed in 2026 (PLN 400 million) and 2029 (PLN 1 billion).

Repayment of loans, credits and finance leases

In the current reporting period, PGE S.A. repaid credits in the total amount of PLN 5,161 million (PLN 3,537 million in 2019). The company ECO-POWER sp. z o.o., which was acquired in the course of 2020, repaid debts under bank credits in the total amount of PLN 104 million. Currently the company has access to financing available within the PGE Capital Group. In the current period PGE GiEK Bełchatów Power Plant Branch repaid a credit in the amount of PLN 96 million (PLN 91 million in the previous period).

Apart from the above, the item includes mainly repayment of credits and loans obtained from environmental funds by the Conventional Power Generation segment in a total amount of approximately PLN 33 million and the Heat Generation segment in a total amount of approximately PLN 63 million.

Payments of the main part of lease liabilities amounted to PLN 42 million in the current period and PLN 53 million in the previous period.

Redemption of bonds issued

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

Interest paid

In the current reporting period, the item includes mainly interest on loans and credits in the amount of PLN 200 million, on bonds in the amount of PLN 60 million, on financial instruments (CCIRS and IRS) in the amount of PLN 66 million and on lease liabilities in the amount of PLN 37 million.

In 2019, the item included mainly interest on loans and credits in the amount of PLN 196 million, on bonds in the amount of PLN 75 million, on financial instruments (CCIRS and IRS) in the amount of PLN 41 million and on lease liabilities in the amount of PLN 15 million.

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OTHER EXPLANATORY NOTES

28. Contingent receivables and payables. Litigation

ACCOUNTING PRINCIPLES

Contingent liabilities

Pursuant to the provisions of IAS 37, with respect to the recognition and measurement of provisions and contingent liabilities, the Group assesses the likelihood of the occurrence of contingent liabilities. If the occurrence of an adverse event is probable, the Group recognises a provision in a relevant amount. If the occurrence of an adverse event is possible, but not probable, it is recognised as a contingent liability.

28.1 Contingent liabilities

	As at December 31, 2020	As at December 31, 2019
Contingent return of grants from environmental funds	461	505
Liabilities related to legal actions	186	248
Liabilities related to bank guarantees securing exchange transactions	75	1,846
Contractual penalty claims	70	-
Perpetual usufruct of land	67	-
Other contingent liabilities	37	37
TOTAL CONTINGENT LIABILITIES	**896**	**2,636**

Contingent return of grants from environmental funds

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

Liabilities related to legal actions

Dispute with Worley Parsons

This contingent liability relates mainly to a dispute with WorleyParsons, which made a claim for the payment of PLN 59 million as remuneration due to the claimant and for the return of the amount that was allegedly unduly deducted by PGE EJ 1 sp. z o.o. from a bank guarantee. Subsequently, the claim was extended to PLN 104 million (i.e. by PLN 45 million). On March 31, 2018, the company filed a response to the extended claim of WorleyParsons. The Group does not recognise the claims and believes that the court is unlikely to award the claims in favour of WorleyParsons.

Bank guarantee liabilities

These liabilities represent sureties issued by PGE Capital Group companies for bank guarantees provided as a deposit to secure exchange transactions resulting from the membership in the Warsaw Commodity Clearing House. In the comparative period, the value of guarantees amounted to PLN 1,846 million. The decrease in guarantees resulted from the compensation agreement executed among the PGE Capital Group companies in January 2020. Under the agreement, in accordance with the Regulations of the Warsaw Commodity Clearing House, guarantee deposits within an energy group may be netted, thanks to which opposite items within the PGE Capital Group were netted and thus no longer required a guarantee.

Contractual penalties – contractual obligations concerning the purchase of fuel

According to the concluded agreements for the purchase of fuels (mainly coal and gas), the PGE Capital Group is obliged to receive a specified minimum volume of fuels and not to exceed a specified maximum level of gas consumption in particular periods. A failure to receive minimum volumes of fuels specified in contracts may result in the necessity to pay applicable fees (in case of the gaseous fuel, the volumes paid for, but not received by particular cogeneration plants and power plants may be received within the next three contractual years).

In the opinion of the PGE Capital Group, the terms and conditions of fuel supplies to its generation facilities as described above do not differ from the terms and conditions of fuel supplies to other power plants in the Polish market.

Perpetual usufruct of land

Contingent liabilities for perpetual usufruct of land are related to the updated annual fees for perpetual usufruct of land. The Branches of PGE GiEK S.A. filed appeals against received decisions to the Local Government Appeal Boards. The value of the contingent liability was measured as the difference between the discounted sum of the updated fees for perpetual usufruct for the whole period for which the perpetual usufruct was established and the liability for perpetual usufruct of land, which was recognised in the books on the basis of previously paid fees.

Other contingent liabilities

Other contingent liabilities mainly comprise the aforementioned claim of WorleyParsons in the amount of PLN 33 million.

28.2 Other significant issues related to contingent liabilities

Non-contractual use of property

As described in note 21.4, the PGE Capital Group established a provision for legal disputes concerning non-contractual use of real property for distribution purposes. Furthermore, the PGE Capital Group is involved in disputes that are at early stages of proceedings and it cannot be excluded that the number and value of similar disputes will increase in the future.

28.3 Contingent receivables

As at the reporting date, the PGE Capital Group held PLN 5 million in contingent receivables resulting from imbalance between purchases and sales of energy in the domestic market (PLN 33 million in the comparative period) and from potential return of overpaid excise tax in the amount of PLN 72 million. The Group awaits the Supreme Administrative Court's decision on what excise tax rate should be applied to settle the excise tax relief for the redemption of property rights arising from renewable energy sources before January 1, 2019.

In the opinion of the PGE Capital Group, the rate in force at the time of the sales of electricity generated from renewable energy sources to the end user, i.e. 20 PLN/MWh, should be applied to settle the said relief. This position was sustained by the judgement of the Provincial Administrative Court in Rzeszów of October 8, 2019.

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

28.4 Other court cases and disputes

Matter of compensation for share conversion

Former shareholders of PGE Górnictwo i Energetyka S.A. filed petitions to courts, requesting that PGE S.A. participate in negotiation aimed at amicable settlement of claims for the payment of compensation for, in their opinion, incorrect determination of the exchange ratio of PGE Górnictwo i Energetyka S.A. shares for PGE S.A. shares during the consolidation process that took place in 2010. The total value of claims resulting from these petitions filed by the former shareholders of PGE Górnictwo i Energetyka S.A. amounts to over PLN 10 million.

Irrespective of the foregoing, on November 12, 2014 Socrates Investment S.A. (an entity that purchased claims from the former shareholders of PGE Górnictwo i Energetyka S.A.) filed a lawsuit requesting that the court award it compensation in the total amount of over PLN 493 million (plus interest) for damage incurred in respect of the incorrect (in its opinion) determination of the share exchange ratio applied in the merger of PGE Górnictwo i Energetyka S.A. and PGE S.A. The Company filed a response to the lawsuit. The case is now the subject of proceedings in the court of first instance. On November 20, 2018, a hearing was held on the subject of the appointment of an expert witness. At present the first instance court proceedings are underway. In its decision dated April 19, 2019, the court appointed expert witnesses responsible for the preparation of an opinion in the matter. By the date of these financial statements, the appointed experts had not submitted their opinion. The date of the next hearing will be set by the court ex officio.

In addition, a similar claim was submitted by Pozwy Sp. z o.o., which had bought claims from the former shareholders of PGE Elektrownia Opole S.A. Pozwy sp. z o.o. filed a lawsuit to the Regional Court in Warsaw against PGE GiEK S.A., PGE S.A. and PwC Polska sp. z o.o. (hereinafter referred to as Respondents) requesting that the Respondents be ordered, in solidum, or jointly and severally, to pay for the benefit of Pozwa sp. z o.o. compensation in the total amount of over PLN 260 million with interest for the allegedly incorrect (in its opinion) determination of the exchange ratio of PGE Elektrownia Opole S.A. shares for PGE GiEK S.A. shares in the process of the merger of these companies. This lawsuit was served on PGE S.A. on March 9, 2017 and the deadline for filing a response to the lawsuit was set by the court at July 9, 2017. PGE S.A. and PGE GiEK S.A. submitted a response to the claim on July 8, 2017. On September 28, 2018, the District Court in Warsaw ruled in the first instance and the lawsuit by Pozwy sp. z o.o. against PGE S.A., PGE GiEK S.A. and PWC Polska sp. z o.o. was dismissed. On April 8, 2019, PGE S.A. received a copy of the appeal filed by the claimant on December 7, 2018. A response to the appeal was prepared on April 23, 2019.

The PGE Group companies do not acknowledge the claims of Socrates Investment S.A., Pozwy sp. z o.o. and other shareholders submitting requests for amicable settlements. According to PGE S.A., these claims are groundless and the entire consolidation process was conducted in a fair and correct manner. The value of shares in the companies subject to consolidation had been determined by an independent company, i.e. PwC Polska sp. z o.o. Furthermore, the consolidation plan, including the ratio of converting shares in the acquired company into shares in the acquiring company was audited with respect to its correctness and reliability by an expert appointed by the court of registration, and no irregularities were identified. The court subsequently registered the merger of the aforementioned companies.

The PGE Group did not establish any provision for the filed lawsuit.

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Termination of agreements for the sale of property rights by Enea S.A.

In 2016, the companies PGE GiEK S.A., PGE EO S.A. and PGE Energia Natury PEW sp. z o.o. (acquired by PGE EO S.A.) received from Enea S.A. statements on termination of long-term agreements for the sale of property renewable energy property rights, so-called “green certificates”. Justifying these terminations, Enea S.A. claimed that the companies had seriously breached the provisions of the agreements in the form of failure to renegotiate their provisions in accordance with the adaptive clause, which Enea S.A. had requested in July 2015 in connection with an alleged change in legal regulations affecting the performance of these agreements.

In the opinion of the PGE Capital Group, the notices of termination submitted by Enea S.A. were submitted in breach of the terms and conditions of the agreements. The companies took appropriate measures to enforce their rights. In view of the fact that Enea S.A. refused to perform the long-term agreements by purchasing property rights resulting from energy origin certificates received by the PGE Group companies in connection with the generation of renewable electricity, PGE GiEK S.A. and PGE Energia Natury PEW sp. z o.o. demanded that Enea S.A. pay contractual penalties and PGE EO S.A. demanded payment of compensation for damage suffered on this account. In October 2020, at the request of the parties, the court proceedings were suspended due to the parties' willingness to hold amicable negotiations as an alternative means of resolving the disputes.

Due to the fact that, in the opinion of the PGE Capital Group, the notices of agreement termination were submitted by Enea S.A. in breach of the terms and conditions of the agreement, as at December 31, 2020 the Group recognised receivables in the amount of PLN 164 million (of which PLN 11 million was recognised as revenue for the current period). In the opinion of the companies of the PGE Capital Group based, among others, on available legal opinions, a favourable settlement of the aforementioned disputes is more probable than an unfavourable settlement.

Additionally, PGE GiEK S.A., PGE Energia Natury PEW sp. z o.o. (acquired by PGE EO S.A.) and PGE EO S.A. filed lawsuits against Enea S.A. for the payment of receivables in the combined amount of PLN 47 million under invoices issued to Enea S.A. for the sale of energy origin certificates based on these agreements. Enea S.A. refused to pay the receivables, claiming that it had effectively set them off against its receivables from the Group companies on account of damages claimed in connection with the alleged damage caused as a result of the companies' failure to renegotiate the agreements under a contractual procedure. According to the Group companies, the deductions were ineffective as Enea S.A.'s claims for payment of damages never arose, and there were no grounds to accept Enea S.A.'s position that the companies had breached any terms and conditions of the agreements. In October 2020, at the request of the parties, the court proceedings were suspended due to the parties' willingness to hold amicable negotiations as an alternative means of resolving the disputes.

29. Future capital expenditure commitments

As at December 31, 2020, the PGE Capital Group had committed themselves to incurring expenditures for property, plant and equipment in the amount of approximately PLN 7,689 million. These amounts will be allocated mainly for the construction of new units, modernisation of assets of the Group's entities and purchase of machinery and equipment.

	As at December 31, 2020	As at December 31, 2019
Conventional Power Generation	5,790	2,363
Distribution	1,346	1,405
Heat Generation	190	227
Renewable Power Generation	185	363
Trade	3	1
Other activities	175	213
TOTAL FUTURE INVESTMENT COMMITMENTS	**7,689**	**4,572**

The most important future capital expenditures concern the following projects:

- Conventional Power Generation:
  - Bełchatów Power Plant Branch – modernisation of the flue gas desulphurisation plant – approximately PLN 172 million,
  - Turów Power Plant Branch – construction of new unit no. 7 – approximately PLN 510 million,
  - Dolna Odra Power Plant Complex Branch – construction of two CCGT units (nos. 9 and 10) and a maintenance services contract for two gas turbines – approximately PLN 4,249 million,
- Distribution – investment commitments related mainly to network distribution assets in the total amount of approximately PLN 1,346 million,
- Other Activities, PGE EJ1 sp. z o.o. – agreement for technical consultancy services in the investment process related to the construction of Poland's first nuclear power plant, a basic scope of PLN 115 million. The optional scope of the agreement includes the amount of approximately PLN 1,097 million.

Established in 2010, PGE EJ 1 sp. z o.o. is a company belonging to the PGE Capital Group. The current scope of the Programme conducted by PGE EJ 1 Sp. z o.o. provides for the performance of environmental and site surveys at two potential locations (Lubiatowo-Kopalino and Żarnowiec) and the preparation of an environmental impact assessment report and a site report.

On 24 September 2020, the Standing Committee of the Council of Ministers adopted a draft resolution of the Council of Ministers on updating the Nuclear Energy Programme (a long term project referred to as "Poland's Nuclear Power Programme") submitted by the Climate Minister and recommended it for approval by the Council of Ministers.

On October 1, 2020 PGE S.A. and the other shareholders of PGE EJ 1 sp. z o.o. (Enea S.A., KGHM Polska Miedź S.A. and TAURON Polska Energia S.A.) signed a Letter of Intent with the State Treasury on the State Treasury's purchase of 100% shares in the company PGE EJ 1 sp. z o.o. The parties to the Letter of Intent committed themselves to performing, in good faith, all actions necessary to prepare and carry out a transaction consisting in the acquisition of shares in PGE EJ 1 sp. z o.o. by the State Treasury. The objective set out in the Letter of Intent was for the State Treasury to acquire shares in PGE EJ 1 sp. z o.o. by December 31, 2020, whereas the parties did not specify the validity term of the Letter of Intent.

On 2 October 2020, the Council of Ministers adopted a resolution (no. 141) on updating the Nuclear Energy Programme.

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

Before December 31, 2020 and until the date of preparation of these financial statements, the acquisition of shares in PGE EJ 1 sp. z o.o. by the State Treasury had not taken place. The negotiation process is underway.

The decision to proceed with the transaction will depend on the outcome of negotiations in this regard and the fulfilment of other conditions stipulated by law or corporate documents.

30. Tax settlements

Tax-related obligations and rights are specified in the Constitution, tax acts, and ratified international agreements. According to the Tax Code, tax is defined as a public law, gratuitous, compulsory and non-refundable cash benefit for the State Treasury, province, district or commune as provided for in the Tax Act. Taking into consideration the subjective criterion, the taxes in force in Poland can be divided into the following five groups: taxes on income, taxes on turnover, taxes on property, taxes on actions, and other fees not elsewhere classified.

From the point of view of business entities, the most important aspect is taxation of income (corporate income tax), taxation of turnover (goods and services tax, excise tax) and taxation of property (property tax, tax on means of transport). One should not forget about other fees and charges which can be classified as quasi taxes. They include, among others, social insurance contributions.

The basic tax rates were as follows: in 2020 the corporate income tax rate – 19%, for small entrepreneurs the rate of 9% is possible, the basic VAT rate – 23%, reduced VAT rates: 8%, 5%, 0%; in addition, some goods and services are exempt from VAT.

The tax system in Poland is characterised by a high level of changeability and complexity of tax regulations, and high potential penalties for tax crimes or violations. Tax settlements and other activity areas subject to regulations (customs or currency inspections) can undergo inspections conducted by competent authorities entitled to issue fines and penalties together with penalty interest. A competent tax authority may inspect tax settlements for five years from the end of the calendar year in which the deadline for the payment of tax expires.

Tax Capital Group

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

The companies included in the tax group must meet a number of requirements, including an appropriate level of equity, the parent company's at least 75% shareholdings in the companies belonging to the tax capital group, no capital ties among the subsidiaries, no tax arrears, at least a 2% share of income in total revenue (calculated for the whole tax group), and execution of transactions with entities from outside the tax group only on an arm's length basis. Any violation of these requirements will result in the tax group being dissolved and losing its taxpayer status. When the tax group is dissolved, each of its member companies will become an independent payer of corporate income tax.

VAT split payment mechanism

The Group uses funds received from counterparties in VAT accounts to pay its liabilities that contain VAT. The amount of funds held in these VAT accounts at a given date depends mainly on the number of the Group's counterparties that decide to use this mechanism and on the relation between the payment dates of receivables and payables. As at 31 December 2020, the balance of cash on the VAT accounts was PLN 1,042 million.

Reporting of tax schemes (MDR)

In 2019, new legal regulations that introduced mandatory reporting of so-called tax schemes (Mandatory Disclosure Rules, MDR) came into force. As a general rule, a tax scheme should be understood as an activity where the achievement of a tax benefit is the main or one of the main benefits. In addition, events with so-called special or other special identifying characteristics defined in the rules are designated as a tax scheme. The reporting obligation is extended to three types of entities: promoters, facilitators and beneficiaries. MDR regulations are complex and imprecise in many areas, which causes doubts with respect to their interpretation and practical application.

Excise tax

As a result of the incorrect implementation of EU regulations into the Polish legal system, in 2009 PGE GiEK S.A. initiated proceedings regarding reimbursement of the improperly paid excise tax for the period from January 2006 to February 2009. The irregularity consisted in the taxation of electricity at the first stage of its sale, i.e. by producers, while it should have been taxed at the time of sales to so-called end users.

Considering the company's complaints concerning the tax authorities' negative decisions in response to the company's claims for restitution, the administrative courts ruled that the company had not borne the economic burden of the incorrectly paid excise tax (which, according to the resolution adopted by the Supreme Administrative Court on June 22, 2011, reference symbol of files I GPS 1/11, excludes the possibility of the recovery of the overpaid excise tax). According to the Supreme Administrative Court, the company's claims, especially those based on economic analyses, were of a compensatory character, and consequently, such claims could be asserted before civil courts only. In view of the above, PGE GiEK S.A. decided to withdraw from the proceedings with respect to the restitution claims. Currently, actions regarding the excise tax overpayment are conducted in civil courts. On January 10, 2020, the Regional Court in Warsaw issued a verdict in the case filed by PGE GiEK against the State Treasury – Minister of Finance. The court dismissed the company's claim. On February 3, 2020 the company filed a complaint against the first instance verdict to the Court of Appeal in Warsaw. A hearing was held on December 2, 2020 and a verdict was announced on December 17, 2020. The Court of Appeal in Warsaw dismissed the appeal of PGE GiEK. No decision has been made as regards filing a cassation appeal to the Supreme Court.

In view of considerable uncertainty concerning the final decision in the above matter, in these financial statements, the Group does not indicate any consequences of a possible return of the excise tax overpayments to be determined in civil law proceedings.

Property tax

Tax on property constitutes a significant burden on certain PGE Group companies. Regulations concerning property tax are unclear in certain areas and give rise to a variety of interpretations and doubts. Tax authorities, i.e. commune leaders, mayors or city presidents, have often issued inconsistent tax interpretations in similar cases. In such circumstances, the PGE Capital Group companies were and may be parties to court proceedings concerning property tax. If the Group considers that an adjustment of settlements is likely due to such proceedings, it establishes an appropriate provision.

Uncertainty related to tax settlements

Regulations on value added tax, corporate income tax and social security charges are subject to frequent changes. These frequent changes result in a lack of appropriate points of reference, inconsistent interpretations and few established precedents that could be applied. The legislation in force also contains ambiguities that give rise to differences of opinion as to the legal interpretation of tax provisions, between state authorities as well as between state authorities and business enterprises.

Tax settlements and other areas of activity (e.g. customs or foreign exchange issues) may be the subject of inspections by the authorities, which are entitled to impose high penalties and fines, and any additional tax liabilities resulting from an inspection must be paid together with high interest. Consequently, tax risk in Poland is higher than in countries with more stable tax systems.

Amounts presented and disclosed in financial statements may change in the future as a result of a final decision of a tax audit authority.

As of July 15, 2016, the Tax Ordinance was amended to incorporate the provisions of the General Anti-Abuse Rules (GAARs). The GAARs are designed to prevent the use of artificial legal structures created for the purpose of avoiding the payment of tax in Poland. The GAARs define tax avoidance as an act done primarily for the purpose of obtaining a tax advantage which, under given circumstances, is contrary to the object and purpose of the provisions of the Tax Act. Under the GAARs, such an act does not result in achieving a tax benefit if the manner of acting was artificial. Any occurrence of unjustified splitting of operations, involvement of intermediary entities despite the lack of economic or business justification, elements that cancel or compensate each other and other actions with effects similar to those previously mentioned, can be treated as an indication of the existence of artificial acts subject to the GAARs. The new regulations will require much more judgement in assessing tax consequences of individual transactions.

The GAARs clause should be applied to transactions carried out after its entry into force and to transactions which were carried out before the effective date of the GAARs, but for which benefits were or continue to be obtained after this effective date. The implementation of the aforementioned rules will enable the Polish tax audit authorities to challenge legal arrangements and agreements entered into by taxpayers, such as group restructuring and reorganisation.

The Group recognises and measures current and deferred tax assets or liabilities using the requirements of IAS 12 *Income Taxes* based on tax profit (loss), tax base, unused tax losses, unused tax credits and tax rates, taking into account an assessment of uncertainties related to tax settlements. When there is uncertainty about whether and to what extent the authority will accept particular tax settlements of a transaction, the Group recognises these settlements, taking into account an assessment of uncertainty.

31. Information on related entities

Transactions of the PGE Capital Group with related entities are based on market prices of delivered goods, products or services or on their production costs.

31.1 Associates and jointly controlled entities

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

	Year ended December 31, 2020	Year ended December 31, 2019*
Sales to associates and jointly controlled entities	310	214
Purchases from associates and jointly controlled entities	2,126	2,394

	As at December 31, 2020	As at December 31, 2019*
Trade receivables from associates and jointly controlled entities	93	124
Trade payables to associates and jointly controlled entities	243	164

**Data restarted*

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

31.2 Companies controlled by the State Treasury

The State Treasury is the dominant shareholder in PGE Polska Grupa Energetyczna S.A. and as a result, in accordance with IAS 24 *Related Party Disclosures*, State Treasury companies are regarded as related entities. The PGE Group companies identify in detail transactions with approximately 40 most important companies controlled by the State Treasury.

The total value of transactions and balances with the above entities is shown in the table below.

	Year ended December 31, 2020	Year ended December 31, 2019
Sales to related entities	2,368	2,016
Purchases from related entities	5,109	5,585

	As at December 31, 2020	As at December 31, 2019
Trade receivables from related parties	254	266
Trade payables to related parties	582	612

The largest transactions involving companies controlled by the Treasury were entered into with the following entities: Polskie Sieci Elektroenergetyczne S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A., ENERGA-OPERATOR S.A., Jastrzębska Spółka Węglowa S.A., Zakłady Azotowe PUŁAWY S.A., PKN Orlen S.A., PKP Cargo S.A., ENEA Operator Sp. z o.o., Grupa LOTOS S.A. and TAURON Dystrybucja S.A.

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

31.3 Management remuneration

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

PLN '000	Year ended December 31, 2020	Year ended December 31, 2019
Short-term employee benefits (remuneration and surcharges)	34,709	34,214
Post-employment benefits	3,289	1,672
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**37,998**	**35,886**
Remuneration of key management personnel in companies conducting non-core activities	24,787	22,875
TOTAL MANAGEMENT REMUNERATION	**62,785**	**58,761**

PLN '000	Year ended December 31, 2020	Year ended December 31, 2019
Management Board of the parent company	7,201	7,201
including post-employment benefits	*49*	*199*
Supervisory Board of the parent company	761	733
Management Boards – subsidiaries	26,332	24,348
Supervisory Boards – subsidiaries	3,704	3,604
TOTAL	**37,998**	**35,886**
Remuneration of key management personnel in companies conducting non-core activities	24,787	22,875
TOTAL MANAGEMENT REMUNERATION	**62,785**	**58,761**

The PGE Capital Group companies (indirect and direct subsidiaries) follow the principle according to which members of the Management Board are employed on the basis of management services contracts. The above remuneration is included in other costs by nature disclosed in note 7.2 Costs by nature and function.

32. Entity authorised to audit financial statements

The entity authorised to audit the separate financial statements of PGE Polska Grupa Energetyczna S.A. for the years 2020 and 2019 as well as the consolidated financial statements of the PGE Capital Group for the years 2020 and 2019 is Deloitte Audyt spółka z ograniczoną odpowiedzialnością Sp. k. (Deloitte) on the basis of an agreement entered into on April 26, 2019. The selection of the aforementioned audit firm for the years 2019-2021 was made by the Supervisory Board of PGE S.A. Deloitte is also an entity authorised to audit annual financial statements of selected PGE Capital Group companies.

In 2020 and 2019, the Group also used the following services provided by Deloitte:

- verification of annual and semi-annual packages for consolidation purposes,
- confirmation of conditions for maintaining indices set out in financing agreements,
- examination of annual financial statements of self-balancing branches,
- examination of reports on the regulatory revaluation of assets and smart metering systems,
- examination of financial and material reports on the execution of tasks included in the National Investment Plan in connection with free allocation of CO_2 emission allowances,
- preparation of a report including an assessment of compliance with the requirements for the safekeeping of customers' assets,
- preparation of a statement on the adopted risk management system.

The amount of remuneration of entities, including Deloitte, authorised to audit financial statements of PGE Polska Grupa Energetyczna S.A. and the members of the Capital Group is presented in the table below.

PLN '000	Year ended December 31, 2020	Year ended December 31, 2019
Remuneration of the audit firm for:		
Audit of annual financial statements	3,438	3,258
Review of semi-annual financial statements	220	220
Other assurance services	592	534
TOTAL	**4,250**	**4,012**

33. Significant events during and after the reporting period

33.1 The Act amending the Act on excise tax and certain other acts

On December 28, 2018, the Act amending the Excise Tax Act and certain other acts Electricity Prices Act was passed. The purpose of the Act was to stabilise electricity sales prices to end users in 2019. Among other things, the Act froze electricity prices for end users and introduced a compensation scheme for retail companies.

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

On September 25, 2020, PGE Obrót S.A. submitted a request to the Settlement Administrator for an adjustment to the received amount of the difference between the price and financial compensation for the period from January 1 to December 31, 2019 in the amount of PLN 85 million (out of which PLN 17 million was recognised in revenue for 2019, while PLN 68 million represents revenue for the current period). On October 1, 2020, the company received from the Settlement Administrator a demand to correct irregularities identified during verification of the request for an adjustment. The corrections related to this demand do not represent any significant amounts.

33.2 Onerous contracts resulting, among others, from the approval of a tariff for G tariff group customers

On January 3, 2020 the President of the Energy Regulatory Office approved a tariff of PGE Obrót S.A. for G tariff group customers who do not use free market offers for electricity sales for the period from January 18, 2020 to March 31, 2020. The approved price level did not fully cover the purchase prices of electricity, property rights and own costs of the conducted regulated activities, causing the loss of profitability of sales made by PGE Obrót S.A. to G tariff group customers not using free-market offers for the sales of electricity and to G tariff group customers using free-market offers, where the sales price is correlated with the price approved by the President of the Energy Regulatory Office. The Management Board of PGE Obrót S.A. initiated a procedure requesting that the President of the Energy Regulatory Office introduce another tariff for the sale of electricity for the period from April 1, to December 31, 2020. The actions taken were aimed at obtaining such electricity sale prices that would allow the company to cover its actual costs of electricity contracting, property rights and operating costs. In his decision of July 8, 2020, the President of the Energy Regulatory Office rejected the request in this subject matter. On July 29, 2020 PGE Obrót S.A. filed an appeal against this decision.

On December 9, 2020, the President of the Energy Regulatory Office approved the tariff set by PGE Obrót S.A. for electricity for the period from January 1 to December 31, 2021 for customers in G tariff groups. The tariff approved for 2021 provides for an increase of electricity prices in relation to the prices of 2020. The approved prices for 2021 cover the actual variable costs of electricity contracting for 2021.

Reporting implications

As far as onerous contracts within the meaning of IAS 37 are concerned, the Group is of the opinion that there were no such contracts as at December 31, 2020 due to the positive margin generated between the cost of producing energy and its sale to end users. Accordingly, the consolidated results of the PGE Group do not include the issue of establishing, using and reversing particular provisions.

Meanwhile, in 2020 the Trade segment reversed the PLN 332 million provision for onerous contracts, which had been established in 2019. This had no impact on the result of the PGE Capital Group.

33.3 The impact of the COVID-19 pandemic on the activities of the PGE Capital Group

PGE CG identifies on an ongoing basis risk factors that affect the Group's results in connection with the COVID-19 pandemic. In 2020, the impact of the pandemic on financial results was limited. Nevertheless, further impact of the pandemic may be evident in the subsequent periods, especially if a decision on national quarantine is taken. Further possible impacts and their magnitude are difficult to estimate. The duration of the epidemic, its possible further intensification and spread, as well as its impact on economic growth in Poland will be important. At the same time, the precision of estimates remains difficult to achieve in view of a number of other factors affecting the electricity market, including the level of demand for electricity.

In 2020, the outbreak of the pandemic caused a slowdown in the global economy and in Poland. This is reflected, among other things, in the revision of market forecasts for GDP, industrial production and investment.

In connection with the reduced intensity of economic activities, the PGE Group identifies the risk of a periodically lower level of domestic electricity consumption, which may result in a decrease in revenue and margins from generation, distribution and sales of energy in the Conventional Power Generation, Distribution and Trade segments, as well as in the Heat Generation segment.

The decrease in electricity demand affects the utilisation of the power generation units. In 2020, the negative impact of COVID-19 was related to potential reductions on the part of the Transmission System Operator, resulting in lower power generation based on lignite, which is characterised by a relatively stable cost structure. Some power generation units of the PGE Group are in the so-called spinning reserve and secure possible shortages of supplies from renewable sources, imports or resulting from failures of other system power plants in Poland. The majority of production for 2020 had been contracted in previous years, therefore, in this period the negative impact of lower volumes on the Conventional Power Generation segment was to a large extent limited. On the other hand, the PGE Group expects an impact on volumes and contracting prices for subsequent periods, but at this stage it is not possible to estimate this impact.

For the Trade segment, the decrease in demand volume became apparent primarily in Q2 2020, and the negative impact was related to lower sales to end customers and higher electricity balancing costs. Also in the Distribution segment, the lower volume of supplies to end customers directly translated into lower revenue from this segment. However, taking into account the entire value creation chain, the impact of the above factors at the Group level was not significant in 2020.

As at December 31, 2020, the impact due to the expected increase in payment congestion, especially in the case of receivables from small and medium-sized enterprises, was not material. As described in note 26.3. 1 to the consolidated financial statements, the Group made additional write-downs on receivables in the amount of PLN 16 million. However, depending on further developments of the epidemiological and economic situation, the risk of deteriorated liquidity of the PGE Group and increase of write-downs for overdue receivables still exists and is monitored on an ongoing basis. Currently the Group does not expect the phenomenon to become more material and does not identify any threat to its liquidity.

The PGE Group possesses strategic plants providing for the maintenance of uninterrupted production and distribution of electricity and heat in Poland. The COVID-19 pandemic affected the organisation of work, particularly in the case of the power generation units of the PGE Group. In many cases, this entailed additional costs, such as the purchase of personal protective equipment for employees. After the outbreak of the pandemic, the Group introduced work rules aimed at reducing as much as possible the risk of employees falling ill. As one of the largest employers in Poland, with over 40,000 employees, the PGE Group undertakes a number of actions related to the organisation of the Company and the organisation of work aimed at ensuring the continuity of operations, protecting the health and lives of employees, including the implementation of remote and rotating work, building awareness, in particular, of the basic principles of protection against coronavirus, prevention and quarantine. PGE established a Crisis Team that collects information from all companies in the Group, monitors the situation in individual companies on an ongoing basis and takes appropriate measures.

The production divisions also have implemented operating plans that are on an ongoing basis with respect to increased absenteeism, and as strategic utilities from the point of view of maintaining uninterrupted generation and supply of electricity and heat, they are in constant contact with local services responsible for monitoring the situation at all locations where the PGE Group operates power generation units.

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

As a result of the introduction of appropriate countermeasures at an early stage of the pandemic, the PGE Capital Group was able to maintain uninterrupted generation and distribution of electricity and heat.

The PGE Capital Group is monitoring the further impact of the COVID-19 pandemic on its financial health and is preparing for various scenarios. The pandemic accelerated the introduction of measures related to preparing the entire organisation for changes necessary to meet the challenges posed to power companies related in consequence of decarbonisation plans. This will require specific financial outlays. All potential scenarios for savings in both capital expenditures and operating costs are analysed in order to focus on the most important development projects related to the core business of the PGE Group.

33.4 Submission of a preliminary offer to acquire assets from the Fortum Group

On October 27, 2020, an investment consortium to which PGE is a party submitted a preliminary non-binding offer to Fortum Holding B.V. for the purchase of its heating and cooling business in Estonia, Lithuania, Latvia and Poland. The Consortium consists of the following companies: PGE, Polskie Górnictwo Naftowe i Gazownictwo S.A., PFR Inwestycje FIZ, a part of whose investment portfolio is managed 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 and non-binding offer for the purchase of assets belonging to Fortum Holding B.V.

The subject matter of the modified offer was the acquisition of the district heating business conducted by Fortum Holding B.V. exclusively in Poland. At the same time the Partners withdrew their offer to acquire Fortum Group's assets used in Estonia, Lithuania and Latvia and to participate in an investment consortium together with PFR Inwestycje FIZ and IFM Investors Pty Ltd. The Partners will continue working together with a view to submitting a binding offer for the aforementioned assets.

The Polish subsidiary of Fortum Holding B.V. is active mainly in the generation, distribution and sale of heat and the generation of electricity.

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

33.5 Events after the reporting date

Entering into an investment agreement with Ørsted regarding an offshore wind farm project

On February 10, 2021, PGE CG companies and Ørsted signed an agreement in which they agreed on their participation in two offshore wind farm construction projects at the level of 50%. Previously implemented by PGE, these projects are Baltica 2 (with a planned capacity of about 1.5 GW) and Baltica 3 (with a planned capacity of about 1 GW).

PGE Baltica 6 sp. z o.o., PGE Baltica 5 sp. z o.o. (subsidiaries of PGE) (“Existing Partners”), 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 the “Investors”), Elektrownia Wiatrowa Baltica - 2 sp. z o.o. (“EWB2”) and Elektrownia Wiatrowa Baltica - 3 sp. z o.o. (“EWB3”) entered into an investment agreement providing for the Investors’ investments in the Baltica 2 and Baltica 3 projects.

The investment agreement sets out the legal framework governing the establishment of a joint venture between PGE and OWPAS to prepare, construct and operate the Baltica 2 and Baltica 3 offshore wind farms.

As part of the Investment Agreement, the Investors undertake to acquire newly created shares in EWB2 and EWB3, representing 50% of their total share capital and entitling the Investors to 50% of the votes in the governing bodies of each company. After the transaction has been completed 50% of shares in EWB2 and EWB3 will be held by the respective Existing Shareholder and the remaining 50% of shares will be held by the respective Investor.

The total acquisition price for the newly created shares in EWB2 and EWB3 will be the equivalent of PLN 657 million. Furthermore, after the final investment decision is issued, the Investors may be required to make additional contributions to both companies, subject to the fulfilment of certain conditions.

The completion of the transaction is subject to the fulfilment of certain conditions precedent, including the approval of the President of the Office for Competition and Consumer Protection.

The Investment Agreement provides that a number of additional transaction documents will be signed by the relevant parties at the time of transaction completion. These documents include the EWB2 Shareholders' Agreement and the EWB3 Shareholders' Agreement, as well as agreements setting out the principles for the joint management of the project, regulating, among others, such matters as the corporate governance of the companies, the parties' obligations to provide financing and other support to the companies, restrictions on the transferability of shares and the consequences of breach and change of control, the provision of development services to the companies and the provision of loans by the shareholders.

Information for the purpose of disclosing, in the stock exchange report, the Czech Republic's legal action against Poland for the extension of the concession for the continued operation of the Turów Lignite Mine

Legal action by the Czech Republic against Poland for the extension of the concession for the continued operation of the Turów Lignite Mine

The decision of the Climate Minister of March 20, 2020 extended the concession for PGE GiEK S.A. for the extraction of and associated minerals from the "Turów" lignite deposit by 6 years. On September 30, 2020, the Czech Republic filed a letter with the European Commission under Article 259 of the Treaty on the Functioning of the European Union ("TFEU") constituting a legal action against Poland for the extension of the operating concession for the Turów power complex. The allegations against Poland concerned the issuance of administrative decisions allowing the continuation of mining operations at the Turów lignite mine. The decisions of the Polish authorities were allegedly in breach of EU law, including the Water Framework Directive, the Directive on the assessment of the effects of certain plans and programmes on the environment, the Directive on public access to environmental information and the 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 shared some of the Czech allegations, while indicating that the extension of the operation of the Turów lignite mine did not cause a breach of the Water Framework Directive. The European Commission also stressed that some of the other allegations of the Czech party proved to be incorrect.

On 22 February 2021, the Czech government decided to file a suit against the Republic of Poland. The suit was referred to the European Court of Justice on February 26, 2021. The case was entered in the court register.

The Member States are parties to the proceedings, which excludes the possibility of participation of natural and legal persons, even if the case concerns their activities directly. The Group expects a summary of the plea to be published in the coming weeks. The European Court of Justice will rule first on the application of interim measures.

The operation of the Turów lignite mine is conducted in compliance with the provisions of national law and European environmental standards. In PGE's opinion, there are no grounds for the suspension of the operation of the Turów power complex. A possible future settlement of the dispute will be disclosed in future financial statements.

34. Approval of the financial statements

These consolidated financial statements were approved for publication by the Management Board on March 22, 2021.

Warsaw, March 22, 2021

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

President of the Management Board	**Wojciech Dąbrowski**	The original Polish document is signed with a qualified electronic signature
Vice President of the Management Board	**Wanda Buk**	The original Polish document is signed with a qualified electronic signature
Vice President of the Management Board	**Paweł Cioch**	The original Polish document is signed with a qualified electronic signature
Vice President of the Management Board	**Paweł Strączyński**	The original Polish document is signed with a qualified electronic signature
Vice President of the Management Board	**Paweł Śliwa**	The original Polish document is signed with a qualified electronic signature
Vice President of the Management Board	**Ryszard Wasiłek**	The original Polish document is signed with a qualified electronic signature

Signature of the person responsible for the preparation of the financial statements	Michał Skiba Director of the Reporting and Taxation Department	The original Polish document is signed with a qualified electronic signature

35. Glossary of terms and abbreviations

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

Abbreviation	Full name
CCIRS	Cross Currency Interest Rate Swaps
CGU	Cash Generating Units
FDP	Forced Delivery Price
FCP	Forced Reception Price
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
EUA	European Union Allowances
MPLF	Mining Plant Liquidation Fund
ECH	Exchange Clearing House
PGE Capital Group, PGE Group, Group, PGE CG	The Capital Group of PGE Polska Grupa Energetyczna S.A.
WCCH	Warsaw Commodity Clearing House
IRS	Interest Rate Swaps
PPA	Power Purchase Agreements
IFRIC	International Financial Reporting Interpretations Committee
KOGENARACJA S.A.	Zespół Elektrociepłowni Wrocławskich KOGENARACJA S.A.
NIP	National Investment Plan
IFRS	International Financial Reporting Standards
EU IFRS	International Financial Reporting Standards as adopted by the European Union
NEPWMF	National Environmental Protection and Water Management Fund
IP	Investment property
TSO	Transmission System Operator
ROUA	Rights to use assets
PGE S.A., Company, parent company	PGE Polska Grupa Energetyczna S.A.
PGE EC S.A.	PGE Energia Ciepła S.A.
PGE EO S.A.	PGE Energia Odnawialna S.A.
PGE GiEK S.A.	PGE Górnictwo i Energetyka Konwencjonalna S.A.
PGE PGK	Tax Capital Group
RPUL	Right of perpetual usufruct of land
PPE	Property, plant and equipment
Financial statements, consolidated financial statements	Consolidated financial statements of the PGE Capital Group
TGE	Towarowa Giełda Energii S.A.
ERO	Energy Regulatory Office
Electricity Pricing Act	The Act amending the Act on excise tax and certain other acts
WACC	Weighted Average Cost of Capital
PEPWMF	Provincial Environmental Protection and Water Management Fund
IA	Intangible assets
CSBF	Company Social Benefits Fund