PGE Polska Grupa Energetyczna S.A.

Separate financial statements for the year 2020

ended December 31, 2020

in accordance with EU IFRS (in PLN million)

SELECTED FINANCIAL DATA OF PGE S.A.

	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	27.541	15.146	6.156	3.521
Operating profit/(loss)	712	779	159	181
Gross profit/(loss)	1.809	(1.190)	404	(277)
Net profit/(loss) for the reporting period	1.744	(1.259)	390	(293)
Comprehensive income	1.525	(1.330)	341	(309)
Net cash from operating activities	2.035	(331)	455	(77)
Net cash from investing activities	2.642	(297)	590	(69)
Net cash from financing activities	(1.403)	614	(314)	143
Net change in cash and cash equivalents	3.274	(14)	732	(3)
Net profit/(loss) per share (in PLN/EUR per share)	0,93	(0,67)	0,21	(0,16)
Diluted net profit/(loss) per share (in PLN/EUR per share)	0,93	(0,67)	0,21	(0,16)
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	39.067	41.355	8.466	9.711
Current assets	14.937	9.083	3.237	2.133
Total assets	**54.004**	**50.438**	**11.702**	**11.844**
Equity	39.029	37.504	8.457	8.807
Share capital	**19.165**	**19.165**	**4.153**	**4.500**
Non-current liabilities	9.023	9.665	1.955	2.270
Current liabilities	5.952	3.269	1.290	768

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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in accordance with EU IFRS (in PLN million)

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2020	Year ended December 31, 2019
STATEMENT OF PROFIT OR LOSS			
SALES REVENUE	4.1	**27,541**	**15,146**
Cost of goods sold	4.2	(26,564)	(14,109)
GROSS PROFIT ON SALES		**977**	**1,037**
Distribution and selling expenses	4.2	(21)	(15)
General and administrative expenses	4.2	(239)	(223)
Other operating income/(expenses)		(5)	(20)
OPERATING PROFIT		**712**	**779**
Finance income/(costs), including:	4.3	1,097	(1,969)
Interest income calculated using the effective interest rate method		*150*	*180*
GROSS PROFIT / (LOSS)		**1,809**	**(1,190)**
Income tax expense	5.1	(65)	(69)
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD		**1,744**	**(1,259)**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss in the future:			
Valuations of hedging instruments	12.3	(267)	(86)
Deferred tax	5.1	51	16
Items that may not be reclassified to profit or loss in the future:			
Actuarial gains and losses from valuation of provisions for employee benefits		(3)	(1)
Deferred tax		-	-
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**(219)**	**(71)**
TOTAL COMPREHENSIVE INCOME		**1,525**	**(1,330)**
NET PROFIT/(LOSS) AND DILUTED NET PROFIT/(LOSS) PER SHARE /IN PLN/	12,5	**0.93**	**(0.67)**

in accordance with EU IFRS (in PLN million)

STATEMENT OF FINANCIAL POSITION

	Note	As at December 31, 2020	As at December 31, 2019
NON-CURRENT ASSETS			
Property, plant and equipment	6.	155	162
Right-of-use assets	7.	20	21
Financial receivables	16.1.1	9,139	10,955
Derivatives and other assets measured at fair value through profit or loss	16.1.2	132	105
Shares and interests in subsidiaries	8.	29,401	29,995
Shares and interests in associates and jointly controlled entities	8.2	101	101
Deferred income tax assets	5.3.1	119	16
		39,067	**41,355**
CURRENT ASSETS			
Inventories		1	3
Income tax receivables		-	37
Trade and other receivables	16.1.1	9,762	7,889
Derivative instruments	16.1.2	1,244	446
Shares and interests in subsidiaries		369	-
Other current assets	10.	54	487
Cash and cash equivalents	11.	3,507	221
		14,937	**9,083**
TOTAL ASSETS		**54,004**	**50,438**
EQUITY			
Share capital	12.1	19,165	19,165
Reserve capital	12.2	18,410	19,669
Hedging reserve	12.3	(288)	(72)
Retained earnings	12.4	1,742	(1,258)
		39,029	**37,504**
NON-CURRENT LIABILITIES			
Non-current provisions	13.14	19	18
Credits, loans, bonds and leases	16.1.3	8,602	9,521
Derivative instruments	16.1.2	385	106
Other liabilities	16.1	17	20
		9,023	**9,665**
CURRENT LIABILITIES			
Current provisions	13.14	21	1
Credits, loans, bonds, cash pooling and leases	16.1.3	2,150	2,015
Derivative instruments	16.1.2	1,243	338
Trade and other payables	16.1.4	1,583	760
Income tax liabilities		456	-
Other non-financial liabilities	15.	499	155
		5,952	**3,269**
TOTAL LIABILITIES		**14,975**	**12,934**
TOTAL EQUITY AND LIABILITIES		**54,004**	**50,438**

in accordance with EU IFRS (in PLN million)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserve capital	Hedging reserve	Retained earnings	Total equity
Note	*12.1*	*12.2*	*12.3*	*12.4*	
AS AT JANUARY 1, 2019	**19,165**	**19,872**	**(2)**	**(201)**	**38,834**
Net loss for the reporting period	-	-	-	(1,259)	**(1,259)**
Other comprehensive income	-	-	(70)	(1)	**(71)**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**(70)**	**(1,260)**	**(1,330)**
Retained earnings distribution	-	(203)	-	203	**-**
AS AT DECEMBER 31, 2019	**19,165**	**19,669**	**(72)**	**(1,258)**	**37,504**
Net profit for the reporting period	-	-		1,744	**1,744**
Other comprehensive income	-	-	(216)	(3)	**(219)**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**(216)**	**1,741**	**1,525**
Retained earnings distribution	-	(1,259)	-	1,259	**-**
AS AT DECEMBER 31, 2020	**19,165**	**18,410**	**(288)**	**1,742**	**39,029**

in accordance with EU IFRS (in PLN million)

STATEMENT OF CASH FLOWS

	Note	Year ended December 31, 2020	Year ended December 31, 2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Gross profit/(loss)		**1,809**	**(1,190)**
Income tax paid		467	(157)
Adjustments for:			
Depreciation and write-downs		12	12
Interest and dividend, net	18.1	(1,610)	(1,127)
Profit / loss on investing activities	18.1	618	2,950
Change in receivables	18.1	90	(1,232)
Change in inventories		2	2
Change in liabilities, excluding loans and credits	18.1	1,072	(30)
Change in other non-financial assets	18.1	(431)	436
Change in provisions		18	(7)
Foreign exchange differences		(12)	12
NET CASH FROM OPERATING ACTIVITIES		**2,035**	**(331)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(3)	(6)
(Purchase)/redemption of bonds issued by PGE Group companies	18.2	2,695	515
Disposal of other financial assets		21	1
Acquisition of subsidiaries	18.2	(86)	(1,035)
Acquisition of other financial assets		-	(15)
Dividend received	18.2	1,464	950
Cash received/(provided) under cash pooling service	18.2	929	(351)
Loans granted		(5,811)	(2,658)
Interest received		496	513
Repayment of loans granted		2,937	1,790
Other			(1)
NET CASH FROM INVESTING ACTIVITIES		**2,642**	**(297)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from acquired loans, credits	18.3	4,100	5,288
Proceeds from issue of bonds		-	1,400
Repayment of credits, loans and leases	18.3	(5,161)	(5,736)
Interest paid		(342)	(338)
NET CASH FROM FINANCING ACTIVITIES		**(1,403)**	**614**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**3,274**	**(14)**
Net foreign exchange differences		12	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	11	**219**	**233**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	11	**3,493**	**219**

in accordance with EU IFRS (in PLN million)

GENERAL INFORMATION, BASIS FOR DRAWING UP THE FINANCIAL STATEMENTS, AND OTHER EXPLANATORY INFORMATION

1. General information

1.1 Company's business activities

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 Company's registered office is located in Warsaw, at 2 Mysia Street.

PGE S.A. is the Parent Company of the PGE Capital Group and prepares its separate and consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union.

The State Treasury is the Company's principal shareholder.

The Company's major object is conducting business activities in the following areas:

- trade in electricity and other energy market products;
- oversight of head offices and holding companies;
- provision of financial services to the PGE Capital Group companies;
- provision of other services related to the aforementioned areas.

PGE S.A.'s business activities are conducted under appropriate concessions, including a concession for electricity trading granted by the Energy Regulatory Office. The concession is valid until 2025. No material assets or liabilities are attributed to the concession. In connection with the concession, annual fees depending on the level of turnover are incurred. In both 2020 and 2019, the Company's costs under the concession amounted to PLN 2.5 million.

Revenue from the sale of electricity and other energy market products is the only significant items in operating revenue. This revenue is generated on the domestic market. The Company's Management Board does not analyse the Company's operations by segments and therefore the Company does not distinguish operating or geographical segments in its operations.

The accounting books of PGE S.A. are kept by the subsidiary PGE Synergia sp. z o.o.

Going concern

These financial statements have been prepared on the assumption that the Company will continue as a going concern for a period of at least 12 months from the reporting date. As at the date of authorisation of these financial statements for publication, no circumstances were identified which would indicate any threat to the Company continuing as a going concern.

These financial statements 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.

1.2 The Company's ownership structure

	State Treasury	Other shareholders	Total
As at January 1, 2020	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.

1.3 Composition of the Company's Management Board

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.

2. Basis for preparation of the financial statements

2.1 Statement of compliance

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

These financial statements in note no. 23 include financial information referred to in Article 44(2) of the Energy Law Act of April 10, 1997 (Journal of Laws of 2012, item 1059, as amended).

The financial statements have been drawn up in accordance with the historical cost convention, which has been modified with respect to the following:

- Property, plant and equipment and intangible assets – property, plant and equipment and intangible assets that were owned by the Company at the date of transition to IFRSs were measured at deemed cost as at that date. In addition, for certain items of property, plant and equipment and intangible assets impairment write-downs have been recognised.
- Financial instruments – selected categories of financial instruments are measured and presented in the statement of financial position at fair value. Details on the measurement of particular categories of financial instruments are presented in the description of the accounting policies applied.
- Impaired assets – presented at historical cost adjusted for impairment write-downs.

The accounting policies employed in the preparation of these financial statements, discussed in the detailed notes, were consistently applied by the Company in all periods presented, unless stated otherwise.

2.2 Presentation and functional currency

The Company's functional currency and the presentation currency of these 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

in accordance with EU IFRS (in PLN million)

2.3 New standards and interpretations published, not yet effective

The following standards, changes in already effective standards and interpretations are not endorsed by the European Union or are not effective as at January 1, 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.
Changes 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
Changes to IAS 1	Changes relate to the presentation of financial statements – classification of liabilities as current and non-current	January 1, 2023
Changes to IAS 1	Changes relate to the presentation of the financial statements – disclosures of accounting policies applied	January 1, 2023
Changes to IAS 8	Changes relate to disclosures of accounting policies applied, including changes in accounting estimates and adjustment of errors	January 1, 2023
Changes 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 clarification of vocabulary	January 1, 2022
Changes to IFRS 3	Changes to the references to the conceptual framework	January 1, 2022
Changes to IAS 16	Revenue received prior to bringing a fixed asset into use	January 1, 2022
Changes to IAS 37	Contracts generating liabilities – contract performance cost	January 1, 2022
Changes to IFRS 4	Extension of the temporary exemption from IFRS 9	January 1, 2021
Changes to IFRS 9, IAS 39 and IFRS 7 IFRS 4, IFRS 16 – stage 2	Changes relate to the reform of reference interest rates	January 1, 2021
Changes to IFRS 16	COVID-19 rent rebates	June 1, 2020

The Company 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 PGE SA.

3. 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 Company:

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

The Company 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.

The value of other disclosures under IFRS 16 is immaterial.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

4. Revenue and expenses

4.1 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 entity can identify each party's rights regarding the goods or services to be transferred;
- the entity can identify the payment terms for the goods or services to be transferred;
- the contract has commercial substance;
- it is probable that the Company 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 entity 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 Company 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 Company 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 Company's performance as the Company performs;
- the Company'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 Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

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

When (or as) a performance obligation is satisfied, the entity 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.

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 Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Lease income

The Company, as a lessor, classified the lease contracts concluded as operating leases. Operating lease income is recognised in profit of the current period under the straight-line method. The subject matter of the contracts is mainly office and utility space.

in accordance with EU IFRS (in PLN million)

Revenue from wholesale of electricity

Contracts for the sale of electricity concluded on the wholesale market are reported to the Transmission System Operator 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.

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

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

Type of good or service	Year ended December 31, 2020	Year ended December 31, 2019
REVENUE FROM CONTRACTS WITH CUSTOMERS	**27,536**	**15,141**
Revenue from sales of goods, including:	**26,495**	**14,174**
Sales of electricity	*14,945*	*12,302*
Sales of gas	*279*	*497*
Sales of CO_2	*11,271*	*1,375*
Revenue from sales of services	**1,041**	**967**
LEASE INCOME	**5**	**5**
TOTAL SALE REVENUE	**27,541**	**15,146**

The total revenue amount includes approx. PLN 4 million in sales transactions for which the value was not ultimately established as at the end of the reporting period.

In 2020 the Company recognised revenue from the performance of obligations in the previous periods resulting from adjustments of the value of electricity sold in the balancing market in the previous years. The total amount of these adjustments was approximately PLN 4 million (approximately PLN 3 million in 2019).

Date of transfer of goods or services	Year ended December 31, 2020	Year ended December 31, 2019
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS		
Revenue from sales of goods and services transferred to the customer over time:	*16,265*	*13,766*
Revenue from sales of goods and services transferred to the customer at a particular point in time	*11,271*	*1,375*
TOTAL SALE REVENUE	**27,536**	**15,141**

The Company's operations are predominantly conducted in Poland. Sales to foreign customers in 2020 and 2019 amounted to PLN 4,411 million and PLN 72 million, respectively, and related mainly to the sale of CO_2 emission allowances in 2020, and to the sale of CO_2 emission allowances and electricity in 2019.

The year-on-year increase in electricity sales revenue in 2020 is the result of an increase in trading volumes and an increase in sales prices. The increase in trading volumes is related to the change in the method of electricity sales to PGE Obrót S.A. effected in 2020 in order to fulfil the demand of retail customers for electricity supply. In 2020, electricity surpluses unsold by PGE S.A. were sold back to generators.

The decrease in revenue from the sales of natural gas in 2020 is the result of a decrease in the volume of gas sold and a decrease in the selling price. The decrease in the volume of gas sold is the result of both lower sales on the exchange and to entities outside the PGE Capital Group, as well as lower sales to the entities within the PGE Capital Group to meet the demand of retail customers.

The increase in sales of other goods and materials in 2020 resulted from higher sales of CO_2 emission allowances to the PGE Capital Group companies and to entities outside the Group. The increase in revenue from sales of CO_2 emission allowances is the result of an increase in both sales prices and the volume of CO_2 emission allowances sold.

Revenue from sales of services mainly relates to services provided to the subsidiaries in the PGE Capital Group and includes, among others, electricity trade and supply, supply of fuels, licences and so-called auxiliary services.

Information on the key customers

The Company's main customers are its subsidiaries within the PGE Capital Group. In 2020, sales to PGE Obrót S.A. accounted for 42% of sales revenue and sales to PGE GiEK S.A. accounted for 30% of sales revenue. In 2019, sales to these companies accounted for 72% and 12% of sales revenue, respectively.

in accordance with EU IFRS (in PLN million)

4.2 Expenses by kind and function

ACCOUNTING PRINCIPLES

Cost of goods sold

Cost of goods sold includes the value of electricity, CO_2 emission allowances, gas and other goods and materials at acquisition prices.

The costs which can be allocated directly to the Company's revenue influence its financial result for the reporting period in which such revenue occurs.

The costs which can be allocated only indirectly to revenue or other benefits achieved by the Company influence its financial result in the part in which they concern a given reporting period, ensuring compliance with the principle of accrual accounting as well as taking into consideration the principles of measurement of fixed assets and inventories.

	Year ended December 31, 2020	Year ended December 31, 2019
EXPENSES BY KIND		
Depreciation	12	12
Third party services	82	69
Employee benefits expenses	178	144
Other expenses by kind	52	76
TOTAL EXPENSES BY KIND	**324**	**301**
Distribution and selling expenses	(21)	(15)
General and administrative expenses	(239)	(223)
Value of goods and materials sold	26,500	14,046
COST OF GOODS SOLD	**26,564**	**14,109**

The increase in the cost of goods and materials sold in 2020, as compared to 2019, is largely the effect of higher revenue from sales, as described above, and higher prices on the wholesale market.

4.2.1 Depreciation and write-downs

	Depreciation					
	Year ended December 31, 2020			Year ended December 31, 2019		
	Property, plant and equipment	PDUA	TOTAL	Property, plant and equipment	Intangible assets	TOTAL
Cost of goods sold	4	-	**4**	4	1	**5**
Distribution and selling expenses	-	-	**-**	-	-	**-**
General and administrative expenses	7	1	**8**	7	-	**7**
TOTAL	**11**	**1**	**12**	**11**	**1**	**12**

4.2.2 Third party services

	Year ended December 31, 2020	Year ended December 31, 2019
Trade commissions	18	17
IT services	28	28
Consulting services	14	12
Transmission services	7	2
Other	15	10
TOTAL COSTS OF THIRD PARTY SERVICES	**82**	**69**

in accordance with EU IFRS (in PLN million)

4.2.3 Costs of employee benefits and structure of employment

	Year ended December 31, 2020	Year ended December 31, 2019
Payroll	122	112
Cost of social insurance	19	16
Change in provisions for employee benefits	2	2
Costs of the Voluntary Redundancy Programme	21	-
Other employee benefits expenses	14	14
TOTAL EMPLOYEE BENEFITS EXPENSES, INCLUDING:	**178**	**144**
Items recognised in cost of goods sold	34	33
Items recognised in distribution and selling expenses	3	2
Items recognised in general and administrative expenses	141	109

As at December 31, 2020 the full-time employment amounted to 618 employees in comparison to 667 as at December 31, 2019.

4.2.4 Other cost by kind

	Year ended December 31, 2020	Year ended December 31, 2019
Sponsorship and advertising	29	50
Management remuneration	8	8
Taxes and fees	5	5
Other	10	13
TOTAL COSTS OF THIRD PARTY SERVICES	**52**	**76**

4.3 Finance income and expenses

ACCOUNTING PRINCIPLES

Finance income and expenses

Interest income and costs are recognised successively, on an accrual basis, using effective rate method with respect to the net book value of a given financial instrument as at the reporting date.
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	1,464	950
Interest accrued at effective interest rate	150	180
Revaluation of financial instruments	15	(6)
Reversal / (recognition) of impairment allowance	(515)	(3,065)
Foreign exchange differences	(4)	(25)
Gain/(Loss) on disposal of investments	(11)	-
TOTAL NET FINANCE INCOME/(EXPENSES) FROM FINANCIAL INSTRUMENTS	**1,099**	**(1,966)**
OTHER NET FINANCE INCOME/(EXPENSES)		
Interest expense on non-financial items	(1)	(1)
Other	(1)	(2)
TOTAL OTHER NET FINANCE INCOME/(EXPENSES)	**(2)**	**(3)**
TOTAL NET FINANCE INCOME/(EXPENSES)	**1,097**	**(1,969)**

In 2020, the Company reported dividend income mainly from PGE Dystrybucja S.A. in the amount of PLN 792 million, PGE Energia Odnawialna S.A. – PLN 467 million and PGE EC S.A. – PLN 186 million, and in the comparative period mainly from PGE Dystrybucja in the amount of PLN 935 million.

In "Reversal/(recognition) of impairment allowance", in the current period, the Company presents recognition of impairment on the value of shares in PGE Obrót S.A., PGE Systemy S.A., TFI Energia S.A., PGE EJ1 sp. z o.o, Elbest sp. z o.o., PGE Nowa Energia sp. z o.o., PGE Ventures sp. z o.o., PGE Trading GmbH, and as at the comparative period – shares in PGE GiEK S.A., PGE Obrót S.A., PGE Sweden AB and PGE EJ1 sp. z o.o.

The Company reports interest income mainly from financing granted to its subsidiaries and from cash investments. Interest expenses relate mainly to bonds issued and credit and loans obtained, as described in note 16.1.3 to these financial statements.

In the item "Revaluation of financial assets", the Company presents valuation of hedging transactions in their ineffective part for instruments designated as cash flow hedges and in full as regards to the other instruments.

in accordance with EU IFRS (in PLN million)

5. Income tax expense

ACCOUNTING PRINCIPLES

Taxes

Income tax recognised in profit or loss comprises current and deferred income tax. The Company recognises the actual tax expense for the given reporting period, as determined by the Company in accordance with the provisions of the Corporate Income Tax Act, as well as movements in the balance of the deferred tax asset and deferred tax liability that is not settled against equity.

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

The carrying amount of deferred tax assets and liabilities in the statement of financial position is reviewed at the end of each reporting period. Deferred tax assets and liabilities are treated entirely as non-current. The Company offsets deferred tax assets and liabilities.

The Company recognises the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised.

5.1 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 of PGE S.A.	210	161
Benefits from current tax group settlements	(75)	(121)
Adjustments related to settlement of current income tax for previous years	8	10
Accruals of deferred income tax from previous years	(27)	-
Deferred income tax	(51)	19
INCOME TAX EXPENSE RECOGNISED IN STATEMENT OF PROFIT OR LOSS	**65**	**69**
INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME		
On valuation of hedging instruments	(51)	(16)
On actuarial gains (losses) on valuation of employee benefit provisions	-	-
INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME (EQUITY)	**(51)**	**(16)**

The rules regarding settlements among companies forming the PGE tax group are described in note 20 to these financial statements.

The adjustments related to the settlement of current income tax from previous years concern mainly the final settlement of the tax group for the previous year. The differences arise from sales of electricity for the previous year invoiced in the first quarter of the current year, previously recognised based on estimates.

5.2 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 effective tax rate is as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
PROFIT/(LOSS) BEFORE TAX	**1,809**	**(1.190)**
Tax at statutory rate effective in Poland – 19%	344	(226)
ITEMS ADJUSTING INCOME TAX		
Adjustments related to settlement of current income tax for previous years	8	10
Accruals of deferred income tax from previous years	(27)	-
Tax losses of companies belonging to the tax group	(75)	(121)
Non-taxable income	(279)	(181)
Non-deductible costs	94	587
INCOME TAX EXPENSE AT EFFECTIVE TAX RATE (Income tax (charge) in the financial statements)	**65**	**69**
EFFECTIVE TAX RATE	**3.6%**	**(5.8%)**

in accordance with EU IFRS (in PLN million)

In accordance with the agreements within PGE tax group, when a company belonging to the tax group incurs tax loss, the respective tax benefits are transferred to the representing company, i.e. PGE S.A.

Non-taxable income refers mainly to dividend income which is not included in the calculation of the current income tax base (the tax amount: PLN 278 million in 2020 and PLN 180 million in 2019).

In the item "Non-deductible costs", the Company recognised impairment loses on shares in PGE Obrót S.A., PGE Systemy S.A., Elbest sp. z o.o., PGE Nowa Energia sp. z o.o., and in 2019 – impairment on shares in PGE GiEK S.A., PGE Obrót S.A., PGE Sweden AB, EJ1 sp. z o.o. (the tax amount: PLN 90 million in 2020 and PLN 584 million in 2019).

5.3 Deferred tax in the statement of financial position

5.3.1 Deferred income tax assets

	As at December 31, 2020	As at December 31, 2019
Difference between tax and carrying amount of financial liabilities	18	11
Difference between tax and carrying amount of financial assets	365	110
Provision for employee benefits	15	11
Other	6	6
DEFERRED INCOME TAX ASSETS	**404**	**138**

Change in deferred income tax assets

	Year ended December 31, 2020	Year ended December 31, 2019
AS AT JANUARY 1	**138**	**101**
Changes in correspondence with profit or loss	266	37
AS AT DECEMBER 31	**404**	**138**

5.3.2 Deferred tax liabilities

	As at December 31, 2020	As at December 31, 2019
Difference between tax carrying amount of property, plant and equipment	16	18
Difference between tax and carrying amount of other financial assets	269	104
DEFERRED TAX LIABILITIES	**285**	**122**

Change in deferred income tax – liabilities

	Year ended December 31, 2020	Year ended December 31, 2019
AS AT JANUARY 1	**122**	**82**
Changes in correspondence with profit or loss	214	56
Changes in correspondence with other comprehensive income	(51)	(16)
AS AT DECEMBER 31	**285**	**122**

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

Deferred tax assets	119	16
Income tax liabilities	-	-

The Company does not recognise deferred tax assets and deferred tax liabilities related to the difference between tax value and carrying amount of shares in subsidiaries due to the uncertainty as to their utilisation. Deductible temporary differences connected with the recognition of impairment allowances on shares in subsidiaries would be PLN 8,711 million, which would affect deferred tax assets in the amount of PLN 1,655 million.

Due to ongoing process of selling of PGE EJ 1 sp. z o.o., in 2020 the Company recognised a deferred tax asset of PLN 30 million on the total amount of impairment loss on shares in PGE EJ 1 sp. z o.o.

Positive temporary differences connected with the past use of below-market interest rates with respect to the bonds issued by the subsidiaries and acquired by the Company would amount to PLN 127 million, which would constitute an impact of PLN 24 million on deferred tax liabilities.

in accordance with EU IFRS (in PLN million)

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

6. 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 tangible fixed assets, 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.

The basis for calculating depreciation charges is a purchase price/manufacturing cost of a component of tangible fixed assets less its residual value. Depreciation starts when an asset is available for use. Depreciation of tangible fixed assets takes place on the basis of a depreciation plan specifying the expected economic lifetime of a component of tangible fixed assets. The applied depreciation method reflects the process of the entity's consuming the economic benefits related to a given asset.

For the particular groups of tangible fixed assets, the following ranges of economic lifetimes are used:

Asset group	Average remaining depreciation period in years	Total depreciation periods applied, in years
Buildings, premises and civil engineering structures	16	2-31
Machinery and technical equipment	5	1-39
Means of transport	5	1-10
Other property, plant and equipment	1	1-15

	As at December 31, 2020	As at December 31, 2019
Buildings	144	148
Other non-current assets	11	14
NET VALUE OF PROPERTY, PLANT AND EQUIPMENT	**155**	**162**

In the reporting and comparative periods, the Company did not execute any material transactions related to the purchase or disposal of property, plant and equipment.

Part of the area of the building owned by the Company has been leased out under an operating lease. The net value of property, plant and equipment under operating lease amounted to PLN 19 million as at December 31, 2020. Depreciation of these assets recognised in the current period costs amounted to PLN 1 million.

in accordance with EU IFRS (in PLN million)

7. Right of use assets

ACCOUNTING PRINCIPLES

Right of use assets

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

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

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

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

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

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

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

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

At the commencement date, the lessee measures the right-of-use asset at cost.

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

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

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

- short-term leases, i.e. leases with a term of up to 12 months and without a purchase option; The exemption applies mainly to the lease of office premises;
- leases for which the underlying asset is of low value and is not sub-leased. The Company considers that the underlying asset is of low value (value of the asset when it is new, regardless of the age of the asset being leased) if that value is not higher than PLN 18 thousand. The exemption applies to small office equipment (printing equipment, photocopiers, computers, etc.).

Under "Right of use assets", the Company reports the perpetual usufruct rights to land which, as at the effective date of IFRS 16, i.e. January 1, 2019, was measured at the amount of future discounted payments.

As at December 31, 2020, the right of use assets amounted to PLN 20 million.

The depreciation periods for the right to use assets are as follows:

Asset group	Remaining depreciation period in years	Total depreciation period in years
RPUL	70	99

As at December 31, 2020, no risk of impairment of these assets was identified.

in accordance with EU IFRS (in PLN million)

8. Shares and interests in subsidiaries

ACCOUNTING PRINCIPLES

Shares in subsidiaries, jointly controlled entities and associates

Subsidiaries are entities which the Company has control over as a result of an investment if the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. This involves holding the majority of total votes in decision-making bodies of these entities. While assessing whether the Company controls a given entity, it takes into consideration the existence and effect of potential voting rights which may be exercised or converted at a given time.

A jointly controlled entity is an entity in which the contractually agreed sharing of control over an economic activity requires the unanimity of the parties exercising control over the strategic financial and operational decisions.

An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor a jointly-controlled entity. IAS 28 defines the "significant influence" as the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

Shares in subsidiaries, jointly controlled entities and associates held by the Company are measured at historical acquisition cost in accordance with IAS 27 Separate financial statements. If there is an objective evidence of impairment of these assets, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the estimated recoverable amount.

Shares in subsidiaries are measured at cost less impairment losses.

	Registered office	Shareholding as at December 31, 2020	Number of shares as at December 31, 2020	Shareholding as at December 31, 2019	Number of shares as at December 31, 2019
COMPANIES BELONGING TO TG PGE 2015					
PGE Górnictwo i Energetyka Konwencjonalna S.A.	Bełchatów	100.00%	11,980	100.00%	11,840
PGE Dystrybucja S.A.	Lublin	100.00%	10,595	100.00%	10,595
PGE Energia Odnawialna S.A.	Warsaw	100.00%	1,349	100.00%	1,349
PGE Obrót S.A.	Rzeszów	100.00%	574	100.00%	852
PGE Dom Maklerski S.A.	Warsaw	100.00%	97	100.00%	97
ELBEST sp. z o.o.	Bełchatów	100.00%	71	100.00%	101
PGE Ventures sp. z o.o	Warsaw	100.00%	68	100.00%	68
PGE Centrum sp. z o.o.	Warsaw	100.00%	48	100.00%	39
BETRANS sp. z o.o.	Bełchatów	100.00%	35	100.00%	35
PGE Nowa Energia sp. z o.o	Warsaw	100.00%	32	100.00%	60
ELMEN sp. z o.o.	Rogowiec	100.00%	23	100.00%	23
BESTGUM sp. z o.o.	Rogowiec	100.00%	12	100.00%	12
PGE Systemy S.A.	Warsaw	100.00%	10	100.00%	131
MEGAZEC sp. z o.o.	Bydgoszcz	100.00%	10	100.00%	10
PGE Baltica sp. z o.o.	Warsaw	100.00%	9	100.00%	9
ELBIS sp. z o.o.	Rogowiec	100.00%	8	100.00%	8
Ramb sp. z o.o.	Piaski	100.00%	7	100.00%	7
MegaSerwis sp. z o.o.	Bogatynia	100.00%	7	100.00%	7
PGE Synergia sp. z o.o.	Warsaw	100.00%	6	100.00%	6
ELTUR SERWIS sp. z o.o.	Bogatynia	100.00%	5	100.00%	5
PGE Inwest 13 S.A.	Warsaw	100.00%	1	100.00%	1
ELBEST Security sp. z o.o.	Warsaw	100.00%	<1	100.00%	<1
6 limited liability companies with names PGE Inwest 2; 8 to 12	Warsaw	100.00%	<1	100.00%	<1
PGE Inwest 14 sp. z o.o.	Warsaw	100.00%	4	100.00%	<1
COMPANIES NOT BELONGING TO TG PGE 2015					
PGE Energia Ciepła S.A.	Warsaw	100.00%	4,118	100.00%	4,258
PGE EJ 1 sp. z o.o.	Warsaw	70.00%	369	70.00%	125
PGE Sweden AB (publ)	Stockholm	100.00%	52	100.00%	52
PGE Ekoserwis sp. z o.o.	Wrocław	95.08%	65	95.08%	65
PGE Trading GmbH	Berlin	100.00%	23	100.00%	43
PGE Towarzystwo Funduszy Inwestycyjnych S.A.	Warsaw	100.00%	18	100.00%	24
Elektrownia Wiatrowa Baltica 1 sp. z o.o.	Warsaw	100.00%	22	100.00%	20
Elektrownia Wiatrowa Baltica 2 sp. z o.o.	Warsaw	-	-	100.00%	65
Elektrownia Wiatrowa Baltica 3 sp. z o.o.	Warsaw	-	-	100.00%	85
Elektrownia Wiatrowa Baltica 4 sp. z o.o.(Inwest 17)	Warsaw	100.00%	<1	100.00%	<1
Elektrownia Wiatrowa Baltica 5 sp. z o.o.(Inwest 18)	Warsaw	100.00%	<1	100.00%	<1
Elektrownia Wiatrowa Baltica 6 sp. z o.o.	Warsaw	100.00%	1	-	-

in accordance with EU IFRS (in PLN million)

4 limited liability companies with names PGE Baltica; 1 to 4	Warsaw	100.00%	<1	-	-
PGE Baltica 5 sp. z o.o. (PGE Inwest 16)	Warsaw	100.00%	86	100.00%	1
PGE Baltica 6 sp. z o.o. (PGE Inwest 19)	Warsaw	100.00%	65	100.00%	<1
TOTAL			**29,770**		**29,995**

In 2020, the following significant changes in the structure of subsidiaries took place:

- 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.
- 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 17, 2020, PGE S.A. established the company Elektrownia Wiatrowa Baltica 6 sp. z o.o. Before the date of approval of these financial statements for release, the company had not been registered in the National Court Register.

Additionally, on October 1, 2020 a letter of intent was signed regarding the purchase by the State Treasury of all shares in PGE EJ1 sp. z o.o. 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.

8.1 Analysis of value of non-current financial assets

Analysis of impairment of shares in PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE Energia Ciepła S.A. and PGE Energia Odnawialna S.A.

In the first half of 2020, the Company analysed the conditions and identified the factors which could have contributed to a change in the value of the power generation assets and consequently affected the value of shares held by PGE S.A. in PGE GiEK S.A., PGE EC S.A. and PGE EO S.A. As a result of the analysis, PGE S.A. carried out impairment tests with respect to its shares held in PGE GiEK S.A. The conducted tests did not show any necessity to make an impairment loss. In case of PGE EC S.A. and PGE EO S.A. there were no reasons to carry out impairment tests.

In the fourth quarter of 2020, PGE S.A. reanalysed factors that could cause a change in the value of the shares held. In the case of the shares in PGE GiEK S.A. and PGE Energia Odnawialna S.A., no such factors were identified. In the case of PGE EC S.A., the tests were carried out due to the fact that, at the level of consolidated financial statements, goodwill was allocated to the segment of Heating, and accordingly to IAS 36, goodwill is subject to annual tests.

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.

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% 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. In the opinion of the Company/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. In consequence, they may lead to significant changes in the Company's financial position.

Analysis of the circumstances of PGE GiEK S.A. and PGE EC S.A.

In previous reporting periods, PGE S.A. recognised significant impairment losses on its shares held in PGE GiEK S.A.

During the current reporting period, the Company analysed the existing circumstances to verify whether further write-downs or the 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,
- acceptance of assumption for combined heat and power plant that during residual period there is support from the capacity market or its equivalent;
- a support scheme for high-efficiency cogeneration for a maximum period of 15 years for gas units for which the statutory period expires after 2030, the support also included in the residual value
- assumptions concerning the so-called capacity market.

The conducted analysis of the circumstances of PGE GiEK S.A. 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 collection 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 PGE's opinion, as at the reporting date there are no circumstances indicating the necessity to write down the value of PGE GiEK S.A. shares, nor to reverse any allowance losses recognised in the previous periods.

In the case of PGE EC S.A., the analysis did not show any grounds for carrying out tests for the impairment of PGE EC S.A. shares.

Analysis of the circumstances of 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 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 PGE's opinion, as at the reporting date there are no circumstances indicating the necessity to write down the value of PGE EO S.A. shares, nor to reverse any allowance losses recognised in the previous periods.

Some important regulatory assumptions adopted for the purpose of impairment tests are beyond the PGE's control 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 tests for shares in PGE EC S.A.

The key assumptions influencing the estimates of the value in use of PGE Energia Ciepła S.A. are presented below:

- 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

in accordance with EU IFRS (in PLN million)

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%.

The conducted tests did not show any necessity to make an impairment losses on the shares held in PGE Energia Ciepła S.A. The recoverable value of these shares exceeds their carrying amount indicated in these financial statements.

Impairment tests for shares in PGE Obrót S.A.

In the first half of 2020 PGE S.A. identified circumstances indicating a possible impairment of the shares held in PGE Obrót S.A. and carried out an impairment test. As a result of the test, an impairment loss of PLN 278 million was made.

In the fourth quarter of 2020, PGE S.A. re-examined the circumstances to identify factors that could cause a change in the value of the shares held.

The key analysed factors included the following:

- the current market situation, including the impact of the COVID-19 pandemic on the energy market,
- the prices of electricity and energy origin property rights,
- estimates of margins on electricity sales in future periods, in the light of forecasts of energy prices,
- economic effects related to the level of prices approved by the ERO President for households,
- the dynamic development of photovoltaic micro-installations and prosumer billing in the context of their impact on the Company's financial performance.

The conducted analysis of the circumstances showed that the planned cash flows generated by PGE Obrót S.A. during the whole forecast period did not change significantly, therefore, as at the reporting date there were no circumstances indicating the necessity to write down the value of PGE Obrót S.A. shares, nor to reverse any write-downs recognised in the previous periods.

Impairment tests for other shares

In 2020 the Company wrote down shares in PGE Systemy S.A. for the amount of PLN 120 million, shares in PGE Nowa Energia sp. z o.o. for the amount of PLN 28 million, shares in PGE EJ1 sp. z o.o. for the amount of PLN 23 million, shares in PGE Trading GmbH for the amount of PLN 20 million, shares in PGE Ventures sp. z o.o. for the amount of PLN 9 million and shares in TFI Energia S.A. for the amount of PLN 6 million. The reason for these write-downs was the difference between the book value of shares in the above mentioned companies as recorded in the PGE S.A. account books and the value of these companies estimated by means of the adjusted net assets method.

Additionally, the Company wrote down shares held in Elbest sp. z o.o. for the amount of PLN 31 million. The reason for these write-downs was the difference between the book value of shares in Elbest sp. z o.o. as recorded in the of PGE S.A. account books and the value of this company estimated by means of the discounted cash flow method.

Furthermore, PGE S.A. holds bonds issued by Autostrada Wielkopolska S.A., which were written down in full. In the previous reporting periods the Company wrote down its shareholding in AWSA Holland II BV for the amount of PLN 115 million.

8.2 Shares in associates

	As at December 31, 2020	As at December 31, 2019
Polimex Mostostal S.A.	81	81
ElectroMobility Poland S.A.	18	18
Energopomiar Sp. z o.o.	2	2
TOTAL	**101**	**101**

9. Participation in joint ventures

In 2020 and 2019, the Company did not participate in any joint ventures.

in accordance with EU IFRS (in PLN million)

10. Other current assets

ACCOUNTING PRINCIPLES

Other assets (including prepaid expenses)

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

- they result from past events– expenses incurred for operational purposes of the entity,
- 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, as well as dividend receivables.

	As at December 31, 2020	As at December 31, 2019
Receivables from tax group	10	9
Advance payments	41	475
Other	3	3
TOTAL	**54**	**487**

PGE S.A. is the representative entity in its tax group, which comprises the Company and some of its subsidiaries. The rules regarding settlements among the companies are described in note 20 to these financial statements.

Advance payments comprise mainly funds transferred to the subsidiary PGE Dom Maklerski S.A. for the purchase of electricity and gas in the amount of PLN 41 million in the current reporting period as compared to PLN 475 million in the comparative period.

11. Cash and cash equivalents

ACCOUNTING PRINCIPLES

Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

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

Short-term deposits are placed for various maturities, ranging from one day to one month, depending on the Company's current cash requirement, and bear interest at agreed interest rates.

Cash at banks earns interest at variable rates linked to O/N deposit rates.

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

	As at December 31, 2020	As at December 31, 2019
Cash at bank	849	182
Overnight deposits	300	-
Short-term deposits	1,399	-
Cash in VAT accounts	959	39
TOTAL	**3,507**	**221**
Exchange differences on cash in foreign currencies	(14)	(2)
Cash and cash equivalents presented in the statement of cash flows	**3,493**	**219**
Undrawn credit facilities as at December 31	6,173	4,973
including overdraft facilities	1,800	*864*

The balance of cash includes restricted cash in the amount of PLN 959 million representing cash in VAT accounts and PLN 3 million representing received securities and collaterals.

A detailed description of credit agreements is presented in note 16.1.3 to these financial statements.

in accordance with EU IFRS (in PLN million)

12. Equity

ACCOUNTING PRINCIPLES

Equity

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

Share capital is disclosed in the financial statements in the amount specified in the Articles of Association and disclosed in the court register.

Declared but outstanding contributions to equity are disclosed under called-up share capital not paid as a negative amount.

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 Company monitors the net debt to EBITDA ratios at PGE Group level, as described in note 20 to the consolidated financial statements. Net debt is understood as short- and long-term financial debt (interest-bearing credits and loans, bonds and other debt instruments as well as lease liabilities), less cash and cash equivalents and short-term deposits. Restricted cash is not included in the calculation of net debt.

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

12.1 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 Capital Group of PGE Polska Grupa Energetyczna S.A., 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.

in accordance with EU IFRS (in PLN million)

12.2 Reserve capital

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

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

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.

12.3 Hedging reserve

Change in hedging reserve due to applied cash flow hedge accounting:

	Year ended December 31, 2020	Year ended December 31, 2019
AS AT JANUARY 1	**(72)**	**(2)**
Change in hedging reserve, including:	**(267)**	**(86)**
Recognition of the effective portion of change in fair value of hedging financial instruments in the part considered as effective hedge	(233)	(181)
Accrued interest on derivatives transferred from hedging reserve and recognised in interest expense	17	4
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	-	-
Deferred tax	**51**	**16**
HEDGING RESERVE AFTER DEFERRED TAX	**(288)**	**(72)**

12.4 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
Retained earnings not subject to distribution - profits/losses recognised in other comprehensive income	(2)	1
Retained earnings subject to distribution	1,744	-
Net (loss)	-	(1,259)
TOTAL RETAINED EARNINGS/(LOSSES) RECOGNISED IN STATEMENT OF FINANCIAL POSITION	**1,742**	**(1,258)**

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 12.2 to these financial statements. As at December 31, 2020, there were no other restrictions on the payment of dividends.

12.5 Earnings per share

ACCOUNTING PRINCIPLES

Net earnings per share

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

Diluted earnings per share are calculated by dividing the net profit 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).

in accordance with EU IFRS (in PLN million)

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)	**1,744**	**(1,259)**
NET PROFIT/(LOSS) ATTRIBUTABLE TO HOLDERS OF ORDINARY SHARES, APPLIED TO CALCULATE EARNINGS PER SHARE	**1,744**	**(1,259)**
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 PER SHARE	**1,869,760,829**	**1,869,760,829**
NET PROFIT/(LOSS) AND DILUTED NET PROFIT/(LOSS) PER SHARE (IN PLN)	**0.93**	**(0.67)**

12.6 Dividends paid and proposed

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

13. Provisions

ACCOUNTING PRINCIPLES

Provisions

The Company establishes provisions when the Company 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.

Provisions for benefits to be paid after employment period

The Company's employees 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,
- benefits from the Company Social Benefits Fund,
- health care.

The Company 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.

The most significant values relate to provisions for post-employment benefits. The provisions for employee benefits were assessed by means of the actuarial methods.

in accordance with EU IFRS (in PLN million)

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 (%)	2.5-2.58	2.5-2.85
Discount rate (%)	1.3	2.0
Average assumed annual growth of bases (%)	2.5	2.5
Employee turnover rate (%)	5.0-9.0	4.9-8.5
Forecast increase rate for the value of medical services (%)	2.5-2.58	2.5-2.85
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 Company employees corresponds to the average for Poland with respect to mortality.
- The regular retirement procedure was adopted, in accordance with the rules included in the Retirement Act, with the exception of employees meeting the conditions for early retirement.
- Future payments of benefits were discounted at the rate of 1.3% (as at December 31, 2019: 2.0%) i.e. at the level of profitability of securities issued by the State Treasury and listed in the Polish capital market.

The current carrying amount of provisions is as follows:

	As at December 31, 2020		As at December 31, 2019	
	Long-term	Short-term	Long-term	Short-term
Post-employment benefits	19	1	18	1
Other	-	20	-	-
TOTAL PROVISIONS	**19**	**21**	**18**	**1**

Change in provisions

Year ended December 31, 2020	Post-employment benefits	Other
AS AT JANUARY 1, 2020	**19**	**-**
Current employment costs	2	-
Adjustment to discount rate and other assumptions	3	-
Creation	-	21
Use	(4)	(1)
AS AT DECEMBER 31, 2020	**20**	**20**

Year ended December 31, 2019	Post-employment benefits	Other
AS AT JANUARY 1, 2019	**17**	**8**
Current employment costs	1	-
Adjustment to discount rate and other assumptions	2	-
Other changes	(1)	**(8)**
AS AT DECEMBER 31, 2019	**19**	**-**

Based on data received from the actuary, the Company estimates that the impact of the change in assumptions on provisions for post-employment benefits would be as follows:

- adoption of a discount rate higher by 1 percentage point (p.p.) would decrease the amount of provisions by PLN 3 million, and adoption of a rate lower by 1 p.p. would increase the amount of provisions by PLN 4 million.
- adoption of a planned bases increase rate higher by 1 p.p. would increase the amount of provisions by PLN 4 million, and adoption of a rate lower by 1 p.p. would decrease the amount of provisions by PLN 3 million.

Other provisions

In 2020, the Company established a provision of PLN 21 million in connection with the announced voluntary leave programme (VLP) and the ongoing process of group redundancies in the Company.

in accordance with EU IFRS (in PLN million)

14. Post-employment benefits

The value of the provisions for post-employment benefits as reported in the financial statements comes from the valuation prepared by an independent actuary.

Current book value of provisions for employment benefits:

	As at December 31, 2020		As at December 31, 2019	
	Long-term	Short-term	Long-term	Short-term
Retirement severance and death benefits	1	-	1	1
Energy tariff	10	1	10	-
Company Social Benefits Fund	2	-	2	-
Health care	6	-	5	-
TOTAL EMPLOYEE BENEFITS	**19**	**1**	**18**	**1**

15. Other non-financial liabilities

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

	As at December 31, 2020	As at December 31, 2019
Liabilities for settlements within the tax capital group	139	47
Liabilities related to output VAT	316	63
Bonuses for employees (annual bonus, quarterly bonus) and the Management Board	29	33
Accrued annual leave entitlements	6	4
Estimates of other employee benefit liabilities	4	4
Other	5	4
TOTAL OTHER LIABILITIES	**499**	**155**

PGE S.A. is the representative entity in its tax group, which comprises the Company and some of its subsidiaries. The rules regarding settlements among the companies are described in note 20 to these financial statements.

EXPLANATORY NOTES TO THE FINANCIAL INSTRUMENTS

16. Financial instruments

ACCOUNTING PRINCIPLES

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 (FVOCI);
- measured at fair value through profit or loss (FVPL).

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 Company 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;
- financial assets measured at FVOCI;
- 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 17;
- contractual assets that are within the scope of IFRS 15.

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

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

in accordance with EU IFRS (in PLN million)

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

16.1.1 Trade 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 Company 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.

In the case of trade receivables, the Company 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 Company 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	-	1,239	-	1,190
Bonds acquired	9,130	813	10,840	1,799
Cash pooling receivables	-	330	-	1,016
Loans granted	9	6,499	115	3,730
Other financial receivables	-	881	-	154
TOTAL FINANCIAL RECEIVABLES	**9,139**	**9,762**	**10,955**	**7,889**

Trade receivables

Trade receivables in the amount of PLN 1,239 million relate mainly to the sales of electricity and services to the subsidiaries in the PGE Capital Group. As at December 31, 2020, the balance of the three largest customers, i.e.: PGE Obrót S.A., PGE GiEK S.A. and PGE Dystrybucja S.A., accounted for 88% of the total balance of trade receivables.

Additional information on trade receivables is presented in note 17.3.1 to these financial statements.

Bonds acquired

	As at December 31, 2020		As at December 31, 2019	
	Long-term	Short-term	Long-term	Short-term
BONDS ACQUIRED – ISSUER				
PGE Górnictwo i Energetyka Konwencjonalna S.A.	9,130	813	10,840	713
PGE Energia Odnawialna S.A.	-	-	-	1,086
TOTAL BONDS ACQUIRED	**9,130**	**813**	**10,840**	**1,799**

PGE S.A. acquires bonds issued by the companies of the PGE Capital Group. Funds acquired from bond issues are used to finance investment projects, refinance financial liabilities, and finance current operations.

Cash pooling receivables

In order to centralise liquidity management in the PGE Capital Group, agreements relating to the real cash pooling service were signed between 35 companies of the PGE Capital Group and each bank separately, i.e. Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Polska Kasa Opieki S.A. PGE S.A. acts as a coordinator of the cash pooling service in the PGE Capital Group. This means, among other things, that individual companies settle their accounts with the Company, and the Company settles its accounts with the banks. Therefore, financial receivables and financial liabilities of PGE S.A. include the balance of settlements between PGE S.A. and its subsidiaries participating in the cash pooling.

in accordance with EU IFRS (in PLN million)

Loans granted

	As at December 31, 2020		As at December 31, 2019	
	Long-term	Short-term	Long-term	Short-term
LOANS GRANTED – BORROWER				
PGE Energia Ciepła S.A.	-	1,809	-	1,938
PGE Obrót	-	1,614	-	1,015
PGE Energia Odnawialna S.A.	-	1,316	-	-
PGE Dystrybucja S.A.	-	1,047	-	627
PGE GiEK S.A.	-	500	-	-
PGE Systemy S.A.	-	197	-	116
PGE EJ 1 sp. z o.o.	-	-	110	22
PGE Trading GmbH	-	9	-	12
Betrans sp. z o.o.	9	2	4	-
Elbest sp. z o.o.	-	5	-	-
Bestgum sp. z o.o.	-	-	1	-
TOTAL LOANS GRANTED	**9**	**6,499**	**115**	**3,730**

The repayment deadlines for the loans were set for the years 2021-2024.

Other financial receivables

Under Other, the Company discloses mainly settlements with exchanges, primarily those related to the purchase of CO_2 emission allowances.

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

ACCOUNTING PRINCIPLES

Derivative financial instruments and hedges

Derivative instruments used by the Company 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.

The Company recognises all derivative financial instruments in its financial statements measured at fair value.

	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				
Commodity forwards	(1,273)	-	-	1,219
Futures	782	-	862	-
Currency forwards	534	-	382	24
Options	11	-	16	-
HEDGING DERIVATIVES				
CCIRS hedging transactions	41	(6)	64	-
IRS hedging transactions	(73)	(261)	-	385
OTHER ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Investment fund participation units	(8)		52	
TOTAL	**14**	**(267)**	**1,376**	**1,628**
long-term part			132	385
short-term part			1,244	1,243

in accordance with EU IFRS (in PLN million)

	As at December 31, 2019			
	Recognised in profit or loss	Recognised in other comprehensive income	Assets	Liabilities
DERIVATIVES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Commodity forwards	463	-	324	-
Futures	(68)	-	79	-
Currency forwards	(270)	-	43	338
Options	(7)	-	5	-
HEDGING DERIVATIVES				
CCIRS hedging transactions	(90)	4	18	-
IRS hedging transactions	5	(90)	-	106
OTHER ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Investment fund participation units	1		82	
TOTAL	**34**	**(86)**	**551**	**444**
long-term part			105	106
short-term part			446	338

Commodity and currency forwards

Commodity and currency forward transactions mainly relate to trade in CO_2 emission allowances.

IRS transactions

The Company entered into IRS transactions to hedge interest rates on obtained credits and issued bonds with a total nominal value of PLN 7,030 million (PLN 5,630 million for credits and PLN 1,400 million for bonds). To recognise these IRS transactions, the Company uses hedge accounting. The impact of hedge accounting on equity is presented in note 12.3 to these financial statements.

CCIRS hedging transactions

In connection with entering into loan agreements with the subsidiary PGE Sweden AB (publ) described in note 16.1.3 to these financial statements, in 2014 PGE S.A. entered into a CCIRS transaction to hedge the foreign currency 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. The notional amount, payment of interest and repayment of the notional amount in the CCIRS transactions are correlated with the relevant conditions arising from the loan agreements.

To recognise these CCIRS transactions, the Company uses hedge accounting. The impact of hedge accounting on equity is presented in note 12.3 to these financial statements.

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.

Investment fund participation units

In the current reporting period, the Company redeemed its certificates of the Eko-Inwestycje Closed-end Non-public Assets Investment Fund and certificates of the PGE Ventures Closed-end Non-public Assets Investment Fund.

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.

in accordance with EU IFRS (in PLN million)

The terms and conditions of the particular derivatives and other assets 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
Currency forward, sale – EUR	382	31	43	582	December 2022
Currency forward, purchase – EUR		2,766	-	-	December 2024
Currency forward, purchase – USD		23			December 2022
Commodity forward, sale EUA – PLN	-	-	324	13,653	December 2023
Commodity forward, purchase EUA – EUR		-		792	December 2021
Commodity forward, sale EUA – EUR		-		2,108	December 2023
Commodity forward, purchase EUA – PLN		-		3,435	December 2022
Futures, purchase EUA – EUR	862	851	79	942	December 2024
Futures, sale EUA – EUR		214		17	December 2024
CCIRS – EUR to PLN	64	144	18	144	July 2029
Options	16	5	5	6	November 2026
Fund participation units	52	48	82	80	n/a
FINANCIAL ASSETS	**1,376**	**-**	**551**	**-**	
Currency forward, purchase – EUR	24	87	338	2,893	December 2023
Currency forward, sale – EUR		208		196	December 2023
Currency forward, purchase – USD		23			December 2022
Commodity forward, sale EUA – PLN	1,219	13,596	-	-	January 2025
Commodity forward, purchase EUA – EUR		2,147		-	December 2023
Commodity forward, sale EUA – EUR		23		-	December 2022
Commodity forward, purchase EUA – PLN		1,137		-	January 2023
IRS – interest rate PLN	385	500	106	500	June 2028
		1,000		1,000	December 2027
		500		500	December 2028
		3,630		3,630	September 2023
		1,000		1,000	May 2029
		400		400	May 2026
FINANCIAL LIABILITIES	**1,628**	**-**	**444**	**-**	

16.1.3 Credits, loans, bonds, cash pooling and leases

	As at December 31, 2020		As at December 31, 2019	
	Long-term	Short-term	Long-term	Short-term
Credit liabilities	6,522	989	7,492	1,094
Loans received	662	9	611	8
Bonds issued	1,399	2	1,398	5
Cash pooling liabilities	-	1,149	-	907
Lease liabilities	19	1	20	1
TOTAL CREDITS, LOANS, BONDS AND CASH POOLING	**8,602**	**2,150**	**9,521**	**2,015**

in accordance with EU IFRS (in PLN million)

Credits

Creditor	Hedging instrument	Date of granting	Date of maturity	Limit in currency	Currency	Interest rate	Liability as at 31-12-2020	Liability as at 31-12-2019
Bank consortium	IRS	2015-09-07	2023-09-30	3,630	PLN	Variable	3,636	3,649
European Investment Bank	-	2015-10-27	2034-08-25	1,500	PLN	Fixed	1,505	1,505
Bank Gospodarstwa Krajowego	IRS	2014-12-17	2027-12-31	1,000	PLN	Variable	876	1,001
European Bank for Reconstruction and Development	IRS	2017-06-07	2028-06-06	500	PLN	Variable	501	502
Bank Gospodarstwa Krajowego	IRS	2015-12-04	2028-12-31	500	PLN	Variable	500	500
European Investment Bank	-	2015-10-27	2034-04-11	490	PLN	Fixed	493	493
Bank Gospodarstwa Krajowego	-	2018-06-01	2021-05-31	1,000	PLN	Variable	-	455
Revolving credit facility	-	2018-09-17	2022-12-16	4,100	PLN	Variable	-	300
Bank Pekao S.A.	-	2018-07-05	2024-12-22	500	PLN	Variable	-	160
PKO BP S.A.	-	2018-04-30	2022-04-29	300	PLN	Variable	-	21
European Investment Bank	-	2019-12-16	2038-10-16	273	PLN	Fixed/variable	-	-
TOTAL BANK CREDITS							**7,511**	**8,586**

The Company's outstanding overdraft facility limits amounted to PLN 1,800 million as at December 31, 2020 and PLN 864 million as at December 31, 2019.

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

Loans received

Creditor	Hedging instrument	Date of granting	Date of maturity	Limit in currency	Currency	Interest rate	Liability as at 31-12-2020	Liability as at 31-12-2019
PGE Sweden AB	CCIRS	2014-08-27	2029-07-31	100	EUR	Fixed	468	431
PGE Sweden AB	CCIRS	2014-08-27	2029-07-31	43	EUR	Fixed	203	188
TOTAL LOANS RECEIVED							**671**	**619**

In 2014, PGE S.A. and PGE Sweden AB (publ) established the Medium Term Eurobonds Issue Programme under which PGE Sweden AB (publ) may issue Eurobonds up to the amount of EUR 2 billion with a minimum maturity of 1 year. In 2014, PGE Sweden AB (publ) issued Eurobonds in the total amount of EUR 138 million. The subsidiary used the proceeds from the Eurobond issue for loans granted to the parent company.

Domestic market bond issues

Date of conclusion	Date of maturity	Limit in currency	Hedging instrument	Currency	Interest rate	Date of tranche issue	Date of tranche maturity	Liability as at 31-12-2020	Liability as at 31-12-2019
2013-06-27	indefinite	5,000	IRS	PLN	Variable	2019-05-21	2029-05-21	1,001	1,002
						2019-05-21	2026-05-21	400	401
TOTAL BONDS ISSUED								**1,401**	**1,403**

in accordance with EU IFRS (in PLN million)

Cash pooling liabilities

The launch of the real cash pooling service is described in note 16.1.1 to these financial statements.

Currency position and interest rates

As at December 31, 2020

Currency	Reference rate	Value in currency	Value in PLN	Repayment deadline
PLN	Fixed	1,497	1,497	April 2034
	Fixed	501	501	June 2034
	Fixed	20	20	December 2089
	Variable	3,636	3,636	September 2023
	Variable	1,001	1,001	May 2029
	Variable	876	876	December 2027
	Variable	1,149	1,149	five-year programme
	Variable	501	501	June 2028
	Variable	500	500	December 2028
	Variable	400	400	May 2026
TOTAL PLN		**10,081**	**10,081**	
EUR	Fixed	145	671	July 2029
TOTAL EUR		**145**	**671**	
TOTAL CREDITS, LOANS, BONDS AND CASH POOLING			**10,752**	

As at December 31, 2019

Currency	Reference rate	Value in currency	Value in PLN	Repayment deadline
PLN	Fixed	1,505	1,505	April 2034
	Fixed	493	493	June 2034
	Fixed	21	21	December 2089
	Variable	3,649	3,649	September 2023
	Variable	1,002	1,002	May 2029
	Variable	1,001	1,001	December 2027
	Variable	907	907	five-year programme
	Variable	636	636	July 2021
	Variable	502	502	June 2028
	Variable	500	500	December 2028
	Variable	401	401	May 2026
	Variable	300	300	December 2023
TOTAL PLN		**10,917**	**10,917**	
EUR	Fixed	145	619	July 2029
TOTAL EUR		**145**	**619**	
TOTAL CREDITS, LOANS, BONDS AND CASH POOLING			**11,536**	

The table below presents changes in interest-bearing debt in the years ended December 31, 2020 and 2019, respectively.

	Year ended December 31, 2020	Year ended December 31, 2019
AS AT JANUARY 1	**11,536**	**11,172**
RECOGNITION OF LEASES	**-**	**21**
CHANGE IN OVERDRAFT FACILITY	**(636)**	**68**
CHANGE IN CASH POOLING LIABILITIES	**242**	**(539)**
CHANGE IN OTHER CREDITS, LOANS AND BONDS, including:	**(390)**	**814**
Obtained credits, loans / issued bonds/	4,100	6,620
Accrued interest	184	251
Repayment of credits, loans / redemption of bonds/	(4,525)	(5,736)
Repayment of interest	(199)	(239)
Foreign exchange differences	51	(80)
Commissions paid	(1)	(2)
AS AT DECEMBER 31	**10,752**	**11,536**

in accordance with EU IFRS (in PLN million)

16.1.4 Other financial liabilities measured at amortised cost

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 Company divides its financial liabilities into the following categories:

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

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	-	717	-	593
Other	17	866	20	167
TOTAL OTHER FINANCIAL LIABILITIES	**17**	**1,583**	**20**	**760**

Trade payables

Trade payables relate mainly to electricity purchase transactions.

Other financial liabilities

Under Other, the Company mainly presents settlements with exchanges, primarily related to the purchase of CO_2 emission allowances (PLN 858m), and future payments to the Polish National Foundation.

16.2 Fair value of financial instruments

The book value of financial receivables and liabilities measured at amortised cost, except for loans received from PGE Sweden AB (publ) and credit from European Investment Bank, is a reasonable approximation of their fair values.

In the case of loans received from PGE Sweden AB (publ), PGE S.A. estimates their fair value at PLN 745 million (against the book value of PLN 671 million). The fair value was determined using the estimated credit risk of PGE S.A. The indexes used in valuation belong to Level 2 of the fair value hierarchy.

In case of credit concluded with European Investment Bank, based on fixed rate, its value at amortised cost as reported in these financial statements is PLN 1.998 million, and its fair value is PLN 2.198 million. The indexes used in valuation belong to Level 2 of the fair value hierarchy.

16.3 Fair value hierarchy

Derivative instruments

The Company 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 Company recognises financial instruments related to trade in CO_2 emission allowances – currency and commodity forwards (Level 2).

Additionally, the Company 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).

FAIR VALUE HIERARCHY	As at December 31, 2020		As at December 31, 2019	
	Level 1	Level 2	Level 1	Level 2
Currency forwards	-	382	-	43
Commodity forwards	-	-	-	324
Valuation of CCIRS transactions	-	64	-	18
Futures	-	862	-	79
Valuation of IRS transactions	-	-	-	-
Options	-	16	-	5
Fund participation units	-	52	-	82
Financial assets	**-**	**1,376**	**-**	**551**
Currency forwards	-	24	-	338
Commodity forwards	-	1,219	-	-
Valuation of IRS transactions	-	385	-	106
Financial liabilities	**-**	**1,628**	**-**	**444**

in accordance with EU IFRS (in PLN million)

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.

Instruments not listed on active markets, whose fair value cannot be reliably determined

PGE S.A. holds considerable shareholdings in companies that are not listed on active markets. These are shares in subsidiaries and associates that are excluded from the scope of IFRS 9 and, as described in note 8, are measured at cost less impairment write-downs.

16.4 Security for payment of receivables and payables

The Company uses many types of security and their combinations for the repayment of loans. The most common ones include declarations of submission to enforcement proceedings. Additionally, the Company uses powers of attorney to use bank accounts and assignments of claims. As a rule, receivables from entities related to PGE S.A. are not secured.

As at December 31, 2020 and December 31, 2019, the Company's assets did not constitute any security for the payment of liabilities or contingent liabilities.

16.5 Statement of comprehensive income

The table below presents the combined influence of the particular categories of financial instruments on finance income and costs.

YEAR ENDED DECEMBER 31, 2020	Hedging derivatives	Derivatives measured at fair value through profit or loss	Cash and cash equivalents	Shares, interests and other capital instruments in CG	Other financial assets	Financial liabilities measured at amortised cost	Lease liabilities	TOTAL
Dividends	-	-	-	1,464	-	-	-	**1,464**
Interest income / (costs)	(80)	-	1	-	485	(255)	(1)	**150**
Foreign exchange differences	51	-	(14)	-	225	(266)	-	**(4)**
Revaluation of financial instruments / Reversal of write-downs	-	15	-	-	-	-	-	**15**
Revaluation of financial instruments / Creation of write-downs	-	-	-	(515)	-	-	-	**(515)**
Loss on disposal of investments	-	-	-	(11)	-			**(11)**
TOTAL PROFIT / (LOSS)	**(29)**	**15**	**(13)**	**938**	**710**	**(521)**	**(1)**	**1,099**

YEAR ENDED DECEMBER 31, 2019	Hedging derivatives	Derivatives measured at fair value through profit or loss	Cash and cash equivalents	Shares, interests and other capital instruments in CG	Shares, interests and other capital instruments in CG	Other financial assets	Financial liabilities measured at amortised cost	TOTAL
Dividends	-	-	-	950	-	-	-	**950**
Interest income / (costs)	(45)	-	3	-	532	(309)	(1)	**180**
Foreign exchange differences	(91)	-	-	-	(16)	82	-	**(25)**
Revaluation of financial instruments / Reversal of write-downs	1	1	-	-	-	-	-	**2**
Revaluation of financial instruments / Creation of write-downs	-	(8)	-	(3,065)	-	-	-	**(3,073)**
TOTAL PROFIT / (LOSS)	**(135)**	**(7)**	**3**	**(2,115)**	**516**	**(227)**	**(1)**	**(1,966)**

The creation of impairment write-downs on shares in the current and comparative reporting periods is described in notes 4.3 and 8.1 to these financial statements.

17. Objectives and principles of financial risk management

The primary objective of financial risk management in the Company 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 Company's management. Responsibility for managing financial risk 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 is based on the principle of organisational independence of an entity responsible for risk measurement and control (the Risk and Insurance Department) of business units being risk owners. Risk reports are submitted directly to the Risk Committee, Audit Committee and the Management Board of PGE S.A.

The Company has a Risk Committee that exercises supervision of the financial and corporate risk management process in the PGE Group. The Risk Committee monitors exposure levels, 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.

Financial risk is managed from the perspective of the PGE Capital Groups as a whole, with the leading role of the Company, which functions as a centre of competencies in this area and manages the process in an integrated manner. 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 and Profit-at-Risk, 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 Company implemented internal regulations setting out the principles for the management of such risks.

The Company is exposed to various types of financial risks, for example:

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

The Company's exposure to individual financial risks depends on the extent of its activities in the commodity and financial markets.

17.1 Market risk

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

The main objective of market risk management 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 Company 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;
- 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 Company 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.

17.1.1 Commodity risk

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

The Company's exposure to the commodity price risk concerns first of all the following commodities:

- electricity;
- CO_2 emission allowances;
- natural gas.

The Company realises a strategy of hedging key exposures in the area of trade in electricity and related commodities in a time horizon of up to 5 years. The level of hedging for an open position is set taking into account risk appetite, results of monitoring the risk related to prices of electricity and related products, liquidity of specific markets, the financial position of the Company and the Group, as well as the Group's strategic objectives.

in accordance with EU IFRS (in PLN million)

17.1.2 Interest rate risk

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

The Company's exposure to interest rate risk arises mainly from the fact that the Company finances its 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 Company controls interest rate risk through a system of limits relating to the maximum potential loss from changes in interest rates. 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 Group establishes hedging strategies with respect to its exposure to interest rate 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 Company enters 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 Company to the risk of incurring a potential loss on this account.

Marketable bonds issued in the amount of PLN 1.4 billion under the PLN 5 billion Bond Issue Programme, which is described in note 16.1.3 to these financial statements, are variable interest rate bonds denominated in PLN. Payments relating to these bonds are hedged by IRS instruments, as described in note 16.1.2.

Loans received from the subsidiary PGE Sweden AB (publ) are fixed interest rate loans denominated in EUR. Payments relating these loans are hedged by CCIRS instruments, as described in note 16.1.2.

The Company also has a long-term credit facility of PLN 1.5 billion under the Credit Agreement entered into on December 17, 2014 and December 4, 2015 with Bank Gospodarstwa Krajowego, as well a syndicated facility (a term tranche) of PLN 3.63 billion under the Credit Agreement of September 7, 2015. These credit facilities bear interest at variable rates in PLN. Payments relating to these credits and loans are hedged by IRS instruments, as described in note 16.1.2.

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 PGE S.A. Long-term debt liabilities based on a variable interest rate were 100% hedged by IRS and CCIRS contracts.

The Company's exposure to 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	-	-
		Variable	16	5
	EUR	Fixed	-	-
		Variable	1,308	464
Loans granted, bonds acquired and cash exposed to interest rate risk	PLN	Fixed	19,356	16,513
		Variable	330	1,016
	EUR	Fixed	602	191
		Variable	-	-
Derivatives – liabilities exposed to interest rate risk	PLN	Fixed	-	-
		Variable	(385)	(106)
	EUR	Fixed	-	-
		Variable	(1,243)	(338)
Loans received and bonds issued exposed to interest rate risk	PLN	Fixed	(2,018)	(2,019)
		Variable	(8,063)	(8,898)
	EUR	Fixed	(671)	(619)
		Variable	-	-
Net exposure	**PLN**	**Fixed**	**17,338**	**14,494**
		Variable	**(8,102)**	**(7,983)**
	EUR	**Fixed**	**(69)**	**(428)**
		Variable	**65**	**126**

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.

in accordance with EU IFRS (in PLN million)

17.1.3 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 Company's exposure to currency risk are set out below:

- debt denominated in foreign currencies;
- purchase or sale transactions relating to CO_2 emission allowances and denominated in foreign currencies;
- investment financial assets denominated in foreign currencies;
- foreign subsidiaries;
- other operating cash flows denominated in or indexed to foreign currencies.

The Company controls currency risk through a system of limits relating to the maximum potential loss from changes in currency exchange rates. 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 Company establishes hedging strategies using 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 Company enters 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 Company 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 PGE S.A., 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 foreign currency exchange 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.

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

	Total amount in statements, in PLN	CURRENCY POSITION AS AT DECEMBER 31, 2020			
		EUR	PLN	USD	PLN
FINANCIAL ASSETS					
Trade and other receivables, including:	18,901	188	866	-	-
Loans granted	*6,508*	*2*	*9*	-	-
Other financial receivables	*881*	*186*	*857*	-	-
Cash and cash equivalents	3,507	128	593	-	-
Derivatives and other assets measured at fair value through profit or loss, including:	1,376	3,561	16,433	23	86
Measured at fair value through profit or loss	*1,244*	*3,372*	*15,561*	*23*	*86*
CCIRS hedging instruments	*64*	*189*	*872*	-	-
FINANCIAL LIABILITIES					
Credits, loans, bonds, including:	10,752	145	671		
Loans received	*671*	*145*	*671*		
Trade and other payables, including:	1,600	218	1,005		
Trade payables	*717*	*32*	*148*		
Other financial liabilities	*883*	*186*	*857*		
Derivative instruments	1,628	2,245	10,360	23	86
NET CURRENCY POSITION		**1,269**	**5,856**	**-**	**-**

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.

in accordance with EU IFRS (in PLN million)

	Total amount in statements, in PLN	CURRENCY POSITION AS AT DECEMBER 31, 2019	
		EUR	PLN
FINANCIAL ASSETS			
Trade and other receivables, including:	18,844	69	293
Trade receivables	*1,190*	*30*	*127*
Loans granted	*115*	*3*	*12*
Other financial receivables	*154*	*36*	*154*
Cash and cash equivalents	221	42	178
Derivatives, including:	551	3,010	12,818
Measured at fair value through profit or loss	*446*	*2,823*	*12,022*
CCIRS hedging instruments	*18*	*187*	*796*
FINANCIAL LIABILITIES			
Credits, loans, bonds, including:	11,536	145	619
Loans received	*619*	*145*	*619*
Trade and other payables, including:	780	37	156
Trade payables	*593*	*1*	*4*
Other financial liabilities	*187*	*36*	*152*
Derivatives measured at fair value through profit or loss	338	2,697	11,486
NET CURRENCY POSITION		**242**	**1,028**

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.

17.2 Liquidity risk

Liquidity risk concerns a financial situation in which the Company is not able to fulfil its (current or non-current) payment obligations at their maturity dates.

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 PGE S.A. and its subsidiaries and, simultaneously, minimizing the costs of such activities.

Periodic planning and monitoring of liquidity 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 Group to determine its borrowing capacity and supports decisions regarding the financing of long-term investments.

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 Company runs an active policy of free cash investments, monitors its financial surpluses and forecasts future cash flows and, on this basis, implements an investment strategy for its free cash.

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

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

In case of cash shortages, the Company uses the following financing sources:

- overdraft facilities and working capital term credits granted by banks;
- real cash pooling agreements;
- bond issues addressed to external investors.

in accordance with EU IFRS (in PLN million)

Maturities of financial liabilities 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 facilities	**7,511**	**8,084**	15	1,070	4,774	2,225
Bonds	**1,401**	**1,572**	-	22	89	1,461
Loans received	**671**	**848**	10	10	83	745
Cash pooling liabilities	**1,149**	**1,149**	1,149	-	-	-
Leases	**21**	**65**	1	-	4	60
Trade and other payables measured at amortised cost	**742**	**742**	725	-	17	-
Settlements with exchanges, mainly related to purchase of CO_2 emission allowances(*)	**858**	**858**	858	-	-	-
Commodity forwards – purchase	**1,219**	**11,047**	4,147	6,035	865	-
Commodity forwards – sale		**(13,703)**	(8,508)	(5,150)	(45)	-
Currency forwards	**24**	**24**	18	3	3	-
IRS hedging derivatives	**385**	**388**	-	130	239	19
TOTAL	**13,981**	**11,074**	**(1,585)**	**2,120**	**6,029**	**4,510**

(*)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 facilities	**8,586**	**8,936**	344	280	5,591	2,721
Bonds	**1,403**	**1,782**	-	44	176	1,562
Loans received	**619**	**803**	10	10	76	707
Cash pooling liabilities	**907**	**907**	907	-	-	-
Leases	**21**	**65**	1	-	4	60
Trade and other payables measured at amortised cost	**780**	**780**	759	-	21	-
Derivatives measured at fair value through profit or loss	**444**	**455**	140	100	196	19
TOTAL	**12,760**	**13,728**	**2,161**	**434**	**6,064**	**5,069**

17.3 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 Company is exposed to credit risk in the following areas:

- The core activities – the source of credit risk is, among others, transactions for the sale or purchase of electricity, for the sale or purchase of gas and CO_2 emission allowances. This relates primarily to the possibility of a default by the other party to a transaction if fair value of a transaction is positive from the point of view of the Company;
- The investment of free cash – credit risk occurs in consequence of PGE's investing free cash in financial instruments bearing credit risk, i.e. financial instruments other than those issued by the State Treasury.

The maximum exposure to credit risk resulting from the Company's financial assets is equal to the book values of these items.

	Year ended December 31, 2020	Year ended December 31, 2019
Trade receivables	1,239	1,190
Other financial assets	17,662	17,654
Cash and cash equivalents	3,507	221
Derivatives – assets	1,376	551
MAXIMUM EXPOSURE TO CREDIT RISK	**23,784**	**19,616**

in accordance with EU IFRS (in PLN million)

17.3.1 Trade receivables and other financial receivables

ACCOUNTING PRINCIPLES

Write-downs of receivables

Receivables from loans granted and bonds purchased from subsidiaries

The business model of the PGE Group assumes that, as a rule, financing is granted to subsidiaries only from the level of PGE S.A. The Company analyses financial results and plans of the subsidiaries and assigns internal ratings on this basis. In the event of significant deterioration of the financial position of the subsidiaries, analyses of recoverability of all assets employed in a given subsidiary are performed. It was assumed that control over the assets of the subsidiaries exercised by PGE S.A. is a form of security that was taken into account when estimating the Recovery Rate parameter. Consequently, with respect to loans granted to and bonds purchased from the subsidiaries, this parameter was set at 0%. All receivables from loans granted and bonds purchased are allocated to basket 1.

Trade receivables and other financial receivables

The Company 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 Company applies 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 Company estimates 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 Company estimates 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 Company may assess the amount of a write-down on an individual basis.

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	392	0.0 - 100.0 (*)	394	0.0 - 100.0 (*)
Overdue < 30 days	-	0.0	1	0.0 - 100.0 (*)
Overdue 30-90 days	-	0.0	3	0.0 - 100.0 (*)
Overdue 90-180 days	-	100.0	1	0.0 - 100.0 (*)
Overdue 180-360 days	2	100.0	2	0.0 - 100.0 (*)
Overdue > 360 days	26	100.0	17	100.0
TOTAL FINANCIAL ASSETS	**420**		**418**	

(*) The write-down relates to receivables written down according to the matrix (0%) 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 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 2-3 weeks. In 2020, the Company waited on average 17 days for the payment of receivables. Trade receivables mainly relate to receivables for energy sold. Thanks to ongoing supervision over the process of collecting trade receivables, according to the Company's management, there occurs no additional credit risk above the level determined by write-downs relating to expected credit losses.

The Company reduces and controls the credit risk associated with commercial transactions. 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, an internal rating is assigned or the Company uses a rating assigned by a reputable independent 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 accepted credit risk management principles. The level of used limits is monitored 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 Company monitors the payment of receivables on an ongoing basis and applies early debt collection measures. It also cooperates with business intelligence agencies and uses the services of Economic Information Offices.

in accordance with EU IFRS (in PLN million)

The outbreak of the COVID-19 pandemic contributed to a significant increase in the likelihood of credit risk materialisation, thus prompting the Company to tighten the criteria for granting internal ratings and credit limits to counterparties. The Company 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.

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	1,239	100.0%	1,190	100.0%
TOTAL	**1,239**	**100.0%**	**1,190**	**100.0%**

The majority of sales transactions and trade receivables balances concern the related entities in the PGE Capital Group and large entities operating on the Polish electricity market. Information on transactions with the related entities is presented in note 21 to these financial statements.

Ageing of receivables and write-downs related to expected credit losses

At December 31, 2020, some financial assets were covered by write-downs related to future credit losses.

The table below presents changes in impairment write-downs for these classes of financial instruments:

2020	Trade receivables	Loans granted	Cash pooling receivables	Bonds acquired	Other financial receivables
Writ-down related to expected credit losses as at January 1	**(32)**	**-**	**-**	**(386)**	**-**
Creation of write-downs	(2)	-	-	-	-
Use	-	-	-	-	-
Write-down related to expected credit losses as at December 31	**(34)**	**-**	**-**	**(386)**	**-**
Value of items before write-down	**1,273**	**6,508**	**330**	**10,329**	**881**
Net position value (book value)	**1,239**	**6,508**	**330**	**9,943**	**881**

2019	Trade receivables	Loans granted	Cash pooling receivables	Bonds acquired	Other financial receivables
Writ-down related to expected credit losses as at January 1	**(21)**	**-**	**-**	**(386)**	**(25)**
Creation of write-downs	(11)	-	-	-	-
Use	-	-	-	-	25
Write-down related to expected credit losses as at December 31	**(32)**	**-**	**-**	**(386)**	**-**
Value of items before write-down	**1,222**	**3,845**	**1,016**	**13,025**	**154**
Net position value (book value)	**1,190**	**3,845**	**1,016**	**12,639**	**154**

TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS

	December 31, 2020			December 31, 2019		
	Gross value	Write-downs	Net book value	Gross value	Write-downs	Net book value
Receivables not overdue	**19,333**	**(392)**	**18,941**	**19,090**	**(394)**	**18,696**
Overdue < 30 days	1	-	1	149	(1)	148
Overdue 30-90 days	-	-	-	3	(3)	-
Overdue 90-180 days	-	-	-	1	(1)	-
Overdue 180-360 days	2	(2)	-	2	(2)	-
Overdue > 360 days	26	(26)	-	17	(17)	-
TOTAL OVERDUE RECEIVABLES	**29**	**(28)**	**1**	**172**	**(24)**	**148**
TOTAL FINANCIAL ASSETS	**19,362**	**(420)**	**18,942**	**19,262**	**(418)**	**18,844**

in accordance with EU IFRS (in PLN million)

17.3.2 Deposits, cash and cash equivalents

The Company manages the credit risk related to cash deposits by diversifying the group of banks where such deposits are held. All entities with which the Company 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.

17.3.3 Derivative instruments

All entities with which the Company 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 Company was a party to derivative transactions described in detail in note 16.1.2 to these financial statements.

17.3.4 Granted guarantees and sureties

Guarantees and sureties granted by the Company are presented in note 19 to these financial statements.

17.4 Market (financial) risk – sensitivity analysis

The Company identifies the following types of the market risk to which it is exposed:

- the interest rate risk,
- the currency risk.

At present the Company is exposed mainly to the risk of changes in the EUR/PLN currency exchange rates. Furthermore, the Company is exposed to the risk of changes in PLN reference interest rates. For the purpose of an analysis of sensitivity to changes in the market risk factors, the Company uses the scenario analysis method. The Company uses expert scenarios reflecting the Company's subjective assessment of future changes in the market risk factors.

The scenario analyses presented in this item aim to analyse the impact of changes in the market risk factors on the Company's 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 Company 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 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 Company 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.

Currency exchange risk sensitivity analysis

The table below shows the sensitivity of the gross financial result and equity to reasonably possible changes in currency exchange rates based on the assumption that the other risk factors for these classes of financial instruments exposed to the currency exchange risk remain unchanged.

CLASSES OF FINANCIAL INSTRUMENTS	Value in statement in PLN	Value at risk in PLN	CURRENCY RISK SENSITIVITY ANALYSIS AS AT DECEMBER 31, 2020			
			EUR/PLN Impact on financial result/equity		USD/PLN Impact on financial result/equity	
			10%	-10%	10%	-10%
Trade receivables and other financial receivables	18,901	866	87	(87)	-	-
Cash and cash equivalents	3,507	593	59	(59)	-	-
Derivatives – assets	1,244	15,648	968	(968)	9	(9)
CCIRS hedging derivatives	64	872	66	(66)	-	-
Credits, loans, bonds	10,752	671	(67)	67	-	-
Trade payables and other financial liabilities	1,600	1,005	(100)	100	-	-
Derivatives – liabilities	1,628	10,447	(924)	924	(9)	9
IMPACT ON FINANCIAL RESULT			**89**	**(89)**	**-**	**-**
CCIRS hedging derivatives	64	872	21	(21)	-	-
IMPACT ON REVALUATION RESERVE			**21**	**(21)**	**-**	**-**

in accordance with EU IFRS (in PLN million)

CLASSES OF FINANCIAL INSTRUMENTS	Value in statement in PLN	Value at risk in PLN	CURRENCY RISK SENSITIVITY ANALYSIS AS AT DECEMBER 31, 2019 EUR/PLN Impact on financial result/equity +10%	-10%
Trade receivables and other financial receivables	18,844	293	29	(29)
Cash and cash equivalents	221	178	18	(18)
Derivatives – assets	446	12,022	(1,202)	1,202
CCIRS hedging derivatives	18	796	61	(61)
Credits, loans, bonds	11,536	619	(62)	62
Trade payables and other financial liabilities	780	156	(16)	16
Derivatives – liabilities	338	11,485	1,149	(1,149)
IMPACT ON FINANCIAL RESULT			**(23)**	**23**
CCIRS hedging derivatives	18	796	19	(19)
IMPACT ON REVALUATION RESERVE			**19**	**(19)**

Interest rate risk sensitivity analysis

The table below shows the sensitivity of the gross financial result and equity to reasonably possible changes in interest rates based on the assumption that the other risk factors for these classes of financial instruments exposed to the interest rate risk remain unchanged:

FINANCIAL ASSETS AND LIABILITIES	Value in statement in PLN	Value at risk in PLN	INTEREST RATE RISK SENSITIVITY ANALYSIS AS AT DECEMBER 31, 2020 WIBOR Impact on financial result/equity +50pb	–50pb	EURIBOR Impact on financial result/equity +25pb	–25pb
Trade and other receivables	18,901	330	2	(2)	-	-
Derivatives – assets	1,376	1,260	6	(6)	-	-
Credits, loans, bonds, cash pooling	10,752	8,063	(40)	40	-	-
Derivatives – liabilities	1,628	1,211	(6)	6	-	-
IMPACT ON FINANCIAL RESULT			**(38)**	**38**	**-**	**-**
CCIRS hedging derivatives	64	64	28	(30)	(17)	17
IRS hedging derivatives – liabilities	385	385	148	(115)	-	-
IMPACT ON REVALUATION RESERVE			**176**	**(145)**	**(17)**	**17**

For derivative instruments, the value exposed to the interest rate risk is the fair value (book value) of such instruments. A sensitivity analysis for CCIRS and IRS derivative instruments was carried out with the application of changes in valuations with the shifted interest rate curves in a given currency.

FINANCIAL ASSETS AND LIABILITIES	Value in statement in PLN	Value at risk in PLN	INTEREST RATE RISK SENSITIVITY ANALYSIS AS AT DECEMBER 31, 2019 WIBOR Impact on financial result/equity +50pb	–50pb	EURIBOR Impact on financial result/equity +25pb	–25pb
Trade and other receivables	18,844	1,016	5	(5)	-	-
Derivatives – assets	551	451	2	(2)	-	-
Credits, loans, bonds, cash pooling	11,536	8,898	(44)	44	-	-
Derivatives – liabilities	444	338	(2)	2	-	-
IMPACT ON FINANCIAL RESULT			**(39)**	**39**	**-**	**-**
CCIRS hedging derivatives	18	18	30	(31)	(17)	17
IRS hedging derivatives – liabilities	106	106	153	(147)	-	-
IMPACT ON REVALUATION RESERVE			**183**	**(178)**	**(17)**	**17**

For derivative instruments, the value exposed to the interest rate risk is the fair value (book value) of such instruments. A sensitivity analysis for CCIRS and IRS derivative instruments was carried out with the application of changes in valuations with the shifted interest rate curves in a given currency.

in accordance with EU IFRS (in PLN million)

17.5 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 Company excludes such an amount from equity and includes it in the initial cost or another book value of an non-financial asset or non-financial liability.

In connection with loans received from PGE Sweden AB (publ), PGE S.A. entered into 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. The notional amount, payment of interest and repayment of the notional amount in the CCIRS transactions are correlated with the relevant conditions arising from the loan agreements. The Company applies hedge accounting to these transactions.

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. In these 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.

The source of ineffectiveness for hedge accounting is solely the CCIRS transaction hedging the exchange rate of the loan obtained from PGE Sweden AB.

	Year ended December 31, 2020
VALUE OF HEDGED ITEM AS AT JANUARY 1	**619**
Loan repayment	-
Interest accrued	21
Payment of interest	(21)
Foreign exchange differences	52
VALUE OF HEDGED ITEM AS AT DECEMBER 31	**671**

Information on the hedging instruments – the maturity structure:

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

The Company 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.

The impact of hedge accounting on the revaluation reserve is presented in note 12.3 to these financial statements.

in accordance with EU IFRS (in PLN million)

EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

18. Statement of cash flows

ACCOUNTING PRINCIPLES

Statement of cash flows

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

An analysis of the most important items in the statement of cash flows is presented below.

18.1 Cash flows from operating activities

Interest and dividend

	Year ended December 31, 2020	Year ended December 31, 2019
Dividends receivable	(1,464)	(950)
Interest on bonds purchased	(372)	(415)
Interest on bonds issued	34	27
Interest on loans granted	(99)	(115)
Interest on loans received	22	69
Interest and commissions on credits	185	211
Other	84	46
TOTAL INTEREST AND DIVIDENDS	**(1,610)**	**(1,127)**

(Profit) / loss on investing activities

	Year ended December 31, 2020	Year ended December 31, 2019
Accrual valuation of derivative instruments	96	(114)
Creation and reversal of write-downs on financial assets	515	3,065
Profit/(loss) on disposal of other financial assets	11	-
Other	(4)	(1)
TOTAL (PROFIT)/LOSS ON INVESTING ACTIVITIES	**618**	**2,950**

Change in receivables

	Year ended December 31, 2020	Year ended December 31, 2019
Change in trade and other receivables	810	(3,216)
Adjustment for change in loans granted (including cash pooling)	1,977	2,495
Adjustment for change in bonds purchased	(2,697)	(513)
Other	-	2
TOTAL CHANGE IN RECEIVABLES	**90**	**(1,232)**

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	124	(95)
Change in other non-financial liabilities	344	(74)
Change in other financial liabilities	699	15
Adjustment for change in settlements in the tax capital group	(92)	126
Other	(3)	(2)
TOTAL CHANGE IN LIABILITIES, EXCLUSIVE OF CREDITS AND LOANS	**1,072**	**(30)**

Change in other non-financial assets

	Year ended December 31, 2020	Year ended December 31, 2019
Change in other current assets	(433)	438
Other	2	(2)
TOTAL CHANGE IN OTHER NON-FINANCIAL ASSETS	**(431)**	**436**

18.2 Cash flows from investing activities

Purchase and redemption of bonds issued by PGE Group companies

PGE S.A. acquires bonds issued by the companies of the PGE Capital Group. Funds acquired from bond issues are used to finance investment projects, refinance financial liabilities, and finance current operations. A detailed description is included in note 16.1.1.

Dividends received

The total amount of dividends received consists mainly of dividends from: PGE Dystrybucja S.A. in the amount of PLN 792 million, PGE Energia Odnawialna S.A. – PLN 467 million and PGE EC S.A. – PLN 186 million, and in the comparative period from PGE Dystrybucja S.A. – PLN 935 million.

Cash flows under the cash pooling service

As it is described in note 16.1.1., PGE S.A. acts as a coordinator of the cash pooling service in the PGE Capital Group. This means, among other things, that individual companies settle their accounts with the Company, and the Company settles its accounts with the banks. Therefore, the Company discloses loans granted and inflows from cash pooling from entities participating in cash pooling.

18.3 Cash flows from financing activities

Proceeds from obtained loans and credits

In the current reporting period, the Company obtained credits for the total amount of PLN 4,100 million.

Repayment of loans, credits and finance leases

In the current reporting period, the Company repaid credits for the total amount of PLN 5,161 million.

in accordance with EU IFRS (in PLN million)

OTHER EXPLANATORY NOTES

19. Contingent receivables and payables. Litigation

ACCOUNTING PRINCIPLES

Contingent liabilities

With respect to the recognition and valuation of provisions and contingent liabilities, the Company assesses the likelihood of the occurrence of contingent liabilities. If the occurrence of a negative event is probable, the Company recognises a provision in a relevant amount. If, according to the Company, the occurrence of a negative event is possible, but not probable, it is recognised as a contingent liability.

19.1 Contingent liabilities

	As at December 31, 2020	As at December 31, 2019
Liabilities under guarantees and sureties	13,120	11,549
Sureties	692	-
Bank guarantees to hedge exchange transactions	450	1,800
TOTAL CONTINGENT LIABILITIES	**14,262**	**13,349**

Guarantee for liabilities of PGE Sweden AB (publ)

In connection with the establishment of the Eurobond programme in 2014, an agreement was concluded under which PGE S.A. provided a guarantee for the liabilities of PGE Sweden AB (publ). The guarantee was granted for the amount of up to EUR 2,500 million (PLN 10,750 million) and is valid until December 31, 2041. As at December 31, 2020, the amount of liabilities of PGE Sweden AB (publ) under issued bonds is EUR 140 million (PLN 644 million) and as at December 31, 2019 – EUR 140 million (PLN 596 million).

Sureties

This item includes a surety issued by PGE S.A. for liabilities of PGE Dom Maklerski S.A. for the benefit of Citigroup Global Markets Europe AG in order to secure the settlement of exchange transactions related to CO_2 emission allowances. As at December 31, 2020 the amount of the surety issued by PGE S.A. was EUR 150 million, which was equivalent to PLN 692 million.

Sureties for bank guarantees to secure exchange transactions

These liabilities represent sureties issued by PGE S.A. for bank guarantees provided as a deposit to secure exchange transactions resulting from the membership in the Warsaw Commodity Clearing House. As at December 31, 2020 the total amount of sureties issued by banks was PLN 450 million and as at December 31, 2019 – PLN 1,800 million.

19.2 Other significant issues related to contingent liabilities

Commitment to provide financing for new investments in PGE Capital Group companies

In connection with planned strategic investments in the PGE Capital Group, the Company issued a few letters of commitment to its subsidiaries. They constitute the Company's obligation to provide financing for planned investment projects. The letters of commitment relate to strictly defined investment procedures and may be used for such purposes only. As at the reporting date, the approximate value of future investment commitments related to such projects amounts to approximately PLN 517 million. The estimated value of the commitments as at December 31, 2020 and December 31, 2019 was approximately PLN 15 billion.

19.3 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 Pozwy 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. The companies PGE S.A. and PGE GiEK S.A. submitted a response to the claim on July 8, 2017. On September 28, 2018, the District Court in Warsaw ruled in the first instance and the lawsuit by Pozwy sp. z o.o. against PGE S.A., PGE GiEK S.A. and PWC Polska sp. z o.o. was dismissed. On April 8, 2019, PGE S.A. received a copy of the appeal filed by the claimant on December 7, 2018. A response to the appeal was prepared on April 23, 2019.

The hearing was held on December 21, 2020. The Court of Appeal issued a verdict in which it overturned the appealed verdict of the District Court in its entirety and returned the case for re-examination to the District Court. On January 22, 2021 PGE S.A. together with PGE GiEK S.A. filed a complaint against the verdict to the Supreme Court, requesting that the verdict of the Court of Appeal be reversed in its entirety and the case be returned to the Court of Appeal for re-examination.

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 Company did not establish any provision for the filed lawsuit.

20. 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.

The 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 in these VAT accounts at a given date depends mainly on the number of the Capital Group's counterparties that decide to use this mechanism and on the relation between the payment dates of receivables and liabilities. As at December 31, 2020, the cash balance in these VAT accounts was PLN 959 million (PLN 39 million in the comparative period).

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.

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.

The provisions of the General Anti-Avoidance Rules (GAAR) are in force in Poland. 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 Company 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 Company recognises these settlements, taking into account an assessment of uncertainty.

21. Information on related entities

The State Treasury is the dominant shareholder of the PGE Capital Group. Therefore, companies owned by the State Treasury are regarded as related entities. The Company identifies in detail transactions with the largest companies controlled by the State Treasury. The combined value of transactions with such companies is presented in the tables below under “other related entities”.

Transactions with related entities are based on market prices of delivered goods, products or services or on their production costs. An exception to this rule was the settlement of tax losses within the tax capital group, as described in notes 5.2 and 20 to these financial statements.

in accordance with EU IFRS (in PLN million)

21.1 Company's transactions with related entities

Year ended December 31, 2020

	Company's subsidiaries	Other entities related within PGE CG	Other related entities	Not related entities	TOTAL
STATEMENT OF COMPREHENSIVE INCOME					
Sales revenue	21,756	-	138	5,647	**27,541**
Other operating income/(expenses)	11	-	-	(16)	**(5)**
Finance income/(expenses)	1,390	-	-	(293)	**1,097**
Operating expenses	10,494	-	196	16,134	**26,824**

Year ended December 31, 2019

	Company's subsidiaries	Other entities related within PGE CG	Other related entities	Not related entities	TOTAL
STATEMENT OF COMPREHENSIVE INCOME					
Sales revenue	14,073	-	136	937	**15,146**
Other operating income/(expenses)	7	-	-	(27)	**(20)**
Finance income/(expenses)	(1,650)	-	-	(319)	**(1,969)**
Operating expenses	7,051	-	226	7,070	**14,347**

The Company recognises revenue from sales to its subsidiaries in the PGE Capital Group related mainly to sales of electricity, gas, property rights and CO_2 emission allowances.

Financial income relates primarily to dividends and interest on loans and bonds.

Operating expenses relate to the value of goods and materials sold.

The Company 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.

21.2 Company's accounts with related entities

As at December 31, 2020

ASSETS	Company's subsidiaries	Other entities related within PGE CG	Other related entities	Not related entities	TOTAL
Financial assets:	**18,858**	**-**	**18**	**25**	**18,901**
Bonds acquired	9,943	-	-	-	9,943
Trade receivables	1,196	-	18	25	1,239
Other loans and financial assets	7,719	-	-	-	7,719
Shares and interests in subsidiaries	**29,770**	**-**	**-**	**-**	**29,770**
Shares and interests in associates and jointly controlled entities	**-**	**101**	**-**	**-**	**101**
Derivatives – assets	**-**	**-**	**-**	**1,376**	**1,376**
Other current assets	**51**	**-**	**-**	**3**	**54**

As at December 31, 2019

ASSETS	Company's subsidiaries	Other entities related within PGE CG	Other related entities	Not related entities	TOTAL
Financial assets:	**18,799**		**18**	**27**	**18,844**
Bonds acquired	12,639	-	-	-	12,639
Trade receivables	1,145	-	18	27	1,190
Other loans and financial assets	5,015	-	-	-	5,015
Shares and interests in subsidiaries	**29,995**	**-**	**-**	**-**	**29,995**
Shares and interests in associates and jointly controlled entities	**-**	**101**	**-**	**-**	**101**
Derivatives – assets	**15**	**-**	**-**	**536**	**551**
Other current assets	**484**	**-**	**-**	**3**	**487**

As at December 31, 2020

	Company's subsidiaries	Other related entities	Not related entities	TOTAL
LIABILITIES				
Derivatives – liabilities	**-**	**-**	**1,628**	**1,628**
Financial liabilities measured at amortised cost:	**2,504**	**21**	**9,827**	**12,352**
Bonds issued	-	-	1,401	1,401
Interest-bearing credits and loans	672	-	7,510	8,182
Cash pooling liabilities	1,149	-	-	1,149
Trade payables	681	21	16	718
Lease liabilities IFRS 16	-	-	20	20
Other financial liabilities	2	-	880	882

As at December 31, 2019

	Company's subsidiaries	Other related entities	Not related entities	TOTAL
LIABILITIES				
Derivatives – liabilities			**444**	**444**
Financial liabilities measured at amortised cost:	**2,087**	**8**	**10,221**	**12,316**
Bonds issued	-	-	1,403	1,403
Interest-bearing credits and loans	619	-	8,586	9,205
Cash pooling liabilities	907	-	-	907
Trade payables	561	8	25	594
Lease liabilities IFRS 16	-	-	21	21
Other financial liabilities	-	-	186	186

The issues related to letters of commitment and sureties granted to the subsidiaries of PGE S.A. are described in Note 19 to these financial statements.

21.3 Management remuneration

The management personnel comprises the Management Board and the Supervisory Board of the Company.

PLN '000	Year ended December 31, 2020	Year ended December 31, 2019
Short-term employee benefits (remuneration and surcharges)	7,913	7,735
Post-employment and termination benefits	49	199
TOTAL MANAGEMENT REMUNERATION	**7,962**	**7,934**

PLN '000	Year ended December 31, 2020	Year ended December 31, 2019
Management Board	7,201	7,201
Supervisory Board	761	733
TOTAL MANAGEMENT REMUNERATION	**7,962**	**7,934**

The members of the Company's Management Board are employed on the basis of civil law agreements for the provision of management services (so-called managerial contracts). In Note 4.2 Expenses by nature and by function, these remunerations are presented under other expenses by nature and, in addition to basic salaries, include the values of reversed provisions for bonuses for former Management Board Members and established provisions for bonuses for the present Management Board Members.

22. Remuneration of the entity authorised to audit financial statements

The entity authorised to audit the separate financial statements of PGE S.A. for the years 2020 and 2019 and the consolidated financial statements of the PGE Capital Group as well as providing the service of reviewing the semi-annual separate and consolidated financial statements for the years 2020 and 2019 is Deloitte Audyt sp. z o.o. sp.k., on the basis of the agreement entered into on April 26, 2019.

PLN '000	Year ended December 31, 2020	Year ended December 31, 2019
Audit of the annual separate financial statements and the annual consolidated financial statements of the PGE Group	540	450
Other certification services, including for the review of the semi-annual financial statements	155	155
Total remuneration	**695**	**605**

23. Disclosures resulting from Article 44 of the Energy Law regarding specific types of activities

Article 44 of the Energy Law imposes an obligation on power companies to prepare regulatory financial statements with a balance sheet (a statement of financial position) and a statement of profit or loss for reporting periods, separately for each type of business activities conducted in the following areas:

- the transmission or distribution of electricity, the transmission, distribution or storage of gaseous fuels, the trade in gaseous fuels, the liquefaction of natural gas or re-gasification of liquefied natural gas, as well as for customer groups specified in the tariff;
- not related to the activities mentioned above.

23.1 Principles of allocation to particular types of activities

The Company's separate types of activities referred to in Article 44 of the Energy Law, as well as the principles for allocating revenue, costs, assets and liabilities to these types of activities, are presented below.

23.1.1 Description of separate types of activities

The Company has identified the following types of activities in accordance with Article 44(1) of the Energy Law:

- trade in gaseous fuels,
- other activities.

23.1.2 Principles of allocation of revenue, costs, assets and liabilities

The Company allocates selected items of the statement of comprehensive income and the statement of financial position to individual activities on the basis of the accounting records:

- sales revenue,
- cost of goods sold,
- selling costs,
- general and administrative expenses,
- finance income and expenses,
- trade receivables,
- trade payables,
- derivative instruments,
- inventories,
- provisions, except for provisions for employee benefits.

The Company allocates the selected items of the statement of financial position to the various activities, using division keys:

- property, plant and equipment and intangible assets – in proportion of depreciation/amortisation costs,
- provisions for employee benefits and liabilities for wages and salaries, personal income tax social insurance – in proportion to the cost of employee benefits,
- VAT liabilities – in proportion to sales revenue.

Selected items in the statement of comprehensive income and statement of financial position are not allocated to specific types of activities as they relate to the entity's overall operations. The main unallocated items include the following:

- deferred tax assets and liabilities,
- loans and receivables other than trade receivables,
- interest-bearing bank credits, loans, bonds,
- shares in subsidiaries and financial assets available for sale,
- income tax assets and liabilities,
- cash and cash equivalents,
- equity, excluding profit for the reporting period,
- income tax in the statement of profit or loss.

The unallocated items are presented together with other activities.

in accordance with EU IFRS (in PLN million)

23.2 Breakdown by type of business activity

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2020

	Trade in natural gas	Other activities and unallocated items	Total
SALES REVENUE	**286**	**27,255**	**27,541**
Cost of goods sold	(275)	(26,289)	**(26,564)**
GROSS PROFIT ON SALES	**11**	**966**	**977**
Distribution and selling expenses	(9)	(12)	**(21)**
General and administrative expenses	(1)	(238)	**(239)**
Other operating income/(expenses)	-	(5)	**(5)**
OPERATING PROFIT/(LOSS)	**1**	**711**	**712**
Finance income/(expenses)	-	1,097	**1,097**
GROSS PROFIT	**1**	**1,808**	**1,809**
Income tax expense	-	(65)	**(65)**
NET PROFIT FOR REPORTING PERIOD	**1**	**1,743**	**1,744**

In Note 4.1, Revenue from sales of individual types of activities is presented under Revenue from sales of goods and Revenue from sales of services.

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2020

	Trade in natural gas	Other activities and unallocated items	Total
NON-CURRENT ASSETS			
Property, plant and equipment	-	155	155
Right to use assets	-	20	20
Financial receivables	-	9,139	9,139
Derivatives and other assets measured at fair value through profit or loss	-	132	132
Shares and interests in subsidiaries	-	29,401	29,401
Shares in related entities	-	101	101
Deferred income tax assets	-	119	119
	-	**39,067**	**39,067**
CURRENT ASSETS			
Inventories	-	1	1
Derivative instruments	-	1,244	1,244
Shares and interests in subsidiaries	-	369	369
Trade and other receivables	41	9,721	9,762
Other current assets	1	53	54
Cash and cash equivalents	-	3,507	3,507
	42	**14,895**	**14,937**
TOTAL ASSETS	**42**	**53,962**	**54,004**

in accordance with EU IFRS (in PLN million)

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2020

	Trade in natural gas	Other activities and unallocated items	Total
Net profit for the reporting period	1	1,743	1,744
Other capital	-	37,285	37,825
TOTAL EQUITY	**1**	**39,028**	**39,029**
NON-CURRENT LIABILITIES			
Non-current provisions	-	19	19
Credits, loans, bonds, cash pooling and leases	-	8,602	8,602
Derivative instruments	-	385	385
Other financial liabilities	-	17	17
	-	**9,023**	**9,023**
CURRENT LIABILITIES			
Current provisions	-	21	21
Credits, loans, bonds, cash pooling and leases	-	2,150	2,150
Trade and other payables	12	1,571	1,583
Derivative instruments	-	1,243	1,243
Income tax liabilities	-	456	456
Other non-financial liabilities	3	496	499
	15	**5,937**	**5,952**
TOTAL LIABILITIES	**15**	**14,960**	**14,975**
TOTAL EQUITY AND LIABILITIES	**16**	**53,988**	**54,004**

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2019

	Trade in natural gas	Other activities and unallocated items	Total
SALES REVENUE	**499**	**14,647**	**15,146**
Cost of goods sold	(498)	(13,611)	**(14,109)**
GROSS PROFIT / (LOSS) ON SALES	**1**	**1,036**	**1,037**
Distribution and selling expenses	(4)	(11)	**(15)**
General and administrative expenses	(1)	(222)	**(223)**
Other operating income/(expenses)	-	(20)	**(20)**
OPERATING PROFIT/(LOSS)	**(4)**	**783**	**779**
Finance income/(expenses)	-	(1,969)	**(1,969)**
GROSS PROFIT / (LOSS)	**(4)**	**(1,186)**	**(1,190)**
Income tax expense	-	(69)	**(69)**
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD	**(4)**	**(1,255)**	**(1,259)**

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2019

	Trade in natural gas	Other activities and unallocated items	Total
NON-CURRENT ASSETS			
Property, plant and equipment	1	161	162
Intangible assets	-	21	21
Financial receivables	-	10,955	10,955
Derivatives and other assets measured at fair value through profit or loss	-	105	105
Shares in other subsidiaries	-	29,995	29,995
Shares in related entities	-	101	101
Deferred income tax assets	-	16	16
	1	**41,354**	**41,355**
CURRENT ASSETS			
Inventories	-	3	3
Income tax receivables	-	37	37
Derivative instruments	-	446	446
Trade and other receivables	47	7,842	7,889
Other current assets	31	456	487
Cash and cash equivalents	-	221	221
	78	**9,005**	**9,083**
TOTAL ASSETS	**79**	**50,359**	**50,438**

in accordance with EU IFRS (in PLN million)

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2019

	Trade in natural gas	Other activities and unallocated items	Total
Net profit/(loss) for reporting period	(4)	(1,255)	(1,259)
Other capital	-	38,763	38,763
TOTAL EQUITY	**(4)**	**37,508**	**37,504**
NON-CURRENT LIABILITIES			
Non-current provisions	-	18	18
Credits, loans, bonds, cash pooling	-	9,521	9,521
Derivative instruments	-	106	106
Other financial liabilities	-	20	20
	-	**9,665**	**9,665**
CURRENT LIABILITIES			
Current provisions	-	1	1
Credits, loans, bonds, cash pooling	-	2,015	2,015
Trade and other payables	5	755	760
Derivative instruments	-	338	338
Other non-financial liabilities	2	153	155
	7	**3,262**	**3,269**
TOTAL LIABILITIES	**7**	**12,927**	**12,934**
TOTAL EQUITY AND LIABILITIES	**3**	**50,435**	**50,438**

24. Significant events during and after the reporting period

24.1 Impact of the COVID-19 pandemic on the operations of PGE CG and PGE S.A.

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 2.4 to the consolidated financial statements, the Group made additional write-downs on receivables in the amount of PLN 16 million. In PGE SA there was no need for any other write-downs on receivables. 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, PGE 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 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.

24.2 Events after the reporting date

At the date on which these consolidated financial statements were approved, no other significant events took place after the end of the reporting period the impact or disclosure of which is not included in these financial statements.

25. Approval of the financial statements

These 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

26. Glossary of terms and abbreviations

The following is a list of the terms and abbreviations most frequently used in these financial statements

Abbreviation	Full name
CCIRS	Cross Currency Interest Rate Swaps
CGU	Cash Generating Units
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
EUA	European Union Allowances
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
EU IFRS	EU International Financial Reporting Standards
TSO	Transmission System Operator
PEP	Poland's Energy Policy until 2040
VLP	Voluntary Leave Programme
PGE S.A., Company, parent company	PGE Polska Grupa Energetyczna S.A.
PGE EC S.A.	PGE Energia Ciepła S.A.
PGE GiEK S.A.	PGE Górnictwo i Energetyka Konwencjonalna S.A.
CTG	Tax Capital Group
RPUL	Right of perpetual usufruct of land
Financial statements	Separate financial statements of PGE S.A.
TGE	Towarowa Giełda Energii S.A.
ERO	Energy Regulatory Office
WACC	Weighted Average Cost of Capital
CSBF	Company Social Benefits Fund