SEPARATE FINANCIAL STATEMENTS

PGE Polska Grupa Energetyczna S.A.
for 2021

ended December 31, 2021
in accordance with IFRS (in PLNm)

Leading in the green transition

PGE S.A.'S SELECTED FINANCIAL DATA

	Period ended December 31		Period ended December 31	
	2021	2020	2021	2020
	PLN million	PLN million	EUR million	EUR million
Revenue from sales	35,917	27,541	7,846	6,156
Operating profit/(loss)	601	712	131	159
Gross profit/loss (before tax)	1,914	1,809	418	404
Net profit/loss for the reporting period	1,734	1,744	379	390
Comprehensive income	2,273	1,525	497	341
Net cash from operating activities	953	2,035	208	455
Net cash from investing activities	1,887	2,642	412	590
Net cash from financing activities	(1,016)	(1,403)	(222)	(314)
Net change in cash and equivalents	1,824	3,274	398	732
Net profit per share (in PLN/EUR per share)	0.93	0.93	0.20	0.21
Diluted profit per share (in PLN/EUR per share)	0.93	0.93	0.20	0.21
Weighted average number of ordinary shares used to calculate profit per share	1,869,760,829	1,869,760,829	1,869,760,829	1,869,760,829

	As at		As at	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
	PLN million	PLN million	EUR million	EUR million
Non-current assets	36,929	39,067	8,029	8,466
Current assets	27,881	14,937	6,062	3,236
Total assets	**64,810**	**54,004**	**14,091**	**11,702**
Equity	41,302	39,029	8,980	8,457
Share capital	**19,165**	**19,165**	**4,167**	**4,153**
Non-current liabilities	7,144	9,023	1,553	1,955
Current liabilities	16,364	5,952	3,558	1,290

The above financial data was converted into EUR in accordance with the following rules:
▪ asset and equity and liability items - at the average exchange rate announced by the National Bank of Poland for December 31, 2021 - EURPLN 4.5994 and for December 31, 2020 - EURPLN 4.6148.
▪ items in the statement of comprehensive income and statement of cash flows - at an exchange rate constituting the arithmetic mean of the average exchange rates published by the National Bank of Poland for the last day of each month in the financial year from January 1, 2021 to December 31, 2021 - EURPLN 4.5775; for the period from January 1, 2020 to December 31, 2020 - EURPLN 4.4742.

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STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2021	Year ended December 31, 2020
STATEMENT OF PROFIT OR LOSS			
REVENUE FROM SALES	*4.1*	**35,917**	**27,541**
Cost of goods sold	*4.2*	(35,094)	(26,564)
GROSS PROFIT ON SALES		**823**	**977**
Distribution and selling expenses	*4.2*	(17)	(21)
General and administrative expenses	*4.2*	(206)	(239)
Other operating income / (expenses)		1	(5)
OPERATING PROFIT		**601**	**712**
Finance income / (costs), including	*4.3*	1,313	1,097
Interest income calculated using the effective interest rate method		*154*	*150*
GROSS PROFIT/(LOSS)		**1,914**	**1,809**
Income tax	*5.1*	(180)	(65)
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD		**1,734**	**1,744**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss:			
Measurement of hedging instruments	*12.3*	659	(267)
Deferred tax	*5.1*	(125)	51
Items that may not be reclassified to profit or loss:			
Actuarial gains and losses from valuation of provisions for employee benefits		6	(3)
Deferred tax		(1)	-
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**539**	**(219)**
TOTAL COMPREHENSIVE INCOME		**2,273**	**1,525**
NET PROFIT/(LOSS) PER SHARE AND DILUTED NET PROFIT/(LOSS) PER SHARE /IN PLN/	*12.5*	**0.93**	**0.93**

STATEMENT OF FINANCIAL POSITION

	Note	As at December 31, 2021	As at December 31, 2020
NON-CURRENT ASSETS			
Property, plant and equipment	*6.*	146	155
Right-of-use assets	*7.*	20	20
Financial receivables	*16.1.1*	6,936	9,139
Derivatives and other assets measured at fair value through profit or loss	*16.1.2*	358	132
Shares in subsidiaries	*8.*	29,370	29,401
Shares in subsidiaries, jointly controlled entities, associates and other	*8.2*	96	101
Deferred income tax assets	*5.3.2*	-	119
Other non-current assets		3	-
		36,929	**39,067**
CURRENT ASSETS			
Inventories		1	1
Income tax receivables		136	-
Trade and other receivables	*16.1.1*	19,637	9,762
Derivatives	*16.1.2*	2,254	1,244
Shares in subsidiaries	*8.*	162	369
Other current assets	*10.*	375	54
Cash and cash equivalents	*11.*	5,316	3,507
		27,881	**14,937**
TOTAL ASSETS		**64,810**	**54,004**
EQUITY			
Share capital	*12.1*	19,165	19,165
Reserve capital	*12.2*	20,154	18,410
Hedging reserve	*12.3*	246	(288)
Retained earnings	*12.4*	1,737	1,742
		41,302	**39,029**
NON-CURRENT LIABILITIES			
Non-current provisions	*13,14*	13	19
Loans, borrowings, bonds and leases	*16.1.3*	7,084	8,602
Deferred income tax liability	*5.3.2*	34	-
Derivatives	*16.1.2*	-	385
Other liabilities	*16.1*	13	17
		7,144	**9,023**
CURRENT LIABILITIES			
Current provisions	*13,14*	40	21
Loans, borrowings, bonds, cash pooling, leases	*16.1.3*	3,164	2,150
Derivatives	*16.1.2*	2,278	1,243
Trade and other liabilities	*16.1.4*	10,238	1,583
Income tax liabilities		1	456
Other non-financial liabilities	*15.*	643	499
		16,364	**5,952**
TOTAL LIABILITIES		**23,508**	**14,975**
TOTAL EQUITY AND LIABILITIES		**64,810**	**54,004**

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, 2020	**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**
Coverage of losses from previous years	-	(1,259)	-	1,259	**-**
AS AT DECEMBER 31, 2020	**19,165**	**18,410**	**(288)**	**1,742**	**39,029**
Net profit for the reporting period	-	-	-	1,734	**1,734**
Other comprehensive income	-	-	534	5	**539**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**534**	**1,739**	**2,273**
Allocation of profit from previous years	-	1,744	-	(1,744)	**-**
AS AT DECEMBER 31, 2021	**19,165**	**20,154**	**246**	**1,737**	**41,302**

STATEMENT OF CASH FLOWS

	Note	Year ended December 31, 2021	Year ended December 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Gross profit / (loss)		**1,914**	**1,809**
Income tax paid		(718)	467
Adjustments for:			
Depreciation, amortisation and impairment losses		12	12
Interest and dividend, net	*18.1*	(1,400)	(1,610)
Profit / loss on investing activities	*18.1*	102	618
Change in receivables	*18.1*	(7,942)	90
Change in inventories		-	2
Change in liabilities, excluding loans and borrowings	*18.1*	8,736	1,072
Change in other non-financial assets	*18.1*	254	(431)
Change in provisions		(20)	18
Exchange differences		15	(12)
NET CASH FROM OPERATING ACTIVITIES		**953**	**2,035**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets		(3)	(3)
(Purchase) / buy-back of bonds issued by PGE Group companies	*18.2*	800	2,695
Sale of other financial assets		391	21
Purchase of subsidiaries	*18.2*	(136)	(86)
Dividends received	*18.2*	1,252	1,464
Received/(provided) cash under cash pooling	*18.2*	78	929
Loans granted		(12,519)	(5,811)
Interest received		451	496
Loans repaid		11,573	2,937
NET CASH FROM INVESTING ACTIVITIES		**1,887**	**2,642**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans, borrowings	*18.3*	273	4,100
Repayment of loans, borrowings, leases	*18.3*	(976)	(5,161)
Interest paid		(313)	(342)
NET CASH FROM FINANCING ACTIVITIES		**(1,016)**	**(1,403)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**1,824**	**3,274**
Net exchange differences		(15)	12
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	*11*	**3,493**	**219**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	*11*	**5,317**	**3,493**

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

1. General information

1.1 Company operations

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

PGE S.A. is the parent company for PGE Group and prepares separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

The State Treasury is the Company's principal shareholder.

The Company's core activities are as follows:

- trade in electricity and other energy market products
- oversight of head offices and holding companies
- provision of financial services to PGE Group companies
- provision of other services related to these activities

PGE S.A.'s business activities are conducted under appropriate concessions, including concession for electricity trading granted by the Energy Regulatory Office. The concession is valid until 2025. No significant assets or liabilities are assigned to the concession. According to the concession the annual fees are paid depending on the level of turnover. In both 2021 and 2020, the Company's costs relating to the concession amounted to PLN 2.5 million.

Revenue from the sale of electricity and other energy market products is the only significant item of operating revenue. This revenue is generated on the domestic market. The Company's Management Board does not analyse its business based on segments as a result of which the Company does not report operating or geographical segments.

PGE S.A.'s accounting books are maintained by subsidiary PGE Synergia sp. z o.o.

Going concern

These financial statements were prepared under the assumption that the Company will continue operating as a going concern for at least 12 months from the reporting date. As at the date of approval of these financial statements, there is no evidence indicating that the Company will not be able to continue its operations as a going concern.

These financial statements cover the period from January 1, 2021 to December 31, 2021 and include comparative data for the period from January 1, 2020 to December 31, 2020.

1.2 Ownership structure

	As at December 31, 2021	As at January 1, 2021
State Treasury	57.39%	57.39%
Other shareholders	42.61%	42.61%
Total	**100.00%**	**100.00%**

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

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

1.3 Composition of the Company's Management Board

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

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

On March 31, 2021 Mr. Paweł Strączyński resigned as Vice-President of the Management Board, effective March 31, 2021. On June 8, 2021, PGE's Supervisory Board adopted a resolution to appoint Mr. Lechosław Rojewski to the Management Board from June 9, 2021.

At December 31, 2021 and on the date on which these financial statements were published, the Company's Management Board was as follows:

- Wojciech Dąbrowski – President of the Management Board,
- Wanda Buk – Vice-President of the Management Board,
- Paweł Cioch – Vice-President of the Management Board,
- Lechosław Rojewski – 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 financial statements

2.1 Statement of compliance

These financial statements were prepared in accordance with IFRS EU. IFRS comprise standards and interpretations, approved by the International Accounting Standards Board and the IFRIC Interpretations Committee.

Included in these financial statements, in note 23, is the financial information referred to in art. 44 sec. 2 of the Energy Law dated April 10, 1997 (Official Journal from 2012 item 1059, as amended).

These financial statements are prepared under the historical cost convention, which was modified in relation to:

- 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 IFRS were measured at deemed cost as at that date. In addition, for certain property, plant and equipment and intangible assets impairment loss has 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 principles applied.
- Impaired assets – presented at historical cost adjusted by impairment losses.

The accounting rules used in the preparation of these financial statements are described in the individual detailed notes and have been applied consistently by the Company for all periods presented unless otherwise stated.

2.2 Presentation and functional currency

The Company's functional currency and the presentation currency of these financial statements is the Polish zloty ("PLN"). All amounts are in PLN million, unless indicated otherwise.

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

	December 31, 2021	December 31, 2020
USD	4.0600	3.7584
EUR	4.5994	4.6148

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, 2021:

Standard	Description of changes	Effective date
IFRS 14 Regulatory Deferral Accounts	Accounting and disclosure principles for regulatory deferral accounts.	In accordance with a decision by the European Commission, the approval process for the standard in its preliminary version will not begin before the final version is published.
Amendments to IFRS 10 and IAS 28	Contains guidelines on the sale or contribution of assets between an investor and its joint venture or associate.	Postponed indefinitely
IFRS 17 Insurance contracts	Defines a new approach to recognising revenue and profit/loss in the period in which insurance services are provided	January 1, 2023
Amendments to IAS 1	The changes concern presentation of financial statements - Classification of Liabilities as Current or Non-current	January 1, 2023
Amendments to IAS 1	The amendments concern the presentation of financial statements - disclosures regarding the applied accounting policy	January 1, 2023
Amendments to IAS 8	The amendments concerning disclosures regarding the applied accounting policy, including changes in estimated values and correcting errors	January 1, 2023
Amendments resulting from IFRS annual improvement cycle 2018-2020	Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 mainly concern the resolution of inconsistencies and clarification of terminology.	January 1, 2022
Amendments to IFRS 3	Amendments to References to the Conceptual Framework	January 1, 2022
Amendments to IAS 16	Proceeds from property, plant and equipment before intended use	January 1, 2022
Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract	January 1, 2022
Amendments to IFRS 16	Covid-19-Related Rent Concessions	April 1, 2021
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	January 1, 2023
Amendments to IFRS 17 Insurance Contracts	First-time Adoption of IFRS 17 and IFRS 9 - Comparative Data	January 1, 2023

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

These regulations will not have a material impact on PGE S.A.'s future financial statements.

3. Changes in accounting principles and data presentation

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

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

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

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

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

4. Revenue and costs

4.1 Revenue from sales

ACCOUNTING RULES

Revenue from contracts with customers

Revenue is recognised so as to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is recognised when the performance obligation is met, i.e. goods (product) are provided to the customer. The transfer of the goods occurs when the customer gains control of the goods.

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

- the parties have executed a contract (in written or verbal form or in accordance with customary trade practices) and are obligated to perform their duties;
- the entity is able to identify the rights of each of the parties with regard to the goods or services that are to be transferred;
- the entity is able to identify terms of payment for the goods or services that are to be transferred;
- the contract has commercial substances;
- it is probable that the consideration to which the entity is entitled to in exchange for the goods or services will be collected.

Upon contract execution, the entity analyses the goods or services covered by the contract with the client and identifies as a performance obligation all commitments to provide the customer with:

- goods or services (or packages of goods or services) that are distinguishable; or
- groups of separate goods or services that are essentially the same and in the transfer to the client is the same.

The Company recognises revenue when the performance obligation concerning the goods and services is met (or is in the process of being met). The transfer of an asset occurs when the customer obtains control of the asset, that is, the ability to directly dispose of the asset and the ability to obtain substantially all of the other benefits from the asset.

The Company transfers control over goods or services over time and thus satisfies the performance obligation and recognises revenue over time if one of the following conditions is met:

- the customer receives and derives benefits from the Company's consideration as the Company provides the consideration;
- as a result of the Company's consideration a new or improved asset is created (e.g. production in progress) and control over this asset - as it is created or improved - is exercised by the customer; or
- as a result of the Company's consideration no new asset is created for alternative use by the Company and the Company has an enforceable title to pay for the consideration provided thus far.

For each performance obligation over time, the entity recognises revenue over time, measuring the degree of performance of this obligation. The purpose of the measurement is to determine the progress in meeting the entity's obligation to transfer control of the goods or services promised to the customer (i.e. the extent to which the performance obligation is met).

When a performance obligation is met (or is in the process of being met), the entity recognises as revenue an amount equal to the transaction price that was allocated to that performance obligation. The transaction price includes some or all of the amount of estimated variable consideration only to the extent that it is highly probable that a significant portion of the amount of previously recognized cumulative revenue will not be reversed when uncertainty about the amount of variable consideration ceases.

To determine the transaction price, the entity considers the terms of the contract and its usual commercial practices. The transaction price is the amount of consideration that the entity expects to receive in exchange for transferring the promised goods or services to the customer, excluding amounts collected on behalf of third parties.

Lease income

The Company, as lessor, has classified the leases entered into as operating leases. Operating lease income is recognised in the profit or loss of the current period using the straight-line method. The leases are mainly for office and commercial space.

Revenue from wholesale of electricity

Contracts for the sale of electricity concluded on the wholesale market are notified to the Transmission System Operator (TSO) in the form of the quantity of electricity declared each hour which the company, as supplier, is required to deliver or cause to be delivered and the customer to receive. The settlement price as well as the volumes of electricity in particular hours result from the previously signed OTC (Over The Counter) contracts or in case of sales on TGE markets from the electronically recorded transactions.

Deviations of actually delivered electricity quantities from previously notified delivery schedules (Energy Sale Contracts) are settled on the Balancing Market operated by the Transmission System Operator at balancing energy prices determined in accordance with its operating rules. Balancing market settlements are carried out with the TSO in 10-day cycles, while wholesale settlements on TGE are conducted with clearinghouse IRGiT, which is the guarantor for settlements of transactions executed on TGE, and they are performed daily, in accordance with the IRGiT settlement rules. In the case of OTC contracts, settlements are carried out in accordance with the provisions of these contracts, i.e. in 10-day or monthly cycles.

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

Type of goods or services	Year ended December 31, 2021	Year ended December 31, 2020
REVENUE FROM CONTRACTS WITH CUSTOMERS	**35,913**	**27,536**
Revenue from sale of goods, including:	**34,822**	**26,495**
Sale of electricity	*11,797*	*14,945*
Sale of gas	*486*	*279*
Sale of CO_2 emission allowances	*22,506*	*11,271*
Revenue from the Capacity Market	*33*	*-*
Revenue from sale of services	**1,091**	**1,041**
Revenue from leases	**4**	**5**
TOTAL REVENUE FROM SALE	**35,917**	**27,541**

The total amount of revenue from sales includes approx. PLN 4 million due to sales transactions for which the value was not finally determined at the end of the reporting period.

In 2021, the Company recognised revenue for performance obligations met in prior periods resulting from adjustments to the value of electricity sales in the balancing market made in prior years. The total value of these adjustments was approx. PLN 24 million (approx. PLN 4 million in 2020).

Deadline for delivery of goods or services	Year ended December 31, 2021	Year ended December 31, 2020
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS		
Revenue from sale of goods or services provided to the customer over time	*13,407*	*16,265*
Revenue from sale of goods or services provided to the customer at a point in time	*22,506*	*11,271*
TOTAL REVENUE FROM SALE	**35,913**	**27,536**

The Company operates predominately in Poland. Sales to foreign customers in 2021 and 2020 amounted to PLN 5,226 million and PLN 4,411 million, respectively, and mainly concerned the sale of CO_2 allowances.

The decrease in revenue from electricity sales in 2021 compared to the same period of the previous year is due to the lower volume of electricity sold. The decrease in volume is mainly due to a lower volume of electricity sold to PGE Obrót S.A. to secure the demand of retail customers and a lower volume of electricity resold to producers.

The increase in revenue from natural gas sales in 2021 compared to the previous year is mainly due to an increase in the average gas sales price.

The increase in revenue from the sale of CO_2 allowances is the result of both an increase in the sale price and the quantity of CO_2 allowances sold. Sales of CO_2 allowances increased both to PGE Group companies and to entities outside PGE Group.

Moreover, in 2021, in order to optimise cash flows, PGE Group decided to change its strategy regarding the hedging of CO_2 allowances and to roll over part of the contracts concerning these allowances. As a result of this strategy, purchase contracts with delivery in December 2021 in a total volume of 19.6 million tonnes were closed and replaced by contracts with delivery in the first quarter of 2022. This transaction generated additional revenue of PLN 5,034 million.

Revenue from the Capacity Market - in connection with the launch of the Capacity Market on January 1, 2021, PGE Group companies being suppliers of capacity to PSE S.A. generate revenue related to the capacity obligation. This revenue is settled by individual Group companies according to an algorithm described in the Capacity Market Management Agreement. PGE S.A., which according to the Agreement serves as Manager, recognises revenue from activities it undertakes.

Revenue from the sale of services mainly concerns services performed for PGE Group subsidiaries and includes, inter alia, services related to electricity trade and supply, supply of fuel, licenses and support services.

Information concerning key clients

The Company's main counterparties are PGE Group subsidiaries. In 2021, sales to PGE GiEK S.A. accounted for 35% of revenue from sales, while sales to PGE Obrót S.A. accounted for 28%. In 2020, sales to these companies accounted for 30% and 42%, respectively.

4.2 Costs by nature and function

ACCOUNTING RULES

Cost of goods sold

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

Costs that can be directly attributable to revenues recognised by the Company are recognised in profit or loss for the reporting period in which the revenues were recognised.

Costs that can only be indirectly attributed to revenues or other economic benefits recognised by the Company, are recognised in the profit or loss in the reporting periods to which they relate, in accordance with accrual basis of accounting, taking into account the principles of measurement of property, plant and equipment and inventories.

	Year ended December 31, 2021	Year ended December 31, 2020
COSTS BY NATURE		
Depreciation, amortisation	12	12
External services	75	82
Employee benefits expenses	152	178
Other costs by nature	69	52
TOTAL COSTS BY NATURE	**308**	**324**
Distribution and selling expenses	(17)	(21)
General and administrative expenses	(206)	(239)
Cost of goods and materials sold	35,009	26,500
COST OF GOODS SOLD	**35,094**	**26,564**

The increase in the value of goods and materials sold in 2021, comparing to 2020, is largely the effect of higher revenue from sales, as described above, and higher prices on the wholesale market.

4.2.15.2.1 Depreciation, amortisation and impairment losses

	Depreciation, amortisation					
	Year ended December 31, 2021			Year ended December 31, 2020		
	Property, plant and equipment	Right-of-use assets	TOTAL	Property, plant and equipment	Right-of-use assets	TOTAL
Cost of goods sold	4	-	**4**	4	-	**4**
General and administrative expenses	8	-	**8**	7	1	**8**
TOTAL	**12**	**-**	**12**	**11**	**1**	**12**

4.2.2 External services

	Year ended December 31, 2021	Year ended December 31, 2020
Trading commissions	19	18
IT services	23	28
Consulting services	17	14
Transmission services	7	7
Other	9	15
TOTAL EXTERNAL SERVICES	**75**	**82**

4.2.3 Employee benefits expenses and employment structure

	Year ended December 31, 2021	Year ended December 31, 2020
Payroll	130	122
Social security expenses	20	19
Change in provisions for employee benefits	-	2
Cost of voluntary leave programs	(11)	21
Other employee benefits	13	14
TOTAL EMPLOYEE BENEFITS EXPENSES, INCLUDING:	**152**	**178**
Included in costs of goods sold	50	34
Included in distribution and selling costs	2	3
Included in general and administrative expenses	100	141

As at December 31, 2021, the Company had 698 employees (full-time equivalent), compared to 615 at December 31, 2020.

4.2.4 Other costs by nature

	Year ended December 31, 2021	Year ended December 31, 2020
Sponsoring and advertising	48	29
Management remuneration	6	8
Taxes and fees	5	5
Other	10	10
TOTAL	**69**	**52**

4.3 Finance income and finance costs

ACCOUNTING RULES

Finance income and finance costs

Interest income and costs are recognised over the respective period using the effective interest method in relation to the net amount of the financial instrument at the reporting date.

Dividends are recognised when the shareholders' right to receive payments is established.

	Year ended December 31, 2021	Year ended December 31, 2020
NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS		
Dividends	1,252	1,464
Interest calculated using the effective interest rate method	141	150
Revaluation of financial instruments	(33)	15
Reversal/(recognition) of impairment	(7)	(515)
Exchange differences	(4)	(4)
Profit/(loss) on disposal of investment	(36)	(11)
TOTAL NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS	**1,313**	**1,099**
NET OTHER FINANCE INCOME/(COSTS)		
Interest cost on non-financial items	-	(1)
Other	-	(1)
TOTAL NET OTHER FINANCE INCOME/(COSTS)	**-**	**(2)**
TOTAL NET FINANCE INCOME/(COSTS)	**1,313**	**1,097**

In 2021, the Company reported dividend income mainly from PGE Dystrybucja S.A. (PLN 784 million), PGE EC S.A. (PLN 277 million) and PGE EO S.A. (PLN 166 million), and in the comparative period PLN 792 million from PGE Dystrybucja S.A., PLN 467 million from PGE EO S.A., and PLN 186 million from PGE EC S.A.

In the item "release/(creation) of impairment losses" in the current reporting period the Company presents the recognition of impairment losses of subsidiaries and associates of PGE S.A., mainly in relation to Betrans sp. z o.o. in amount of PLN 9 million, Elmen sp. z o.o. in amount of PLN 7 million and ElectroMobility Poland S.A. PLN 4 million, and a reversal of impairment in relation to Elbest sp. z o.o. in the amount of PLN 22 million.

The Company reports interest income mainly from bonds issued by subsidiaries and from financing provided to subsidiaries. Interest costs mainly relate to credit and loans taken out and bonds issued, as described in note 16.1.3 of these financial statements.

The item 'impairment of financial statements' includes measurements of hedging transactions in the part considered as the ineffective part of a hedge for instruments designated as hedging instruments in cash flow hedge accounting and in full when it comes to other instruments.

An agreement to sell all shares in PGE EJ1 sp. z o.o. to the State Treasury was signed on March 26, 2021. The ownership of the shares was transferred on March 31, 2021. In connection with the sale, PGE S.A. incurred a gross loss of PLN 39 million. The result on disposal of shares in PGE EJ1 sp. z o.o. was influenced by a provision, which is described in note 13 of these financial statements.

5. Income tax

ACCOUNTING RULES

Taxes

Income tax recognised in profit or loss comprises current income tax and deferred income tax. Recognised are actual fiscal charges for the reporting period calculated by the Company in accordance with regulations of the Corporate Income Tax Act and the change in deferred tax assets and deferred tax liabilities other than the ones charged or credited directly to equity.

In connection with temporary differences between the reported value of assets and liabilities in the books and their tax value and tax loss deductible in the future, the Company establishes deferred tax liabilities and assets.

The value of deferred tax assets and liabilities in the statement of financial position is reviewed at each reporting date. Deferred tax assets and deferred tax liabilities are classified entirely as long-term. The Company offsets deferred tax assets and liabilities.

The Company reduces 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 deferred tax asset to be utilised partially or entirely.

5.1 Tax in the statement of comprehensive income

Main elements of income tax expense for the years ended December 31, 2021 and December 31, 2020 are as follows:

	Year ended December 31, 2021	Year ended December 31, 2020
INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS		
Current income tax PGE S.A.	130	210
Benefits from tax group settlements	(3)	(75)
Adjustments related to settlement of current income tax of previous years	26	8
Deferred income tax from prior years	-	(27)
Deferred income tax	27	(51)
INCOME TAX EXPENSE RECOGNISED IN STATEMENT OF PROFIT OR LOSS	**180**	**65**
INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME		
From measurement of hedging instruments	125	(51)
From actuarial gains and losses on measurement of employee benefit provisions	1	-
(Tax benefit) / tax burden recognised in other comprehensive income (equity)	**126**	**(51)**

Rules regarding settlements between companies forming the PGE tax group are described in note 20 of these financial statements. Adjustments related to settlement of current income tax of previous years concern mainly final settlement of the tax group for the previous year. The differences arise from sales of electricity for the previous year invoiced in the current year, previously recognised based on estimates.

5.2 Effective tax rate

A reconciliation of the calculation of income tax on profit before tax at the statutory tax rate and income tax calculated according to the effective tax rate of the Company is as follows:

	Year ended December 31, 2021	Year ended December 31, 2020
PROFIT/(LOSS) BEFORE TAX	**1,914**	**1,809**
Income tax according to Polish statutory tax rate of 19%	364	344
ITEMS ADJUSTING INCOME TAX		
Adjustments related to settlement of current income tax of previous years	26	8
Deferred income tax from prior years	-	(27)
Tax losses of companies belonging to the tax group	(3)	(75)
Non-taxable income	(234)	(279)
Non-tax-deductible tax loss	22	-
Costs not recognised as tax-deductible costs	5	94
TAX AT EFFECTIVE TAX RATE (Income tax (expense) as presented in the financial statements)	**180**	**65**
EFFECTIVE TAX RATE	**9.4%**	**3.6%**

Non-taxable income refers mainly to dividend income which are not included in the calculation of the current income tax base (in 2021 tax impact of PLN 238 million and in 2020 of PLN 278 million).

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

In the current and comparative reporting period, the Company's non-deductible expenses mainly included impairment of shares in subsidiaries.

5.3 Deferred tax in the statement of financial position

5.3.1 Deferred income tax assets

	As at December 31, 2021	As at December 31, 2020
Difference between tax value and carrying amount of financial liabilities	17	18
Difference between tax value and carrying amount of financial assets	417	365
Provisions for employee benefits	9	15
Other	8	6
DEFERRED TAX ASSETS	**451**	**404**

Change in deferred income tax - assets

	Year ended December 31, 2021	Year ended December 31, 2020
AS AT JANUARY 1	**404**	**138**
Change in correspondence to financial result	47	266
AS AT DECEMBER 31	**451**	**404**

5.3.2 Deferred tax liabilities

	As at December 31, 2021	As at December 31, 2020
Difference between tax value and carrying amount of property, plant and equipment	15	16
Difference between tax value and carrying amount of other financial assets	470	269
DEFERRED TAX LIABILITIES	**485**	**285**

Change in deferred income tax - liabilities

	Year ended December 31, 2021	Year ended December 31, 2020
AS AT JANUARY 1	**285**	**122**
Change in correspondence to financial result	74	214
Change in correspondence to other comprehensive income	126	(51)
AS AT DECEMBER 31	**485**	**285**

Changes in correspondence with other comprehensive income relate to the change in deferred tax on the measurement of hedging instruments. Other changes in each item have been recognised in the financial result.

	Year ended December 31, 2021	Year ended December 31, 2020
Deferred tax assets	-	119
Income tax liabilities	34	-

The Company does not determine a liability or asset for deferred tax on the difference between the tax value and the book value of its shares in subsidiaries because of the uncertainty about the realisation of these differences. Temporary differences between the tax value and the carrying amount of shares in subsidiaries would amount to PLN 5,059 million, representing a PLN 961 million impact on the deferred tax asset.

The taxable temporary differences associated with the past application of below-market interest rates on the Company's subscribed bonds issued by subsidiaries would amount to PLN 127 million, representing a PLN 24 million impact on the deferred tax liability.

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

6. Property, plant and equipment

ACCOUNTING RULES

Property, plant and equipment

Property, plant and equipment are assets:

- held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and
- expected to be used for more than one year.

Property, plant and equipment is measured at net carrying amount, i.e. initial value (or deemed cost for items of property, plant and equipment used before the transition to IFRS) less any accumulated depreciation and any impairment losses. Initial value comprises purchase price including all costs directly attributable to the purchase and bringing the asset into use. The cost comprises estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having it used for purposes other than to produce inventories.

The depreciable amount is the purchase price / cost to manufacture an asset less its residual value. Depreciation commences when the asset is available for use. Depreciation is based on a depreciation plan reflecting the future useful life of the asset. The depreciation method used reflects the pattern in which the asset's future economic benefits are expected to be consumed by the economic entity.

The following useful lives are adopted for particular groups of property, plant and equipment:

Group	Average remaining amortisation period in years	Applied total depreciation periods in years in years
Buildings and structures	15	2-31
Machinery and equipment	6	1-39
Vehicles	3	1-10
Other property, plant and equipment	3	1-15

	As at December 31, 2021	As at December 31, 2020
Buildings	135	144
Other property, plant and equipment	11	11
NET VALUE OF PROPERTY, PLANT AND EQUIPMENT	**146**	**155**

In the reporting and comparative period, the Company did not purchase nor sold any significant property, plant and equipment.

Part of the area of the building owned by the Company was leased out under operating leases. The net value of property, plant and equipment under operating leases was PLN 17 million as at December 31, 2021. The depreciation of these assets recognised in current period costs amounted to PLN 1 million.

7. Right-of-use assets

ACCOUNTING RULES

Right-of-use assets

As defined in IFRS 16, an arrangement is, or contains, a lease if it transfers the right to control the use of an identified asset for a specified period in exchange for consideration.

The Company defines the lease term as an irrevocable period over which the lessee has the right to use the underlying asset, along with:

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

In determining the lease term and estimating the length of the irrevocable lease term, the Company applies the contract definition and determines the enforceability period of the contract. A lease ceases to be enforceable when both the lessee and the lessor have the right to terminate the lease without the consent of the other party, resulting at most in a minor penalty. The notion of penalty includes all kinds of "disadvantages" of an economic nature, creating barriers to exit from the contract.

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

The lease term begins on the inception date (when the underlying asset is made available for use by the lessee) and includes any rent-free periods granted to the lessee by the lessor.

At the inception of the lease, 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 renew the lease, the option to purchase the underlying asset or the option to terminate the lease.

The lessee recognises the right-of-use asset on the inception date.

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

Subsequent to the inception date, the lessee measure the right-of-use asset using the cost model. The lessee measures the right-of-use asset at cost:

- less accumulated depreciation (amortisation) and accumulated impairment losses. Depreciation is charged over the life of the lease, from the moment the asset is put in service. No depreciation is charged on the right-of-use classified as non-current assets held for sale.
- adjusted for revaluation of the liability (e.g. as a result of changes in lease payments).

As a lessee, the Company applies a recognition, measurement and presentation exemption to:

- short-term leases, i.e. leases with a term that is not longer than 12 months and which do not contain a call option; The exemption applies mainly to the letting of office premises;
- leases in respect of which the underlying asset is of low value and which are not subleased. The Company considers the value of the underlying asset to be low (the value of a new asset regardless of the age of the leased asset) if it does not exceed PLN 18 thousand. The exemption is applied to small office equipment (printers, photocopiers, computers, etc.).

In the item 'Right-of-use assets', the Company recognises the right to perpetual usufruct of land, which at the effective date of IFRS 16, i.e. i.e. January 1, 2019, was measured at the value of future discounted payments.

The value of right-of-use assets as at December 31, 2021 was PLN 20 million.

The depreciation periods for right-of-use assets are:

Group	Remaining depreciation period in years	Total depreciation period in years
Perpetual usufruct of land	68	99

As at December 31, 2021 no impairment risk regarding these assets was identified.

8. Shares in subsidiaries

ACCOUNTING RULES

Shares in subsidiaries, jointly controlled entities and associates

Subsidiaries are entities over which the Company has control as a result of its investment if by virtue of its involvement in the entity it is exposed to variable returns, or has rights to variable returns, and has the ability to affect those returns through its power over the entity. This involves holding the majority of total votes in decision-making bodies of these organisations. To determine whether the Company has control over the given organisation, existence and impact of potential voting rights that can be realized or converted at any time are considered.

A jointly controlled entity is an organisation in which the division of control over the business as specified in the agreement requires unanimity of controlling parties with respect to strategic financial and operational decisions.

An associate is an entity, including a partnership such as a corporation, over which the investor has significant influence and that is not a subsidiary or jointly controlled entity. IAS 28 defines 'significant influence' as the power to participate in the operational and financial policy decisions of an investee but not to exercise control or joint control over that investee.

The entity's ownership interests in subsidiaries, jointly controlled entities and associates are measured in accordance with IAS 27 Separate Financial Statements at historical cost. If there is objective evidence that these assets are impaired, the amount of the impairment is measured as the difference between the current book value of the asset and the estimated recoverable amount.

Shares in subsidiaries are recognised at cost less accumulated impairment losses.

	Registered office	Stake as at December 31, 2021	As at December 31, 2021	Stake as at December 31, 2020	As at December 31, 2020
COMPANIES BELONGING TO TG PGE 2015					
PGE Górnictwo i Energetyka Konwencjonalna S.A.	Bełchatów	100.00%	11,723	100.00%	11,980
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%	622	100.00%	574
PGE Dom Maklerski S.A.	Warsaw	100.00%	97	100.00%	97
ELBEST sp. z o.o.	Bełchatów	100.00%	88	100.00%	71
PGE Ventures sp. z o.o	Warsaw	100.00%	68	100.00%	68
PGE Centrum sp. z o.o.	Warsaw	-	-	100.00%	48
PGE Gryfino 2050 sp. z o.o. (PGE Inwest 8)	Warsaw	100.00%	35	100.00%	<1
PGE Nowa Energia sp. z o.o	Warsaw	100.00%	28	100.00%	32
BETRANS sp. z o.o.	Bełchatów	100.00%	26	100.00%	35
ELMEN sp. z o.o.	Rogowiec	100.00%	16	100.00%	23
BESTGUM POLSKA sp. z o.o.	Rogowiec	100.00%	12	100.00%	12
PGE Systemy S.A.	Warsaw	100.00%	10	100.00%	10
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
Mega Serwis sp. z o.o.	Bogatynia	100.00%	7	100.00%	7
PGE Synergia sp. z o.o.	Warsaw	100.00%	6	100.00%	6
ELBEST Security sp. z o.o.	Warsaw	100.00%	4	100.00%	<1
ELTUR SERWIS sp. z o.o.	Bogatynia	100.00%	2	100.00%	5
PGE Inwest 14 sp. z o.o.	Warsaw	100.00%	4	100.00%	4
PGE Inwest 13 S.A.	Warsaw	100.00%	1	100.00%	1
5 limited liability companies named PGE Inwest 2;9-12	Warsaw	100.00%	<1	100.00%	<1

	Registered office	Stake as at December 31, 2021	As at December 31, 2021	Stake as at December 31, 2020	As at December 31, 2020
COMPANIES NOT BELONGING TO TG PGE 2015					
PGE Energia Ciepła S.A.	Warsaw	100.00%	4,341	100.00%	4,118
PGE Baltica 3 sp. z o.o.	Warsaw	100.00%	138	100.00%	<1
PGE Baltica 2 sp. z o.o.	Warsaw	100.00%	104	100.00%	<1
PGE EJ 1 sp. z o.o.	Warsaw	-	-	70.00%	369
PGE Ekoserwis sp. z o.o.	Wrocław	100.00%	70	95.08%	65
PGE Sweden AB (publ)	Stockholm	100.00%	52	100.00%	52
Elektrownia Wiatrowa Baltica 1 sp. z o.o.	Warsaw	100.00%	32	100.00%	22
PGE Trading GmbH	Berlin	100.00%	23	100.00%	23
Rybnik 2050 sp. z o.o.	Rybnik	100.00%	23	-	-
Towarzystwo Funduszy Inwestycyjnych Energia S.A.	Warsaw	100.00%	18	100.00%	18
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	100.00%	1
Elektrownia Wiatrowa Baltica 9 sp. z o.o.	Warsaw	100.00%	1	-	-
Elektrownia Wiatrowa Baltica 10 sp. z o.o. w organizacji	Warsaw	100.00%	<1	-	-
Elektrownia Wiatrowa Baltica 11 sp. z o.o.	Warsaw	100.00%	<1	-	-
Elektrownia Wiatrowa Baltica 12 sp. z o.o.	Warsaw	100.00%	<1	-	-
PGE Baltica 1 sp. z o.o.	Warsaw	100.00%	1	100.00%	<1
PGE Baltica 4 sp. z o.o.	Warsaw	100.00%	1	100.00%	<1
PGE Baltica 5 sp. z o.o. (PGE Inwest 16)	Warsaw	-	-	100.00%	86
PGE Baltica 6 sp. z o.o. (PGE Inwest 19)	Warsaw	-	-	100.00%	65
6 limited liability companies named PGE Inwest 20-25 w organizacji	Warsaw	100.00%	-	-	-
TOTAL			**29,532**		**29,770**

Significant changes in the structure of subsidiaries that took place in 2021:

- Rybnik 2050 sp. z o.o. was formed on February 1, 2021. The company was registered at the National Court Register on May 31, 2021.
- On February 11, 2021, the Extraordinary Meeting of Shareholders of Elektrownia Wiatrowa Baltica-5 sp. z o.o. adopted a resolution to increase the Company's share capital by PLN 44 million. The increase of the Company's share capital was acquired by PGE S.A. in exchange for a cash contribution. On March 22, 2021, the increase in the Company's share capital was registered with the National Court Register.
- On February 18, 2021, the Extraordinary Meeting of Shareholders of Elektrownia Wiatrowa Baltica-6 sp. z o.o. adopted a resolution to increase the Company's share capital by PLN 35 million. The increase of the Company's share capital was acquired by PGE S.A. in exchange for a cash contribution. On March 15, 2021, the increase in the Company's share capital was registered with the National Court Register.
- On February 18, 2021, the Extraordinary Meeting of Shareholders of Elektrownia Wiatrowa Baltica-1 sp. z o.o. adopted a resolution to increase the Company's share capital by PLN 10 million. The increase of the Company's share capital was acquired by PGE S.A. in exchange for a cash contribution. On March 11, 2021, the increase in the Company's share capital was registered with the National Court Register.
- An agreement to sell all shares in PGE EJ1 sp. z o.o. to the State Treasury was signed on March 26, 2021. The ownership of the shares was transferred on March 31, 2021.
- On April 15, 2021 the Extraordinary General Meetings of PGE GiEK S.A. and PGE EC S.A. adopted resolutions to divide PGE GiEK S.A. (divided company) through a carve-out pursuant to art. 529 § 1 point 4 of the Polish Commercial Companies Code, by transferring certain assets from the divided company to PGE Energia Ciepła S.A. (acquiring company), i.e. branch Zespół Elektrowni Dolna Odra, including CHP Szczecin, CHP Pomorzany and the district heating network in Gryfino, constituting organised parts of enterprise. As a result of the transfer of the organised parts of enterprise, the value of PGE EC S.A.'s shares in PGE S.A.'s accounts increased by PLN 223 million, while the value of the stake in PGE GiEK S.A. declined by the same amount. On May 24, 2021 the reduction of PGE GiEK S.A.'s share capital was registered with the National Court Register. On July 1, 2021, the increase in the PGE EC S.A.'s share capital was registered with the National Court Register.

- On July 12, 2021, PGE S.A. purchased 11,525 shares of PGE Ekoserwis S.A. in a mandatory squeeze out procedure pursuant to art. 418 of the Polish Commercial Companies Code, as a result of this which PGE S.A. currently holds a 100% interest in PGE Ekoserwis S.A. The price paid for the shares was PLN 5 million.
- On July 15, 2021 the Extraordinary General Meetings of PGE GiEK S.A. and PGE Inwest 8 sp. z o.o. adopted resolutions to divide PGE GiEK S.A. (divided company) through a carve-out pursuant to art. 529 § 1 point 4 of the Polish Commercial Companies Code by transferring certain assets from the divided company to PGE Inwest 8 sp. z o.o., i.e. PGE GiEK S.A. - branch Zespół Elektrowni Dolna Odra, including the construction of gas units constituting an organised part of enterprise, functionally related to the construction of new gas units and in the future generation of electric energy. As a result of the transfer of the organised part of enterprise, the value of PGE Inwest 8 sp. z o.o.'s shares in PGE S.A.'s accounts increased by PLN 35 million, while the value of the stake in PGE GiEK S.A. declined by the same amount. The increase of the acquiring company's share capital was registered with the National Court Register on October 1, 2021.
- On July 13, 2021 the ownership of shares of PGE Baltica 5 sp. z o.o. was transferred to PGE Baltica 3 sp. z o.o. on the basis of a contribution in kind agreement between PGE S.A. and PGE Baltica 3 sp. z o.o., concluded on that day. As a result of this transaction, the value of PGE Baltica 3 sp. z o.o.'s shares increased by PLN 130 million. The increase in the Company's share capital was registered with the National Court Register on August 26, 2021.
- On July 13, 2021 the ownership of shares of PGE Baltica 6 sp. z o.o. was transferred to PGE Baltica 2 sp. z o.o. on the basis of a contribution in kind agreement between PGE S.A. and PGE Baltica 2 sp. z o.o., concluded on that day. As a result of this transaction, the value of PGE Baltica 2 sp. z o.o.'s shares increased by PLN 100 million. The increase in the Company's share capital was registered with the National Court Register on September 9, 2021.
- On August 17, 2021 the Extraordinary General Meeting of Rybnik 2050 sp. z o.o. adopted a resolution to increase the company's share capital through the issue of 22,514 new shares with a nominal value of PLN 1,000 each. All of the new-issue shares were acquired by PGE S.A. The increase in Rybnik 2050 sp. z o.o.'s share capital was registered with the National Court Register on September 15, 2021.
- A merger of PGE Obrót S.A. (acquiring company) with PGE Centrum sp. z o.o. (acquired company) was registered at the National Court Register on January 3, 2022. As a result of the merger, the value of PGE Obrót S.A.'s shares in PGE S.A.'s accounts increased by PLN 48 million.
- On October 4, 2021, PGE S.A. formed 6 limited liability companies, named PGE Inwest 20 to 25 w organizacji. The share capital of each of these companies amounts to PLN 25,000. PGE Inwest 20 to 22 and PGE Inwest 25 were entered in the register of companies maintained by the National Court Register in March 2022. PGE Inwest 23 sp. z o.o. and PGE Inwest 24 sp. z o.o. were not yet registered at the National Court Register as of the date on which these financial statements were prepared.
- On October 4, 2021 PGE S.A. established the following companies: Elektrownia Wiatrowa Baltica 9 sp. z o.o, Elektrownia Wiatrowa Baltica 10 sp. z o.o., Elektrownia Wiatrowa Baltica 11 sp. z o.o. and Elektrownia Wiatrowa Baltica 12 sp. z o.o. The share capital of Elektrownia Wiatrowa Baltica 9 sp. z o.o. is PLN 981,000 and the share capital of the remaining companies is PLN 25,000 each . The companies were entered in the register of companies maintained by the National Court Register in December 2021 (Elektrownia Wiatrowa Baltica 10 sp. z o.o. on February 18, 2022).
- On December 15, 2021 PGE S.A. and Polski Holding Hotelowy sp. z o.o. signed a conditional agreement to sell 100% of shares in Elbest sp. z o.o. The sale was finalised on March 4, 2022.

8.1 Analysis of non-current financial assets

Impairment analysis of PGE GiEK S.A., PGE EC S.A. and PGE EO S.A.

In the first half of 2021, the Company analysed premises and identified factors that could contribute to a change in the value of generating assets held and consequently affect 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 of its shares in PGE GiEK S.A. and PGE EO S.A. The tests did not show a necessity to recognise an impairment loss. In the case of PGE EC S.A., there were no indications warranting an impairment test.

In the fourth quarter of 2021, PGE S.A. again analysed premises in order to identify factors that could result in a change in the value of its stakes. No such factors were identified in the case of PGE GiEK S.A. and PGE EO S.A. In the case of PGE EC S.A., impairment tests were carried out in connection with the adoption of PGE Group's 2050 Decarbonisation Plan, which aims to fulfil regulatory requirements in the energy industry and retain the existing generation potential in the long-term in order to meet customer needs. The Decarbonisation Plan operationalises objectives specified directly in PGE Group's strategy and in the District Heating segment strategy implementation plan. The plan identifies locations where the transition of generating assets will take place, the timing of major activities, planned expenditures and outcomes. Generation capacity transition via new low- or zero-carbon generating units is planned for the 2030 horizon, and climate neutrality for the 2050 horizon.

Macroeconomic and market assumptions

The key price assumptions, i.e. the price of electricity, CO_2 emission allowances, hard coal, natural gas, and assumptions related to production at most of the Group's installations were derived from a study prepared by an independent expert, taking into account own estimates based on the current market situation for the first year of the forecast.

Electricity price forecasts assume a decline between 2023 and 2024 relative to 2022 prices, followed by an average annual increase of approx. 6% in 2025-2029.

CO_2 price projections assume an average annual decline in 2023-2025 of about 4.6% relative to 2022 and an average annual increase between 2026 and 2029 of approx. 12.7%. A slight decrease is expected in 2030, in comparison with 2029, followed by stable growth at approx. 4% annually until 2040.

Coal price forecasts assume an average annual increase over the period 2023-2030 of approx. 2.5% relative to 2022.

The forecasts for natural gas prices expect an increase in price in 2023 relative to 2022, followed by an average annual growth of approx. 4.4% in subsequent years.

The price forecasts for certificates of origin for energy expect an average annual decrease of approx. 12.5% in 2023-2031 relative to 2022, which is related to the decreasing obligation to redeem these certificates.

The forecast for revenue from the capacity market for 2022-2026 is based on the results of completed main and additional auctions for these delivery periods, taking into account the joint balancing mechanism at PGE Group companies. From 2027, the forecast was developed by a team of experts at PGE S.A. on the basis of assumptions concerning estimated future flows for generating units, based on, inter alia, results of a completed auction and forecasts from an external expert. For one-year contracts with delivery from July 1, 2025 and for multiannual contracts executed as part of the auction for 2025 and subsequent, the 550g CO_2/kWH (EPS 550) emission criterion is in place, which in practice rules out all coal units from Capacity Market auctions.

Unit availability was estimated based on repair plans, taking into account statistical failure rates.

On February 2, 2021 the Council of Ministers approved "Poland's Energy Policy 2040." The Policy constitutes a vision for Poland in the area of energy transition, indicating, inter alia, the expected structure of electricity generating units. According to the Policy, the share of low- and zero-emission units will grow, while the share of coal-based units will decline.

Climate considerations

The pace of the energy transition and trends expected in the Policy recently considerably accelerated and strengthened. In July 2021, the European Commission published the Fit for 55 legislative package, which intends to, inter alia, reduce GHG emissions in the EU by 55% (previously 40%) by 2030, relative to 1990. In line with the expectations of market participants, the EU ETS reform included in the package should result in a considerable increase in the prices of CO_2 emission allowances, which in practice already took place in 2021. In effect, the current level of prices for CO_2 emission allowances significantly diverges from that assumed in the Policy. Another important element that vastly diverges from the Policy's assumptions is the dynamic increase in PV capacities as a result of numerous grant programs, a discount system for prosumers and renewable energy auctions. In effect, the level of installed capacities expected for 2030 has already been achieved.

Analysis of impairment indications for PGE GiEK S.A.

In previous reporting periods, PGE S.A. recognised substantial impairment losses on its stake in PGE GiEK S.A.

In the current reporting period, the Company performed an analysis of indications in order to determine whether these assets are impaired or the earlier impairment losses may be reversed.

The most important factors analysed include:

- analysis of the 2021 financial plan implementation,
- analysis of the current market situation,
- confirmation that the long-term forecasts are up-to-date,
- confirmation that the investment plan is up-to-date,

- analysis of assumptions regarding the capacity market.

An analysis of assumptions for the Conventional Generation segment showed that the financial plan was implemented beyond the assumed values, which is mainly related to an increase in electricity prices and margins obtained on sales of electricity on the derivative and SPOT markets. The increase in electricity prices in the fourth quarter of 2021 was largely due to higher energy prices in neighbouring countries resulting from high gas and coal prices in Europe and globally. This translated into additional export demand on the Polish market, which in itself raised price levels and also contributed to lower hard coal inventories, which further raised the valuation of marginal unit energy sales offers on hard coal. According to the Company, these increases will not be permanent and therefore they do not constitute grounds for impairment tests. In addition, no significant changes are expected in the levels of planned capital expenditures or in the level of revenue from the capacity market. The price and volume assumptions are also consistent with those used in the asset impairment tests performed as of June 30, 2021.

Given the above, according to PGE, at the end of the reporting period there were no indications that would warrant the recognition of impairment losses on the non-current assets at PGE GiEK S.A. or the reversal of impairment losses recognised in previous periods.

Climate considerations

The future of the Polish energy market is determined by the European Union's climate policy, and developments on the electricity market through 2050 will be influenced by the European Green Deal ("EGD"), which aims to achieve EU climate neutrality by 2050. One of the most important steps towards achieving climate neutrality was the European Council's acceptance in December 2020 of a new binding EU target to reduce net greenhouse gas emissions by at least 55% by 2030 relative to 1990 levels. The consequence of a higher CO_2 emission reduction target is the growing cost of CO_2 emission allowances, which may have a negative impact on the results of the Conventional Generation segment and the PGE Group. The macroeconomic assumptions adopted for the rationale analysis take into account the new higher CO_2 emission reduction target in 2030 and, as a result, the increasing level of CO_2 emission allowance prices, and in the long term are consistent with the assumptions adopted for the impairment tests performed as at June 30, 2021.

PGE Group's business environment is characterised by high volatility and is dependent on macroeconomic, market and regulatory conditions, and any changes thereto may have a substantial impact on PGE Group's financial situation and results. This is why the aforementioned assumptions and others used in estimating the useful value of assets are periodically analysed and verified. Any changes will be recognised in future financial statements.

Analysis of impairment indications for PGE EO S.A.

The most important factors analysed include:

- analysis of the 2021 financial plan implementation,
- confirmation that the investment plan is up-to-date,
- analysis of prices for energy and certificates of origin,
- analysis of assumptions regarding the capacity market.
- analysis of estimated margins on the production and sale of electricity in future periods in light of the price forecasts for energy.

The analysis of premises in the area CGU PGE EO S.A. showed that generating units in the Wind area carry out the financial plan above the assumed values, which is related, inter alia, to higher prices of electricity and property rights with a simultaneous lower production volume, caused by worse weather conditions than the assumed windiness. The higher result in Hydro was driven by factors such as higher electricity and property rights prices and higher electricity production due to favourable hydrological conditions. In the case of pumped-storage assets, the higher result is mainly due to higher electricity prices, resulting in significantly higher sales revenues. Lower projected revenues from the Capacity Market compared to the tests performed as of June 30, 2021 do not pose a risk that the useful value of the assets will decline below book value due to the fact that the tests performed as of June 30, 2021 showed a significant surplus. No major changes in the levels of planned capital expenditures are expected. The electricity price and volume assumptions are also consistent with those used in the asset impairment tests performed as of June 30, 2021.

Given the above, according to PGE, at the end of the reporting period there were no indications that would warrant the recognition of impairment losses on the non-current assets at PGE EO S.A. or the reversal of impairment losses recognised in previous periods.

Impairment tests on shares of PGE EC S.A.

In the current reporting period, the Company analysed impairment indications and identified factors that could result in changes to the non-current asset values and in consequence have an impact on the stake held by PGE S.A.

Climate considerations

The 2050 Decarbonisation Plan for the District Heating segment was approved in October 2021, which aims to fulfil regulatory requirements in the energy industry and retain the existing generation potential in the long-term in order to meet customer needs. The Decarbonisation Plan operationalises objectives specified directly in PGE Group's strategy and in the District Heating segment strategy implementation plan. The plan identifies the locations where the transformation of manufacturing assets will take place, the timing of major activities, planned expenditures and effects. Generation capacity transition via new low- or zero-carbon generating units is planned for the 2030 horizon, and climate neutrality for the 2050 horizon.

Impairment tests on the shares were conducted as of December 31, 2021. Determining fair value for very large groups of assets for which there is no active market and few comparable transactions is very difficult in practice. In the case of complete power plants and combined heat and power plants for which a value on the local market should be determined there are no observable fair values. Given the above, the recoverable amount of the analysed assets was estimated using the discounted net cash flow method which relied on financial projections prepared for the period from 2022 to the end of 2030. According to the Company, financial projections longer than five years are justified due to significant and long-term effects of projected changes in the regulatory environment. Using longer projections, recoverable amounts may be determined more reliably. For generating units with expected periods of economic useful lives in excess of 2030, a residual value was determined for the remaining service time.

The energy market, and especially the heat market, is a regulated market in Poland and as such is subject to numerous regulations and cannot be freely shaped on the basis of business decisions alone. The Energy Law's goals include taking effective regulatory action to ensure energy security. This means that the regulatory environment is intended to ensure a stable operation of heat suppliers in a given area to meet the long-term needs of consumers. According to the Energy Law, the Energy Regulatory Office President may, in extreme cases, even order an energy company to carry out activities covered by a concession (for a period not longer than 2 years), if the public interest so requires. If this is a loss-making activity, the energy company is entitled to loss coverage from the State Treasury.

As such, the Company does not use a finite CGU lifecycle due to the regulatory environment which limits the possibility of discontinuation. Due to the above, impairment tests assumed the continuation of operations (in the form of residual value), while maintaining expenditures at a replacement level, in the long-term due to, inter alia, social interest in the form of ensuring heat supply. With respect to the generation assets covered by the Decarbonisation Plan, replacement investments relate to the transition of generation capacity (to gas-fired assets) via the use of new low- or zero-carbon generation units, which means that the cash generated by these assets is taken into account in the impairment tests.

Detailed segment assumptions

Presented below are the key assumptions having impact on estimates of the useful value of CGU:

- specific units of PGE EC S.A. being considered as separate CGUs Branch no. 1 in Kraków (CHP Kraków), Branch Wybrzeże (CHP Gdańsk, CHP Gdynia), Branch in Rzeszów (CHP Rzeszów), Branch in Lublin (CHP in Lublin Wrotków), Branch in Bydgoszcz (CHP Bydgoszcz I, CHP Bydgoszcz II), Branch in Gorzów Wielkopolski (CHP in Gorzów Wielkopolski), Branch in Zgierz (CHP in Zgierz), Branch in Kielce (CHP in Kielce), Branch in Szczecin (CHP in Szczecin, CHP in Pomorzany, district heating network in Gryfino),
- three production facilities owned by KOGENERACJA S.A. being considered as one CGU: CHP Wrocław, CHP Czechnica, CHP Zawidawie,
- for the period from 2021 it is assumed that PGE Group producers do not receive free-of-charge allocations of CO_2 emission allowances for the production of electricity;
- taking account of the allocation of free CO_2 emission allowances in the period 2021-2030 for system district heating and high-efficiency cogeneration. The allocation of free-of-charge allowances for heat from 2021 to 2030 is addressed by Directive (EU) 2018/410 of March 14, 2018 amending Directive 2003/87/EC to enhance cost-effective emission and low-carbon investments, and Decision (EU) 2015/1814. Another regulation clarifying the allocation of free emission allowances is the Commission Delegated Regulation (EU) of December 9, 2018 on laying down transitional rules for harmonised free allocation of emission allowances across the

Union pursuant to art. 10a of Directive 2003/87/EC of the European Parliament and of the Council (the so-called FAR - Free Allocation Rules) (went into effect on February 28, 2019 - Polish version of February 27, 2019). The directive is reflected in the amended law of July 4, 2019, amending the law on the greenhouse gas emission trading scheme and certain other laws. Pursuant to art. 10a of the Directive, Member States may apply for a 30% free allocation of emission allowances for heat in the period from 2022 to 2030, with the 30% value relating to the gas benchmark and district heating supply,

- assumption for conventional plants that during the residual period there will be support from the capacity market or equivalent,
- take into account the support system for high-efficiency cogeneration in the forecast horizon and in the residual period: for existing units, support was assumed in the form of guaranteed bonus and, if the financing gap condition is met, individual guaranteed bonus; a cogeneration bonus is to be granted to new gas units,
- maintain production capacities as a result of replacement-type investments. For generating assets in respect of which actions have been taken to implement the Decarbonisation Plan, replacement expenditures represent the transition of generation assets to gas-fired assets. The decarbonisation plan encompasses the following locations: Kraków, Gdańsk, Gdynia, Wrocław, Bydgoszcz, Kielce, Zgierz.
- taking into account development investments, for projects with a high level of advancement, at a minimum inclusion in the Company's approved investment plan,
- adopt WACC after tax for the projection period at 6.56%.

The tests did not indicate the necessity to recognise an impairment loss on the shares of PGE EC S.A. The recoverable value of these stakes exceeds their book value indicated in these financial statements.

Analysis of impairment of stake in PGE Obrót S.A.

In previous reporting periods, PGE S.A. recognised impairment losses on PGE Obrót S.A.'s shares. In the current reporting period, the Company analysed premises and identified factors that could result in a change in the value of its shares in PGE Obrót S.A. These premises include:

- the effects of the amendment to the Act on Renewable Energy Sources of October 29, 2021, introducing changes to the way prosumers are billed. The existing discount system will be replaced by a net-billing model,
- dynamic development of micro photovoltaic installations and the billing of prosumers, who will still be billed according to the net-metering system,
- lingering COVID-19 pandemic and its impact on electricity demand.

In view of the above the Company carried out an impairment test of the shares of PGE Obrót S.A. The test was performed in accordance with IAS 36 using the discounted cash flow method. The projections were based on a five-year financial flow model for PGE Obrót S.A. The key assumptions used in the valuation were as follows:

- key price assumptions concerning the price of electricity were derived from a study prepared by an independent expert, taking into account own estimates based on the current market situation for the first two years of the forecast,
- decrease in overall sales volume in 2026 by approx. 3.4% compared to 2021,
- lower than expected margins on electricity in 2023-2026 relative to 2022, offset by higher than forecast margin on sales of add-on services in 2023-2026 in connection with the implementation of strategic objectives,
- correlation between electricity prices in 2022-2026 in sales to retail customers with wholesale prices and impact on their level resulting from a change in the obligation to redeem property rights as well as changes in the prices of property rights,
- inclusion of economic effects in the projection related to the dynamic development of prosumer micro-installations in the forecast horizon on the basis of the observed market trends in 2021 and in connection with the amendment of the Act on RES of October 29, 2021,
- inclusion of the effects of the merger of PGE Obrót S.A. with PGE Centrum sp. z o.o. in the projection,
- adoption of WACC after tax for the projection period at 6.56%.

Impairment test and sensitivity analysis for PGE Obrót S.A. shares

A merger of PGE Obrót S.A. (acquiring company) with PGE Centrum sp. z o.o. (acquired company) was registered at the National Court Register on October 1, 2021. Thus, the book value of PGE Obrót S.A. shares recognised in the Company's books amounted to PLN 622 million. As a result of the impairment test, the value of PGE Obrót S.A. shares was estimated at PLN 613 million. Due to the insignificant difference between book value and estimated market value, according to PGE S.A. there are no grounds to recognise an impairment loss for the stake in PGE Obrót S.A.

The results of the sensitivity analysis showed that the largest impact on the value of the shares being valued is mainly due to changes in the WACC assumptions and unit margins. Presented below is the estimated impact of changes in key assumptions on changes in impairment losses as regards the stake in PGE Obrót S.A. as at December 31, 2021.

Parameter	Change	Impact on impairment loss	
		Increase in impairment loss	Decrease in impairment loss
Change in unit margin	1%	-	103
	-1%	103	-

A 1% decline in unit margin would cause the impairment loss to grow by PLN 103 million.

Parameter	Change	Impact on impairment loss	
		Increase in impairment loss	Decrease in impairment loss
Change in WACC	+0.5pp	209	-
	-0.5pp	-	267

An increase in WACC by 0.5 percentage points would cause an increase in the impairment loss by PLN 209 million.

Analysis of impairment of other stakes

In 2021, PGE S.A. recognised impairment losses on shares in Eltur-Serwis sp. z o.o. (PLN 3 million), Elmen sp. z o.o. (PLN 7 million) and Betrans sp. z o.o. (PLN 9 million). The rationale for recognising these impairment losses was the difference between the value of these companies' shares in PGE S.A.'s books and the value of these companies estimated using the discounted cash flow method.

The Company also recognised impairment losses on its stakes in PGE Nowa Energia sp. z o.o. (PLN 4 million) and ElectroMobility Poland (PLN 4 million). The rationale for recognising these impairment losses was the difference between the value of these companies' shares in PGE S.A.'s books and the value of these companies estimated using the adjusted net assets methods.

In December 2021, a conditional agreement was signed by Polski Holding Hotelowy to purchase Elbest sp. z o.o. from PGE S.A. As the market value of the sale transaction exceeded the value of Elbest sp. z o.o. shares in PGE S.A.'s books, a PLN 21 million impairment loss was reversed.

Moreover, PGE S.A. holds bonds issued by Autostrada Wielkopolska S.A., which were fully written-off due to a loss of value. In previous reporting periods, the Company also recognised an impairment loss on shares in AWSA Holland II BV of PLN 115 million.

8.2 Shares in associates and other entities

	As at December 31, 2021	As at December 31, 2020
Polimex Mostostal S.A.	81	81
ElectroMobility Poland S.A.	-	18
Energopomiar Sp. z o.o.	2	2
ASSOCIATES, TOTAL	**83**	**101**
ElectroMobility Poland S.A.	13	-
OTHER ENTITIES, TOTAL	**13**	**-**

On August 19, 2021, the Extraordinary General Meeting of ElectroMobility Poland S.A. adopted a resolution to increase the company's share capital from PLN 52 million to PLN 302 million, i.e. by PLN 250 million, through the issue, by private subscription, of 47,800 shares. The company's Extraordinary General Meeting decided to waive the existing shareholders' pre-emption right completely and offer all of the new shares to the State Treasury in exchange for a cash contribution. As a result of the State Treasury's investment in ElectroMobility Poland by taking up all the new shares in the increased share capital of ElectroMobility Poland, PGE S.A.'s stake in the share capital of this company decreased from 25% to 4.325%. The increase in ElectroMobility Poland S.A.'s share capital was registered with the National Court Register on September 30, 2021. From that date, ElectroMobility Poland S.A. is no longer an associate. The value of the stake in this company as of December 31, 2021, taking into account impairment, is PLN 13 million.

On August 26 - September 1, 2021, in exchange transactions on the Warsaw Stock Exchange, PGE S.A. sold 187,500 shares of Polimex Mostostal S.A. As a result of the transaction, PGE S.A.'s stake in capital declined from 16.48% to 16.40%. The share sale was related to the planned acquisition of 187,500 shares of Polimex Mostostal S.A. as part of one of the tranches of call options for Polimex Mostostal S.A. shares, which PGE S.A. had purchased from Towarzystwo Finansowe Silesia sp. z o.o. on January 20, 2017.

On February 24, 2022 PGE S.A. exercised call options and purchased from Towarzystwo Finansowe Silesia sp. z o.o. 187,500 shares (call option 2) and 125,000 shares (call option 3) of Polimex Mostostal S.A. As a result of these transactions, its stake in share capital increased from 16.40% to 16.45%.

9. Joint ventures

The Company considers the activities resulting from the Capacity Market Management Agreement entered into on July 27, 2018 to be a joint venture. The parties to the agreement are: PGE S.A. as Managing Entity and entities with capital links to it: PGE GiEK S.A., PGE EC S.A., PGE EO S.A., ZEW Kogeneracja S.A., PGE Toruń S.A., Elektrociepłownia Zielona Góra S.A. as Ordering Party for the management service on the capacity market. The agreement ensures proper performance of capacity obligations by all capacity suppliers belonging to PGE Group during delivery periods covered by the parties' cooperation, so as to avoid having to pay penalties and return remuneration for non-performance of capacity obligations, as well as sharing of costs and benefits resulting from participation in the capacity market within PGE Group.

Under this agreement, PGE S.A. receives remuneration equal to 1% of the income resulting from settlements between the parties to the Agreement. This revenue is presented and described in note 4.1 to these financial statements.

10. Other current assets

ACCOUNTING RULES

Other assets (including prepayments)

The Company recognises an asset as a prepayment under the following conditions:

- an expense was incurred in the past in relation to operating activity,
- it can be reliably measured,
- it refers to future reporting periods.

Prepayments are recognised at reliably measured amounts, relate to future periods and will generate future economic benefits.

Other assets include in particular state receivables, advances for deliveries and services and dividend receivables.

	As at December 31, 2021	As at December 31, 2020
Receivables from tax group	42	10
Advance payments	313	41
VAT receivables	17	-
Other	3	3
TOTAL	**375**	**54**

PGE S.A. is the representing entity in its tax group, which covers the Company and some of its subsidiaries. Rules regarding settlements between companies are described in note 20 to these financial statements.

Advance payments consist mainly of funds transferred to the subsidiary PGE Dom Maklerski S.A. for the purchase of electricity and gas of PLN 313 million in the current reporting period as compared to PLN 41 million in the comparative period.

11. Cash and cash equivalents

ACCOUNTING RULES

Cash and 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 have different maturities, from one day up to three months, depending on the Company’s needs for cash, and are deposited at individually agreed interest rates.

Cash in bank accounts accrues interest based on variable interest rates the level of which depends on the interest on overnight bank deposits

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

	As at December 31, 2021	As at December 31, 2020
Cash at bank	3,858	849
Overnight deposits	-	300
Short-term deposits	1,100	1,399
Cash in VAT accounts	358	959
TOTAL	**5,316**	**3,507**
Exchange differences on cash in foreign currencies	1	(14)
Cash and cash equivalents presented in the statement of cash flows	**5,317**	**3,493**
Undrawn borrowing facilities as at December 31	4,100	6,173
including overdraft facilities	*1,800*	*1,800*

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

12. Equity

ACCOUNTING RULES

Equity

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

Share capital in the statement of financial position is stated at the value specified in the Articles of Association and registered in the Court Register.

Capital contributions that have been declared but not paid are recognised as capital contributions due at 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 and the interests of shareholders and debt investors. Equity management takes places at Group level.

In line with common practice, the Company monitors the net debt to EBITDA ratio at the level of PGE Group as described in Note 20 to the consolidated financial statements. Net debt is understood as short- and long-term financial debt (interest-bearing loans and borrowings, bonds and other debt securities issued, as well as lease liabilities), less cash and cash equivalents, and short-term deposits and placements. Restricted cash is not included in net debt calculations.

The Company's aim is to maintain its investment grade credit ratings. In connection with the ongoing investment program, leverage is planned 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, 2021	As at December 31, 2020
1,470,576,500 Series A ordinary Shares with a nominal value of PLN 10.25 each	15,073	15,073
259,513,500 Series B ordinary Shares with a nominal value of PLN 10.25 each	2,660	2,660
73,228,888 Series C ordinary Shares with a nominal value of PLN 10.25 each	751	751
66,441,941 Series D ordinary Shares with a nominal value of PLN 10.25 each	681	681
Total share capital	**19,165**	**19,165**

All of the Company's shares are paid up.

The Company has initiated a capital injection process in connection with its planned investment projects, as described in note 24.2 to these financial statements.

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

The Company is a part of the PGE Polska Grupa Energetyczna S.A. Group, to which State Treasury holds special rights as long as it remains a shareholder.

Specific powers of the State Treasury, which may apply to PGE Group companies, are provided for in the Act of 18 March 2010 on Special Powers of the Minister Responsible for State Assets and their Exercise in Certain Capital Companies or Groups Operating in the Electricity, Oil and Gas Fuels Sectors (i.e. Polish Journal of Laws of 2020, item 2173). The Act defines specific powers vested in the minister responsible for state assets in capital companies or groups operating in the electricity, oil and gas fuels sectors, whose assets are disclosed in the uniform list of facilities, installations, equipment and services constituting 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 that would pose a threat to the functioning, continuity of operation and integrity of critical infrastructure.

The objection can also be applied to any resolution pertaining to:

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

if the performance of such a resolution would cause an actual threat to the functioning, operational continuity and integrity of critical infrastructure. The objection of the minister responsible for state assets will be expressed - after consulting the minister responsible for energy - in the form of an administrative decision.

12.2 Reserve capital

Reserve capital results from statutory allocation of profits generated in previous reporting periods, 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.

According to regulations of the Commercial Code, joint stock companies are obliged to create reserve capital to cover potential losses. At least 8% of the profit for the reporting year recognised in the separate financial statements of the Company is transferred to reserve capital, until this supplementary amounts to at least one third of share capital. The part of reserve capital which amounts to one third of share capital can only be used to cover losses recognised in the separate financial statements and cannot be distributed for other purposes. The General Meeting decides on the use of reserve capital and other capital reserves.

Reserve capital subject to distribution to shareholders amounted to PLN 13,766 million as at December 31, 2021 and to PLN 12,022 million as at December 31, 2020.

12.3 Hedging reserve

Change in the revaluation reserve concerning cash flow hedge accounting implemented:

	Year ended December 31, 2021	Year ended December 31, 2020
AS AT JANUARY 1	**(288)**	**(72)**
Change in hedging reserve, including:	**659**	**(267)**
Recognition of the effective part of change in fair value of hedging instruments in the part considered as effective hedge	665	(233)
Accrued interest on derivatives transferred from hedging reserve and recognised in interest expense	(8)	17
Currency revaluation of CCIRS transaction transferred from hedging reserve and recognised in the result on foreign exchange differences	2	(51)
Ineffective portion of changes in fair value of hedging derivatives recognised in profit or loss Ineffective portion of changes in fair value of hedging derivatives recognised in profit or loss	-	-
Deferred tax	**(125)**	**51**
HEDGING RESERVE INCLUDING DEFERRED TAX	**246**	**(288)**

12.4 Unallocated financial result and dividend payment restrictions

Retained earnings which are not subject to distribution are amounts that cannot be paid in the form of dividends.

	As at December 31, 2021	As at December 31, 2020
Retained earnings not subject to distribution - profit / (loss) recognised in other comprehensive income	3	(2)
Retained earnings subject to distribution	1,734	1,744
Net (loss)	-	-
TOTAL RETAINED EARNINGS/(LOSSES) PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	**1,737**	**1,742**

The Company's Management Board plans to recommend that the net profit for 2021 be allocated to reserve capital.

For information regarding limitations to payment of dividends from reserve capital please refer to 12.2 of these financial statements. As at December 31, 2021 there were no other restrictions on dividend payments.

12.5 Earnings per share

ACCOUNTING RULES

Earnings per share

Earnings per share for each period is calculated by dividing profit or loss attributable to ordinary equity holders of the Company by the weighted average number of shares outstanding during the reporting period.

The Company calculates diluted earnings per share by dividing profit or loss attributable to ordinary equity holders of the Company (after deduction of interest on redeemable convertible preference shares) by the weighted average number of shares outstanding during the period (adjusted by the number of dilutive options or dilutive redeemable convertible preference shares).

There was no dilution effect on earnings per share in the current and comparative reporting period.

	Year ended December 31, 2021	Year ended December 31, 2020
NET PROFIT/(LOSS)	**1,734**	**1,744**
NET PROFIT / (LOSS) ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY USED TO CALCULATE EARNINGS PER SHARE	**1,734**	**1,744**
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 ORDINARY SHARES USED TO CALCULATE EARNINGS PER SHARE	**1,869,760,829**	**1,869,760,829**
NET PROFIT/(LOSS) PER SHARE AND DILUTED NET PROFIT/(LOSS) PER SHARE (IN PLN)	**0.93**	**0.93**

12.6 Dividends paid and recommended for payment

The Company did not pay a dividend in the current or comparative reporting period.

13. Provisions

ACCOUNTING RULES

Provisions

The Company recognises provisions when there is present obligation (legal or constructive) that arises from past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is significant, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate does not reflect risks for which future cash flow estimates have been adjusted.

Provision for post-employment benefits

The Company's employees are entitled to the following post-employment benefits:

- retirement and pension benefits – paid once when the employee retires or becomes a pensioner,
- post-mortem severance,
- cash equivalent related to energy tariff for employees of power industry,
- benefits from the Social Fund,
- medical benefits.

The Company recognises a provision for future obligations relevant to past service costs and jubilee awards for the purpose of assigning costs to the periods in which they are incurred. The provision raised is recognised as an operating expense in the amount corresponding with accrued future employees' benefits. The present value of these obligations is measured by an independent actuary.

Actuarial gains and losses arising from changes in actuarial assumptions (including changes in discount rates) and ex post actuarial adjustments are recognised in other comprehensive income.

The most significant values relate to provisions for post-employment benefits. Provisions for employee benefits were estimated using actuarial methods.

Key actuarial assumptions related to the calculation of provisions as at the reporting date are as follows:

	As at December 31, 2021	As at December 31, 2020
Expected inflation rate (%)	2,5-4.45	2.5-2.85
Discount rate (%)	3.6	1.3
Expected annual salary growth rate (%)	2.5-5	2.5
Employee turnover (%)	4.6-11.4	5.0-9.0
Expected medical care costs growth rate (%)	-22.34* in 2022; 2.5% in subsequent years	2.5-2.58
Expected Social Fund allowance growth rate (%)	4.5-7.27	0.00-4.0

**The change is mainly due to a change in medical provider.*

The probability of employee departures was based on the Company's historical employee turnover data and industry employee departure statistics.

- Mortality rates and probabilities of survival were assumed in accordance with the Life Expectancy Tables published by the Central Statistical Office, assuming that the Company's employee population corresponds to the Polish average in terms of mortality.
- The normal mode of retirement of employees has been adopted according to the detailed rules of the Pension Act, except for those employees who meet the conditions for early retirement.
- A discount rate of 3.6% (December 31, 2020: 1.3%) was used to discount future benefit payments, i.e. at a level similar to the yield on long-term securities issued by the State Treasury and listed on the Polish capital market.

The carrying amount of provisions is as follows:

	At December 31, 2021		At December 31, 2020	
	Non-current	Current	Non-current	Current
Post-employment benefits	13	1	19	1
Other	-	39	-	20
TOTAL PROVISIONS	**13**	**40**	**19**	**21**

Changes in provisions

Year ended December 31, 2021	Post-employment benefits	Other
AS AT JANUARY 1, 2021	**20**	**20**
Current employment costs	1	-
Adjustment of discount rate and other assumptions	(6)	-
Recognition	-	39
Use	(1)	(10)
Release	-	(10)
AS AT DECEMBER 31, 2021	**14**	**39**

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

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

- should the discount rate be higher by 1 percentage point (p.p.), the provision would decrease by PLN 2 million, and should the discount rate be lower by 1 p.p., the provision would increase by PLN 2 million.
- should the growth rates be higher by 1 p.p., the provision would increase by PLN 2 million, and should the rates be lower by 1 p.p., the provision would decrease by PLN 2 million.

Other provisions

In 2021, the Company established a provision in the amount of PLN 39 million in connection with the sale of shares in PGE EJ1 sp. z o.o. to the State Treasury, and in accordance with the Agreement regulating the liability of the current Shareholders for the costs of the dispute with Worley Parsons, if the dispute is lost, PGE S.A. may be required to cover the costs of the dispute in the maximum amount of PLN 98 million. The probability of losing the dispute was estimated in order to determine the fair value of the payment received. In effect, PLN 59 million was recognised under contingent liabilities and PLN 39 million in non-current provisions. The amount of the provision adjusted the result on the sale of shares as presented in these financial statements.

The items shown as use and release of other provisions totalling PLN 20 million relate to the provision made in 2020 for the costs associated with the announced Voluntary Redundancy Program.

14. Post-employment benefits

The amount of provisions for post-employment benefits recognised in the financial statements results from the valuation prepared by an independent actuary.

The carrying amount of provisions for employee benefits:

	At December 31, 2021		At December 31, 2020	
	Non-current	Current	Non-current	Current
Retirement, pension and post-mortem benefits	1	-	1	-
Energy tariff	8	1	10	1
Social Fund	1	-	2	-
Medical benefits	3	-	6	-
TOTAL EMPLOYEE BENEFITS	**13**	**1**	**19**	**1**

The decrease in provisions for post-employment benefits in 2021 compared to the previous year is mainly due to an increase in the discount rate and a change in medical provider.

15. Other non-financial liabilities

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

	As at December 31, 2021	As at December 31, 2020
Liabilities due to settlements in the tax group	197	139
VAT liabilities	35	316
Bonuses for employees (annual, quarterly) and Management Board	28	29
Unused annual holiday leave	7	6
Estimated liabilities concerning other employee benefits	2	4
Advances received	368	-
Other	6	5
TOTAL OTHER LIABILITIES	**643**	**499**

PGE S.A. is the representing entity in its tax group, which covers the Company and most of its subsidiaries. Rules regarding settlements between companies are described in note 20 of these financial statements.

EXPLANATORY NOTES TO FINANCIAL INSTRUMENTS

16. Financial Instruments

ACCOUNTING RULES

Classification and measurement

Financial assets are subject to classification in the following categories of financial instruments:

- measured at amortised cost;
- measured at fair value through other comprehensive income ("FVTOCI");
- measured at fair value through profit or loss ("FVTPL").

The classification of financial assets is based on the business model and characteristics of cash flows.

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

- the objective of the entity's business model is to hold the financial asset to collect the contractual cash flows;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test).

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test).

All other debt instruments must be measured at fair value through profit or loss (FVTPL).

All equity investments are to be measured at fair value. If an equity investment is not held for trading, the Company can make an irrevocable election at initial recognition to measure it at FVTOCI. For equity instruments held for trading, changes in fair value are recognised in profit or loss.

All standard transactions to purchase or sell financial assets are recognised at the transaction date, i.e. at the date on which the entity committed to purchase the asset. Standard transactions to purchase or sell financial assets are purchase or sale transactions in which the asset delivery deadline is explicitly stated by law or customs in a given market.

An impairment model is based on expected credit losses and its scope covers the following:

- Financial assets measured at amortised cost;
- Financial assets mandatorily measured at FVTOCI;
- Loan commitments when there is a present obligation to extend credit;
- financial guarantee contracts to which IFRS 9 is applied;
- Lease receivables within the scope of IFRS 16;
- Contract assets within the scope of IFRS 15.

The Company classified financial liabilities in one of the following categories:

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

16.1 Description of significant items within particular classes of financial instruments

16.1.1 Trade and other financial receivables

ACCOUNTING RULES

Financial receivables

Financial receivables, including trade receivables, are measured at fair value at inception and subsequently at amortised cost using the effective interest rate including allowances for expected credit losses.

The Company uses simplified methods for the measurement of receivables measured at amortised cost if this does not distort the information contained in the statement of financial position, in particular if the period until repayment of the receivables is not long.

For financial receivables, the Company measures the allowance for expected credit losses at an amount equal to the expected credit losses over the life of the instrument.

The Company measures financial assets at amortised cost in accordance with its business model.

	At December 31, 2021		At December 31, 2020	
	Non-current	Current	Non-current	Current
Trade receivables	-	7,703	-	1,239
Bonds acquired	5,580	3,562	9,130	813
Cash pooling receivables	-	449	-	330
Loans granted	1,356	6,258	9	6,499
Other financial receivables	-	1,665	-	881
TOTAL FINANCIAL RECEIVABLES	**6,936**	**19,637**	**9,139**	**9,762**

Trade receivables

Trade receivables of PLN 7,703 million relate mainly to the sale of CO_2 emission allowances, electricity and services to subsidiaries in PGE Group. As at December 31, 2021, the balance of the three most important customers, i.e. PGE GiEK S.A., PGE Energia Ciepła S.A., PGE Obrót S.A., constituted 87% of the balance of trade receivables.

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

Bonds acquired

	At December 31, 2021		At December 31, 2020	
	Non-current	Current	Non-current	Current
BONDS ACQUIRED - ISSUER				
PGE GiEK S.A.	5,580	3,562	9,130	813
TOTAL BONDS ACQUIRED	**5,580**	**3,562**	**9,130**	**813**

PGE S.A. acquires bonds issued by entities belonging to PGE Group. Funds obtained from the issue of bonds is used for financing investments, repayment of financial liabilities as well as for financing current operations.

Cash pooling receivables

In order to centralise liquidity management at PGE Group, agreements relating to the actual cash pooling service were in force between 32 companies of PGE 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 coordinator of the cash pooling service at PGE Group. This means that certain these entities settle with the Company and the Company settles with banks. In connection to the above, balances with related parties participating in cash pooling are reported in financial receivables and financial liabilities of PGE S.A.

Loans granted

	At December 31, 2021		At December 31, 2020	
	Non-current	Current	Non-current	Current
LOANS GRANTED - BORROWER				
PGE Gryfino 2050 sp. z o.o.	1,248	29	-	-
PGE GiEK S.A.	-	1,900	-	500
PGE Energia Ciepła S.A.	100	1,439	-	1,809
PGE Energia Odnawialna S.A.	-	992	-	1,316
PGE Obrót	-	953	-	1,614
PGE Dystrybucja S.A.	-	606	-	1,047
PGE Systemy S.A.	-	166	-	197
EW Baltica 2 sp. z o.o.	-	92	-	-
EW Baltica 3 sp. z o.o.	-	64	-	-
Elbest sp. z o.o.	-	13	-	5
Betrans sp. z o.o.	8	2	9	2
EW Baltica 4 sp. z o.o.	-	1	-	-
EW Baltica 5 sp. z o.o.	-	1	-	-
PGE Trading GmbH	-	-	-	9
TOTAL LOANS GRANTED	**1,356**	**6,258**	**9**	**6,499**

The loan repayment deadline is in 2022-2024.

Other financial receivables

In the item Other, the Company mainly shows settlements with exchanges, mainly related to the purchase of CO_2 emission allowances and made through PGE Dom Maklerski.

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

ACCOUNTING RULES

Derivatives and hedging instruments

The derivative instruments used by the Company to hedge the risks associated with changes in interest rates and exchange rates are primarily forward FX contracts, futures and IRS interest rate swap contracts and CCIRS transactions to hedge foreign exchange and interest rates. Such derivatives are measured at fair value. Depending on whether the valuation of a derivative is positive or negative, it is recognised as a financial asset or financial liability, respectively.

Gains and losses from changes in the fair value of derivatives that do not qualify for hedge accounting and the ineffective portion of hedging relationships in cash flow hedge accounting are charged directly to the financial result for the financial year.

The fair value of forward foreign exchange contracts is determined by reference to the exchange rate at which the contract is entered into and current forward rates calculated based on market data. The fair value of interest rate swap contracts is calculated based on yield curves.

All derivatives are recognised in the Company's financial statements at fair value.

	At December 31, 2021			
	Recognised in profit or loss	Recognised in other comprehensive income	Assets	Liabilities
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS				
Commodity forwards	(900)	-	-	2,242
Futures	904	-	1,765	-
Currency forwards	(12)	-	488	36
Options	-	-	16	-
HEDGING DERIVATIVES				
CCIRS hedges	(44)	80	110	-
IRS hedges	(119)	579	203	-
OTHER assets carried at fair value through profit or loss				
Investment fund participation units	1	-	30	-
TOTAL	**(170)**	**659**	**2,612**	**2,278**
non-current	-	-	358	-
current	-	-	2,254	2,278

	At December 31, 2020			
	Recognised in profit or loss	Recognised in other comprehensive income	Assets	Liabilities
DERIVATIVES 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 hedges	41	(6)	64	-
IRS hedges	(73)	(261)	-	385
OTHER assets carried at fair value through profit or loss				
Investment fund participation units	(8)		52	
TOTAL	**14**	**(267)**	**1,376**	**1,628**
non-current	-	-	132	385
current	-	-	1,244	1,243

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 loans taken out and bonds issued with a total nominal value of PLN 7,030 million (PLN 5,630 million for loans and PLN 1,400 million for bonds). Before beginning to repay the principal on certain credit facilities, the current nominal amount of credit-hedging IRS transactions is PLN 4,654 million. 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 hedges

In connection with loans received from subsidiary PGE Sweden AB (publ) disclosed in note 16.1.3 to these financial statements, in 2014 PGE S.A. concluded a CCIRS transaction, hedging the exchange rate. In this transaction, 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 nominal value, payment of interest and repayment of nominal value in the CCIRS transaction are correlated with the relevant conditions arising from 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. has bought call option for shares of Polimex-Mostostal S.A. from Towarzystwo Finansowe Silesia Sp. z o.o. The options have been valued using the Black-Scholes method.

Investment fund participation units

As of the reporting date, the Company holds participation units in three sub-funds of Towarzystwo Funduszy Inwestycyjnych Energia S.A., whose value as of the reporting date amounts to PLN 30 million.

Presented below are the terms of the derivative instruments and other assets carried at fair value through profit or loss.

	At December 31, 2021		At December 31, 2020		
	Value in financial statements in PLN	Instrument's nominal value in original currency	Value in financial statements in PLN	Instrument's nominal value in original currency	Maturity, as of December 31, 2021
Currency forward sale EUR	488	14	-	31	December 2023
Currency forward purchase EUR		3,980	382	2,766	December 2024
Currency forward purchase USD		8	-	23	December 2022
IRS - interest rate PLN	203	438	-	-	June 2028
		750		-	December 2027
		438		-	December 2028
		2,904		-	September 2023
		1,000		-	May 2029
		400		-	May 2026
Futures purchase EUA - EUR	1,765	1,185	862	851	December 2024
Futures sale EUA - EUR		30		214	December 2024
CCIRS - EUR to PLN	110	144	64	144	July 2029
Options	16	5	16	5	November 2026
Fund participation units	30	27	52	48	n/a
FINANCIAL ASSETS	**2,612**	**-**	**1,376**	**-**	
Currency forward purchase EUR	36	831	24	87	December 2024
Currency forward sale EUR		65		208	December 2024
Currency forward purchase USD		8		23	December 2022
Commodity forward sale EUA - PLN	2,242	23,074	1,219	13,596	January 2025
Commodity forward purchase EUA - EUR		3,735		2,147	December 2024
Commodity forward sale EUA - EUR		2		23	January 2023
Commodity forward purchase EUA - PLN		207		1,137	January 2025
IRS - interest rate PLN	-	-	385	500	June 2028
		-		875	December 2027
		-		500	December 2028
		-		3,630	September 2023
		-		1,000	May 2029
		-		400	May 2026
FINANCIAL LIABILITIES	**2,278**	**-**	**1,628**	**-**	

16.1.3Loans, borrowings, bonds, cash pooling, leases

	At December 31, 2021		At December 31, 2020	
	Non-current	Current	Non-current	Current
Credit liabilities	5,006	1,803	6,522	989
Loans received	660	9	662	9
Bonds issued	1,399	5	1,399	2
Cash pooling liabilities	-	1,346	-	1,149
Lease liabilities	19	1	19	1
TOTAL LOANS, BORROWINGS, BONDS AND CASH POOLING	**7,084**	**3,164**	**8,602**	**2,150**

Bank credit

Lender	Hedging instrument	Date of execution	Maturity date	Limit in currency	Currency	Interest rate	Liability 31-12-2021	Liability 31-12-2020
Bank consortium	IRS	2015-09-07	2023-09-30	3.630	PLN	Variable	2,909	3,636
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	751	876
European Bank for Reconstruction and Development	IRS	2017-06-07	2028-06-06	500	PLN	Variable	439	501
Bank Gospodarstwa Krajowego	IRS	2015-12-04	2028-12-31	500	PLN	Variable	438	500
European Investment Bank	-	2015-10-27	2034-04-11	490	PLN	Fixed	493	493
Bank Gospodarstwa Krajowego	-	2018-06-01	2023-05-31	1.000	PLN	Variable	-	-
Revolving credit facility	-	2018-09-17	2022-12-16	4.100	PLN	Variable	-	-
Bank Pekao S.A.	-	2018-07-05	2024-12-22	500	PLN	Variable	-	-
PKO BP S.A.	-	2018-04-30	2022-04-29	300	PLN	Variable	-	-
European Investment Bank	-	2019-12-16	2038-10-16	273	PLN	Fixed	274	-
TOTAL BANK CREDIT							**6,809**	**7,511**

The value of overdraft limits at the Company's disposal amounted to PLN 1,800 million as at December 31, 2021 and December 31, 2020.

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

Loans received

Lender	Hedging instrument	Date of execution	Maturity date	Limit in currency	Currency	Interest rate	Liability 31-12-2021	Liability at 31-12-2020
PGE Sweden AB	CCIRS	2014-08-27	2029-07-31	100	EUR	Fixed	466	468
PGE Sweden AB	CCIRS	2014-08-27	2029-07-31	43	EUR	Fixed	203	203
TOTAL LOANS RECEIVED							**669**	**671**

In 2014, PGE S.A. and PGE Sweden AB (publ) established a Euro Medium Term Note Program, in which PGE Sweden AB (publ) may issue Eurobonds up to 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 allocated the funds raised under this program to grant a loan to its parent company.

Domestic market bond issues

Date of execution	Maturity date	Tranche issue date	Tranche buyback date	Hedging instrument	Limit in currency	Currency	Interest rate	Liability 31-12-2021	Liability 31-12-2020
2013-06-27	indefinite	2019-05-21	2029-05-21	IRS	5,000	PLN	Variable	1,003	1,001
		2019-05-21	2026-05-21					401	400
TOTAL OUTSTANDING BONDS								**1.404**	**1,401**

Cash pooling liabilities

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

Currency position and interest rates

As at December 31, 2021

Currency	Reference rate	Value in currency	Value in PLN	Final repayment deadline
PLN	Fixed	995	995	April 2034
	Fixed	502	502	May 2034
	Fixed	501	501	June 2034
	Fixed	274	274	October 2038
	Fixed	20	20	December 2089
	Variable	2,909	2,909	September 2023
	Variable	1,003	1,003	May 2029
	Variable	1,346	1,346	December 2023 - December 2024
	Variable	751	751	December 2027
	Variable	439	439	June 2028
	Variable	438	438	December 2028
	Variable	401	401	May 2026
TOTAL PLN		**9,579**	**9,579**	
EUR	Fixed	145	669	July 2029
TOTAL EUR		**145**	**669**	
TOTAL LOANS, BORROWINGS, BONDS, CASH POOLING			**10,248**	

As at December 31, 2020

Currency	Reference rate	Value in currency	Value in PLN	Final 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	December 2023 - December 2024
	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 LOANS, BORROWINGS, BONDS, CASH POOLING			**10,752**	

The Company is continuously monitoring works related to the IBOR reform, which may have an impact on financial instruments based on a variable interest rate. At December 31, 2021 the value of credit facilities, loans and bonds exposed to interest rate risk was PLN 5,941 million (credit facilities based on WIBOR). To hedge the interest rate in respect of incurred financial liabilities, PGE S.A. uses IRS hedges. The entire value of the above loans, borrowings and bonds is covered by hedging instruments.

The following table illustrates changes in interest-bearing debt in the years ended December 31, 2021 and 2020:

	Year ended December 31, 2021	Year ended December 31, 2020
AS AT JANUARY 1	**10,752**	**11,536**
CHANGE IN OVERDRAFTS	**-**	**(636)**
CHANGE IN CASH POOLING LIABILITIES	**197**	**242**
CHANGE IN LEASE LIABILITIES		
CHANGE IN OTHER LOANS, BORROWINGS AND BONDS, including:	**(701)**	**(390)**
Drawn loans and borrowings / issued bonds /	273	4,100
Accrued interest	157	184
Repayment of loans and borrowings / redemption of bonds	(976)	(4,525)
Paid interest	(153)	(199)
Exchange differences	(2)	51
Paid commissions	-	(1)
AS AT DECEMBER 31	**10,248**	**10,752**

16.1.4 Other financial liabilities measured at amortised cost

ACCOUNTING RULES

Liabilities

Liabilities are the Company's present obligations, arising from past events, settlement of which will cause an outflow of resources embodying economic benefits from the Company.

The Company divides financial liabilities into the following categories:

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

When the effect of the time value of money is significant, liabilities are presented at discounted value.

	At December 31, 2021		At December 31, 2020	
	Non-current	Current	Non-current	Current
Trade liabilities	-	8,566	-	717
Other	13	1,672	17	866
TOTAL OTHER FINANCIAL LIABILITIES	**13**	**10,238**	**17**	**1,583**

Trade liabilities

Trade liabilities mainly relate to transactions for the purchase of CO_2 emission allowances and electricity.

Other financial liabilities

In the item "Other", the Company shows mainly settlements with exchanges, primarily related to the purchase of CO_2 (PLN 1,663 million) 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 the loan with the European Investment Bank, is a reasonable approximation of their fair values. The fair value of loans received from PGE Sweden AB (publ) is estimated by PGE S.A. at PLN 743 million (vs. book value of PLN 669 million). The fair value was determined using the estimated credit risk of PGE S.A. The indicators adopted for the valuation belong to Level 2 of the fair value hierarchy. In the case of the loan with the European Investment Bank, which is based on a fixed interest rate, its value at amortised cost shown in the financial statements as at the reporting date is PLN 2,272 million and its fair value is PLN 2,182 million. The indicators used in the valuation belong to Level 2 of fair value hierarchy.

16.3 Fair value hierarchy

Derivatives

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

In the category of financial assets and liabilities measured at fair value through profit or loss, the Company recognises financial instruments related to the trading of greenhouse gas emission allowances - currency and commodity forwards (Level 2).

In addition, the Group presents a derivative hedging instrument for exchange rate and interest rate hedging CCIRS and IRS hedging transactions swapping a floating rate in PLN for a fixed rate in PLN (Level 2).

	Assets at December 31, 2021		Liabilities at December 31, 2021	
FAIR VALUE HIERARCHY	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Commodity forwards	-	-	-	2,242
Futures	-	1,765	-	-
Currency forwards	-	488	-	36
Options		16	-	-
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS	**-**	**2,269**	**-**	**2,278**
CCIRS hedges	-	110	-	-
IRS hedges	-	203	-	-
HEDGING DERIVATIVES	**-**	**313**	**-**	**-**
Investment fund participation units	-	30	-	-
OTHER ASSETS / LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	**-**	**30**	**-**	**-**

	Assets at December 31, 2020		Liabilities at December 31, 2020	
FAIR VALUE HIERARCHY	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Currency forwards		382	-	24
Commodity forwards		-	-	1,219
Futures		862	-	-
Options		16	-	-
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS	**-**	**1,260**		**1,243**
CCIRS hedges	-	64	-	-
IRS hedges	-	-	-	385
HEDGING DERIVATIVES	**-**	**64**	**-**	**385**
Investment fund participation units	-	52	-	-
OTHER ASSETS / LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	**-**	**52**	**-**	**-**

During the current and comparative reporting periods, there were no transfers of financial instruments between the first and second level of the fair value hierarchy.

Instruments not quoted in an active market for which a reliable determination of fair value is not possible

PGE S.A. holds significant amount of shares in entities not quoted 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 losses.

16.4 Collateral for repayment of receivables and liabilities

The Company uses a variety of collateral and its combinations. The most frequently used are execution statements. Additionally, the Company uses powers of attorney to bank accounts and the assignment of receivables. As a rule, there is no collateral on subsidiaries' liabilities towards PGE S.A.

As at December 31, 2021 and December 31, 2020, Company's assets are not encumbered as collateral for the repayment of the Company's liabilities and contingent liabilities.

16.5 Statement of comprehensive income

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

Year ended December 31, 2021	Hedging derivatives	Derivatives measured at fair value through profit or loss	Cash and cash equivalents	Shares and other equity instruments at the Group	Other financial assets	Financial liabilities at amortised cost	Lease liabilities	TOTAL
Dividends	-	-	-	1,252	-	-	-	1,252
Interest income / (costs)	(129)	-	-	-	445	(174)	(1)	141
Exchange differences	(2)	-	1	-	(19)	16	-	(4)
Revaluation of financial instruments/Reversal of impairment losses	-	1	-	22	-	-	-	23
Revaluation of financial instruments /Recognition of impairment losses	(31)	-	-	(32)	-	-	-	(63)
Loss on sale of investment	-	-	-	(36)	-	-	-	(36)
TOTAL PROFIT/ (LOSS)	**(162)**	**1**	**1**	**1,206**	**426**	**(158)**	**(1)**	**1,313**

Year ended December 31, 2020	Hedging derivatives	Derivatives measured at fair value through profit or loss	Cash and cash equivalents	Shares and other equity instruments at the Group	Other financial assets	Financial liabilities at amortised cost	Lease liabilities	TOTAL
Dividends	-	-	-	1,464	-	-	-	1,464
Interest income / (costs)	(80)	-	1	-	485	(255)	(1)	150
Exchange differences	51	-	(14)	-	225	(266)	-	(4)
Revaluation of financial instruments/Reversal of impairment losses	-	15	-	-	-	-	-	15
Revaluation of financial instruments /Recognition of impairment losses	-	-	-	(515)	-	-	-	(515)
Loss on sale of investment	-	-	-	(11)	-	-	-	(11)
TOTAL PROFIT/ (LOSS)	**(29)**	**15**	**(13)**	**938**	**710**	**(521)**	**(1)**	**1,099**

The recognition of impairment losses on shares in the current and comparative reporting period is described in notes 4.3 and 8.1 of these financial statements.

17. Objectives and principles of financial risk management

The main goal of financial risk management at PGE Group is to support the process of creating value for shareholders and to implement business strategies of the Group through maintaining the financial risk at the level acceptable for the Group management. Responsibility for managing financial risk lies with the Management Board of PGE S.A. The Management Board specifies risk appetite, understood as an acceptable level of deterioration of PGE Group's financial results, taking into consideration its current and planned economic and financial situation. The Management Board also decided 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 the unit responsible for risk measurement and control (Risk and Insurance Department) from the business units that own the risks. 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 oversight of the financial and corporate risk management process at PGE Group. The Risk Committee monitors exposure levels, sets limits on material financial risks, approves methodologies used in the area of financial risks arising from trading and financing activities, authorises expansion into new business areas, and takes other key decisions in the area of risk management.

Financial risk is managed at Group level as a whole, with the Company having a leading role, being a centre of competence in this area, and managing the process in an integrated manner. Risk exposures of individual business areas are considered in a comprehensive manner, taking into account the existing dependencies between exposures, the possibility of using natural hedging effects and their combined impact on the risk profile and financial position of the entire PGE Group.

The financial risk management model includes:

- collection and consolidation of data on exposure to particular categories of financial risk,
- calculation of financial risk metrics, including Value-at-Risk (VaR) and Profit-at-Risk (PaR) for specific risk factors and overall for all risk factors;
- management of the PGE Group's consolidated exposure in relation to capital at risk and risk limits established based on it (including the identification and implementation of hedging strategies).

In key areas of financial risk, the Company has implemented internal regulations for managing these risks.

The Company is exposed to a variety of financial risks:

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

The Company's exposure to specific financial risks depends on the scope of activities in commodity and financial markets.

17.1 Market risk

Market risk covers commodity risk, interest rate risk, currency risk.

The main objective of market risk management is to protect the financial result and maintain the level of risk arising from trading and financing activities at an acceptable level and to support the implementation of the Group's business strategy and maximisation of shareholder value.

The Company's procedures for managing specific market risk categories in trade and finance activities specify the following:

- objective, scope and rules for managing risk;
- responsibility for managing risk;
- management and operational processes within risk management in trade activities on electricity markets and electric product markets and as regards finance activities;
- ways of identifying sources of exposure to risk;
- methods for measuring and monitoring exposures to risk;

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 and the mechanisms for hedging risk when limits are exceeded.

17.1.1Commodity risk

Commodity risk is related to the possibility that financial results deteriorate as a result of changes in commodity prices.

The Company's exposure to commodity risk mainly concerns the following commodity markets:

- electricity
- CO_2 emission allowances
- natural gas

The Company has a strategy for hedging key exposures in trading electricity and related products over a 5-year horizon. The level of hedging for an open position is set taking into account risk appetite, results of monitoring the risk of electricity and related product prices, liquidity of specific markets as well as the financial situation of the Company and the Group and the Group's strategic objectives

17.1.2Interest rate risk

Interest rate risk is related to the possibility that financial results deteriorate as a result of changes in interest rates.

The Company is exposed to interest rate risk as a result of financing their operating and investment activities with interest bearing indebtedness at variable interest rates, mainly in the form of credit facilities, loans and bonds issued in domestic or foreign currency and through investments in financial assets at variable interest rates.

The Company controls interest rate risk through a system of limits relating to the maximum potential loss due to changes in interest rates. The 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.

In addition, the Company determines its hedging strategy for interest rate risk exposure through hedge ratios subject to the approval of the Risk Committee and the Management Board of PGE S.A. The execution of the hedging strategy and the level of interest rate risk are subject to monitoring and are regularly reported to the Risk Committee.

The Company executes derivative transactions concerning instruments that are based on interest rates only in order to hedge identified risk exposures. Regulations applicable to PGE Group do not permit derivative transactions based on interest rates for the purposes of speculative transactions that would be intended to generate additional earnings resulting from changes in interest rates while exposing the Company to a risk of potential losses.

Marketable bonds issued in the amount of PLN 1.4 billion under the PLN 5 billion Bond Issue Program, which is described in Note 16.1.3 of these financial statements, are floating rate bonds in PLN. Payments on these bonds are secured by IRS hedging instruments as described in note 16.1.2.

Loans received from a subsidiary PGE Sweden AB (publ) are interest bearing loans at a fixed interest rate in EUR. Payments on these loans are hedged using the CCIRS hedging instruments described in note 16.1.2.

The Company also has borrowings in the form of a long-term loan of PLN 1.2 billion under the Loan Agreements entered into on December 17, 2014 and December 4, 2015 with Bank Gospodarstwa Krajowego, respectively, and a syndicated loan (term tranche) of PLN 2.9 billion under the Loan Agreement dated September 7, 2015, the above-described loans are floating rate instruments in PLN. Payments on borrowings are hedged by IRS hedging instruments as described in note 16.1.2.

The COVID-19 pandemic did not noticeably affect the interest rate risk existing in PGE S.A. Borrowed long-term liabilities based on a variable interest rate were 100% hedged by IRS and CCIRS contracts.

The Company's exposure to interest rate risk and concentration of this risk by currency:

		Type of interest	As at December 31, 2021	As at December 31, 2020
Derivatives - assets exposed to interest rate risk	PLN	Fixed	-	-
		Variable	219	16
	EUR	Fixed	-	-
		Variable	2,363	1,308
Loans granted, bonds acquired and cash exposed to interest rate risk	PLN	Fixed	21,422	19,356
		Variable	449	330
	EUR	Fixed	650	602
		Variable	-	-
Derivatives – liabilities, exposed to interest rate risk	PLN	Fixed	-	-
		Variable	-	(385)
	EUR	Fixed	-	-
		Variable	(2,278)	(1,243)
Loans received, bonds issued exposed to interest rate risk	PLN	Fixed	(2,292)	(2,018)
		Variable	(7,287)	(8,063)
	EUR	Fixed	(669)	(671)
		Variable	-	-
Net exposure	**PLN**	**Fixed**	**19,130**	**17,338**
		Variable	**(6,619)**	**(8,102)**
	EUR	**Fixed**	**(19)**	**(69)**
		Variable	**85**	**65**

Interest rates on variable interest rate financial instruments are updated in periods shorter than one year. Interest rates on fixed interest rate financial instruments are fixed throughout the whole period until maturity of these instruments.

17.1.3Currency risk

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

The main sources of exposure to currency risk are presented below:

- loans and borrowings denominated in foreign currencies;
- transactions of purchase and sale of CO_2 emission allowances denominated in foreign currencies;
- financial assets with deposit characteristics denominated in foreign currencies,
- foreign subsidiaries;
- other operating flows denominated in or indexed to foreign currencies.

The Company controls currency risk through a system of limits relating to the maximum potential loss due to changes in currencies. The currency risk measure is based on the VaR methodology, understood as the product of the absolute size of the net foreign exchange position and the value of a potential change in the exchange rate.

Moreover, the Company sets out hedging strategies for currency risk using hedging ratios subject to approval by PGE S.A.'s Risk Committee and Management Board. The hedging strategy and level of currency risk are subject to monitoring and are regularly reported to the Risk Committee.

The Company executes derivative transactions concerning instruments that are based on currency only in order to hedge identified risk exposures. The regulations binding at PGE Group do not allow, with respect to currency derivative transactions, to conclude speculative transactions, i.e. transactions aimed at generating additional profits resulting from changes in exchange rates, while exposing the company to the risk of possible loss on this account.

In view of the foreign exchange risk management strategy adopted, based on minimising and hedging exposure to foreign exchange risk, the cost of servicing liabilities in foreign currencies, in the medium and long term, has not changed significantly as a result of the hedging measures that were taken prior to the outbreak of the COVID 19 pandemic.

The Company's exposure to currency risk broken down into classes of financial instruments:

	Total value in financial statements in PLN	CURRENCY POSITION AT DECEMBER 31, 2021			
		EUR	PLN	USD	PLN
FINANCIAL ASSETS					
Trade and other financial receivables, including:	26,573	370	1,698	-	-
Trade receivables	*7,703*	*8*	*35*	-	-
Other financial receivables	*1,665*	*362*	*1,663*	-	-
Cash and cash equivalents	5,316	141	650	-	-
Derivatives and other assets measured at fair value through profit or loss, including:	2,612	5,299	24,372	2	8
Carried at fair value through profit or loss	*2,253*	*5,121*	*23,553*	*2*	*8*
CCIRS hedges	*110*	*178*	*819*	-	-
FINANCIAL LIABILITIES					
Loans, borrowings, bonds, including:	10,248	145	669	-	-
Loans received	*669*	*145*	*669*	-	-
Trade and other payables, including:	10,251	362	1,663	-	-
Other financial liabilities	*1,685*	*362*	*1,663*	-	-
Derivatives	2,278	4,499	20,693	2	8
NET CURRENCY POSITION		**804**	**3,695**	**-**	**-**

The book value of derivatives constitutes their fair value measurement. The value of exposure to currency risk for forwards constitutes their nominal value in currency. The value of exposure to risk currency for CCIRS constitutes a value in the currency of discounted cash flows in the currency leg.

	Total value in financial statements in PLN	CURRENCY POSITION AT DECEMBER 31, 2020			
		EUR	PLN	USD	PLN
FINANCIAL ASSETS					
Trade and other financial 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
Carried at fair value through profit or loss	*1,244*	*3,372*	*15,561*	*23*	*86*
CCIRS hedges	*64*	*189*	*872*	-	-
FINANCIAL LIABILITIES					
Loans, borrowings, bonds, including:	10,752	145	671	-	-
Loans received	*671*	*145*	*671*	-	-
Trade and other payables, including:	1,600	218	1,005	-	-
Trade liabilities	*717*	*32*	*148*	-	-
Other financial liabilities	*883*	*186*	*857*	-	-
Derivatives	1,628	2,245	10,360	23	86
NET CURRENCY POSITION		**1,269**	**5,856**	**-**	**-**

The book value of derivatives constitutes their fair value measurement. The value of exposure to currency risk for forwards constitutes their nominal value in currency. The value of exposure to risk currency for CCIRS constitutes a value in the currency of discounted cash flows in the currency leg.

17.2 Liquidity risk

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

The main objective of liquidity risk management at PGE Group is to ensure and maintain the companies' ability to meet their existing and future financial liabilities, taking into account the cost to obtain liquidity. Liquidity risk management at PGE Group involves, inter alia, planning and monitoring cash flows in the short and long term with respect to its operating, investing and financing activities and taking actions to ensure funds for the operation of PGE S.A. and its subsidiaries while minimising the costs of these activities.

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

Liquidity risk management in the long term allows PGE Group to define its borrowing capacity and supports decisions regarding the financing of long-term investments.

PGE Group has a central financing model in which, as a rule, agreements relating to external financing are executed by PGE S.A. PGE Group subsidiaries use various sources of intra-group financing such as loans, bonds, bank account consolidation agreements and real cash pooling agreements.

The Company has an active policy of investing free cash, monitors the balance of financial surpluses and makes cash flow forecasts and, based on these, implements an investment strategy in relation to free cash.

As part of the assessment of its liquidity, the Company monitors the performance of the net debt/EBITDA ratio at a level that guarantees the maintenance of investment grade credit ratings and, consequently, the ability to finance the Group's ambitious investment program. The ratio is calculated on the basis of PGE Group's consolidated financial statements.

	Year ended December 31, 2021	Year ended December 31, 2020 *restated data**
Ratio: net debt / EBITDA	0.44x	1.22x

** In order to standardise the reporting of net debt (adjustment to the method of calculating covenants contained in loan agreements), starting from the results for the first half of 2021, there has been a change in presentation, which also results in a change in the comparative period, i.e. only funds in client accounts of PGE Dom Maklerski S.A. constituting collateral for settlements with clearinghouse IRGiT are included in restricted funds.*

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

- overdrafts and working capital term loans granted by banks;
- bank accounts consolidation agreements (real cash-pooling);
- bond issues addressed to external investors.

Maturities of the Company's financial liabilities by maturity date, based on contractual non-discounted payments:

AT DECEMBER 31, 2021	Carrying amount	Total payments	Under 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years
Bank credit	**6,809**	**7,459**	739	1,184	3,499	2,037
Bond liability	**1,404**	**1,712**	-	47	581	1,084
Loans received	**669**	**817**	9	9	77	722
Cash pooling liabilities	**1,346**	**1,346**	1,346	-	-	-
Lease liabilities	**20**	**64**	1	-	4	59
Trade and other financial liabilities measured at amortised cost	**8,588**	**8,589**	8,571	4	14	-
Settlements with exchanges, largely related to the purchase of CO_2 emission allowances (*)	**1,663**	**1,663**	1,663	-	-	-
Derivatives related to purchase of CO_2 emission allowances	**513**	**(348)**	122	781	(1,251)	-
Commodity forward - purchase	*2,242*	*17,387*	*5,210*	*3,800*	*8,377*	-
Commodity forward - sale		*(23,085)*	*(5,187)*	*(3,125)*	*(14,773)*	-
Futures – purchase	*(1,765)*	*5,451*	*145*	*141*	*5,165*	-
Futures - sale		*(139)*	*(50)*	*(41)*	*(48)*	-
Currency forwards	*36*	*38*	*4*	*6*	*28*	-
TOTAL	**21,012**	**21,302**	**12,451**	**2,025**	**2,924**	**3,902**

(*)Settlements relate to margins, the value of which depends on the current price of CO_2 allowances.

AT DECEMBER 31, 2020	Carrying amount	Total payments	Under 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years
Bank credit	**7,511**	**8,084**	15	1,070	4,774	2,225
Bond liability	**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	-	-	-
Lease liabilities	**21**	**65**	1	-	4	60
Trade and other financial liabilities measured at amortised cost	**742**	**742**	725	-	17	-
Settlements with exchanges, largely related to the purchase of CO_2 emission allowances (*)	**858**	**858**	858	-	-	-
Derivatives related to purchase of CO_2 emission allowances	**381**	**308**	(2,664)	1,954	1,018	-
Commodity forward - purchase	*1,219*	*11,047*	*4,147*	*6,035*	*865*	-
Commodity forward - sale		*(13,703)*	*(8,508)*	*(5,150)*	*(45)*	-
Futures – purchase	*(862)*	*3,926*	*2,635*	*1,091*	*200*	-
Futures - sale		*(986)*	*(956)*	*(25)*	*(5)*	-
Currency forwards	*24*	*24*	*18*	*3*	*3*	-
IRS hedges	**385**	**388**	-	130	239	19
TOTAL	**13,119**	**14,014**	**94**	**3,186**	**6,224**	**4,510**

(*)Settlements relate to margins, the value of which depends on the current price of CO_2 allowances.

17.3 Credit risk

Credit risk is related to a potential credit event that may take the form of a counterparty's insolvency, only partial repayment of receivables, a material delay in repayment of receivables or other deviation from contractual terms (including, in particular, failure to deliver and receive agreed goods in accordance with the contract and possible non-payment of damages and contractual penalties).

The Company is exposed to credit risk arising in the following areas:

- Core business - sources of credit risk include transactions for the sale of electricity, purchase and sale of gas and CO_2 emission allowances. This includes the possibility of the other party to the transaction failing to meet its obligations to the Company if the fair value of the transaction is positive from the perspective of the Company;
- Investing free cash – the credit risk results from investing free cash of PGE S.A. in securities bearing credit risk, i.e. financial instruments other than those issued by the State Treasury.

Maximum credit risk exposure resulting from financial assets is equal to the carrying value of these items.

	Year ended December 31, 2021	Year ended December 31, 2020
Trade receivables	7,703	1,239
Other financial assets	18,870	17,662
Cash and cash equivalents	5,316	3,507
Derivatives - assets	2,612	1,376
MAXIMUM EXPOSURE TO CREDIT RISK	**34,501**	**23,784**

17.3.1 Trade and other financial receivables

ACCOUNTING RULES

Impairment of receivables

Receivables from loans granted and bonds purchased from subsidiaries

PGE Group's business model assumes that, as a rule, financing is granted to subsidiaries only from the level of PGE S.A. The Company analyses the results and financial plans of its subsidiaries and assigns internal ratings on this basis. In the event of a material deterioration in the financial position of companies, recoverability analyses are performed on all assets involved in the subsidiary. It was assumed that PGE S.A.'s control over the assets of subsidiaries is a form of collateral, which was taken into account when estimating the Recovery Rate parameter. Consequently, with regard to loans and bonds granted to subsidiaries, this parameter was set at 0%. All receivables from loans granted and bonds purchased from subsidiaries are classified in one basket.

Trade 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 to the maturity of the instrument.

The Company applies the following rules for estimating and recognising impairment losses on other financial receivables:

- for receivables from major customers who are subject to the credit risk assessment procedure, the Company estimates expected credit losses based on a model used to assess this risk, which is based on ratings assigned to individual counterparties; ratings are assigned a probability of bankruptcy, which is adjusted for the impact of macroeconomic factors;
- for receivables from bulk customers or those not covered by the credit risk assessment procedure, the Company estimates expected credit losses based on an analysis of the probability of incurring credit losses in each age bracket;
- in justified cases the Companies may estimate the value of the impairment loss individually.

Ratios used to estimate expected losses calculated according to the following provision matrix:

	December 31, 2021		December 31, 2020	
	Amount of impairment	% of impairment	Amount of impairment	% of impairment
Receivables before due date	390	0.0 - 100.0 (*)	392	0.0 - 100.0 (*)
Past due <30 days	-	0.0	-	0.0
Past due 30-90 days	-	0.0	-	0.0
Past due 90-180 days	-	100.0	-	100.0
Past due 180-360 days	-	100.0	2	100.0
Past due >360 days	-	100.0	26	100.0
TOTAL FINANCIAL ASSETS	**390**		**420**	

(*) The impairment loss applies to receivables subject to matrix and individual impairment loss (100%).

Indicators used to estimate expected loss values calculated according to the model for key customers:

Rating level	December 31, 2021		December 31, 2020	
	Amount of impairment	% of impairment	Amount of impairment	% of impairment
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 a 2-3-week payment deadline. In 2021, the Company waited on average 46 days for payment of receivables. Trade receivables relate mainly to receivables for energy sold. Through the ongoing monitoring of trade receivables, in the opinion of management, there is no additional significant credit risk above the level determined by the allowance for expected credit losses.

The Company reduces and controls the credit risk related to trade transactions. In the case of trade transactions which due to high value may generate substantial loss in case of failure of business partner to comply with the agreement, the assessment of contractor is carried out before the transaction is conducted, taking into account contractor's financial analysis, its credit history and other factors. Based on the assessment, an internal rating is recognised or the Company uses a rating determined by an independent reputable agency. A limit for the contractor is set based on the rating. Entering into contracts that would increase exposure above the limit, requires in principle the collateral in line with rules pertaining to credit risk management. The level of used limit is regularly monitored and if it is substantially exceeded, units responsible for contractor's risk are obliged to undertake measures to eliminate them. The Company monitors the payment of its receivables on an ongoing basis - it applies early debt collection and uses the services of Economic Information Offices.

Credit risk relating to trade receivables by geographical region is presented in the table below:

	December 31, 2021		December 31, 2020	
	Receivables balance	% share	Receivables balance	% share
Poland	7,668	99.0%	1,239	100.0%
Germany	31	1.0%	-	-
Belgium	4	-	-	-
TOTAL	**7,703**	**100.0%**	**1,239**	**100.0%**

The majority of sales transactions and trade receivables balances relate to related parties within PGE Group as well as large entities on the Polish electricity market. Information on transactions with related parties is presented in note 21 of these financial statements.

Age structure of receivables and allowances for expected credit losses

At December 31, 2021, some financial assets were subject to allowances for future credit losses.

The change in allowances accounts for these classes of financial instruments is presented in the table below:

2021	Trade receivables	Loans granted	Cash pooling receivables	Bonds acquired	Other financial receivables
Allowance for expected credit losses as of January 1	**(34)**	**-**	**-**	**(386)**	**-**
Reversal of impairment losses	7	-	-	-	-
Use	23	-	-	-	-
Allowance for expected credit losses as of December 31	**(4)**	**-**	**-**	**(386)**	**-**
Value before the allowance	**7,707**	**7,614**	**449**	**9,528**	**1,665**
Net value (book value)	**7,703**	**7,614**	**449**	**9,142**	**1,665**

2020	Trade receivables	Loans granted	Cash pooling receivables	Bonds acquired	Other financial receivables
Allowance for expected credit losses as of January 1	**(32)**	**-**	**-**	**(386)**	**-**
Recognition of impairment losses	(2)	-	-	-	-
Use	-	-	-	-	-
Allowance for expected credit losses as of December 31	**(34)**	**-**	**-**	**(386)**	**-**
Value before the allowance	**1,273**	**6,508**	**330**	**10,329**	**881**
Net value (book value)	**1,239**	**6,508**	**330**	**9,943**	**881**

Trade receivables and other financial assets

	December 31, 2021			December 31, 2020		
	Gross value	Impairment	Net carrying amount	Gross value	Impairment	Net carrying amount
Receivables before due date	**26,941**	**(389)**	**26,552**	**19,333**	**(392)**	**18,941**
Past due <30 days	21	-	21	1	-	1
Past due 30-90 days	-	-	-	-	-	-
Past due 90-180 days	-	-	-	-	-	-
Past due 180-360 days	-	-	-	2	(2)	-
Past due >360 days	1	(1)	-	26	(26)	-
Receivables past due, total	**22**	**(1)**	**21**	**29**	**(28)**	**1**
TOTAL FINANCIAL ASSETS	**26,963**	**(390)**	**26,573**	**19,362**	**(420)**	**18,942**

17.3.2 Deposits, cash and cash equivalents

The Company manages credit risk related to cash and cash equivalents by diversification of banks in which surpluses of cash are allocated. All entities with which the Company concludes deposit transactions with operate in the financial sector. These are exclusively banks incorporated in Poland or operating in Poland in the form of branches of foreign banks, with a rating of at least investment grade, with an adequate solvency ratio and equity capital, and with a strong and stable market position.

17.3.3 Derivatives

All entities with which the Company concludes derivative transactions with operate in the financial sector. These are banks with investment ratings, adequate equity and strong, stable market position. As at the reporting date, the Company was party to the derivative transactions, described in detail in note 16.1.2 to these financial statements.

17.3.4 Guarantees and sureties

Guarantees and sureties issued 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 market risk to which it is exposed:

- interest rate risk,
- currency risk.

Currently, the Company is exposed mainly to currency risk related to foreign exchange rates between EUR/PLN. Furthermore, the Company is exposed to interest rate risk related to referential interest rates of PLN. The Company uses a scenario analysis for the purpose of analysing sensitivity to changes of market risk factors. The Company uses expert scenarios reflecting the Company's subjective assessment of future market risk factors.

The scenario analysis presented in this point is intended to analyse the influence of changes in market risk factors on the financial results of the Company. Only those items that can be defined as financial instruments are subject to the analysis of interest and currency risk.

In sensitivity analysis related to interest rate risk, the Company applies parallel shift of interest rate curve related to a potential possible change of referential interest rates during the following year.

In case of sensitivity analysis of interest rates' fluctuations, the effect of risk factors' changes could be recorded in the statement of comprehensive income as income or expenses or as revaluation of financial instruments measured at fair value.

The sensitivity analysis related to all types of market risks the Company is exposed to as at the reporting date, indicating the potential influence of changes of individual risk factors by class of financial assets and liabilities on profit before tax is presented below.

Sensitivity analysis for currency risk

The following table shows the sensitivity of profit before tax and equity to reasonably possible changes in exchange rates, assuming no changes in other risk factors for those classes of financial instruments that are exposed to exchange rate risk.

FINANCIAL INSTRUMENTS BY CLASS	Value in financial statements in PLN	SENSITIVITY ANALYSIS FOR CURRENCY RISK AS AT DECEMBER 31, 2021					
		Value at risk in PLN	EUR/PLN Impact on financial result / equity		USD/PLN Impact on financial result / equity	
			10%	-10%	10%	-10%
Trade and other financial receivables	26,573	1,698	170	(170)	-	-
Cash and cash equivalents	5,316	650	65	(65)	-	-
Derivatives measured at fair value through profit or loss - assets	2,269	23,561	1,293	(1,293)	1	(1)
Derivative hedges - assets	313	819	66	(66)	-	-
Loans, borrowings, bonds	10,248	669	(67)	67	-	-
Trade and other financial payables	10,251	1,663	(166)	166	-	-
Derivatives measured at fair value through profit or loss - liabilities	2,278	20,701	(1,365)	1,365	(1)	1
Impact on financial result			**(4)**	**4**	**-**	**-**
Derivative hedges - assets	313	872	16	(16)	-	-
Impact on revaluation reserve			**16**	**(16)**	**-**	**-**

FINANCIAL INSTRUMENTS BY CLASS	Value in financial statements in PLN	SENSITIVITY ANALYSIS FOR CURRENCY RISK AS AT DECEMBER 31, 2020				
		Value at risk in PLN	EUR/PLN Impact on financial result / equity		USD/PLN Impact on financial result / equity	
			10%	-10%	10%	-10%
Trade 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 hedges	64	872	66	(66)	-	-
Loans, borrowings, bonds	10,752	671	(67)	67	-	-
Trade and other financial payables	1,600	1,005	(100)	100	-	-
Derivatives - liabilities	1,628	10,447	(924)	924	(9)	9
Impact on financial result			**89**	**(89)**	**-**	**-**
CCIRS hedges	64	872	21	(21)	-	-
Impact on revaluation reserve			**21**	**(21)**	**-**	**-**

Sensitivity analysis for interest rate risk

The following table shows the sensitivity of profit before tax and capital to reasonably possible changes in interest rates, with other risk factors unchanged, for those classes of financial instruments that are exposed to interest rate risk:

FINANCIAL ASSETS AND LIABILITIES	SENSITIVITY ANALYSIS FOR INTEREST RATE RISK AS AT DECEMBER 31, 2021					
	Value in financial statements in PLN	Value at risk in PLN	WIBOR Impact on financial result / equity		EURIBOR Impact on financial result / equity	
			+50bp	-50bp	+25bp	-25bp
Trade and other receivables	26,573	449	2	(2)	-	-
Derivatives measured at fair value through profit or loss - assets	2,269	2,269	11	(11)	-	-
Loans, borrowings, bonds, cash pooling	10,248	4,537	(36)	36	-	-
Derivatives measured at fair value through profit or loss - liabilities	2,278	2,278	(11)	11	-	-
Impact on financial result			**(34)**	**34**	**-**	**-**
CCIRS hedges	110	110	21	(22)	(14)	15
IRS hedges	203	203	66	(73)	-	-
IMPACT ON REVALUATION RESERVE			**87**	**(95)**	**(14)**	**15**

Value of derivatives exposed to interest rate risk is fair value of those instruments (carrying amount). Sensitivity analysis for CCIRS and IRS derivatives was carried out using the valuation change due to the shift of interest rates curves for particular currency.

FINANCIAL ASSETS AND LIABILITIES	SENSITIVITY ANALYSIS FOR INTEREST RATE RISK AS AT DECEMBER 31, 2020					
	Value in financial statements in PLN	Value at risk in PLN	WIBOR Impact on financial result / equity		EURIBOR Impact on financial result / equity	
			+50bp	-50bp	+25bp	-25bp
Trade and other receivables	18,901	330	2	(2)	-	-
Derivatives - assets	1,376	1,260	6	(6)	-	-
Loans, borrowings, bonds, cash pooling	10,752	8,063	(40)	40	-	-
Derivatives - liabilities	1,628	1,243	(6)	6	-	-
Impact on financial result			**(38)**	**38**	**-**	**-**
CCIRS hedges	64	64	28	(30)	(17)	17
IRS hedges - liabilities	385	385	148	(115)	-	-
IMPACT ON REVALUATION RESERVE	-	-	**176**	**(145)**	**(17)**	**17**

Value of derivatives exposed to interest rate risk is fair value of those instruments (carrying amount). Sensitivity analysis for CCIRS and IRS derivatives was carried out using the valuation change due to the shift of interest rates curves for particular currency.

17.5 Hedge accounting

ACCOUNTING RULES

Hedge accounting

Changes in the fair value measurement of derivative financial instruments designated as CCIRS and IRS cash flow hedges are taken to the revaluation reserve for the portion that represents an effective hedge, while the ineffective portion of the hedge is taken to the income statement.

The accumulated changes in fair value of hedging instrument, previously recognised in hedging reserve are transferred to profit or loss in the period or periods in which the hedged item affects profit or loss. Alternatively, if the hedge of a planned transaction results in the recognition of non-financial assets or non-financial liabilities, the Company excludes the amount from equity and includes it in the initial cost or other carrying amount of a non-financial asset or liability.

In June and August 2014, in connection with loans received from PGE Sweden AB, PGE S.A. concluded CCIRS transactions, hedging both exchange rates. In these transactions, the counterparty banks 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 nominal value, payment of interest and repayment of nominal value in CCIRS transactions are correlated with the relevant conditions arising from loan agreements. To recognise these transactions, the Company uses hedge accounting.

PGE S.A. also applies hedge accounting to IRS transactions, hedging the interest rate in connection with its financial commitments under credit agreements such as the Credit Agreement with a bank syndicate concluded on September 7, 2015 and Credit Agreement with Bank Gospodarstwa Krajowego concluded on December 17, 2014 and under the market bonds issued on May 9, 2019. In these transactions, counterparty banks 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 source of partial ineffectiveness for hedge accounting is only the CCIRS transaction, hedging the exchange rate of the loan from PGE Sweden AB.

	Year ended December 31, 2021
VALUE OF HEDGED ITEM AS OF JANUARY 1	**671**
Repayment of loan	-
Accrued interest	21
Paid interest	(21)
Exchange differences	(2)
VALUE OF HEDGED ITEM AS OF DECEMBER 31	**669**

Information on hedging instruments - maturity structure:

Derivative instrument	Currency	Within 1 year	From 1 year to 5 years	Over 5 years
CCIRS	EUR	9	29	(230)
IRS	PLN	(28)	(167)	(31)

The Company assesses that the ineffective part of the hedge, resulting from the EUR exchange rate and the change in WIBOR and recognised in the income statement, 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.

EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

18. Statement of cash flows

ACCOUNTING RULES

Statement of cash flows

The statement of cash flows is prepared using the indirect approach.

Presented below is the analysis of the most significant items of cash flow statement.

18.1 Cash flows from operating activities

Interest and dividends

	Year ended December 31, 2021	Year ended December 31, 2020
Dividend receivables	(1,252)	(1,464)
Interest on purchased bonds	(322)	(372)
Interest on issued bonds	25	34
Interest on loans granted	(130)	(99)
Interest on loans received	23	22
Interest and commission on bank credit	126	185
Interest on derivatives	129	83
Other	1	1
TOTAL INTEREST AND DIVIDENDS	**(1,400)**	**(1,610)**

(Profit) / loss on investing activities

	Year ended December 31, 2021	Year ended December 31, 2020
Matching cost measurement of derivatives	57	96
Recognition and reversal of impairment losses on financial assets	7	515
(Profit)/loss on sale of other financial assets	36	11
Other	2	(4)
TOTAL (PROFIT)/LOSS ON INVESTING ACTIVITIES	**102**	**618**

Change in receivables

	Year ended December 31, 2021	Year ended December 31, 2020
Change in trade and other receivables	(8,216)	810
Adjustment for changes in loans issued (including cash pooling)	1,072	1,977
Adjustment for changes in purchased bonds	(801)	(2,697)
Other	3	-
TOTAL CHANGE IN RECEIVABLES	**(7,942)**	**90**

Change in liabilities, excluding loans and borrowings

	Year ended December 31, 2021	Year ended December 31, 2020
Change in trade and other financial payables	7,849	124
Change in other non-financial liabilities	143	344
Change in other financial liabilities	806	699
Adjustment for changes in settlements in tax group	(58)	(92)
Other	(4)	(3)
TOTAL CHANGE IN LIABILITIES, EXCLUDING LOANS AND BORROWINGS	**8,736**	**1,072**

Change in other non-financial assets

	Year ended December 31, 2021	Year ended December 31, 2020
Change in other current assets	254	(433)
Other	-	2
TOTAL CHANGE IN OTHER CURRENT ASSETS	**254**	**(431)**

18.2 Cash flows from investing activities

Purchase and redemption of bonds issued by PGE Group companies

PGE S.A. acquires bonds issued by entities belonging to PGE Group. Funds obtained from the issue of bonds is used for financing investments, repayment of financial liabilities as well as for financing current operations. Detailed description in note 16.1.1.

Sale of other financial assets

The amount of proceeds from the sale of other financial assets relates mainly to the sale of shares in PGE EJ1 sp. z o.o. (PLN 368 million).

Purchase of subsidiaries

Included under expenditures on the acquisition of subsidiaries are amounts relating to the acquisition of shares in subsidiaries, as described in note 8 of these financial statements.

Dividends received

The total amount of dividends received consists mainly of dividends from: PGE Dystrybucja S.A. PLN 784 million, PGE EC S.A. PLN 277 million and PGE EO S.A. PLN 166 million, and in the comparative period PGE Dystrybucja S.A. PLN 792 million, PGE EO S.A. PLN 467 million and PGE EC S.A. PLN 186 million.

Cash flows under cash pooling

As described in note 16.1.1, PGE S.A. serves as coordinator for PGE Group's cash pooling services. This means, among others, that certain entities settle with the Company and the Company settles with banks. In connection with the above, balances with related parties participating in cash pooling are reported in the Company's financial receivables and liabilities.

18.3 Cash flows from financing activities

Proceeds from loans, borrowings

In the current reporting period, the Company took out loans totalling PLN 273 million.

Repayment of loans, credit facilities, bonds and leases

In the current reporting period, the Company repaid loans totalling PLN 976 million.

OTHER EXPLANATORY NOTES

19. Contingent liabilities and receivables. Legal claims

ACCOUNTING RULES

Contingent liabilities

Recognition and measurement of provisions and contingent liabilities requires that the Company estimates the probability of occurrence of potential liabilities. If the occurrence of an adverse event is probable, the Company recognises a provision in the appropriate amount. If the occurrence of an adverse event in the Company's opinion is possible but not probable, a contingent liability is disclosed.

19.1 Contingent liabilities

	As at December 31, 2021	As at December 31, 2020
Guarantee and surety liabilities	18,029	13,120
Surety	690	692
Bank guarantees securing exchange transactions	2,760	450
Other contingent liabilities	59	-
Total contingent liabilities	**21,538**	**14,262**

Guarantee for PGE Sweden AB (publ) liabilities

Due to establishment of the Eurobonds program in 2014, an agreement was concluded for the issue of guarantee by PGE S.A. for the liabilities of PGE Sweden AB (publ). The guarantee was granted to the amount of EUR 2,500 million (PLN 10,750 million) and will be valid until December 31, 2041. As at December 31, 2021, PGE Sweden AB (publ)'s liabilities due to bonds issued amounted to EUR 140 million (PLN 642 million), as at December 31, 2020 liabilities amounted to EUR 140 million (PLN 644 million).

Surety for PGE GiEK S.A.'s liabilities

On December 28, 2021, PGE S.A. entered into a surety agreement up to the amount of PLN 5 billion, on the basis of which PGE S.A. guaranteed all liabilities of PGE GiEK S.A. resulting from electricity trading transactions entered into on TGE, cleared by IRGiT.

Surety for PGE Dom Maklerski S.A.'s liabilities

The liability represents a guarantee granted by PGE S.A. for the liabilities of PGE Dom Maklerski S.A. to Citigroup Global Markets Europe AG in order to secure the settlement of exchange transactions on CO_2 emission allowances. As at December 31, 2021, the amount of the surety issued by PGE S.A. was PLN 150 million, i.e. the equivalent of PLN 690 million.

Bank guarantees securing exchange transactions

These liabilities represent sureties issued by PGE S.A. for bank guarantees lodged as a deposit to secure exchange transactions resulting from membership in clearinghouse IRGiT. As at December 31, 2021, the total amount of bank guarantees was PLN 2,760 million, and as at December 31, 2020 it was PLN 450 million.

Other disputes

In connection with the sale of shares of PGE EJ1 sp. z o.o. to the State Treasury and pursuant to the Agreement regulating the responsibility of the current Shareholders for the costs of a dispute with Worley Parsons, if PGE S.A. loses the dispute, it may be required to cover the costs of the dispute in the maximum amount of PLN 98 million. The probability of losing the dispute was estimated in order to determine the fair value of the payment received. In effect, PLN 59 million was recognised under contingent liabilities and PLN 39 million in current provisions. The amount of the provision adjusted the result on the sale of shares as presented in these financial statements.

19.2 Other significant issues related to contingent liabilities

Standby commitments to ensure financing of new investments for PGE Group companies

In connection with PGE Group's strategic investments, the Company granted a standby commitment to its subsidiary in which it undertook to provide financing for the planned investments. The standby commitment relates to strictly defined investment procedures and may only be used for these purposes. At the reporting date, the approximate value of future investment commitments relating to these projects is approx. PLN 250 million.

19.3 Other court cases and disputes

Compensation for conversion of shares

On November 12, 2014, Socrates Investment S.A. (purchaser of receivables from former shareholders of PGE Górnictwo i Energetyka S.A.) filed a lawsuit for damages in the total amount of over PLN 493 million (plus interest) for the loss suffered in connection with the incorrect (in its opinion) determination of the share exchange parity in the process of the merger of PGE GiEK S.A. with PGE S.A. The Company filed a response to the lawsuit. On November 15, 2017 the Company received a procedural document from the claimant - change of demand sought, increasing the amount sought in court to PLN 636 million. A hearing to appoint a court expert was held on November 20, 2018. A first-instance court proceeding is currently under-way. In a ruling dated April 19, 2019 the court appointed experts to draft an opinion on this matter. No final opinion was issued by the court experts prior to the approval of these financial statements. In connection with the expert team's opinion being admitted as evidence, the hearing was postponed to an ex-officio date. The next hearing is scheduled for April 8, 2022.

Furthermore, a similar claim was raised by Pozwy sp. z o.o., an entity that purchased claims from former PGE Elektrownia Opole S.A. shareholders. Pozwy sp. z o.o. filed a claim at the District Court in Warsaw against PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE S.A. and PwC Polska sp. z o.o. ("Defendants"), demanded from the Defendants, in solidum, or jointly damages for Pozwy sp. z o.o. totalling over PLN 260 million with interest for allegedly incorrect (in its opinion) determination of the exchange ratio for PGE Elektrownia Opole S.A. shares for PGE Górnictwo i Energetyka Konwencjonalna S.A. shares in a merger of these companies. This lawsuit was delivered to PGE S.A. on March 9, 2017, and the deadline for responding to it was set by the court as July 9, 2017. The following companies: PGE S.A. and PGE GiEK S.A. submitted a response to the claim on July 8, 2017. On September 28, 2018, the District Court in Warsaw ruled in the first instance - 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 an appeal lodged by the claimant on December 7, 2018. A response from PGE S.A. and PGE GiEK S.A. to the appeal was drafted on April 23, 2019. A hearing was held on December 21, 2020. The Appeals Court ruled to repeal the District Court's ruling in its entirety and referred the case to the District Court for re-examination. On January 22, 2021 PGE S.A. and PGE GiEK S.A. appealed the ruling to the Supreme Court, requesting that the appealed ruling be repealed entirely and the case referred to the Appeals Court for re-examination. At a closed-door hearing on April 27, 2021 the Supreme Court reversed the judgement. The case was returned to be re-examined by the Appeals Court. A justification for the Supreme Court ruling was received by PGE S.A. and PGE GiEK S.A. on June 24, 2021. The Appeals Court hearing date was September 30, 2021. During the hearing, the Court required the defendants to present a position on the statute of limitations, and the claimant to name witnesses questioned about the start of the statute of limitations time limit. The hearing was postponed, without setting another date.

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

PGE S.A. did not establish a provision for the reported claim.

20. Tax settlements

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

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

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

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

Tax group

An agreement for a tax group named PGK PGE 2015, represented by PGE S.A., was signed on September 18, 2014, for a period of 25 years. An annex to the tax group agreement was signed on July 28, 2021, which reduced the agreement validity period from 25 to 7 years. PGK PGE 2015 no longer exists as of December 31, 2021.

As the law stood until the end of 2021, companies forming a tax capital group had to meet a number of requirements, including the following: an appropriate level of capital, the parent company's share in the capital of companies forming the tax group at a minimum level of 75%, no capital ties between subsidiaries, no tax arrears, achieving a share of income in revenues of at least 2% (calculated for the entire tax group) and entering into transactions with entities outside the tax group only on market terms. A breach of these requirements could mean the dissolution of the tax group and the loss of its taxpayer status. When the tax group is dissolved, each of its member companies becomes an individual payer of corporate income tax.

VAT split payment mechanism

The Group intends to effectively use the funds received from counterparties in VAT accounts to pay its liabilities that contain VAT. The level of funds in these VAT accounts on any given day depends mainly on how many of PGE Group's counterparties decide to use this mechanism and the relation between the payment deadlines for receivables and liabilities. As at 31 December 2021, the cash balance in VAT accounts was PLN 358 million.

Reporting of tax arrangements (MDR)

In 2019, new regulations introduced mandatory reporting of tax arrangements (Mandatory Disclosure Rules - MDR). A tax arrangement should be understood as any activity of which the main or one of the main benefits is is the obtaining of a tax advantage. In addition, events with so-called special or other distinctive hallmarks, as defined in the legislation, have been identified as a tax scheme. Three types of entities are subject to the reporting obligation: promoter, supporter and beneficiary. MDR regulations are complex and imprecise in numerous areas, which gives rise to interpretation doubts as to their practical application.

Uncertainty concerning tax settlements

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

Taxation and other areas of activity (for example, customs and foreign exchange) may be audited by the authorities, which have the power to impose heavy fines and penalties, and any additional tax liabilities arising from an audit must be paid with high interest. This means that tax risk in Poland is higher than in countries with more stable tax systems.

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

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

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

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

21. Information on related parties

The State Treasury is the dominant shareholder of the PGE Group and as a result State Treasury companies are recognised as related entities. The Company closely monitors transactions with key State Treasury subsidiaries. The total value of transactions with such entities is presented in the table below in the column “other related parties”.

Transactions with related parties are based on market prices for the goods, products and services supplied or are based on their cost. The exceptions to this rule were the tax loss settlements within the tax group described in notes 5.2 and 20 of these financial statements.

21.1 Transactions with related parties

Year ended December 31, 2021

STATEMENT OF COMPREHENSIVE INCOME	Subsidiaries	Other PGE Group related parties	Other related parties	Third parties	TOTAL
Revenue from sales	25,608	-	1,263	9,046	**35,917**
Other operating revenue / (costs)	12	-	-	(11)	**1**
Finance income / (costs)	1,630	-	-	(317)	**1,313**
Operating costs	12,069	-	1,108	22,140	**35,317**

Year ended December 31, 2020

STATEMENT OF COMPREHENSIVE INCOME	Subsidiaries	Other PGE Group related parties	Other related parties	Third parties	TOTAL
Revenue from sales	21,756	-	138	5,647	**27,541**
Other operating revenue / (costs)	11	-	-	(16)	**(5)**
Finance income / (costs)	1,390	-	-	(293)	**1,097**
Operating costs	10,494	-	196	16,134	**26,824**

The Company recognises revenues from sales to subsidiaries in PGE Group mainly from the sale of electricity, gas, property rights and CO_2.

Finance income mainly relates to dividends and interest on loans and bonds.

Operating costs relate to the value of sales of materials and goods.

The Company concludes significant transactions on the energy market via Towarowa Giełda Energii S.A. (Polish Power Exchange). Due to the fact that this entity only deals with the organization of trading, purchases and sales transacted through this entity are not recognised as transactions with related parties.

21.2 Balances with related parties

As at December 31, 2021

ASSETS	Subsidiaries	Other PGE Group related parties	Other related parties	Third parties	TOTAL
Financial assets:	**26,376**	**-**	**134**	**63**	**26,573**
Bonds acquired	9,142	-	-	-	9,142
Trade receivables	7,508	-	134	61	7,703
Other loans and financial assets	9,726	-	-	2	9,728
Shares in subsidiaries	**29,532**	**-**	**-**	**-**	**29,532**
Shares in subsidiaries, jointly controlled entities, associates and other	**-**	**83**	**-**	**13**	**96**
Derivatives - assets	**-**	**-**	**-**	**2,612**	**2,612**
Other current assets	**667**	**-**	**-**	**(292)**	**375**

As at December 31, 2020

ASSETS	Subsidiaries	Other PGE Group related parties	Other related parties	Third parties	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 in subsidiaries	**29,770**	**-**	**-**	**-**	**29,770**
Shares in subsidiaries, jointly controlled entities and associates	**-**	**101**	**-**	**-**	**101**
Derivatives - assets	**-**	**-**	**-**	**1,376**	**1,376**
Other current assets	**51**	**-**	**-**	**3**	**54**

As at December 31, 2021

LIABILITIES	Subsidiaries	Other related parties	Third parties	TOTAL
Derivatives - equity and liabilities	**-**	**-**	**2,278**	**2,278**
Financial liabilities measured at amortised cost:	**10,474**	**56**	**9,969**	**20,499**
Bonds issued	-	-	1,404	1,404
Interest bearing loans and borrowings	669	-	6,809	7,478
Cash pooling liabilities	1,346	-	-	1,346
Trade liabilities	8,459	56	51	8,566
Lease liabilities IFRS 16	-	-	20	20
Other financial liabilities	-	-	1,685	1,685

As at December 31, 2020

LIABILITIES	Subsidiaries	Other related parties	Third parties	TOTAL
Derivatives - equity and 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 loans and borrowings	672	-	7,510	8,182
Cash pooling liabilities	1,149	-	-	1,149
Trade liabilities	681	21	15	717
Lease liabilities IFRS 16	-	-	20	20
Other financial liabilities	2	-	881	883

Standby commitments and sureties granted to PGE S.A.'s subsidiaries are described in note 19 of these financial statements.

21.3 Management remuneration

The key management personnel comprises the Management Board and the Supervisory Board.

PLN 000s	Year ended December 31, 2021	Year ended December 31, 2020
Short-term employee benefits (salaries and salary related costs)	7,622	7,913
Post-employment and termination benefits	(935)	49
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**6,687**	**7,962**

PLN 000s	Year ended December 31, 2021	Year ended December 31, 2020
Management Board	5,869	7,201
Supervisory Board	818	761
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**6,687**	**7,962**

Members of the Company's Management Board are employed on the basis of civil law contracts for management (so called management contracts). In Note 4.2 Costs by nature and by function, remuneration is presented under other expenses by nature and, in addition to basic remuneration, also includes the values of reversed provisions for bonuses for former members of the Management Board and established provisions for bonuses for current members of the Management Board.

The amount of post-employment and termination benefits took a negative value in the current period due to the release of unused provisions from previous years.

22. Remuneration of the entity authorised to audit financial statements

The entity authorised to audit the separate financial statements of PGE S.A. for 2021 and 2020 and the consolidated financial statements of PGE Group as well as to provide a review of the semi-annual separate and consolidated financial statements for 2021 and 2020 is Deloitte Audyt sp. z o.o. sp.k. based on the agreement concluded on April 26, 2019.

PLN 000s	Year ended December 31, 2021	Year ended December 31, 2020
Audit of the annual separate financial statements and annual consolidated financial statements of PGE Group	518	540
Other assurance services, including for the review of half-yearly financial statements	215	155
Total amount of remuneration	**733**	**695**

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

Article 44 of the Energy Law imposes an obligation on the energy companies to prepare regulatory financial statements with a balance sheet (statement of financial position) and the statement of profit or loss for the reporting periods separately for each type of business activity related to 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,
- unrelated to the activities listed above.

23.1 Principles for allocation to different types of activities

The section below presents the types of activities referred to in art. 44 of the Energy Law and principles for allocation of revenues, expenses, assets and liabilities resulting from these types of activities.

23.1.1 Description of separate types of activities

The Company has identified the following types of activities pursuant to art. 44 point 1 of the Energy Law:

- trade in gaseous fuels
- other activities

23.1.2 Principles for allocating revenue, costs, assets and liabilities

Selected items in the statement of comprehensive income and statement of financial position are assigned by the Company to certain types of activities based on the accounting records:

- revenue from sale
- cost of goods sold
- selling and distribution costs
- general and administrative expenses
- finance income and finance costs
- trade receivables
- trade payables
- derivatives
- inventories
- provisions, except for employee benefit provisions

Selected items in the statement of financial position are assigned by the Company to certain types of activities with the use of allocation keys:

- property, plant and equipment as well as intangible assets in proportion to the depreciation/amortisation costs,
- provisions for employee benefits and liabilities for wages and salaries, personal income tax and Social Security in proportion to the cost of employee benefits,
- VAT liabilities in proportion to revenues from sales.

Selected items in the statement of comprehensive income and statement of financial position are not assigned to certain types of activities as they pertain to all activities of the entity. The main unallocated items include:

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

Unallocated items are presented together with other activities.

23.2 Breakdown by type of business activity

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2021

	Gas trade	Other activities and unallocated items	Total
REVENUE FROM SALES	**493**	**35,424**	**35,917**
Cost of goods sold	(490)	(34,604)	**(35,094)**
GROSS PROFIT ON SALES	**3**	**820**	**823**
Distribution and selling expenses	(9)	(8)	**(17)**
General and administrative expenses	(3)	(203)	**(206)**
Other operating income / (expenses)	-	1	**1**
OPERATING PROFIT / (LOSS)	**(9)**	**610**	**601**
Finance income / (costs)	-	1,313	**1,313**
GROSS PROFIT	**(9)**	**1,923**	**1,914**
Income tax	-	(180)	**(180)**
NET PROFIT FOR THE REPORTING PERIOD	**(9)**	**1,743**	**1,734**

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

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2021

	Gas trade	Other activities and unallocated items	Total
NON-CURRENT ASSETS			
Property, plant and equipment	3	143	146
Right-of-use assets	-	20	20
Financial receivables	-	6,936	6,936
Derivatives and other assets measured at fair value through profit or loss	-	358	358
Shares in subsidiaries	-	29,370	29,370
Shares in other related parties and other entities	-	96	96
Other non-current assets	-	3	3
	3	**36,926**	**36,929**
CURRENT ASSETS			
Inventories	-	1	1
Income tax receivables	-	136	136
Derivatives	-	2,254	2,254
Shares in subsidiaries	-	162	162
Trade and other receivables	155	19,482	19,637
Other current assets	7	368	375
Cash and cash equivalents	-	5,316	5,316
	162	**27,719**	**27,881**
TOTAL ASSETS	**165**	**64,645**	**64,810**

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2021

	Gas trade	Other activities and unallocated items	Total
Net profit for the reporting period	(9)	1,743	1,734
Other equity	-	39,568	39,568
TOTAL EQUITY	**(9)**	**41,311**	**41,302**
NON-CURRENT LIABILITIES			
Non-current provisions	-	13	13
Deferred tax liabilities	-	34	34
Loans, borrowings, bonds, cash pooling, leases	-	7,084	7,084
Derivatives	-	-	-
Other financial liabilities	-	13	13
	-	**7,144**	**7,144**
CURRENT LIABILITIES			
Current provisions	-	40	40
Loans, borrowings, bonds, cash pooling, leases	-	3,164	3,164
Trade and other liabilities	8	10,230	10,238
Derivatives	-	2,278	2,278
Income tax liabilities	-	1	1
Other non-financial liabilities	1	642	643
	9	**16,355**	**16,364**
TOTAL LIABILITIES	**9**	**23,499**	**23,508**
TOTAL EQUITY AND LIABILITIES	**-**	**64,810**	**64,810**

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

	Gas trade	Other activities and unallocated items	Total
REVENUE FROM SALES	**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 / (costs)	-	1,097	**1,097**
GROSS PROFIT	**1**	**1,808**	**1,809**
Income tax	-	(65)	**(65)**
NET PROFIT FOR THE REPORTING PERIOD	**1**	**1,743**	**1,744**

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2020

	Gas trade	Other activities and unallocated items	Total
NON-CURRENT ASSETS			
Property, plant and equipment	-	155	155
Right-of-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 in subsidiaries	-	29,401	29,401
Shares in other related parties	-	101	101
Deferred income tax assets	-	119	119
	-	**39,067**	**39,067**
CURRENT ASSETS			
Inventories	-	1	1
Derivatives	-	1,244	1,244
Shares 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**

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2020

	Gas trade	Other activities and unallocated items	Total
Net profit for the reporting period	1	1,743	1,744
Other equity	-	37,285	37,285
TOTAL EQUITY	**1**	**39,028**	**39,029**
NON-CURRENT LIABILITIES			
Non-current provisions	-	19	19
Loans, borrowings, bonds, cash pooling, leases	-	8,602	8,602
Derivatives	-	385	385
Other financial liabilities	-	17	17
	-	**9,023**	**9,023**
CURRENT LIABILITIES			
Current provisions	-	21	21
Loans, borrowings, bonds, cash pooling, leases	-	2,150	2,150
Trade and other liabilities	12	1,571	1,583
Derivatives	-	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**

24. Significant events during and after the reporting period

24.1 Significant events during the reporting period

Impact of COVID-19 on the business of PGE Group and PGE S.A.

PGE is identifying risk factors related to the COVID-19 pandemic that affect the Group's results on an on-going basis. The pandemic's impact on financial results remained limited in 2021. Further potential events and their scale are difficult to estimate. The occurrence and extent of further waves of the disease, the possibility of introducing restrictions and their impact on economic activity in Poland will be of importance. At the same time, preparing precise estimate is difficult due to a variety of other factors having an impact on the electricity market, including demand for electricity.

The pandemic outbreak caused an economic slowdown in 2020 due to the freezing of economies, with GDP down -2.5% in Poland and -6.4% in the eurozone respectively. There was a strong rebound in GDP and industrial production in 2021, as successive waves of epidemics did not have much of an impact on restrictions on economic activity. In Poland, GDP grew by 5.7% in real terms and in the eurozone by 5.2%.

Nonetheless, the re-introduction of restrictions may result in reduced economic activity, which would give rise to a temporarily lower domestic consumption of electricity, which in turn would reduce revenue and margins on the generation, distribution and sale of energy in the Conventional Energy, Distribution, Supply and District Heating segments. PGE Group to a large extent contracts the sale of electricity produced for subsequent years in advance, therefore it protects itself in this respect against potential effects of a recurrence of an epidemic or economic recession.

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

As at December 31, 2021, the impact due to the anticipated increase in payment congestion, especially on receivables from small and medium-sized enterprises, was not material. As described in note 26.3.1 to the consolidated financial statements, PGE Group recognised additional impairment losses of PLN 12 million. Depending on the further development of the pandemic and economic situation, liquidity risk and the risk of higher impairment of overdue receivables at PGE Group still exist and are being monitored on an on-going basis. PGE Group currently does not expect this risk to become material and has not identified liquidity risk.

PGE Group owns facilities of strategic importance from the viewpoint of uninterrupted generation and supply of electricity and heat in Poland. The COVID-19 pandemic has changed the way work is organised, especially with regard to PGE Group's generating assets. In many instances, this gives rise to additional costs, including for example the purchase of protective equipment for employees. Since the start of the pandemic, the Group has work rules in place that are aimed at reducing the risk of infection for employees as much as possible. As one of the largest employers in Poland, with a workforce of approx. 40 thousand employees, PGE Group undertakes a number of activities related to the organisation of work aimed at ensuring the continuity of operations, protecting the health and life of employees, including the implementation of remote and rotating work, building awareness of, in particular, the basic principles of COVID-19 protection, prevention and quarantine. Having implemented appropriate remedial measures at an early stage of the pandemic, PGE Group has been producing and supplying electricity and heat with no interruptions.

PGE Group additionally conducts communication and motivational activities aimed at employees to build awareness of the positive effects of vaccination - both individual and social. In addition, there is internal communication related to the course of the pandemic and encouragement to minimise the risk of infection - that is, keeping a distance, washing hands frequently or using office spaces safely. PGE has established a Crisis Team which collects information from all companies in the Group, monitors the situation in individual companies on an ongoing basis and takes appropriate action.

Production units also have operational plans, drafted and approved on an on-going basis, in the event of elevated absences - as they are of strategic importance from the viewpoint of maintaining the continuity of production and supply of electricity and heat, they also remain in continuous contact with local services responsible for monitoring the situation in the country across all PGE Group sites. In the retail customer area, PGE Group has been primarily focusing on expanding its remote service channels.

Planned disposal of coal assets to National Energy Security Agency

On 21 May 2021, the following draft was published in the list of legislative and program works of the Council of Ministers: "Transition of Poland's energy sector. Carve out of coal-based generation assets from companies with a State Treasury shareholding." According to the draft, the asset carve-out process will follow the formula of purchase by the State Treasury from PGE S.A., ENEA S.A., TAURON Polska Energia S.A. and ENERGA S.A. (which was not included in the published draft, but joined the transition process in June this year) all assets connected with energy generation in power plants fuelled by hard coal and lignite, including service companies providing services to them. In connection with the indivisibility of lignite-based energy complexes, the acquired assets will also include lignite mines. Assets related to hard coal mining will not become a part of the entity operating coal-based energy generation units. The district heating assets in connection with their planned upgrades to low- and zero-carbon sources will not be the subject of this transaction. The State Treasury will subsequently integrate the acquired assets into one entity. PGE GiEK S.A. will be the integrator. The integration will consist of merging the companies acquired by the State Treasury or contributing them to PGE GiEK S.A. via a capital increase. PGE GiEK S.A. will be re-named as Narodowa Agencja Bezpieczeństwa Energetycznego S.A. (NABE). NABE will be a self-sufficient entity that will carry out maintenance and modernisation investments that are necessary to maintain the efficiency of its coal units. The transaction will follow relevant business and economic analyses, including due diligence and valuation of selected assets covered by the transaction. Because of the generating companies' debts toward their parent entities, the settlement of this transaction will be the subject of detailed arrangements between the State Treasury and the existing owners.

According to the draft, once the coal assets are carved out, the energy groups will focus on implementing low- and zero-carbon investments, while NABE, operating as an entity wholly owned by the State Treasury, will be the owner of coal-based generating assets. NABE's role will be to ensure the essential balance of capacity in the energy system and will be limited to essential replacement investments and a gradual phase-out of coal units as low- and zero-emission capacities gradually grow, thus ensuring the state's energy security. Public consultations on the published draft were conducted. An updated version of the document "Transition of Poland's energy sector. Carve out of coal-based generation assets from companies with a State Treasury shareholding." has not yet been published. On July 23, 2021, PGE S.A., ENEA S.A., TAURON Polska Energia S.A. and ENERGA S.A. executed an agreement with the State Treasury regarding cooperation on the carve out of coal-based energy generation assets and their integration within NABE.

A precise date for the disposal of the coal assets, their valuation and means of settling debt and other liabilities related to these assets has not yet been set. In connection with this, it is currently not possible to determine the impact of this division on the future financial statements of PGE and PGE Group.

The Company expects the process to sell these assets to NABE to take place in 2022.

24.2 Significant events after the reporting period

24.2.1 Planned capital injection for the Company by way of share issue

On January 18, 2022, PGE's Management Board adopted a resolution to initiate a capital injection process for the Company in connection with planned investment projects in the areas of renewable energy, decarbonisation and distribution.

The resolution provides for a proposal to the Extraordinary General Meeting of the Company to adopt a resolution on lowering the share capital by reducing the nominal value of shares with a simultaneous increase in the share capital by way of issuing E series shares in private subscription, depriving existing shareholders of the entire pre-emptive right to all E series shares, applying for admission and introduction of E series shares or rights to E series shares to trading on the regulated market conducted by the Warsaw Stock Exchange, dematerialisation of E series shares or rights to E series shares and amendment to the Company's Articles of Association.

The Company's Management Board intends to raise more than PLN 3 billion from investors as part of the capital increase process. The proceeds from the share issue are intended to support PGE's investments across three areas:

- development of renewable energy sources,
- decarbonisation via development of low-carbon sources,
- development of distribution.

The Extraordinary General Meeting will be held on April 6, 2022.

24.2.2 Impact of war in Ukraine on PGE Group's activities

PGE is the largest energy company in Poland. PGE's units meet approx. 43% of the country's electricity demand and serve over 5.5 million customers, while PGE's distribution area covers over 40% of Poland's territory, including areas on the border with Ukraine and Belarus. The Group's activities are therefore of exceptional importance to the country's energy security. It is crucial for PGE Group to secure the continuity of operation of power plants and CHPs and distribution infrastructure so as to ensure uninterrupted supplies of electricity and heat to residents, institutions and businesses.

In connection with the situation in Ukraine, a Crisis Team has been established at the central level of PGE Group to continuously monitor threats and identify potential risks. The Crisis Team's work includes monitoring the security of energy generation and supply and the protection of critical and IT infrastructure. Its tasks also include undertaking actions minimising the risk of a crisis situation, preparing the Company in the event of a crisis situation and planning, organising and coordinating works ensuring continuity of the Company's and PGE Group's operations.

Crisis teams have also been formed at the Group's key companies, operating 24 hours a day, carrying out continuous monitoring and identifying potential risks in order to minimise risk to electricity and heat supplies.

All key PGE Group companies have adopted guidelines for developing business continuity plans. On this basis, companies develop and then implement their own business continuity plans that take into account the specifics of the company. A key assumption of business continuity plans is the development of a catalogue of risks for critical processes, on the basis of which emergency scenarios (instructions, procedures) are developed and adopted. The emergency scenarios are periodically tested and continuously updated. In the current situation, companies have been tasked with both urgently updating and reviewing internal regulations and business continuity plans.

Cybersecurity is also particularly important in the current geopolitical situation. PGE Group has implemented special procedures for monitoring ICT networks due to increased activity of criminal groups aiming to attack ICT (Information and Communication Technologies) and OT (Operational Technology) systems. With the CHARLIE-CRP state of alert in force, the emergency plans have been reviewed. A significant change in the company's operating context triggered the launch of a threat analysis and risk estimation for cybersecurity incidents. There is also an increased focus on protecting the supply chain against cyberattacks.

The security of the Group's facilities has been strengthened. In order to protect key energy infrastructure, the Group cooperates with all services responsible for security in Poland, with a particular focus on the Internal Security Agency (ABW). In addition, PGE Dystrybucja is continuously supported by the Territorial Defence Forces (TDF).

Key areas at PGE Group affected by the war in Ukraine:

- fuel availability and prices,
- supply chain,
- cybersecurity,
- geopolitics,
- macro-economy (including exchange rates and interest rates),
- prices of CO_2 emission allowances
- foreign regulatory environment,
- counterparties.

PGE's key operating risks related to the war in Ukraine:

- reduced availability of hard coal on the Polish market due to the planned embargo on supplies of this raw material from Russia,
- increase in hard coal prices on the international market,
- logistical disruptions due to the high utilisation of rolling stock and changes to current travel routes,
- reduced availability of biomass on the Polish market due to the suspension of feedstock imports from Belarus,
- logistical disruptions in road transport related to fuel prices and the availability of service providers' employees.

Risks related to gas supplies:

- CHP Gorzów and CHP Zielona Góra are supplied with field gas (so-called Ln nitrogenous gas). Due to the use of dedicated transmission infrastructure between the mine and the CHP plant, these generating assets are neutral to supply disruptions to Poland's National Gas System.
- CHP Toruń, CHP Zawidawie, CHP Lublin-Wrotków and CHP Rzeszów are supplied with high-methane gas (so-called gas E). Gas E drawn from the National Gas System is secured in the form of adequate storage, and in Poland this is at a relatively safer level than in Western Europe.

PGE Group has no influence over the directions of supply and management of fuel transmission therefore the risk of possible disruptions lies with PGNiG and the Transmission System Operator (Gaz-System). PGE has established communication channels with PGNiG and Gaz-System in commercial and operational management in cooperation with the respective PGE Group location. In accordance with national gas supply constraint management programs, securing supplies for electricity and heat generation is favoured over other customers.

Impact of fuel availability constraints on electricity generation:

- In the case of gaseous fuel, due to the lack of stock-holding possibilities, reduced availability translates into an immediate disruption in electricity and heat production. However, if there are reserve coal-fuelled water boilers at a CHP plant, it is possible to produce heat until stocks are exhausted.
- The main suppliers of hard coal for electricity and heat production are Polish mining companies. The generating units have reserves of hard coal to enable uninterrupted production of electricity and heat.

The electricity supply for PGE Dystrybucja and PGE Obrót is secured on a commercial basis. The physical supply of energy is conditioned by the current situation of balancing and operation of the National Power System. Disruptions in electricity generation will affect the energy supply depending on the location on the grid in the NPS. So far, PGE Group has not identified any risk associated with electricity or heat supply to residents, institutions and businesses.

Impact of war on commodity and financial markets:

The war in Ukraine has contributed to dynamic volatility in the commodity, CO_2 and financial (e.g. currency) markets, affecting margin levels and capital raising possibilities (interest rates). At this point, it is difficult to estimate the scale of the impact of these factors on PGE Group. The markets are under exceptional pressure and, depending on how the situation develops, how long the war lasts, the direction it takes, an equilibrium will be sought. However, at this time it is difficult to discuss any scenario, and this is what will determine attempts to value the risks described. Nonetheless, PGE mitigates risks by continuing its policy of hedging electricity generation costs together with energy sales on the wholesale market, which is reflected both in hedging CO_2 emission allowances and foreign currencies for transaction purposes. At the date on which these financial statements are approved, the Company has adequate liquidity to carry on its business without material disruption.

As a consequence, the aforementioned risks may have a material impact on individual areas of PGE Group's operations and future financial performance. In particular, the recoverable amount of selected asset items, the level of expected credit losses and the measurement of financial instruments may change.

In view of the dynamic course of the war on the territory of Ukraine and its macroeconomic and market consequences, PGE Group will monitor its development on an ongoing basis and any events that occur will be reflected accordingly in future financial statements. No adjustments were made in these financial statements.

25. Approval of financial statements

These financial statements were approved for publication by the Management Board on March 21, 2022.

Warsaw, March 21, 2022

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

President of the Management Board	**Wojciech Dąbrowski**	
Vice-President of the Management Board	**Wanda Buk**	
Vice-President of the Management Board	**Paweł Cioch**	
Vice-President of the Management Board	**Lechosław Rojewski**	
Vice-President of the Management Board	**Paweł Śliwa**	
Vice-President of the Management Board	**Ryszard Wasiłek**	
Signature of person responsible for drafting these financial statements	Michał Skiba Director, Reporting and Tax Department	

26. Glossary of terms and abbreviations

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

Abbreviation	Full term
CCIRS	Cross Currency Interest Rate Swap
CGU	Cash Generating Unit
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
EPS 550	Carbon dioxide emission criterion per unit of electricity produced, introduced as part of the so-called "Winter Package", conditioning the participation of generating units in the capacity market - this limit is 550 gCO_2/kWh.
EUA	European Union Allowances
PGE Group, Group	PGE Polska Grupa Energetyczna S.A. Group
IRGiT	Izba Rozliczeniowa Giełd Towarowych S.A.
IRS	Interest Rate Swap
NPS	National Power System
IFRS EU	International Financial Reporting Standards approved by the European Union
TSO	Transmission System Operator
BCP	Business Continuity Plan
PEP	Poland's energy policy 2040
VLP	Voluntary Leave Program
Right-of-use assets	Right-of-use assets
PGE S.A., Company, Parent	PGE Polska Grupa Energetyczna S.A.
PGE EC S.A.	PGE Energia Ciepła S.A.
PGE EO S.A.	PGE Energia Odnawialna S.A.
PGE GiEK S.A.	PGE GiEK S.A.
Tax group	Tax group
PGNiG	Polskie Górnictwo Naftowe i Gazownictwo S.A.
Perpetual usufruct of land	Right of perpetual usufruct of land
Financial statements	Financial statements of PGE S.A.
TGE	Towarowa Giełda Energii S.A.
URE	Urząd Regulacji Energetyki (Energy Regulatory Office)
WACC	Weighted Average Cost of Capital
Organised part of enterprise	Organised part of enterprise
Social Fund	Social Fund