



***PGE Polska Grupa Energetyczna S.A.
Consolidated report on payments to public
administration for the year 2018***

***ended December 31, 2018
(in PLN 000s)***

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1. Basis for preparing the consolidated report on payments to public administration

The basis for preparing this report on payments to public administration is regulations introduced through Chapter 6a of the Accounting Act of September 29, 1994 ("Act") (consolidated text: Polish Journal of Laws of 2016, item 1047). According to these regulations, starting from 2016, entities operating in extractive industries and entities engaged in the logging of primary forests, provided that they meet the criteria specified in the above act, are to prepare a report on payments made to public administration as at the balance sheet date alongside their annual financial statements. The Act defines entities operating in extractive industries as entities pursuing activities consisting of the exploration, prospecting, discovery, production and mining of mineral resources, oil, natural gas or other commodities within the types of economic activity listed in section B, divisions 05-08 of the Polish Classification of Economic Activities.

The Act also imposes obligation to prepare consolidated report on payments to public administration. The consolidated report on payments to public administration shall include data of the parent company and its subsidiaries operating in extractive industries and entities engaged in the logging of primary forests, if they meet the criteria specified in the Act.

At PGE Group, the only entity meeting the criteria of Chapter 6a of the Act, is PGE Górnictwo i Energetyka Konwencjonalna Spółka Akcyjna ("Company," "PGE GiEK S.A."). Accordingly, this consolidated report on payments to public administration presents only the data of PGE GiEK S.A.

The main economic activity of PGE Górnictwo i Energetyka Konwencjonalna Spółka Akcyjna ("Company") is activity listed in section D, division 35, of the Polish Classification of Economic Activities ("PKD"):

- production of electricity (PKD 35.11.Z),
- transmission of electricity (PKD 35.12.Z),
- distribution of electricity (PKD 35.13.Z),
- trade of electricity (PKD 35.14.Z),
- production and supply of steam, hot water and air for air conditioning installations (PKD 35.30.Z).

The Company also conducts the economic activities listed in PKD in section B Mining and quarrying. This is mainly lignite mining (PKD 05.20.Z), which is largely used as fuel in the Company's power plants and to a low extent sold to external consumers.

Moreover, in accordance with the Company's Articles of Association, its activities also include:

- quarrying of ornamental and building stone, limestone, gypsum, chalk and slate (PKD 08.11.Z)
- operation of gravel and sand pits; mining of clays and kaolin (PKD 08.12.Z),
- mining of minerals for chemical industry and for production of fertilisers (PKD 08.91.Z),
- extraction of peat (PKD 08.92.Z),
- extraction of salt (PKD 08.93.Z),
- other mining and quarrying not elsewhere classified (PKD 08.99.Z).

Those activities are of marginal significance for the Company and are conducted as activities accompanying lignite mining.

The Company's organisational structure includes 12 branches:

- Branch Elektrownia Bełchatów,
- Branch KWB Bełchatów,
- Branch KWB Turów,
- Branch Elektrownia Turów,
- Branch Elektrownia Opole,
- Branch Zespół Elektrowni Dolna Odra,
- Branch Elektrociepłownia Gorzów,
- Branch Elektrociepłownia Lublin Wrotków,
- Branch Elektrociepłownia Rzeszów,
- Branch Elektrociepłownia Kielce,
- Branch Zespół Elektrociepłowni Bydgoszcz,
- Branch Elektrociepłownia Zgierz,

As of January 2, 2019, the branches: Elektrociepłownia Gorzów, Elektrociepłownia Lublin Wrotków, Elektrociepłownia Rzeszów, Elektrociepłownia Kielce, Zespół Elektrociepłowni Bydgoszcz and Elektrociepłownia Zgierz were separated from PGE Górnictwo i Energetyka Konwencjonalna S.A. and transferred to PGE Energia Ciepła S.A.

Mining activities are conducted at two branches, i.e.:

- KWB Bełchatów (Bełchatów lignite mine),

- KWB Turów (Turów lignite mine).

Mining activity conducted pursuant to a concession for lignite mining issued by the Ministry of the Environment.

2. Rules applied in preparing the report on payments to public administration

Pursuant to art. 63e point 6 of the Act, payments are understood as amounts paid, in cash or in kind, on the following account:

- receivables from production,
- taxes on income, production or profits of companies, excluding taxes on consumption such as tax on goods and services, personal income tax or tax on sales,
- royalties,
- dividends,
- concession fees and premiums for discovery and production,
- licence fees, lease fees, fees for launching activities as well as other considerations for issuing a licence or concession,
- payments for infrastructure improvements,

concerning the activities listed in art. 63e points 1 and 2 of the Act.

The activity listed in points 1 and 2 of art. 63e of the Act is activity consisting of the exploration, prospecting, discovery, production and mining of minerals, oil, natural gas or other commodities within the types of economic activity listed in section B, divisions 05-08 of the Polish Classification of Economic Activities, as well as the activity referred to in section A, division 02, in group 02.2 of the Polish Classification of Economic Activities – wood harvesting within primary forest areas.

The Company does not harvest wood from primary forest areas therefore all amounts indicated in this report, unless explicitly stated otherwise, apply only to mining activity being conducted in the Company's two Branches listed above and do not include amounts paid to public administration on the account of other types of activity carried out at the Company's other Branches.

This report on payments to public administration takes into consideration the following items:

Payment title defined in art. 63e of the Accounting Act	Titles of taxes and fees assigned by the Subsidiary to each of the payment titles listed in the Accounting Act
Receivables from production	Company did not make such payments in 2018
Taxes on income, production or profits of companies, excluding taxes on consumption such as tax on goods and services, personal income tax or tax on sales	Corporate income tax
Royalties	Company did not make such payments to public administration in 2018
Dividends	Company did not make such payments to public administration in 2018
Concession fees and premiums for discovery and production	production fee, mining use fees
Licence fees, lease fees, fees for launching activities as well as other considerations for issuing a licence or concession	fee for perpetual usufruct of land fee for excluding land from agricultural and forestry production fee for paid use of geological information fee for economic use of the environment property tax vehicle tax agricultural tax forest tax
Payments for infrastructure improvements	Company did not make such payments to public administration in 2018

Corporate income tax

In 2014 PGE GiEK S.A. signed a 25-year agreement concerning the tax capital named "PGK PGE 2015" where PGE Polska Grupa Energetyczna S.A. is the representing entity. Apart from the representing entity and PGE GiEK S.A. other PGE Group companies also entered PGK PGE 2015. PGK PGE 2015 has become the Corporate Income Tax payer as from January 1, 2015. The Polish Corporate Income Tax Act treats tax groups as separate income tax payers. This means that companies within PGK PGE 2015 are not treated as separate entities for corporate income tax purposes, with PGK PGE 2015 being treated as one whole entity instead. PGK PGE 2015's tax base will constitute the group's aggregate income, calculated as the excess of the income of the companies that make up the group over their losses. Thus from 2015, the Company's corporate income tax is not transferred directly to the tax authority, but to the representing entity of PGK PGE 2015. Then the representing entity pays corporate income tax, calculated from the total income of PGK PGE 2015, to the tax authority.

Considering the above circumstances, and in connection with the fact that corporate income tax is calculated at the Company's level, in this report it is recognised in amounts remitted to the representing entity in full amount calculated on the total income of the Company, not only income from the mining activities. Moreover, these payments were adjusted by reimbursement of excess tax for the period prior to formation of PGK PGE 2015, i.e. 2011, received directly from the tax authority.

Information contained in the report

The payment amounts presented in this report constitute the amounts of cash transfers to public administration in 2018 on account of specific titles, less any returns received in 2018. The Company did not make any in-kind payments to public administration in 2018.

Pursuant to art. 63f sec. 2 of the Act, the payment report is to contain the following information:

- total amount of payments made to public administration of a given state, broken down into payments to specific public administration levels;
- total amount of payments broken down into the titles listed in art. 63e point 6 to specific public administration levels of a given state;
- in the event that payments were attributed by the entity to a specific project – total amount of payments by specific project and broken down by the payment titles listed in art. 63e point 6.

The Company attributed its payments to public administration to two projects. These projects are related to activities conducted in:

- KWB Bełchatów (Bełchatów lignite mine),
- KWB Turów (Turów lignite mine).

3. Payments to public administration in 2018

3.1 Total amount of payments made to public administration, broken down into payments to specific public administration levels and presented by title

Public administration levels	Tax on income, production or profit	Concession fees and premiums for discovery and production	Fees for licences, rent, launch of activities and others	Total
National government administration organs and entities supervised or controlled by these organs	-	71,535	45,663	117,198
Local government administration organs and entities supervised or controlled by these organs	-	59,433	161,143	220,576
<i>Cities and municipalities</i>	-	59,433	138,004	197,437
<i>Powiat authorities</i>	-	-	4,158	4,158
<i>Voivodship authorities</i>	-	-	18,981	18,981
Corporate income tax*	275,397	-	-	275,397
Total	275,397	130,968	206,806	613,171

* as described in point 2, in connection with having signed a tax group agreement, the Company does not make payments for corporate income tax to the relevant tax authority but instead transfer it to the parent company – PGE Polska Grupa Energetyczna S.A. The presented amount constitutes the balance of tax payments to PGE and received returns of overpayments, in an amount calculated based on the entire Company's income and not just income from extractive industries, as well as received reimbursement of excess tax paid, including direct reimbursement of excess tax from tax authority for the period prior to formation of PGK PGE 2015, i.e. for 2011.

3.2 Total amount of payments by project and by payment title

3.2.1 Project KWB Bełchatów

Public administration levels	Concession fees and premiums for discovery and production	Fees for licences, rent, launch of activities and others	Total
National government administration organs and entities supervised or controlled by these organs	61,781	32,977	94,758
Local government administration organs and entities supervised or controlled by these organs	51,841	116,053	167,894
<i>Cities and municipalities</i>	51,841	101,555	153,396
<i>Powiat authorities</i>	-	2,214	2,214
<i>Voivodship authorities</i>	-	12,284	12,284
Total	113,622	149,030	262,652

3.2.2 Project KWB Turów

Public administration levels	Concession fees and premiums for discovery and production	Fees for licences, rent, launch of activities and others	Total
National government administration organs and entities supervised or controlled by these organs	9,754	12,686	22,440
Local government administration organs and entities supervised or controlled by these organs	7,591	45,090	52,681
<i>Cities and municipalities</i>	7,591	36,449	44,040
<i>Powiat authorities</i>	-	1,944	1,944
<i>Voivodship authorities</i>	-	6,697	6,697
Total	17,345	57,776	75,121

Warsaw, March 8, 2019

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

President of the Management Board **Henryk Baranowski**

Vice-President of the Management Board **Wojciech Kowalczyk**

Vice-President of the Management Board **Marek Pastuszko**

Vice-President of the Management Board **Paweł Śliwa**

Vice-President of the Management Board **Ryszard Wasilek**

Vice-President of the Management Board **Emil Wojtowicz**