



***PGE Polska Grupa Energetyczna S.A.
Consolidated report on payments to
governments
for 2019***

***ended December 31, 2019
(in PLN '000)***

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1. Basis for preparing the consolidated report on payments to governments

The basis for preparing this report on payments to governments are regulations introduced through Chapter 6a of the Accounting Act of September 29, 1994 (the "Act") (consolidated text: Polish Journal of Laws of 2019, item 351). According to these regulations, 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 governments 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, Subsections 05-08 of the Polish Classification of Activities.

The Act also imposes obligation to prepare consolidated report on payments to public governments. The consolidated report on payments to governments 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 (the "Company," "PGE GiEK S.A."). Accordingly, this consolidated report on payments to governments 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, Subsection 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 systems (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; extraction of clays and kaolin (PKD 08.12.Z);
- extraction of chemical and fertilizer minerals (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.

As at January 1, 2019, the Company's organisational structure included 12 Branches: On January 2, 2019, the following branches: Elektrociepłownia Gorzów, Elektrociepłownia Lublin Wrotków, Elektrociepłownia Rzeszów, Elektrociepłownia Kielce, Zespół Elektrociepłowni Bydgoszcz and Elektrociepłownia Zgierz were spun off from PGE Górnictwo i Energetyka Konwencjonalna S.A. and incorporated into PGE Energia Ciepła S.A. The branches were spun off in accordance with the Demerger Plan for PGE Górnictwo i Energetyka Konwencjonalna Spółka Akcyjna agreed on June 20, 2018. Throughout the remainder of 2019, the Company's organisational structure included 6 Branches:

- Branch Elektrownia Bełchatów,
- Branch Kopalnia Węgla Brunatnego Bełchatów,
- Branch Kopalnia Węgla Brunatnego Turów,
- Branch Elektrownia Turów,
- Branch Elektrownia Opole,
- Branch Zespół Elektrowni Dolna Odra,
- Branch Elektrociepłownia Zgierz.

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

- Kopalnia Węgla Brunatnego Bełchatów (Bełchatów lignite mine),
- Kopalnia Węgla Brunatnego Turów (Turów lignite mine).

Mining activity is conducted pursuant to concessions for lignite mining issued by the Ministry of the Environment.

2. Rules applied in preparing the report on payments to governments

Pursuant to Article 63e(6) of the Accounting Act, payments are understood as amounts paid, in cash or in kind, on the following account:

- production entitlements,
- taxes levied on income, production or profits of the companies, excluding taxes levied on consumption, such as value added taxes, personal income taxes or sales taxes,
- royalties,
- dividends,
- concession fees, discovery and production bonuses
- licence fees, rental fees, entry fees, and other considerations for licences or concessions,
- payments for infrastructure improvements,

concerning the activities listed in Article 63e(1) and (2) of the Act.

Activities listed in Article 63e(1) and (2) of the Act are activities 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, Subsections 05-08 of the Polish Classification of Economic Activities, as well as the activity referred to in Section A, Subsection 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 governments on the account of other types of activity carried out at the Company's other Branches.

This report on payments to governments takes into consideration the following payment categories:

Payment category defined in Article 63e of the Accounting Act	Titles of taxes and fees assigned by the Company to each of the payment category listed in the Accounting Act
Production entitlements	The Company did not make such payments in 2019
Taxes levied on income, production or profits of the companies, excluding taxes levied on consumption, such as value added taxes, personal income taxes or sales taxes	corporate income tax (CIT)
Royalties	The Company did not make such payments to governments in 2019
Dividends	The Company did not make such payments to governments in 2019
Concession fees, discovery and production bonuses	production fee mining use fees
Licence fees, rental fees, entry fees, and other considerations for licences or concessions	fees for perpetual usufruct of land fees 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	The Company did not make such payments to governments in 2019

Corporate income tax

In 2014 PGE GiEK S.A. signed a 25-year agreement concerning the tax group 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, and reported net of any received returns of excess tax paid.

Information contained in the report

The payment amounts presented in this report constitute the amounts of cash transfers to governments in 2019 on account of specific categories, less any returns received in 2019. The Company did not make any in-kind payments to governments in 2019.

Pursuant to Article 63f(2) of the Act, the payment report is to contain the following information:

- total amount of payments made to governments of a given country, broken down into payments made at appropriate government levels;
- total amount of payments broken down into the categories listed in Article 63e(6) made at relevant government levels of a given country;
- where payments have been assigned by the entity to a project – total amount of payments for each project, broken down into the payment categories specified in Article 63e(6).

The Company assigned its payments to governments to two projects. These projects are related to activities conducted in:

- Kopalnia Węgla Brunatnego Bełchatów (Bełchatów lignite mine),
- Kopalnia Węgla Brunatnego Turów (Turów lignite mine).

3. Payments to governments in 2019

3.1 Total amount of payments made to governments, broken down into payments made at appropriate government levels and presented by category

Government levels	Taxes on income, production or profits	Concession fees, discovery and production bonuses	Licence fees, rental fees, entry fees and other fees	Total
National government authorities and entities supervised or controlled by these authorities	-	72,926	35,171	108,097
Local government authorities and entities supervised or controlled by these authorities	-	59,006	166,794	225,800
<i>Cities and municipalities</i>	-	59,006	143,137	202,143
<i>Powiat authorities</i>	-	-	4,323	4,323
<i>Voivodship authorities</i>	-	-	19,334	19,334
Corporate income tax (CIT)*	119,292	-	-	119,292
Total	119,292	131,932	201,965	453,189

* 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.

3.2 Total amount of payments by project and by payment category

3.2.1 Project Kopalnia Węgla Brunatnego Bełchatów

Government levels	Concession fees, discovery and production bonuses	Licence fees, rental fees, entry fees and other fees	Total
National government authorities and entities supervised or controlled by these authorities	63,803	29,119	92,922
Local government authorities and entities supervised or controlled by these authorities	52,227	118,837	171,064
<i>Cities and municipalities</i>	52,227	103,968	156,195
<i>Powiat authorities</i>	-	2,364	2,364
<i>Voivodship authorities</i>	-	12,505	12,505
Total	116,030	147,956	263,986

3.2.2 Project Kopalnia Węgla Brunatnego Turów

Government levels	Concession fees, discovery and production bonuses	Licence fees, rental fees, entry fees and other fees	Total
National government authorities and entities supervised or controlled by these authorities	9,123	6,052	15,175
Local government authorities and entities supervised or controlled by these authorities	6,779	47,957	54,736
<i>Cities and municipalities</i>	6,779	39,169	45,948
<i>Powiat authorities</i>	-	1,959	1,959
<i>Voivodship authorities</i>	-	6,829	6,829
Total	15,902	54,009	69,911

Warsaw, March 31, 2020

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 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 Wasitek