Management Board's report on activities of the Capital Group of PGE Polska Grupa Energetyczna S.A. for the 3-month period

ended March 31, 2020

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KEY FINANCIAL RESULTS OF THE PGE CAPITAL GROUP

Key financial data	Unit	Period ended March 31, 2020	Period ended March 31, 2019	% change
Sales revenues	PLN million	12 591	9 561	32%
EBIT	**PLN million**	**773**	**859**	**-10%**
EBITDA	**PLN million**	**1 770**	**1 798**	**-2%**
EBITDA margin	%	14%	19%	
Net profit	**PLN million**	**485**	**612**	**-21%**
Capital expenditures	**PLN million**	**957**	**1 008**	**-5%**
Net cash from operating activities	PLN million	218	727	-70%
Net cash from investing activities	PLN million	-2 263	-1 873	21%
Net cash from financial activities	PLN million	2 748	1 103	149%

Key financial data		As at March 31, 2020	As at December 31, 2019	% change
Working capital	PLN million	1 215	767	58%
Net debt/ LTM EBITDA*	**x**	**1.96**	**1.60**	

* LTM EBITDA - Last Twelve Months EBITDA.

1. PGE Capital Group

1.1. Characteristics of activities

Capital Group of PGE Polska Grupa Energetyczna S.A. ("PGE Capital Group", the "Capital Group", "PGE Group", the "Group") is the largest vertically integrated producer of electricity and heat in Poland. With a mix of own fuel sources, generation assets and distribution network, PGE Group provides a safe and reliable supply of electricity to more than five million households, businesses and institutions. Moreover, after the acquisition of EDF assets in November 2017, PGE Group is the largest heat producer in the country.

The parent company of PGE Capital Group is PGE Polska Grupa Energetyczna S.A. (also "PGE S.A.", "PGE", the "Company", the "Issuer"). PGE Group organizes its activities in six business segments:

CONVENTIONAL GENERATION

Core business of the segment includes extraction of lignite, production of electricity and heat from conventional sources.

DISTRICT HEATING

Core business of the segment includes production of electricity and heat from conventional sources as well as transmission and distribution of heat.

RENEWABLES

Core business of the segment includes electricity generation from renewable sources and in pumped-storage power plants and provision of ancillary services.

SUPPLY

Core business of the segment includes wholesale trading of electricity on domestic and international market, sale of electricity to final off-takers, trading of CO_2 allowances and energy certificates and fuels and provision of services of the Corporate Centre to companies from the PGE Group.

DISTRIBUTION

Core business of the segment includes supply of electricity to final off-takers through the grid and HV, MV and LV infrastructure.

OTHER OPERATIONS

Other operations include provision of services, through the subsidiaries, to PGE Group, which include organisation of capital raising in form of Eurobonds, provision of IT, payroll and HR services, transportation and car sharing services. Its activities also include subsidiaries formed to prepare and implement a project to build a nuclear power plant, to manage investment funds and to invest in start-ups.

The composition of the Capital Group is presented in note 1.3 to the consolidated financial statements.

2. Electricity market and regulatory and business environment

2.1. Macroeconomic environment

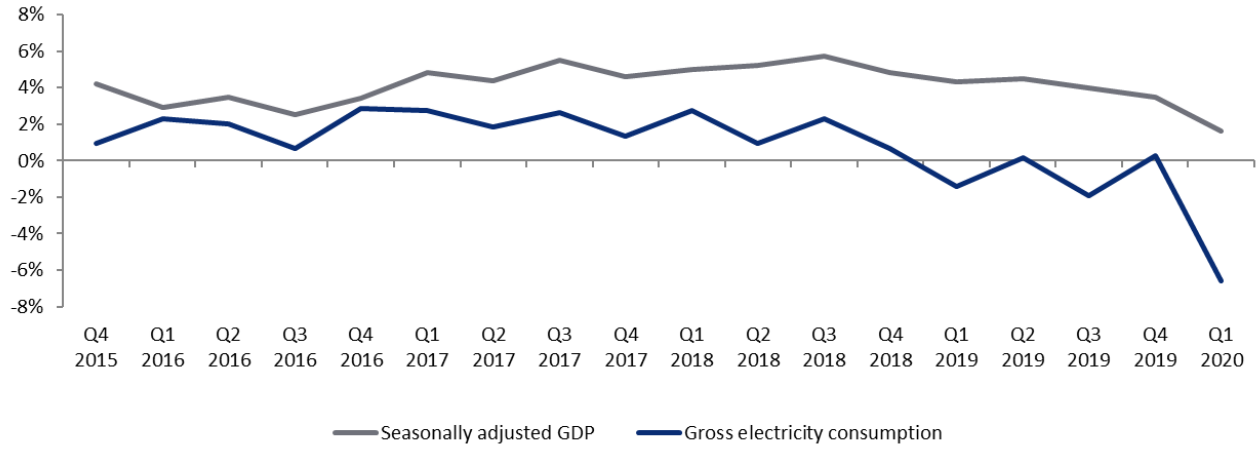
PGE Group's main operating area is Poland, and the domestic macroeconomic backdrop has a substantial impact on Group's results. At the same time, the condition of Poland's economy remains largely tied to the situation across the European Union and in global markets. The Group's financial results are affected by both the situation in specific segments of the economy and the financial markets, which affect the terms of PGE Group's debt financing.

As a rule of thumb, there is a historical correlation between change in electricity demand and change in the rate of economic growth in Poland. Considering PGE Group's position on the Polish power generation market, as well as its substantial share in the electricity sales and distribution market, changes in power and heat demand may have a significant impact on the Group's results.

In the first quarter of 2020, a non-recurring event that significantly affected the global and domestic economic situation, and consequently the energy market, was the COVID-19 pandemic. The economic lock-down caused a 2.2% y/y drop in gross electricity consumption in the first quarter of 2020. The drop in electricity consumption in the first quarter of 2020 was higher than in the first quarter of 2019, when it stood at 1.4% y/y.

The economic trends in the first quarter of 2020 were driven by pandemic-related restraints affecting primarily the industrial and service sectors. Estimates by analytical centres vary as to the impact of COVID-19 on GDP. Bank Pekao's economists predict that GDP growth has slowed down to 1.6% y/y in the first quarter of 2020. Further impact of the pandemic on GDP will depend on its duration and the pace at which businesses, especially in the services and industry sectors, will return to full-scale operation.

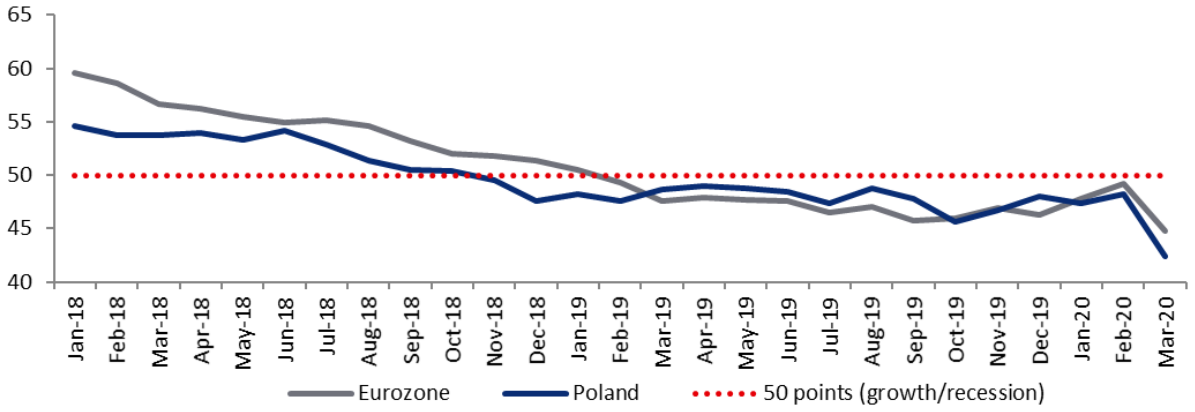
Diagram: Seasonally adjusted GDP change vs. change in domestic gross electricity consumption.



Source: Bank Pekao, PSE S.A.

Purchasing Managers' Index ("PMI") reflects the challenges the economy is facing in connection with COVID-19 pandemics. At the beginning of the first quarter of 2020, PMI for industry in Poland indicated an upward trend for 2020. In January 2020, this index stood at 47.4 points and increased to 48.2 points in February 2020. The end of the first quarter of 2020 brought a decline in PMI readings for Polish industry, reaching 42.4 points in March 2020, reflecting concerns of the industry about the effects of COVID-19. The average PMI for the industry in Poland in the first quarter of 2020 was 46.0 points, down by 4.5% y/y. A result below 50.0 points means that the questioned managers expect a deterioration in the sector's situation. Polish industry is determined by the condition of industry in the Eurozone, where the PMI index stood at 47.3 points on average in the first quarter of 2020, down from 49.1 points last year (a drop by 3.7% y/y). In March 2020, when Europe became the epicentre of the COVID-19 epidemic, Polish manufacturers faced the worst economic conditions in the manufacturing sector since the global financial crisis of 2008-2009. The rate of decline in production and new orders was the highest since December 2008, the level of employment fell most rapidly since July 2009, and readings of the main PMI index fell to the lowest levels since April 2009.

Diagram: Manufacturing PMI in Poland and Eurozone (in points).



Source: Markit Economics

Development in the Polish economy is reflected by inter alia dynamics in overall industrial production. In March 2020, industrial output sold decreased by 2.3% as compared to March 2019. Owing to the strong performance at the beginning of 2020, throughout the first quarter of 2020 industrial output sold increased by 1.0% as compared to 2019, when the rate of increase was 6.1%. Due to the pandemic, price growth decelerated slightly in March 2020 – inflation stood at 4.6% having reached 4.7% in February 2020. The increase was driven by growing food prices whose impact was not offset by cheaper fuels.

2.2. Market environment

SITUATION IN NPS

Table: Domestic electricity consumption (GWh).

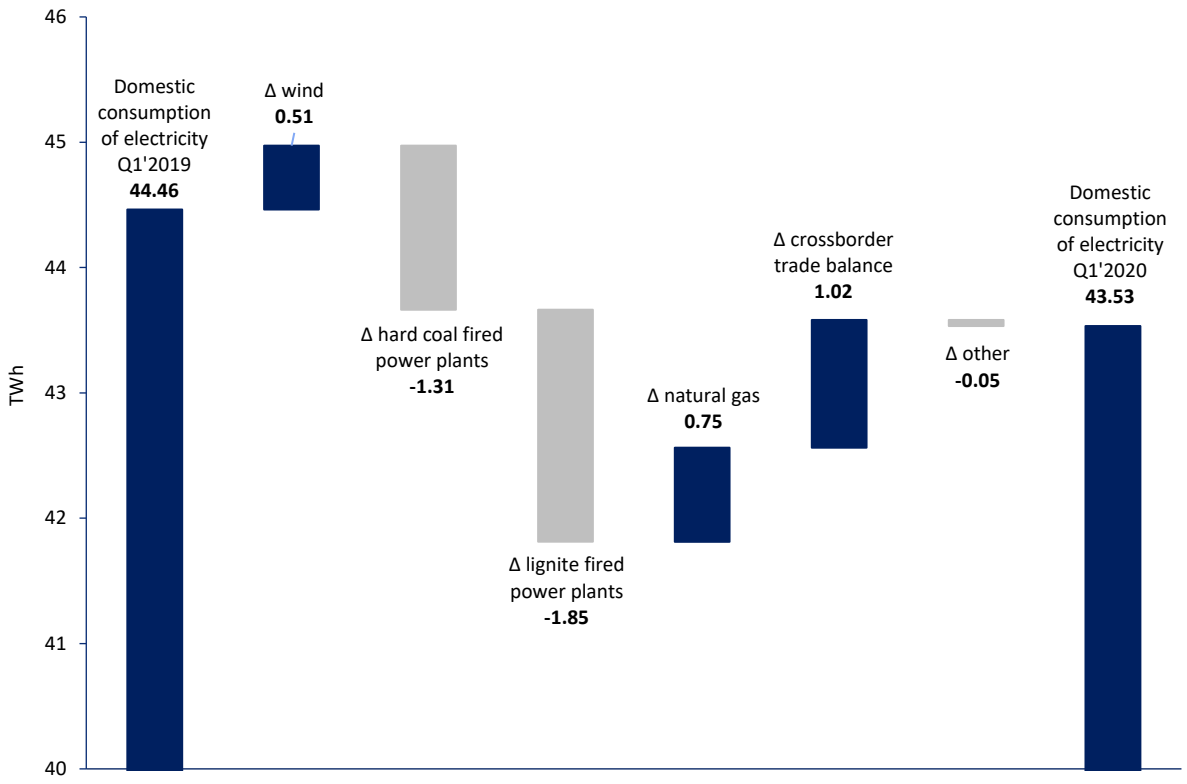
	Q1 2020	Q1 2019	% change
Domestic electricity consumption	**43 533**	**44 463**	**-2%**
Wind farms	5 161	4 652	11%
Industrial thermal hard-coal fired power plants	19 258	20 568	-6%
Industrial thermal lignite fired power plants	9 163	11 013	-17%
Industrial gas-fired power plants	3 566	2 816	27%
International trading balance	2 768	1 751	58%
Other (industrial plants, hydro power plants, other RES)	3 617	3 663	-1%

Source: PSE S.A.

Q1 2020

In the first quarter of 2020, domestic demand for electricity decreased by 0.9 TWh compared to the base year. Owing to stronger winds, particularly in February 2020, the wind-based generation increased by 0.5 TWh y/y. In addition, due to the price difference on cross-border connections and transmission capacity that has improved in 2019, net imports increased by more than 1.0 TWh year-on-year. As a result, less energy produced in utility hard coal-fired power plants (-1.3 TWh) and lignite-fired power plants (-1.9 TWh) was needed to balance the power system.

Chart: Energy balance in the NPS in the first quarter of 2020 y/y (TWh).



Source: own work based on data from PSE S.A.

ELECTRICITY PRICES – DOMESTIC MARKET

Day-ahead market (RDN)

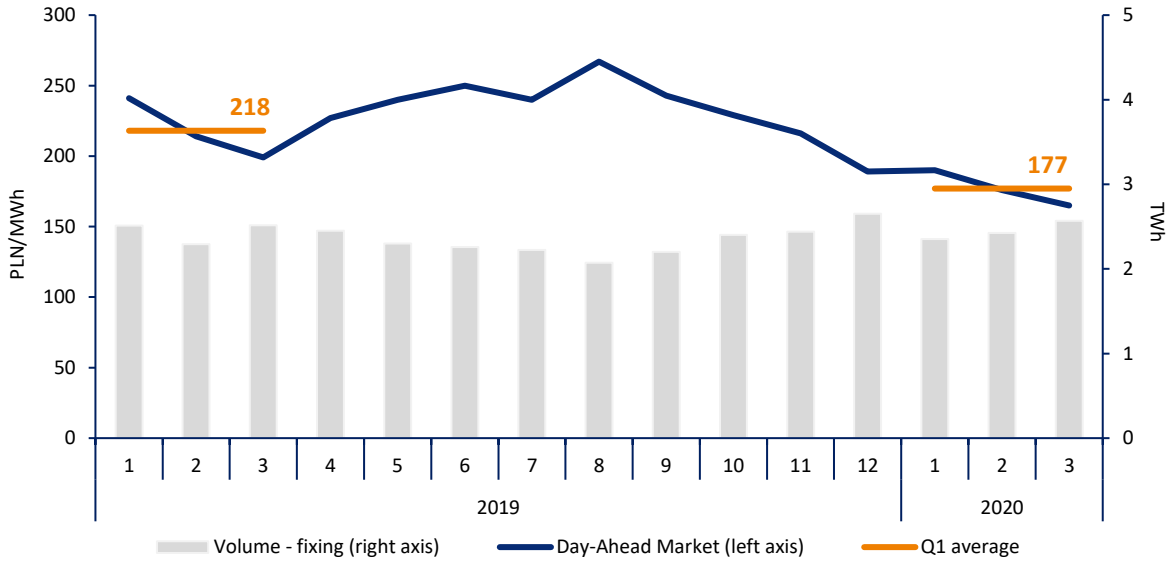
Market/measure	Unit	Q1 2020	Q1 2019	% change
RDN – average price	PLN/MWh	177	218	-19%
RDN – trading volume	TWh	7.35	7.32	0%

Analysis – selected price factors affecting RDN quotations

Factor	Unit	Q1 2020	Q1 2019	% change
CO_2 emission rights	EUR/t	22.04	22.07	0%
Polish Steam Coal Market Index PSCMI-1	PLN/GJ	11.99	11.88	1%
Wind generation NPS	TWh	5.16	4.65	11%
Ratio: wind generation/ NPS consumption	%	12%	10%	
Ratio: international trading/ NPS consumption	%	6%	4%	

In the first quarter of 2020, the average electricity price on the day-ahead market was PLN 177/MWh and was lower by 19% than average price (PLN 218/MWh) in same period in the preceding year. The decrease in energy prices was attributable – inter alia – to the increase in transmission capacities for cross-border exchange, which resulted in a 58% increase in net imports compared to the first quarter of 2019. The drop in prices was also driven by a 0.9 TWh year-on-year decrease in demand for electricity and 11% increase in generation from NPS wind sources.

Chart: Average monthly prices at the day-ahead market in 2019–2020 (TGE).*



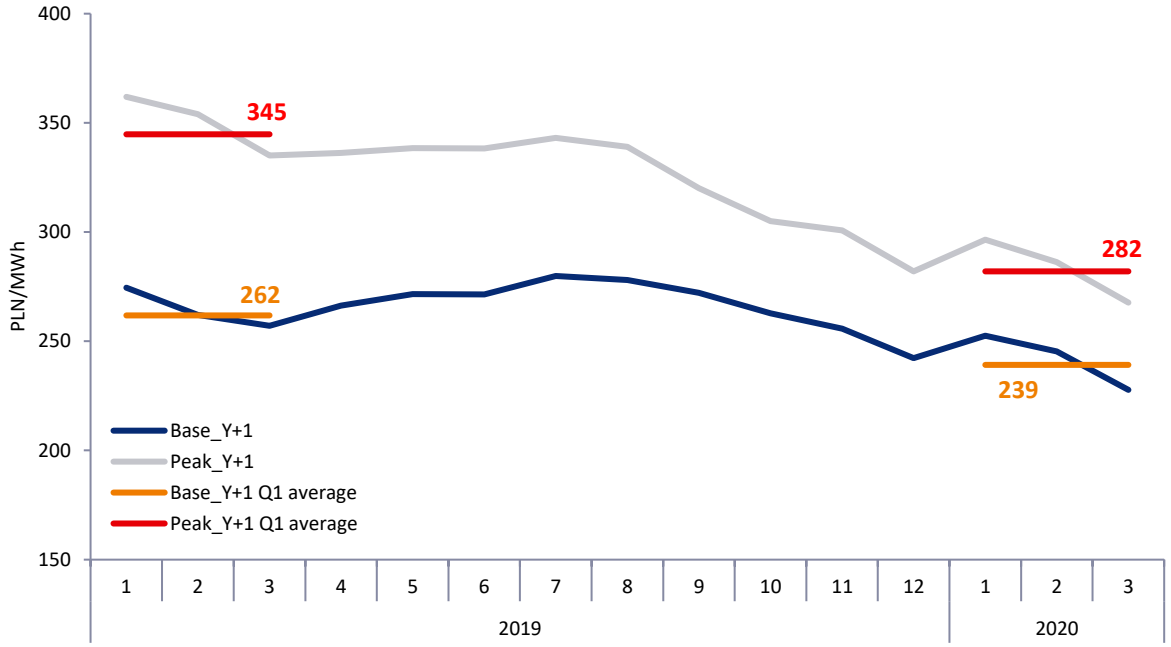
* Average monthly RDN prices calculated on the base of hourly quotations (fixing).

Forward market

Market/measure	Unit	Q1 2020	Q1 2019	% change
BASE Y+1 – average price	PLN/MWh	239	262	-9%
BASE Y+1 – trading volume	TWh	34.58	21.21	63%
PEAK5 Y+1 – average price	PLN/MWh	282	345	-18%
PEAK5 Y+1 – trading volume	TWh	3.47	2.18	59%

Electricity prices on forward market are shaped by the similar fundamental factors, as the prices on the Day-Ahead Market described earlier. The observed forward market decrease (y/y) for BASE_Y+1 is related to the inclusion of the supply of cheaper energy from abroad into the domestic market and in March 2020 – also to the expected drop in demand caused by the COVID-19 pandemic. The drop in PEAK5_Y+1 contract price indicates a flattening of the supply curve and less optimistic demand forecasts, after taking relatively high share of net imports into account.

Chart: Average monthly prices on the forward market in 2019–2020 (TGE).*

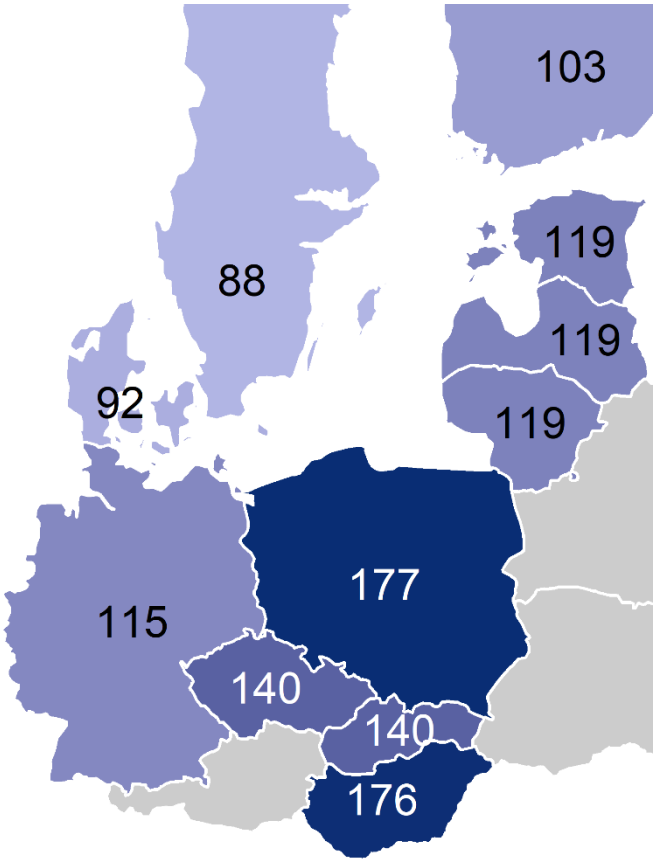


* Monthly average index level for forward contracts for the next year (Y+1), baseload and peak, weighted by the trading volume.

International market

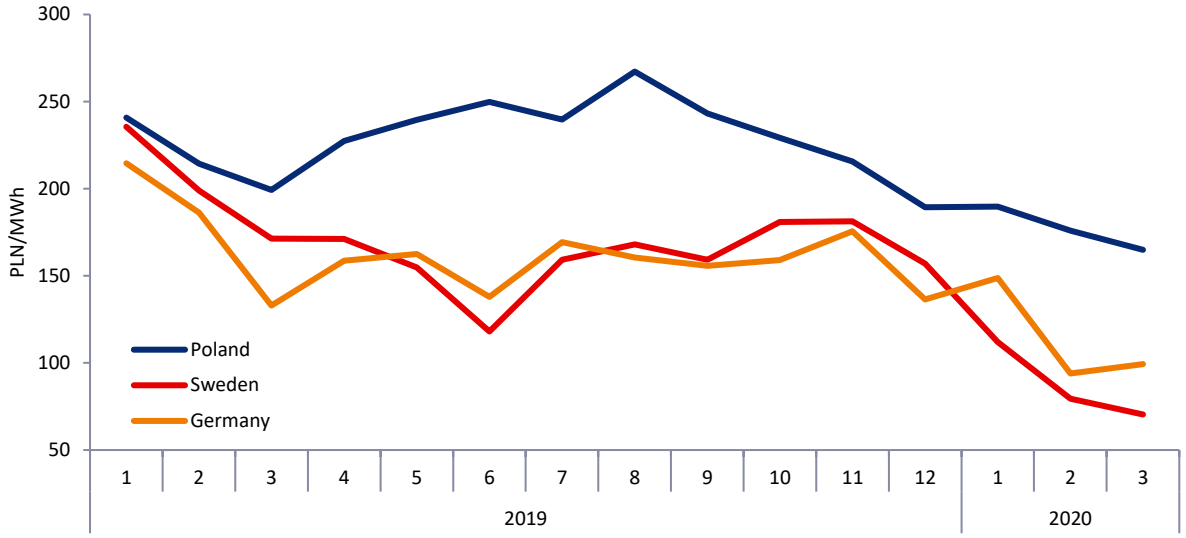
Wholesale market (comparison of day-ahead markets)

Chart: Comparison of average electricity prices on Polish market and on European markets in the first quarter of 2020 (prices in PLN/MWh, average exchange rate EUR/PLN 4.32).



Source: TGE, EEX, Nordpool.

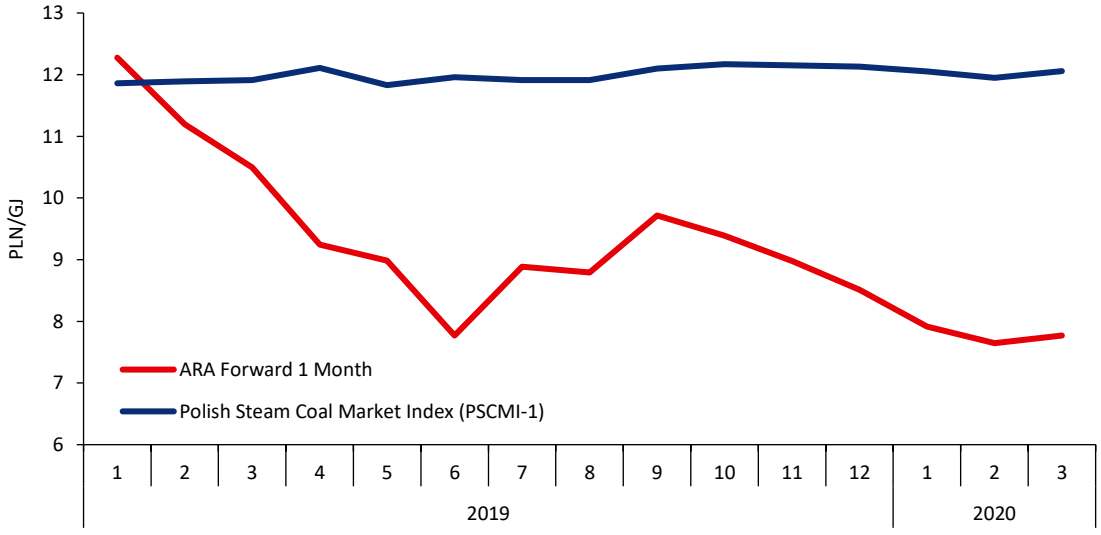
Chart: Evolution of spot market prices.



Source: TGE, EEX, Nordpool.

In the first quarter of 2020, the y/y drop in prices on neighbouring markets ranged between PLN 51 and PLN 115/MWh (i.e. approx. 27-57%), whereas in Poland the average prices were lower by PLN 41/MWh y/y (approx. 19%). The price spread between Poland and neighbouring countries is largely due to differences in realized coal prices in the country and abroad. The price of hard coal in ARA ports fell by 31% y/y, while the domestic pulverised coal price index, PSCMI-1, increased by 1% over the same period. In the second half of the year, increased transmission capacities on cross-border connections enabled the import of higher volumes of cheaper energy, which resulted in a higher correlation of wholesale energy prices in Poland and abroad, and in domestic prices approaching the level recorded on neighbouring markets.

Chart: Hard coal indices - ARA vs PSCMI-1[1].

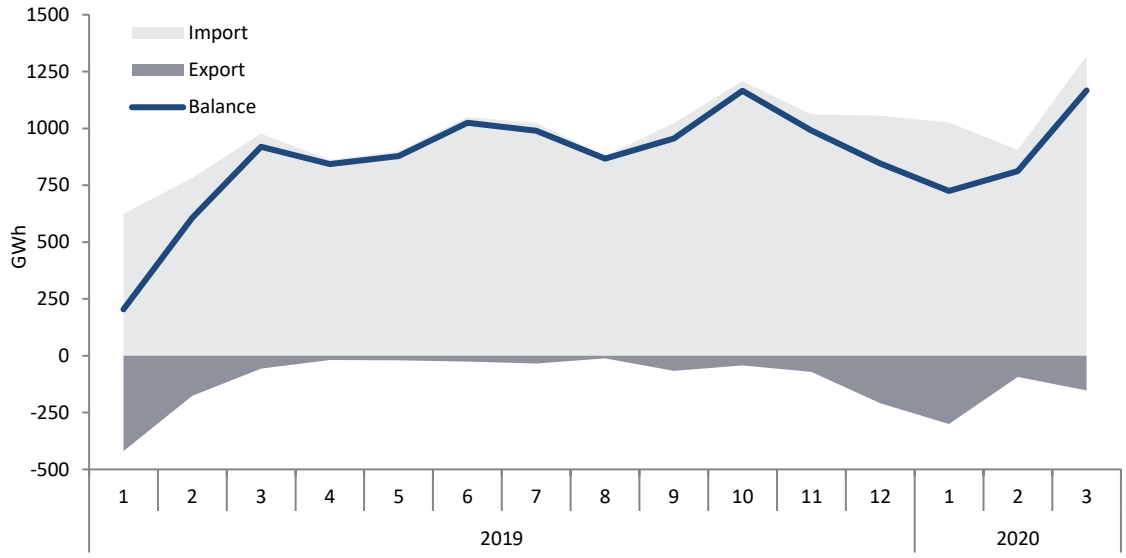


Source: ARP, Bloomberg (API21MON OECM Index), own work.

[1] The comparison is illustrative only. Methodologies of counting the ARA and PSCMI1 indexes are different. Among other things, the ARA index includes insurance and delivery costs. The PSCMI-1 is an ex-mine index without insurance and delivery costs. Standards for calculating the caloric values are also different (ARA – 25.12 GJ/t vs. PSCMI1 caloric value - range from 20 to 24 GJ/t). The aim is to compare the trend and not the absolute level. For illustration purposes ARA index is recalculated from USD/t to PLN/GJ.

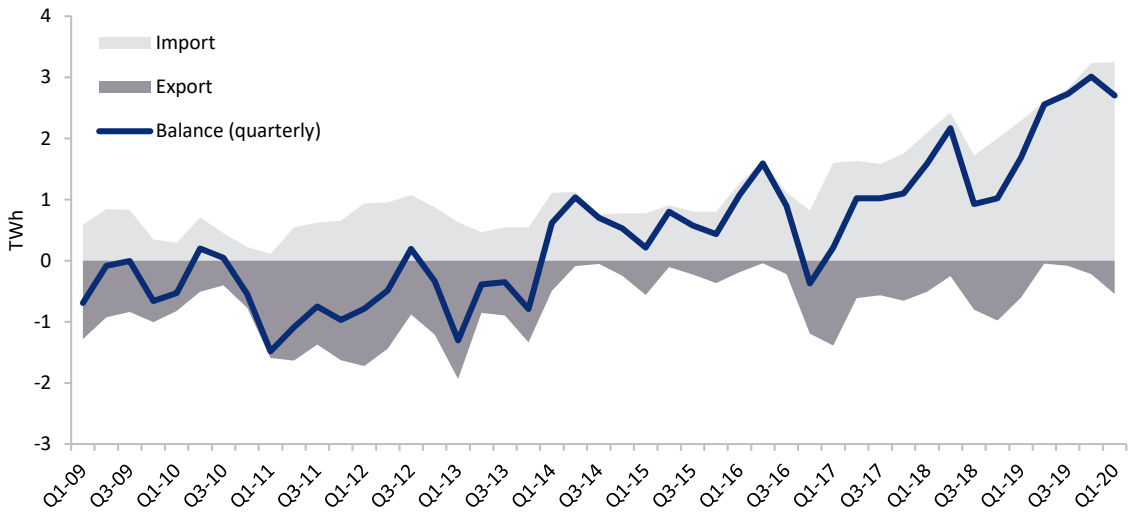
International trading

Chart: Monthly imports, exports and cross-border exchange balance in 2019-2020.



Source: own work based on PSE S.A. data.

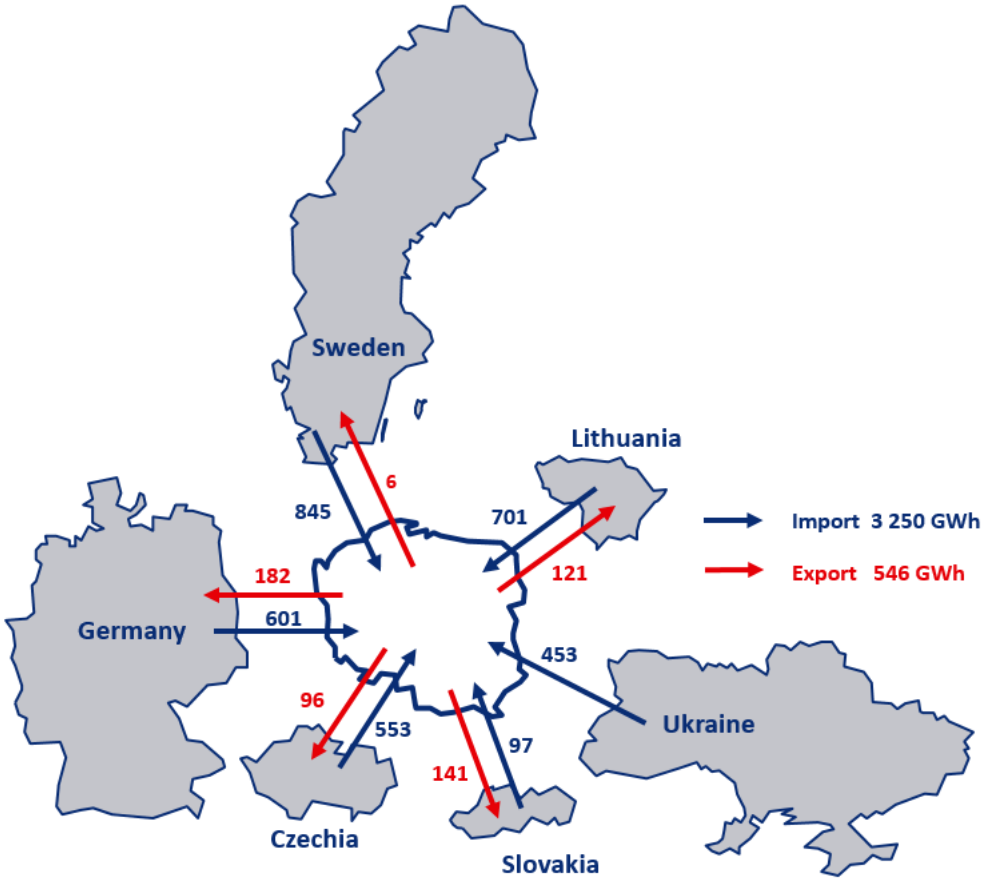
Chart: Quarterly trading volumes – import, export and international trading balance in years 2009-2020.



Source: own work based on PSE S.A. data.

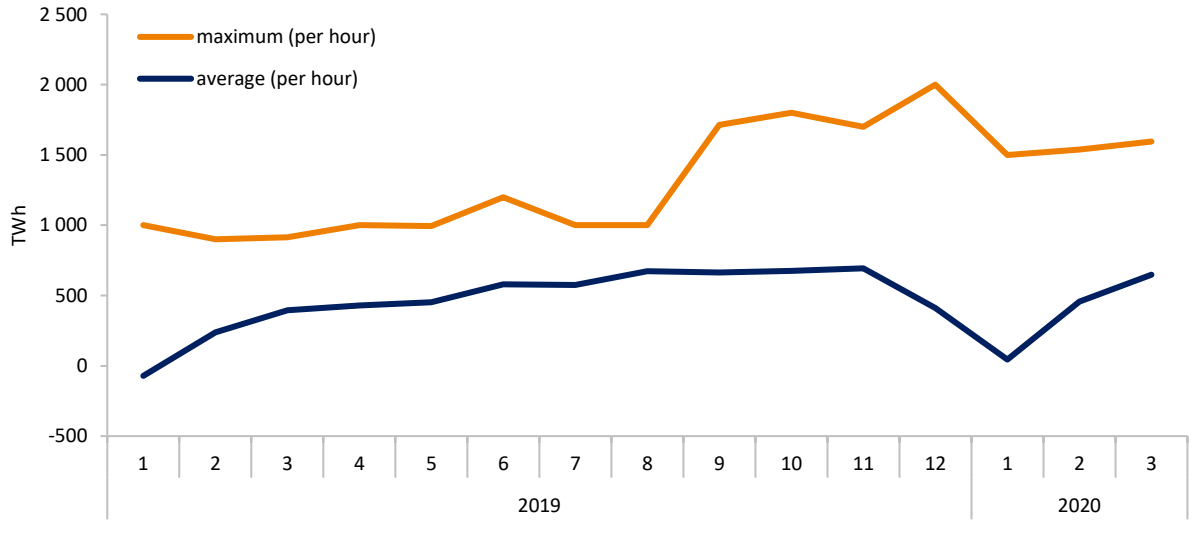
In the first quarter of 2020, Poland remained a net importer of electricity, and the trade balance was 2.7 TWh (import 3.3 TWh, export 0.6 TWh) was higher by 1.0 TWh y/y (i.e. by approx. 56% y/y). The international trading balance was impacted mostly by import from Sweden (0.9 TWh), Germany (0.6 TWh) and Czechia (0.6 TWh).

Diagram: Geographical structure of commercial exchange in the first quarter of 2020 (in GWh).



Source: own work based on PSE S.A. data.

Chart: Parallel exchange[2] balance: average vs. maximum hourly flow in particular months.



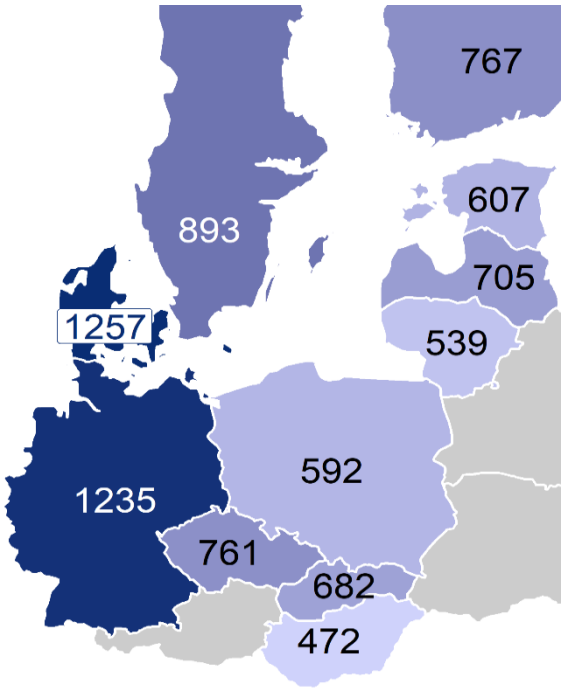
Source: own work based on PSE S.A. data.

[2] Parallel exchange – exchange between synchronised system on borders with Germany, Czechia and Slovakia

Retail market

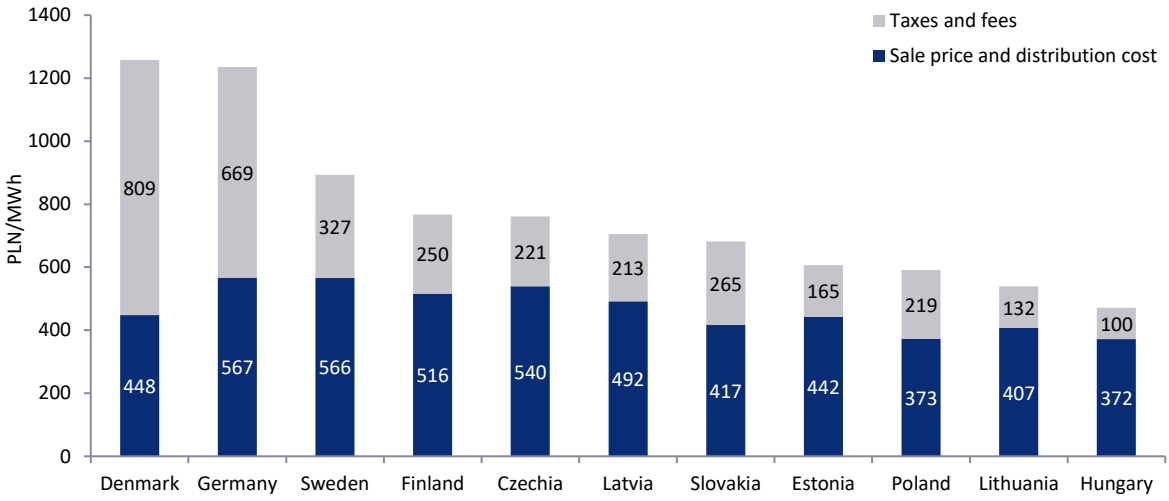
The diversity of electricity prices for retail customers in the European Union depends both on the level of the wholesale prices of electricity and fiscal system, regulatory mechanism and support schemes in particular. In Poland in the second half of 2019[3] an additional burden (over sale price and cost of electricity distribution) for individual customers accounted for 37% of the electricity price and in comparison to EU average of 41%. In Denmark and Germany the proportion of additional charges in the price of electricity exceeded 50%.

Chart: Comparison of average prices for individual customers in selected EU countries in the second half of 2019 (prices in PLN/MWh, average exchange rate EUR/PLN 4.30).



Source: own work based on Eurostat data.

Diagram: The share of additional charges in electricity prices for the individual customers in selected EU countries in the second half of 2019 (prices in PLN/MWh, average exchange rate EUR/PLN 4.30).



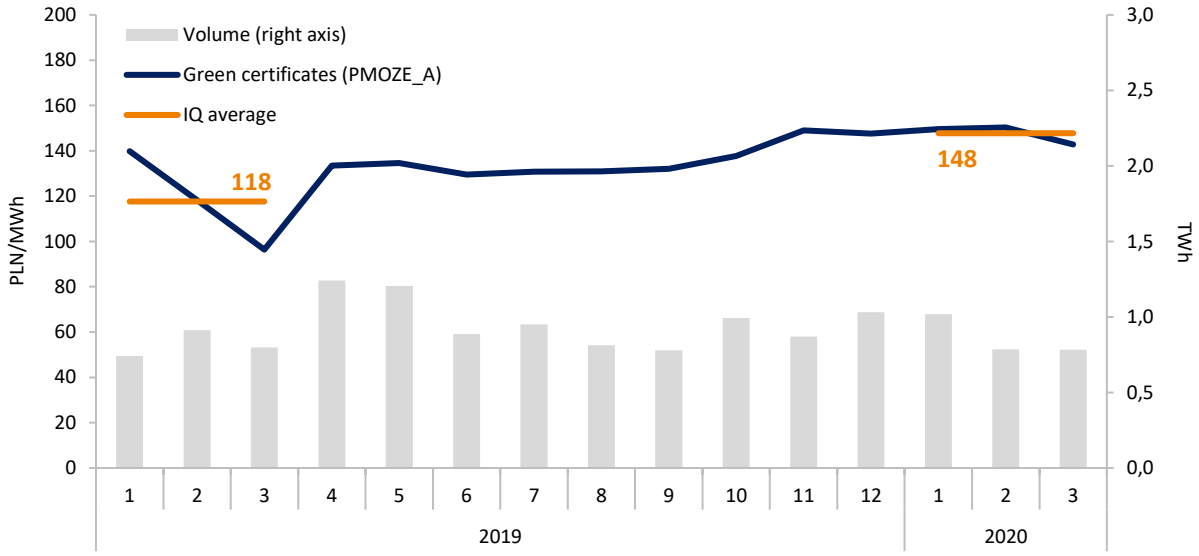
Source: own work based on Eurostat data.

[3] Eurostat data on retail market are published in semi-annual intervals.

Prices of certificates

In the first quarter of 2020 the average price of green certificates (index TGEozea) reached PLN 148 PLN/MWh and was higher by 25% compared to the analogical period of the previous year. An obligation to redeem green certificates increased from 19% in 2019 to 20% in 2020 – as a result the demand for the certificates increased. On the other hand, the wind generation in NPS in the first quarter of 2020 was by 11% higher y/y. Moreover, the prices of certificates were affected by the awareness of limited supply thereof in future connected with the closure of a certification system for new units and the upcoming end of a 15-year support period for first installations that had entered the system in 2005.

Chart: Average quarterly prices of green certificates (TGEozea).



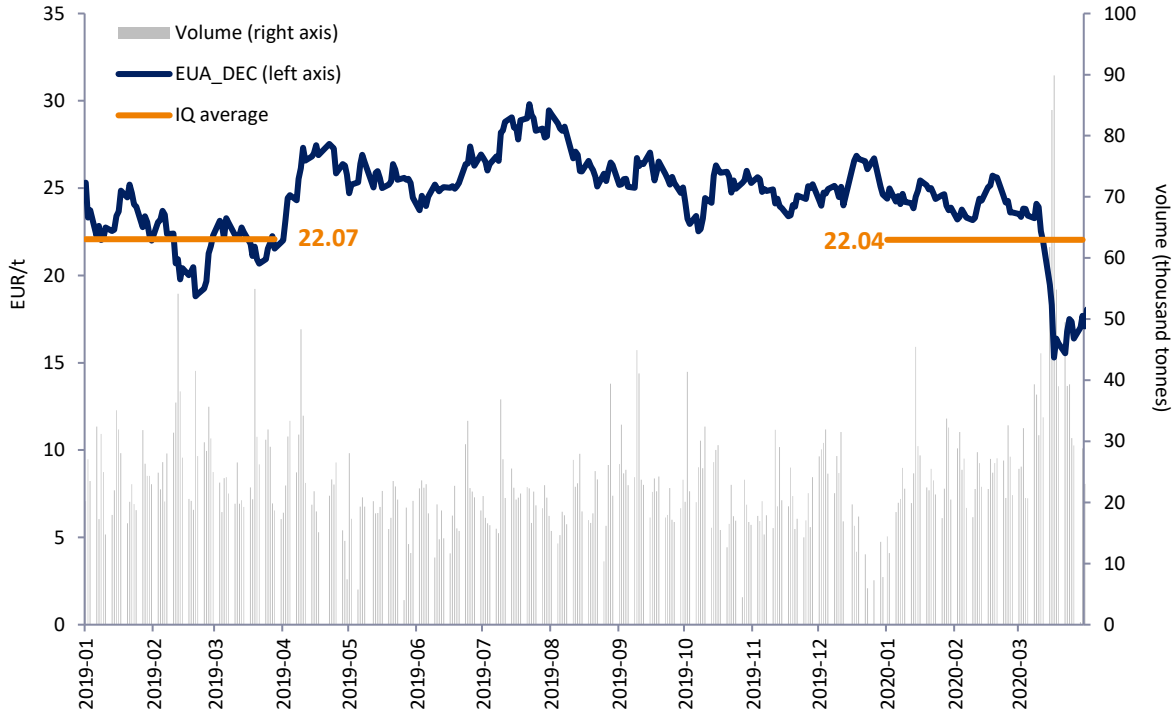
Source: Own work based on TGE quotations.

2.3. Prices of CO2 emission rights

EUA (European Union Allowances) prices are one of the key factors determining wholesale energy prices and PGE Group's financial results. Installations emitting CO_2 in the process of electricity or heat production bear the expenses for purchasing EUA allowances to cover the deficit (i.e. the difference between CO_2 emissions at PGE Group's generating units and the free-of-charge allowances received under derogation in accordance with the National Investment Plan). Wherein, last allocations granted free of charge are planned for realisation of investment tasks for 2019. It means that the free allocations in accordance with the currently used method will end in 2020.

After significant increases in 2018, the prices of CO_2 emission allowances stabilised and entered a lateral trend lasting until mid-March 2020, when a sudden slump was recorded, caused by the COVID-19 pandemic. In the first quarter of 2020, the weighted average price of EUA DEC 20 reached EUR 22.04/t and was slightly lower than the average price for EUA DEC 19 (EUR 22.07/t) in the similar period of the previous year.

Chart: Prices of CO_2 emission rights.



Source: own work based on ICE quotations.

CO_2 EMISSION RIGHTS GRANTED FREE OF CHARGE FOR YEARS 2013-2020

PGE Group's installations accounts were credited with free allowances for heat for 2020 and energy for 2019, while free allowances for electricity for 2020 will be received by the Group by the end of April 2021, after verification of reports from investments submitted to the National Investment Plan.

At the same time, redemption of emission rights resulting from CO_2 emissions in 2019 was completed in April 2020.

Table: Emission of CO_2 in 2020 broken down into electricity and heat production (in tonnes).

Product	CO_2 emissions in Q1 2020*	Allocation of CO_2 emission rights for 2020
Electricity	13 722 847	-
Heat	1 913 506	1 034 097
TOTAL	**15 636 353**	**1 034 097**

* Estimates, emissions not verified - the data will be settled and certified by the authorised verifier of CO_2 emission on the ground of yearly reports of volume of CO_2 emissions.

2.4. Regulatory environment

DOMESTIC REGULATORY ENVIRONMENT

PGE Group operates in an environment with a significant impact of domestic and foreign regulations. Presented below is a summary of the most significant decisions, which took place in the first quarter of 2020 and which could have an impact on PGE's operations in the coming years.

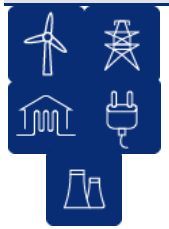
Segments	Regulation	Regulation objectives	Latest conclusions	Next stage	Impact on PGE
	Draft act on compensation for the increase in electricity prices in 2020.	The draft assumes : ▪ Introduction of compensation for the increase in electricity prices in 2020 as compared to prices in 2019. ▪ The compensation would be available to end customers in households whose taxable income did not exceed the first tax bracket in 2019 and who will consume at least 63kWh of electricity in 2020. ▪ The compensation would be paid in 2021 by trading companies at the request of the customer, through appropriate corrections to the invoices. ▪ The act provides for 4 compensation thresholds depending on the amount of energy consumption. ▪ The costs of compensation payments (an amount equal to the sum of the compensation paid to end customers) are to be financed with funds from the sale of 25 million CO_2 emission allowances which form part of the national auction pool for the new EU ETS trading period starting on January 1, 2021. ▪ Trading companies will be reimbursed upon an application submitted to Zarządca Rozliczeń S.A. For applications involving more than 4 million power take-off points, reimbursement would be made within 6 months of the date of application.	The draft act was published on **February 24, 2020** on the Government Legislation Center's (GLC) website.	At present, public consultations are being held. Upon completion of consultations, the draft will be sent to the Standing Committee of the Council of Ministers .	To the greatest extent, the draft affects the operation of the Supply segment. It entails additional obligations imposed on trading companies, such as: notifying customers of their right to compensation, accepting and verifying requests, payment of compensation, and inspection activities in consultation with the competent head of the tax office. The draft stipulates that electricity distribution companies qualify end customers to one of the four groups eligible for compensation, and this compensation is to depend on the consumption of electricity at a given power take-off point.
	Regulation on the Low-Carbon Transport Fund	The drafts set forth detailed rules for the functioning of the Low-Carbon Transport Fund established under the Act on Biocomponents and Liquid Biofuels. The draft regulation on the detailed conditions for the granting and settlement of support granted under the Fund determines, in particular, the maximum amount of support, the list of eligible costs and the intensity of support. The draft regulation on the detailed criteria for selection of projects to be granted support under the Fund, specifies the following key criteria: (i) significance of the project for purposes of market development, (ii)	The regulations were published in the Journal of Laws on **December 23, 2019** and entered into force on **December 24, 2019**.	The announcement of the first call for applications for funding from the Low Emission Transport Fund is scheduled for the first half of 2020.	The support granted under the Fund can be used, in particular, for the construction of the infrastructure for charging electrical vehicles and for the production of biomethane used in transport .

		appropriateness and relevance of the activities planned and their implementation, (iii) assessment of the planned costs of the project in relation to the scope of works, (iv) organisational capacities of the applicant to complete the project and institutional arrangements for its implementation.			
	Amendment to the Energy Law	The updated energy law contains a number of changes, including: ▪ comprehensive regulation for energy storage; ▪ introduction of mandatory remote readings at metering installations ; ▪ establishment of an energy market information operator, responsible for establishing and developing a central market information system.	Public consultations on the draft act ended in **November 2018**. Another (significantly revised) draft was published on **December 23, 2019.** The draft was submitted to the Committee for European Affairs on **February 11, 2020.**	The draft is scheduled to be submitted to the Council of Ministers for approval in the first half of 2020.	The proposed solutions will affect all segments of the PGE Group's operations, especially the Supply and Distribution segments.
	Draft act on promoting electricity generation in offshore wind farms	The draft act provides for enabling the development of offshore wind power generation. Offshore wind farms are important for the fulfilment of international commitments in the field of renewable energy in the long term. The key to these is to create legal regulations that will stimulate the growth of this sector. The draft provides for : ▪ A separate support system dedicated to the offshore technology, adjusted to its technical and economic conditions, consisting in granting the so-called right to cover the negative balance to be calculated on the basis of the offshore installation's LCOE, including the connection construction costs that will be incurred by the investor in the initial phase. ▪ Numerous modifications of administrative procedures related to the investment process, taking into account the specificity of the project to construct offshore wind farms.	Public deliberations and consultation lasted till **January 15, 2020**.	Currently, comments submitted in public consultations are being analysed. Then, the draft will be sent to the Standing Committee of the Council of Ministers.	The Act is of key importance for the development of offshore wind farms and thus for PGE Baltica, a company responsible for the implementation of the Offshore Programme at the PGE Group and coordinating preparations for the construction of three wind farms.
	Draft ordinance of the Minister of State Assets on the reference price of electricity from renewable energy sources in 2020, and periods for producers who won the auction in 2020.	According to the draft, the proposed reference price values, except for those concerning installations with a total installed electrical capacity of not more than 1 MW which use only onshore wind energy to generate electricity, as well as installations with a total installed electrical capacity of no more than 1 MW and with a total installed electrical capacity of more than 1 MW, using only solar radiation energy to generate electricity – which were reduced – are the same as the reference price values set for 2019. Reference price for installations: ▪ with a total installed electrical capacity of more than 1 MW, using only onshore wind energy to generate	Draft ordinance published on **February 27, 2020** and released for public deliberations and consultation. **On April 2, 2020**, results of the deliberations were published. At present, the ordinance is being reviewed by the Minister of Climate.	Release for interdepartmental consultation.	The draft regulation has revised prices for wind and solar installations, i.e. technologies that have been most popular in previous auctions and that should account for most of this year's auction budget. The ordinance may affect the prices of energy produced by wind and photovoltaic installations of PGE Group that will participate in auctions in 2020.

		electricity, is PLN 250/MWh (the price in 2019 was PLN 285/MWh); ▪ with a total installed electrical capacity of no more than 1 MW, using only solar radiation energy to generate electricity, is PLN 360 /MWh (the price in 2019 was PLN 385/MWh); ▪ with a total installed electrical capacity of more than 1 MW, using only solar radiation energy to generate electricity, is PLN 340/MWh (the price in 2019 was PLN 365/MWh).			
	Ordinance of the Minister of Climate of April 7, 2020 on detailed rules for the determination and calculation of tariffs and for settlements heat supply.	The amendment to the ordinance refers, among other things, to: ▪ adapting the cost method of determining the tariff for heat generation in cogeneration units to the new support mechanism for cogeneration, ▪ streamlining and automating the adjustment of tariffs in case of unforeseen and significant changes in external factors – for the cost method, ▪ making the process of revising tariffs drawn up using the simplified method more flexible in the event of publication of new reference prices by the President of ERO or modification of licences, ▪ introducing a mechanism allowing for a one-off transfer in the tariff of purchase costs of CO_2 emission rights incurred in 2018, which so far have not been covered by the tariffs calculated using the simplified method.	The draft ordinance was published in **February 2020**. Public consultation was held until March 6, 2020, followed by interdepartmental deliberations. The ordinance was signed on **April 7, 2020** and published on **April 23, 2020**.	The ordinance enters into force 14 days after publication, i.e. on **May 8, 2020**.	The ordinance has a positive impact on the District Heating segment, in particular on the generation of power in cogeneration. It allows to increase revenues from these activities and makes the tariff approval process more flexible.
	Draft Act amending the Act on disclosure of information about the environment and its protection, public involvement in environmental protection and environmental impact studies and certain other acts.	The draft act aims to transpose the EIA Directive as regards Article 11(1) and (3), i.e. regulations concerning public access to justice in the area of the environment by granting environmental organisations new powers affecting the possibility to use decisions on environmental conditions of projects significantly affecting the environment and to obtain further investment decisions in the investment and construction process.	The draft law was published on **January 24, 2020** on the website of the Government Legislation Centre and has been released for interdepartmental deliberations.	Release for public consultation.	The Act affects all business segments of the PGE Group that implement infrastructural investments.

	Act of March 31, 2020 amending the Act on special solutions to prevent, combat and counteract COVID-19, other infectious diseases and the resulting crisis situations, as well as certain other acts.	The act introduces a number of measures to support the economy during the COVID-19 epidemic and the state of epidemic announced in Poland. These measures include: ▪ deduction of loss incurred in 2020 from CIT for 2019; ▪ temporary waiver of the extension fee with respect to amounts payable to the state treasury and social insurance institution; ▪ wage subsidies for employers experiencing economic downtime, financed from the Guaranteed Employee Benefits Fund; ▪ suspension of the obligatory periodic medical examinations for employees. A key point is the waiver of the provisions allowing electricity companies to cut off the supply of electricity, heat or gas to customers who do not pay their bills on time. The special provisions are to apply during the period of the epidemic emergency and state of the epidemic.	The act entered into force on **March 31, 2020**.	Provisions that prevent energy companies from conducting debt collection activities by suspending the supply of energy or gas fuels may have a material adverse effect on the financial and liquidity standing of the Supply and Distribution segment.
	Draft Act amending some acts in the field of protective measures due to the spread of the SARS-CoV-2 virus	The Act introduces further protective tools for the economy during the COVID-19 epidemic and the epidemic status announced on the territory of the Republic of Poland. The Act contains provisions that allow limiting the scope of collateral for monetary transactions, including: ▪ raising the limit for possible certificates confirming generation of energy from renewable energy sources (without reduction coefficient and limits for a given chamber member and the entire chamber); ▪ abolition of the reduction coefficient for non-cash collateral in the form of CO_2 emission allowances and abolition of limits at the level of a given chamber member and the entire chamber; ▪ introducing the possibility of presenting, as non-monetary security, guarantee by the parent company; ▪ exemption from the obligation to provide financial security required for some of the deposits if an appropriate investment rating is provided.	The draft act was published on **April 28, 2020** on the Sejm website. On **May 15, 2020**, the Act was published in the Journal of Laws, entering into force, as a rule, on the day following the day of publication, i.e. **May 16, 2020**.	The Act affects all business segments of the PGE Group by offering further tools that are to enable liquidity to be maintained in 2020 or to reduce losses due to the ongoing COVID-19 epidemic.

INTERNATIONAL REGULATORY ENVIRONMENT

Segments	Regulation	Regulation objectives	Latest conclusions	Next stage	Impact on PGE
European Green Deal					
	Regulation of the European Parliament and of the Council establishing the framework for achieving climate neutrality (European Climate Law)	Enshrining the 2050 climate-neutrality objective in EU law.	The EC submitted a legislative proposal on **March 4, 2020**. The key solutions proposed include: ▪ enshrining the legally binding **2050** climate-neutrality objective in EU law; ▪ **by September 2020,** the EC The EC will review Member States' reduction ambitions and assess the current legal framework in the light of the climate neutrality objective. The EC will also present an assessment of the increase in the emission reduction target from the current 40% in 2030 relative to 1990 to 50-55% in 2030 relative to the same base year; ▪ **by June 30, 2021**, the EC will present relevant legislative proposals, inter alia, on the revision of the ETS Directive, the Directive on the promotion of the use of energy from renewable sources and the Directive on energy efficiency; ▪ revising the trajectories for the reduction of CO2 emissions indicated in the National Plans for Energy and Climate, together with an indication of how to achieve emission reductions in order to achieve climate neutrality by 2050; ▪ The EC reserves the right to issue recommendations if a Member State fails to demonstrate a sufficient level of ambition; ▪ giving additional powers to the EC to set the EU-wide trajectory for achieving the climate neutrality objective by means of delegated acts – with limited control by Member States; ▪ introducing an additional assessment taking into account the climate neutrality objective for all legislative proposals and other draft measures taken by the EC. **On March 31, 2020**, The Legal Service of the European Parliament has presented a preliminary opinion that the establishment of the trajectory for achieving the climate neutrality objective by means of delegated acts would be	The preliminary position of the European Parliament is expected to be adopted by **September/October 2020**. The Council's position is likely to be developed no sooner than during the German Presidency (which will start in **July 2020**).	Improved competitiveness of renewable sources and, in the short term, of gas units, at the expense of high-carbon fuel-based generation units. Increase in operating costs of conventional electricity generation.

Segments	Regulation	Regulation objectives	Latest conclusions	Next stage	Impact on PGE
			contrary to Article 290 of the Treaty on the Functioning of the EU ("TFEU").		
	Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading within the EU (ETS Directive) as well as implementing and delegated acts, Decision (EU) 2015/1814 of the European Parliament and of the Council concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme (MSR Decision).	Combating climate change and performance of obligations resulting from the Paris Agreement. Development of investment incentives through a CO_2 price signal to develop low-emission sources.	The legislative proposal presented **on March 4, 2020** by the EC, concerning the Regulation of the European Parliament and of the Council establishing the framework for achieving climate neutrality (European Climate Law), provides that, among other things: ▪ **by September 2020**, the EC will review the EU's 2030 climate target in the light of the climate neutrality objective and examine options for introducing a new 2030 target of 50-55 % emission reductions compared to 1990 levels. ▪ **by June 30, 2021** The Commission will assess how the EU legislation implementing the Union's 2030 target should be amended to achieve emission reductions of 50-55% compared to 1990 and to achieve the climate neutrality objective. This means that the EC is planning to carry out another revision of the ETS Directive and, potentially, the MSR Decision over the next year. A public consultation on the Climate Target Plan 2030 was held until **April 15, 2020**.	Adoption of the implementing act on the functioning of the Modernisation Fund expected **in Q2 or Q3 of 2020**. A comprehensive plan to increase the EU climate target for 2030 to 50-55% is to be presented by the end of **September 2020**, whereas proposals for the next revision of the EU ETS inter alia the ETS directive and MSR decision are expected in **June 2021.**	Improvement in the competitiveness of renewable sources and – in short-term-gas units to the detriment of generation assets using high-emission fuels. Increase in operating costs for conventional generation of electricity. Option to obtain direct investment support from 2021 from the Modernisation Fund or Innovation Fund. Another revision of the ETS Directive is likely to cause a further increase in prices of emission allowances.
	Revision of the Council Directive 2003/96/EC restructuring the Community framework for the taxation of energy products and electricity (ETD Directive).	Revising the minimum rates of taxation of energy products and electricity with a view to achieving, including through fiscal measures, EU climate neutrality by 2050. Revision of the scope and structure of rates,	**On March 4, 2020** the European Commission published an action plan and a preliminary impact assessment for the revision of the ETD Directive. The consultation on these documents was completed on **April 1, 2020.** As previously announced, the revision of the ETD is to include, among other things, a review of excise duty rates and a link between the minimum tax rates and greenhouse gas emissions with a view to adapting EU tax policy to the objectives of the European Green Deal. The Commission also proposes to move away from unanimity in the Council to qualified majority voting for the adoption of the fiscal policy measures in question, with Article 192 TFEU on environmental policy being indicated as the appropriate legal basis for the proposal.	A large-scale public consultation is scheduled for the **second quarter of 2020**. A legislative proposal for the ETD Directive is expected to be published in **June 2021.**	Depending on the content of the legislative proposal: impact of the regulation on the rules of taxation of electricity produced in high emission units – possible further reduction of competitiveness of these units. Improved competitiveness of low-carbon energy sources compared to high-carbon energy sources.

Segments	Regulation	Regulation objectives	Latest conclusions	Next stage	Impact on PGE
		exemptions and reliefs.			
	Revision of the Directive 2010/75/EU of the European Parliament and of the Council on industrial emissions (integrated pollution prevention and control) (IED Directive).	Comprehensive revision of regulations on industrial emissions.	A public consultation of the internal impact assessment on the revision of the IED was held until **April 21, 2020.** The objective of the IED revision is, inter alia, to potentially extend the scope of the Directive to new types of pollutants, to amend the emission standards set out in the Directive, to introduce changes to the rules for establishing BAT (Best Available Techniques) conclusions for different industrial sectors.	The second stage of the public consultation is planned for the **third quarter of 2020.** The legislative proposal is to be submitted **in 2021**.	Depending on the content of the legislative proposal, there is a potential need for additional investment expenditure to maintain the operational capability of the existing generating assets. Potential impact on planned gas and cogeneration projects in terms of expected emission levels.
Market regulations					
	Regulation (EU) 2019/943 of the European Parliament and of the Council on the internal market for electricity (EMR regulation).	Establishment of legal framework for further integration of internal electricity market.	The Directive was published in the EU Official Journal on **June 14, 2019** and **it entered into force on July 4, 2019.** Most of the provisions of the Regulation have been in force since **January 1, 2020.** **On December 17, 2019**,the European Agency for the Cooperation of Energy Regulators (ACER) published an opinion containing technical guidelines for calculating the EPS 550/CB 350. **On December 17, 2019**,the Committee for European Affairs adopted an Action Plan to enable Poland to fulfil its obligation to make 70% of cross-border transmission capacity available to the market by the end of 2025, assuming year-on-year increases in the volumes made available. **On December 30, 2019**, the President of the Energy Regulatory Office issued a decision approving for 2020 a derogation for the Polish market area from the obligation to make available a certain level of cross-border transmission capacity. **By January 5, 2020**, the European Network of Transmission System Operators for Electricity (ENTSO-E) was obliged to submit to the Electricity Coordination Group (ECG) and ACER a draft methodology for European Resource Adequacy Assessment (ERAA), and only to ACER a draft methodology for calculating the Value of Lost Load (VoLL), the Cost of New Entry (CONE) and the reliability standards.	In accordance with the schedule provided in the regulation, by **July 5, 2020**, ENTSO-E is to submit to ACER a draft methodology for the calculation of the share of foreign power in the Capacity Remuneration Mechanism (CRM). **By July 5, 2021,** ENTSO-E will establish a register of foreign capacity providers.	Effects of implementation of the provisions of EMR Regulation on the capacity market after 2025. Existing units that exceed the emissions standard 550 g CO_2/kWh (EPS 550 and 350 kg CO_2/kW/year (CB 350) will not be entitled to capacity payments from July 1, 2025. Need to include lack of support for existing generating assets from July 1, 2025 in assessments of capacity sufficiency. A potential drop in volume of and price for electricity sold on the wholesale market by domestic units due to increased import, gradual replacement of existing generation units by new, ones, which meet emission requirements. Further business consequences will also result from the way in which the solutions included in the EMR Regulation are implemented wherever there is room to act by national authorities.

Segments	Regulation	Regulation objectives	Latest conclusions	Next stage	Impact on PGE
			Due to the delay, the public consultation process, launched by ENTSO-E on **December 5, 2019**, continued until **January 30, 2020**.		
The regulations concerning the EU's Multiannual Financial Framework and financing for sustainable economic growth					
PGE Polska Grupa Energetyczna	Multiannual Financial Framework, including regulation of the European Parliament and of the Council establishing the Just Transition Fund.	EU's financial framework (income and expenditures) established for 2021-2027.	**On January 14, 2020**, the EC adopted a proposal for a regulation to create the Just Transition Fund (JTF). The aim of the Fund is to support areas facing significant socio-economic challenges resulting from the transition to a climate-neutral economy by 2050. Key information on the JTF (draft): ▪ The JTF budget is expected to be EUR 7.5 billion in fresh funding, of which Poland would receive EUR 2 billion. ▪ Per each EUR of JTF funding, the Member State concerned should contribute between EUR 1.5 and EUR 3 from the Structural Funds (European Regional Development Fund and European Social Fund Plus). ▪ The JTF can be used to finance, among others, RES projects, energy efficiency, new employment for employees, circular economy (including waste recycling), reclamation of post-mining areas or additional education of employees. ▪ A prerequisite for obtaining funding from the FST is the preparation of territorial plans for just transition to be submitted by Member States to the EC. These plans must be consistent with the National Plan for Climate and Energy.	Work at the Council on adoption of a general approach to financial issues of MFF and the related specific legislative acts – **H1 or H2 2020.** The legislative process for the regulation establishing the Just Transition Fund, involving the Council and the European Parliament, is expected to continue **in 2020**.	Impact of regulation on decrease in funding that can be secured by PGE Group companies for investments. Impact of the Just Transition Fund regulation on the availability of funds to be raised by PGE Group companies.
PGE Polska Grupa Energetyczna	EU package for funding sustainable economic growth, including regulation on the establishment of a framework to facilitate sustainable investment (concerning the criteria for assessing economic activities in order to determine whether they	Implementation of regulations intended to facilitate funding for sustainable economic growth in EU.	**In December 2019,** the European Parliament and the Council reached an agreement in the trialogues on the regulation on criteria for assessment of economic activities in terms of their environmental sustainability. Key issues addressed in this agreement: ▪ recognition of gas and nuclear energy as a transitional activity. The assessment of whether this activity is environmentally sustainable will be made on the basis of technical criteria to be established by the EC in a delegated act. The EC is to prepare this delegated act by **December 31, 2020**, to become effective on **December 31, 2021**.	Expected adoption by the European Parliamnt of the regulation for criteria based on which economic activities will be assessed to determine whether they are environmentally sustainable – **May 2020.** Expected entry into force of this regulation – **H1 or H2 2020.** Preparation by the EC of delegated acts laying down detailed technical and screening	Possible impact of regulation on availability and cost of funding obtained by PGE Group companies for investments.

Segments	Regulation	Regulation objectives	Latest conclusions	Next stage	Impact on PGE
	are environmentally sustainable).		▪ imposing an obligation on large businesses (with more than 500 employees) to include information on the share of turnover, CAPEX and OPEX of environmentally sustainable activities in the non-financial report or consolidated non-financial report. **In March 2020** the Technical Expert Group published a final report. In the report, the Technical Experts Group: ▪ did not recommend, at this stage, that nuclear energy should be considered sustainable because it did not meet the criterion of "causing no significant damage", while recommending further work on this issue in the future by a group with in-depth technical knowledge on this subject; ▪ indicates in the case of gas-based generation sources that those activities where life cycle emissions are below 100g CO_2e/kWh are considered sustainable, this threshold is to be reduced to 0g CO_2e/kWh by 2050. **On April 15, 2020,** the EU Council adopted a regulation concerning the criteria for assessing economic activities in order to determine whether they are environmentally sustainable.	criteria for assessing economic activities in order to determine whether a given activity is environmentally sustainable – **by the end of 2020.**	

ADDITIONAL INFORMATION WITH REGARD TO INTERNATIONAL REGULATORY ENVIRONMENT

Segments	Proceeding	Objective of the action brought	Key events	Next stage	Impact on PGE Group
Action brought against the European Commission's decision not to raise objections to the Polish capacity market (SA. 46100), case file no. T-167/19					
	Proceedings brought by Tempus Energy Germany and T Energy Sweden against the European Commission (case file no. T-167/19).	The objective of the action is to annul the European Commission's Decision not to raise objections to the Polish capacity market (SA. 46100).	On **March 14, 2019** Tempus Energy Germany and T Energy Sweden brought an action against the EC decision concerning the Polish capacity market (case T-167/19). The summary of main reproaches and arguments brought up in the complaint was published in the EU Official Journal on **May 6, 2019**. From the published abstract it results, that in their action brought they argue that the EC failed, in particular, to initiate formal investigation proceedings (the second stage of the capacity evaluation mechanism) and that the demand side response (DSR) suffered alleged discriminatory treatment within the Polish capacity market.	It is difficult to estimate the duration of the proceedings before the General Court of the EU, but the British experience shows that they may even take several years. The proceedings pending before the European Court of Justice concerning the appeal in the case Tempus Energy and Tempus Energy Technology versus the EC (case file no. C-57/19 P) may have an impact on the action brought.	Depending on the outcome of the dispute, the case may have an impact on the conditions for the performance of and entering into the capacity contracts.

3. Activities of PGE Capital Group

3.1. Business segments

	 Conventional Generation	 District Heating	 Renewables	 Distribution	 Supply
Key assets of the segment	5 conventional power plants 2 CHP plants 2 lignite mines	14 CHP plants	14 wind farms 1 photovoltaic power plant 29 run-of-river hydro power plants 4 pumped-storage power plants, including 2 with natural flow	294 161 kms of distribution lines	-
Electricity volumes	Net electricity generation 11.59 TWh	Net electricity generation 2.93 TWh	Net electricity generation 0.85 TWh	Electricity distribution 9.17 TWh	Sales to final off-takers 10.60 TWh
Heat volumes	Heat production 2.11 PJ	Heat production 18.17 PJ	-	-	-
Market position	PGE Group is the leader of lignite mining in Poland (88%) PGE Group is also a national leader in electricity and heat generation		PGE Group is the largest electricity producer from RES with market share of approx. 10% (excluding biomass co-combustion and bio-gas)	Second domestic electricity distributor with regard to number of customers	Leader in wholesale and retail trading in Poland

3.2. PGE Group's key financial results

The best way to measure the profitability of energy companies is EBITDA. This is a result before depreciation, amortization, income tax and financial activities, including interest from drawn debt. It approximately reflects cash flows from operating activities and makes it possible to compare the results of companies regardless of the value of their assets, level of debt and existing income tax rates.

PGE Group's consolidated results are composed of the financial results of each of its operating segments. The Distribution segment and Conventional Generation segment made the largest contribution to the Group's result, participating respectively in 32% and 28% of the Group's EBITDA. District Heating segments accounts for 19% of EBITDA, while Supply segment generated 12% of the EBITDA and Renewables segment contributed 11% to the Group's EBITDA.

EBITDA of the Capital Group by segments (PLN million)

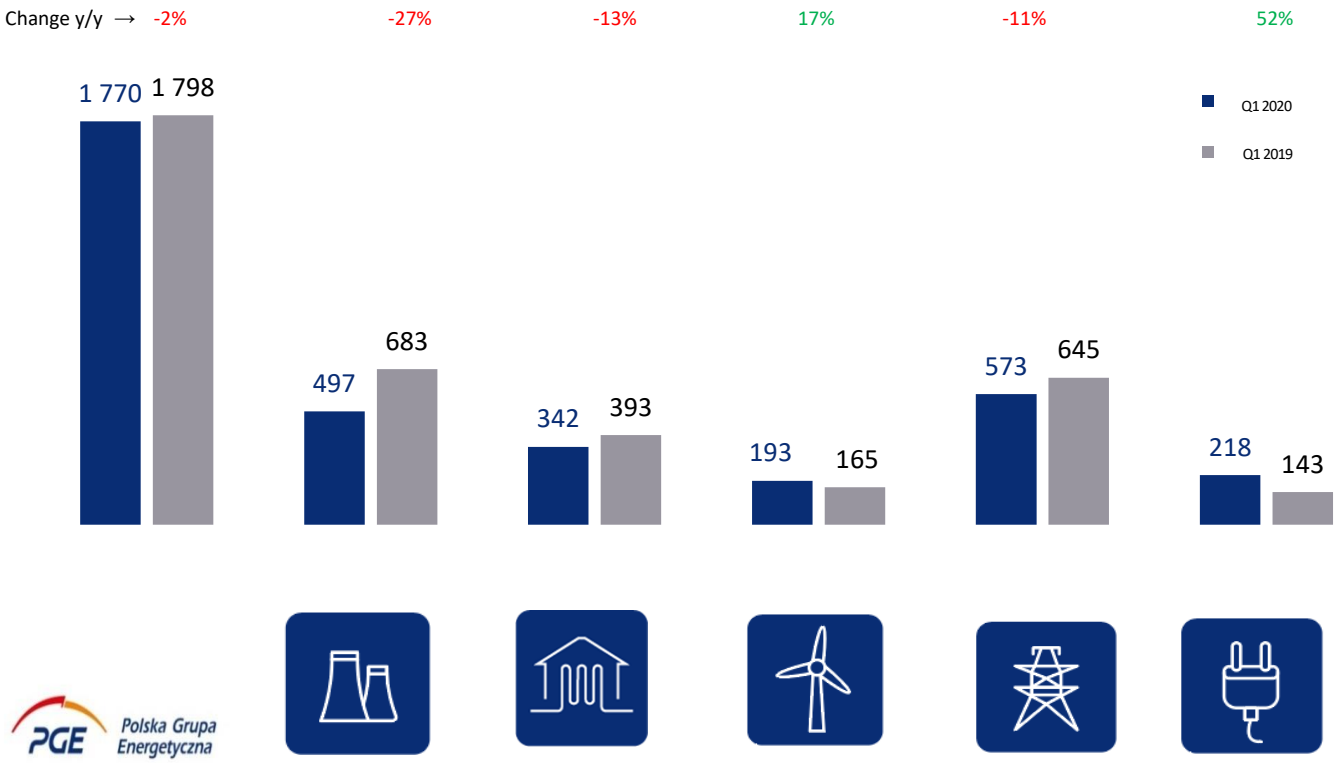
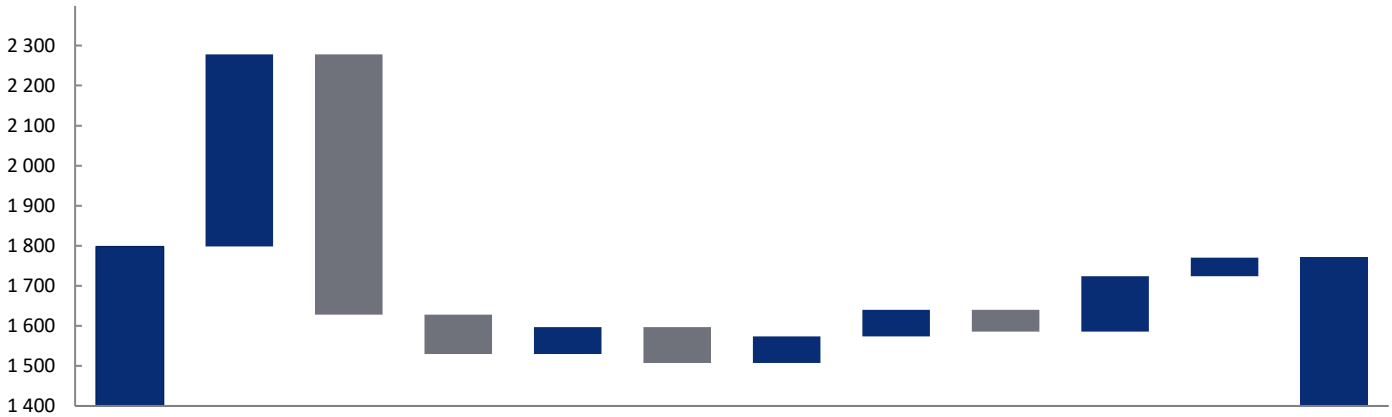


Chart: Key factors affecting EBITDA in PGE Capital Group (in PLN million).



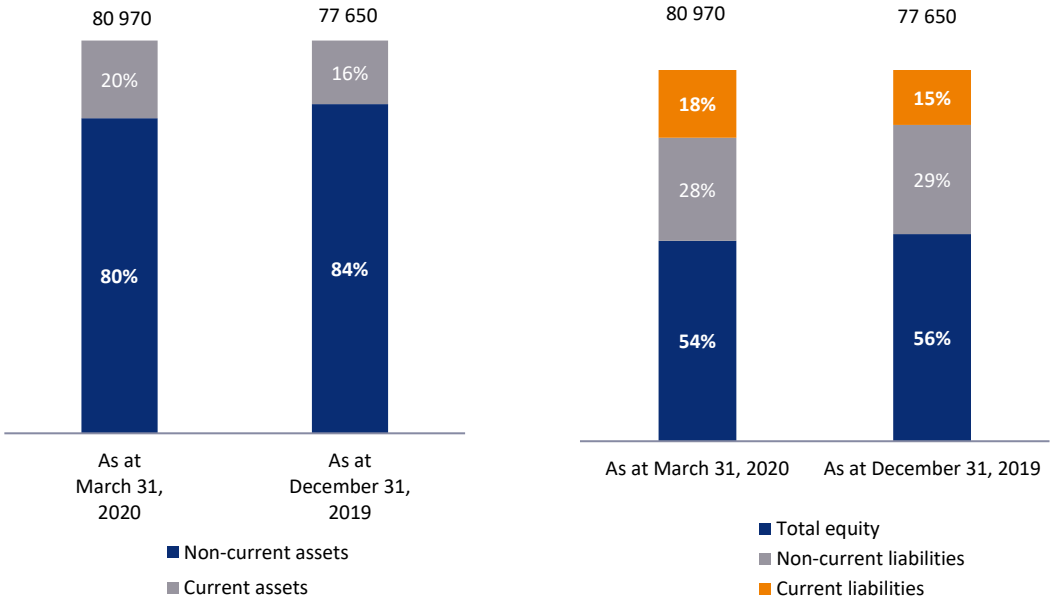
	EBITDA Q1 2019	Result on the sale of electricity at producers *	CO_2 costs	Personnel costs	Result on the sale of electricity to final customers	Fuel costs	Revenues from certificates	Result on distribution	Costs of certificates redemption	Other operations**	Other	EBITDA Q1 2020
Change		**480**	**-650**	**-98**	**67**	**-90**	**67**	**66**	**-54**	**138**	**46**	
EBITDA Q1 2019	**1 798**	3 850	979	1 327	-35	1 194	38	1 165	144	-54		
EBITDA Q1 2020		4 330	1 629	1 425	32	1 284	105	1 231	198	84		**1 770**

* Revenue from the sale of electricity reduced by the purchase cost of electricity.

**Increase results from valuation and realisation of derivatives related to CO_2 and hard coal.

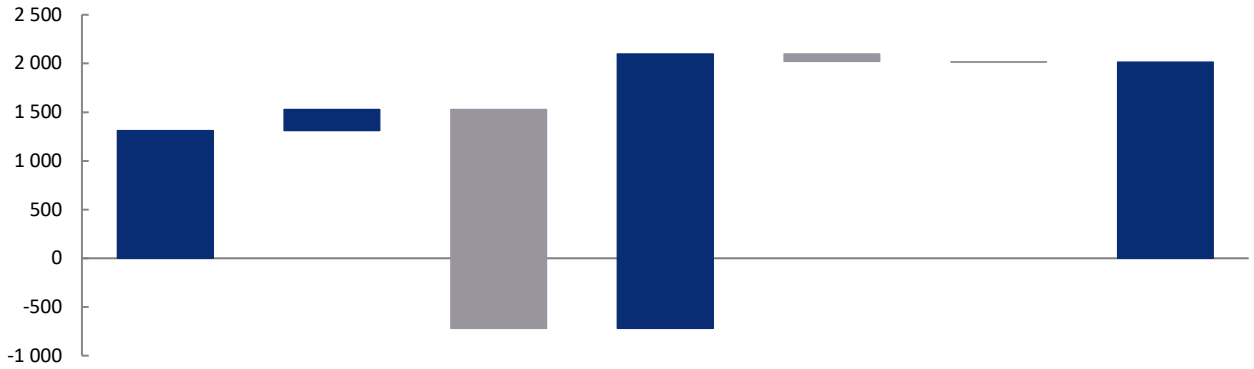
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Chart: Structure of assets and equity and liabilities (in PLN million).



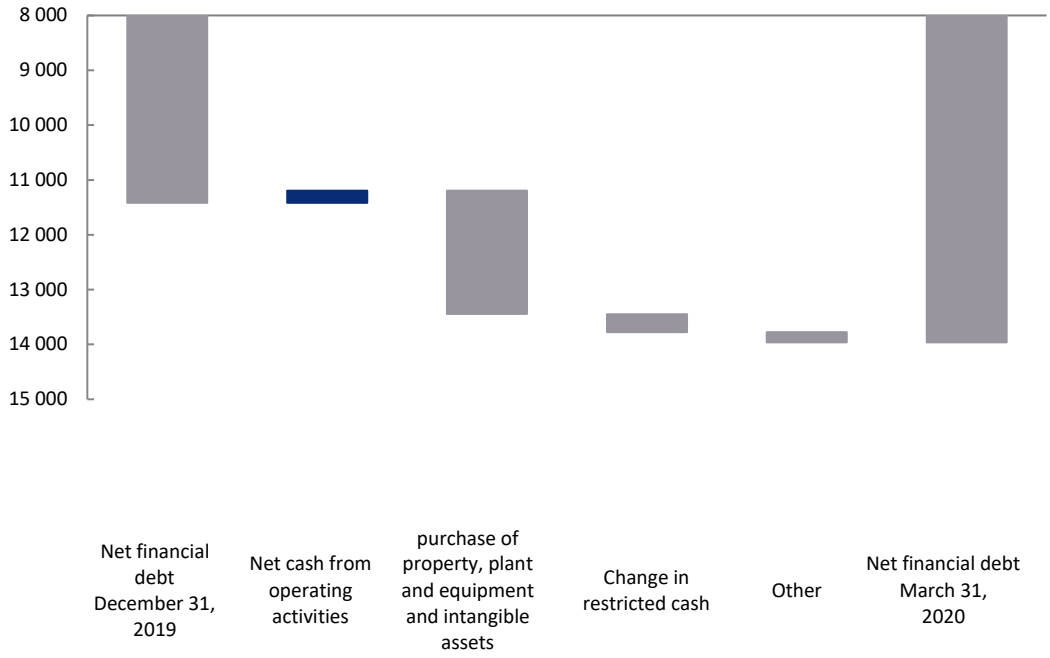
CONSOLIDATED STATEMENT OF CASH FLOWS

Chart: Net change in cash (in PLN million).



	Cash and cash equivalents at January 1, 2020	Net cash from operating activities	Purchase of property, plant and equipment and intangible assets	Balance of repayments/ inflows of loans, borrowings, bonds and finance lease	Interest paid loans, borrowings, bonds and financial instruments	Other	Cash and cash equivalents at March 31, 2020
Impact on level of cash		**218**	**-2 249**	**2 818**	**-77**	**-7**	
Cash and cash equivalents	**1 311**						**2 014**

Chart: Net debt (in PLN million).



Impact on level of net debt		**-218**	**2 249**	**327**	**189**	
Financial net debt	**11 415**					**13 962**

KEY RESULTS IN BUSINESS SEGMENTS (IN PLN MILLION)

	Conventional Generation	District Heating	Renewables	Distribution	Supply
Sales revenues					
Q1 2020	12 591	6 804	1 738	310	1 641	10 167
Q1 2019	9 561	4 725	2 016	262	1 541	5 440
	32% y/y	44% y/y	-14% y/y	18% y/y	6% y/y	87% y/y
EBITDA					
Q1 2020	1 770	497	342	193	573	218
Q1 2019	1 798	683	393	165	645	143
	-2% y/y	-27% y/y	-13% y/y	17% y/y	-11% y/y	52% y/y
EBIT					
Q1 2020	773	59	195	119	261	210
Q1 2019	859	272	244	100	346	135
	-10% y/y	-78% y/y	-20% y/y	19% y/y	-25% y/y	56% y/y
Capital expenditures					
Q1 2020	957	370	43	92	427	5
Q1 2019	1 008	630	27	11	344	5
	-5% y/y	-41% y/y	59% y/y	736 y/y%	24% y/y	0% y/y

BALANCE OF ENERGY OF PGE CAPITAL GROUP

Balance of electricity

Table: Sales, purchase, production and consumption of electricity in the PGE Capital Group (in TWh).

Volume	Q1 2020	Q1 2019	% change
A. Sales of electricity outside the PGE Capital Group:	**29.66**	**26.35**	**13%**
*Sales to end-users **	*10.74*	*11.45*	*-6%*
Sales on the wholesale and balancing market	*18.92*	*14.90*	*27%*
B. Purchases of electricity from outside of PGE Group (wholesale and balancing market)	15.57	11.98	30%
C. Net production of electricity in units of PGE Capital Group	15.36	15.61	-2%
D. Own consumption DSO, lignite mines, pumped-storage power plants (D=C+B-A)	**1.27**	**1.24**	**2%**

* Sale mainly by PGE Obrót S.A. and PGE Energia Ciepła S.A.

The total volume of purchased and generated electricity is higher than the volume of electricity sold. The difference presented in point D results from the necessity to cover grid losses in the distribution business (Distribution System Operator), consumption of energy at lignite mines and consumption of energy at pumped-storage power plants.

An increase in the volume of electricity sales and in the volume of electricity purchases result from the higher trading in electricity on TGE, which has been caused by the introduction in 2018 of the 100% power exchange obligation.

Decrease in volume of sales to end-users in the first quarter of 2020 is a consequence of high base recorded in the first quarter of 2019. At the beginning of 2019, the retail companies of the PGE Group recorded an increased volume of electricity sales in connection with the takeover of final off-takers from bankrupt trading companies and the PGE Group companies acting as reserve suppliers.

Production of electricity

Table: Electricity production (TWh).

Table: Electricity production	Q1 2020	Q1 2019	% change
ELECTRICITY PRODUCTION IN TWh, including:	**15.36**	**15.61**	**-2%**
Lignite-fired power plants	7.21	8.86	-19%
Coal-fired power plants	4.12	2.85	45%
including co-combustion of biomass	*0.01*	*0.01*	*0%*
Coal-fired CHP plants	1.64	1.65	-1%
Gas-fired CHP plants	1.42	1.43	-1%
Biomass-fired CHP plants	0.11	0.08	38%
Communal waste-fired CHP plants	0.01	0.01	0%
Pumped-storage power plants	0.22	0.17	29%
Hydroelectric plants	0.13	0.14	-7%
Wind power plants	0.50	0.42	19%
including RES generation	0.76	0.66	15%

Slightly lower generation volume in the first quarter of 2020 mainly results from lower NPS demand and higher wind generation and energy import, what translated into lower generation at coal-fired power plants. Above effect was partly offset by production of new units 5 and 6 at Opole power plant.

Lower generation at lignite-fired power plants (decrease by 1.7 TWh) results from lower average load factors at the Bełchatów power plant at units 2-14 (by 33 MW, i.e. by 10%) and at Turów power plant (by 14 MW, i.e. by 10%). Furthermore, lower generation results from the decommissioning of unit no. 1 in Bełchatów power plant at the end of May 2019 and longer repair-related downtime of units in Turów power plant by 277 h (unit no. 3 has been in renovation since April 2019).

Higher production in coal-fired power plants (up by 1.3 TWh) results from increased generation in Opole power plant, what is mainly due to operation of units no. 5 and 6, which generated 1.9 TWh of electricity in the first quarter of 2020. Above effect was

lowered by the longer reserve downtime of units 1-4 due to lower use of units by PSE S.A. Lower production in Dolna Odra power plant is a consequence of repair-related downtime of by 1 983 h (unit no. has been in extended medium overhaul since September 30, 2019). Lower generation at Rybnik power plant is a result of longer (by 1 974 h) reserve downtime of units 3-8 and lower load factor (by 6 MW).

Generation at hard coal-fired CHP plants, gas-fired CHP plants and hydro power plants, as well as from communal waste remained at similar level as in the base period.

Higher generation from biomass CHP plants is a consequence of technical conditions in Szczecin CHP Plant, where with lower heat production (due to higher outside temperatures) a higher generation of electricity was necessary to maintain the technical minimum of boiler.

Higher generation at wind farms results from better wind conditions in the first quarter of 2020. Load factor at wind farms in the first quarter of 2020 was higher by more than 4 p.p. on average.

Higher production in pumped-storage power plants results from the nature of these generation units which were used more extensively by PSE S.A. in the first quarter of 2020.

Table: Production of heat (PJ).

Heat production volume	Q1 2020	Q1 2019	% change
Heat production in PJ, including:	**20.28**	**21.43**	**-5%**
Lignite-fired power plants	0.96	1.00	-4%
Coal-fired power plants	0.24	0.35	-31%
Coal-fired CHP plants	14.85	15.58	-5%
Gas-fired CHP plants	3.87	4.00	-3%
Biomass-fired CHP plants	0.27	0.38	-29%
CHP plants fuelled by municipal waste	0.05	0.05	0%
Other CHP plants	0.04	0.07	-43%

External temperatures contributed more than any other factor to lower generation of heat in the first quarter of 2020 (y/y). W As compared to 2019, the average temperatures for 2020 were by 1.3°C higher, which translated into lower production of heat .

Sales of heat

In the first quarter of 2020 the heat sales volume in PGE Capital Group totalled 19.75 PJ and was lower by 1.13 PJ y/y. The above result was caused mainly by lower demand for heat due to the higher average outside temperatures in 2020.

3.3. Operational segments

CONVENTIONAL GENERATION

Segment description and its business model

This segment includes lignite mining and generation of electricity in conventional sources.

Conventional Generation

Main revenue items	PLN m
Sale of electricity *	3 482
Regulatory system services	114
Sale of heat Including contracted capacity and distribution of heat	58

Electricity generation	11.59 TWh
Heat generation	2.11 PJ

Main cost items	PLN m
Fees for CO_2 emissions	1 356
Personnel expenses	746
Cost of production fuels used	644
Depreciation and amortisation, liqudiation, write-offs including capitalised amortisation	429 9
External services	359

Main result items	PLN m
EBIT	59
EBITDA	497

* managerial perspective

The main source of revenue in the Conventional Generation segment is revenue from the **sale of electricity** on the wholesale market, based on electricity prices that are shaped by supply and demand mechanisms, taking into account the variable costs of generation. At the same time, the segment's key cost items, given their size and volatility, and thus their impact on operating results, are the **cost of production fuels**, mainly hard coal and natural gas, as well as **fees for CO_2 emissions**. Lignite-based production, which is of key significance for the Group, is based on own mines, therefore its cost is relatively stable and reflected mainly in fixed-cost items, i.e. personnel costs, third-party services and depreciation.

A significant item in the segment's revenue constitutes **revenues from the provision of regulatory system services** based on an agreement with the Polish Transmission Operator, i.e. PSE S.A. This revenue is in parallel to revenue generated on the electricity market and is related to the need to ensure stable operations for the NPS. Regulatory system services are provided by power plants of PGE GiEK.

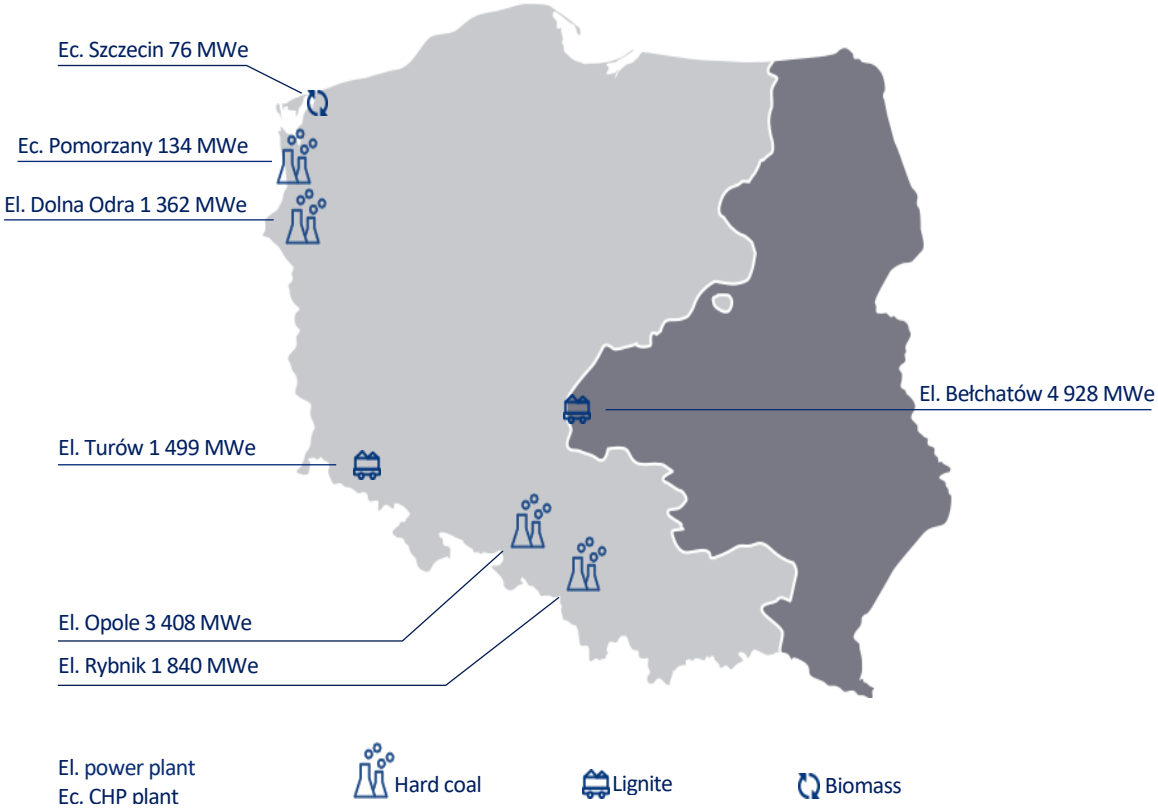
In addition, this segment generates **revenues from sales of heat** produced both at industrial plants and at the Szczecin CHP plant and Pomorzany CHP plant which form part of ZEDO.

ASSETS

Conventional Generation segment consists of: 2 lignite mines, 5 conventional power plants and 2 CHP plants.

Conventional Generation is the leader of lignite mining (its share in the extraction market of this raw material accounting for 88%[4] of domestic extraction), it is also the largest generator of electricity as it generates approx. 31%[5] of domestic gross electricity production. The generation is based on lignite extracted from mines owned by the company as well as hard coal and biomass.

Diagram: Main assets of the Conventional Generation segment with their installed capacity.



[4] Own calculations based on data from Central Statistical Office of Poland
[5] Own calculations based on data from ARE

KEY FACTORS FOR THE RESULTS OF THE SEGMENT

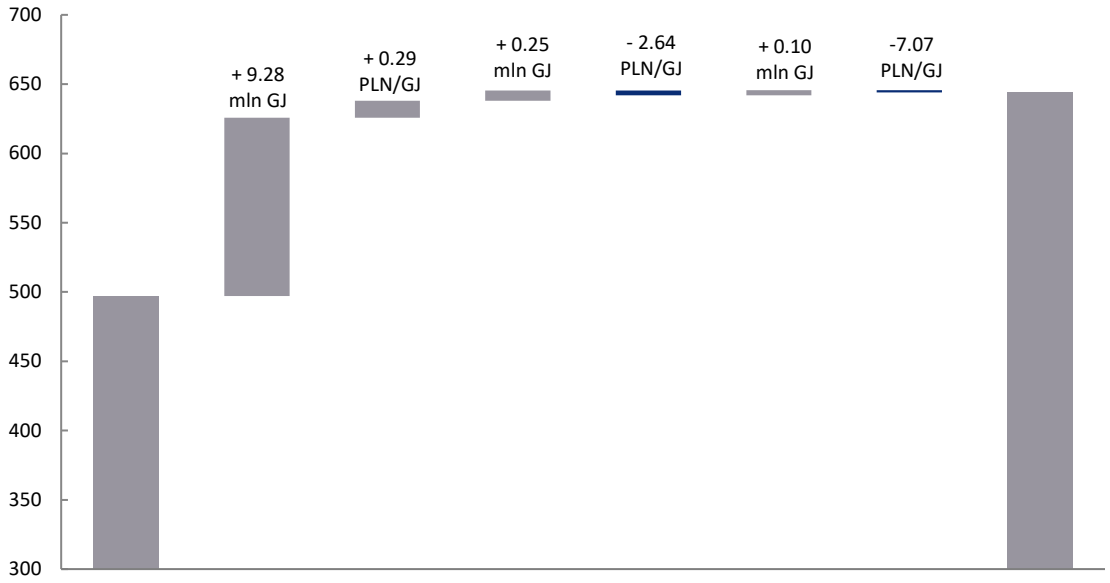
Chart: Key changes of EBITDA in Conventional Generation (in PLN million) – managerial perspective.

	EBITDA Q1 2019	Electricity production difference in volume	Electricity production difference in price	Result on the optimization of the electricity trade	Revenues from agreement with TSO	Costs of fuel	Costs of CO_2	Personnel expenses	Other	EBITDA Q1 2020
Change		**-85**	**266**	**314**	**10**	**-147**	**-523**	**-41**	**20**	
EBITDA Q1 2019	**683**	2 857		130	104	497	833	705		
EBITDA Q1 2020		3 038		444	114	644	1 356	746		**497**

Key factors affecting the EBITDA result of Conventional Generation segment on y/y basis included:

- **Lower electricity production volume** in PGE GiEK by 0.3 TWh due to lower degree of use of units by PSE S.A. resulting from decreased demand in NPS and higher wind generation (see p. 2.2 of this report).
- **Increase in electricity sales prices** (see p. 2.2 of this report).
- **Higher result on optimisation of electricity portfolio** due to higher volume of electricity trading by 2.0 TWh, with higher margin realized on electricity trading.
- **Higher revenues from ancillary control services,** resulting from the number of the commissioning of units after putting them into reserve at Bełchatów and Opole power plants.
- **Higher fuel consumption costs,** mainly hard coal, due to higher production from this fuel (see p. 3.2 of this report). Main changes on different types of fuel are presented on the chart below.
- **Higher CO_2 costs** as a result of higher price of allowances and lower allocation of allowances granted free of charge. The above effect was reduced as a result of lower emissions of CO_2 due to lower electricity production and commissioning of less emissive units no. 5 and 6 in Opole power plant. Main changes are shown in the chart below.
- **Higher personnel expenses** due to ongoing process to optimise salaries.

Chart: Costs of production fuels consumption in Conventional Generation (in PLN million).

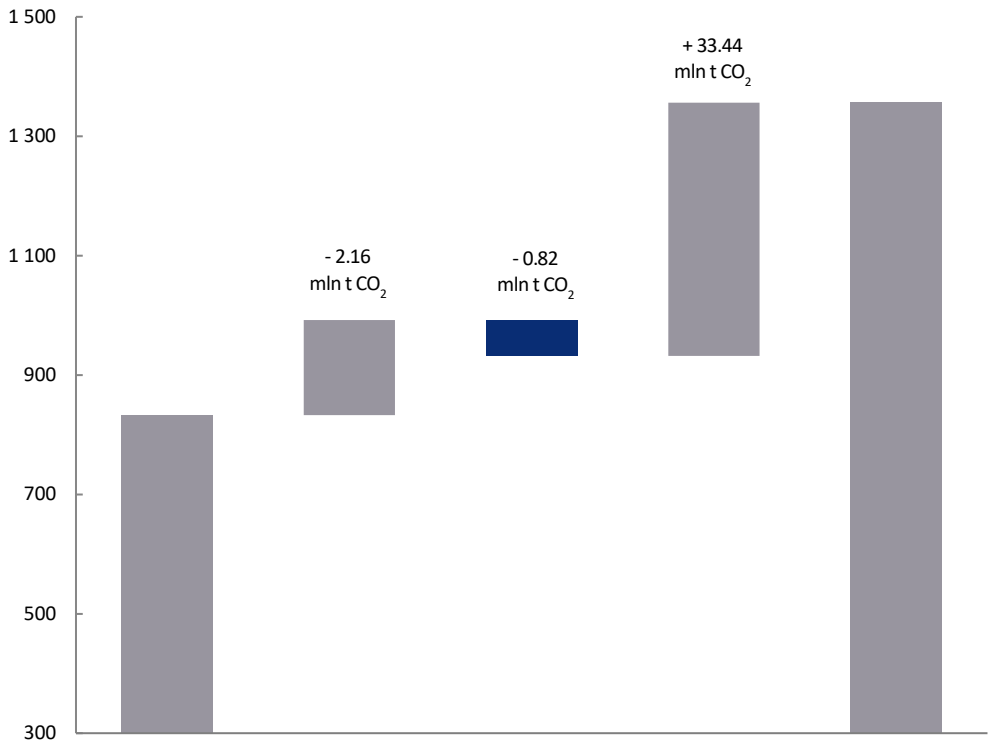


Change		**129**	**12**	**7**	**-3**	**4**	**-2**	
Cost of fuels Q1 2019	**497**	450			30		17	
Cost of fuels Q1 2020		591			34		19	**644**

Table: Data on use of production fuels consumption in Conventional Generation.

Fuel type	Q1 2020		Q1 2019	
	Volume (tons ths)	Cost (PLN million)	Volume (tons ths)	Cost (PLN million)
Hard coal	1 829	591	1 489	450
Biomass	142	34	124	30
Fuel oil – light and heavy	11	19	9	17
TOTAL		**644**		**497**

Chart: CO_2 costs in Conventional Generation segment (in PLN million).



Change		**159**	**-60**	**424**	
CO_2 costs Q1 2019	**833**				
CO_2 costs Q1 2020					**1 356**

CAPITAL ENPENDITURES

Table: Capital expenditures incurred in Conventional Generation segment in the first quarter of 2020 and 2019.

PLN million	Q1 2020	Q1 2019	% change
Investments in generating capacities, including:	301	547	-45%
▪ Development	94	326	-71%
▪ Modernisation and replacement	207	221	-6%
Other	15	8	88%
TOTAL	**316**	**555**	**-43%**
Capitalised costs of overburden removal in mines	54	75	-28%
TOTAL with capitalized costs of overburden removal	**370**	**630**	**-41%**

KEY DEVELOPMENTS IN THE FIRST QUARTER OF 2020 IN THE CONVENTIONAL GENERATION SEGMENT

Key development investments:

- On January 3, 2020, a decision was made to accept the offer of the consortium consisting of General Electric Global Services GmbH (Consortium leader), Polimex Mostostal S.A. and General Electric International Inc. submitted in the proceeding "Construction of two CCGT units in PGE GiEK S.A. Branch ZEDO". The planned CCGT units were among the generating units that obtained a 17-year contract in the main Capacity market auction, which will come into effect in 2024.
- On January 30, 2020 a contract was signed for construction of two CCGT units with a capacity of approx. 1 400 MW in Dolna Odra power plant.
- In March 2020, agreements on the connection of new units to the power transmission grid were signed with PSE S.A., as well as on the connection to the natural gas transmission grid – with Gaz-System S.A.
- On March 20, 2020, the Minister of Climate signed a decision extending the license for lignite mining from the Turów lignite deposit for another six years.

Key modernisation investments related to emission reductions:

- On February 2, 2020, unit no. 2 in the Bełchatów Power Plant was synchronised after its upgrade, and in mid-March 2020 the trial run of the unit was commenced.
- On February 3, 2020, an agreement was concluded for the construction of a mercury reduction system for units no. 2-12 and no. 14 in the Bełchatów Power Plant.
- On February 28, 2020, the Flue Gas Desulphurisation unit for Units A and B in Pomorzany CHP plant was commissioned.
- On March 3, 2020, a hydraulic test of the boiler in unit no. 3 of the Turów Power Plant was completed with positive results.
- On March 27, 2020 the trial run of unit no. 1 was completed. In April 2020, unit no. 1 was commissioned.

KEY PROJECTS IN Q1 2020

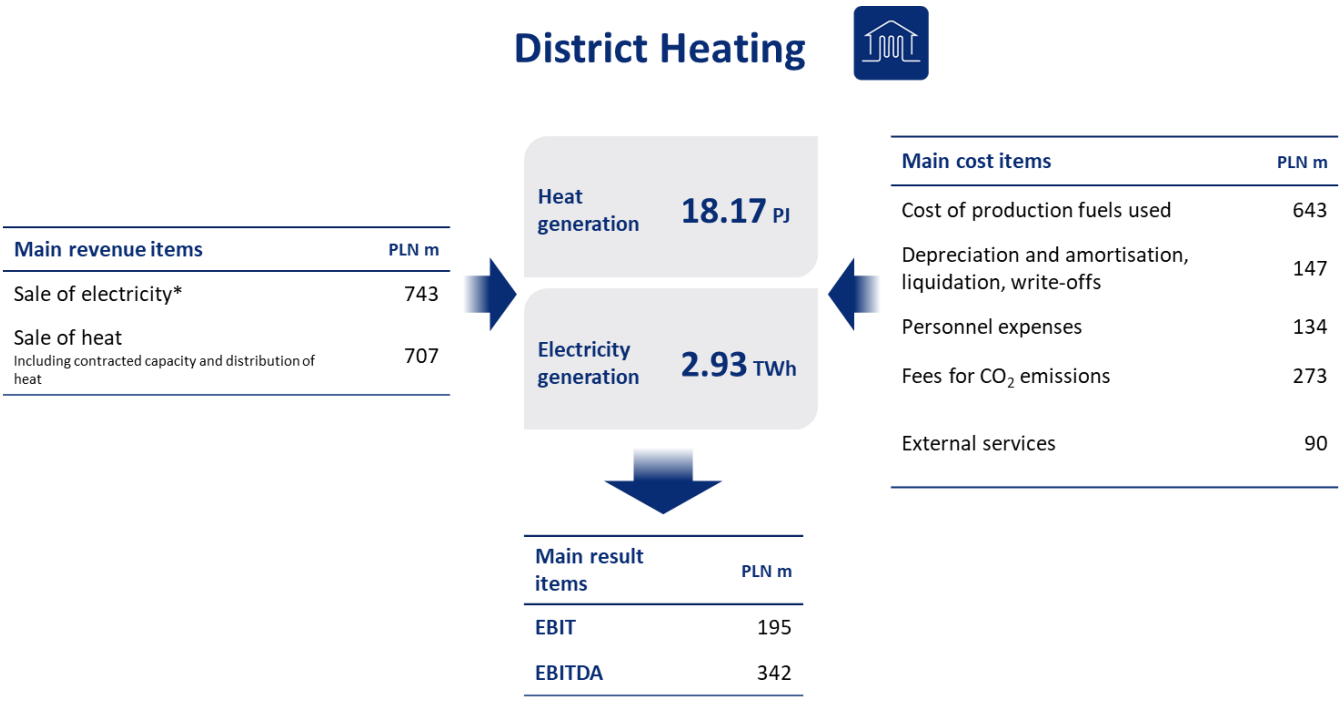
Aim of the project	Budget (net, without costs of financing)	Capital expenditures incurred so far (net, without costs of financing)	Capital expenditures in Q1 2020 (net, without costs of financing)	Fuel/ Net efficiency	Contractor	Expected date of completion	Status
Construction of new unit in Turów power plant							
Construction of power unit with a capacity of 490 MW	PLN 4.26 billion	PLN 3.18 billion	PLN 66 million	Lignite / 43.1%	Syndicate of companies: MHPSE, Budimex and Tecnicas Reunidas	**October 2020**	At the end of Q1 2020 the overall work progress on the project was 96%. On the building site, a start-up phase of individual installations is in progress. Tests of the Distributed Control System (DCS) for the Unit were completed and training sessions on the operation of the control system were launched. The service water system was flushed and preparations are underway to perform pickling of the boiler. Cables were laid, individual devices were connected and voltage was fed to the auxiliary consumption transformers.
Construction of new units in Dolna Odra power plant							
Construction of two CCGT units no. 9 and 10 in Dolna Odra power plant	PLN 4.28 billion	PLN 4 million	PLN 1 million*	Natural gas/ 63%	Syndicate of companies: General Electric (consortium leader) and Polimex Mostostal	**December 2023**	On January 30, 2020 a contract was signed for construction of two CCGT units with a capacity of approx. 1 400 MWe in Dolna Odra power plant. The General Contractor works on developing basic Project documentation. In the first quarter of 2020, agreements on the connection of new units to the power transmission grid were signed with PSE S.A., as well as on the connection to the natural gas transmission grid – with Gaz-System S.A.

* Expenditures incurred do not include expenses in the form of advances paid to the General Contractor for the Project

DISTRICT HEATING

Segment description and its business model

Core business of the segment includes production of heat and electricity from conventional sources as well as distribution of heat.



Main revenue items	PLN m
Sale of electricity*	743
Sale of heat Including contracted capacity and distribution of heat	707

Main cost items	PLN m
Cost of production fuels used	643
Depreciation and amortisation, liquidation, write-offs	147
Personnel expenses	134
Fees for CO_2 emissions	273
External services	90

Main result items	PLN m
EBIT	195
EBITDA	342

* managerial perspective.

As in the case of Conventional Generation, this segment's revenues are primarily revenues from electricity sales, however, they are usually directly related to generation of heat which in turn depends on demand that is highly seasonal and depends on external temperatures. This is why, in contrast to industrial power plants in Conventional Generation, as a rule, CHP plants do not have any considerable impact on the development of prices for electricity on the wholesale market.

Revenues from the sale and distribution of heat are regulated revenues. Energy companies independently set tariffs and present them to the President of the Energy Regulatory Office (the "ERO President") for approval. Heat production at PGE Group takes place in cogeneration units, which tariffs for heat are calculated using a simplified approach (compared to tariffs based on a full cost structure), based on reference prices, which are mainly conditioned by average sales prices for heat generated in units with specific fuel other than cogeneration units. They are published each year by the ERO President. Tariffs for heat production for cogeneration units in a given tariff year thus reflect changes in the costs of heat-generation units (not co-generation units) in the previous calendar year. The cost approach is applied in the case of tariffs for heat distribution, which allows to cover justified costs (mainly the costs of heat losses and property tax) and a return on invested capital, in line with guidelines from the ERO President. Distribution tariffs for heat are in place at branches in Gorzów and Zgierz, as well as by Kogeneracja S.A., PGE Toruń and Zielona Góra CHP.

Generation of heat and electricity is directly related to key variable costs of the segment, i.e. **the cost of production fuel used** (in particular, hard coal and gas) and **the cost of fees for CO_2 emissions**.

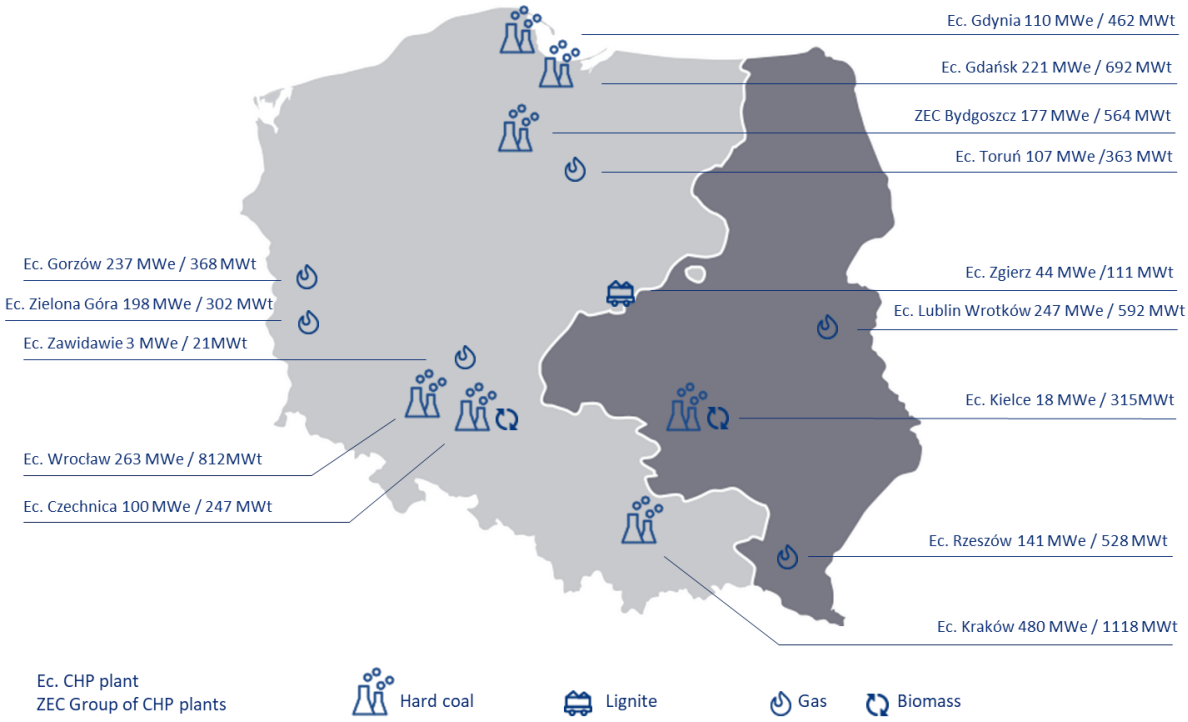
Electricity production in high-efficiency cogeneration is additionally remunerated. Until 2018, CHPs generated revenue from the **sale of energy origin certificates**, i.e. cogeneration certificates (yellow and red). From 2019, due to a change in support model, they receive support at a level covering increased operating costs related to production. For large units, this are set on an individual basis. The support mechanism in the form of certificates is in place also for biomass-fired generating assets. This type of production is additionally remunerated by awarding origin certificates, i.e. green certificates, the sale of which generates additional revenue, within the segment obtained in biomass unit in Kielce CHP.

ASSETS

District Heating within PGE Capital Group combines CHP plants separated from the EDF assets acquired on November 14, 2017 and CHP plants separated from PGE GIEK. Since January 2, 2019 the segment's composition has been as follows: PGE EC, Kogeneracja S.A., PGE Toruń S.A. and Elektrociepłownia Zielona Góra S.A.

District Heating is the largest heat producer in Poland. Generation is based mainly on hard coal and gas.

Diagram: Main assets of the District Heating segment and their installed capacity.

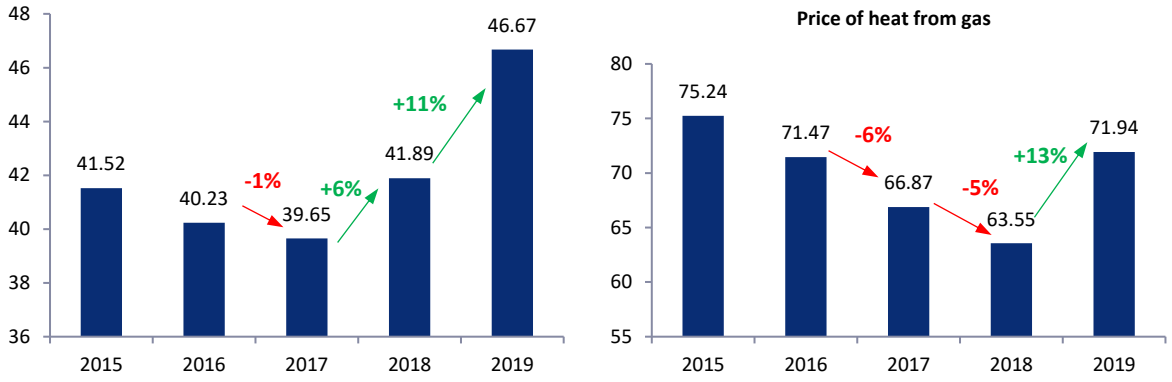


TARIFFS IN DISTRICT HEATING

Description of tariffs in the segment

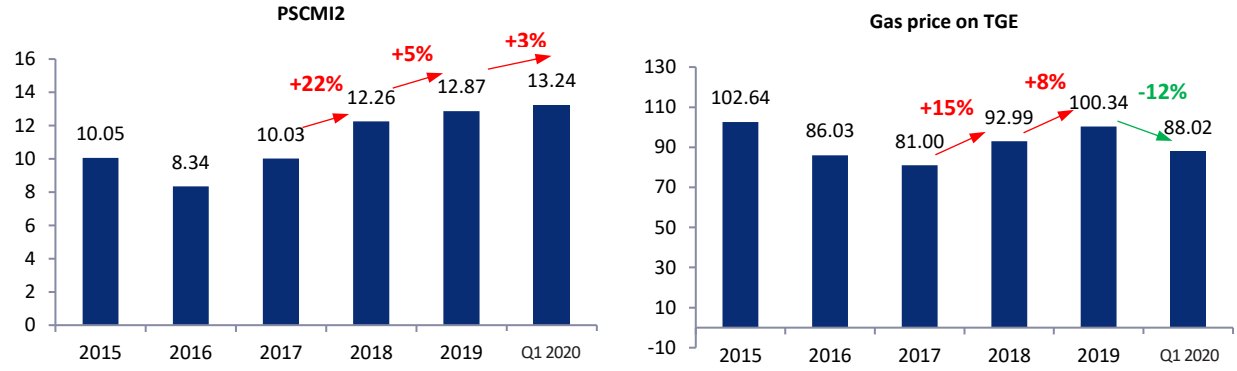
Due to the fact that the income on heat sales for CHP plant are tariffed as part of the so-called simplified method, they are characterised by a relative delay in the transfer of costs (annual or two-year). They are based on the year-to-year dynamics of average costs (taking into consideration the fuels used) incurred by entities that are not co-generation entities for the year preceding the time of tariff establishment.

Charts: Changes in the reference price of heat for hard coal and natural gas (PLN/GJ).



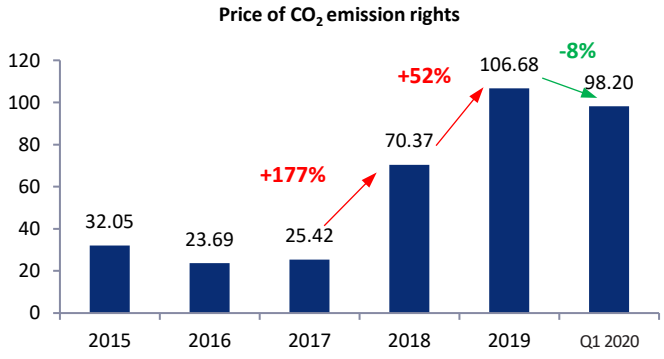
Source: ERO.

Charts: Changes in costs of fuels – hard coal (PLN/GJ) and gas (PLN/MWh).



Source: ARP, TGE.

Chart: Changes in price of CO_2 emission rights (PLN/t).



Source: ICE.

Reflecting previous cost increases, the reference price of heat produced from hard coal increased by 11% in 2019. It is a base to the increase in heat prices for co-generation entities establishing the tariff during 2020. At the same time, in the first quarter of 2020 the average market price of coal increased further by 3%, while the average price of CO_2 emission rights decreased by 8%.

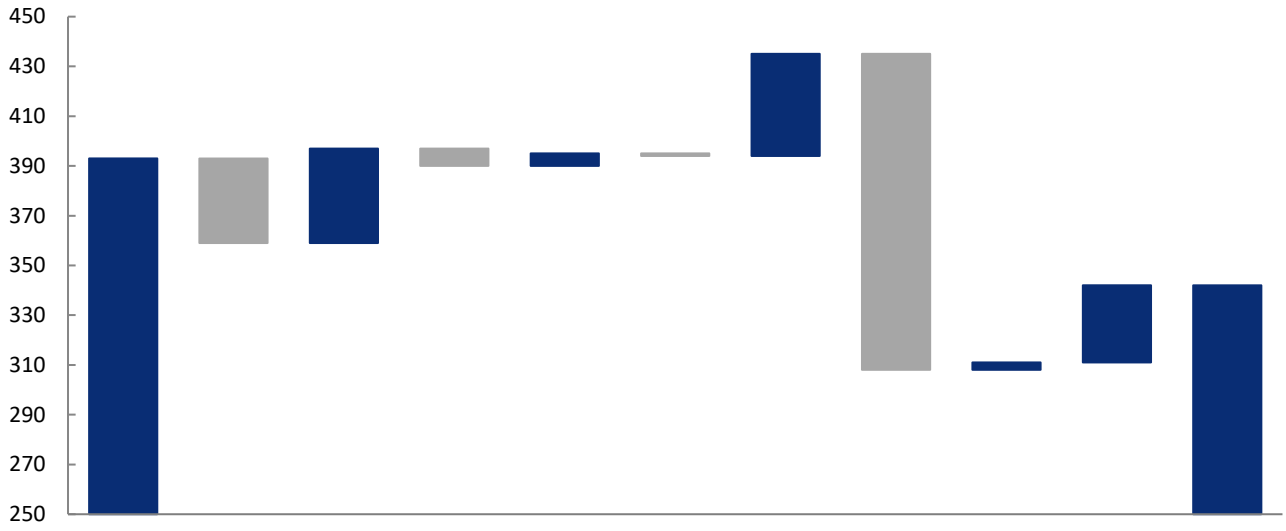
Aside from the time delay in costs transfer, it is also important that the CO_2 cost is only partially transferred in the reference unit price. This is related to the fact that only approx. 45% of heating entities in Poland is part of the EU ETS system (capacity above 20 MW), i.e. is obliged to redeem the carbon dioxide emission allowances. The reference price also transfers only approx. 45% of the real CO_2 consumption costs at the average heat sales price.

Tariffs for the production of heat from gas in 2020 are set based on an increase in the reference price (13%), whereas in the first quarter of 2020 gas prices are already lower than in previous periods. Prices stand at PLN 82/MWh and are largely due to forward contracts.

Weather conditions also substantially affect the segment's results. Temperatures directly shape the level of heat demand. Simultaneously, the level of heat production determines the level of electricity production in co-generation, which is an additional source of revenues that decisively affects the CHP plant's profitability.

KEY FACTORS FOR THE RESULTS OF THE SEGMENT

Chart: Key changes of EBITDA in District Heating (in PLN million) – managerial perspective.



	EBITDA Q1 2019	Heat production - volume	Heat production - price	Electricity production - volume	Electricity production – price*	Revenues from certificates	Costs of fuel	Costs of CO_2	Personnel expenses	Other	EBITDA Q1 2020
Change		**-34**	**38**	**-7**	**5**	**-1**	**41**	**-127**	**3**	**31**	
EBITDA Q1 2019	**393**	703		742		5	684	146	137		
EBITDA Q1 2020		707		740		4	643	273	134		**342**

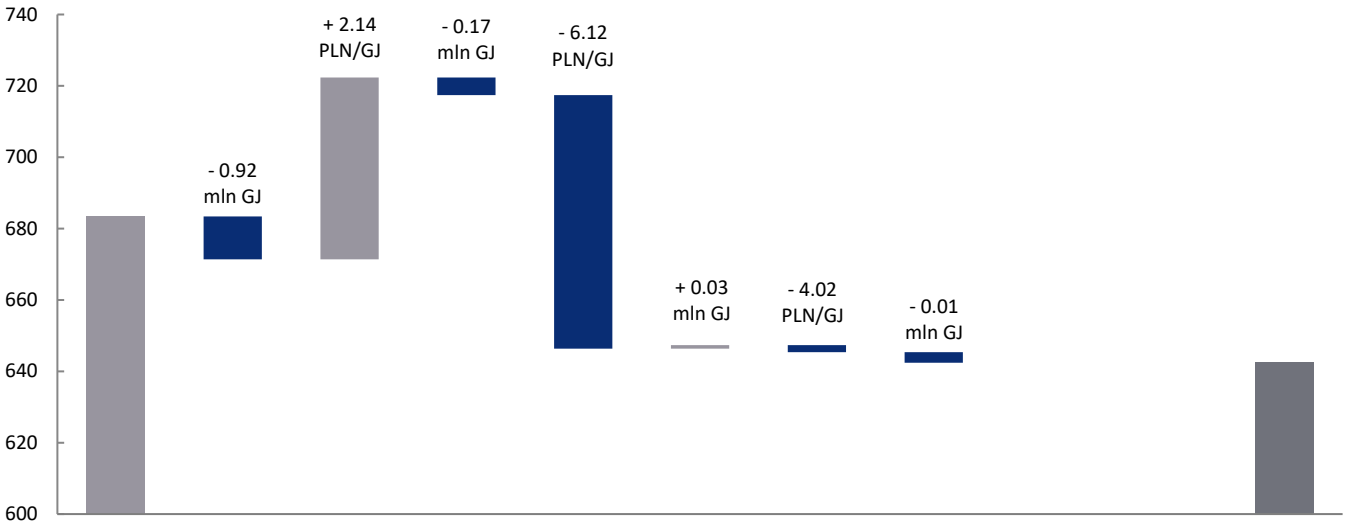
* Includes costs of certificates redemption regarding electricity sales to final off-takers.

Key factors affecting the EBITDA result of District Heating segment on y/y basis included:

- **Lower volume of heat production** in the first quarter of 2020 is a result of higher outside temperatures - as compared to 2019 the average temperatures were by 1.3 °C higher, what translated into lower production (by 0.9 PJ).
- **Increase of heat sale price** is a result of publication by the ERO of new reference prices for heat production in co-generation.
- **Lower volume of electricity production** in the segment by 0.03 TWh due to lower use of co-generation units in connection with lower demand for heat.
- **Increase in electricity sale prices** (see p. 2.2 of this report).
- **Lower fuel consumption costs** reflect lower natural gas prices in the wholesale market and lower heat and electricity production. For details, see the chart below.

- **Higher CO_2 costs** are mainly a result of higher price of allowances and lower allocation of allowances granted free of charge. The details are shown in the chart below.
- **Lower personnel expenses** result mainly from decreased employment y/y.

Chart: Consumption costs of production fuels in District Heating (in PLN million).

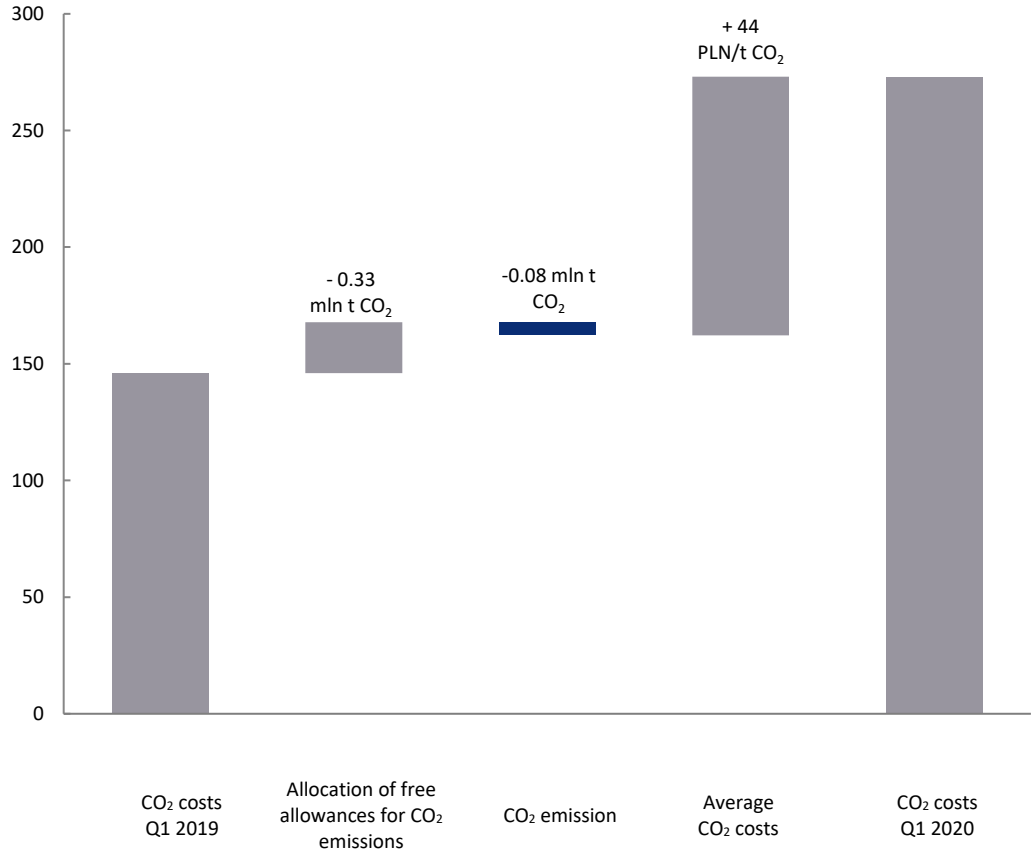


	Costs of fuel Q1 2019	Hard coal volume	Hard coal price	Gas volume	Gas price	Biomass volume	Biomass price	Light and heavy oil volume	Light and heavy oil price	Other raw materials	Costs of fuel Q1 2020
Change		**-12**	**51**	**-5**	**-71**	**1**	**-2**	**-3**	**0**	**0**	
Costs of fuel Q1 2019	**684**	319		341		12		7		5	
Costs of fuel Q1 2020		358		265		11		4		5	**643**

Table: Data on use of production fuels consumption in District Heating.

Fuel type	Q1 2020		Q1 2019	
	Volume (tons ths)	Cost (PLN million)	Volume (tons ths)	Cost (PLN million)
Hard coal	1 064	358	1 089	319
Gas (cubic metres ths)	376 422	265	380 787	341
Biomass	49	11	52	12
Fuel oil – light and heavy		9		12
TOTAL		**643**		**684**

Chart: CO_2 costs in District Heating segment (in PLN million).



Change		**22**	**-6**	**111**	
CO_2 costs Q1 2019	**146**				
CO_2 costs Q1 2020					**273**

CAPITAL EXPENDITURES

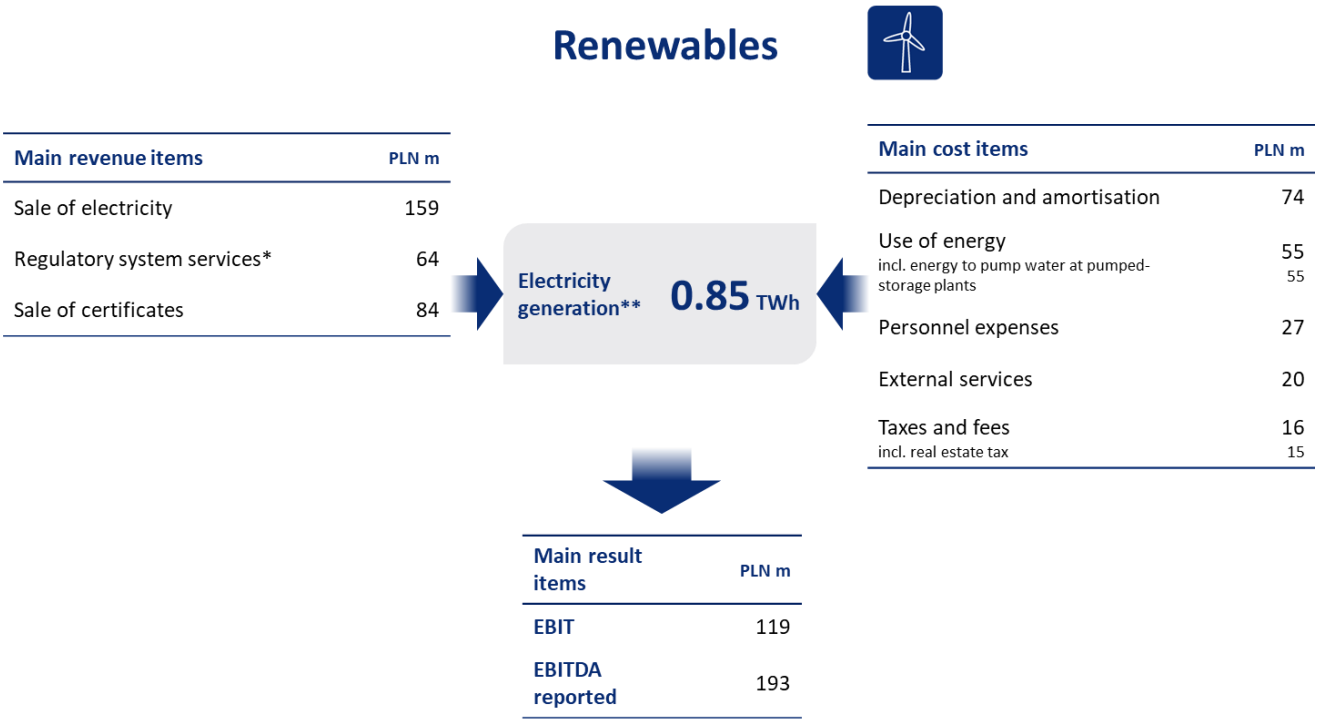
Table: Capital expenditures incurred in District Heating segment in the first quarter of 2020 and 2019.

PLN million	Q1 2020	Q1 2019	% change
Investments in generating capacities, including:	33	26	27%
▪ Development	16	3	433%
▪ Modernisation and replacement	17	23	-26%
Other	10	1	900%
TOTAL	**43**	**27**	**59%**

RENEWABLES

Segment description and its business model

This segment is involved in the generation of electricity from renewable sources and in pumped storage plants.



* Accounting perspective.
** Includes startup production from KLASTER wind farm.

The Renewables segment is based mainly on revenues from the sale of electricity, however contrary to production at industrial plants within the Conventional Generation segment, this revenue is subject to a larger degree to changes in weather conditions and prices on the spot market due to the renewables sales model in place. Electricity output volume translates into property rights (green) and revenue from the sale of energy origin certificates obtained by the segment's assets, excluding hydropower plants over 5 MWe.

A stable part of the segment's results is related to the provision of ancillary services using pumped-storage plants, which is performed on the basis of an agreement with the transmission system operator, PSE S.A

On the cost side, the most important items include: depreciation of segment assets, use of energy to pump water at pumped-storage plants and third-party services, mainly in the form of repair services. Property tax and employee wages also constitute a significant cost item in this segment.

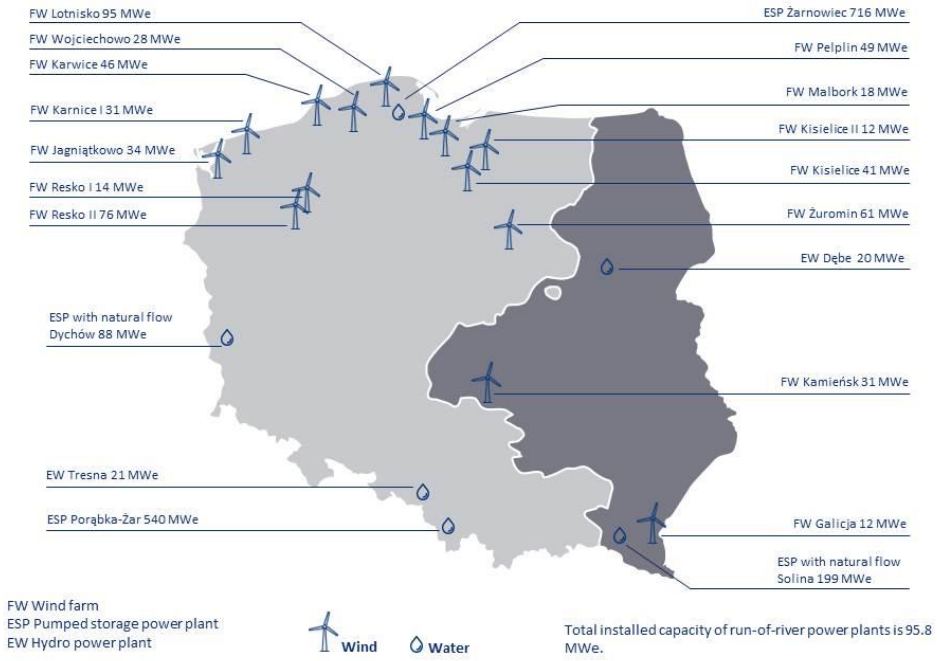
Assets

The PGE Capital Group's operations in renewable energy are managed by the PGE Energia Odnawialna S.A. Due to the profile of operations, the segment includes PGE Baltica, which is recognized for presentation purposes. This company is responsible for all activities related to off-shore wind farms.

Assets in the segment include:

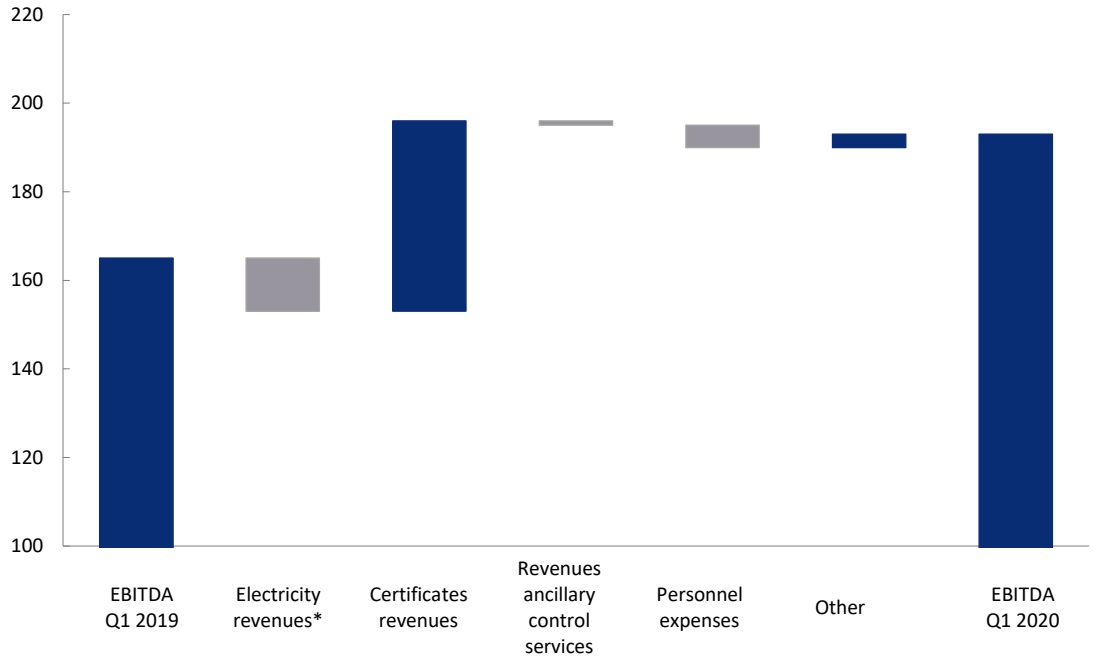
- 14 wind farms,
- 1 photovoltaic power plant,
- 29 run-of-river hydro power plants,
- 4 pumped-storage power plants, including 2 with natural flow.

Diagram: Main assets of the Renewables segment and their installed capacity.



KEY FACTORS FOR THE RESULTS OF THE SEGMENT

Chart: Key changes of EBITDA in Renewables (in PLN million) – managerial perspective.



Change		**-12**	**43**	**-1**	**-5**	**3**	
EBITDA Q1 2019	**165**	116	41	65	22		
EBITDA Q1 2020		104	84	64	27		**193**

* The sum of electricity revenues includes revenues from main generation technologies (wind, water, PV), including cost of electricity purchased for pumping.

Key factors affecting the y/y results of Renewables included:

- **Decrease in revenues from electricity sales** results from: lower average electricity sale price by PLN 36/MWh y/y, what translated into drop in revenues by approx. PLN 22 million; offset by higher sales volume by 47 GWh, what resulted in increase of revenues by approx. PLN 10 million.
- **Higher revenues from sales of certificates** mainly result from: higher average certificate sale price by PLN 75/MWh y/y, what translated into growth of revenues by approx. PLN 39 million; increased production volume by 50 GWh, what translated into growth of revenues by approx. PLN 4 million.
- **Lower sales revenues from ancillary control services** result mainly from lower volume of RIG (Intervention Reserve – Readiness) services.
- **Increase of personnel expenses** resulting from increased employment level due to switching to proprietary maintenance of wind farms; establishing of new company - PGE Baltica, which deals with the development of the offshore project.
- **Increase in other** results mainly from lower operating costs and income from compensation for damages on wind turbines.

CAPITAL EXPENDITURES

Table: Capital expenditures incurred in Renewables segment in the first quarter of 2020 and 2019.

PLN million	Q1 2020	Q1 2019	% change
Investments in generating capacities, including:	90	10	800%
▪ Development	86	3	2 767%
▪ Modernisation and replacement	4	7	-43%
Other	2	1	100%
TOTAL	**92**	**11**	**736%**

KEY DEVELOPMENTS IN Q1 2020 IN THE RENEWABLES SEGMENT

Operating Permits and concessions for electricity generation were obtained for implemented wind farm project Klaster, with a total installed capacity of 97 MW, for FW Karnice (February 27, 2020; April 3, 2020), FW Starza (April 3, 2020; May 18, 2020) and FW Rybice (April 20, 2020; May 18, 2020).

DISTRIBUTION

Segment description and its business model

Core business of the segment includes supply of electricity to final off-takers through the grid and HV, MV and LV infrastructure.

Distribution

Main revenue items	PLN m
Sale of distribution services	1 561
Connection fees	24

Volume of distributed energy	9.17 TWh
Customers	5.48 million

Main cost items	PLN m
Personnel expenses	332
Transmission services	320
Depreciation and amortisation, liquidation, write-offs including capitalised amortisation	313 1
Network loss*	196
Taxes and fees incl. real estate tax	127 109

Main result items	PLN m
EBIT	261
EBITDA	573

* Managerial perspective.

Segment revenue is based on a tariff for electricity distribution services, which is approved by the ERO President every year at company request and is regulated. The tariff allows costs related to the distribution system operator's on-going activities to be transferred. These are both justified operating costs, depreciation as well as costs related to the necessity to cover grid losses on electricity distribution or the purchase of transmission services from the TSO. At the same time, the tariff reflects the transferred costs in fees such as the RES fee, transition fee or - starting from 2019 – co-generation fee.

The key element shaping the Distribution segment's result is **return on company's invested capital**. This is based on the Regulatory Asset Base ("RAB"), which is established on the basis of completed investments and taking into account asset depreciation. The Regulatory Asset Base serves as the basis for calculating return on capital, using weighted average cost of capital, which is published by the ERO President in accordance with a set formula and using as the risk free rate the average yield on 10-year State Treasury bonds with the longest maturity during the 18-month period preceding the tariff application submission, quoted on Treasury BondSpot market. Moreover, the level of return on capital depends on achievement of individual quality targets set by the ERO President for efficiency indicators that cover: interruption time, interruption frequency, connection time and (not yet included) time to provide metering and settlement data.

VOLUME, CUSTOMERS AND OPERATING DATA

PGE Dystrybucja S.A. operates in the area of 129 829 sq. km and delivers electricity to approximately 5.48 million customers.

Diagram: Area of PGE distribution grid.

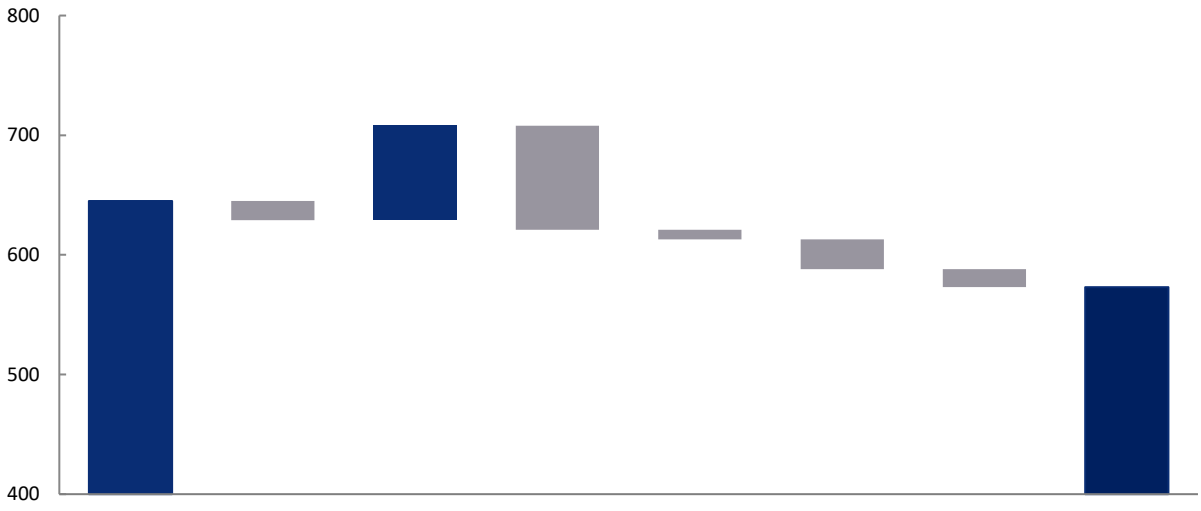
Table: Volume of distributed energy and number of customers in the first quarter of 2020 and 2019.

Tariff	Volume (TWh)*		Number of customers according to power take-off points	
	Q1 2020	Q1 2019	Q1 2020	Q1 2019
A tariff group	1.31	1.34	109	109
B tariff group	3.54	3.59	12 214	11 787
C+R tariff groups	1.79	1.88	483 296	480 703
G tariff group	2.53	2.49	4 983 190	4 923 558
TOTAL	**9.17**	**9.30**	**5 478 809**	**5 416 157**

* with additional estimation of sales.

KEY FACTORS FOR THE RESULTS OF THE SEGMENT

Chart: Key changes of EBITDA in Distribution (in PLN million) – managerial perspective.



Change		**-16**	**79**	**-87**	**-8**	**-25**	**-15**	
EBITDA Q1 2019	**645**	1 125		109	101	307		
EBITDA Q1 2020		1 188		196	109	332		**573**

* Excluding cost of transmission services from PSE S.A.
** Adjusted for revenues from the Balancing market.

Key factors affecting results of Distribution segment y/y included:

- **Decreased volume of distributed energy** by 0.1 TWh, resulting from lower general demand for electricity in the NPS.
- **Increase in rates in tariff for 2020** by PLN 9/MWh compared to the tariff for the corresponding period of the previous year, that translated into an increase in revenues from the sale of distribution services. Due to delays in the approval of the distribution tariff (it became effective as of April 6, 2019), revenues from distribution services in the first quarter of 2019 were calculated based on the rates set out in the tariff for 2018, whereas in the current period the rates in force take into account the cumulative increase from the approved tariffs for the previous and current year.
- **Higher costs of energy to cover network losses** mainly as a result of the low base of the previous year, when the "non-cash" impact of the electricity purchase estimate in connection with a significant change in the electricity purchase price was included.
- **Increase of costs of tax on real** estate in connection with an increase of grid assets value as a result of investments; tax rates on land and buildings.
- **Increase in personnel expenses** due to ongoing process to optimise salaries.
- **Change in other** resulting mainly from higher costs of external services related to maintenance and repairs of assets.

CAPITAL EXPENDITURES

Table: Capital expenditures incurred in Distribution segment in the first quarter of 2020 and 2019.

PLN million	Q1 2020	Q1 2019	% change
Development investments	202	141	43%
Modernisation and replacement	199	188	6%
Other	26	15	73%
TOTAL	**427**	**344**	**24%**

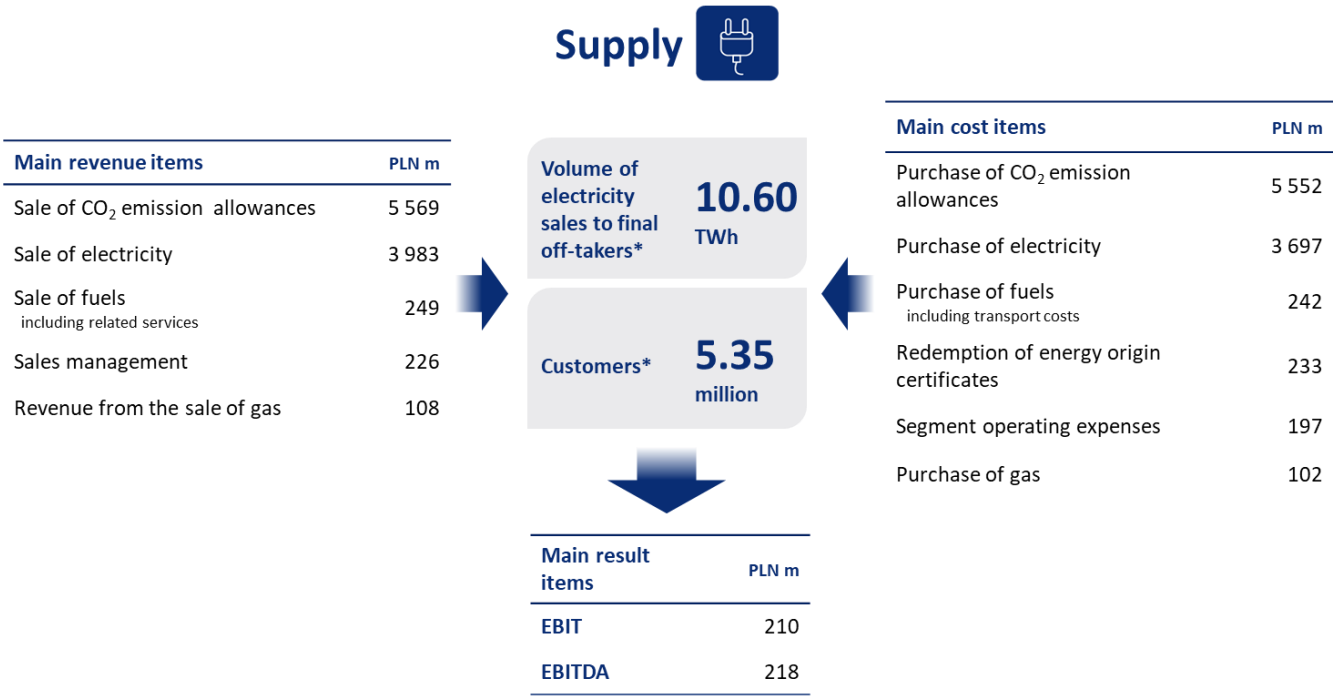
KEY DEVELOPMENTS IN Q1 2020 IN THE DISTRIBUTION SEGMENT

In the first quarter of 2020 the largest expenditures in amount of PLN 189 million were incurred for connection of new off-takers.

SUPPLY

Segment description and its business model

Supply segment activities include Group's wholesale and retail trading of electricity. Wholesale trading include mainly electricity trading on behalf of and for Conventional Generation segment, District Heating segment and Renewables segment.



* Data for PGE Obrót S.A.

As part of retail-market activities, the key source of segment's revenue is **sale of electricity** to final customers. This is sale to business and institutional clients, which constitutes more than 70% of the sales volume, and to retail clients. The segment's revenue also includes the sale of fuels, mainly: pulverised coal and fat coal, which is sold by PGE Paliwa sp. z o.o., and **sale of gas**.

Electricity sales are matched by the costs to purchase electricity on the wholesale market and costs to redeem certificates as part of the support system for renewable sources and energy efficiency.

The Supply segment also covers costs related to the Group's corporate centre.

VOLUME, CUSTOMERS AND OPERATING DATA

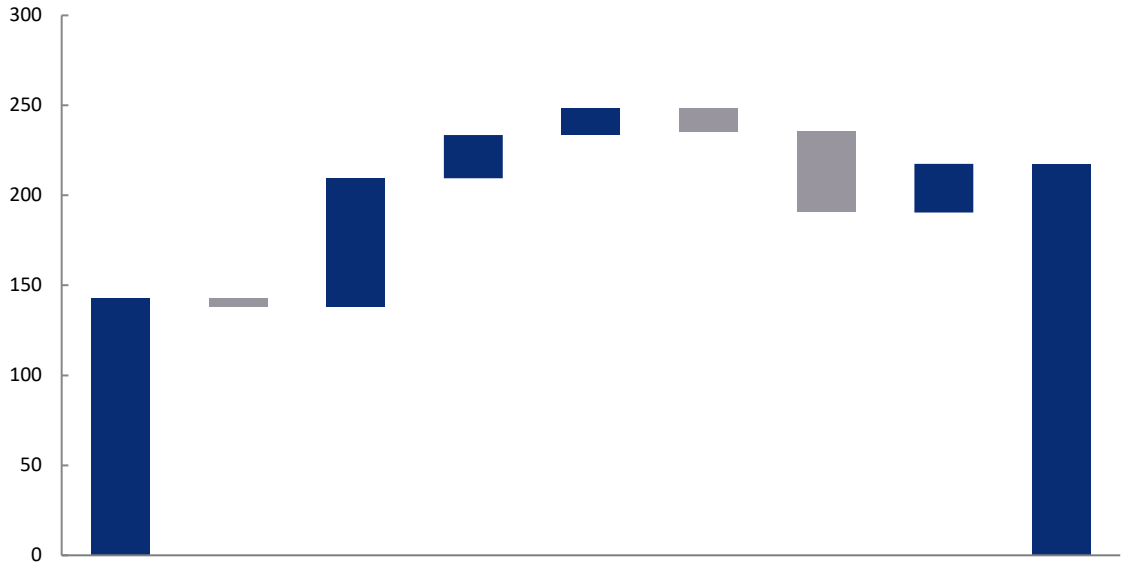
Table: Volume of electricity sales to final off-takers and number of customers in the first quarter of 2020 and 2019.

Tariff	Volume (TWh)*		Number of customers according to power take-off points*	
	Q1 2020	Q1 2019	Q1 2020	Q1 2019
A tariff group	2.38	2.47	154	168
B tariff group	3.81	3.91	12 617	12 594
C+R tariff groups	1.91	2.07	448 026	455 013
G tariff group	2.50	2.70	4 888 102	4 824 881
TOTAL	**10.60**	**11.15**	**5 348 899**	**5 292 656**

*PGE Obrót S.A.

KEY FACTORS FOR THE RESULTS OF THE SEGMENT

Chart: Key changes of EBITDA in Supply (in PLN million) – managerial perspective.



	EBITDA Q1 2019	Result on electricity - volume	Result on electricity - margin	Revenues from services provided to other segments of the PGE Group	Result on sale of fuels	Personnel expenses	Balance of provisions for onerous contracts	Other	EBITDA Q1 2020
Change		**-5**	**72**	**24**	**15**	**-13**	**-45**	**27**	
EBITDA Q1 2019	**143**	-35		211	-8	86	139		
EBITDA Q1 2020		32		235	7	99	94		**218**

Key factors affecting EBITDA of Supply segment y/y included:

- **Higher result from electricity,** resulting mainly from a higher unit margin on electricity sales driven by falling prices on the wholesale market, in particular on the spot market, at which the electricity demand resulting from sales to final off-takers was partially balanced and at which sales were transferred to high-margin product groups.
- **Increase of revenues from services performed within the Group** resulting mainly from increased revenues from the Agreement for Commercial Management of Generation Capacities ("ZHZW") as a consequence of higher sale and purchase prices of electricity under management and covering new assets under ZHZW agreement.
- **Higher result on fuel sales** mainly as a result of increased valuation of inventories y/y.
- **Increased personnel expenses** in connection with ongoing process to optimise salaries.
- **Negative impact of balance of provisions for onerous contracts** in retail sale companies resulting from different assumptions adopted to calculate the level of provisions in the analogical period of the previous year. At the end of the first quarter of 2019 the result on provisions was a consequence of legislative changes, introducing the obligation to maintain the prices for customers as of June 30, 2018. While, in the first quarter of 2020 the provision for onerous contracts relates mainly to failure to cover part of the justified operation cost in the household tariff approved by the ERO President.

3.4. Significant events of the reporting period and subsequent events

SIGNING OF THE AGREEMENT FOR THE CONSTRUCTION OF POWER UNITS IN DOLNA ODRA POWER PLANT

On January 30, 2020 PGE GiEK concluded an agreement with syndicate of companies: General Electric Global Services GmbH, Polimex Mostostal S.A. and General Electric International Inc.

Subject matter of the agreement is realisation by the contractor of turn-key construction of two gas-steam units with a gross capacity of 683 MWe each at PGE GiEK S.A. Branch Zespół Elektrowni Dolna Odra (unit 9 and unit 10). The units will be in CCGT technology.

In accordance with the provisions of the agreement, the commissioning of both units is to take place by December 11, 2023.

The value of the Agreement for construction of units, including autostart option, amounts to PLN 3 701 million net. In connection with the agreement, a LTSA (Long-Term Service Agreement) was also signed with regard to service of two gas turbines during 12-year period from the commissioning date of the units. The value of the LTSA amounts to PLN 1 030 million net. Total value of all concluded agreements amounts to PLN 4 731 million net (PLN 5 819 million gross).

Current report of PGE S.A.:

- Signing of the agreement for the construction of power units in Dolna Odra power plant >>

IMPACT OF COVID-19 PANDEMIC ON PGE GROUP'S OPERATIONS

PGE Group identifies, on an ongoing basis, the risk factors that will potentially affect the Group's performance in connection with the COVID-19 pandemic. The pandemic situation escalated in Poland in mid-March 2020, therefore its impact on PGE Group's financial performance as at March 31, 2020 is still limited. The effect of the pandemic may become apparent in subsequent periods.

The outbreak of the pandemic has led to expectations of economic slowdown in 2020 in the global economy and in Poland. These are reflected, among others, in the revision of market projections for GDP, industrial output and investments.

Due to the reduced level of economic activity, PGE Group identifies the risk of further reduction in domestic electricity consumption. PGE's estimates indicate that electricity consumption in April 2020 fell by about 10% year on year. This will affect the decrease in revenues and margins from energy generation, distribution and sales in the Distribution, Supply, Conventional Generation and District Heating segments. Gradual unfreezing of the economy should improve this situation, whereas a prolonged freeze on business activity over the next months will affect PGE Group's liquidity due to a projected increase of payment backlogs, especially as regards receivables from small and medium-sized enterprises. However, the nature and scale of possible effects are difficult to estimate at the time of publication of this report. What will be important is the duration of the epidemic, its potential severity and extent, as well as its impact on economic growth in Poland. Measures aimed at introducing mechanisms to mitigate the negative impact of the pandemic on the Polish economy will also be important

A decline in demand for electricity affects the utilisation of generation units. A part of the PGE Group's generation units is held in the so-called spinning reserve and secures potential shortages of supplies from renewable sources, imports or those that result from failures of other commercial power plants in Poland. The majority of production was contracted in previous periods, therefore in the short term the negative impact of lower production volumes in the Conventional Generation segment should be significantly limited. The negative effect may be related to potential reductions on the part of the TSO, resulting in lower production from lignite, which is characterized by a relatively stable cost structure. The PGE Group expects, however, an impact on contracting volumes and prices for subsequent periods, but at this stage this impact cannot be estimated.

PGE Group's plants are of strategic importance for maintaining undisturbed production and supply of electricity and heat in Poland. The COVID-19 pandemic has affected the change of work organisation, especially with respect to PGE Group's generation units. In many cases, this involves additional costs resulting from, for example, the purchase of protective materials for employees. Since the beginning of the pandemic, the Group has introduced work rules that aim to reduce, as much as possible, the health risk for employees. As one of the largest employers in Poland, with 42 thousand employees, PGE Group takes a number of measures to protect the health and life of its employees, including the implementation of teleworking, raising awareness of, in particular, the basic principles of protection against coronavirus, prevention, quarantine, as well as those related to the organisation of the Group and work to ensure business continuity. PGE has established a Crisis Team to collect information from all Group companies, monitor the situation in individual companies on an ongoing basis and take appropriate steps.

The production branches also have plans for operation with non-standard absenteeism that are developed and verified on an ongoing basis, and as plants of strategic importance from the point of view of maintaining undisturbed production and supply of electricity and heat, they are in constant contact with local authorities responsible for monitoring the situation in the country and in all locations of PGE Group entities.

Along with the outbreak of the pandemic, Customer Service Offices were closed, and all communication with PGE customers was routed through remote channels. The Group has also stopped sending collectors to customers' houses. As of May 18, 2020 along with further stage of unfreezing the Polish economy, PGE Group has been gradually returning to serving its customers in office, while observing special safety rules. From an operational point of view, owing to the introduction of appropriate countermeasures at the early stage of the pandemic, PGE Group has been continuously producing electricity and heat and ensuring their uninterrupted supply.

PGE Group has been monitoring the impact of the COVID-19 pandemic on its financial condition and is preparing for various scenarios. The pandemic has accelerated the introduction of measures to prepare the entire organisation to changes in order to tackle the decarbonisation challenges faced by energy companies. This will require considerable financial expenditure. All potential savings scenarios for both capital expenditures and operating costs were analysed in order to focus on the most important development projects related to the core business of PGE Group. The optimisation programme is described below.

INTRODUCTION OF THE OPTIMISATION PROGRAMME

At the end of April 2020, the Management Board of PGE announced its decision to terminate projects with unsatisfactory rate of return, in particular those that are not directly related to the core business of the Group, and all PGE Group companies were obliged to optimise and rationalise their operations.

Tasks, projects and programmes in the areas of R&D, ICT and investments worth more than PLN 1 billion in total, scheduled for 2020-2024, have been closed or limited. These include AI-based projects, some coal projects and low-margin cogeneration projects. The Sponsorship budgets have also been revised. Analyses of contracts have shown that due to the COVID-19 pandemic, the existing partners of the PGE Group are unable to provide services. Therefore, the Management Board of PGE decided to cut sponsorship expenses by approx. 50%.

CHANGES IN THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Management Board members

From January 1, 2020 till February 19, 2020 the Management Board of the tenth term of office had worked in following composition:

Name and surname of the Management Board	Position
Henryk Baranowski	President of the Management Board
Wojciech Kowalczyk	Vice-President for Capital Investments
Marek Pastuszko	Vice-President for Corporate Affairs
Paweł Śliwa	Vice-President for Innovations
Ryszard Wasiłek	Vice-President for Operations
Emil Wojtowicz	Vice-President for Finance

On February 19, 2020, in connection with the end of the 10th term of office, the Supervisory Board dismissed the above mentioned Management Board members and adopted resolutions which appointed the Management Board of the 11th term of office.

As at March 31, 2020 and as the publication date of this report, the Management Board worked in following composition:

Name and surname of the Management Board	Position	
Wojciech Dąbrowski	President of the Management Board	from February 20, 2020
Paweł Cioch	Vice-President for Corporate Affairs	from February 24, 2020
Paweł Strączyński	Vice-President for Finance	from February 24, 2020
Paweł Śliwa	Vice-President for Innovations	from February 20, 2020
Ryszard Wasiłek	Vice-President for Operations	from February 20, 2020

Supervisory Board members

As at March 31, 2020 and as the publication date of this report, the Supervisory Board worked in following composition:

Name and surname	Position
Anna Kowalik	Chairman of the Supervisory Board
Artur Składanek	Vice-Chairman of the Supervisory Board – independent
Grzegorz Kuczyński	Secretary of the Supervisory Board - independent
Janina Goss	Supervisory Board Member - independent
Tomasz Hapunowicz	Supervisory Board Member - independent
Mieczysław Sawaryn	Supervisory Board Member - independent
Jerzy Sawicki	Supervisory Board Member - independent
Radosław Winiarski	Supervisory Board Member

As at March 31, 2020 and as the publication date of this report the committees worked in following compositions:

Name and surname of the member of the Supervisory Board	Audit Committee	Corporate Governance Committee	Strategy and Development Committee	Appointment and Remuneration Committee
Janina Goss	Member			Member
Tomasz Hapunowicz		Member Chairman	Member	
Anna Kowalik	Member		Member	Member
Grzegorz Kuczyński	Member Chairman	Member		
Mieczysław Sawaryn			Member	Member Chairman
Jerzy Sawicki		Member	Member	Member
Artur Składanek	Member		Member Chairman	
Radosław Winiarski	Member		Member	

ACTIVITIES RELATED TO NUCLEAR ENERGY

Business partnership and prospects for the project implementation and financing capabilities

PGE EJ1 is PGE Group's entity, which was established in 2010. In 2014, a shareholder agreement was signed, pursuant to which Enea S.A., KGHM Polska Miedź S.A. and TAURON Polska Energia S.A. each purchased from PGE a 10% stake in PGE EJ1 (30% in total).

Decisions with regard to the continuation of the Programme will be made based on decisions by the government administration concerning a role of nuclear energy in Polish fuel mix, mode for the procurement of nuclear power plant technology, investment financing model and an updated Programme for Poland's Nuclear Power.

Site characterisation and environmental surveys

Current scope of Program conducted by PGE EJ 1 assumes location and environmental surveys at two potential Lubiatowo-Kopalino, Żarnowiec and preparing an Environmental Impact Assessment Report and Site Report.

Selecting an appropriate location is one of the key aspects in ensuring nuclear safety and the efficient and reliable operation of a nuclear power plant. The results of these works are necessary in order to develop solutions that ensure the power plant's safe operation and minimise its impact on the natural environment and the everyday life of local residents.

Social acceptance

With a view toward ensuring social acceptance for the project to build the first Polish nuclear power plant, PGE Group is conducting activities aiming to maintain a high level of community support at the planned nuclear plant sites and to deliver knowledge about nuclear power. In the first quarter of 2020, works were continued within the Site Municipality Development Support Programme intended to reinforce partner relations with the local communities and authorities of the municipalities by providing support to initiatives that are of significance to the residents and development of the region.

Compensations from WorleyParsons

WorleyParsons initiated a lawsuit for payment of PLN 59 million for due remuneration, according to the claimant, and return of an amount unduly collected, according to the claimant, by PGE EJ1 from a bank guarantee, and subsequently expanded its claim to PLN 104 million (i.e. by PLN 45 million). On March 31, 2018, the company filed a response to WorleyParsons' expanded claim. PGE Group does not accept the claim and regards its possible admission by the court as unlikely.

LEGAL ASPECTS

The issue of compensation regarding the conversion of shares

Information on the issue of compensation regarding the conversion of shares are described in note 21.4 to the consolidated financial statements.

INFORMATION CONCERNING PROCEEDINGS IN FRONT OF COURT, BODY APPROPRIATE FOR ARBITRATION PROCEEDINGS OR IN FRONT OF PUBLIC ADMINISTRATION AUTHORITIES

Significant proceedings pending in front of courts, competent arbitration authority or public administration authority are described in note 21.4 to the consolidated financial statements.

Termination by Enea S.A. of agreements for sale of certificates

Information on termination by Enea S.A. of agreements for sale of certificates are described in note 21.4 to the consolidated financial statements.

INFORMATION CONCERNING THE GUARANTEES FOR LOANS GRANTED BY THE COMPANY OR A SUBSIDIARY

Within the Group, as at March 31, 2020 PGE S.A. and subsidiaries did not grant guarantees to other entities or to a subsidiary, where a value of guarantees constitutes at least 10% of the Company's equity.

INFORMATION ON ISSUE, REDEMPTION AND REPAYMENT OF DEBT SECURITIES AND OTHER SECURITIES

Information on issue, redemption and repayment of debt securities and other securities is described in p. 4.1 of the foregoing report and in note 1.3 to the consolidated financial statements.

TRANSACTIONS WITH RELATED ENTITIES

Information about transactions with related entities is presented in note 23.2 to the consolidated financial statements.

4. Other elements of the report

4.1. Significant changes in organisation of the Capital Group

Changes which occurred in the PGE Capital Group's structure in the period from January 1, 2020 until the publication date of this report, are presented in note 1.3 to consolidated financial statements and described below.

INCREASE OF SHARE CAPITAL OF SUBSIDIARIES

Segment	Entity	Date of registration in the National Court Register	Comment
Supply	PGE Centrum sp. z o.o.	February 26, 2020	On January 9, 2020 the Extraordinary Assembly of Partners of the company adopted resolution on a share capital increase from PLN 39 120 000 to PLN 47 920 000, i.e. by PLN 8 800 000. The share capital increase was taken up and paid by PGE S.A. in cash. PGE S.A. holds 100% in the share capital.
Other operations	PGE Ventures sp. z o.o.	February 27, 2020	On January 22, 2020 the Extraordinary Assembly of Partners of the company adopted resolution on a share capital increase from PLN 67 900 000 to PLN 77 000 000, i.e. by PLN 9 100 000. The share capital increase was taken up and paid by PGE S.A. in cash. PGE S.A. holds 100% in the share capital.

DE-MERGERS

Segment	Spun off company /acquiring company	Date of transaction/ registration in the National Court Register	Comment
District Heating	PGE Energia Ciepła S.A. / PGE GiEK S.A.	October 10, 2019/ January 2, 2020	On October 10, 2019 the Extraordinary General Meetings of PGE EC and PGE GiEK adopted resolutions on the division of PGE EC (divided company) through a carve out, pursuant to art. 529 § 1 point 4 of the Polish Commercial Companies Code, by way of transfer to PGE GiEK (acquiring company) of part of assets of the divided company in the form of an organised part of the enterprise covering the activities carried out by PGE EC Branch in Rybniku ("Rybnik Branch") related to production of electricity and heat, as well as distribution of electricity and heat. The transfer of the Rybnik Branch to PGE GiEK was carried out by lowering PGE EC's reserve capital and increase of the share capital of PGE GiEK from PLN 6 530 018 520 to PLN 6 583 137 600 i.e. by PLN 53 119 080 PLN as a result of issue of 5 311 908 inscribed shares of the acquiring company with nominal value of PLN 10 each. As the sole shareholder of PGE EC, PGE S.A. acquired all new shares in the increased share capital of the acquiring company.

4.2. Publication of financial forecasts

PGE S.A. did not publish financial forecasts.

4.3. Information about shares and other securities

SHAREHOLDERS WITH A SIGNIFICANT STAKE

According to the best knowledge, on the ground of the letter from the Ministry of the State Treasury of April 27, 2016, the State Treasury holds 1 072 984 098 ordinary shares of the Company, representing 57.39% of the Company's share capital and entitling to 1 072 984 098 votes on the General Meeting of the Company, constituting 57.39% of total votes.

Table: Shareholders holding directly or indirectly by subsidiaries at least 5% of the total votes at the General Meeting of PGE S.A.

Shareholder	Number of shares	Number of votes	% in total votes on General Meeting
State Treasury	1 072 984 098	1 072 984 098	57.39%
Others	796 776 731	796 776 731	42.61%
Total	**1 869 760 829**	**1 869 760 829**	**100.00%**

Shares of the parent company owned by the members of management and supervisory authorities

Table: Shares of PGE S.A. held and manager directly by the managers of the Company.

Shareholder	Position	Number of shares at March 31, 2020	Nominal value of shares at March 31, 2020
			(PLN)
Management Board of PGE S.A.		**300**	**3 075**
Paweł Strączyński	Vice-President of the Management Board	300	3 075

5. Statement on the reliable preparation of the financial statements

To the best knowledge of the Management Board of PGE S.A., the quarterly consolidated financial statements and comparative data, were prepared in accordance with the governing accounting principles, presents a fair, true and reliable view of the material and financial situation of PGE Capital Group and its financial result.

The report of the Management Board on the activities of PGE Capital Group presents a true view of the development, achievements and situation of the Capital Group.

6. Approval of the Management Board's Report

The foregoing Management Board's Report on activities of PGE Capital Group was approved for publication by the Management Board of the parent company on May 26, 2020.

Warsaw, May 26, 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 Wasiłek**	

Glossary

AKPiA	Control, measurement and automation apparatus area
Ancillary control services (ACS)	services provided to the transmission system operator, which are indispensable for the proper functioning of the National Power System and ensure the keeping of required reliability and quality standards.
Achievable capacity	the maximum sustained capacity of a generating unit or generator, maintained continuously by a thermal generator for at least 15 hours or by a hydroelectric generator for at least five hours, at standardized operating conditions, as confirmed by tests.
ARA	USD hard coal price index in EU. Loco in harbours Amsterdam-Rotterdam-Antwerp
Balancing market	a technical platform for balancing electricity supply and demand on the market. The differences between the planned (announced supply schedules) and the actually delivered/off-taken volumes of electricity are settled here. The purpose of the balancing market is to balance transactions concluded between individual market participants and actual electricity demand. The participants of the balancing market can be the generators, customers for electricity understood as entities connected to a network located in the balancing market area (including off-takers and network customers), trading companies, electricity exchanges and the TSO as the balancing company.
Base, baseload	standard product on the electricity market: a constant hourly power supply per day in a given period, for example week, month, quarter or year.
BAT	Best Available Technology
Best Practices	Document „Best Practice for GPW Listed Companies 2016" adopted by the resolution of the GPW Supervisory Board of October 13, 2015 and effective from January 1, 2016.
Biomass	solid or liquid substances of plant or animal origin, subject to biodegradation, obtained from agricultural or forestry products, waste and remains or industries processing their products as well as certain other biodegradable waste in particular agricultural raw materials.
Black energy	popular name for energy generated as a result of combustion of black coal or lignite.
CCGT	Combined Cycle Gas Turbine
Circular economy	system that minimises the consumption of resources and the level of waste as well as emissions and energy losses by creating a closed loop of processes in which waste from one process is used as resources in other processes so as to maximally reduce the quantity of production waste
Co-combustion	the generation of electricity or heat based on a process of combined, simultaneous combustion in one device of biomass or biogas together with other fuels; part of the energy thus generated can be deemed to be energy generated with the use of renewable sources.
Co-generation	the simultaneous generation of heat and electricity or mechanical energy in the course of one and the same technological process.
Constrained generation	the generation of electricity to ensure the quality and reliability of the national power system; this applies to generating units in which generation must continue due to the technical limitations of the operation of the power system and the necessity of ensuring its adequate reliability.
CVC fund	Corporate Venture Capital; in the CVC model, portfolio companies, aside from financial support, receive the opportunity to verify their ideas in a corporate setting
Distribution	transport of energy through distribution grid of high (110 kV), medium (15kV) and low (400V) voltage in order to supply the customers.
Distribution System Operator (DSO)	a power company engaging in the distribution of gaseous fuels or electricity, responsible for traffic in the gas or electricity distribution systems, current and long-term security of operation of the system, the operation, maintenance, repairs and indispensable expansion of the distribution network, including connections to other gas or power systems.
Energy cluster	civil-law arrangement that may include natural persons, legal entities, scientific units, research institutes or local government units, concerning the generation, distribution or trade in energy and energy demand balancing, with this energy being from renewable sources or other sources or fuels, within a distribution grid with nominal voltage below 110 kV, within the operational area of the given cluster, not exceeding the area of one district (powiat) in the meaning of the act on district authorities) or 5 municipalities (gmina) in the meaning of the act on municipal authorities; an energy cluster is represented by a coordinator, which is a cooperative, association, foundation appointed for this purpose or any member of the energy cluster indicated in the civil-law arrangement
ERO	Energy Regulatory Office (pol. URE).
EUA	European Union Allowances: transferable CO_2 emission allowances; one EUA allows an operator to release one tonne of CO_2.

EU ETS	European Union Greenhouse Gas Emission Trading Scheme) EU emission trading scheme. Its operating rules are set out in the ETS Directive, amended by the Directive 2009/29/EC of the European Parliament and of the Council of April 23, 2009 (OJ EU L. of 2009, No. 140, p. 63—87).
EV	Electric vehicle
FIT/FIP	Feed-in-Tariff (FIT) and Feed-in-Premium (FIP): system of subsidies to the market price of electricity performed by Zarządca Rozliczeń S.A.
Generating unit	a technically and commercially defined set of equipment belonging to a power company and used to generate electricity or heat and to transmit power.
GJ	Gigajoule, a unit of work/heat in the SI system, 1 GJ = 1000/3.6 kWh = approximately 278 kWh.
GPZ	main power supply point, a type of transformer station used for the processing or distribution of electricity or solely for the distribution of electricity.
Green certificate	popular name for energy generated from renewable energy sources.
GW	gigawatt, a unit of capacity in the SI system, 1 GW = 10^9 W.
GWe	one gigawatt of electric capacity.
GWt	one gigawatt of heat capacity.
HICP	Harmonised Index of Consumer Prices
High Voltage Network (HV)	a network with a nominal voltage of 110 kV.
IED	Industrial Emissions Directive
IGCC	Integrated Gasification Combined Cycle.
Installed capacity	the formal value of active power recorded in the design documentation of a generating system as being the maximum achievable capacity of that system, confirmed by the acceptance protocols of that system (a historical value, it does not change over time.
IRiESP	the Transmission Network Operation and Maintenance Manual required to be prepared by a transmission system operator pursuant to the Energy Law; instructions prepared for power networks that specify in detail the terms and conditions of using these networks by system users as well as terms and conditions for traffic handling, operation and planning the development of these networks; sections on transmission system balancing and system limitation management, including information on comments received from system users and their consideration, are submitted to the ERO President for approval by way of a decision.
IRZ	Cold Intervention Reserve Service – service consisting of maintaining power units ready for energy production. Energy is produced on request of PSE S.A.
KRI	Key Risk Indicator
KSE	the National Power System, a set of equipment for the distribution, transmission and generation of electricity, forming a system to allow the supply of electricity in the territory of Poland.
KSP	the National Transmission System, a set of equipment for the transmission of electricity in the territory of Poland.
kV	kilo volt, an SI unit of electric potential difference, current and electromotive force; 1kV= 103 V.
kWh	kilowatt-hour, a unit of electric energy in the SI system defined as the volume of electricity used by the 1 kW equipment over one hour. 1 kWh = 3,600,000 J = 3.6 MJ.
Low Voltage Network (LV)	a network with a nominal voltage not exceeding 1 kV.
LTC	long-term contracts on the purchase of capacity and electricity entered into between Polskie Sieci Elektroenergetyczne S.A. and electricity generators in the years 1994-2001.
Medium-voltage network (MV)	an energy network with a nominal voltage higher than 1 kV but lower than 110 kV.
MEV	Minimum Energy Volumes.
MSR	Market Stability Reserve (relating to CO_2)
MW	a unit of capacity in the SI system, 1 MW = 10^6 W.
Mwe	one megawatt of electric power.
MWt	one megawatt of heat power.
NAP	National emissions Allocation Plan, prepared separately for the national emission trading system and for the EU emission trading system by the National Administrator of the Emission Trading System.

NAP II	National CO_2 emissions Allocation Plan for the years 2008-2012 prepared for the EU emission trading system adopted by the Ordinance of the Council of Ministers of July 1, 2008 (Dz. U. of 2008, No. 202, item 1248).
Nm^3	normal cubic meter; a unit of volume from outside the SI system signifying the quantity of dry gas in 1 m3 of space at a pressure of 101.325 Pa and a temperature of 0°C.
NO_x	nitrogen oxides.
N:W ratio	Ration of volume of overburden removed in m^3 to the mass of extracted coal in tons
OTF	Organised Trading Facilities
Operational Capacity Reserve (ORM)	ORM constitutes of generation capacities of active Production Schedular Units (JGWa) in operation or layover, representing excess capacity over electricity demand available to the TSO under the Energy Sale Agreements and on the Balancing Market in unforced generation
Peak, peakload	a standard product on the electricity market; a constant power supply from Monday to Friday, each hour between 7:00 a.m. and 10:00 p.m. (15-hour standard for the Polish market) or between 8:00 a.m. and 8:00 p.m. (12-hour standard for the German market) in a given period, for example week, month, quarter or year.
Peak power pumped storage plants	special type of hydro-power plant allowing for electricity storage. It uses the upper reservoir, to which water is pumped from the lower reservoir using electricity (usually excessive in system). The pumped storage facilities provide ancillary control services for the national power system. In periods of increased demand for electricity, water from the upper reservoir is released through the turbine. This way, electricity is produced.
PJ	Petajoule, a unit of work/heat in the SI system, 1 PJ = approx. 278 GWh
Property rights	negotiable exchange-traded rights under green and co-generation certificates
Prosumer	end customer who purchases electricity under a comprehensive agreement and generates electricity only from renewable sources at a micro-installations for own purposes, unrelated to economic activities
PSCMI1	Polish Steam Coal Market Index 1 - average level of prices of coal dust sold to industrial-scale power plants in Poland
RAB	Regulatory Asset Base.
Red certificate	a certificate confirming generation of electricity in co-generation with heat.
Red energy	popular name for electricity co-generated with heat.
Regulator	the President of ERO, fulfilling the tasks assigned to him in the energy law. The regulator is responsible for, among others, giving out licenses for energy companies, approval of energy tariffs, appointing Transmission System Operators and Distribution System Operators.
Renewable Energy Source (RES)	a source of generation using wind power, solar radiation, geothermal energy, waves, sea currents and tides, flow of rivers and energy obtained from biomass, landfill biogas as well as biogas generated in sewage collection or treatment processes or the disintegration of stored plant or animal remains.
SAIDI	System Average Interruption Duration Index - index of average system interruption time (long, very long and disastrous), expressed in minutes per customer per year, which is the sum of the interruption duration multiplied by the number of consumers exposed to the effects of this interruption during the year, divided by the total number of off-takers. SAIDI does not include interruptions lasting less than three minutes and is determined separately for planned and unplanned interruptions. It applies to breakdowns in the low (LV), medium (MV) and high voltage (HV), wherein SAIDI in quality tariff does not include interruptions on low voltage.
SAIFI	System Average Interruption Frequency Index - index of average system amount of interruptions (long, very long and disastrous), determined as number of off-takers exposed to the effects of all such interruptions during the year divided by the total number of off-takers. SAIFI does not include interruptions lasting less than three minutes and is determined separately for planned and unplanned interruptions. It applies to breakdowns in the low (LV), medium (MV) and high voltage (HV), wherein SAIFI in quality tariff does not include interruptions on low voltage .
SCR	Selective catalytic reduction
SNCR	Selective non-catalytic reduction
Start-up	early-stage company established in order to build new products or services and characterised by a high level of uncertainty. The most common features of start-ups are: short operational history (up to 10 years), innovativeness, scalability, higher risk than in the case of traditional businesses but also potential higher returns on investment
Tariff	the list of prices and rates and terms of application of the same, devised by an energy enterprise and introduced as binding on the customers specified therein in the manner defined by an act of parliament.
Tariff group	a group of customers off-taking electricity or heat or using services related to electricity or heat supply to whom a single set of prices or charges and terms are applied.

TGE	Towarowa Giełda Energii S.A. (Polish Power Exchange), a commodity exchange on which trading can take place in electricity, liquid or gas fuels, extraction gas, emission allowances and property rights whose price depends directly or indirectly on electric energy, liquid or gas fuels and emission allowances, admitted to commodity exchange trading.
TPA, TPA rule	Third Party Access, the owner or operator of the network infrastructure to third parties in order to supply goods/services to third party customers.
Transmission	transport of electricity through high voltage (220 and 400 kV) transmission network from generators to distributors.
Transmission System Operator (TSO)	a power company engaging in the transmission of gaseous fuels or electric energy, responsible for traffic in a gas or power transmission system, current and long-term security of operation of that system, the operation, maintenance, repair and indispensable expansion of the transmission system, including connections with other gas or power systems. In Poland, for the period from July 2, 2014 till December 31, 2030 Polskie Sieci Elektroenergetyczne S.A. was chosen as a TSO in the field of electricity transmission.
TWh	terawatt hour, a multiple unit for measuring of electricity unit in the system SI. 1 TWh is 10^9 kWh.
Ultra-high-voltage network (UHV)	an energy network with a voltage equal to 220 kV or higher.
V (volt)	electrical potential unit, electric voltage and electromotive force in the International System of Units (SI), 1 V= 1J/1C = (1 kg x m^2) / (A x s^3).
W (watt)	a unit of power in the International Systems of Units (SI), 1 W = 1J/1s = 1 kg x m^2 x s^{-3}.
Yellow certificate	a certificate confirming generation of energy in gas-fired power plants and CCGT power plants.
Yellow energy	popular name for energy generated in gas-fired power plants and CCGT power plants.