PGE Polska Grupa Energetyczna S.A.
Quarterly financial report
for the 3- and 9-month periods

ended September 30, 2020
in accordance with IFRS EU (in PLN million)

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	3 months ended September 30, 2020 *(unaudited)*	9 months ended September 30, 2020 *(unaudited)*	3 months ended September 30, 2019 *(unaudited) restated data**	9 months ended September 30, 2019 *(unaudited) restated data**
STATEMENT OF PROFIT OR LOSS					
SALES REVENUES	7.1	**10,320**	**33,096**	**9,343**	**27,579**
Cost of goods sold	7.2	(9,269)	(30,162)	(8,308)	(24,156)
GROSS PROFIT ON SALES		**1,051**	**2,934**	**1,035**	**3,423**
Distribution and selling expenses	7.2	(334)	(1,072)	(383)	(965)
General and administrative expenses	7.2	(329)	(864)	(253)	(761)
Net other operating income/expenses	7.3	81	(258)	222	1,370
OPERATING PROFIT		**469**	**740**	**621**	**3,067**
Net finance costs, including:	7.4	(135)	(405)	(109)	(337)
Interest income calculated using the effective interest rate method		*7*	*24*	*10*	*28*
Share of profit/(loss) of equity-accounted entities	7.5	2	(543)	12	34
GROSS PROFIT/(LOSS)		**336**	**(208)**	**524**	**2,764**
Income tax	9	(76)	(169)	(97)	(572)
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD		**260**	**(377)**	**427**	**2,192**
OTHER COMPREHENSIVE INCOME					
Items that may be reclassified to profit or loss in the future:					
Valuation of debt financial instruments	18.2	(4)	(7)	(4)	(1)
Valuation of hedging instruments	18.2	165	110	80	(66)
Foreign exchange differences from translation of foreign entities		1	5	3	2
Deferred tax	9	(31)	(20)	(14)	13
Items that may not be reclassified to profit or loss in the future:					
Actuarial gains and losses from valuation of provisions for employee benefits		(1)	(208)	(1)	(143)
Deferred tax	9	1	40	-	27
Share of profit/(loss) of equity-accounted entities		-	(3)	-	(1)
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**131**	**(83)**	**64**	**(169)**
TOTAL COMPREHENSIVE INCOME		**391**	**(460)**	**491**	**2,023**
NET PROFIT/(LOSS) ATTRIBUTABLE TO:					
– equity holders of the parent company		273	(415)	471	2,173
– non-controlling interests		(13)	38	(44)	19
COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
– equity holders of the parent company		404	(498)	535	2,004
– non-controlling interests		(13)	38	(44)	19
EARNINGS AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (IN PLN)		**0.15**	**(0.22)**	**0.25**	**1.16**

* restatement of comparative data is described in note 4.

for the 3- and 9-month periods ended September 30, 2020, in accordance with IFRS EU (in PLN million)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at September 30, 2020 (unaudited)	As at December 31, 2019 audited
NON-CURRENT ASSETS			
Property, plant and equipment		60,973	59,690
Investment property		42	47
Intangible assets		739	735
Right-of-use assets		1,344	1,303
Financial receivables	16.1	191	180
Derivatives and other assets measured at fair value through profit or loss	17	92	93
Shares and other equity instruments		57	58
Shares accounted for using the equity method	12	161	715
Other non-current assets		685	676
CO_2 emission allowances for captive use	15	32	240
Deferred income tax assets	13.2	1,188	1,318
		65,504	**65,055**
CURRENT ASSETS			
Inventories	14	2,881	4,509
CO_2 emission allowances for captive use	15	207	965
Income tax receivables		13	59
Derivatives and other assets measured at fair value through profit or loss	17	309	327
Trade and other financial receivables	16.1	4,267	4,815
Other current assets		643	605
Cash and cash equivalents	16.2	3,341	1,313
		11,661	**12,593**
ASSETS CLASSIFIED AS HELD FOR SALE		**1**	**2**
TOTAL ASSETS		**77,166**	**77,650**
EQUITY			
Share capital	18.1	19,165	19,165
Reserve capital		18,410	19,669
Hedging reserve	18.2	(240)	(323)
Foreign exchange differences from translation		4	(1)
Retained earnings		4,445	3,779
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**41,784**	**42,289**
Equity attributable to non-controlling interests		877	848
TOTAL EQUITY		**42,661**	**43,137**
NON-CURRENT LIABILITIES			
Non-current provisions	19	11,386	9,652
Loans, borrowings, bonds and lease	20.1	10,036	10,859
Derivative instruments	17	423	107
Deferred income tax liabilities	13.2	276	920
Deferred income and government grants		600	616
Other financial liabilities	20.2	438	475
Other non-financial liabilities	21.1	59	58
		23,218	**22,687**
CURRENT LIABILITIES			
Current provisions	19	5,382	4,366
Credit facilities, loans, bonds and leases	20.1	1,313	1,449
Derivative instruments	17	76	372
Trade and other financial liabilities	20.2	2,049	3,636
Income tax liabilities		434	58
Deferred income and government grants		77	80
Other non-financial liabilities	21.2	1,956	1,865
		11,287	**11,826**
TOTAL LIABILITIES		**34,505**	**34,513**
TOTAL EQUITY AND LIABILITIES		**77,166**	**77,650**

for the 3- and 9-month periods ended September 30, 2020, in accordance with IFRS EU (in PLN million)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserve capital	Hedging reserve	Foreign exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total equity
Note	*18.1*		*18.2*					
JANUARY 1, 2020	**19,165**	**19,669**	**(323)**	**(1)**	**3,779**	**42,289**	**848**	**43,137**
Net profit/(loss) for the reporting period	-	-	-	-	(415)	(415)	38	(377)
Other comprehensive income	-	-	83	5	(171)	(83)	-	(83)
COMPREHENSIVE INCOME	**-**	**-**	**83**	**5**	**(586)**	**(498)**	**38**	**(460)**
Coverage of accumulated losses	-	(1,259)	-	-	1,259	-	-	-
Dividend	-	-	-	-	-	-	(3)	(3)
Settlement of purchase of additional shares in subsidiaries	-	-	-	-	(6)	(6)	(5)	(11)
Other changes	-	-	-	-	(1)	(1)	(1)	(2)
TRANSACTIONS WITH OWNERS	**-**	**(1,259)**	**-**	**-**	**1,252**	**(7)**	**(9)**	**(16)**
SEPTEMBER 30, 2020	**19,165**	**18,410**	**(240)**	**4**	**4,445**	**41,784**	**877**	**42,661**

	Share capital	Reserve capital	Hedging reserve	Foreign exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total equity
Note	*18.1*		*18.2*					
JANUARY 1, 2019	**19,165**	**19,872**	**(52)**	**(1)**	**7,743**	**46,727**	**1,074**	**47,801**
Net profit for the reporting period	-	-	-	-	2,173	2,173	19	2,192
Other comprehensive income	-	-	(54)	2	(117)	(169)	-	(169)
COMPREHENSIVE INCOME	**-**	**-**	**(54)**	**2**	**2,056**	**2,004**	**19**	**2,023**
Coverage of accumulated losses	-	(203)	-	-	203	-	-	-
Dividend	-	-	-	-	-	-	(4)	(4)
Settlement of purchase of additional shares in subsidiaries	-	-	-	-	(21)	(21)	(254)	(275)
Acquisition of a new subsidiary	-	-	-	-	-	-	8	8
Other changes	-	-	-	-	1	1	(1)	-
TRANSACTIONS WITH OWNERS	**-**	**(203)**	**-**	**-**	**183**	**(20)**	**(251)**	**(271)**
SEPTEMBER 30, 2019	**19,165**	**19,669**	**(106)**	**1**	**9,982**	**48,711**	**842**	**49,553**

for the 3- and 9-month periods ended September 30, 2020, in accordance with IFRS EU (in PLN million)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Period ended September 30, 2020 *(unaudited)*	Period ended September 30, 2019 *(unaudited)*
CASH FLOWS FROM OPERATING ACTIVITIES			
Gross profit/(loss)		**(208)**	**2,764**
Income tax paid		(267)	(424)
Adjustments for:			
Share in (profit)/loss of equity-accounted entities		543	(34)
Depreciation, amortisation, disposal and impairment losses		3,611	3,005
Interest and dividend, net		216	167
(Gain)/loss from investing activities		154	(159)
Change in receivables		(692)	(727)
Change in inventories		1,631	(1,780)
Change in liabilities, excluding credit facilities and loans		769	557
Change in other non-financial assets, prepayments and CO_2 emission allowances		883	(5)
Change in provisions		1,531	1,362
Other		4	39
NET CASH FROM OPERATING ACTIVITIES		**8,175**	**4,765**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets		(4,582)	(4,833)
Recognition of deposits with maturity over 3 months		(309)	(256)
Termination of deposits with maturity over 3 months		296	243
Purchase of financial assets		(9)	(31)
Sale of other financial assets		17	-
Inclusion of companies in consolidation		(121)	-
Other		26	26
NET CASH FROM INVESTING ACTIVITIES		**(4,682)**	**(4,851)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from credit facilities, loans		4,175	5,050
Proceeds from issue of bonds		-	1,400
Repayment of loans, credit facilities and leases		(5,376)	(3,236)
Redemption of bonds issued		-	(2,139)
Interest and commission paid		(270)	(258)
Increase of share in Group companies		(11)	(275)
Other		19	4
NET CASH FROM FINANCING ACTIVITIES		**(1,463)**	**546**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**2,030**	**460**
Net foreign exchange differences		*4*	*(1)*
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	*16.2*	**1,311**	**1,279**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	*16.2*	**3,341**	**1,739**

for the 3- and 9-month periods ended September 30, 2020, in accordance with IFRS EU (in PLN million)

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

1. General information

1.1 Information on the parent

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

As at January 1, 2020, the Company's Management Board was as follows:

- Henryk Baranowski – President of the Management Board,
- Wojciech Kowalczyk – Vice-President of the Management Board,
- Marek Pastuszko – Vice-President of the Management Board,
- Paweł Śliwa – Vice-President of the Management Board,
- Ryszard Wasiłek – Vice-President of the Management Board,
- Emil Wojtowicz – Vice-President of the Management Board.

On February 19, 2020, the Supervisory Board dismissed all members of the Management Board from the Management Board with effect as of February 19, 2020. At the same time, the Supervisory Board appointed Mr Wojciech Dąbrowski, Mr Paweł Śliwa and Mr Ryszard Wasiłek to the Management Board for the eleventh term of office as of February 20, 2020, as well as Mr Paweł Cioch and Mr Paweł Strączyński as of February 24, 2020. On August 18, 2020, the Supervisory Board appointed Ms Wanda Buk to the Management Board with effect as of September 1, 2020.

As at September 30, 2020 and as at the date of publication of these financial statements, the composition of the Management Board is as follows:

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

Ownership structure

The parent's ownership structure was as follows:

	State Treasury	Other shareholders	Total
As at December 31, 2019	57.39%	42.61%	100.00%
As at September 30, 2020	57.39%	42.61%	100.00%

The ownership structure as at particular reporting dates was prepared on the basis of data available to the Company.

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

1.2 Information on PGE Group

PGE Group includes the parent, PGE Polska Grupa Energetyczna S.A., 72 consolidated subsidiaries, 4 associates and 1 jointly controlled entity. For additional information about subordinated entities included in the consolidated financial statements please refer to note 1.3.

These consolidated financial statements of PGE Group cover the period from January 1 to September 30, 2020 and contain comparative figures for the period from January 1 to September 30, 2019 and as at December 31, 2019.

These condensed consolidated interim financial statements do not cover all of the information and disclosures required in annual financial statements and they should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2019, approved for publication on March 31, 2020.

The financial statements of all subordinated entities were prepared for the same reporting period as the financial statements of the parent company, using consistent accounting principles. An exception to this rule are companies acquired in the course of the financial year that prepared financial data for the period from the moment of obtaining control by PGE Group.

PGE Group companies' core activities are as follows:

- production of electricity,
- distribution of electricity,
- wholesale and retail trade in electricity, energy origin rights, CO_2 emission allowances and natural gas,
- production and distribution of heat,
- provision of other services related to these activities. Business activities are conducted under appropriate concessions granted to particular Group companies.

for the 3- and 9-month periods ended September 30, 2020, in accordance with IFRS EU (in PLN million)

Going concern

These financial statements have been prepared on the assumption that significant Group companies will continue as going concerns for a period of at least 12 months from the reporting date. As at September 30, 2019, the subsidiary, PGE Obrót S.A., reports negative equity, primarily due to negative developments on the retail electricity trading market. PGE Obrót S.A., like other PGE Group companies, has access to financing provided by PGE S.A., therefore the going concern for this company is justified.

Apart from the issue concerning PGE Obrót S.A., as at the date of authorisation of these financial statements for publication, no circumstances were identified which would indicate any threat to significant Group companies continuing as going concerns.

Changes in accounting policies

The same accounting rules (policies) and calculation methods were applied in these financial statements as in the most recent annual financial statements. These financial statements should be read in conjunction with PGE Group's consolidated financial statements for the year ended December 31, 2019, approved for publication on March 31, 2020.

1.3 PGE Group's composition

During the reporting period, PGE Group consisted of the following subsidiaries, consolidated directly and indirectly:

	Entity	Entity holding stake	Stake held by PGE Group companies as at September 30, 2020	Stake held by PGE Group companies as at December 31, 2019
	SEGMENT: SUPPLY			
1.	PGE Polska Grupa Energetyczna S.A. Warsaw	Parent		
2.	PGE Dom Maklerski S.A. Warsaw	PGE S.A.	100.00%	100.00%
3.	PGE Trading GmbH Berlin	PGE S.A.	100.00%	100.00%
4.	PGE Obrót S.A. Rzeszów	PGE S.A.	100.00%	100.00%
5.	ENESTA sp. z o.o. Stalowa Wola	PGE Obrót S.A.	87.33%	87.33%
6.	PGE Centrum sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
7.	PGE Paliwa sp. z o.o. Kraków	PGE EC S.A.	100.00%	100.00%
	SEGMENT: CONVENTIONAL GENERATION			
8.	PGE Górnictwo i Energetyka Konwencjonalna S.A. Bełchatów	PGE S.A.	100.00%	100.00%
9.	ELBIS sp. z o.o. Rogowiec	PGE S.A.	100.00%	100.00%
10.	MegaSerwis sp. z o.o. Bogatynia	PGE S.A.	100.00%	100.00%
11.	„ELMEN" sp. z o.o. Rogowiec	PGE S.A.	100.00%	100.00%
12.	ELTUR-SERWIS sp. z o.o. Bogatynia"	PGE S.A.	100.00%	100.00%
13.	Przedsiębiorstwo Transportowo-Sprzętowe „BETRANS" sp. z o.o. Bełchatów	PGE S.A.	100.00%	100.00%
14.	Przedsiębiorstwo Wulkanizacji Taśm i Produkcji Wyrobów Gumowych BESTGUM POLSKA sp. z o.o. Rogowiec	PGE S.A.	100.00%	100.00%
15.	RAMB sp. z o.o. Piaski	PGE S.A.	100.00%	100.00%
16.	EPORE sp. z o.o. Bogatynia	PGE GiEK S.A.	100.00%	85.38%
17.	„Energoserwis – Kleszczów" sp. z o.o. Rogowiec	PGE GiEK S.A.	51.00%	51.00%
	SEGMENT: DISTRICT HEATING			
18.	PGE Energia Ciepła S.A. * Warsaw	PGE S.A.	100.00%	100.00%
19.	PGE Toruń S.A. Toruń	PGE EC S.A.	95.22%	95.22%
20.	PGE Gaz Toruń sp. z o.o. Warsaw	PGE EC S.A.	100.00%	100.00%
21.	Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. Wrocław	PGE EC S.A.	58.07%	58.07%

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	Entity	Entity holding stake	Stake held by PGE Group companies as at September 30, 2020	Stake held by PGE Group companies as at December 31, 2019
22.	Elektrociepłownia Zielona Góra S.A. Zielona Góra	KOGENERACJA S.A.	98.40%	98.40%
23.	MEGAZEC sp. z o.o. Bydgoszcz	PGE S.A.	100.00%	100.00%
24.	Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. Zgierz	PGE EC S.A.	50.98%	50.98%
25.	PGE Ekoserwis sp. z o.o. Wrocław	PGE S.A.	95.08%	95.08%
	SEGMENT: RENEWABLES			
26.	PGE Energia Odnawialna S.A. Warsaw	PGE S.A.	100.00%	100.00%
27.	Elektrownia Wiatrowa Baltica-1 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
28.	Elektrownia Wiatrowa Baltica-2 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
29.	Elektrownia Wiatrowa Baltica-3 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
30.	Elektrownia Wiatrowa Baltica-4 sp. z o.o. (formerly: PGE Inwest 17 sp. z o.o.) Warsaw	PGE S.A.	100.00%	100.00%
31.	Elektrownia Wiatrowa Baltica-5 sp. z o.o. (formerly: PGE Inwest 18 sp. z o.o.) Warsaw	PGE S.A.	100.00%	100.00%
32.	PGE Baltica 1 sp. z o.o. w organizacji (in organisation) Warsaw	PGE S.A.	100.00%	-
33.	PGE Baltica 2 sp. z o.o. w organizacji (in organisation) Warsaw	PGE S.A.	100.00%	-
34.	PGE Baltica 3 sp. z o.o. w organizacji (in organisation) Warsaw	PGE S.A.	100.00%	-
35.	PGE Baltica 4 sp. z o.o. w organizacji (in organisation) Warsaw	PGE S.A.	100.00%	-
36.	PGE Baltica sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
37.	PGE Klaster sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
38.	PGE Soleo 1 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
39.	PGE Soleo 2 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
40.	PGE Soleo 3 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
41.	PGE Soleo 4 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
42.	PGE Soleo 5 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
43.	PGE Soleo 6 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
44.	PGE Soleo 7 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
45.	Eco-Power sp. z o.o. Warsaw	PGE EO S.A.	100.00%	-
	SEGMENT: DISTRIBUTION			
46.	PGE Dystrybucja S.A. Lublin	PGE S.A.	100.00%	100.00%
	SEGMENT: OTHER ACTIVITIES			
47.	PGE EJ 1 sp. z o.o. Warsaw	PGE S.A.	70.00%	70.00%
48.	PGE Systemy S.A. Warsaw	PGE S.A.	100.00%	100.00%
49.	PGE Sweden AB (publ) Stockholm	PGE S.A.	100.00%	100.00%
50.	PGE Synergia sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%

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	Entity	Entity holding stake	Stake held by PGE Group companies as at September 30, 2020	Stake held by PGE Group companies as at December 31, 2019
51.	„Elbest" sp. z o.o. Bełchatów	PGE S.A.	100.00%	100.00%
52.	Elbest Security sp. z o.o. Bełchatów	PGE S.A.	100.00%	100.00%
53.	PGE Inwest 2 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
54.	PGE Ventures sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
55.	PGE Inwest 8 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
56.	PGE Inwest 9 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
57.	PGE Inwest 10 sp. z o.o. Warsaw	PGE S.A	100.00%	100.00%
58.	PGE Inwest 11 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
59.	PGE Inwest 12 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
60.	PGE Inwest 13 S.A. Warsaw	PGE S.A.	100.00%	100.00%
61.	PGE Inwest 14 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
62.	PGE Nowa Energia sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
63.	PGE Inwest 16 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
64.	PGE Inwest 19 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
65.	Towarzystwo Funduszy Inwestycyjnych Energia S.A. Warsaw	PGE S.A.	100.00%	100.00%
66.	BIO-ENERGIA sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
67.	Przedsiębiorstwo Transportowo-Usługowe „ETRA" sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
68.	Energetyczne Systemy Pomiarowe sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
69.	ZOWER sp. z o.o. Czerwionka-Leszczyny	PGE EC S.A.	100.00%	100.00%
70.	Przedsiębiorstwo Usługowo-Handlowe TOREC sp. z o.o. Toruń	PGE Toruń S.A.	50.04%	50.04%
71.	4Mobility S.A. Warsaw	PGE Nowa Energia sp. z o.o.	51.47%	51.47%
72.	PIMERGE S.A. Wrocław	PGE Ventures sp. z o.o.	89.87%	42.37%
73.	Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych Eko-Inwestycje Warsaw	PGE Group companies	100.00%	100.00%

** Elektrownia Rybnik (Rybnik Power Plant) belonging to PGE EC S.A. until December 31, 2019 is presented in note 6 to these financial statements in the Conventional Generation segment.*

The table above includes the following changes in the structure of PGE Group companies subject to full consolidation which took place during the period ended September 30, 2020:

- On January 2, 2020, the demerger of PGE EC S.A. was entered in the National Court Register. The demerger was effected by way of transfer from PGE EC S.A. to PGE GiEK S.A. an organized part of the enterprise covering Elektrownia Rybnik (Rybnik Power Plant). The transaction did not affect these consolidated financial statements.
- On May 29, 2020, PGE GiEK S.A. acquired 14.62% of shares in EPORE sp z o.o. and became the sole shareholder of this company. The ownership of shares was transferred to PGE GiEK S.A. on June 18, 2020. Following the transaction, the Group's equity decreased by PLN 11 million, including PLN 5 million attributable to non-controlling interests.
- On October 14, 2019, the Extraordinary General Meeting of Shareholders of PIMERGE S.A. resolved to increase the company's share capital. Following the capital increase, the share held by PGE Group increased from 42.37% to 89.87% and PIMERGE S.A. was included in consolidation. The capital increase was registered and control of the company was taken over on July 1, 2020. Following the accounting for the acquisition, the PGE Group recognised goodwill of PLN 2 million.

- On July 30, 2020, PGE EO S.A. purchased 100% of shares in Eco-Power sp. z o.o. The ownership of shares was transferred to PGE EO S.A. on July 31, 2020.
- On August 17, 2020, the Investors' Meeting of the Closed-end private equity fund (FIZAN) Eko-Inwestycje resolved to dissolve the fund. The liquidation will be completed by the end of this year.
- On September 24, 2020, PGE S.A. established 4 wholly-owned limited liability companies PGE Baltica 1 to 4. By the date of approval of these financial statements for issue, the companies had not been entered in the National Court Register.

Events after the reporting period

On October 1, 2020, a letter of intent on the acquisition of all shares in the PGE EJ 1 sp. z o.o. by the State Treasury was signed. As intended by the parties, the transaction should be completed by December 31, 2020. As at September 30, 2020, the criteria for classification of the company as held for sale set out in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* were not met. In the period of 9 months of 2020, revenues and expenses of EJ1 sp. z o.o. amounted to, respectively, PLN 1 million and PLN 21 million. As at September 30, 2020, total assets amounted to PLN 428 million and total liabilities amounted to PLN 268 million.

1.4 Accounting for the acquisition of new subsidiaries

Preliminary accounting for the acquisition of Eco-Power sp.z o.o.

On July 31, 2020, PGE EO purchased 100% of shares in Eco-Power sp. z o.o. from FEN Wind Farm B.V. Eco-Power is the owner of a wind farm commissioned in 2015, comprising 12 wind turbines with a total capacity of 36 MW.

According to IFRS 3, the transaction is accounted for using the acquisition method. The total value of cash transferred in the transaction was PLN 150 million. As at the acquisition date, the carrying amount of Eco-Power's net assets was PLN 86 million. The difference between the purchase price and the amount of net assets acquired, amounting to PLN 64 million, was initially recognized by PGE Group as goodwill under intangible assets.

The Group launched the process of measurement of the assets acquired in accordance with the requirements of IFRS 3 *Business Combinations.* Following preliminary analyses, the Group expects that, as part of the accounting for the acquisition, goodwill may be adjusted as a result of measurement of property, plant and equipment at fair value. As a result of the analysis of the assets acquired, the Group recognised a rehabilitation provision and measured the property rights generated in accordance with the Group's policy. This had no significant impact on the initially recognized goodwill.

As required by IFRS 3, PGE Group should complete the accounting for the acquisition within one year from the acquisition date.

Accounting for the acquisition of PIMERGE S.A.

On July 1, 2020, a share capital increase in PIMERGE was entered in the register. Following the capital increase, the share held by PGE Group increased from 42.37% to 89.87% and PIMERGE S.A. was included in consolidation.

Following the accounting for the acquisition, PGE Group recognised goodwill of PLN 2 million (net assets amounting to PLN 1 million were acquired for the price of PLN 3 million).

2. Basis for preparation of the financial statements

2.1 Statement of compliance

These consolidated financial statements are prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* and in the scope required under the Minister of Finance Regulation of March 29, 2018 on current and periodic information provided by issuers of securities and conditions of recognition as equivalent information required by the law of a non-Member State (Official Journal 2018, items 512 and 685).

International Financial Reporting Standards comprise standards and interpretations approved by the International Accounting Standards Board and IFRS Interpretation Committee.

2.2 Presentation and functional currency

The functional currency of the parent company and the presentation currency of these consolidated financial statements is Polish Zloty. All amounts are in PLN millions, unless indicated otherwise.

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

	September 30, 2020	December 31, 2019	September 30, 2019
USD	3.8658	3.7977	4.0000
EUR	4.5268	4.2585	4.3736

for the 3- and 9-month periods ended September 30, 2020, in accordance with IFRS EU (in PLN million)

2.3 New standards and interpretations published, not yet effective

The following standards, changes in already effective standards and interpretations are not endorsed by the European Union or are not effective as at January 1, 2020:

Standard	Description of changes	Effective date
IFRS 14 Regulatory Deferral Accounts	Accounting and disclosure principles for regulatory deferral accounts.	Standard in the current version will not be effective in the EU
Amendments to IFRS 10 and IAS 28	Deals with the sale or contribution of assets between an investor and its joint venture or associate.	Postponed indefinitely
IFRS 17 Insurance contracts	Defines a new approach to recognising revenue and profit/loss in the period in which insurance services are provided	January 1, 2023
Amendments to IAS 1	The amendments concern the presentation of financial statements	January 1, 2023
Annual improvements to IFRS (cycle 2018-2020)	Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 focus on resolving inconsistencies and clarifying terminology.	January 1, 2022
Amendments to IFRS 3	Amendments to references in the Conceptual Framework	January 1, 2022
Amendments to IAS 16	Proceeds before intended use	January 1, 2022
Amendments to IAS 37	Onerous Contracts — cost of fulfilling a contract	January 1, 2022
Amendments to IFRS 4	Extension of the temporary exemption from applying IFRS 9	January 1, 2021
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – phase 2	The amendments concern the reform of the benchmark rate	January 1, 2021

PGE Group intends to adopt the above mentioned new standards, amendments to standards and interpretations published by the International Accounting Standards Board but not yet effective at the reporting date, when they become effective. These regulations will not have a significant effect on the future financial statements of PGE Group.

2.4 Professional judgment of management and estimates

Judgments and estimates made by the management in the process of applying accounting rules that are described below had the most significant impact on the amounts presented in the consolidated financial statements, including in other explanatory information. The estimates are based on the best knowledge of the Management Board relating to current and future operations and events in particular areas. Detailed information on the assumptions made is presented below or in respective explanatory notes.

- During the reporting period, the Group revised the amount of impairment losses on assets, including in particular on property, plant and equipment. For a description of changes, see Note 3 to these financial statements.
  Estimate of recoverable amount of property, plant and equipment is based on a number of significant assumptions to the factors, realisation of which is uncertain and mostly beyond PGE Group's control. The Group believes that it has assumed the most accurate volumes and values. Nevertheless, realisation of the particular assumptions may diverge from the ones established by the Group.
- On December 28, 2018, an act amending the act on excise duty and certain other acts was adopted. The Act, as amended, regulated prices for final customers of electricity for 2019 and introduced a system of compensation for energy companies offering reduced prices. In connection with the provisions of the Act, the Group made estimates of revenues from compensation due and estimates of reductions in revenues. The estimates were related to the previous reporting period but it is possible that they will be adjusted in the current reporting period. For details, see note 25.1 to these financial statements.
- Provisions are liabilities of uncertain amount or timing. During the reporting period, the Group changed estimates regarding the validity or amounts of some provisions.
  In particular, the rehabilitation provision and provisions for employee benefits were remeasured in the reporting period due to a decrease in the discount rate. For details, see note 19 to these financial statements.
- Uncertainties concerning tax treatment are described in note 23 to these consolidated financial statements.
- As at the reporting date, the Group did not observe any significant extension of the receivables repayment period or liquidity problems resulting from the COVID-19 pandemic. Nevertheless, the Group has updated the models used to estimate the expected credit losses. For the purpose of estimating expected credit losses, counterparties were divided into two groups: strategic counterparties that are internally rated on the basis of a scoring model and other counterparties for whom expected credit losses are estimated on the basis of a provision matrix. For the first group of counterparties, the basis for calculating expected credit losses was changed - as at September 30, 2020, losses were calculated based on quotations of Credit Default Swaps (CDSs), whereas for the second group of counterparties, the percentage rates in the respective time intervals of the provisioning matrix were updated to the level corresponding to the current recoverability of receivables. As a result of these two changes, the level of provisions for expected credit losses as at September 30, 2020 is PLN 22 million more than if the provisions had been recognised in accordance with previous rules. For a more detailed description of the impact of the pandemic on PGE Group's operations, see Note 25.3 of these statements.

3. Test for impairment of property, plant and equipment, intangible assets, right-of-use assets and goodwill

Property, plant and equipment is PGE Group's most significant group of assets. Due to the changing macroeconomic and regulatory environment, PGE Group verifies regularly the premises that may indicate that its assets may be impaired. In assessing the market situation, PGE Group uses both its own analytical tools and the support of independent analytical institutions. In the first half of 2020, PGE Group identified a number of drivers that could have substantial impact on changes in the value of assets. In the third quarter of 2020, the Group re-verified the indications and found no significant changes compared to the previous analysis. Therefore, the results of the tests conducted as at June 30, 2020 remain valid as at September 30, 2020.

External indications

- Market capitalisation of PGE remaining below the net carrying amount of assets.
- Decrease in prices of futures contracts.
- Low demand for electricity in the National Power System due to the COVID-19 pandemic.
- Low prices on spot markets in Germany and Scandinavia result in high competitiveness of energy imports to Poland, which results in lower utilisation of Generation Units. An additional adverse factor is a decrease in demand in the National Power System and an increase in RES generation. In the opinion of the PGE Group, this situation may continue until the end of 2021.
- Approaching depletion of lignite resources.
  The lifetime of lignite-fired power plants is limited due to the quantity of available lignite resources. Therefore, over time, the remaining service period, as well as the benefits and value in use, becomes shorter.
- Continuing high prices of emission rights (TGEozea index) The green energy origin certificate increased between Q1 and Q4 2018 from 63 PLN/MWh to 149 PLN/MWh. In 2019, prices of green energy origin certificate remained high, to reach more than 130 PLN/MWh in Q2 2020.

Macroeconomic assumptions

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

Electricity price projections assume a slight increase in prices in 2020 as compared to 2019, followed by growths in subsequent years.

Price projections for CO_2 emission allowances assume dynamic market price growth in successive years of the projection.

Hard coal price projections expect a decline in prices until 2023, as compared to 2019, followed by several-percent growth in subsequent years.

Gas price projections assume a decline in 2020 as compared to 2019, average annual growth in the period to 2025 at approx. 8% and growth of approx. 3% annually in the years thereafter.

Projections for prices of energy origin certificates provide for an average annual decrease of about 7% between 2022 and 2031, which is related to the declining obligation to redeem.

Capacity-market revenue projection for 2021-2024 is based on the results of main auctions for these delivery periods, taking into account the mechanisms of the agreement to re-allocate revenue within PGE Group companies. The projection after 2025 was developed by a team of experts at PGE S.A., based on assumptions concerning estimated future cash flows for generation units, on the basis of, among others, completed auctions and projections prepared by a third-party expert. As of July 1, 2025, removed from the Capacity Market are units that fail to meet the emission criterion of 550 g CO_2 per kWh, except for units covered by multiannual contracts executed in main auctions for years 2021-2024.

Revenue from regulatory system services was based on existing bilateral agreements with PSE S.A.

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

3.1 Description of assumptions for the Conventional Generation segment

The impairment tests were performed as at June 30, 2020 with respect to cash-generating units by determining their recoverable amount. Determination of fair value for very large groups of assets for which there is no active market and a small number of comparable transactions is very difficult in practice. In the case of power plants and mines for which a value on the local market should be determined, there are no observable fair values. Therefore, the recoverable amount of the analysed assets was determined based on value in use estimated using the discounted net cash flow method, based on financial projections prepared for the period from July 2020 to the end of their operation. According to the Group, financial projections longer than five years are justified due to significant and long-term effects of projected changes in the regulatory environment. With longer projections, the recoverable amount can be determined in a more reliable manner.

Detailed assumptions regarding the segment

Presented below are the key assumptions having impact on estimates of the value in use of the tested CGUs:

- recognition of the following entities as a single CGU:
  - Branch Kopalnia Węgla Brunatnego Bełchatów and Branch Elektrownia Bełchatów ("Bełchatów Complex"),
  - Branch Kopalnia Węgla Brunatnego Turów and Branch Elektrownia Turów ("Turów Complex"),
- recognition of Elektrownia Dolna Odra, Elektrownia Szczecin and Elektrownia Pomorzany, forming part of the Branch Zespół Elektrowni Dolna Odra, as three separate CGUs,
- assumption that in the period after June 2025 there will be support from the capacity market or equivalent only for units that meet the emission criterion of 550 g of CO_2 for electricity produced per kWh, whereby multiannual contracts concluded in auctions for 2021-2024 will be performed in accordance with their term,
- taking into account work cost optimisation resulting from current work plans, among other things,
- maintaining production capacities as a result of replacement-type investments,
- taking into account development investments for which construction works are in progress,
- assuming the weighted average cost of capital after tax after tax over the projection period of 6.5%-8.0%, differentiated for individual CGUs according to the risk level assessed on a case by case basis.

Below are the results of the tests performed for CGUs for which impairment was identified:

As at June 30, 2020	Discount rate	Value tested*	Impairment loss	Value after impairment loss
Bełchatów Complex	7.67%	11,357	(328)	11,029
Turów Complex	7.00%	3,775	(202)	3,573
Elektrownia Opole	7.00%	12,257	-	12,257
Elektrownia Dolna Odra	6.50%–8.00%**	-	-	-
Elektrociepłownia Pomorzany	8.00%	-	-	-
Elektrociepłownia Szczecin	8.00%	-	-	-
Elektrownia Rybnik	8.00%	-	-	-
TOTAL		**27,389**	**(530)**	**26,859**

**) The tested amount presented above is the net carrying amount of the tested assets as at June 30, 2020 adjusted for provisions and liabilities disclosed in the statement of financial position, except for the rehabilitation provision.*

***) The discount rate is reduced when new gas units are put into operation.*

Sensitivity analysis

In accordance with IAS 36 *Impairment of assets*, the Group performed a sensitivity analysis for generation units in the Conventional Energy segment.

The estimated effect of the change of key assumptions on the amount in impairment loss on assets as at June 30, 2020 for the Conventional Generation segment is presented below.

Parameter	Change	Effect on impairment loss in PLN billion	
		Increase	Decrease
Change in electricity prices in the entire projection period	1%	-	1.1
	-1%	1.1	-

A 1% decrease in electricity price would increase the impairment loss by PLN 1.1 billion for the Bełchatów and Turów Complexes.

Parameter	Change	Effect on impairment loss in PLN billion	
		Increase	Decrease
Change in WACC	+0.5 pp	0.3	-
	- 0.5 pp	-	0.3

A 0.5 p.p. increase WACC would increase the impairment loss by PLN 0.3 billion for the Bełchatów and Turów Complexes.

Parameter	Change	Effect on impairment loss in PLN billion	
		Increase	Decrease
Change in prices of CO_2 emission allowances	1%	0.5	-
	-1%	-	0.4

A 1% increase in prices of CO_2 emission allowances would increase the impairment loss by PLN 0.5 billion for the Bełchatów and Turów Complexes.

3.2 Analysis of indications of impairment of generation assets in the District Heating segment

In previous reporting periods, PGE Group recognised significant impairment losses for non-current assets in the District Heating segment. Key assumptions used in asset impairment tests carried out in 2019 are described in the consolidated financial statements of PGE Group for 2019.

In the current reporting period, the Group analysed the impairment indications in order to verify whether these assets have been impaired or whether previously recognised impairment losses have reversed.

The most significant factors analysed included:

- analysis of the financial plan,
- confirmation whether the investment plan remains valid,
- analysis of energy and gas price,
- analysis of assumptions concerning the so-called Capacity Market, support for cogeneration,
- analysis of estimated margins on production and sale of electricity in future periods, in the light of projections of prices of energy, hard coal and CO_2 emission allowances.

The analysis of indications for the District Heating segment showed that the generating units implement the financial plan in accordance with the assumptions. Natural gas, electricity, coal and CO_2 emission allowance price projections available to PGE Group result in favourable projections of margins. Assumptions for the Capacity Market remain unchanged compared to 2019. At the same time, PGE Group believes that the assumptions adopted in 2019 regarding the support for cogeneration remain valid as at September 30, 2020. Therefore, PGE Group believes that as at the reporting date there are no indications for recognising impairment losses on non-current assets of the District Heating segment or for reversing impairment losses recognized in prior periods.

Some important regulatory assumptions made for impairment tests are beyond the control of PGE Group and their materialization in the future is uncertain. This concerns in particular issues related to the shape of the Polish capacity market after July 1, 2025 or allocation of free CO_2 emission allowances after 2020. In these areas, the Group relies on current assumptions about developments in regulations, which are subject to risk. Future changes to these regulations, compared to PGE's current expectations, may have an impact on the assessment of the recoverable amount of generation assets in the District Heating segment.

3.3 Analysis of indications of impairment of generation assets in the Renewables segment

In 2019, PGE Group reversed impairment losses on non-current assets in the Renewables segment recognised in previous reporting periods. Key assumptions used in asset impairment tests carried out in 2019 are described in the consolidated financial statements of PGE Group for 2019.

In the current reporting period, the Group analysed the impairment indications in order to verify whether these assets have been impaired or whether previously recognised impairment losses have reversed.

The most significant factors analysed included:

- analysis of the financial plan,
- confirmation whether the investment plan remains valid,
- analysis of energy, gas and energy origin rights prices,
- analysis of assumptions concerning the so-called Capacity Market,
- analysis of estimated margins on production and sale of electricity in future periods, in the light of projections of prices of energy.

The analysis of indications for the Renewables segment showed that the generating units implement the financial plan above the assumed values. Assumptions for the capacity market for pumped-storage power plants and hydropower plants adopted as at December 31, 2019 are valid as at September 30, 2020. Therefore, PGE Group believes that as at the reporting date there are no indications for recognising impairment losses on non-current assets of the Renewables segment or for reversing impairment losses recognized in prior periods.

Some important regulatory assumptions made for impairment tests are beyond the control of PGE Group and their materialization in the future is uncertain. This applies in particular to projections of prices of energy origin rights the uncertainty of which results from the unstable legal and regulatory situation related to the functioning of the energy origin system.

4. Changes in accounting principles and data presentation

New standards and interpretations which became effective on January 1, 2020

The accounting principles (policies) applied in preparing these financial statements are consistent with those applied in preparing the financial statements for 2019. The following amendments to IFRSs are applied in these financial statements in line with their effective dates. The following amendments did not have material impact on the presented and disclosed financial information or they were not applicable to the Group's transactions:

- Amendments to the Conceptual Framework – These amendments aim to harmonise the Conceptual Framework;
- Amendments to IFRS 3 – These changes clarify the definition of economic activity;
- Amendments to IAS 1 and IAS 8 – The amendments concern the definition of 'material';
- Amendments to IFRS 9, IAS 39 and IFRS 7 – The amendments concern the reform of the benchmark rate.
- Amendments to IFRS 16 – COVID-19-Related Rent Concessions.

The Group has not elected to early adopt any of the standards, interpretations or amendments that have been published but are not yet effective in accordance with the European Union regulations.

for the 3- and 9-month periods ended September 30, 2020, in accordance with IFRS EU (in PLN million)

Changes in applied accounting policies and data presentation

In the previous reporting period, the Group decided to offset revenues and expenses with regard to CO_2 allowance trading activities. Consequently, the Group has restated the comparative data. The restatement is presented in the table below.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3 months ended September 30, 2019 *published data*	9 months ended September 30, 2019 *published data*	Change in CO_2 presentation	3 months ended September 30, 2019 *restated data*	9 months ended September 30, 2019 *restated data*
SALES REVENUES	9,696	27,932	(353)	9,343	27,579
Cost of goods sold	(8,661)	(24,509)	353	(8,308)	(24,156)
GROSS PROFIT ON SALES	**1,035**	**3,423**	**-**	**1,035**	**3,423**

5. Fair value hierarchy

Derivatives

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

In the category of financial assets and financial liabilities at fair value through profit or loss, the Group presents financial instruments related to greenhouse gases emission rights – currency and commodity forwards, contracts for the purchase and sale of coal, commodity SWAPs (Level 2).

In addition, the Group presents CCIRS derivative that hedges foreign exchange rate and interest rate and IRS hedging transaction swapping variable interest rate in PLN to fixed interest rate in PLN (Level 2).

	As at September 30, 2020		As at December 31, 2019	
FAIR VALUE HIERARCHY	**Level 1**	**Level 2**	**Level 1**	**Level 2**
CO_2 emission allowances in trading activities	1	-	1,303	-
Hard coal in trading activities	76	-	125	-
Inventories	**77**	**-**	**1,428**	**-**
Currency forwards	-	205	-	13
Commodity forwards	-	97	-	265
Commodity SWAP	-	7	-	11
Contracts for purchase/sale of coal	-	2	-	6
Valuation of CCIRS	-	33	-	18
Valuation of IRS	-	-	-	34
Options	-	3	-	5
Fund participation units	-	54	-	68
Financial assets	**-**	**401**	**-**	**420**
Currency forwards	-	63	-	348
Commodity forwards	-	3	-	8
Commodity SWAP	-	6	-	16
Contracts for purchase/sale of coal	-	6	-	1
Valuation of IRS	-	421	-	106
Financial liabilities	**-**	**499**	**-**	**479**

Derivatives are presented in note 17 to these financial statements. During the current and comparative reporting periods, there have been no transfers of financial instruments between the first and the second level of fair value hierarchy.

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
EXPLANATORY NOTES TO OPERATING SEGMENTS

6. Information on operating segments

PGE Group companies conduct their business activities based on relevant concessions, including primarily concession on: production, trade and distribution of electricity, generation, transmission and distribution of heat, granted by the President of Energy Regulatory Office and concessions for the extraction of lignite deposits, granted by the Minister of the Environment. Concessions, as a rule, are issued for the period between 10 and 50 years.

Relevant assets are assigned to the held concessions on lignite mining and generation and distribution of electricity and heat, which was presented in detailed information on operating segments. For its concessions concerning electricity and heat the Group incurs annual charges dependent on the level of turnover, whereas for conducting licensed extraction of lignite the exploitation charges as well as fees for the use of mining are borne. The exploitation charges depend on the current rate and the volume of the extraction.

PGE Group presents information on operating segments in the current and comparative reporting period in accordance with IFRS 8 Operating Segments. PGE Group' segment reporting is based on the following business segments:

- Conventional Generation comprises exploration and mining of lignite and generation of electricity from conventional sources as well as ancillary services.
- District heating comprises the generation of electricity from cogeneration units and the transmission and distribution of heat.
- Renewables comprise generation of electricity in pumped-storage power plants and from renewable sources.
- Supply includes sales and purchases of electricity and natural gas on the wholesale market, trading in CO_2 emissions allowances and energy origin rights, sales and purchases of fuel, as well as sales of electricity and rendering services to final customers.
- Distribution comprises management over local distribution networks and transmission of electricity in these networks.
- Other operations comprise services rendered by the subsidiaries for the Group, e.g. fund raising, IT, telecommunication, accounting and HR, and transport services. Additionally, the other operations segment comprises the activities of a subsidiary whose main business is preparation and implementation of a nuclear power plant construction project, investments in startups.

Organisation and management over PGE Group is based on segment reporting separated by nature of the products and services provided. Each segment represents a strategic business unit, offering different products and serving different markets. Assignment of particular entities to operating segments is described in note 1.3 to these consolidated financial statements. Inter-segment transactions are disclosed as if they were concluded with third parties – under market conditions. When analysing the results of particular business segments the management of PGE Group draws attention primarily to EBITDA.

Seasonality of business segments

Main factors affecting the demand for electricity and heat are: weather conditions – air temperature, wind force, rainfall, socio-economic factors – number of energy consumers, energy product prices, growth of GDP and technological factors – advances in technology, product manufacturing technology. Each of these factors has an impact on technical and economic conditions of production, distribution and transmission of energy carriers, thus influence the results obtained by PGE Group.

The level of electricity sales is variable throughout a year and depends especially on weather conditions - air temperature, length of the day. Growth in electricity demand is particularly evident in winter periods, while lower demands are observed during the summer months. Moreover, seasonal changes are evident among selected groups of final customers. Seasonality effects are more significant for households than for the industrial sector.

In the Renewables segment, electricity is generated from natural resources such as water, wind and sun. Weather conditions are an important factor affecting electricity generation in this segment.

Sales of heat depend in particular on air temperature and are higher in winter and lower in summer.

for the 3- and 9-month periods ended September 30, 2020, in accordance with IFRS EU (in PLN million)

6.1 Information on business segments

Information on business segments for the period ended September 30, 2020

	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
STATEMENT OF PROFIT OR LOSS								
Sales to external customers	13,922	2,082	531	13,417	4,635	61	(1,552)	33,096
Inter-segment sales	4,281	1,314	218	6,684	66	305	(12,868)	-
TOTAL SEGMENT REVENUE	**18,203**	**3,396**	**749**	**20,101**	**4,701**	**366**	**(14,420)**	**33,096**
Cost of goods sold	(17,700)	(2,968)	(520)	(18,688)	(3,683)	(338)	13,735	(30,162)
EBIT	**(630)**	**146**	**176**	**460**	**813**	**(95)**	**(130)**	**740**
Depreciation, amortisation, disposal and impairment losses recognised in profit or loss	1,888	462	235	26	925	122	(47)	3,611
EBITDA	**1,258**	**608**	**411**	**486**	**1,738**	**27**	**(177)**	**4,351**
LOSS BEFORE TAX								**(208)**
Income tax								(169)
NET LOSS FOR THE REPORTING PERIOD								**(377)**
ASSETS AND LIABILITIES								
Segment's assets excluding trade receivables	34,288	7,819	4,276	3,119	19,303	822	(2,081)	67,546
Trade receivables	592	271	128	3,793	828	65	(2,344)	3,333
Shares accounted for using the equity method								161
Unallocated assets								6,126
TOTAL ASSETS								**77,166**
Segment's liabilities excluding trade liabilities	15,232	2,010	980	2,411	2,821	126	(2,707)	20,873
Trade liabilities	877	260	33	1,941	228	27	(2,292)	1,074
Unallocated liabilities								12,558
TOTAL LIABILITIES								**34,505**
OTHER INFORMATION ON BUSINESS SEGMENT								
Capital expenditures	1,474	331	671	7	1,199	124	(86)	3,720
Increases in ROUA	2	3	5	1	33	6	(2)	48
TOTAL CAPITAL EXPENDITURES	**1,476**	**334**	**676**	**8**	**1,232**	**130**	**(88)**	**3,768**
Acquisition of PPE, IA, ROUA and IP as part of acquisition of new companies	-	-	187	-	-	2	-	189
Impairment losses on financial and non-financial assets	770	13	(28)	39	10	56	(33)	827
Other non-monetary expenses *)	4,938	629	27	544	201	25	250	6,614

*) Non-monetary expenses include mainly changes in provisions such as: rehabilitation provision, provision for CO_2 emission allowances, provision for length-of-service awards, employee tariff and non-financial liabilities concerning employee benefits that are recognised in profit or loss and other comprehensive income.

for the 3- and 9-month periods ended September 30, 2020, in accordance with IFRS EU (in PLN million)

Information on business segments for the period ended September 30, 2019

restated data	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustme nts	Total
STATEMENT OF PROFIT OR LOSS								
Sales to external customers	9,442	2,987	719	9,869	4,470	87	5	27,579
Inter-segment sales	4,810	1,234	52	3,278	68	273	(9,715)	-
TOTAL SEGMENT REVENUE	**14,252**	**4,221**	**771**	**13,147**	**4,538**	**360**	**(9,710)**	**27,579**
Cost of goods sold	(12,976)	(3,777)	(508)	(11,873)	(3,448)	(312)	8,738	(24,156)
EBIT	**1,346**	**429**	**214**	**507**	**909**	**(13)**	**(325)**	**3,067**
Depreciation, amortisation, disposal and impairment losses recognised in profit or loss	1,419	436	196	25	901	63	(35)	3,005
EBITDA	**2,765**	**865**	**410**	**532**	**1,810**	**50**	**(360)**	**6,072**
GROSS PROFIT								**2,764**
Income tax								(572)
NET PROFIT FOR THE REPORTING PERIOD								**2,192**
ASSETS AND LIABILITIES								
Segment's assets excluding trade receivables	40,507	7,858	3,355	2,141	18,418	764	308	73,351
Trade receivables	771	342	198	3,513	848	69	(2,646)	3,095
Shares accounted for using the equity method								811
Unallocated assets								4,873
TOTAL ASSETS								**82,130**
Segment's liabilities excluding trade liabilities	10,429	1,674	393	3,351	1,913	105	(1,486)	16,379
Trade liabilities	1,060	314	35	2,157	193	45	(2,466)	1,338
Unallocated liabilities								14,860
TOTAL LIABILITIES								**32,577**
OTHER INFORMATION ON BUSINESS SEGMENT								
Capital expenditures	2,752	264	57	14	1,352	135	(133)	4,441
Increases in ROUA	1	-	2	4	8	12	-	27
TOTAL CAPITAL EXPENDITURES	**2,753**	**264**	**59**	**18**	**1,360**	**147**	**(133)**	**4,468**
Impairment losses on financial and non-financial assets	181	77	1	11	13	-	-	283
Other non-monetary expenses *)	3,052	356	41	413	174	27	189	4,252

*) Non-monetary expenses include mainly changes in provisions such as: rehabilitation provision, provision for CO_2 emission allowances, provision for length-of-service awards, employee tariff and non-financial liabilities concerning employee benefits that are recognised in profit or loss and other comprehensive income.

for the 3- and 9-month periods ended September 30, 2020, in accordance with IFRS EU (in PLN million)

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

7. Revenue and expenses

7.1 Revenue from sales

Revenue from sales in the period ended September 30, 2020, by category

A reconciliation of revenue disclosure by category and information on revenue that the entity discloses for each reporting segment is presented in the table below.

	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
Revenue from contracts with customers	18,192	3,328	592	20,029	4,662	366	(14,408)	**32,761**
Revenue from recognised compensations based on the Act on Electricity Prices	-	-	-	68	-	-	-	**68**
Revenue from LTC compensations	-	41	-	-	-	-	-	**41**
Revenue from support for high-efficiency cogeneration	-	11	-	-	-	-	-	**11**
Revenue from leases	11	16	157	4	39	-	(12)	**215**
TOTAL REVENUE FROM SALES	**18,203**	**3,396**	**749**	**20,101**	**4,701**	**366**	**(14,420)**	**33,096**

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

Type of goods or services	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
Revenue from sales of goods and products, without excluding taxes and fees	18,157	3,255	592	19,450	4,676	57	(13,408)	**32,779**
Taxes and fees collected on behalf of third parties	*(2)*	*(2)*	-	*(92)*	*(55)*	-	-	***(151)***
Revenue from sales of goods and products, including:	**18,155**	**3,253**	**592**	**19,358**	**4,621**	**57**	**(13,408)**	**32,628**
Sale of electricity	16,020	1,666	397	11,502	2	-	(6,001)	**23,586**
Sale of distribution services	10	9	-	35	4,460	-	(62)	**4,452**
Sale of heat	104	1,322	-	7	-	-	(1)	**1,432**
Sale of energy origin rights	34	8	154	-	-	-	31	**227**
Regulatory system services	355	-	36	-	-	-	-	**391**
Sale of natural gas	-	-	-	204	-	-	(99)	**105**
Sale of fuel	-	-	-	522	-	-	(281)	**241**
Sale of CO_2 emission allowances	1,535	202	-	7,086	-	-	(6,993)	**1,830**
Other sales of goods and materials	97	46	5	2	159	57	(2)	**364**
Revenue from sales of services	**37**	**75**	**-**	**671**	**41**	**309**	**(1,000)**	**133**
REVENUE FROM CONTRACTS WITH CUSTOMERS	**18,192**	**3,328**	**592**	**20,029**	**4,662**	**366**	**(14,408)**	**32,761**

Revenue from sales in the period ended September 30, 2019, by category

A reconciliation of revenue disclosure by category and information on revenue that the entity discloses for each reporting segment is presented in the table below.

restated data	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
Revenue from contracts with customers	14,237	4,196	626	12,166	4,503	358	(9,695)	**26,391**
Revenue from recognised compensations based on the Act on Electricity Prices	4	26	-	977	-	-	-	**1,007**
Revenue from LTC compensations	-	(14)	-	-	-	-	-	**(14)**
Revenue from leases	11	13	145	4	35	2	(15)	**195**
TOTAL REVENUE FROM SALES	**14,252**	**4,221**	**771**	**13,147**	**4,538**	**360**	**(9,710)**	**27,579**

for the 3- and 9-month periods ended September 30, 2020, in accordance with IFRS EU (in PLN million)

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

Type of goods or services *restated data*	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
Revenue from sales of goods and products, without excluding taxes and fees	14,149	4,120	625	11,617	4,515	76	(8,696)	**26,406**
Taxes and fees collected on behalf of third parties	*(2)*	*(7)*	-	*(106)*	*(54)*	-	-	***(169)***
Revenue from sales of goods and products, including:	**14,147**	**4,113**	**625**	**11,511**	**4,461**	**76**	**(8,696)**	**26,237**
Sale of electricity	13,528	2,772	450	8,775	3	-	(6,604)	**18,924**
Sale of distribution services	11	9	-	36	4,302	-	(64)	**4,294**
Sale of heat	109	1,265	-	7	-	-	-	**1,381**
Sale of energy origin rights	24	16	132	8	-	-	(10)	**170**
Regulatory system services	266	-	39	-	-	-	-	**305**
Sale of natural gas	-	-	-	392	-	-	(35)	**357**
Sale of fuel	-	-	-	917	-	-	(605)	**312**
Sale of CO_2 emission allowances	100	12	-	1,376	-	-	(1,376)	**112**
Other sales of goods and materials	109	39	4	-	156	76	(2)	**382**
Revenue from sales of services	**90**	**83**	**1**	**655**	**42**	**282**	**(999)**	**154**
REVENUE FROM CONTRACTS WITH CUSTOMERS	**14,237**	**4,196**	**626**	**12,166**	**4,503**	**358**	**(9,695)**	**26,391**

7.2 Costs by nature and function

	3 months ended September 30, 2020	9 months ended September 30, 2019	3 months ended September 30, 2019 *restated data*	9 months ended September 30, 2019 *restated data*
COSTS BY NATURE				
Depreciation, amortisation and impairment losses	1,089	3,634	1,082	3,076
Materials and energy consumption	1,116	3,698	1,166	3,826
External services	616	1,846	647	1,802
Taxes and fees	2,111	6,214	1,385	4,168
Employee benefits expenses	1,272	4,107	1,269	3,948
Other costs by nature	78	216	85	224
TOTAL COST BY NATURE	**6,282**	**19,715**	**5,634**	**17,044**
Change in products	(4)	(9)	3	(17)
Cost of products and services for the entity's own needs	(166)	(678)	(318)	(887)
Distribution and selling expenses	(334)	(1,072)	(383)	(965)
General and administrative expenses	(329)	(864)	(253)	(761)
Cost of goods and materials sold	3,820	13,070	3,625	9,742
COST OF GOODS SOLD	**9,269**	**30,162**	**8,308**	**24,156**

As disclosed in note 3.1 these financial statements, following impairment tests performed, as at June 30, 2020 the Group recognised impairment losses on non-current assets in the amount of PLN 530 million under Amortisation, depreciation and impairment losses.

The increase in the cost of goods and materials sold results from the increase in the purchase of electricity on the wholesale market and on the balancing market, which is related to the fulfillment of the exchange sale requirement of 100% by the Producers, larger reductions than in previous years, and thus lower production of electricity and purchase on the exchange market in order to secure the sale to final off-takers.

7.2.1 Depreciation, amortisation, disposal and impairment losses

The following presents depreciation, amortisation, disposals and impairment losses of property, plant and equipment, intangible assets, right-of-use assets and investment property in the statement of comprehensive income.

for the 3- and 9-month periods ended September 30, 2020, in accordance with IFRS EU (in PLN million)

Period ended September 30, 2020	Depreciation, amortisation, disposal					Impairment losses			
	PPE	IA	ROUA	IP	TOTAL	PPE	IA	ROUA	TOTAL
Cost of goods sold	2,707	53	41	2	**2,803**	687	-	1	**688**
Distribution and selling expenses	9	2	1	-	**12**	-	-	-	**-**
General and administrative expenses	26	14	8	-	**48**	3	57	-	**60**
RECOGNISED IN PROFIT OR LOSS	**2,742**	**69**	**50**	**2**	**2,863**	**690**	**57**	**1**	**748**
Change in products	(3)	-	-	-	**(3)**	-	-	-	**-**
Cost of products and services for the entity's own needs	24	1	1	-	**26**	-	-	-	**-**
TOTAL	**2,763**	**70**	**51**	**2**	**2,886**	**690**	**57**	**1**	**748**
Other operating income	**-**	**-**	**-**	**-**	**-**	**(1)**	**-**	**-**	**(1)**

Period ended September 30, 2019	Depreciation, amortisation, disposal				Impairment losses		
	PPE	IA	ROUA	TOTAL	PPE	ROUA	TOTAL
Cost of goods sold	2,675	60	26	**2,761**	180	5	**185**
Distribution and selling expenses	9	2	2	**13**	-	-	**-**
General and administrative expenses	23	15	5	**43**	3	-	**3**
RECOGNISED IN PROFIT OR LOSS	**2,707**	**77**	**33**	**2,817**	**183**	**5**	**188**
Change in products	2	-	-	**2**	-	-	**-**
Cost of products and services for the entity's own needs	69	-	-	**69**	-	-	**-**
TOTAL	**2,778**	**77**	**33**	**2,888**	**183**	**5**	**188**
Other operating income	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**

In the first half of 2020, the Group performed impairment tests on non-current assets, as a result of which it recognised impairment losses in the total amount of PLN 530 million. For a detailed description, see note 3.1 to these financial statements.

Other impairment losses recognised in the reporting period concern mainly capital expenditure incurred in the units for which impairment losses were recognised in previous periods.

Under "Depreciation, amortisation, disposal", the Group recognised the net disposals of PPE and IA of PLN 23 million in the current period and PLN 37 million in the corresponding period.

7.3 Other operating income and expenses

	Period ended September 30, 2020	Period ended September 30, 2019
NET OTHER OPERATING INCOME/(EXPENSES)		
Effect of revaluation of rehabilitation provisions	(434)	(246)
Valuation and exercise of derivatives, including:	158	187
- CO_2	*146*	*158*
- Coal	*12*	*29*
Penalties, fines and compensations	65	151
(Recognition)/Reversal of impairment losses on receivables	(56)	(93)
Grants	25	21
(Recognition)/Reversal of other provisions	(13)	11
Gain on disposal of PPE/IA	6	11
Income from additional CO_2 emission allowances	-	1,348
Other	(9)	(20)
TOTAL NET OTHER OPERATING INCOME/(EXPENSES)	**(258)**	**1,370**

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7.4 Finance income and costs

	Period ended September 30, 2020	Period ended September 30, 2019
NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS		
Dividends	2	1
Interest, including:	(200)	(152)
Interest income calculated using the effective interest rate method	*24*	*28*
Revaluation	3	(6)
Reversal/(recognition) of impairment losses	(2)	-
Foreign exchange differences	(24)	(20)
Loss on disposal of investments	(2)	-
TOTAL NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS	**(223)**	**(177)**
OTHER NET FINANCE INCOME/(COSTS)		
Interest expense on non-financial items	(174)	(149)
Interest on statutory receivables	(1)	(2)
Recognition of provisions	(2)	(4)
Other	(5)	(5)
TOTAL NET OTHER FINANCE INCOME/(COSTS)	**(182)**	**(160)**
TOTAL NET FINANCE INCOME/(COSTS)	**(405)**	**(337)**

Interest expenses mainly relate to bonds issued and credit and loans incurred as well as leases. In the current period, interest expenses on lease liabilities amounted to PLN 31 million.

Interest expenses on non-financial items relate mainly to rehabilitation provisions and employee benefit provisions.

7.5 Share of profit of equity-accounted entities

Period ended September 30, 2020	**Polska Grupa Górnicza**	**Polimex Mostostal**	**ElectroMobility Poland**	**PEC Bogatynia**	**Energopomiar**
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**	**49.79%**
Revenue	5,264	785	-	10	54
Profit (loss) on continuing operations	(1,673)	81	(2)	(1)	8
Share of profit of equity-accounted entities before consolidation adjustments	**(256)**	**13**	**(1)**	**-**	**4**
Elimination of unrealised gains and losses	7	-	-	-	-
Impairment loss	(310)	-	-	-	-
SHARE OF PROFIT (LOSS) OF EQUITY-ACCOUNTED ENTITIES	**(559)**	**13**	**(1)**	**-**	**4**
Other comprehensive income	(21)	-	-	-	-
SHARE OF PROFIT (LOSS) OF EQUITY-ACCOUNTED ENTITIES IN OTHER COMPREHENSIVE INCOME	**(3)**	**-**	**-**	**-**	**-**

Period ended September 30, 2019	**Polska Grupa Górnicza**	**Polimex Mostostal**	**ElectroMobility Poland**	**PEC Bogatynia**	**Energopomiar**
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**	**49.79%**
Revenue	6,805	1,022	-	10	50
Profit (loss) on continuing operations	181	13	(4)	(1)	2
Share of profit of equity-accounted entities before consolidation adjustments	**28**	**2**	**(1)**	**-**	**1**
Elimination of unrealised gains and losses	4	-	-	-	-
SHARE OF PROFIT (LOSS) OF EQUITY-ACCOUNTED ENTITIES	**32**	**2**	**(1)**	**-**	**1**
Other comprehensive income	(9)	-	-	-	-
SHARE OF PROFIT (LOSS) OF EQUITY-ACCOUNTED ENTITIES IN OTHER COMPREHENSIVE INCOME	**(1)**	**-**	**-**	**-**	**-**

The Group makes a consolidation adjustment related to margin on sale of coal between Polska Grupa Górnicza and PGE Group.

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8. Impairment losses on assets

	Period ended September 30, 2020	Period ended September 30, 2019
IMPAIRMENT LOSSES ON PROPERTY, PLANT AND EQUIPMENT		
Recognition of impairment losses	985	379
Reversal of impairment losses	296	197
IMPAIRMENT LOSSES ON SHARES ACCOUNTED FOR USING THE EQUITY METHOD		
Recognition of impairment losses	310	-
Reversal of impairment losses	-	-
IMPAIRMENT LOSSES ON INTANGIBLE ASSETS		
Recognition of impairment losses	57	-
Reversal of impairment losses	-	-
IMPAIRMENT LOSSES ON RIGHT-OF-USE ASSETS		
Recognition of impairment losses	1	5
Reversal of impairment losses	-	-
IMPAIRMENT LOSSES ON INVENTORY		
Recognition of impairment losses	14	43
Reversal of impairment losses	53	5

9. Income tax

9.1 Tax in the statement of comprehensive income

Main components of income tax expense for the period ended September 30, 2020, and September 30, 2019 were as follows:

	Period ended September 30, 2020	Period ended September 30, 2019
INCOME TAX RECOGNISED IN THE STATEMENT OF PROFIT OR LOSS		
Current income tax	670	382
Adjustments to current income tax for previous years	-	11
Deferred income tax	(499)	189
Adjustments to deferred income tax	(2)	(10)
INCOME TAX EXPENSE RECOGNISED IN THE STATEMENT OF PROFIT OR LOSS	**169**	**572**
INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME		
On actuarial gains (losses) on valuation of employee benefit provisions	(40)	(27)
On valuation of hedging instruments	20	(13)
(Tax benefit)/tax expense recognised in other comprehensive income (equity)	**(20)**	**(40)**

9.2 Effective tax rate

The table below presents a reconciliation of income tax on pre-tax profit/loss computed at the statutory rate with income tax computed at the effective tax rate of the Group:

	Period ended September 30, 2020	Period ended September 30, 2019
PROFIT / (LOSS) BEFORE TAX	**(208)**	**2,764**
Income tax at the 19% statutory rate applicable in Poland	(40)	525
ITEMS ADJUSTING INCOME TAX		
Recognition of impairment losses with respect to which no deferred tax was recognised	91	11
Recognition of rehabilitation provisions with respect to which no deferred tax was recognised	81	49
Other non-deductible costs	38	42
Non-taxable income	(12)	(18)
Other adjustments	11	(37)
INCOME TAX AT THE EFFECTIVE TAX RATE **Income tax (expense) in the consolidated financial statements**	**169**	**572**
EFFECTIVE TAX RATE	**-81%**	**21%**

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EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

10. Significant acquisitions and disposals of property, plant and equipment, intangible assets and right-of-use assets

In the current reporting period, PGE Group purchased property, plant and equipment and intangible assets worth PLN 3,720 million and obtained right-of-use assets worth PLN 48 million. The largest expenditure was incurred by the Conventional Generation segment (PLN 1,476 million) and the Distribution segment (PLN 1,232 million). The key expenditure items included: construction of a new unit at the Turów power plant (PLN 390 million) and connection of new customers (PLN 490 million).

In the current period, there were no significant disposals of property, plant and equipment.

11. Future investment commitments

As at September 30, 2020, PGE Group committed to incur capital expenditures on property, plant and equipment of approximately PLN 8,359 million. These amounts relate mainly to construction of new power units, modernisation of Group's assets and purchase of machinery and equipment.

	As at September 30, 2020	As at December 31, 2019
Conventional Generation	6,347	2,363
Distribution	1,305	1,405
District Heating	333	227
Renewables	179	363
Supply	4	1
Other activities	191	213
TOTAL FUTURE INVESTMENT COMMITMENTS	**8,359**	**4,572**

The most significant future investment commitments concern:

- Conventional Generation:
  - Branch Bełchatów Power Plant – upgrade of FGD unit – approximately PLN 236 million,
  - Branch Opole Power Plant – modernisation of power units no. 1-4 – approximately PLN 156 million,
  - Branch Turów Power Plant – construction of new power unit no. 7 – approximately PLN 650 million,
  - Oddział Zespół Elektrowni Dolna Odra – construction of two CCGT units and agreement on maintenance services for two gas turbines – approximately PLN 4,280 million,
- Distribution – investment commitments related to network distribution assets with the total value of approximately PLN 1,305 million,
- Other activity, PGE EJ1 sp. z o.o. – agreement for owners engineer in the investment process related to construction of the first Polish nuclear power plant – approximately PLN 122 million (basic scope). An optional scope includes the amount of approx. PLN 1,104 million.

PGE EJ 1 sp. z o.o. is a subsidiary of PGE Group, established in 2010. The current scope of the Programme conducted by PGE EJ 1 Sp. z o.o. provides for carrying environmental and site surveys at two potential locations (Lubiatowo-Kopalino and Żarnowiec) and in preparing a Project environmental impact report and a Site report.

On October 1, 2020, PGE S.A. and the other shareholders of PGE EJ 1 sp. z o.o. (ENEA S.A., KGHM Polska Miedź S.A. and TAURON Polska Energia S.A.) signed a Letter of Intent with the State Treasury regarding the acquisition by the State Treasury of 100% of shares in PGE EJ 1 sp. z o.o. Signatories to the Letter of intent undertook to carry out, in good faith, all of the activities required to prepare and complete a transaction involving the acquisition of the shares in PGE EJ 1 sp. z o.o. by the State Treasury. The intention expressed in the Letter of Intent is for the State Treasury to acquire the shares in PGE EJ 1 sp. z o.o. by December 31, 2020, however, the Parties have not specified the effective term of the Letter of Intent. The Letter of Intent does not entail the obligation of the parties to follow through with the Transaction. The decision to carry out the Transaction will depend on the results of the negotiations in this regard and the fulfillment of other conditions specified in the legal regulations or corporate documents.

On October 9, 2020, the Council of Ministers adopted a resolution on the revision of the government's long-term programme "Polish Nuclear Power Programme". The programme provides for the acquisition by the State Treasury of 100% of the shares in a special purpose vehicle established to implement nuclear energy projects in Poland (PGE EJ 1 sp. z o.o.).

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12. Shares accounted for using the equity method

	As at September 30, 2020	As at December 31, 2019
Polska Grupa Górnicza S.A., Katowice	-	570
Polimex-Mostostal S.A., Warsaw	125	112
ElectroMobility Poland S.A., Warsaw	14	14
PEC Bogatynia Sp. z o.o., Bogatynia	8	8
Energopomiar Sp. z o.o. , Gliwice	14	11
SHARES ACCOUNTED FOR USING THE EQUITY METHOD	**161**	**715**

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**	**49.79%**
AS AT SEPTEMBER 30, 2020					
Current assets	1,761	1,084	20	3	34
Non-current assets	9,433	658	36	21	18
Current liabilities	6,433	790	1	1	15
Non-current liabilities	2,744	288	-	-	8
NET ASSETS	**2,017**	**664**	**55**	**23**	**29**
Share in net assets	**309**	**109**	**14**	**8**	**14**
Goodwill	1	16	-	-	-
Impairment loss on investments	(310)	-	-	-	-
SHARES ACCOUNTED FOR USING THE EQUITY METHOD	**-**	**125**	**14**	**8**	**14**

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**	**49.79%**
AS AT DECEMBER 31, 2019					
Current assets	2,226	964	40	5	28
Non-current assets	10,220	718	18	21	18
Current liabilities	4,040	779	1	2	15
Non-current liabilities	4,695	320	-	-	8
NET ASSETS	**3,711**	**583**	**57**	**24**	**23**
Share in net assets	**569**	**96**	**14**	**8**	**11**
Goodwill	1	16	-	-	-
SHARES ACCOUNTED FOR USING THE EQUITY METHOD	**570**	**112**	**14**	**8**	**11**

Due to the extremely restrictive policy of the European Union towards hard coal, the prospects for the hard coal mining sector seem to be extremely challenging. PGE analyses the investment in PGG S.A. on an ongoing basis in the context of external, including market-related, and internal conditions. In particular, PGE notes the difficult personnel and payroll policy in the sector, where the social partners expect salary increases or additional benefits regardless of the financial performance of mining companies. Additionally, the need to extract coal from lower and lower deposits, resulting from the specific nature of PGG's mines, has an adverse impact on the profitability of production.

It should also be noted that the profitability of PGG, which was one of the most important prerequisites for the investment decision of PGE Group, significantly deviates (to the disadvantage) from the assumptions adopted in the business plan prepared in 2014 when the company was established.

The above, combined with the decreasing demand for coal in subsequent periods, which is reflected in projections available to PGE, constituted a premise for remeasurement of the value in use of PGG S.A. shares.

Following the test, an impairment loss of PLN 310 million was recognised on the investment in PGG. After the recognition of the impairment loss, the carrying amount of PGG in the consolidated financial statements of PGE Group is 0.

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13. Deferred tax in the statement of financial position

13.1 Deferred income tax assets

	As at September 30, 2020	As at December 31, 2019
Difference between tax value and carrying amount of property, plant and equipment	2,804	3,403
Rehabilitation provision	1,207	984
Provision for purchase of CO_2 emission allowances	896	671
Provisions for employee benefits	745	677
Difference between tax value and carrying amount of financial liabilities	322	429
Difference between tax value and carrying amount of financial assets	227	146
Difference between carrying amount and tax value of right-of-use assets	176	171
Tax losses	149	160
Other provisions	105	151
LTC compensations	77	89
Energy infrastructure acquired free of charge and connection fees received	29	31
Difference between tax value and carrying amount of inventories	13	21
Other	5	14
TOTAL DEFERRED INCOME TAX ASSETS	**6,755**	**6,947**

13.2 Deferred tax liabilities

	As at September 30, 2020	As at December 31, 2019
Difference between tax value and carrying amount of property, plant and equipment	4,959	5,281
Difference between tax value and carrying amount of financial assets	518	447
Difference between carrying amount and tax value of lease liabilities	186	169
CO_2 emission allowances	44	476
Difference between tax value and carrying amount of energy origin units	36	25
Receivables from recognised compensations – Act on Electricity Prices	16	58
Difference between tax value and carrying amount of financial liabilities	13	12
Other	71	81
TOTAL DEFERRED TAX LIABILITIES	**5,843**	**6,549**

Group's deferred tax after offset of assets and liabilities at each company and the tax group

Deferred income tax assets	1,188	1,318
Deferred income tax liabilities	(276)	(920)

14. Inventories

	As at September 30, 2020	As at December 31, 2019
Hard coal	934	1,077
Materials for repairs and operations	689	628
Mazut	37	43
Other materials	61	56
TOTAL MATERIALS	**1,721**	**1,804**
Green property rights	978	1,096
Other property rights	2	76
TOTAL ENERGY ORIGIN RIGHTS	**980**	**1,172**
CO_2 emission allowances held for sale	1	1,303
Hard coal held for sale	76	125
Other goods	21	26
TOTAL GOODS	**98**	**1,454**
OTHER INVENTORIES	**82**	**79**
TOTAL INVENTORIES	**2,881**	**4,509**

In the corresponding period, the CO_2 emission allowances included EUA resulting from the additional allocation of the CO_2 emission allowances for 2013-2017. These allowances were held for trading purposes and were sold in the first quarter of 2020.

15. CO_2 emission allowances for captive use

CO_2 emission allowances are received by power generating units belonging to PGE Group, which are covered by the Act dated June 12, 2015 on a scheme for greenhouse gas emission allowance trading. Starting from 2013, only part of emission rights for production of heat will be granted unconditionally, while for production of electricity there is, as a rule, lack of free of charge EUA. Pursuant to Article 10c of Directive 2009/29/EC, the derogation from the from the principle of purchasing CO_2 emission allowances associated with electricity generation at auction is possible providing the realization of investment tasks included in National Investment Plan. The condition under which free of charge CO_2 emission rights can be obtained is presentation of factual-financial statements from realization of tasks included in National Investment Plan.

In September 2019, PGE Group submitted reports on investments included in the National Investment Plan in order to obtain CO_2 EUA allocations for power generating installations. The requested allowances (12 million of EUA allowanced) were released to the operator's accounts in the EU register in April 2020.

In September 2020, PGE Group submitted reports on investments included in the National Investment Plan in connection with expenses incurred for investment tasks in the period from July 1, 2019 to June 30, 2020. This period is the last reporting period in the current settlement period. Under the Regulation of the Council of Ministers of April 8, 2014, listing electricity generating installations covered by the greenhouse gas emissions trading scheme, PGE Group's installations are not eligible for free emission allowances in 2020.

In the case of EUAs for CO_2 emissions related to heating, the allocation schedule is different - in February 2020 EUAs were allocated for the coverage of CO_2 emissions for 2020 (1 million EUAs).

	As at September 30, 2020		As at December 31, 2019	
EUA	Non-current	Current	Non-current	Current
Quantity (Mg million)	**1**	**4**	**3**	**18**
Value (PLN million)	**32**	**207**	**240**	**965**

EUA	**Quantity (Mg million)**	**Value (PLN million)**
AS AT JANUARY 1, 2019	**37**	**1,611**
Purchase	40	1,477
Granted free of charge	15	-
Redemption	(70)	(1,803)
Reclassification to inventories	(1)	(80)
AS AT DECEMBER 31, 2019	**21**	**1,205**
Purchase	50	3,955
Granted free of charge	13	-
Redemption	(61)	(3,414)
Sale	(18)	(1,507)
AS AT SEPTEMBER 30, 2020	**5**	**239**

16. Selected financial assets

The value of financial receivables measured at amortised cost is a reasonable approximation of their fair value.

16.1 Trade and other financial receivables

	As at September 30, 2020		As at December 31, 2019	
	Non-current	Current	Non-current	Current
Trade receivables	-	3,333	-	3,483
Deposits and loans	185	9	174	8
Receivables from recognised compensations based on the Act on Electricity Prices	-	85	-	304
Deposits, securities and collateral	-	655	1	801
Damages and penalties	-	100	-	112
Other financial receivables	6	85	5	107
FINANCIAL RECEIVABLES	**191**	**4,267**	**180**	**4,815**

In the comparative period, there was a reclassification between items in the table above.

Deposits, securities and collateral mainly concern transaction and hedging deposits and the guarantee fund related to transactions on the electricity and CO markets.

16.2 Cash and cash equivalents

Short-term deposits are placed for different periods, from one day up to one month, depending on the Group's needs for cash.

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

	As at September 30, 2020	As at December 31, 2019
Cash in hand and at banks	3,024	1,093
Overnight deposits	-	19
Short-term deposits	39	103
Cash in VAT accounts	278	98
TOTAL	**3,341**	**1,313**
Exchange differences on cash in foreign currencies	-	(2)
Cash and cash equivalents presented in the statement of cash flows	**3,341**	**1,311**
Undrawn borrowing facilities as at the reporting date	6,898	5,309
including overdraft facilities	*1,855*	*1,035*

A detailed description of credit agreements is presented in note 20.1 to these financial statements.

The balance of cash includes restricted cash:

- PLN 183 million (PLN 230 million in the comparative period) in PGE Dom Maklerski S.A. clients' accounts as collateral for settlements with IRGiT (the Warsaw Commodity Clearing House),
- cash in VAT accounts in the amount of PLN 278 million (PLN 98 million in the comparative period) as well as
- securities and collateral of PLN 96 million (PLN 100 million in the comparative period).

17. Derivatives and other assets measured at fair value through profit or loss

	As at September 30, 2020	
	Assets	Liabilities
DERIVATIVES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		
Currency forwards	3	1
Commodity forwards	97	3
Commodity SWAP	7	6
Contracts for purchase/sale of coal	2	6
Options	3	-
HEDGING DERIVATIVES		
CCIRS hedges	33	-
IRS hedges	-	421
Currency forward - USD	1	1
Currency forward - EUR	201	61
OTHER ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		
Investment fund participation units	54	-
TOTAL	**401**	**499**
current	309	76
non-current	92	423

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	As at December 31, 2019	
	Assets	Liabilities
DERIVATIVES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		
Currency forwards	13	16
Commodity forwards	265	8
Commodity SWAP	11	16
Contracts for purchase/sale of coal	6	1
Options	5	-
HEDGING DERIVATIVES		
CCIRS hedges	18	-
IRS hedges	-	106
Currency forward - USD	-	-
Currency forward - EUR	34	332
OTHER ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		
Investment fund participation units	68	-
TOTAL	**420**	**479**
current	327	372
non-current	93	107

Commodity and currency forwards

Commodity and currency forward transactions mainly relate to trade in CO_2 emission allowances and to sales of coal. To recognise currency futures related to the purchase of CO_2 allowances, the Group uses hedge accounting.

Options

On January 20, 2017 PGE S.A. purchased a call option to purchase shares of Polimex-Mostostal S.A. from Towarzystwo Finansowe Silesia Sp. z o.o. The option was measured using the Black-Scholes method.

Coal swaps

In the current period, PGE Paliwa sp. z o.o., in order to hedge the commodity risk related to the price of imported coal, executed a number of transactions to hedge this risk using commodity swaps for coal. The number and value of these transactions is correlated to the quantity and value of imported coal. Changes in fair value are recognised in profit or loss.

Purchase and sale contracts with physical delivery of coal

PGE Paliwa Sp. z o.o. measures all of its sales and purchase contracts with physical delivery of coal at fair value using the trader-broker model. As at the reporting date, the Company held contracts that would be performed in 2021.

IRS transactions

PGE S.A. entered into IRS transactions to hedge interest rates on credit facilities and bonds issued with a total nominal value of PLN 7,030 million. To recognise these IRS transactions, the Group uses hedge accounting. The impact of hedge accounting on the revaluation reserve is presented in note 18.2 to these consolidated financial statements.

CCIRS hedges

In connection with loans received from PGE Sweden AB (publ), PGE S.A. concluded CCIRS transactions, hedging both the exchange rate and interest rate. In these transactions, banks-counterparties pay PGE S.A. interest based on a fixed rate in EUR and PGE S.A. pays interest based on a fixed rate in PLN. In the consolidated financial statements, a relevant part of the CCIRS transactions is treated as a security for bonds issued by PGE Sweden AB (publ).

Investment fund participation units

In previous years, PGE S.A. purchased investment certificates in three sub-funds established and managed by TFI Energia S.A.; their value as at the reporting date is PLN 54 million.

18. Equity

The basic objective of the Group's policy regarding equity management is to maintain an optimal equity structure over the long-term perspective, assure a good financial standing and secure equity structure ratios that would support the operating activity of PGE Group. It is also crucial to maintain a sound equity base that would be the basis to win confidence of potential investors, creditors and the market and assure further development of the Group.

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18.1 Share capital

	As at September 30, 2020	As at December 31, 2019
1,470,576,500 Series A ordinary Shares with a nominal value of PLN 10.25 each	15,073	15,073
259,513,500 Series B ordinary Shares with a nominal value of PLN 10.25 each	2,660	2,660
73,228,888 Series C ordinary Shares with a nominal value of PLN 10.25 each	751	751
66,441,941 Series D ordinary Shares with a nominal value of PLN 10.25 each	681	681
TOTAL SHARE CAPITAL	**19,165**	**19,165**

All of the Company's shares are paid up.
After the reporting date and until the date on which these financial statements were prepared, there were no changes in the value of the Company's share capital.

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

The Company is a member of PGE Group, in respect of which the State Treasury holds special rights as long as it remains a shareholder.

Special rights of the State Treasury that are applicable to PGE Group entities derive from the Act of March 18, 2010 on special rights of the Minister of Energy and their performance in certain companies and groups operating in the electricity, oil and gaseous fuels sectors (Official Journal from 2016, item 2012). The aforesaid Act specifies the particular rights entitled to the Minister of Energy related to companies and groups operating in the electricity, oil and gaseous fuels sectors whose property was disclosed within the register of buildings, installations, equipment and services included in critical infrastructure.

Based on this act the Minister of Energy has the right to object to any resolution or legal action of the Management Board that relates to the ability to dispose of a part of Company's property, which may result in threat to functioning, continuity of operations and integrity of critical infrastructure. The objection can also be expressed against any resolution adopted that relates to:

- dissolution of company,
- changes of the use or discontinuance of exploitation of an asset that is a component of critical infrastructure,
- change in the Company's principal business activity,
- sale or lease of, or creation of limited property rights in, the Company's business or its organised part,
- adoption of a budget, plan of investment activities, or a long-term strategic plan,
- relocation of the Company's registered office abroad,

if the implementation of any such resolution could constitute a material threat to the security, continuity or integrity of critical infrastructure operations. The objection is expressed in the form of an administrative decision.

18.2 Hedging reserve

	Period ended September 30, 2020	Year ended December 31, 2019
AS AT JANUARY 1	**(323)**	**(52)**
Change in hedging reserve:	**103**	**(336)**
Measurement of hedging instruments, including:	**110**	**(336)**
Recognition of the effective portion of change in fair value of hedging financial instruments in the part considered as effective hedge	*138*	*(438)*
Accrued interest on derivatives transferred from hedging reserve and recognised in interest expense	*11*	*3*
Currency revaluation of CCIRS transaction transferred from hedging reserve and recognised in net foreign exchange gains (losses)	*(39)*	*91*
Ineffective portion of change in fair value of hedging derivatives recognised in profit or loss	*-*	*8*
Measurement of other financial assets	**(7)**	**-**
Deferred tax	**(20)**	**65**
HEDGING RESERVE AFTER DEFERRED TAX	**(240)**	**(323)**

Hedging reserve includes mainly valuation of hedging instruments to which cash flow hedge accounting is applied.

18.3 Dividends paid and proposed

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

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19. Provisions

The carrying amount of provisions is as follows:

	As at September 30, 2020		As at December 31, 2019	
	Non-current	Current	Non-current	Current
Employee benefits	3,020	254	2,796	270
Rehabilitation provision	8,276	1	6,648	1
Provision for shortage of CO_2 emission allowances	-	4,687	121	3,411
Provisions for property rights held for surrender	-	319	-	572
Provision for non-contractual use of property	64	9	62	10
Other provisions	26	112	25	102
TOTAL PROVISIONS	**11,386**	**5,382**	**9,652**	**4,366**

Due to the change of market interest rates, PGE Group updated the discounting rate applied for the measurement of rehabilitation end employee benefit provisions. The discounting rate for the costs of rehabilitation of mining excavations is 2.15% (2.8% as at December 31, 2019). The discounting rate for the employee benefits provision and other provisions for rehabilitation costs is 1.4% (2.0% as at December 31, 2019). Changes in the discounting rate resulted in:

- An increase in the rehabilitation provision, with a corresponding increase of PLN 434 million in other operating expenses;
- An increase in the rehabilitation provision, with a corresponding increase of PLN 943 million in property, plant and equipment;
- An increase in the provision for post-employment benefits, with a corresponding decrease of PLN 176 million in other comprehensive income;
- An increase in the provision for jubilee awards, with a corresponding increase of PLN 40 million in operating expenses.

Changes in provisions

	Employee benefits	Rehabilitation provision	Provision for shortage of CO_2 emission allowances	Provisions for property rights held for surrender	Provision for non-contractual use of property	Other	Total
JANUARY 1, 2020	**3,066**	**6,649**	**3,532**	**572**	**72**	**127**	**14,018**
Actuarial gains and losses	31	-	-	-	-	-	31
Current service costs	82	-	-	-	-	-	82
Past service costs	(4)	-	-	-	-	-	(4)
Interest expense	45	129	-	-	-	-	174
Adjustment to discount rate and other assumptions	216	1,377	-	-	-	-	1,593
Benefits paid / Provisions used	(162)	(1)	(3,411)	(946)	-	(17)	(4,537)
Provisions reversed	-	-	(121)	(3)	(6)	(15)	(145)
Provisions recognised – costs	-	39	4,687	696	7	49	5,478
Provisions recognised – expenditure	-	61	-	-	-	-	61
Purchase of new subsidiaries	-	13	-	-	-	-	13
Other changes	-	10	-	-	-	(6)	4
SEPTEMBER 30, 2020	**3,274**	**8,277**	**4,687**	**319**	**73**	**138**	**16,768**

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	Employee benefits	Rehabilitation provision	Provision for shortage of CO_2 emission allowances	Provisions for property rights held for surrender	Provision for non-contractual use of property	Other	Total
January 1, 2019	**2,705**	**3,766**	**1,921**	**423**	**73**	**148**	**9,036**
Actuarial gains and losses	65	-	-	-	-	-	65
Current service costs	110	-	-	-	-	-	110
Past service costs	5	-	-	-	-	-	5
Interest expense	81	123	-	-	-	-	204
Adjustment to discount rate and other assumptions	300	2,637	-	-	-	-	2,937
Benefits paid / Provisions used	(200)	(1)	(1,803)	(640)	-	(26)	(2,670)
Provisions reversed	-	-	(6)	(6)	(9)	(43)	(64)
Provisions recognised – costs	-	43	3,419	784	8	49	4,303
Provisions recognised – expenditure	-	75	-	-	-	-	75
Other changes	-	6	1	11	-	(1)	17
DECEMBER 31, 2019	**3,066**	**6,649**	**3,532**	**572**	**72**	**127**	**14,018**

19.1 Provision for employee benefits

Provisions for employee benefits mainly include:

- post-employment benefits - PLN 2,354 million (PLN 2,149 million as at December 31, 2019),
- jubilee awards - PLN 920 million (PLN 917 million as at December 31, 2019).

19.2 Rehabilitation provision

Provision for rehabilitation of post-exploitation mining properties

PGE Group recognises provisions for rehabilitation of post-exploitation mining properties. The amount of the provision recognised in the financial statements includes also the value of Mine Liquidation Fund created in accordance with the Geological and Mining Law Act. As at September 30, 2020, the provision amounted to PLN 7,629 million (as at December 31, 2019: PLN 6,127 million).

Provision for rehabilitation of ash storage sites

PGE Group power generating units recognise provisions for rehabilitation of ash storage sites. As at September 30, 2020, the provision amounted to PLN 306 million (PLN 249 million as at the end of the comparative period).

Provision for rehabilitation of wind-farm sites

Companies that own wind farms recognise provision for rehabilitation of wind-farm sites. As at September 30, 2020, the provision amounted to PLN 71 million (PLN 60 million as at the end of the comparative period).

Liquidation of property, plant and equipment

As at the reporting date, the provision amounts to PLN 271 million (PLN 213 million as at the end of the comparative period) and refers to some assets of the Conventional Generation and Renewables segments.

19.3 Provision for shortage of CO_2 emission allowances

As described in note 15 to these financial statements, PGE Group is entitled to receive CO_2 emissions allowances granted free of charge in connection to expenditures on investment projects included in National Investment Plan. The calculation of the provision also includes these allowances.

19.4 Provision for energy origin units held for redemption

PGE Group companies recognise provision for energy origin rights relating to sales carried out during the reporting period or in the prior reporting periods, in an part unredeemed until the reporting date. As at September 30, 2020, the provision amounts to PLN 319 million (PLN 572 million in the comparative period) and is recognised mainly by PGE Obrót S.A.

19.5 Provision for non-contractual use of property

PGE Group companies recognise a provision for claims concerning non-contractual use of property. This mainly relates to the distribution company that owns distribution networks. As at the reporting date, the provision amounted to approximately PLN 73 million (including PLN 32 million for litigations). In the comparative period, the provision amounted to PLN 72 million (including PLN 32 million for litigations).

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20. Financial liabilities

The value of financial liabilities measured at amortised cost is a reasonable approximation of their fair value, except for bonds issued by PGE Sweden AB (publ).

Bonds issued by PGE Sweden AB (publ) are based on a fixed interest rate. As at September 30, 2020, their value at amortised cost, as disclosed in these consolidated financial statements, amounted to PLN 627 million and their fair value was PLN 737 million.

20.1 Credit facilities, loans, bonds and leases

	As at September 30, 2020		As at December 31, 2019	
	Non-current	Current	Non-current	Current
Credit facilities and loans	7,100	1,249	7,999	1,382
Bonds issued	2,023	13	1,986	12
Leases	913	51	874	55
TOTAL CREDIT FACILITIES, LOANS, BONDS AND LEASES	**10,036**	**1,313**	**10,859**	**1,449**

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Credit facilities and loans

Among loans and borrowings presented above as at September 30, 2020 and December 31, 2019, PGE Group presents mainly the following facilities:

Lender	Hedging instrumer	Maturity date	Limit in currency	Currency	Interest rate	Liability as at September 30, 2020	Liability as at December 31, 2019
Bank consortium	IRS	2023-09-30	3,630	PLN	Variable	3,628	3,649
European Investment Bank	-	2034-08-25	1,500	PLN	Fixed	1,516	1,505
Bank Gospodarstwa Krajowego	IRS	2027-12-31	1,000	PLN	Variable	941	1,001
European Bank for Reconstruction and Development	IRS	2028-06-07	500	PLN	Variable	503	502
Bank Gospodarstwa Krajowego	IRS	2028-12-31	500	PLN	Variable	502	500
European Investment Bank	-	2034-08-25	490	PLN	Fixed	496	493
Nordic Investment Bank	-	2024-06-20	150	EUR	Variable	264	293
Bank Pekao S.A.	-	2020-09-21	40	USD	Variable	99	83
Millennium S.A.	-	2021-06-16	7	PLN	Fixed	1	1
Bank Gospodarstwa Krajowego	-	2021-05-31	1,000	PLN	Variable	-	455
Revolving credit facility (bank consortium)	-	2022-12-16	4,100	PLN	Variable	-	300
Bank Pekao S.A.	-	2024-12-22	500	PLN	Variable	-	160
PKO BP S.A.	-	2022-04-29	300	PLN	Variable	-	21
Bank Ochrony Środowiska SA	-	2020-10-01	136	PLN	Variable	-	5
European Investment Bank	-	2038-10-16	273	PLN	Fixed	-	-
NFOŚiGW (State Fund for Environmental Protection and Water Management)	-	March 2023 – December 2028	215	PLN	Fixed	168	204
NFOŚiGW (State Fund for Environmental Protection and Water Management)	-	September 2021 - June 2035	763	PLN	Variable	81	101
WFOŚiGW (Provincial Fund for Environmental Protection and Water Management)	-	September 2020	9	PLN	Fixed	-	2
WFOŚiGW (Provincial Fund for Environmental Protection and Water Management)	-	September 2020 - September 2028	256	PLN	Variable	101	82
Loans from shareholders of PGE EJ1	-	November 2020 - September 2023	69	PLN	Fixed	49	24
TOTAL CREDIT FACILITIES AND LOANS						**8,349**	**9,381**

As at September 30, 2020, the value of the available overdrafts at significant PGE Group companies was PLN 1,855 million. The repayment date of used overdraft facilities of PGE Group's key companies is 2020-2021. In the period ended September 30, 2020 and after the reporting period, there were no cases of default on repayment or breach of other terms of credit agreements.

Bonds issued

Issuer	Hedging instrument	Maturity date of the programme	Limit in the programme currency	Currency	Interest rate	Tranche issue date	Tranche maturity date	Liability as at September 30, 2020	Liability as at December 31, 2019
PGE SA	IRS	indefinite	5,000	PLN	Variable	2019-05-21 2019-05-21	2029-05-21 2026-05-21	1,007 402	1,002 401
PGE Sweden AB (publ)	CCIRS	indefinite	2,000	EUR	Fixed	2014-08-01	2029-08-01	627	595
TOTAL BONDS ISSUED								**2,036**	**1,998**

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20.2 Trade and other financial liabilities

	As at September 30, 2020		As at December 31, 2019	
	Non-current	Current	Non-current	Current
Trade liabilities	-	1,074	-	1,506
Purchase of PPE and IA	10	505	3	1,633
Security deposits received	29	90	21	99
Liabilities on account of LTC	382	22	432	36
Insurance	-	-	-	8
Settlements related with stock market transactions	-	192	-	269
Other	17	166	19	85
TRADE AND OTHER FINANCIAL LIABILITIES	**438**	**2,049**	**475**	**3,636**

“Other” liabilities include, among others, PGE Dom Maklerski S.A.'s liabilities towards clients on account of funds deposited.

21. Other non-financial liabilities

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

21.1 Other non-financial liabilities – non-current

	As at September 30, 2020	As at December 31, 2019
OTHER NON-CURRENT LIABILITIES		
Contract liabilities	57	56
Estimated liabilities under the Voluntary Redundancy Programme	2	2
TOTAL OTHER NON-CURRENT LIABILITIES	**59**	**58**

21.2 Other current non-financial liabilities

	As at September 30, 2020	As at December 31, 2019
OTHER CURRENT LIABILITIES		
VAT liabilities	384	176
Excise tax liabilities	33	35
Environmental fees	152	213
Payroll liabilities	185	292
Bonuses for employees	306	238
Unused holiday leave	132	143
Estimated liabilities on account of branch holidays: “Barbórka” and “Dzień Energetyka”	61	-
Liabilities under the Voluntary Redundancy Programmes	2	6
Bonuses for Management Boards	25	27
Estimated liabilities on account of other employee benefits	26	6
Personal income tax	74	89
Social security liabilities	206	276
Contract liabilities	292	290
Dividends payable	7	7
Other	71	67
TOTAL OTHER CURRENT LIABILITIES	**1,956**	**1,865**

Environmental fees relate mainly to charges for the use of water and gas emission in conventional power plants as well as exploitation charges paid by lignite mines.
“Other” comprises mainly payments to the Employment Pension Programme, the State Fund for Rehabilitation of Persons with Disabilities and withholdings from employee salaries.

Contract liabilities

Contract liabilities mainly include advances for deliveries and prepayments made by customers for connection to the distribution grid and forecasts for electricity consumption concerning future periods.

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OTHER EXPLANATORY NOTES

22. Contingent liabilities and receivables. Legal claims

22.1 Contingent liabilities

	As at September 30, 2020	As at December 31, 2019
Contingent return of grants from environmental funds	473	505
Legal claims	184	248
Bank guarantee liabilities	-	1,846
Perpetual usufruct of land	95	-
Share purchase option	4	-
Other contingent liabilities	40	37
TOTAL CONTINGENT LIABILITIES	**796**	**2,636**

Contingent return of grants from environmental funds

The liabilities represent the value of possible future reimbursements of funds received by PGE Group companies from environmental funds for certain investment projects. The funds will be reimbursed if investment projects for which they were granted, do not bring the expected environmental effect.

Legal claims

Dispute with Worley Parsons

The contingent liability is mainly related to the dispute with WorleyParsons. WorleyParsons made a claim for payment of PLN 59 million due to the claimant and for the return of the amount that in the claimant's opinion was unduly collected by PGE EJ 1 sp. z o.o. from a bank guarantee, and later the claim extended to PLN 104 million (i.e. by PLN 45 million). On March 31, 2018, the company filed a response to WorleyParsons' expanded claim. The Group has not recognised the claims and believes that the court is unlikely to award them to the claimant.

Bank guarantee liabilities

These liabilities comprise bank guarantees provided as collateral for exchange transactions resulting from membership in the Warsaw Commodity Clearing House. In the comparative period, guarantees amounted to PLN 1,846 million. The decrease in guarantees results from the offsetting agreement concluded in January 2020 between PGE Group companies. Under this agreement, in accordance with the Regulations of the Exchange Clearing House, security deposits within the energy group may be compensated, owing to which offsetting positions within the PGE Group were compensated and thus no longer required security.

Perpetual usufruct of land

Contingent liabilities on account of perpetual usufruct of land are related to the received update of annual fees for perpetual usufruct. Branches of PGE GiEK S.A. have appealed against the decisions received to the Local Government Appeal Courts. The value of the contingent liability was measured as the difference between the discounted sum of updated perpetual usufruct fees for the entire period for which the perpetual usufruct was established and the liability on account of perpetual usufruct of land which was recognised in the accounting records on the basis of previously applicable fees.

Other contingent liabilities

Other contingent liabilities mainly comprise a potential claim by WorleyParsons amounting to PLN 33 million (as described above), and PLN 2 million from the imbalance between purchases and sales of energy in the domestic market. In the previous year, as at December 31, 2019, this event related to contingent receivables and amounted to PLN 33 million.

22.2 Other significant issues related to contingent liabilities

Non-contractual use of property

As described in note 19.5 to these financial statements, PGE Group recognises provision for disputes under court proceedings concerning non-contractual use of properties intended for distribution activities. In addition, PGE Group is involved in disputes at an earlier stage of proceedings and it cannot be excluded that the number and value of similar disputes will increase in the future.

Contractual liabilities related to purchase of fuels

According to the concluded agreements for the purchase of fuels (mainly coal and natural gas), PGE Group companies are obliged to collect the minimum volume of fuels and not to exceed the maximum level of collection of gas fuel in particular periods. Failure to collect the minimum volumes of fuels specified in the contracts, may result in extra fees being imposed (in case of certain agreement for the purchase of gas fuel, the volume not collected by power plants but paid up may be collected within the next periods).

In PGE Group's opinion, the terms and conditions of fuel deliveries to its power generating units as described above do not differ from the terms and conditions of fuel deliveries to other power generating units in the Polish market.

22.3 Contingent receivables

As at the reporting date, PGE Group held PLN 72 million in contingent receivables from potential return of overpaid excise duty. The Group is waiting for the Supreme Administrative Court's decision on what excise duty rate should be applied to settle the excise duty relief for the surrender of Property Rights arising from renewable energy sources before January 1, 2019.

In PGE Group's opinion, the rate in force at the time of sale of electricity generated from renewable energy sources to the final user, i.e. 20 PLN/MWh, should be used to settle the said relief. This position was sustained by the judgment of the Regional Administrative Court in Rzeszów of October 8, 2019.

On November 20, 2019, the tax authority filed a cassation appeal against the above mentioned ruling of the Provincial Administrative Court.

22.4 Other legal claims and disputes

Compensation for conversion of shares

Former shareholders of PGE GiEK S.A. filed motions to courts to summon PGE S.A. to a conciliation hearing concerning payment of compensation for incorrect (in their opinion) determination of the exchange ratio of shares of PGE Górnictwo i Energetyka S.A. into shares of PGE S.A. during a consolidation process that took place in 2010. The total value of claims resulting from summons to a conciliation hearing made by the former shareholders of PGE Górnictwo i Energetyka S.A. amounts to over PLN 10 million.

Irrespective of the foregoing, on November 12, 2014 Socrates Investment S.A. (an entity which purchased claims from former PGE Górnictwo i Energetyka S.A. shareholders) filed a lawsuit to impose a compensation in the total amount of over PLN 493 million (plus interest) for damage incurred in respect of incorrect (in their opinion) determination of the exchange ratio of shares in the merger of PGE Górnictwo i Energetyka S.A. and PGE S.A. The Company filed a response to the lawsuit. At present, the first instance court proceedings are pending. A hearing concerning appointment of an expert was held on November 20, 2018. Currently, experts are in the process of preparing their opinions. The next hearing will be scheduled ex officio.

Moreover, a similar claim was raised by Pozwy sp. z o.o., a buyer of claims from the former shareholders of PGE Elektrownia Opole S.A. Through a lawsuit filed at the District Court in Warsaw against PGE GiEK S.A., PGE S.A. and PwC Polska sp. z o.o. ("Defendants"), Pozwy sp. z o.o. demanded from the Defendants, in solidum, or jointly damages for Pozwy sp. z o.o. totalling over PLN 260 million with interest for allegedly incorrect (in its opinion) determination of exchange ratio for PGE Elektrownia Opole S.A. shares for PGE Górnictwo i Energetyka Konwencjonalna S.A. shares in a merger of these companies. This lawsuit was served on PGE S.A. on March 9, 2017, and the deadline for responding to it was set by the court as July 9, 2017. The following companies: PGE S.A. and PGE GiEK S.A. submitted a response to the claim on July 8, 2017. On September 28, 2018, the District Court in Warsaw ruled in the first instance and the lawsuit by Pozwy sp. z o.o. against PGE S.A., PGE GiEK S.A. and PWC Polska sp. z o.o. was dismissed. On April 8, 2019, PGE S.A. received a copy of the appeal filed by the claimant on December 7, 2018. A response to the appeal was prepared on April 23, 2019. The Court of Appeal scheduled the hearing for August 28, 2020. Due to the complexity of the case, the hearing was postponed. The hearing date set for October 26, 2020 was cancelled. The new date is not yet known.

PGE Group companies have not recognised the claims made by Socrates Investment S.A., Pozwy sp. z o.o. and the rest of shareholders requesting conciliatory settlements. According to PGE S.A., these claims are groundless and the entire consolidation process was conducted in a fair and correct manner. The value of shares subject to the process of consolidation was established by an independent company, PwC Polska sp. z o.o. Additionally, merger plans of the companies mentioned above, including the exchange ratios, were examined for accuracy and reliability by an expert appointed by the registration court; no irregularities were found. Next, the court registered the mergers of the aforementioned companies.

PGE Group has not recognised any provisions for these claims.

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

In 2016, PGE GiEK S.A., PGE EO S.A. and PGE Energia Natury PEW sp. z o.o. (acquired by PGE EO S.A.) received from Enea S.A. termination of long-term contracts for purchase of renewable energy origin certificates, so called "green certificates". In the explanatory statement of the termination, Enea S.A. claimed that the companies significantly breached the provisions of these contracts, i.e. failed to re-negotiate contractual provisions in accordance with the adaptive clause, as requested by Enea S.A. in July 2015 in connection with an alleged change in legal regulations having impact on performance of these contracts.

In the opinion of PGE Group, notices of termination of contracts presented by Enea S.A. were filled in with a violation terms of the agreements. The companies took appropriate steps to enforce their rights. With Enea S.A. refusing to perform long-term contracts to purchase energy origin certificates resulting from certificates of origin received by PGE Group companies in connection with the production of renewable energy, PGE GiEK S.A. and PGE Energia Natury PEW sp. z o.o. have demanded from Enea S.A. payment of contractual penalties, while PGE EO S.A. has demanded payment of compensation for damages. In October 2020, at the request of the parties, the court proceedings were suspended due to the willingness of the parties to hold settlement negotiations as an alternative dispute resolution method.

Due to the fact that according to PGE Group termination notices presented by Enea S.A. were submitted in breach of contractual terms, as at September 30, 2020, the Group recognised contractual penalty and compensation receivables of PLN 161 million (of which PLN 8 million was recognised as present-period revenues). According to PGE Group companies, based on available legal opinions, a favourable resolution in the above disputes is more probable than an unfavourable one.

The estimated volume of green certificates covered by the contracts with Enea S.A. amounts to approximately 2,698 thousand MWh. The above amount was calculated for the period from the date of termination of the contracts to the end of the expected initial term of the contracts.

In addition, PGE GiEK S.A., PGE Energia Natury PEW sp. z o.o. (acquired by PGE EO S.A.) and PGE EO S.A. filed lawsuits against Enea S.A. for the payment of receivables totalling PLN 47 million concerning invoices issued to Enea S.A. for the sale of energy origin certificates based on these contracts. Enea S.A. refused to pay these receivables, claiming that they were offset by receivables from the Group's companies related to compensation for alleged damages arising as a result of the companies' failure to re-negotiate the contracts. According to Group companies, such offsets are groundless because Enea S.A.'s receivables concerning the payment of compensation never arose and there are no grounds for acknowledging Enea S.A.'s claim that the companies breached contractual provisions. In October 2020, at the request of the parties, the court proceedings were suspended due to the willingness of the parties to hold settlement negotiations as an alternative dispute resolution method.

23. Tax settlements

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

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

Basic tax rates in 2020 were as follows: corporate income tax rate – 19%, for smaller enterprises a 9% rate is likely; basic value added tax rate – 23%, reduced: 8%, 5%, 0%, furthermore some goods and products are subject to a VAT tax exemption.

The tax system in Poland is characterised by a significant changeability of tax regulations, their high complexity and high potential fees for commitment of a tax crime or violation. Tax settlements and other activity areas are conditioned by regulations (customs or currency inspections) and can be subject to inspections by respective authorities that are entitled to issue fines and penalties with penalty interest. Inspections may cover tax settlements for the period of 5 years after the end of calendar year in which the tax was due.

Tax group

An agreement for a tax group named PGK PGE 2015, whose representative is PGE S.A., was signed on September 18, 2014 for a period of 25 years.

Companies included in the tax group must meet a number of requirements including: appropriate level of equity, parent's stake in PGK companies of at least 75%, lack of capital ties between subsidiaries, no tax arrears, share in total revenue of at least 2% (counted at tax group level), and execution of transactions with related parties from outside the tax group only on market terms. Any violation of these requirements will result in the tax group being dissolved and losing its taxpayer status. When the tax group is dissolved, each of its member companies will become an independent payer of corporate income tax. Following the introduction of provisions on counteracting the effects of COVID-19, the requirement to achieve a share in revenues of at least 2% for 2020 has been suspended.

VAT split payment mechanism, obligation to make payments to accounts registered with tax offices

The Group uses funds received from counterparties in VAT accounts to pay its liabilities that contain VAT. The level of funds in these VAT accounts at a given date depends mainly on the number of the Group's counterparties that decide to use this mechanism and on the relation between the payment dates of receivables and liabilities. As at September 30, 2020, the cash balance in these VAT accounts totalled PLN 278 million.

On January 1, 2020, regulations under which entrepreneurs are required to make payments to their counterparties - active VAT payers - for goods or services purchased with a value exceeding PLN 15 thousand only to their accounts that have been registered with the tax office (the so-called white list) came into force. As a rule, payment to an account not registered with the tax office excludes the right to consider such expenditure as a tax-deductible expense. Only by notifying the tax authority in a specific form and time of the payment made on an account not included in the "white list" can the right to settle the expense as a tax-deductible expense be retained. On July 1, 2020, regulations were introduced under which a payment made under the split payment mechanism excludes sanctions related to the payment to an account not included in the "white list". Given that the Group's principle is to make payments using the split payment method, the aforementioned risk is mitigated.

Reporting of tax schemes (MDR)

Up from 2019, new legal regulations that introduced mandatory reporting of the so-called tax schemes (Mandatory Disclosure Rules, MDR) came into force. As a general rule, a tax scheme means an activity whose main or one of the main benefits is the achievement of a tax advantage. In addition, events with so called special or other special hallmarks, defined in the regulations, were indicated as a tax scheme. The reporting obligation applies to three types of entities: promoters, facilitators and beneficiaries. MDR regulations are complex and imprecise in many areas, which raises doubts as to their practical application.

Excise tax

As a result of the incorrect implementation of EU regulations in the Polish legal system, in 2009 PGE GiEK S.A. initiated proceedings regarding reimbursement of the improperly paid excise tax for the period from January 2006 to February 2009. The irregularity consisted in taxing electricity at the first stage of sales, i.e. at the sale by producers, when it was the sale to final customers that should have been taxed.

Having examined PGE GiEK S.A.'s complaints with regard to the restitution claims against decisions issued by tax authorities refusing to confirm the overpayment of excise tax, administrative courts ruled that PGE GiEK S.A. did not bear the economic burden of the improperly calculated excise tax (which in the context of the resolution by the Supreme Administrative Court of June 22, 2011, file no. I GPS 1/11, precludes the return of overpaid amounts). According to the Supreme Administrative Court, the claims that PGE GiEK S.A. sought, especially using economic analyses, are of an offsetting nature and therefore could be sought only in civil courts. Given the above, PGE GiEK S.A. decided to withdraw from the proceedings as regards restitution claims. Currently, the actions concerning the overpaid excise tax are pending in the civil courts. On January 10, 2020, the District Court issued a ruling in a case brought by PGE GiEK against the State Treasury – the Minister of Finance. The court dismissed the claim. On February 3, 2020, the Company appealed against the decision of the first instance to the Warsaw Court of Appeals.

Given the significant uncertainty over the final ruling in this issue, the Group does not recognise in its financial statements any effects related to potential compensation in civil courts in connection with the improperly paid excise tax.

Property tax

Tax on property constitutes a significant burden on certain PGE Group companies. Regulations concerning property tax are unclear in certain areas and give rise to a variety of interpretation doubts. Tax authorities, i.e. municipality leader, mayor or city president, have often issued inconsistent tax interpretations in similar cases. Due to the above, PGE Group companies have been and may be parties to court proceedings concerning property tax. If the Group considers that an adjustment of settlements is likely due to such a proceeding, it recognises an appropriate provision.

Uncertainty related to tax settlements

Regulations on value added tax, corporate income tax, and social security contributions are subject to frequent amendments, with the effect being lack of appropriate points of reference, conflicting interpretations, and scarcity of established precedents which could be followed. Furthermore, the applicable tax laws lack clarity, which leads to differences in opinions and diverse interpretations of tax regulations, both between various public authorities and between public authorities and businesses.

Tax settlements and other regulated areas of activity (e.g. customs or foreign exchange control) are subject to inspection by administrative bodies, which are authorised to impose high penalties and fines, and any additional tax liabilities arising from such inspections must be paid with high interest. Consequently, tax risk in Poland is higher than in countries with more stable tax systems.

The amounts presented and disclosed in the financial statements may therefore change in the future as a result of a final decision by a tax inspection authority.

The Polish Tax Legislation Act contains the provisions of the General Anti-Avoidance Rules (GAAR). GAAR is intended to prevent the creation and use of abusive arrangements to avoid paying taxes in Poland. Under GAAR, tax avoidance is an arrangement the main purpose of which is to obtain a tax advantage which is contrary to the objectives and purpose of the tax legislation. According to GAAR, such measures do not lead to the achievement of a tax benefit if the scheme used was artificial. Any arrangements involving separation of transactions or operations without a sufficient rationale, engaging intermediaries where no business or economic rationale exists, any offsetting elements, and any arrangements that operate in a similar way, may be viewed as an indication of the existence of an abusive arrangement subject to GAAR. The new regulations will require much more judgement to be exercised when assessing the tax consequences of particular transactions.

The GAAR clause should be applied with respect to arrangements made after its effective date as well as arrangements that were made before its effective date but benefits of the tax advantage obtained through the arrangement continued or still continue after that date. Implementation of the above regulations will provide Polish tax inspection authorities with grounds to challenge certain legal arrangements made by taxpayers, including restructuring or reorganisation of corporate groups.

The Group discloses and measures current and deferred assets or liabilities in compliance with the requirements of IAS 12 *Income Taxes*, based on the taxable income (tax loss), tax base, unused tax losses, unused tax credits and tax rates, taking into consideration uncertainties related to tax settlements. Whenever it is uncertain whether and to what extent a tax authority would accept accounting for individual transactions, the Group accounts for such transactions taking into consideration an uncertainty assessment.

24. Information on related parties

PGE Group's transactions with related parties are concluded based on market prices for provided goods, products and services or are based on the cost of manufacturing.

24.1 Associates and jointly controlled entities

The total value of transactions with associates and jointly controlled entities is presented in the table below.

	Period ended September 30, 2020	Period ended September 30, 2019
Sales to associates and jointly controlled entities	8	10
Purchases from associates and jointly controlled entities	1,415	1,846

	As at September 30, 2020	As at December 31, 2019
Trade receivables from associates and jointly controlled entities	1	3
Trade liabilities to associates and jointly controlled entities	151	164

The value of purchases and balance of liabilities result mainly from transactions with Polska Grupa Górnicza Sp. z o.o.

24.2 State Treasury-controlled companies

The State Treasury is the dominant shareholder in PGE Polska Grupa Energetyczna S.A. and as a result in accordance with IAS 24 *Related Party Disclosures*, State Treasury companies are treated as related parties. PGE Group entities identify in detail transactions with approximately 40 of the biggest State Treasury subsidiaries.

The total value of transactions with such entities is presented in the table below.

	Period ended September 30, 2020	Period ended September 30, 2019
Sales to related parties	1,755	1,545
Purchases from related parties	3,771	4,095

	As at September 30, 2020	As at December 31, 2019
Trade receivables from related parties	218	266
Trade liabilities to related parties	718	612

The largest transactions with companies in which the State Treasury holds a stake concern transactions with Polskie Sieci Elektroenergetyczne S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A., ENERGA-OPERATOR S.A., Jastrzębska Spółka Węglowa S.A., Zakłady Azotowe PUŁAWY S.A., ENEA Operator Sp. z o.o., PKN Orlen S.A., PKP Cargo S.A., Grupa LOTOS S.A., TAURON Dystrybucja S.A.

Moreover, PGE Group enters into significant transactions in the energy market via Towarowa Giełda Energii S.A. (Polish Power Exchange). Due to the fact that this entity deals only with the organisation of trading, any purchases and sales made through this entity are not recognised as transactions with related parties.

24.3 Management remuneration

The key management comprises the Management and Supervisory Boards of the parent company and significant subsidiaries.

PLN '000	Period ended September 30, 2020	Period ended September 30, 2019
Short-term employee benefits (salaries and salary related costs)	26,482	26,776
Post-employment benefits	3,004	1,373
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**29,486**	**28,149**
Remuneration of key management personnel of entities of non-core operations	17,631	15,042
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**47,117**	**43,191**

PLN '000	Period ended September 30, 2020	Period ended September 30, 2019
Management Board of the parent company	5,265	5,857
including post-employment benefits	*49*	-
Supervisory Board of the parent company	587	563
Management Boards – subsidiaries	20,820	19,058
Supervisory Boards – subsidiaries	2,814	2,671
TOTAL	**29,486**	**28,149**
Remuneration of key management personnel of entities of non-core operations	17,631	15,042
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**47,117**	**43,191**

PGE Group companies (direct and indirect subsidiaries) apply a rule according to which management board members are employed on the basis of management services contracts. The above remuneration is included in other costs by nature disclosed in note 7.2 Costs by nature and function.

25. Significant events during and after the reporting period

25.1 Act amending the act on excise duty and certain other acts

On December 28, 2018, an act amending the act on excise duty and certain other acts was adopted. The Act aimed to stabilise electricity prices for final customers in 2019. The Act, among other things, froze the level of electricity prices for final off-takers and introduced a compensation scheme for retail companies.

In 2019, the Group recognised income from expected and received compensations in the amount of PLN 1,148 million, of which PLN 845 million was received by December 31, 2019, and further PLN 286 million by the date of these financial statements.

On September 25, 2020, PGE Obrót S.A. submitted a request to Zarządca Rozliczeń S.A. to adjust the received amount of the price difference and financial compensation for the period from January 1 to December 31, 2019 to PLN 85 million (of which PLN 17 million was recognized in revenues in 2019 and PLN 68 million represents current period's revenues).On October 1, 2020, the Company received from Zarządca Rozliczeń S.A. a request to correct the irregularities found during the verification of the Adjustment Request. Corrections related to this request do not represent significant values.

25.2 Onerous contracts resulting from, among other, the approval of a tariff for G tariff group customers

On January 3, 2020, the President of the ERO approved the tariff for PGE Obrót S.A. for G tariff group customers who do not use free market offers for the sale of electricity in the period from 18 January 2020 to 31 March 2020. The approved price level does not fully cover the purchase prices of electricity, property rights and own costs, which result in the loss of profitability of sales made by PGE Obrót S.A. to G tariff group customers who do not use free market offers for the sale of electricity and customers from this tariff group who use free market offers, where the sales price is correlated with the price approved by the President of ERO. The Management Board of PGE Obrót S.A. commenced the procedure of applying to the President of the Energy Regulatory Office for another tariff for the sale of electricity for the period from April 1 to December 31, 2020. The measures taken are aimed at obtaining such electricity sales prices that will allow to cover the actual electricity contracting costs, property rights and operating expenses of the company. By decision of July 8, 2020, the President of ERO rejected the application concerning this matter. On July 29, 2020, PGE Obrót S.A. filed an appeal against this decision.

Effects on reporting

As far as onerous contracts are concerned within the meaning of IAS 37, in Group's opinion, there were no such contracts as at September 30, 2020 due to the positive margin generated between the cost of producing energy and its sale to the final customer. Accordingly, consolidated figures of PGE Group do not include the recognition, use and reversal of the respective provisions.

In turn, during these three quarters of 2020, the Supply segment reversed PLN 256 million from the provision for onerous contracts recognised in 2019. This had no effect on the results of PGE Group.

25.3 Impact of the COVID-19 pandemic on PGE Group's operations

PGE Group identifies, on an ongoing basis, the risk factors that affect the Group's performance regarding COVID-19 pandemic. They were also taken into account in the impairment tests of non-current assets and financial non-current assets. As at September 30, 2020, the impact on financial performance remained limited. Nevertheless, further effects of the pandemic may become apparent in the following periods, particularly if a decision of the lock down of Polish economy is made . The nature and scale of possible further effects are difficult to estimate. What will be important is the duration of the epidemic, its potential increased severity and extent, as well as its impact on economic growth in Poland. At the same time, the accuracy of estimates remains difficult in view of a number of other factors affecting the power market, including the level of demand for electricity.

The outbreak of the pandemic has led to expected 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 that the lower level of domestic electricity consumption will continue. This affects the decrease in revenues and margins from energy generation, distribution and sales in the Distribution, Supply, Conventional Generation and District Heating segments. In Conventional Generation there was identified increase in margins comparatively to planned values.

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, thus in the short term the negative impact of lower production volumes on the Conventional Generation segment should be significantly limited. The negative effect should be related to potential reductions on the part of the Transmission System Operator, 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.

For the Supply segment, the decrease in demand volume became apparent primarily in the second quarter of this year, and the negative impact was associated with a lower level of sales to final off-takers and higher cost of balancing electricity. Also in the Distribution segment, a lower volume of deliveries made to final off-takes directly translates into lower revenues earned on this account. Taking into account the whole value creation chain, the impact of the above factors on the Group level was not significant.

As at September 30, 2020, the impact of the expected increase in payment congestion, especially regarding receivables from small and medium-sized enterprises, was not significant. As described in note 2.4 to these financial statements, the Group recognised additional impairment losses on receivables in the amount of PLN 22 million. On the other hand, depending on the further epidemiological and economic situation, the risk of deteriorated liquidity of PGE Group and increased impairment losses on overdue receivables still exists and is monitored on an ongoing basis. Currently, the Group does not expect the phenomenon to become more material and does not identify any liquidity risk.

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 and rotating work, raising awareness of, in particular, the basic principles of protection against coronavirus, prevention, quarantine, as well as those related to the organisation of the company 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.

In the area of retail customer service, PGE Group focused primarily on expanding remote service channels.

From an operational point of view, owing to the introduction of appropriate countermeasures at the early stage of the pandemic, PGE has been continuously producing electricity and heat and ensuring their uninterrupted supply.

PGE Group has been monitoring the further impact of the COVID-19 pandemic on the financial condition of the PGE Group 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.

25.4 Publication of the Poland's Energy Policy until 2040

On September 8, 2020, the Minister of Climate submitted an updated draft of Poland's Energy Policy until 2040 to the Coordinating Committee for Development Policy for its opinion and to the Minister of Regional Development for an opinion on compliance with the national medium-term strategy. The document is of key importance for the national energy sector, as it sets out the framework for the energy transformation in Poland. PEP2040 is to take into account the scale of the challenges related to the adaptation of the national economy to the EU regulatory environment related to the climate and energy targets for 2030, the European Green Deal, the post-COVID pandemic economic recovery plan and the pursuit of climate neutrality in the second half of the 21st century.

Through the implementation of the objectives and measures indicated in PEP2040, a low-carbon energy transformation is to be carried out with an active role for the final off-takers and the involvement of domestic industry.

The direction of the transformation of the Polish energy sector indicated in the document presented remains consistent with the objectives of the PGE Group's Strategy until 2030.

Draft PEP2040 will be published after receiving a positive opinion of the Coordination Committee for Development Policy chaired by the Minister of Funds and Regional Policy.

25.5 Submission of an initial offer to acquire interest in the assets of the Fortum Group

On October 27, 2020, an investment consortium in which PGE is a member submitted an initial non-binding offer to purchase district heating and cooling businesses in Estonia, Latvia, Lithuania and Poland from Fortum Holding B.V. The members of the Consortium are: PGE, Polskie Górnictwo Naftowe i Gazownictwo S.A., PFR Inwestycje FIZ which is managed by Polski Fundusz Rozwoju S.A. (Polish Development Fund) and IFM Investors Pty Ltd.

On November 16, 2020 PGE and Polskie Górnictwo Naftowe i Gazownictwo S.A. (the “Partners”), submitted a revised, initial non-binding offer to acquire certain assets owned by Fortum Holding B. V. (the “Offer”).

Under the revised Offer, the Partners are bidding for the district heating business operated by Fortum Holding B.V. exclusively in Poland. The Partners abandoned their original intention to purchase the Fortum Group’s assets operating in Estonia, Lithuania and Latvia, and decided they would not participate in the investment consortium with PFR Inwestycje FIZ and IFM Investors Pty Ltd.

The Partners will continue to work together towards the submission of a binding offer.

The core business of Fortum Holding B.V.’s Polish subsidiary is generation, distribution and sale of heat and the generation of electricity.

The acquisition of the Fortum Group’s assets is consistent with the PGE Group’s Strategy until 2030, announced on October 19, 2020.

25.6 Adoption of the PGE Group’s Strategy

On October 19, 2020, the Management Board of PGE adopted the Strategy of the PGE Group until 2030 with an outlook until 2050. For a detailed description, see Section 2 of the Directors' Report on the activities of PGE Group.

for the 3- and 9-month periods ended September 30, 2020, in accordance with IFRS EU (in PLN million)

II. PGE POLSKA GRUPA ENERGETYCZNA S.A. QUARTERLY FINANCIAL INFORMATION FOR THE 3- AND 9-MONTH PERIODS ENDED SEPTEMBER 30, 2020, IN ACCORDANCE WITH IFRS EU

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	3 months ended September 30, 2020 *(unaudited)*	9 months ended September 30, 2020 *(unaudited)*	3 months ended September 30, 2019 *(unaudited) restated data**	9 months ended September 30, 2019 *(unaudited) restated data**
STATEMENT OF PROFIT OR LOSS				
SALES REVENUES	**3,965**	**19,065**	**3,471**	**11,519**
Cost of goods sold	(3,746)	(18,317)	(3,310)	(10,798)
GROSS PROFIT ON SALES	**219**	**748**	**161**	**721**
Distribution and selling expenses	(5)	(15)	(3)	(11)
General and administrative expenses	(66)	(173)	(52)	(154)
Other operating income/(expenses)	(1)	(9)	(14)	(14)
OPERATING PROFIT	**147**	**551**	**92**	**542**
Finance income/(costs), including:	(53)	1,147	42	1,063
Interest income calculated using the effective interest rate method	*38*	*120*	*50*	*136*
GROSS PROFIT	**94**	**1,698**	**134**	**1,605**
Income tax	12	(45)	84	17
NET PROFIT FOR THE REPORTING PERIOD	**106**	**1,653**	**218**	**1,622**
OTHER COMPREHENSIVE INCOME				
Items that may be reclassified to profit or loss in the future:				
Valuation of hedging instruments	26	(328)	(92)	(131)
Deferred tax	(6)	62	18	25
Items that may not be reclassified to profit or loss in the future:				
Actuarial gains and losses from valuation of provisions for employee benefits	-	(2)	-	-
Deferred tax	-	-	-	-
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET	**20**	**(268)**	**(74)**	**(106)**
TOTAL COMPREHENSIVE INCOME	**126**	**1,385**	**144**	**1,516**
NET PROFIT AND DILUTED NET PROFIT PER SHARE (IN PLN)	**0.06**	**0.88**	**0.12**	**0.87**

* restatement of comparative data is described in note 1 to this quarterly financial information

for the 3- and 9-month periods ended September 30, 2020, in accordance with IFRS EU (in PLN million)

SEPARATE STATEMENT OF FINANCIAL POSITION

	As at September 30, 2020 *(unaudited)*	As at December 31, 2019 *(audited)*
NON-CURRENT ASSETS		
Property, plant and equipment	156	162
Intangible assets	1	-
Right-of-use assets	20	21
Financial receivables	10,042	10,955
Derivatives and other assets measured at fair value through profit or loss	91	105
Shares in subsidiaries	29,590	29,995
Shares in associates and jointly controlled entities	101	101
Deferred tax assets	89	16
	40,090	**41,355**
CURRENT ASSETS		
Inventories	1	3
Income tax receivables	-	37
Trade and other receivables	6,882	7,889
Derivative instruments	432	446
Other current assets	2,201	487
Cash and cash equivalents	2,498	221
	12,014	**9,083**
TOTAL ASSETS	**52,104**	**50,438**
EQUITY		
Share capital	19,165	19,165
Reserve capital	18,410	19,669
Hedging reserve	(338)	(72)
Retained earnings/(accumulated losses)	1,652	(1,258)
	38,889	**37,504**
NON-CURRENT LIABILITIES		
Non-current provisions	17	18
Credit facilities, loans, bonds, leases	8,716	9,521
Derivative instruments	421	106
Other liabilities	16	20
	9,170	**9,665**
CURRENT LIABILITIES		
Current provisions	23	1
Credit facilities, loans, bonds, cash pooling, leases	2,388	2,015
Derivative instruments	422	338
Trade and other liabilities	684	760
Income tax liabilities	421	-
Other non-financial liabilities	107	155
	4,045	**3,269**
TOTAL LIABILITIES	**13,215**	**12,934**
TOTAL EQUITY AND LIABILITIES	**52,104**	**50,438**

for the 3- and 9-month periods ended September 30, 2020, in accordance with IFRS EU (in PLN million)

SEPARATE STATEMENT OF CHANGES IN EQUITY

	Reserve capital	Reserve capital	Hedging reserve	Retained earnings	Total equity
AS AT JANUARY 1, 2020	**19,165**	**19,669**	**(72)**	**(1,258)**	**37,504**
Net profit for the reporting period	-	-	-	1,653	**1,653**
Other comprehensive income	-	-	(266)	(2)	**(268)**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**(266)**	**1,651**	**1,385**
Loss coverage	-	(1,259)	-	1,259	-
Other changes	-	-	-	-	-
AS AT SEPTEMBER 30, 2020	**19,165**	**18,410**	**(338)**	**1,652**	**38,889**

	Share capital	Reserve capital	Hedging reserve	Retained earnings	Total equity
AS AT JANUARY 1, 2019	**19,165**	**19,872**	**(2)**	**(201)**	**38,834**
Net profit for the reporting period	-	-	-	1,622	**1,622**
Other comprehensive income	-	-	(104)	(2)	**(106)**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**(104)**	**1,620**	**1,516**
Loss coverage	-	(203)	-	203	-
Other changes	-	-	-	-	-
AS AT SEPTEMBER 30, 2019	**19,165**	**19,669**	**(106)**	**1,622**	**40,350**

for the 3- and 9-month periods ended September 30, 2020, in accordance with IFRS EU (in PLN million)

SEPARATE STATEMENT OF CASH FLOWS

	Period ended September 30, 2020 *(unaudited)*	Period ended September 30, 2019 *(unaudited)*
CASH FLOWS FROM OPERATING ACTIVITIES		
Gross profit	**1,698**	**1,605**
Income tax paid	303	(168)
Adjustments for:		
Depreciation, amortisation and impairment losses	9	9
Interest and dividend, net	(1,581)	(1,084)
(Gain)/loss on investing activities	533	(55)
Change in receivables	25	(335)
Change in inventories	2	(53)
Change in liabilities, excluding credit facilities and loans	(84)	(148)
Change in other non-financial assets	(199)	(649)
Change in provisions	18	(8)
Foreign exchange differences	-	11
NET CASH FROM OPERATING ACTIVITIES	**724**	**(875)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	(4)	(3)
(Purchase)/buy-back of bonds issued by PGE Group companies	1,610	228
Dividends received	10	950
Sale of other financial assets	15	-
Acquisition of shares in subsidiaries	(18)	(1,016)
Loans granted/(repaid) under the cash pooling agreement	1,083	(134)
Loans advanced	(2,835)	(613)
Interest received	313	305
Repayment of loans advanced	2,630	2
NET CASH FROM INVESTING ACTIVITIES	**2,804**	**(281)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from credit facilities, loans	4,100	5,033
Proceeds from issue of bonds	-	1,400
Repayment of credit facilities, loans and leases	(5,099)	(5,236)
Interest paid	(250)	(236)
Other	(1)	(1)
NET CASH FROM FINANCING ACTIVITIES	**(1,250)**	**960**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**2,278**	**(196)**
Net foreign exchange differences	(1)	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**219**	**233**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	**2,497**	**37**

for the 3- and 9-month periods ended September 30, 2020, in accordance with IFRS EU (in PLN million)

1. Changes in accounting principles and data presentation

New standards and interpretations that became effective on January 1, 2020 and had no impact on the Company's separate financial statements are described in note 4 to the consolidated financial statements.

Changes in accounting principles

In the previous reporting period, the Company decided to offset revenues and expenses with regard to CO_2 allowance trading activities. Consequently, the Company has restated the comparative data. The restatement is presented in the table below.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	3 months ended September 30, 2019	9 months ended September 30, 2019	Change in CO_2 presentation	3 months ended September 30, 2019	9 months ended September 30, 2019
	published data	*published data*		*restated data*	*restated data*
SALES REVENUES	3,824	11,872	(353)	3,471	11,519
Cost of goods sold	(3,663)	(11,151)	353	(3,310)	(10,798)
GROSS PROFIT ON SALES	**161**	**721**	**-**	**161**	**721**

III. APPROVAL OF QUARTERLY FINANCIAL REPORT

This financial report, containing PGE Group's interim consolidated financial statements and PGE S.A.'s quarterly financial information for the 3- and 9-month periods ended September 30, 2020, was approved for publication by the Management Board on November 17, 2020.

Warsaw, November 17, 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	**Wanda Buk**	
Vice-President of the Management Board	**Paweł Cioch**	
Vice-President of the Management Board	**Paweł Strączyński**	
Vice-President of the Management Board	**Paweł Śliwa**	
Vice-President of the Management Board	**Ryszard Wasiłek**	

Signature of person responsible for drafting these financial statements	Michał Skiba Director, Reporting and Tax Department	

Glossary of terms and acronyms

Below is a list of the terms and abbreviations most frequently used in these consolidated financial statements

Acronym	Full name
CCIRS	Cross Currency Interest Rate Swaps
CGU	Cash Generating Unit
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
EUA	CO_2 emission allowances (European Union Allowances)
ECH	Exchange Clearing House
PGE Capital Group, PGE Group, Group, PGE CG KPI	PGE Polska Grupa Energetyczna S.A. Capital Group
IRGiT	Warsaw Commodity Clearing House
IRS	Interest Rate Swap
LTC	Long-term capacity and electricity sales contracts
KOGENERACJA S.A.	Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A.
KPI	National Investment Plan
IFRS	International Financial Reporting Standards
EU IFRSs	International Financial Reporting Standards as endorsed by the European Union
NFOŚiGW	National Fund for Environmental Protection and Water Management
IP	Investment property
ROUA	Right-of-use assets
PEP 2040	Poland's Energy Policy until 2040
PGE S.A., Company, Parent Company	PGE Polska Grupa Energetyczna S.A
PGE EC S.A.	PGE Energia Ciepła S.A.
PGE EO S.A.	PGE Energia Odnawialna S.A.
PGE GiEK S.A.	PGE Górnictwo i Energetyka Konwencjonalna S.A.
PGE PGK	PGE Tax group
RPUL	Right to perpetual usufruct of land
PPE	Property, plant and equipment
Financial statements, consolidated financial statements	Consolidated financial statements of PGE Group
ERO	Energy Regulatory Office
Act on Electricity Prices	Act amending the act on excise duty and certain other acts
WACC	Weighted Average Cost of Capital
WFOŚiGW	Provincial Fund for Environmental Protection and Water Management
IA	Intangible assets