# QUARTERLY FINANCIAL REPORT

of PGE Polska Grupa Energetyczna S.A.
for the 3- and 9-month period

ended September 30, 2021
in accordance with IFRS (in PLNm)

PGE

Prowadzimy w zielonej zmianie

# Table of contents

# I. PGE GROUP CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 3- AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2021, IN ACCORDANCE WITH IFRS EU

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | 3 months ended September 30, 2021 *(unaudited)* | 9 months ended September 30, 2021 *(unaudited)* | 3 months ended September 30, 2020 *(unaudited)* | 9 months ended September 30, 2020 *(unaudited)* |
|---|---|---|---|---|---|
| **STATEMENT OF PROFIT OR LOSS** | | | | | |
| | | | | | |
| **REVENUE FROM SALES** | *7.1* | **10,942** | **32,850** | **10,320** | **33,096** |
| Cost of goods sold | *7.2* | (11,489) | (30,281) | (9,269) | (30,162) |
| **GROSS PROFIT ON SALES** | | **(547)** | **2,569** | **1,051** | **2,934** |
| Distribution and selling expenses | *7.2* | (367) | (1,126) | (334) | (1,072) |
| General and administrative expenses | *7.2* | (223) | (724) | (329) | (864) |
| Net other operating income / expenses | *7.4* | 2,109 | 3,411 | 81 | (258) |
| **OPERATING PROFIT** | | **972** | **4,130** | **469** | **740** |
| Net finance income / costs, including: | *7.5* | (148) | (95) | (135) | (405) |
| *Interest income calculated using the effective interest rate method* | | *6* | *21* | *7* | *24* |
| Share of profit/(loss) of entities accounted for using the equity method | *7.6* | 4 | 3 | 2 | (543) |
| **GROSS PROFIT/(LOSS)** | | **828** | **4,038** | **336** | **(208)** |
| Income tax | *9* | (283) | (774) | (76) | (169) |
| **NET PROFIT/(LOSS) FOR THE REPORTING PERIOD** | | **545** | **3,264** | **260** | **(377)** |
| | | | | | |
| **OTHER COMPREHENSIVE INCOME** | | | | | |
| **Items that may be reclassified to profit or loss in the future:** | | | | | |
| Valuation of debt financial instruments | *20.2* | 8 | 15 | (4) | (7) |
| Valuation of hedging instruments | *20.2* | 458 | 297 | 165 | 110 |
| Exchange differences from translation of foreign entities | | 2 | | 1 | 5 |
| Deferred tax | *9* | (88) | (59) | (31) | (20) |
| **Items that may not be reclassified to profit or loss in the future:** | | | | | |
| Actuarial gains and losses from valuation of provisions for employee benefits | | 161 | 243 | (1) | (208) |
| Deferred tax | *9* | (31) | (46) | 1 | 40 |
| Share of profit of equity-accounted entities | | 2 | 2 | - | (3) |
| **OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET** | | **512** | **452** | **131** | **(83)** |
| | | | | | |
| **TOTAL COMPREHENSIVE INCOME** | | **1,057** | **3,716** | **391** | **(460)** |
| | | | | | |
| **NET PROFIT/(LOSS) ATTRIBUTABLE TO:** | | | | | |
| shareholders of the parent | | 561 | 3,251 | 273 | (415) |
| non-controlling interests | | (16) | 13 | (13) | 38 |
| | | | | | |
| **COMPREHENSIVE INCOME ATTRIBUTABLE TO:** | | | | | |
| shareholders of the parent | | 1,072 | 3,701 | 404 | (498) |
| non-controlling interests | | (15) | 15 | (13) | 38 |
| | | | | | |
| **EARNINGS AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT (IN PLN)** | | **0.30** | **1.74** | **0.15** | **(0.22)** |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | As at September 30, 2021 *(unaudited)* | As at December 31, 2020 *(audited)* |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | 60,966 | 61,741 |
| Investment property | | 40 | 41 |
| Intangible assets | | 683 | 646 |
| Right-of-use assets | | 1,260 | 1,309 |
| Financial receivables | *18.1* | 202 | 191 |
| Derivatives and other assets measured at fair value through profit or loss | *19* | 126 | 132 |
| Shares and other equity instruments | | 110 | 57 |
| Shares accounted for using the equity method | *0* | 153 | 152 |
| Other non-current assets | | 872 | 839 |
| $CO_2$ emission allowances for captive use | *16* | 3 | 39 |
| Deferred income tax assets | *14.1* | 970 | 1,351 |
| | | **65,385** | **66,498** |
| **CURRENT ASSETS** | | | |
| Inventories | *15* | 2,671 | 3,123 |
| $CO_2$ emission allowances for captive use | *16* | 38 | 1,735 |
| Income tax receivables | | 17 | 8 |
| Derivatives and other assets measured at fair value through profit or loss | *19* | 3,473 | 423 |
| Trade receivables and other financial receivables | *18.1* | 5,017 | 4,812 |
| Other current assets | | 1,100 | 799 |
| Cash and cash equivalents | *18.2* | 8,274 | 4,189 |
| | | **20,590** | **15,089** |
| **ASSETS CLASSIFIED AS HELD FOR SALE** | | **2** | **7** |
| **TOTAL ASSETS** | | **85,977** | **81,594** |
| | | | |
| **EQUITY** | | | |
| Share capital | *20.1* | 19,165 | 19,165 |
| Reserve capital | | 20,154 | 18,410 |
| Hedging reserve | *20.2* | 238 | (13) |
| Foreign exchange differences from translation | | 3 | 5 |
| Retained earnings | | 6,636 | 4,951 |
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT** | | **46,196** | **42,518** |
| | | | |
| Equity attributable to non-controlling interests | | 836 | 983 |
| **TOTAL EQUITY** | | **47,032** | **43,501** |
| | | | |
| **NON-CURRENT LIABILITIES** | | | |
| Non-current provisions | *21* | 10,374 | 11,207 |
| Loans, borrowings, bonds and lease | *22.1* | 8,548 | 10,025 |
| Derivatives | *19* | 101 | 385 |
| Deferred income tax liabilities | *14.2* | 344 | 345 |
| Deferred income and government grants | | 594 | 600 |
| Other financial liabilities | *22.2* | 437 | 448 |
| Other non-financial liabilities | *23.1* | 87 | 65 |
| | | **20,485** | **23,075** |
| **CURRENT LIABILITIES** | | | |
| Current provisions | *21* | 9,427 | 7,311 |
| Loans, borrowings, bonds and leases | *22.1* | 2,117 | 1,384 |
| Derivatives | *19* | 330 | 63 |
| Trade payables and other financial liabilities | *22.2* | 4,369 | 3,504 |
| Income tax liabilities | | 169 | 476 |
| Deferred income and government grants | | 76 | 77 |
| Other non-financial liabilities | *23.2* | 1,972 | 2,203 |
| | | **18,460** | **15,018** |
| **TOTAL LIABILITIES** | | **38,945** | **38,093** |
| **TOTAL EQUITY AND LIABILITIES** | | **85,977** | **81,594** |

# 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** | *20.1* | | *20.2* | | | | | |
| **JANUARY 1, 2021** | **19,165** | **18,410** | **(13)** | **5** | **4,951** | **42,518** | **983** | **43,501** |
| Net profit for the reporting period | - | - | - | - | 3,251 | 3,251 | 13 | 3,264 |
| Other comprehensive income | - | - | 251 | - | 199 | 450 | 2 | 452 |
| **COMPREHENSIVE INCOME** | **-** | **-** | **251** | **-** | **3,450** | **3,701** | **15** | **3,716** |
| Retained earnings distribution | - | 1,744 | - | - | (1,744) | - | - | - |
| Dividend | - | - | - | - | - | - | (2) | (2) |
| Changes in PGE Group | - | - | - | (2) | (18) | (20) | (155) | (175) |
| Settlement of purchase of additional shares in subsidiaries | - | - | - | - | - | - | (5) | (5) |
| Other changes | - | - | - | - | (3) | (3) | - | (3) |
| **SEPTEMBER 30, 2021** | **19,165** | **20,154** | **238** | **3** | **6,636** | **46,196** | **836** | **47,032** |

| | Share capital | Reserve capital | Hedging reserve | Foreign exchange differences from translation | Retained earnings | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Note** | *20.1* | | *20.2* | | | | | |
| **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 losses from previous years | - | (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) |
| **SEPTEMBER 30, 2020** | **19,165** | **18,410** | **(240)** | **4** | **4,445** | **41,784** | **877** | **42,661** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | Period ended September 30, 2021 *(unaudited)* | Period ended September 30, 2020 *(unaudited)* |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Gross profit / loss** | | **4,038** | **(208)** |
| Income tax paid | | (824) | (267) |
| | | | |
| **Adjustments for:** | | | |
| Share of (profit)/loss of equity-accounted entities | | (3) | 543 |
| Depreciation, amortisation, disposal and impairment losses | | 3,234 | 3,611 |
| Interest and dividend, net | | 235 | 216 |
| (Profit) / loss on investing activities | | (3,259) | 154 |
| Change in receivables | | (257) | (692) |
| Change in inventories | | 429 | 1,631 |
| Change in CO2 emission allowances for captive use | | 1,733 | 966 |
| Change in liabilities, excluding loans and borrowings | | 972 | 769 |
| Change in other non-financial assets, prepayments | | (327) | (83) |
| Change in provisions | | 1,733 | 1,531 |
| Other | | 101 | 4 |
| **NET CASH FROM OPERATING ACTIVITIES** | | **7,805** | **8,175** |
| | | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment and intangible assets | | (3,361) | (4,582) |
| Sale of property, plant and equipment and intangible assets | | 51 | 22 |
| Recognition of deposits with maturity over 3 months | | (93) | (309) |
| Termination of deposits with maturity over 3 months | | 84 | 296 |
| Purchase of financial assets | | (48) | (9) |
| Inclusion of companies in consolidation | | - | (121) |
| Sale of subsidiary after offsetting cash received | | 368 | 17 |
| Sale of other financial assets | | 56 | - |
| Loss of control | | (118) | - |
| Other | | 7 | 4 |
| **NET CASH FROM INVESTING ACTIVITIES** | | **(3,054)** | **(4,682)** |
| | | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from share issue for non-controlling interests | | 347 | - |
| Proceeds from loans, borrowings | | 240 | 4,175 |
| Repayment of loans, borrowings, leases | | (1,023) | (5,376) |
| Interest paid | | (265) | (270) |
| Increase in share in Group companies | | - | (11) |
| Other | | 24 | 19 |
| **NET CASH FROM FINANCING ACTIVITIES** | | **(677)** | **(1,463)** |
| | | | |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | | **4,074** | **2,030** |
| *Net exchange differences* | | *1* | *4* |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD** | *18.2* | **4,173** | **1,311** |
| **CASH AND CASH EQUIVALENTS AT THE END OF PERIOD** | *18.2* | **8,247** | **3,341** |

# 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 notarial deed of August 2, 1990 and registered in the District Court in Warsaw, XVI Commercial Department on September 28, 1990. The Company was registered in the National Court Register of the District Court for the capital city of Warsaw, XII Commercial Department, under no. KRS 0000059307. The Company's registered office is in Warsaw, ul. Mysia 2.

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

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

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

At September 30 and on the date on which these financial statements were published, the Company's Management Board was as follows:

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

**Ownership structure**

The parent's ownership structure was as follows:

| | As at September 30, 2021 | As at 31 December 2020 |
|---|---|---|
| **State Treasury** | 57.39% | 57.39% |
| **Other shareholders** | 42.61% | 42.61% |
| **Total** | **100.00%** | **100.00%** |

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

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

### 1.2 Information on PGE Group

PGE Group consists of the parent, PGE Polska Grupa Energetyczna S.A., along with 68 consolidated subsidiaries. Also subject to consolidation are 2 entities constituting a joint operation, 3 associates and 1 jointly controlled entity. For additional information about subsidiaries 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, 2021 to September 30, 2021 and include comparative data for the period from January 1, 2020 to September 30, 2020 and as at December 31, 2020. These condensed consolidated interim financial statements do not include 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, 2020, approved for publication on March 22, 2021.

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. Companies acquired in the course of the financial year were the exception, preparing financial data for the period from the moment when PGE Group obtained control.

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 specific Group companies.

**Going concern**

These financial statements were prepared under the assumption that the key Group companies will continue operating as a going concern for at least 12 months from the reporting date. Subsidiary PGE Obrót S.A. reported negative equity as at September 30, 2021, largely due to negative changes on the retail electricity trading market. PGE Obrót S.A. - like other PGE Group companies - has access to financing through PGE S.A., in connection with which this company's going concern assumption is justified.

Aside from PGE Obrót S.A., at the date of the approval of these financial statements, there is no evidence indicating that the going concern of significant Group companies is endangered.

**Changes in accounting policies**

The same accounting principles (policy) 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, 2020, published on March 22, 2021.

## 1.3 PGE Group's consolidated companies

### 1.3.1 Fully consolidated direct and indirect subsidiaries

| | Entity | Shareholder | Share held by Group entities as at September 30, 2021 | Share held by Group entities as at 31 December 2020 |
|---|---|---|---|---|
| | **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% |
| | PGE Trading GmbH (in liquidation) Berlin | PGE S.A. | - | 100.00% |
| 3. | PGE Obrót S.A. Rzeszów | PGE S.A. | 100.00% | 100.00% |
| 4. | ENESTA sp. z o.o. Stalowa Wola | PGE Obrót S.A. | 87.33% | 87.33% |
| 5. | PGE Centrum sp. z o.o. Warsaw | PGE S.A. | 100.00% | 100.00% |
| 6. | PGE Paliwa sp. z o.o. Kraków | PGE EC S.A. | 100.00% | 100.00% |
| | **SEGMENT: CONVENTIONAL GENERATION** | | | |
| 7. | PGE GiEK S.A. Bełchatów | PGE S.A. | 100.00% | 100.00% |
| 8. | ELBIS sp. z o.o. Rogowiec | PGE S.A. | 100.00% | 100.00% |
| 9. | MegaSerwis sp. z o.o. Bogatynia | PGE S.A. | 100.00% | 100.00% |
| 10. | ELMEN sp. z o.o. Rogowiec | PGE S.A. | 100.00% | 100.00% |
| 11. | ELTUR-SERWIS sp. z o.o. Bogatynia" | PGE S.A. | 100.00% | 100.00% |

| | Entity | Shareholder | Share held by Group entities as at September 30, 2021 | Share held by Group entities as at 31 December 2020 |
|---|---|---|---|---|
| 12. | BETRANS sp. z o.o.<br>Bełchatów | PGE S.A. | 100.00% | 100.00% |
| 13. | BESTGUM POLSKA sp. z o.o.<br>Rogowiec | PGE S.A. | 100.00% | 100.00% |
| 14. | RAMB sp. z o.o.<br>Piaski | PGE S.A. | 100.00% | 100.00% |
| 15. | „Energoserwis – Kleszczów" sp. z o.o.<br>Rogowiec | PGE GiEK S.A. | 51.00% | 51.00% |
| | **SEGMENT: DISTRICT HEATING** | | | |
| 16. | PGE Energia Ciepła S.A.<br>Warsaw | PGE S.A. | 100.00% | 100.00% |
| 17. | PGE Toruń S.A.<br>Toruń | PGE EC S.A. | 95.22% | 95.22% |
| 18. | PGE Gaz Toruń sp. z o.o.<br>Warsaw | PGE EC S.A. | 100.00% | 100.00% |
| 19. | Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A.<br>Wrocław | PGE EC S.A. | 58.07% | 58.07% |
| 20. | Elektrociepłownia Zielona Góra S.A.<br>Zielona Góra | KOGENERACJA S.A. | 98.40% | 98.40% |
| 21. | MEGAZEC sp. z o.o.<br>Bydgoszcz | PGE S.A. | 100.00% | 100.00% |
| 22. | Przedsiębiorstwo Energetyki Cieplnej sp. z o.o.<br>Zgierz | PGE EC S.A. | 100.00% | 100,00% |
| | **SEGMENT: CIRCULAR ECONOMY** | | | |
| 23. | PGE Ekoserwis S.A.<br>Wrocław | PGE S.A. | 100.00% | 95.08% |
| 24. | EPORE S.A.<br>Bogatynia | PGE GiEK S.A. | 100.00% | 100,00% |
| 25. | ZOWER sp. z o.o.<br>Rybnik | PGE Ekoserwis S.A. | 100.00% | - |
| | | PGE EC S.A. | - | 100.00% |
| | **SEGMENT: RENEWABLES** | | | |
| 26. | PGE Energia Odnawialna S.A.<br>Warsaw | PGE S.A. | 100.00% | 100.00% |
| 27. | Elektrownia Wiatrowa Baltica-1 sp. z o.o.<br>Warsaw | PGE S.A. | 100.00% | 100.00% |
| 28. | Elektrownia Wiatrowa Baltica-4 sp. z o.o.<br>Warsaw | PGE S.A. | 100.00% | 100.00% |
| 29. | Elektrownia Wiatrowa Baltica-5 sp. z o.o.<br>Warsaw | PGE S.A. | 100.00% | 100.00% |
| 30. | Elektrownia Wiatrowa Baltica-6 sp. z o.o.<br>Warsaw | PGE S.A. | 100.00% | 100.00% |
| 31. | PGE Baltica 1 sp. z o.o.<br>Warsaw | PGE S.A. | 100.00% | 100.00% |
| 32. | PGE Baltica 2 sp. z o.o.<br>Warsaw | PGE S.A. | 100.00% | 100.00% |
| 33. | PGE Baltica 3 sp. z o.o.<br>Warsaw | PGE S.A. | 100.00% | 100.00% |
| 34. | PGE Baltica 4 sp. z o.o.<br>Warsaw | PGE S.A. | 100.00% | 100.00% |
| 35. | PGE Baltica 5 sp. z o.o.<br>Warsaw | PGE Baltica 3 sp. z o.o. | 100.00% | - |
| | | PGE S.A. | - | 100.00% |
| 36. | PGE Baltica 6 sp. z o.o.<br>Warsaw | PGE Baltica 2 sp. z o.o. | 100.00% | - |
| | | PGE S.A. | - | 100.00% |
| 37. | PGE Baltica sp. z o.o.<br>Warsaw | PGE S.A. | 100.00% | 100.00% |
| 38. | PGE Klaster sp. z o.o.<br>Warsaw | PGE EO S.A. | 100.00% | 100.00% |
| 39. | PGE Soleo 1 sp. z o.o.<br>Warsaw | PGE EO S.A. | 100.00% | 100.00% |
| 40. | PGE Soleo 2 sp. z o.o.<br>Warsaw | PGE EO S.A. | 100.00% | 100.00% |
| 41. | PGE Soleo 3 sp. z o.o.<br>Warsaw | PGE EO S.A. | 100.00% | 100.00% |
| 42. | PGE Soleo 4 sp. z o.o.<br>Warsaw | PGE EO S.A. | 100.00% | 100.00% |
| 43. | PGE Soleo 5 sp. z o.o.<br>Warsaw | PGE EO S.A. | 100.00% | 100.00% |
| 44. | PGE Soleo 6 sp. z o.o.<br>Warsaw | PGE EO S.A. | 100.00% | 100.00% |
| 45. | PGE Soleo 7 sp. z o.o.<br>Warsaw | PGE EO S.A. | 100.00% | 100.00% |

| | Entity | Shareholder | Share held by Group entities as at September 30, 2021 | Share held by Group entities as at 31 December 2020 |
|---|---|---|---|---|
| | 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 ACTIVITY** | | | |
| | PGE EJ 1 sp. z o.o. Warsaw | PGE S.A. | - | 70.00% |
| 47. | PGE Systemy S.A. Warsaw | PGE S.A. | 100.00% | 100.00% |
| 48. | PGE Sweden AB (publ) Stockholm | PGE S.A. | 100.00% | 100.00% |
| 49. | PGE Synergia sp. z o.o. Warsaw | PGE S.A. | 100.00% | 100.00% |
| 50. | „Elbest” sp. z o.o. Bełchatów | PGE S.A. | 100.00% | 100.00% |
| 51. | Elbest Security sp. z o.o. Bełchatów | PGE S.A. | 100.00% | 100.00% |
| 52. | PGE Inwest 2 sp. z o.o. Warsaw | PGE S.A. | 100.00% | 100.00% |
| 53. | PGE Ventures sp. z o.o. Warsaw | PGE S.A. | 100.00% | 100.00% |
| 54. | PGE Inwest 8 sp. z o.o. Warsaw | PGE S.A. | 100.00% | 100.00% |
| 55. | PGE Inwest 9 sp. z o.o. Warsaw | PGE S.A. | 100.00% | 100.00% |
| 56. | PGE Inwest 10 sp. z o.o. Warsaw | PGE S.A. | 100.00% | 100.00% |
| 57. | PGE Inwest 11 sp. z o.o. Warsaw | PGE S.A. | 100.00% | 100.00% |
| 58. | PGE Inwest 12 sp. z o.o. Warsaw | PGE S.A. | 100.00% | 100.00% |
| 59. | PGE Inwest 13 S.A. Warsaw | PGE S.A. | 100.00% | 100.00% |
| 60. | PGE Inwest 14 sp. z o.o. Warsaw | PGE S.A. | 100.00% | 100.00% |
| 61. | PGE Nowa Energia sp. z o.o. Warsaw | PGE S.A. | 100.00% | 100.00% |
| 62. | Towarzystwo Funduszy Inwestycyjnych Energia S.A. Warsaw | PGE S.A. | 100.00% | 100.00% |
| 63. | Rybnik 2050 sp. z o.o. Warsaw | PGE S.A. | 100.00% | - |
| 64. | BIO-ENERGIA sp. z o.o. Warsaw | PGE EO S.A. | 100.00% | 100.00% |
| 65. | Przedsiębiorstwo Transportowo-Usługowe „ETRA” sp. z o.o. Białystok | PGE Dystrybucja S.A. | 100.00% | 100.00% |
| 66. | Energetyczne Systemy Pomiarowe sp. z o.o. Białystok | PGE Dystrybucja S.A. | 100.00% | 100.00% |
| 67. | Przedsiębiorstwo Usługowo-Handlowe TOREC sp. z o.o. Toruń | PGE Toruń S.A. | 51.05% | 51.05% |
| 68. | 4Mobility S.A. Warsaw | PGE Nowa Energia sp. z o.o. | 51.47% | 51.47% |
| 69. | PIMERGE S.A. Wrocław | PGE Ventures sp. z o.o. | 89.87% | 89.87% |

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, 2021:

- Rybnik 2050 sp. z o.o. w organizacji was formed on February 1, 2021. The company was registered at the National Court Register on May 31, 2021.
- On March 1, 2021, an Extraordinary General Meeting of PGE Trading GmbH adopted a resolution to dissolve PGE Trading GmbH and appoint a liquidator to carry out liquidation. Due to the loss of control related to the liquidation, as of April 1, 2021 PGE Trading GmbH is no longer a part of PGE Group and is not subject to consolidation.
- An agreement to sell all shares in PGE EJ1 sp. z o.o. to the State Treasury was signed on March 26, 2021. The ownership of the shares was transferred on March 31, 2021. In connection with this sale, PGE Group recorded a gross loss of PLN 19 million in its consolidated financial statements.
- On March 31, 2021 an Extraordinary General Meeting of PGE EO S.A. (acquiring company) and Extraordinary General Meeting of ECO - POWER sp. z o.o. (acquired company) adopted resolutions to merge the companies by transferring the entire assets of the acquired company to the acquiring company

without issuing new shares by the acquiring company in exchange for shares in the acquired company. The merger was registered at the National Court Register on April 30, 2021. The merger had no impact on these consolidated financial statements.

- On April 15, 2021 the Extraordinary General Meetings of PGE GiEK S.A. and PGE EC S.A. adopted resolutions to divide PGE GiEK S.A. (divided company) through a carve-out pursuant to art. 529 § 1 point 4 of the Polish Commercial Companies Code, by transferring certain assets from the divided company to PGE Energia Ciepła S.A. (acquiring company), i.e. branch Zespół Elektrowni Dolna Odra, including CHP Szczecin, CHP Pomorzany and the district heating network in Gryfino, constituting organised parts of enterprise, functionally related to the generation of electricity as well as electricity and heat in cogeneration and the distribution of heat. The transfer of these organised parts of enterprise to the acquiring company was carried out by lowering the divided company's share capital and increasing the acquiring company's share capital. The share capital increase was registered at the National Court Register on July 1, 2021. The transaction had no impact on these financial statements.
- On July 12, 2021, PGE S.A. purchased 11,525 shares of PGE Ekoserwis S.A. in a mandatory squeeze out procedure pursuant to art. 418 of the Polish Commercial Companies Code. As a result of this transaction, PGE S.A. currently holds a 100% interest in PGE Ekoserwis S.A. The price paid for the shares was PLN 5 million.

**Events after the reporting period**

On July 15, 2021 the Extraordinary General Meetings of PGE GiEK S.A. and PGE Inwest 8 sp. z o.o. adopted resolutions to divide PGE GiEK S.A. (divided company) through a carve-out pursuant to art. 529 § 1 point 4 of the Polish Commercial Companies Code by transferring certain assets from the divided company to PGE Inwest 8 sp. z o.o., i.e. PGE GiEK S.A. - branch Zespół Elektrowni Dolna Odra, including the construction of gas units constituting an organised part of enterprise, functionally related to the construction of new gas units and in the future generation of electric energy. The transfer of these organised parts of enterprise to the acquiring company was carried out by lowering the divided company's share capital and increasing the acquiring company's share capital. The share capital increase was registered at the National Court Register on October 1, 2021. This transaction will have no impact on the consolidated financial statements.

A merger of PGE Obrót S.A. (acquiring company) with PGE Centrum sp. z o.o. (acquired company) was registered at the National Court Register on October 1, 2021. This merger will have no impact on the consolidated financial statements.

## 1.3.2 The following joint ventures are subject to consolidation as regards the assets, equity and liabilities, revenues and costs attributable to PGE Group:

| | Entity | Shareholder | Share held by Group entities as at September 30, 2021 | Share held by Group entities as at 31 December 2020 |
|---|---|---|---|---|
| | **SEGMENT: RENEWABLES** | | | |
| 1. | Elektrownia Wiatrowa Baltica-2 sp. z o.o. Warsaw | PGE Baltica 6 sp. z o.o. | 50.00% | 100.00% |
| 2. | Elektrownia Wiatrowa Baltica-3 sp. z o.o. Warsaw | PGE Baltica 5 sp. z o.o. | 50.00% | 100.00% |

In May this year, Ørsted Group entities acquired sharess in the increased capital of Elektrownia Wiatrowa Baltica - 2 sp. z o.o. and Elektrownia Wiatrowa Baltica - 3 sp. z o.o. Following this transaction, Ørsted Group became a 50% shareholder in EWB2 and EWB3. In effect, PGE Group lost control over these two companies.

As a result of the transaction and signed agreements, the shareholders have joint control over EWB2 and EWB3. Decisions regarding all major activities require unanimous consent from the shareholders. At the same time, based on professional judgement, PGE Group assessed that as a result of the agreements signed the shareholders have the right to generally all of the economic benefits that will be generated by the companies' assets and will generally be their only source of revenue. According to PGE Group, starting from the date on which the sharess were acquired by Ørsted (as mentioned above), EWB2 and EWB3 constitute a joint operation in the meaning of IFRS *Joint Arrangements*, in connection with which in these financial statements PGE Group recognises its 50% share in the assets, liabilities, revenues and costs of the jointly controlled entities.

The following table presents the way in which the loss of control over EWB2 and EWB3 was accounted for:

| | EWB2 | EWB3 | Total |
|---|---|---|---|
| Fair value of contractual joint operation attributable to PGE Group (50%) | 233 | 297 | 530 |
| Net carrying amount of assets prior to loss of control | 90 | 116 | 206 |
| **GAIN ON LOSS OF CONTROL** | **143** | **181** | **324** |
| Fair value of contractual joint operation attributable to PGE Group (50%) | 233 | 297 | 530 |
| Net assets at the date joint control began | 197 | 252 | 449 |
| **GOODWILL** | **36** | **45** | **81** |

### 1.3.3 Associates and jointly controlled entities subject to consolidation using the equity method:

| | Entity | Shareholder | Share held by Group entities as at September 30, 2021 | Share held by Group entities as at 31 December 2020 |
|---|---|---|---|---|
| 1. | Polska Grupa Górnicza S.A. Katowice | PGE GiEK S.A. | 15.32% | 15.32% |
| 2. | Polimex Mostostal S.A. Warsaw | PGE S.A. | 16.40% | 16.48% |
| | ElectroMobility Poland S.A. Warsaw | PGE S.A. | 4.33% | 25.00% |
| 3. | PEC Bogatynia Bogatynia | PGE GiEK S.A. | 34.93% | 34.93% |
| 4. | Energopomiar sp. z o.o. Gliwice | PGE Group companies | 49.79% | 49.79% |

On August 19, 2021 an Extraordinary General Meeting of ElectroMobility Poland S.A. adopted a resolution to decrease the company's share capital from PLN 70,000,000 to PLN 52,300,500, by reducing the nominal value of all shares. Moreover, the Extraordinary General Meeting adopted a resolution to increase the company's share capital from PLN 52,300,500 to PLN 302,296,890 by issuing new shares, which were then taken up by the State Treasury in exchange for a cash contribution. As a result of the State Treasury becoming a shareholder of ElectroMobility Poland S.A., PGE S.A.'s share in this company's share capital declined from 25% to 4.33%. These changes were registered at the National Court Register on September 30, 2021. As of September 30, 2021, PGE Group no longer recognised ElectroMobility Poland S.A. using the equity method.

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

# 2. Basis for preparation of financial statements

## 2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* and in the scope required under the Regulation of the Minister of Finance 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 (Polish Journal of Laws 2018, items 512 and 685).

IFRS comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee.

## 2.2 Presentation and functional currency

The parent's functional currency and the presentation currency of these consolidated financial statements is the Polish zloty (PLN). All amounts are in PLN millions (PLNm), unless indicated otherwise.

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

| | September 30, 2021 | 31 December 2020 | September 30, 2020 |
|---|---|---|---|
| **USD** | 3.9925 | 3.7584 | 3.8658 |
| **EUR** | 4.6329 | 4.6148 | 4.5268 |

## 2.3 New standards and interpretations published, not yet effective

The following standards, amendments to existing standards and interpretations are not yet endorsed by the European Union or are not effective as at January 1, 2021:

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

PGE Group intends to adopt the above new standards, amendments to standards and interpretations published by the International Accounting Standards Board but not yet effective at the reporting date, when they enter into force. These regulations will not have a material impact on PGE Group's future financial statements.

## 2.4 Professional judgement of management and estimates

In the process of applying accounting rules in the matters referred to below, of the most importance, aside from accounting estimates, is the professional judgement of management, which has an impact on the amounts presented in the consolidated financial statements, including in additional explanatory notes. The estimates are based on the best knowledge of the Management Board relating to current and future operations and events in specific areas. Detailed information on the assumptions made is presented below or in respective explanatory notes.

- During the reporting period, PGE Group updated its impairment losses on assets, in particular of property, plant and equipment. These changes are described in note 3 to these financial statements.
  Estimates of recoverable amount of property, plant and equipment are 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.
- 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, during the reporting period a provision for land rehabilitation and a provision for employee benefits were updated due to an increase in the discount rate, and land rehabilitation provisions were updated to reflect changes in technical assumptions. Details are presented in note 21 to these financial statements.
- Uncertainties concerning tax settlements are described in note 25 to these consolidated financial statements.
- No significant extensions in the payment of receivables or problems with liquidity resulting from the COVID-19 pandemic were observed as of the reporting date. Following the pandemic's outbreak, in 2020 the Group updated its models for estimating expected credit losses. For the purposes of estimating the expected credit losses, counterparties were split into two groups: strategic counterparties, which have been internally assigned ratings based on a scoring model, and other counterparties, for which expected credit losses are estimated based on a provision matrix. For the first group of counterparties, the basis for calculating expected credit losses was changed. Losses are currently calculated on the basis of Credit Default Swap (CDS) prices, while for the other group of counterparties percentage coefficients in each time interval of the provisions matrix were updated to a level corresponding to the current recovery rate for receivables. In the effect of these two changes, the amount of provisions for expected credit losses at September 30, 2021 was PLN 14 million higher than it would have been had the previous rules been applied. A more extensive description of the impact of the pandemic on PGE Group's business is presented in note 27.1 to these financial statements.

# 3. Impairment tests on 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 variable macroeconomic conditions PGE Group regularly verifies indications of impairment for its assets. When assessing the market situation PGE Group uses both its own analytical tools and independent think tanks' support. In previous reporting periods, PGE Group recognised substantial impairment allowances of property, plant and equipment of Conventional Generation segment and the Renewables segment. An impairment loss recognised in the Renewables segment was also partially reversed in previous reporting periods.

In this year's first half, the Group analysed impairment indications and identified factors that could result in changes to the asset values in the Conventional Generation and Renewables segments. The tests showed no need to recognise an impairment loss for the Conventional Generation segment and the necessity to reverse the impairment loss for the Renewables segment. An analysis of the indications for conducting impairment tests in the District Heating segment did not show the need to conduct these tests. In the third quarter of 2021, the Group once again verified the indications and did not identify material changes in comparison with the previous analysis. In connection with this, the results of tests conducted as of June 30, 2021 remain up-to-date as of September 30, 2021.

**Macroeconomic and other assumptions**

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

The forecasts for electricity prices expect a decline in price in 2022 in reference to 2021 prices, a major price hike in 2023 in comparison with 2022, a decline in 2024 in reference to 2023, and subsequently an annual increase of 6% on average in 2025-2029.

The price forecasts for $CO_2$ emission allowances expected a major increase in 2023 in comparison with 2022, an annual decline in 2024-2025 of 6.5% on average and an annual increase in 2026-2029 of 12.7% on average. A slight decrease is expected in 2030, in comparison with 2029, followed by stable growth at approx. 4% annually until 2040.

The forecasts for hard coal prices expect a major increase in 2023 in reference to 2022, followed by an average annual growth of 2.8% until 2030.

The forecasts for natural gas prices expect an increase in price in 2022 in reference to 2021 prices, a major price hike in 2023 in comparison with 2022, followed by an average annual growth of approx. 4.1% in subsequent years.

The price forecasts for certificates of origin for energy expect an increase in the first two years of the forecasts, followed by an average annual decline of approx. 9% in 2023-2031, which is related to the decreasing obligation to redeem these certificates.

The forecast for revenue from the capacity market for 2021-2025 is based on the results of completed main and additional auctions for these delivery periods, taking into account the joint balancing mechanism at PGE Group companies. From 2026, the forecast was developed by a team of experts at PGE S.A. on the basis of assumptions concerning estimated future flows for generating units, based on, inter alia, results of a completed auction and forecasts from an external expert. For one-year contracts with delivery from July 1, 2025 and for multiannual contracts executed as part of the auction for 2025 and subsequent, the 550g $CO_2$/kWH (EPS 550) emission criterion is in place, which in practice rules out all coal units from Capacity Market auctions.

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

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

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

In connection with the above, for the purposes of impairment tests on tangible assets, PGE Group uses assumptions developed by an independent analytical centre, which take into account the current regulatory and market situation. Future changes on the electricity market may differ from the current assumptions, which may lead to substantial changes in PGE Group's financial situation and results. They will be recognised in future financial statements.

## 3.1 Description of assumptions for the Conventional Generation segment

Impairment tests were conducted on June 30, 2021, on cash generating unit basis by establishing their recoverable amounts. Determining fair value for very large groups of assets for which there is no active market and there are few comparable transactions is very difficult in practice. In the case of complete power plants and mines for which a value on the local market should be determined, there are no observable fair values. Given the above, the recoverable value of the analysed assets was estimated on the basis of discounted net cash flow method which relied on financial projections prepared for the period from July 2021 to the end of the use period. 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. Using longer projections, recoverable amounts may be determined more reliably.

**Detailed segment assumptions**

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

- classify the following as one CGU due to technological links:
  - Branch KWB Bełchatów and Branch Elektrownia Bełchatów ("Bełchatów complex"),
  - Branch KWB Turów and Branch Elektrownia Turów ("Turów complex"),

- classify the following as three separate CGUs: Elektrownia Dolna Odra, Elektrownia Szczecin and Elektrownia Pomorzany, which are part of Branch Zespół Elektrowni Dolna Odra,
- adopt the following assumptions about going concern:
- until 2036 for the Bełchatów complex, based on a shut-down date for all units accepted by the trade unions and adopted for the purposes of the Just Transition Plan for Łódzkie Voivodship,
- until 2044 for the Turów complex, based on a decision prolonging the mining concession to 2044, dated April 28, 2021,
- adopt the assumption that in the period from July 2025 there will be support from the capacity market or equivalent for units complying with the emission criterion of <550 g $CO_2$/kWh of produced electricity, although multiannual contracts executed as part of auctions for 2021-2025 are performed in accordance with their validity periods; for units that do not meet the emission criterion, there is the possibility of balancing multiannual contracts executed by 2019,
- take into account work cost optimisation resulting from current work plans, among other things,
- maintain production capacities as a result of replacement-type investments,
- adopt WACC after tax for the projection period at 6.06%-7.56%, depending on the CGU, in accordance with an individually estimated level of risk.

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

As at June 30, 2021, the carrying amount of the tested property, plant and equipment at PGE GiEK S.A. was PLN 25,910 million. This value does not include CGUs for which the useful value of tested assets is negative. As a result of an asset impairment test, the Group estimated the useful value of the assets being tested at PLN 31,368 million, in connection with which it concluded that there is no need to recognise or reverse impairment losses on these assets.

**Sensitivity analysis**

In accordance with IAS 36 *Impairment*, the Group carried out a sensitivity analysis for generating units in the Conventional Generation segment.

Presented below is the impact of changes in key assumptions on the useful value of assets in the Conventional Generation segment as at June 30, 2021.

| Parameter | Change | Impact on useful value in PLNbn | |
|---|---|---|---|
| | | Increase | Decrease |
| Change in electricity prices throughout the forecast period | 1% | 1.8 | - |
| | -1% | - | 1.8 |

A decline in electricity price by 1% would have caused a PLN 1.8 billion decrease in useful value.

| Parameter | Change | Impact on useful value in PLNbn | |
|---|---|---|---|
| | | Increase | Decrease |
| Change in WACC | +0.5pp | - | 0.9 |
| | -0.5pp | 1.0 | - |

An increase in WACC by 0.5 points would have caused a PLN 0.9 billion decrease in useful value.

| Parameter | Change | Impact on useful value in PLNbn | |
|---|---|---|---|
| | | Increase | Decrease |
| Changes in prices for $CO_2$ emission allowances | 1% | - | 1.0 |
| | -1% | 1.0 | - |

An increase in the price of $CO_2$ emission allowances by 1% would have caused a PLN 1 billion decrease in useful value.

## 3.2 Analysis of impairment indications in the District Heating segment

In previous reporting periods, PGE Group recognised substantial impairment losses on non-current assets in the District Heating segment. The key assumptions used in the impairment tests carried out as at November 30, 2020 are described in PGE Group's consolidated financial statements for 2020.

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

The most important factors analysed include:

- financial plan analysis,
- confirmation that the investment plan is up-to-date,
- analysis of prices for energy, hard coal, $CO_2$ emission allowances and natural gas
- analysis of heat prices,
- analysis of assumptions regarding the capacity market, support for cogeneration
- analysis of estimated margins on the production and sale of electricity in future periods in the light of price forecasts for energy, hard coal, gas and $CO_2$ emission allowances.

The analysis of indications performed for the District Heating segment showed that the generating units are implementing their financial plan in accordance with assumptions. The price forecasts for natural gas, electricity, hard coal, gas and $CO_2$ emission allowances that are available to PGE Group suggest that margin forecasts are favourable for both the sale of electricity and heat. The cogeneration support system for gas units has been reduced, however it has been replaced with support in the form of the capacity market, therefore this gives no rise to the risk of significant changes in useful values. Assumptions concerning the capacity market, in comparison to 2020, have a positive impact on forecast revenue from the program, having been updated to include completed auctions. Given the above, according to PGE, at the end of the reporting period there were no indications that would warrant the recognition of impairment losses on the non-current assets in the District Heating segment or the reversal of impairment losses recognised in previous periods.

## 3.3 Description of assumptions for the Renewables segment

In the present reporting period, PGE Group conducted asset impairment tests as of June 30, 2021.

The following cash generating units are identified and analysed in the Renewables segment:

- Considered as separate CGU belonging to PGE EO S.A.
  - total pumped-storage power plants,
  - total other hydropower plants
  - individual wind farms owned by PGE EO S.A.

- individual wind farms owned by PGE Klaster sp. z o.o.

**Impairment tests on the non-current assets of CGU PGE EO S.A.**

Impairment tests were conducted as at June 30, 2021, on cash generating unit basis by establishing their recoverable amounts. The recoverable value of the analysed assets was estimated on the basis of discounted net cash flow method which relied on the financial projections prepared for the assumed useful life of the particular CGU in the case of wind farms or for 2021-2030 in the case of other CGUs. For CGUs with expected periods of economic useful lives in excess of 2030, a residual value was determined for the remaining service time. According to the Group, financial projections longer than five years are justified because the property, plant and equipment used by the Group have significantly longer useful lives and also due to considerable and long-term effects of projected changes in the regulatory environment included in the detailed forecast.

### Detailed assumptions

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

- classification as a separate CGU of the following:
  - pumped-storage plants (one CGU for all plants due to their shared economic nature);
  - other hydropower plants (one CGU for all plants due to their shared economic nature);
  - individual wind farms (separate CGU for each wind farm due to different operational periods);

- production of electricity and property rights were estimated based on historic data, adjusted by the availability of units;
- unit availability was estimated based on repair plans, taking into account statistical failure rates;
- revenue from regulatory system services until mid-2023 were estimated based on the currently functioning system of remuneration for these services, from mid-2023 it is expected that the market mechanism for contracting regulatory services will start functioning, the revenues from which have been estimated based on PGE Group's internal analyses;
- maintain production capacities as a result of replacement-type investments;
- adopt WACC after tax for the projection period at 6.56%.

As a result of the non-current asset impairment test, the Group identified the need to release (reverse) impairment losses recognised in previous reporting periods on wind farms as of the reporting date.

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

The following table presents the value of impairment reversal as of June 30, 2021 as regards wind farms.

| As at June 30, 2021 | Discount rate | Tested value | Reversal of impairment | Value after impairment |
|---|---|---|---|---|
| Wind farms (PLNm) | 6.56% | 1,906 | 4 | 1,910 |

### Sensitivity analysis

A sensitivity analysis showed that factors such as WACC and electricity prices have a considerable impact on estimated useful value. The results of this sensitivity analysis apply all CGUs owned by PGE EO S.A.

Presented below is the impact of factors that have considerable influence throughout the entire projection period on forecast cash flows and thus also on estimated useful values.

| Parameter | Change | Impact on useful value in PLNm | |
|---|---|---|---|
| | | Increase | Decrease |
| Change in electricity prices throughout the forecast period | 1% | 67 | - |
| | -1% | - | 67 |

A decline in electricity price by 1% would have caused a PLN 67 million decrease in useful value.

| Parameter | Change | Impact on useful value in PLNm | |
|---|---|---|---|
| | | Increase | Decrease |
| Change in WACC | +0.5pp | - | 1,077 |
| | - 0.5pp | 1,375 | - |

An increase in WACC by 0.5 points would have caused a PLN 1.077 billion decrease in useful value. A decrease of WACC by 0.5 points has no impact on the amount of impairment or reversal.

**Impairment tests on the non-current assets of CGU PGE Klaster sp. z o.o.**

Impairment tests were conducted as at June 30, 2021, on cash generating unit basis by establishing their recoverable amounts. The recoverable value of the analysed assets was estimated on the basis of discounted net cash flow method which relied on the financial projections prepared for the assumed useful life of the wind farms.

**Detailed assumptions:**

- production of electricity is assumed on the basis of assumptions for the investment model,
- adopt WACC in the period of support in the form of auction price at 5.06% and in the remainder of the projection at 6.56%.

As a result of the non-current asset impairment test, the Group identified the need to release (reverse) impairment losses recognised in previous reporting periods on wind farms as of the reporting date.

The following table presents the value of impairment reversal as of June 30, 2021 as regards wind farms owned by PGE Klaster sp. z o.o.

| As at June 30, 2021 | Discount rate | Tested value | Reversal of impairment | Value after impairment |
|---|---|---|---|---|
| Wind farms (PLNm) | 5.06% / 6.56% | 687 | 36 | 723 |

**Sensitivity analysis**

In accordance with IAS 36, the Group performed a sensitivity analysis for PGE Klaster sp. z o.o.'s wind farms. Presented below is the impact of changes in WACC on the useful value of assets as at June 30, 2021:

| Parameter | Change | Impact on useful value in PLNm | |
|---|---|---|---|
| | | Increase | Decrease |
| Change in WACC | +0.5pp | - | 50 |
| | - 0.5pp | 54 | - |

An increase in WACC by 0.5 points would have caused a PLN 50 million decrease in useful value. A decrease of WACC by 0.5 points has no impact on the amount of impairment or reversal.

# 4. Changes in accounting principles and data presentation

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

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

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

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

# 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 based on the difference between the forward rate and transaction price. Forward exchange rates are not modelled as a separate risk factor, but are derived from the spot rate and appropriate forward interest rate for foreign currencies in relation to PLN.

In the category of financial assets and financial liabilities at fair value through profit or loss, the Group presents financial instruments related to greenhouse gas emissions trading – currency and commodity forwards, contracts to buy and sell coal, commodity swaps (Level 2).

In addition, the Group presents a foreign exchange hedging instrument (EURPLN), a CIRRUS derivative instrument that hedges interest rate and IRS hedging transactions exchanging a variable interest in PLN for a fixed interest rate in PLN (Level 2).

| | Assets as of September 30, 2021 | | Liabilities as of September 30, 2021 | |
|---|---|---|---|---|
| **FAIR VALUE HIERARCHY** | **Level 1** | **Level 2** | **Level 1** | **Level 2** |
| $CO_2$ emission allowances in trading activities | 1 | - | - | - |
| Hard coal in trading activities | 151 | - | - | - |
| **INVENTORIES** | **152** | **-** | **-** | **-** |
| Currency forwards | | 383 | - | 4 |
| Commodity forwards | | 2,941 | - | 1 |
| Commodity SWAP | | 27 | - | 212 |
| Contracts for purchase/sale of coal | | 64 | - | 15 |
| Options | | 20 | - | - |
| **DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS** | **-** | **3,435** | | **232** |
| CCIRS hedges | - | 59 | - | - |
| IRS hedges | - | - | - | 101 |
| Currency forward - USD | - | 3 | - | - |
| Currency forward - EUR | - | 65 | - | 98 |
| **HEDGING DERIVATIVES** | **-** | **127** | **-** | **199** |
| Investment fund participation units | - | 37 | - | - |
| **OTHER ASSETS / LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS** | **-** | **37** | **-** | **-** |

| | Assets at December 31, 2020 | | Liabilities at December 31, 2020 | |
|---|---|---|---|---|
| **FAIR VALUE HIERARCHY** | **Level 1** | **Level 2** | **Level 1** | **Level 2** |
| $CO_2$ emission allowances in trading activities | 1 | - | - | - |
| Hard coal in trading activities | 144 | - | - | - |
| **INVENTORIES** | **145** | **-** | **-** | **-** |
| Currency forwards | | 3 | - | 4 |
| Commodity forwards | | 11 | - | 4 |
| Commodity SWAP | | 11 | - | 13 |
| Contracts for purchase/sale of coal | | 17 | - | 18 |
| Options | | 16 | - | - |
| **DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS** | **-** | **58** | | **39** |
| CCIRS hedges | - | 64 | - | - |
| IRS hedges | - | - | - | 385 |
| Currency forward - USD | - | - | - | 1 |
| Currency forward - EUR | - | 381 | - | 23 |
| **HEDGING DERIVATIVES** | **-** | **445** | **-** | **409** |
| Investment fund participation units | - | 52 | - | - |
| **OTHER ASSETS / LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS** | **-** | **52** | **-** | **-** |

Derivative instruments are presented in note 18 to these financial statements. During the current and comparative reporting periods, there were no transfers of financial instruments between the first and second level of the fair value hierarchy.

# 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, trading 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 being issued for the period between 10 and 50 years.

Relevant assets are assigned to concessions for lignite mining and generation and distribution of electricity and heat, as presented in detailed information on operating segments. For its concessions concerning electricity and heat, the Group pays annual fees dependent on the level of turnover, while lignite mining operations under concessions are subject to extraction fees depending on the current rate and volume of output as well as mining use fees.

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

- Conventional Generation, comprising exploration and production of lignite, conventional generation of electricity and ancillary services.
- District Heating, comprising the generation of electricity from cogeneration sources and the transmission and distribution of heating.
- Renewables, comprising the generation of electricity in pumped-storage power plants and from renewable sources.
- Supply, comprising selling and buying electricity and natural gas on wholesale markets, emissions trading, buying and supplying fuels as well as selling electricity and providing services to end users.
- Distribution, comprising management over local distribution networks and transmission of electricity.
- Circular Economy, comprising management of the by-products of combustion.
- Other operations, comprising services provided by subsidiaries for the Group, e.g. capital raising, IT services, accounting and HR, and transport services and investments in startups.

PGE Group is organised and managed in segments that are distinct in terms of products and services. Each segment represents a strategic business unit that offers distinct goods and serves different markets. Entities assigned to operating segments are described in note 1.3 of these consolidated financial statements. PGE Group accounts for inter-segment transactions as if they concerned unrelated entities - on market terms. When analysing the results of segments the management of PGE Group focuses mainly on EBITDA.

Starting in 2021, PGE Group reports a new operating segment - Circular Economy - the assets and results of which were recognised and analysed within the following segments: Conventional Generation, District Heating and Other Operations. The data for the comparative period was not restated.

**Seasonality of business segments**

Key factors affecting the demand for electricity and heating are: weather conditions – air temperature, wind force, rainfall; socio-economic factors – number of energy consumers, prices of energy sources, GDP growth; and technological factors – technological progress, manufacturing technologies. 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 varies throughout the year, depending especially on weather conditions - air temperature, length of the day. Growth in electricity demand is particularly evident in winter periods, while lower demand is observed during the summer months. Moreover, seasonal changes are evident among selected groups of end users. 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.

The sale of heat depends in particular on air temperature and are higher in winter and lower in summer.

# 6.1 Information on operating segments

## Information on operating segments for the period ended September 30, 2021

| | Conventional Generation | District Heating | Renewables | Supply | Distribution | Circular Economy | Other activity | Adjustments | Total |
|---|---|---|---|---|---|---|---|---|---|
| **STATEMENT OF PROFIT OR LOSS** | | | | | | | | | |
| Sales to external customers | 13,548 | 2,737 | 618 | 11,048 | 4,721 | 105 | 67 | 6 | 32,850 |
| Inter-segment sales | 3,126 | 1,072 | 383 | 6,694 | 58 | 111 | 269 | (11,713) | - |
| **TOTAL SEGMENT REVENUE** | **16,674** | **3,809** | **1,001** | **17,742** | **4,779** | **216** | **336** | **(11,707)** | **32,850** |
| Cost of goods sold | (17,687) | (3,473) | (590) | (15,558) | (3,480) | (152) | (274) | 10,933 | (30,281) |
| **EBIT** | **1,266** | **387** | **359** | **997** | **1,127** | **34** | **29** | **(69)** | **4,130** |
| Depreciation, amortisation, liquidation and impairment recognised in profit or loss | 1,537 | 480 | 237 | 25 | 920 | 7 | 46 | (18) | 3,234 |
| **EBITDA** | **2,803** | **867** | **596** | **1,022** | **2,047** | **41** | **75** | **(87)** | **7,364** |
| **GROSS PROFIT** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **4,038** |
| Income tax | - | - | - | - | - | - | - | - | (774) |
| **NET PROFIT FOR THE REPORTING PERIOD** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **3,264** |
| **ASSETS AND LIABILITIES** | | | | | | | | | |
| Segment assets excluding trade receivables | 34,607 | 7,912 | 4,242 | 3,130 | 19,472 | 66 | 365 | (2,161) | 67,633 |
| Trade receivables | 618 | 296 | 244 | 3,636 | 862 | 56 | 60 | (2,254) | 3,518 |
| Equity-accounted interests | - | - | - | - | - | - | - | - | 153 |
| Unallocated assets | - | - | - | - | - | - | - | - | 14,673 |
| **TOTAL ASSETS** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **85,977** |
| Segment liabilities excluding trade liabilities | 17,799 | 2,420 | 664 | 4,059 | 2,763 | 44 | 82 | (2,003) | 25,828 |
| Trade liabilities | 1,139 | 297 | 59 | 3,312 | 336 | 33 | 23 | (3,691) | 1,508 |
| Unallocated liabilities | - | - | - | - | - | - | - | - | 11,609 |
| **TOTAL LIABILITIES** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **38,945** |
| **OTHER INFORMATION ON BUSINESS SEGMENT** | | | | | | | | | |
| Capital expenditures | 1,709 | 372 | 104 | 4 | 915 | 4 | 37 | (88) | 3,057 |
| Increases in right-of-use assets | - | 2 | - | - | 3 | - | 7 | - | 12 |
| **TOTAL INVESTMENT EXPENDITURES** | **1,709** | **374** | **104** | **4** | **918** | **4** | **44** | **(88)** | **3,069** |
| Acquisition of property, plant and equipment, intangible assets, right-of-use assets and investment properties as part of acquisition of new companies | - | - | 81 | - | - | - | - | - | 81 |
| Impairment losses on financial and non-financial assets | 169 | 4 | (45) | (44) | 6 | - | (1) | (1) | 88 |
| Other non-monetary expenses *) | 7,465 | 871 | 18 | 807 | (29) | 2 | 17 | - | 9,151 |

** Non-monetary expenses include mainly changes in provisions such as: rehabilitation provision, provision for $CO_2$ emission rights, provision for seniority bonuses, employee tariff and non-financial liabilities concerning employee benefits that are recognised in profit or loss and other comprehensive income.*

## Information on operating segments for the period ended September 30, 2020

| | Conventional Generation | District Heating | Renewables | Supply | Distribution | Other activity | 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, liquidation and impairment 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** |
| **GROSS LOSS** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(208)** |
| Income tax | - | - | - | - | - | - | - | (169) |
| **NET LOSS FOR THE REPORTING PERIOD** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(377)** |
| **ASSETS AND LIABILITIES** | | | | | | | | |
| Segment 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 liabilities, except for 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 right-of-use assets | 2 | 3 | 5 | 1 | 33 | 6 | (2) | 48 |
| **TOTAL INVESTMENT EXPENDITURES** | **1,476** | **334** | **676** | **8** | **1,232** | **130** | **(88)** | **3,768** |
| Acquisition of property, plant and equipment, intangible assets, right-of-use assets and investment properties 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 rights, provision for seniority bonuses, employee tariff and non-financial liabilities concerning employee benefits that are recognised in profit or loss and other comprehensive income.*

# EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## 7. Revenue and costs

### 7.1 Revenue from sales

**Revenue from sales for the period ended September 30, 2021, by category**

The following table presents a reconciliation between revenue disclosed by category and information on revenue that the Group discloses for each reporting period.

| | Conventional Generation | District Heating | Renewables | Supply | Distribution | Circular Economy | Other activity | Adjustments | Total |
|---|---|---|---|---|---|---|---|---|---|
| Revenue from contracts with customers | 16,665 | 3,781 | 997 | 17,738 | 4,736 | 216 | 332 | (11,688) | **32,777** |
| Revenues from LTC compensations | - | 5 | - | - | - | - | - | - | **5** |
| Revenue from support for high-efficiency cogeneration | - | 5 | - | - | - | - | - | - | **5** |
| Revenue from leases | 9 | 18 | 4 | 4 | 43 | - | 4 | (19) | **63** |
| **TOTAL REVENUE FROM SALES** | **16,674** | **3,809** | **1,001** | **17,742** | **4,779** | **216** | **336** | **(11,707)** | **32,850** |

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

| Type of goods or services | Conventional Generation | District Heating | Renewables | Supply | Distribution | Circular Economy | Other activity | Adjustments | Total |
|---|---|---|---|---|---|---|---|---|---|
| Revenue from sale of goods and products, without excluding taxes and fees | 16,641 | 3,736 | 985 | 17,160 | 5,706 | 96 | 39 | (10,627) | **33,736** |
| *Taxes and fees collected on behalf of third parties* | *(7)* | *(3)* | - | *(109)* | *(1,008)* | - | - | - | ***(1,127)*** |
| **Revenue from sale of goods and products, including:** | **16,634** | **3,733** | **985** | **17,051** | **4,698** | **96** | **39** | **(10,627)** | **32,609** |
| Sale of electricity | 13,540 | 1,775 | 610 | 9,750 | 2 | - | - | (3,574) | **22,103** |
| Capacity market | 1,622 | 200 | 228 | 25 | - | - | - | - | **2,075** |
| Sale of distribution services | 14 | 9 | - | 36 | 4,549 | - | - | (56) | **4,552** |
| Sale of heat | 130 | 1,673 | - | 9 | - | - | - | (2) | **1,810** |
| Sale of energy origin rights | 35 | 34 | 128 | - | - | - | - | (1) | **196** |
| Regulatory system services | 194 | 11 | 30 | - | - | - | - | - | **235** |
| Sale of natural gas | - | - | - | 269 | - | - | - | (118) | **151** |
| Sale of fuel | - | - | - | 322 | - | - | - | (158) | **164** |
| Sale of $CO_2$ emission allowances | 1,019 | 28 | - | 6,640 | - | - | - | (6,666) | **1,021** |
| Other sale of goods and materials | 80 | 3 | (11) | - | 147 | 96 | 39 | (52) | **302** |
| **Revenue from sale of services** | **31** | **48** | **12** | **687** | **38** | **120** | **293** | **(1,061)** | **168** |
| **REVENUE FROM CONTRACTS WITH CUSTOMERS** | **16,665** | **3,781** | **997** | **17,738** | **4,736** | **216** | **332** | **(11,688)** | **32,777** |

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

The following table presents a reconciliation between revenue disclosed by category and information on revenue that the Group discloses for each reporting period.

| | Conventional Generation | District Heating | Renewables | Supply | Distribution | Other activity | Adjustments | Total |
|---|---|---|---|---|---|---|---|---|
| Revenue from contracts with customers | 18,192 | 3,328 | 592 | 20,029 | 4,662 | 366 | (14,408) | **32,761** |
| Receivables from recognised compensation based on Act on electricity prices | - | - | - | 68 | - | - | - | **68** |
| Revenues 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** |

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

| Type of goods or services | Conventional Generation | District Heating | Renewables | Supply | Distribution | Other activity | Adjustments | Total |
|---|---|---|---|---|---|---|---|---|
| Revenue from sale 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 sale 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 sale of goods and materials | 97 | 46 | 5 | 2 | 159 | 57 | (2) | **364** |
| **Revenue from sale 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** |

## 7.2 Costs by nature and function

| | 3 months ended September 30, 2021 | Period ended September 30, 2021 | 3 months ended September 30, 2020 | Period ended September 30, 2020 |
|---|---|---|---|---|
| **COSTS BY NATURE** | | | | |
| Depreciation, amortisation and impairment losses | 1,141 | 3,239 | 1,089 | 3,634 |
| Materials and energy | 1,356 | 4,136 | 1,116 | 3,698 |
| External services | 618 | 1,760 | 616 | 1,846 |
| Taxes and fees | 4,986 | 10,243 | 2,111 | 6,214 |
| Employee benefits expenses | 1,191 | 3,824 | 1,272 | 4,107 |
| Other costs by nature | 85 | 250 | 78 | 216 |
| **TOTAL COST BY NATURE** | **9,377** | **23,452** | **6,282** | **19,715** |
| Change in product inventories | (11) | (2) | (4) | (9) |
| Cost of products and services for internal purposes | (121) | (422) | (257) | (678) |
| Distribution and selling expenses | (367) | (1,126) | (334) | (1,072) |
| General and administrative expenses | (223) | (724) | (329) | (864) |
| Cost of goods and materials sold | 2,834 | 9,103 | 3,911 | 13,070 |
| **COST OF GOODS SOLD** | **11,489** | **30,281** | **9,269** | **30,162** |

## 7.3 Depreciation, amortisation, liquidation and impairment losses

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

| Period ended September 30, 2021 | Depreciation, amortisation, disposal | | | | | Impairment | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Property, plant and equipment | Intangible assets | Right-of-use assets | Investment property | TOTAL | Property, plant and equipment | Intangible assets | Right-of-use assets | TOTAL |
| Cost of goods sold | 2,960 | 43 | 38 | 2 | **3,043** | 104 | 26 | 1 | **131** |
| Distribution and selling expenses | 8 | 2 | - | - | **10** | - | - | - | **-** |
| General and administrative expenses | 26 | 16 | 7 | - | **49** | 1 | - | - | **1** |
| **RECOGNISED IN PROFIT OR LOSS** | **2,994** | **61** | **45** | **2** | **3,102** | **105** | **26** | **1** | **132** |
| Change in product inventories | 1 | - | - | - | **1** | - | - | - | **-** |
| Cost of products and services for internal purposes | 4 | - | - | - | **4** | - | - | - | **-** |
| **TOTAL** | **2,999** | **61** | **45** | **2** | **3,107** | **105** | **26** | 1 | **132** |

| Period ended September 30, 2020 | Depreciation, amortisation, disposal | | | | | Impairment | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Property, plant and equipment | Intangible assets | Right-of-use assets | Investment property | TOTAL | Property, plant and equipment | Intangible assets | Right-of-use assets | 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 product inventories | (3) | - | - | - | **(3)** | - | - | - | **-** |
| Cost of products and services for internal purposes | 24 | 1 | 1 | - | **26** | - | - | - | **-** |
| **TOTAL** | **2,763** | **70** | **51** | 2 | **2,886** | **690** | **57** | **1** | **748** |
| **Other operating income** | **-** | **-** | **-** | - | **-** | **(1)** | **-** | **-** | **(1)** |

In the present period, the Group performed a non-current asset impairment test, which led to the release of impairment losses totalling PLN 40 million. A detailed description is presented in note 3.3 to these financial statements.

Other impairment losses recognised in the reporting period concern investment expenditures at units for which impairment had been recognised in previous periods.

In the item 'Depreciation/amortisation and liquidation' the Group recognised in the current and comparative period PLN 23 million net as liquidation of property, plant and equipment and intangible assets.

## 7.4 Other operating income and expenses

| | Period ended September 30, 2021 | Period ended September 30, 2020 |
|---|---|---|
| **NET OTHER OPERATING INCOME/(EXPENSES)** | | |
| Measurement and exercise of derivatives, including: | 2,917 | 158 |
| *$CO_2$* | *2,943* | *146* |
| *Coal* | *(26)* | *12* |
| Effect of change in rehabilitation provision | 424 | (434) |
| Penalties, fines and compensations received | 53 | 65 |
| Reversal/(recognition) of other provisions | (51) | (13) |
| Gain on sale of property, plant and equipment / intangible assets | 32 | 6 |
| Grants received | 24 | 25 |
| Asset surpluses/disclosures | 22 | 3 |
| Donations granted | (16) | (13) |
| Property, plant and equipment/intangible assets and other infrastructure received free-of-charge | 13 | 11 |
| Reversal/(recognition) of impairment losses on receivables | 11 | (56) |
| Liquidation of property, plant and equipment/intangible assets/right-of-use assets | (10) | (7) |
| Other | (8) | (3) |
| **TOTAL NET OTHER OPERATING INCOME/(EXPENSES)** | **3,411** | **(258)** |

In order to optimise financial flows, the Group decided to changed its hedging strategy for $CO_2$ emission allowances and the rolling of certain contracts concerning these allowances. As a result of this strategy, purchase contracts with delivery in December 2021, with a total volume of 19.6 million, were closed and replaced by contracts with delivery in the first quarter of 2022. The conclusion of opposite contracts caused the existing purchase contracts, with a total volume of 19.6 million, not to be used for the Group's redemption purposes. In connection with the above, these contracts - and the opposite contracts - were measured at fair value in accordance with IFRS 9 *Financial Instruments*. As a result of these operations, the Group generated PLN 2,778 million in revenue resulting from the difference between the sale price for contracts with delivery in December 2021 and the historic purchase price for these contracts. At the same time, the provision for the cost of $CO_2$ emissions for 2021 was updated, i.e. the purchase price of allowances resulting from the new contracts was taken into account. These actions will have a neutral impact on the 2021 financial result, however due to the fact that the concluded contracts also concern the production of electricity from the fourth quarter of 2021, as of the end of the third quarter the Group generated a gain, which will be offset with higher costs of $CO_2$ emissions in the fourth quarter of 2021. PGE Group estimates that overall the result of rolling the hedging transactions and the larger provision for EUA redemption caused an increase in gross profit as of September 30, 2021 by approx. PLN 712 million. This value will be included in the amount of the EUA redemption provision in the fourth quarter of 2021, ergo the EUA rolling transaction will ultimately not have an impact on the full-year result for 2021.

## 7.5 Finance income and finance costs

| | Period ended September 30, 2021 | Period ended September 30, 2020 |
|---|---|---|
| **NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS** | | |
| Dividends | 2 | 2 |
| Interest, including | (224) | (200) |
| *Interest income calculated using the effective interest rate method* | *21* | *24* |
| Impairment | (27) | 3 |
| Reversal/(recognition) of impairment | (3) | (2) |
| Exchange differences | (4) | (24) |
| Loss on sale of investment | (7) | (2) |
| Settlement of loss of control | 324 | - |
| **TOTAL NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS** | **61** | **(223)** |
| **NET OTHER FINANCE INCOME/(COSTS)** | | |
| Interest cost on non-financial items | (151) | (174) |
| Interest on statutory receivables/(liabilities) | 1 | (1) |
| Recognition of provisions | - | (2) |
| Other | (6) | (5) |
| **TOTAL NET OTHER FINANCE INCOME/(COSTS)** | **(156)** | **(182)** |
| **TOTAL NET FINANCE INCOME/(COSTS)** | **(95)** | **(405)** |

Result on the loss of control is related to Ørsted's acquisition of a 50% share in the increased share capital of EW Baltica 2 and EW Baltica 3. The transaction is described in greater detail in notes 1.3 and 27.3 to these financial statements.

Interest costs mainly relate to outstanding bonds, credit facilities, loans, settled IRS transactions and leases. The interest cost on lease liabilities reached PLN 30 million in the current report (PLN 31 million in the comparative period).
The interest cost on non-financial items concerns land rehabilitation provisions and employee benefit provisions.

## 7.6 Share of profit of equity-accounted entities

| **Period ended** September 30, 2021 | Polska Grupa Górnicza | Polimex Mostostal | PEC Bogatynia | Energopomiar |
|---|---|---|---|---|
| **SHARE IN VOTES** | **15.32%** | **16,40%** | **34.93%** | **49.79%** |
| Revenue | 5,731 | 1,561 | 13 | 52 |
| Result on continuing operations | (674) | 77 | - | 8 |
| **Share of profit of equity-accounted entities before consolidation adjustments** | **(103)** | **13** | **-** | **3** |
| Elimination of unrealised gains and losses | (10) | (3) | - | - |
| Impairment | 103 | - | - | |
| **SHARE OF PROFIT OF EQUITY-ACCOUNTED ENTITIES** | **(10)** | **10** | **-** | **3** |

| **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 |
| Result 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 | (310) | - | - | - | - |
| **SHARE OF PROFIT OF EQUITY-ACCOUNTED ENTITIES** | **(559)** | **13** | **(1)** | **-** | **4** |
| Other comprehensive income | **(21)** | **-** | **-** | **-** | **-** |
| **Share of the result of equity-accounted entities in other comprehensive income** | **(3)** | **-** | **-** | **-** | **-** |

The Group makes consolidation adjustments related to margin on sale of coal between PGG and PGE Group and on the margin on Polimex Mostostal's contracts being performed for PGE Group.

# 8. Impairment losses on assets

| | Period ended September 30, 2021 | Period ended September 30, 2020* |
|---|---|---|
| **IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT** | | |
| Recognition of impairment loss | 157 | 548 |
| Reversal of impairment loss | 52 | 733 |
| **IMPAIRMENT OF INTANGIBLE ASSETS** | | |
| Recognition of impairment loss | 27 | 57 |
| Reversal of impairment loss | 1 | - |
| **IMPAIRMENT LOSSES ON RIGHT-OF-USE ASSETS** | | |
| Recognition of impairment loss | 1 | 1 |
| Reversal of impairment loss | - | - |
| **IMPAIRMENT LOSSES OF** | | |
| **EQUITY ACCOUNTED SHARES** | | |
| Recognition of impairment loss | - | 310 |
| Reversal of impairment loss | 286 | - |
| **IMPAIRMENT OF INVENTORIES** | | |
| Recognition of impairment loss | 7 | 14 |
| Reversal of impairment loss | 6 | 53 |

**Restated data*

An impairment loss recognised on the share in associate PGG was reversed in the current reporting period. The impairment loss was used due to losses incurred by PGG.

# 9. Income tax

## 9.1 Tax in the statement of comprehensive income

The main elements of the tax burden for the period ended September 30, 2021, and September 30, 2020, were as follows:

| | Period ended September 30, 2021 | Period ended September 30, 2020 |
|---|---|---|
| **INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS** | | |
| Current income tax | 474 | 670 |
| Adjustments concerning current income tax from prior years | 28 | - |
| Deferred income tax | 273 | (499) |
| Adjustments of deferred income tax | (1) | (2) |
| **INCOME TAX EXPENSE RECOGNISED IN STATEMENT OF PROFIT OR LOSS** | **774** | **169** |
| **INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME** | | |
| From actuarial gains and losses from valuation of provisions for employee benefits | 46 | (40) |
| From measurement of hedging instruments | 59 | 20 |
| **(Tax benefit) / tax burden recognised in other comprehensive income (equity)** | **105** | **(20)** |

## 9.2 Effective tax rate

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

| | Period ended September 30, 2021 | Period ended September 30, 2020 |
|---|---|---|
| **PROFIT/(LOSS) BEFORE TAX** | **4,038** | **(208)** |
| Income tax according to Polish statutory tax rate of 19% | 767 | (40) |
| **ITEMS ADJUSTING INCOME TAX** | | |
| Result on settlement of loss of control | (62) | - |
| Adjustments concerning current income tax from prior years | 28 | - |
| Adjustments concerning deferred income tax from prior years | (29) | - |
| Recognition of impairment losses for which no deferred tax was recognised | (6) | 91 |
| Recognition of land rehabilitation provisions for which no deferred tax was recognised | 85 | 81 |
| Release of land rehabilitation provisions for which no deferred tax was recognised | (41) | - |
| Reversal of other provisions and impairment losses for which no deferred tax was recognised | (9) | - |
| Tax loss | 13 | - |
| Non-taxable income | 9 | (12) |
| Other costs not recognised as tax-deductible costs | 32 | 38 |
| Other adjustments | (13) | 11 |
| **TAX AT EFFECTIVE TAX RATE**<br>**Income tax (expense) as presented in the consolidated financial statements** | **774** | **169** |
| **EFFECTIVE TAX RATE** | **19%** | **-81%** |

Result on the loss of control is related to Ørsted's acquisition of a 50% share in the increased share capital of EW Baltica 2 and EW Baltica 3. The transaction is described in greater detail in notes 1.3 and 27.3 to these financial statements.

# EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## 10. Material transactions to purchase and sell property, plant and equipment, intangible assets and right-of-use assets

In the present reporting period, the Group purchased property, plant and equipment and intangible assets worth PLN 3,057 million, along with the right-of-use for underlying assets worth PLN 12 million. The largest expenditures were incurred in the Conventional Generation segment (PLN 1,709 million) and the Distribution segment (PLN 915 million). The key expenditure items were as follows: construction of new unit (no. 7) at Elektrownia Turów (PLN 584 million), construction of two new gas-and-steam units at Elektrownia Dolna Odra (PLN 410 million) and connection of new customers to DSO grid (PLN 417 million). These values include borrowing costs.

In the current period, the Group sold its share in PGE EJ1 sp. z o.o. As a result of this transaction, the net value of property, plant and equipment, intangible assets and right-of-use assets decreased by PLN 415 million.

## 11. Future investment commitments

As at September 30, 2021, PGE Group committed to incur capital expenditures on property, plant and equipment of approximately PLN 7,537 million. These amounts relate mainly to the construction of new gas-and-steam units, modernisation of Group's assets and the purchase of machinery and equipment.

| | As at September 30, 2021 | As at 31 December 2020 |
|---|---|---|
| Conventional Generation | 4,589 | 5,790 |
| Distribution | 931 | 1,346 |
| Renewables | 444 | 185 |
| District Heating | 1,569 | 190 |
| Supply | 2 | 3 |
| Other activity | 2 | 175 |
| **TOTAL FUTURE INVESTMENT COMMITMENTS** | **7,537** | **7,689** |

The most significant future investment commitments concern:

- Conventional Generation, Branch Zespół Elektrowni Dolna Odra - construction of two gas-and-steam units and contract for service for two gas turbines - approx. PLN 3,881 million (as described in note 1.3, on October 1, 2021 the liability, along with the entire organised part of enterprise, was transferred to PGE Inwest 8 sp. z o.o.),
- District Heating - construction of gas-and-steam CHP Nowa EC Czechnica in Siechnice - approx. PLN 1,159 million,
- Distribution – investment commitments mainly related to network distribution assets with the total value of approximately PLN 931 million,

The decrease in future investment commitments in the Other Activity segment is related to the sale of PGE EJ1 sp. z o.o., which had been responsible for these commitments. The increase in future investment commitments in the Renewables segment results from the start of the joint offshore project, as described in note 27.3.

# 12. Shares accounted using the equity method

| | As at September 30, 2021 | As at 31 December 2020 |
|---|---|---|
| Polska Grupa Górnicza S.A., Katowice | - | - |
| Polimex - Mostostal S.A., Warsaw | 139 | 127 |
| ElectroMobility Poland S.A., Warsaw | no data | 14 |
| PEC Bogatynia Sp. z o.o., Bogatynia | - | - |
| Energopomiar Sp. z o.o., Gliwice | 14 | 11 |
| **EQUITY-ACCOUNTED INTERESTS** | **153** | **152** |

| | Polska Grupa Górnicza | Polimex Mostostal | PEC Bogatynia | Energopomiar |
|---|---|---|---|---|
| SHARE IN VOTES | 15.32% | 16.40% | 34.93% | 49.79% |
| **AS AT SEPTEMBER 30, 2021** | | | | |
| Current assets | 1,887 | 1,518 | 4 | 33 |
| Non-current assets | 8,195 | 665 | 20 | 19 |
| Current liabilities | 7,451 | 1,203 | 2 | 8 |
| Non-current liabilities | 2,848 | 226 | - | 14 |
| **NET ASSETS** | **(217)** | **754** | **22** | **30** |
| **Share in net assets** | **-** | **123** | **8** | **14** |
| Goodwill | - | 16 | - | - |
| Impairment of investment | - | - | (8) | - |
| **EQUITY-ACCOUNTED INTERESTS** | **-** | **139** | **-** | **14** |

| | Polska Grupa Górnicza | Polimex Mostostal | ElectroMobility Poland | PEC Bogatynia | Energopomiar |
|---|---|---|---|---|---|
| SHARE IN VOTES | 15.32% | 16.48% | 25.00% | 34.93% | 49,79% |
| **AT DECEMBER 31, 2020** | | | | | |
| Current assets | 1,770 | 1,390 | 18 | 4 | 33 |
| Non-current assets | 9,423 | 674 | 39 | 21 | 18 |
| Current liabilities | 6,626 | 1,175 | 3 | 2 | 18 |
| Non-current liabilities | 2,704 | 214 | - | - | 10 |
| **NET ASSETS** | **1,863** | **675** | **54** | **23** | **23** |
| **Share in net assets** | **285** | **111** | **14** | **7** | **11** |
| Goodwill | 1 | 16 | - | - | - |
| Impairment of investment | (286) | - | - | (7) | - |
| **EQUITY-ACCOUNTED INTERESTS** | **-** | **127** | **14** | **-** | **11** |

An impairment loss was recognised on the investment in PGG in the previous period, which amounted to PLN 286 million as at December 31, 2020. Following the recognition of this impairment loss, PGG's book value in PGE Group's consolidated financial statements was zero. In the current period, the impairment loss was used due to losses incurred by PGG.

# 13. Joint operations

In May this year, Ørsted Group entities acquired shares in the increased capital of EWB2 and EWB3. Following this transaction, Ørsted Group became a 50% shareholder in these companies.

In effect, PGE Group lost control over these two companies in the meaning of IFRS.

Based on agreements executed between PGE Group and Ørsted Group companies, PGE Group assessed that EWB2 and EWB3 constitute a joint operation in the meaning of IFRS 11 *Joint Arrangements*.

As a resulting of accounting for the loss of control, finance income of PLN 324 million and goodwill of PLN 81 million were recognised in the consolidated financial statements.

# 14. Deferred tax in statement of financial position

## 14.1 Deferred income tax assets

| | As at September 30, 2021 | As at 31 December 2020 |
|---|---|---|
| Difference between tax value and carrying amount of property, plant and equipment | 2,607 | 2,776 |
| Rehabilitation provision | 1,105 | 1,242 |
| Provision for cost of $CO_2$ emissions | 1,606 | 1,206 |
| Provisions for employee benefits | 672 | 723 |
| Difference between tax value and carrying amount of liabilities | 386 | 316 |
| Difference between tax value and carrying amount of financial assets | 588 | 395 |
| Difference between carrying amount and tax value of right-of-use assets | 171 | 171 |
| Tax losses | 138 | 111 |
| Other provisions | 154 | 157 |
| LTC compensations | 75 | 79 |
| Energy infrastructure acquired free of charge and connection payments received | 26 | 28 |
| Difference between tax value and carrying amount of inventories | 12 | 11 |
| Other | 2 | 4 |
| **TOTAL DEFERRED INCOME TAX ASSETS** | **7,542** | **7,219** |

## 14.2 Deferred tax liabilities

| | As at September 30, 2021 | As at 31 December 2020 |
|---|---|---|
| Difference between tax value and carrying amount of property, plant and equipment | 5,011 | 5,000 |
| Difference between tax value and present carrying amount of financial assets | 1,579 | 713 |
| Difference between carrying amount and tax value of lease liabilities | 193 | 181 |
| $CO_2$ emission allowances | 8 | 199 |
| Difference between tax value and carrying amount of energy origin units | 28 | 31 |
| Receivables from recognised compensation - Act on electricity prices | - | 16 |
| Difference between tax value and present carrying amount of financial liabilities | 12 | 8 |
| Other | 85 | 65 |
| **TOTAL DEFERRED TAX LIABILITIES** | **6,916** | **6,213** |

**Group's deferred tax after offsetting assets and liabilities at companies and within tax group**

| | | |
|---|---|---|
| Deferred income tax assets | 970 | 1,351 |
| Deferred income tax liabilities | (344) | (345) |

# 15. Inventories

| | As at September 30, 2021 | As at 31 December 2020 |
|---|---|---|
| Hard coal | 599 | 963 |
| Repair and maintenance materials | 721 | 676 |
| Mazut | 40 | 29 |
| Other materials | 64 | 70 |
| **TOTAL MATERIALS** | **1,424** | **1,738** |
| Green energy origin rights | 1,008 | 1,140 |
| Other energy origin rights | 2 | 3 |
| **TOTAL ENERGY ORIGIN RIGHTS** | **1,010** | **1,143** |
| $CO_2$ emission allowances held for sale | 1 | 1 |
| Hard coal held for sale | 151 | 144 |
| Other goods | 15 | 25 |
| **TOTAL GOODS** | **167** | **170** |
| **OTHER INVENTORIES** | **70** | **72** |
| **TOTAL INVENTORIES** | **2,671** | **3,123** |

# 16. $CO_2$ emission allowances for captive use

Pursuant to the provisions of the Regulation of the Council of Ministers dated April 8, 2014 on the list of electricity generation installations in the greenhouse gas emissions trading scheme, PGE Group's installations are not eligible to receive free emission allowances, starting from 2020.

In the case of EUAs for $CO_2$ emissions related to district heating, the allocation schedule for 2021 has not yet been approved, and EUAs were allocated in February 2020 to cover $CO_2$ emissions for 2020 (1 million EUAs).

| EUA | At September 30, 2021 | | At December 31, 2020 | |
|---|---|---|---|---|
| | Non-current | Current | Non-current | Current |
| Quantity (Mg million) | **-** | **1** | **1** | **20** |
| Value (PLN million) | **3** | **38** | **39** | **1,735** |

| EUA | Quantity (Mg million) | Value (PLN million) |
|---|---|---|
| **AT JANUARY 1, 2020** | **21** | **1,205** |
| Purchase | 78 | 6,629 |
| Granted free of charge | 13 | - |
| Redemption | (61) | (3,414) |
| Sale | (30) | (2,646) |
| **AT DECEMBER 31, 2020** | **21** | **1,774** |
| Purchase | 49 | 5,620 |
| Redemption | (59) | (6,318) |
| Sale | (10) | (1,035) |
| **AS AT SEPTEMBER 30, 2021** | **1** | **41** |

# 17. Other current and non-current assets

## 17.1 Other non-current assets

| | As at September 30, 2021 | As at 31 December 2020 |
|---|---|---|
| Advances for property, plant and equipment | 755 | 711 |
| Cost to acquire customers | 99 | 105 |
| Other non-current assets | 18 | 23 |
| **TOTAL OTHER ASSETS** | **872** | **839** |

Advances for property, plant and equipment under construction relate mainly to investment projects conducted by the Conventional Generation segment and the District Heating segment. The cost to acquire customers concern co-financing by PGE Energia Ciepła S.A. of investments in the development of district heating networks and agent commissions at PGE Obrót S.A.

## 17.2 Other current assets

| | As at September 30, 2021 | As at 31 December 2020 |
|---|---|---|
| **PREPAYMENTS** | | |
| Cost to acquire customers | 48 | 50 |
| Long-term contracts | 51 | 43 |
| Property and tort insurance | 11 | 14 |
| Logistics costs related to coal purchases | 10 | 17 |
| IT services | 16 | 16 |
| Social Fund | 58 | 10 |
| Fees for exclusion of land from agricultural production / forestry | 13 | - |
| Fees for installing equipment and taking up a road lane | 7 | - |
| Other prepayments | 28 | 20 |
| **OTHER CURRENT ASSETS** | | |
| VAT receivables | 284 | 519 |
| Excise tax receivables | 24 | 17 |
| Advances for deliveries | 509 | 11 |
| Other current assets | 41 | 82 |
| **TOTAL OTHER ASSETS** | **1,100** | **799** |

The amount of VAT receivables is related mainly to an estimate of electricity sales, unread on metering equipment as of the reporting date. The amount of advance is mainly related to future coal supplies for the purposes of the Conventional Generation segment.

# 18. Selected financial assets

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

## 18.1 Trade and other financial receivables

| | At September 30, 2021 | | At December 31, 2020 | |
|---|---|---|---|---|
| | Non-current | Current | Non-current | Current |
| Trade receivables | - | 3,518 | - | 3,602 |
| Deposits and loans | 194 | - | 185 | 6 |
| Loans granted | - | 77 | - | - |
| Bonds | - | - | - | 40 |
| Receivables from recognised compensation - Act on electricity prices | - | - | - | 85 |
| Deposits, security and collateral | 4 | 1,235 | 2 | 788 |
| Damages and penalties | - | 109 | - | 102 |
| Other financial receivables | 4 | 78 | 4 | 189 |
| **FINANCIAL RECEIVABLES** | **202** | **5,017** | **191** | **4,812** |

Deposits, security and collateral mainly concern transaction and hedging deposits for transactions on the electricity and $CO_2$ markets.

## 18.2 Cash and cash equivalents

Short-term deposits have different maturities, typically from one day up to one month, depending on the Group's needs for cash.

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

| | As at September 30, 2021 | As at 31 December 2020 |
|---|---|---|
| Cash on hand and cash at bank | 7,451 | 1,415 |
| Overnight deposits | - | 309 |
| Short-term deposits | 428 | 1,423 |
| Cash in VAT accounts | 395 | 1,042 |
| **TOTAL** | **8,274** | **4,189** |
| Exchange differences on cash in foreign currencies | (27) | (16) |
| **Cash and cash equivalents presented in the statement of cash flows** | **8,247** | **4,173** |
| | | |
| Unused credit facilities at the reporting date | 6,352 | 6,556 |
| *including overdraft facilities* | *1,816* | *1,811* |

A detailed description of credit agreements is presented in note 22.1 to these financial statements.

The value of cash includes restricted cash amounting to PLN 264 million (PLN 93 million in the comparative period) in customer accounts at PGE Dom Maklerski S.A., which constitute collateral for settlements with clearinghouse IRGiT.

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

| | At September 30, 2021 | |
|---|---|---|
| | Assets | Liabilities |
| **DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS** | | |
| Currency forwards | 383 | 4 |
| Commodity forwards | 2,941 | 1 |
| Commodity SWAP | 27 | 212 |
| Contracts for purchase/sale of coal | 64 | 15 |
| Options | 20 | - |
| **HEDGING DERIVATIVES** | | |
| CCIRS hedges | 59 | - |
| IRS hedges | - | 101 |
| Currency forward - USD | 3 | - |
| Currency forward - EUR | 65 | 98 |
| **Other assets carried at fair value through profit or loss** | | |
| Investment fund participation units | 37 | - |
| **TOTAL** | **3,599** | **431** |
| current | 3,473 | 330 |
| non-current | 126 | 101 |

| | At December 31, 2020 | |
|---|---|---|
| | Assets | Liabilities |
| **DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS** | | |
| Currency forwards | 3 | 4 |
| Commodity forwards | 11 | 4 |
| Commodity SWAP | 11 | 13 |
| Contracts for purchase/sale of coal | 17 | 18 |
| Options | 16 | - |
| **HEDGING DERIVATIVES** | | |
| CCIRS hedges | 64 | - |
| IRS hedges | - | 385 |
| Currency forward - USD | - | 1 |
| Currency forward - EUR | 381 | 23 |
| **Other assets carried at fair value through profit or loss** | | |
| Investment fund participation units | 52 | - |
| **TOTAL** | **555** | **448** |
| current | 423 | 63 |
| non-current | 132 | 385 |

**Commodity and currency forwards**

Commodity and currency forward transactions mainly relate to trade in $CO_2$ emission allowances and coal sales. The Group uses hedge accounting to account for currency forwards related to the purchase of $CO_2$ allowances.

**Options**

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

**Coal swaps**

In the current period, PGE Paliwa sp. z o.o. executed a number of transactions to hedge this risk using commodity swaps for coal in order to secure commodity risk related to the price of coal. The volume and value of these transactions is correlated to the volume 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.

**IRS transactions**

PGE S.A. executed IRS transactions to hedge interest rates on credit facilities and outstanding bonds with a total nominal value of PLN 7,030 million (PLN 5,630 million for credit facilities and PLN 1,400 million for bonds). Before beginning to repay the principal on certain credit facilities, the current nominal amount of credit-hedging IRS transactions is PLN 4,654 million. To recognise these IRS transactions, the Group uses hedge accounting.

The impact of hedge accounting on the revaluation reserve is presented in note 20.2 to these consolidated financial statements.

**CCIRS hedges**

In connection with loans received from PGE Sweden AB (publ), PGE S.A. concluded CCIRS transactions, hedging the exchange rate for principal and interest. 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 transaction is treated as a hedge of bonds issued by PGE Sweden AB (publ).

**Investment fund participation units**

At the reporting date, the Company held participation units in three sub-funds managed by TFI Energia S.A.

# 20. Equity

The basic assumption of the Group's policy regarding equity management is to maintain an optimal equity structure over the long term perspective in order to 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 future investors, creditors and the market and ensure the Group's further development.

## 20.1 Share capital

| | As at September 30, 2021 | As at 31 December 2020 |
|---|---|---|
| 1,470,576,500 Series A ordinary Shares with a nominal value of PLN 10.25 each | 15,073 | 15,073 |
| 259,513,500 Series B ordinary Shares with a nominal value of PLN 10.25 each | 2,660 | 2,660 |
| 73,228,888 Series C ordinary Shares with a nominal value of PLN 10.25 each | 751 | 751 |
| 66,441,941 Series D ordinary Shares with a nominal value of PLN 10.25 each | 681 | 681 |
| **Total share capital** | **19,165** | **19,165** |

All of the Company's shares are paid up.
After the reporting date and until the date of preparation of the foregoing financial statements 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 part of PGE Group, where the State Treasury holds special rights as long as it remains a shareholder.

The State Treasury's special rights applicable to PGE Group entities derive from the Act of March 18, 2010 on the special rights of the minister competent for state assets and their exercise at certain companies and groups operating in the electricity, oil and gas sectors (Polish Journal of Laws of 2020, item 2173). The Act specifies the special rights available to the Minister of Energy related to companies and groups operating in the electricity, oil and gas sectors whose assets are disclosed in the register of buildings, installations, equipment and services considered as critical infrastructure.

Based on this act the Minister of Energy has the right to object to any resolution adopted or legal activity undertaken by the Management Board involving assets that would endanger the functioning, operational continuity and integrity of critical infrastructure. The objection can also be applied to any resolution pertaining to:

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

if the performance of such a resolution would cause an actual threat to the functioning, operational continuity and integrity of critical infrastructure.

The objection is expressed in the form of an administrative decision.

## 20.2 Hedging reserve

| | Period ended September 30, 2021 | Year ended 31 December 2020 |
|---|---|---|
| **AS AT JANUARY 1** | **(13)** | **(323)** |
| **Change in hedging reserve:** | **310** | **383** |
| **Measurement of hedging instruments, including:** | **293** | **387** |
| *Recognition of the effective part of change in fair value of hedging instruments in the part considered as effective hedge* | *299* | *420* |
| *Accrued interest on derivatives transferred from hedging reserve and recognised in interest expense* | *(3)* | *17* |
| *Currency revaluation of CCIRS transaction transferred from hedging reserve and recognised in the result on foreign exchange differences* | *(3)* | *(51)* |
| *Ineffective portion of changes in fair value of hedging derivatives recognised in profit or loss* | *-* | *1* |
| **Measurement of other financial assets** | **17** | **(4)** |
| **Deferred tax** | **(59)** | **(73)** |
| **HEDGING RESERVE AFTER DEFERRED TAX** | **238** | **(13)** |

The hedging reserve mainly includes the measurement of cash flow hedges.

## 20.3 Dividends paid and recommended for payment

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

# 21. Provisions

The carrying amount of provisions is as follows:

| | At September 30, 2021 | | At December 31, 2020 | |
|---|---|---|---|---|
| | Non-current | Current | Non-current | Current |
| Employee benefits | 2,684 | 252 | 3,007 | 276 |
| Rehabilitation provision | 7,601 | - | 8,110 | 1 |
| Provision for cost of $CO_2$ emissions | - | 8,421 | - | 6,318 |
| Provision for energy origin units held for redemption | - | 546 | - | 589 |
| Provision for non-contractual use of property | 46 | 7 | 58 | 5 |
| Other provisions | 43 | 201 | 32 | 122 |
| **TOTAL PROVISIONS** | **10,374** | **9,427** | **11,207** | **7,311** |

Due to changes in market interest rates, PGE Group updated the discount rate use to measure land rehabilitation provisions and employee benefit provisions.

The discount rate for the mine excavation rehabilitation provision as at September 30, 2021 is:

- for expenses expected to be incurred within 15 years from the balance sheet date - 2.2% (compared to 1.3% as at December 31, 2020);
- for expenses expected to be incurred 16-25 years from the balance sheet date - 2.79%, PGE's extrapolation in accordance with the adopted method (compared to 1.6% as at December 31, 2020);
- for expenses expected to be incurred more than 25 years from the balance sheet date - 3.14%, PGE's extrapolation in accordance with the adopted method (compared to 1.9% as at December 31, 2020).

The discount rate for employee benefit provisions and other provisions for land rehabilitation is based on the yield of 10-year treasuries and as at September 30, 2021 is 2.2% (vs. 1.3% as at December 31, 2020).

These changes in discount rates caused:

- a decrease in the land rehabilitation provision recognised correspondingly in other operating revenue of PLN 1,493 million;
- a decrease in the land rehabilitation provision recognised correspondingly as a decrease in property, plant and equipment of PLN 1,010 million;
- a decrease in the post-employment benefit provisions recognised correspondingly as a decrease in other comprehensive income of PLN 243 million;
- a decrease in provisions for long service recognised correspondingly as a decrease in operating costs of PLN 52 million.

In addition, the Group updated other technical assumptions concerning land rehabilitation provisions. These changes caused the following:

- an increase in the land rehabilitation provision recognised correspondingly in other operating revenue of PLN 1,069 million;
- an increase in the land rehabilitation provision recognised correspondingly as an increase in property, plant and equipment of PLN 719 million;

### Changes in provisions

| | Employee benefits | Rehabilitation provision | Provision for cost of $CO_2$ emissions | Provisions for energy origin rights held for redemption | Provision for non-contractual use of property | Other | Total |
|---|---|---|---|---|---|---|---|
| **JANUARY 1, 2021** | **3,283** | **8,111** | **6,318** | **589** | **63** | **154** | **18,518** |
| Actuarial gains and losses | - | - | - | - | - | - | - |
| Current employment costs | 87 | - | - | - | - | - | 87 |
| Past employment costs | 1 | - | - | - | - | - | 1 |
| Interest costs | 31 | 120 | - | - | - | - | 151 |
| Adjustment of discount rate and other assumptions | (295) | (715) | - | - | - | - | (1,010) |
| Benefits paid / Provisions used | (171) | - | (6,318) | (751) | (1) | (38) | (7,279) |
| Provisions reversed | - | (3) | (2) | (11) | (15) | (22) | (53) |
| Provisions recognised - costs | - | 56 | 8,423 | 719 | 5 | 141 | 9344 |
| Provisions recognised - expenditures | - | 32 | - | - | - | - | 32 |
| Changes in PGE Group | (1) | - | - | - | - | (2) | (3) |
| Other changes | 1 | - | - | - | 1 | 11 | 13 |
| **SEPTEMBER 30, 2021** | **2,936** | **7,601** | **8,421** | **546** | **53** | **244** | **19,801** |

| | Employee benefits | Rehabilitation provision | Provision for cost of $CO_2$ emissions | Provisions for energy origin rights held for redemption | 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 | 40 | - | - | - | - | - | 40 |
| Current employment costs | 121 | - | - | - | - | - | 121 |
| Past employment costs | (10) | - | - | - | - | - | (10) |
| Interest costs | 61 | 168 | - | - | - | - | 229 |
| Adjustment of discount rate and other assumptions | 231 | 1,173 | - | - | - | - | 1,404 |
| Benefits paid / Provisions used | (228) | (1) | (3,411) | (947) | - | (32) | (4,619) |
| Provisions reversed | - | - | (121) | (2) | (16) | (15) | (154) |
| Provisions recognised - costs | - | 55 | 6,318 | 966 | 7 | 80 | 7,426 |
| Provisions recognised - expenditures | - | 43 | - | - | - | - | 43 |
| Acquisition of companies within the Group | - | 14 | - | - | - | - | 14 |
| Other changes | 2 | 10 | - | - | - | (6) | 6 |
| **DECEMBER 31, 2020** | **3,283** | **8,111** | **6,318** | **589** | **63** | **154** | **18,518** |

## 21.1 Provision for employee benefits

Provisions for employee benefits mainly include:

- post-employment benefits - PLN 2,122 million (PLN 2,379 million as at December 31, 2020),
- seniority bonuses - PLN 813 million (PLN 904 million as at December 31, 2020),

## 21.2 Rehabilitation provision

**Provision for rehabilitation of post-mining properties**

PGE Group creates provisions for the rehabilitation of post-mining properties. The amount of the provision recognised in the financial statements includes the value of the Mine Liquidation Fund created in accordance with the Geological and Mining Law. The value of the provision as at September 30, 2021 was PLN 7,031 million and as at December 31, 2020 it amounted to PLN 7,463 million.

**Provision for rehabilitation of ash landfills**

PGE Group's generating assets create provisions for the rehabilitation of ash landfills. As at September 30, 2021, this provision amounted to PLN 281 million (PLN 318 million at the end of the comparative period).

**Provisions for wind farm decommissioning and restoration**

Wind farm owners create provisions for decommissioning and restoration. As at September 30, 2021, this provision amounted to PLN 28 million (PLN 71 million at the end of the comparative period).

**Liquidation of property, plant and equipment**

As at the reporting date, the provision amounted to PLN 261 million (PLN 259 million as at the end of the comparative period) and refers to certain assets in the Conventional Generation and Renewables segments.

## 21.3 Provision for cost of $CO_2$ emissions

As described in note 16 to these financial statements, the Group no longer receives free emission allowances for electricity generation from 2020. The Group is only eligible to receive free allowances for heating generation. As at September 30, 2021, this provision amounted to PLN 8,421 million (PLN 6,318 million at the end of the comparative period).

## 21.4 Provision for energy origin rights held for redemption

PGE Group companies create a provision for energy origin rights concerning sales generated in the reporting period or previous periods, in the part yet to be redeemed as of the reporting date. The total value of provision as at September 30, 2021 was PLN 546 million (PLN 589 million in the comparative period) and was created mainly by PGE Obrót S.A.

## 21.5 Provision for claims concerning non-contractual use of property

PGE Group companies recognise a provision for claims related to the non-contractual use of property. This issue mainly concerns the distribution company that owns distribution networks. As at the reporting date the provision amounted to approximately PLN 53 million (of which 29 million relate to litigations). In the comparative period, the provision amounted to PLN 63 million (of which PLN 32 million related to litigations).

## 21.6 Settlements with prosumers

2020 saw a considerable increase in the number of prosumer installations, mainly due to the assistance available in the "My electricity" program. According to the Energy Market Agency, installed PV capacity in Poland grew by 200%, to approx. 6.30 GW at the end of September 2021, vs. 3.15 GW in the same period last year. The act on renewable energy sources of February 20, 2015 introduced a settlement system for prosumers and energy cooperatives that generates losses for the obligated vendor (i.e. PGE Obrót S.A.); the higher the percentage of electricity introduced to the grid that is compensated by the prosumer's or energy cooperative's own use, the higher these losses are.

Therefore, the prosumer does not incur any variable costs of distribution services for energy drawn from the grid. Companies in the Supply segment, which are merely intermediaries in the sale of distribution services, have to pay the full fee for electricity drawn by the prosumer to the Distribution System Operator. Companies in the Supply segment, despite the fact that they do not provide distribution services, have to bear the costs related to these services because they are a party to a comprehensive contract with the customer.

According to the Group, the conditions to create provisions for onerous contracts in the meaning of IAS 37 were not met as of the reporting date.

# 22. Financial liabilities

The value of financial liabilities measured at amortised cost is a rational 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. Their amortised cost presented in these financial statements as at September 30, 2021 amounted to PLN 641 million and their fair value amounted to PLN 720 million.

## 22.1 Loans, borrowings, bonds and leases

| | At September 30, 2021 | | At December 31, 2020 | |
|---|---|---|---|---|
| | Non-current | Current | Non-current | Current |
| Loans and borrowings | 5,641 | 2,064 | 7,105 | 1,318 |
| Bonds issued | 2,038 | 11 | 2,035 | 10 |
| Leases | 869 | 42 | 885 | 56 |
| **TOTAL LOANS, BORROWINGS, BONDS AND LEASES** | **8,548** | **2,117** | **10,025** | **1,384** |

### Loans and borrowings

Among loans and borrowings presented above as at September 30, 2021, and December 31, 2020, PGE Group presents mainly the following facilities:

| Lender | Security instrument | Maturity | Limit in currency | Currency | Interest rate | Liability as of 30-09-2021 | Liability as of 31-12-2020 |
|---|---|---|---|---|---|---|---|
| Bank consortium | IRS | 2023-09-30 | 3,630 | PLN | Variable | 2,903 | 3,636 |
| 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 | 815 | 876 |
| Bank Gospodarstwa Krajowego | IRS | 2028-12-31 | 500 | PLN | Variable | 496 | 500 |
| European Investment Bank | - | 2034-08-25 | 490 | PLN | Fixed | 471 | 493 |
| European Bank for Reconstruction and Development | IRS | 2028-06-07 | 500 | PLN | Variable | 470 | 501 |
| Nordic Investment Bank | - | 2024-06-20 | 150 | EUR | Variable | 171 | 219 |
| Bank Pekao S.A. | - | 2022-09-21 | 40 | USD | Variable | 150 | 149 |
| Bank Pekao S.A. | - | 2021-12-15 | 10 | PLN | Variable | 3 | - |
| Millennium S.A. | - | 2021-06-16 | 7 | PLN | Fixed | - | 1 |
| PKO BP S.A. | - | 2022-04-29 | 300 | PLN | Variable | - | - |
| Revolving credit facility (bank consortium) | - | 2022-12-16 | 4.100 | PLN | Variable | - | - |
| Bank Gospodarstwa Krajowego | - | 2023-05-31 | 1.000 | PLN | Variable | - | - |
| Bank Pekao S.A. | - | 2024-12-22 | 500 | PLN | Variable | - | - |
| European Investment Bank | - | 2038-10-16 | 273 | PLN | Fixed | - | - |
| NFOŚiGW | - | June 2022 – December 2029 | 240 | PLN | Fixed | 136 | 157 |
| NFOŚiGW | - | June 2024 – June 20: | 630 | PLN | Variable | 430 | 279 |
| Voivodship Fund for Environmental Protecti and Water Management (WFOŚiGW) | - | September 2026 | 9 | PLN | Fixed | 7 | 6 |
| Voivodship Fund for Environmental Protecti and Water Management (WFOŚiGW) | - | October 2021 - September 2028 | 207 | PLN | Variable | 136 | 101 |
| Loan from PFR | - | June 2024 | 3 | PLN | Fixed | 1 | - |
| **TOTAL LOANS AND BORROWINGS** | | | | | | **7,705** | **8,423** |

As at September 30, 2021, the value of the available overdrafts at significant PGE Group companies was PLN 1,816 million. The repayment dates for the available overdraft facilities of PGE Group's key companies are in 2021-2024.

In the period ended on September 30, 2021 and after the reporting period no failures to make payment or other breaches of credit agreement terms were recorded.

**Bonds issued**

| Issuer | Security instrument | Program maturity date | Program limit in currency | Currency | Interest rate | Tranche issue date | Tranche buy-back date | Liability as of 30-09-2021 | Liability at 31-03-2020 |
|---|---|---|---|---|---|---|---|---|---|
| PGE S.A. | IRS | indefinite | 5,000 | PLN | Variable | 2019-05-21 | 2029-05-21 | 1,005 | 1,001 |
| | | | | | | 2019-05-21 | 2026-05-21 | 402 | 400 |
| PGE Sweden AB (publ) | CCIRS | indefinite | 2,000 | EUR | Fixed | 2014-08-01 | 2029-08-01 | 642 | 644 |
| **TOTAL OUTSTANDING BONDS** | | | | | | | | **2,049** | **2,045** |

The Group is continuously monitoring works related to the IBOR reform, which may have an impact on financial instruments based on a variable interest rate. At September 30, 2021 the value of credit facilities, loans and bonds exposed to interest rate risk was PLN 6,981 million (PLN 5,253 million based on WIBOR, PLN 171 million on EURIBOR and PLN 150 million on LIBOR). To hedge the interest rate in respect of incurred financial liabilities, PGE S.A. uses IRS hedges. The value of credit facilities, loans and bonds covered by hedging instruments and hedge accounting as at September 30, 2021 was PLN 6,091 million.

## 22.2 Trade and other financial liabilities

| | At September 30, 2021 | | At December 31, 2020 | |
|---|---|---|---|---|
| | Non-current | Current | Non-current | Current |
| Trade liabilities | - | 1,508 | - | 1,357 |
| Settlements related to transactions on exchange | - | 1,803 | - | 856 |
| Purchase of property, plant and equipment and intangible assets | 7 | 701 | 6 | 1,050 |
| Security deposits received | 24 | 98 | 30 | 96 |
| Liabilities related to LTC | 379 | 14 | 395 | 22 |
| Insurance | - | - | - | 8 |
| Other | 27 | 245 | 17 | 115 |
| **TRADE AND OTHER FINANCIAL LIABILITIES** | **437** | **4,369** | **448** | **3,504** |

The item 'Other' includes PGE Dom Maklerski S.A.'s liabilities towards clients on account of funds deposited.

# 23. Other non-financial liabilities

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

## 23.1 Other non-current non-financial liabilities

| | As at September 30, 2021 | As at 31 December 2020 |
|---|---|---|
| **OTHER NON-CURRENT LIABILITIES** | | |
| Liabilities related to a contract | 86 | 64 |
| Estimated liabilities due to Voluntary Leave Programs | - | 1 |
| Estimated liabilities concerning other employee benefits | 1 | - |
| **TOTAL OTHER NON-CURRENT LIABILITIES** | **87** | **65** |

## 23.2 Other current non-financial liabilities

| | As at September 30, 2021 | As at 31 December 2020 |
|---|---|---|
| **OTHER CURRENT LIABILITIES** | | |
| VAT liabilities | 388 | 540 |
| Excise tax liabilities | 32 | 33 |
| Environmental fees | 169 | 202 |
| Payroll liabilities | 182 | 284 |
| Bonuses for employees | 297 | 272 |
| Unused annual holiday leave | 105 | 113 |
| Estimated liability related to Miner's Day and Energy Technician's Day | 58 | 1 |
| Liabilities due to Voluntary Leave Programs | 1 | 1 |
| Bonuses for the Management Board | 15 | 20 |
| Estimated liabilities concerning other employee benefits | 31 | 5 |
| Personal income tax | 73 | 95 |
| Liabilities from social insurances | 197 | 269 |
| Liabilities related to a contract | 360 | 296 |
| Liabilities related to dividends | 6 | 7 |
| Other | 58 | 65 |
| **TOTAL OTHER CURRENT LIABILITIES** | **1,972** | **2,203** |

The item 'Other' largely includes liabilities related to contributions to the Employee Pensions Program, amounts withheld from employees' salaries and contributions to the State Fund for Rehabilitation of Disabled People.

**Liabilities related to a contract**

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

# OTHER EXPLANATORY NOTES

## 24. Contingent liabilities and receivables. Legal claims

### 24.1 Contingent liabilities

| | As at September 30, 2021 | As at 31 December 2020 |
|---|---|---|
| Contingent return of grants from environmental funds | 371 | 461 |
| Legal claims | 103 | 186 |
| Liabilities related to bank guarantees and sureties securing exchange transactions | 237 | 75 |
| Usufruct of land | 67 | 67 |
| Contractual fines and penalties | - | 70 |
| Other contingent liabilities | 10 | 37 |
| **Total contingent liabilities** | **788** | **896** |

**Contingent return of grants from environmental funds**

The liabilities represent the value of possible future returns of funds received by PGE Group companies from environmental funds for selected investments. The funds will be returned if the investments for which they were granted do not achieve the expected environmental outcomes.

**Legal claims**

In connection with the sale of shares in PGE EJ1 sp. z o.o. to the State Treasury and in accordance with an agreement determining the responsibility of the former shareholders as regards the costs of a dispute with Worley Parsons, if the dispute is lost, PGE S.A. may be required to cover the cost of the dispute of up to PLN 98 million. The probability of losing the dispute was estimated in order to determine the fair value of the payment received. In effect, PLN 59 million was recognised under contingent liabilities and PLN 39 million in non-current provisions. The amount of the provision adjusted the result on the sale of shares as presented in these financial statements.

**Bank guarantee liabilities**

These liabilities represent bank guarantees provided as security for exchange transactions resulting from membership in the clearinghouse IRGiT.

**Usufruct of land**

Contingent liabilities pertaining to the usufruct of land are related to an update of annual fees for the usufruct of land. PGE GiEK S.A.'s branches have appealed the decisions in Local Appeals Courts. The contingent liability is measured as the difference between the discounted sum of the updated fees for usufruct of land throughout the entire period of the usufruct and the perpetual usufruct of land liability recognised in accounts based on previous fees.

### 24.2 Other significant issues related to contingent liabilities

**Non-contractual use of property**

As described in note 21.5 to these financial statements, PGE Group recognises a provision for disputes under court proceedings concerning non-contractual use of properties for distribution activities. In addition, PGE Group is a party to disputes at an earlier stage of proceedings, and it cannot be ruled out that the volume and value of similar disputes will increase in the future.

**Contractual liabilities related to purchase of fuels**

In accordance with fuel purchase agreements (mainly coal and gas), PGE Group is required to collect a minimum volume of fuel and to not exceed the maximum gas uptake levels in specific periods. Failure to uptake the contractual minimum volume of fuel may result in the necessity to pay fees (in case of gas fuel, volumes that have been paid for but not collected can be collected in the next three contractual years).

According to PGE Group, the terms of fuel delivery to its generating assets as described above do not diverge from the terms of delivery to other power stations in Poland.

## 24.3 Contingent receivables

As at the reporting date, PGE Group held PLN 72 million in contingent receivables related to a potential refund of excess excise duty. The Group is waiting for a ruling by the Supreme Administrative Court on what excise duty rate should be applied in settling the excise duty relief related to the redemption of property rights created in renewable energy sources prior to January 1, 2019.

According to PGE Group, this relief should be settled using the rate applicable at the time the electricity generated from renewable sources is sold to the end customer, i.e. 20 PLN/MWh. This was confirmed in a ruling by the Voivodship Administrative Court in Rzeszów of October 8, 2019.

The tax authority issued a cassation appeal against this ruling by the Voivodship Administrative Court on November 20, 2019.

## 24.4 Other court cases and disputes

**Compensation for conversion of shares**

Regardless of the above, on November 12, 2014 Socrates Investment S.A. (an entity that purchased claims from former PGE Górnictwo i Energetyka S.A. shareholders) filed a lawsuit seeking more than PLN 493 million in compensation (plus interest) for damages 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. On November 15, 2017 the Company received a procedural document from the claimant - change of demand sought, increasing the amount sought in court to PLN 636 million. A hearing to appoint a court expert was held on November 20, 2018. A first-instance court proceeding is currently underway. In a ruling dated April 19, 2019 the court appointed experts to draft an opinion on this matter. No final opinion was issued by the court experts prior to the approval of these financial statements. In connection with the expert team's opinion being admitted as evidence, the hearing was postponed to an ex-officio date.

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

PGE Group companies do not accept the claims being raised by Socrates Investment S.A., Pozwy sp. z o.o. According to PGE S.A., these claims are groundless and the entire consolidation process was conducted fairly and correctly. The value of the shares, which were subject to the process of consolidation (merger), 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. Then, the court registered the mergers of the aforementioned companies.

PGE Group did not create a provision for this claim.

**Termination by Enea S.A. of long-term energy origin rights sale contracts**

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 statements from Enea S.A. regarding the termination of long-term contracts for the sale of renewable energy origin rights, the so-called "green certificates." Justifying 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.

According to PGE Group, the notices terminating the contracts sent by Enea S.A. were submitted in breach of contractual obligations. The companies took appropriate steps to enforce their rights. With Enea S.A. refusing to perform these long-term contracts to purchase property rights 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. demanded from Enea S.A. the payment of contractual penalties, while PGE EO S.A. demanded payment of compensation for damages. In October 2020, at the request of the parties, the court proceedings were suspended in connection with the intention to hold mediation sessions as an alternative dispute resolution. In 2021, the parties to the disputes submitted them for conciliation by the General Prosecutor's Office of the Republic of Poland.

Due to the fact that according to PGE Group the declarations terminating the contracts presented by Enea S.A. were submitted in breach of contractual terms, as at September 30, 2021 the Group recognised contractual penalty receivables of PLN 170 million (of which PLN 164 million was recognised as revenue in previous reporting periods). According to PGE Group companies, based on available legal analysis, a favourable resolution in the above disputes is more probable then a negative resolution.

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 property rights 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 in connection with the intention to hold mediation sessions as an alternative dispute resolution. In 2021, the parties to the disputes submitted them for conciliation by the General Prosecutor's Office of the Republic of Poland.

As a result of the division of PGE GiEK S.A., from July 1, 2021 PGE GiEK S.A. was replaced by PGE EC S.A. as party to the dispute with Enea S.A.

# 25. Tax settlements

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

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

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

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

**Tax group**

An agreement for a tax group named PGK PGE 2015, represented by PGE S.A., was signed on September 18, 2014, for a period of 25 years. An annex to the tax group agreement was signed on July 28, 2021, which reduced the agreement validity period from 25 to 7 years.

Companies included in the tax group must meet a number of requirements covering: appropriate level of equity, parent's share in tax-group companies of at least 75%, lack of capital ties between subsidiaries, no tax arrears, an earnings-to-sales ratio 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. Violating these requirements would mean the dissolution of the tax group and loss of its taxpayer status. When the tax group is dissolved, each of its member companies becomes an individual payer of corporate income tax. Due to the introduction of laws intended to combat the effects of COVID-19, the requirement to have an earnings-to-sales ratio of at least 2% was waived for 2020.

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

The Group intends to effectively use the funds received from counterparties in VAT accounts to pay its liabilities that contain VAT. The level of funds in these VAT accounts on any given day depends mainly on how many of PGE Group's counterparties decide to use this mechanism and the relation between the payment deadlines for receivables and liabilities. As of September 30, 2021 the cash balance in these VAT accounts totalled PLN 395 million.

**Reporting of tax arrangements (MDR)**

In 2019, new regulations introduced mandatory reporting of tax arrangements (Mandatory Disclosure Rules - MDR). A tax arrangement should be understood as any activity of which the main or one of the main benefits is is the obtaining of a tax advantage. Moreover, tax arrangements include events that have general hallmarks or various specific hallmarks, as defined in regulations. Three types of entities are subject to the reporting obligation: promoter, supporter and beneficiary. MDR regulations are complex and imprecise in numerous areas, which gives rise to interpretation doubts as to their practical application.

**Excise tax**

In connection with an incorrect implementation of EU regulations in the Polish legal system, PGE GiEK S.A. in 2009 initiated proceedings regarding reimbursement of improperly paid excise tax for the period January 2006 - February 2009. The irregularity consisted of taxing electricity at the first stage of sale, i.e. by producers, whereas sales to end users should have been taxed.

Examining the company's complaints with regard to the restitution claims against decisions issued by tax authorities refusing to confirm overpayment of excise tax, administrative courts ruled that the company 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 the company sought, especially using economic analyses, are of an offsetting nature and therefore may be sought only in civil courts. Given the above, PGE GiEK S.A. decided to withdraw from the proceedings as regards restitution claims. Activities concerning the excess excise tax are currently being conducted in civil courts. On January 10, 2020 the District Court in Warsaw issued a ruling in a case brought by PGE GiEK against the State Treasury - Minister of Finance. The court dismissed the case. On February 3, 2020 the company filed an appeal with the Court of Appeals in Warsaw against the first-instance ruling. The session was held on December 2, 2020, after which the Court of Appeals in Warsaw rejected PGE GiEK's appeal in a ruling dated December 17, 2020. On April 23, 2021, PGE GiEK S.A. submitted a cassation complaint to the Supreme Court. On May 20, 2021 PGE GiEK received a response from the general prosecutor's office regarding the company's cassation complaint.

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.

**Real estate tax**

Real estate tax constitutes a considerable burden for certain PGE Group companies. Regulations on the real estate tax are unclear in some areas and give rise to a range of interpretation doubts. Tax authorities such as municipality head, city mayor or president, often issue inconsistent tax interpretations in substantively similar cases. This means that PGE Group companies were and can be parties in proceedings relating to real estate tax. If the Group concludes that an adjustment of settlements is probable as a result of such a proceeding, it creates an appropriate provision.

**Uncertainty concerning tax settlements**

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

Tax settlements and other activity areas are conditioned by regulations (customs or currency controls) and can be subject to controls of respective authorities that are authorised to issue fines and penalties, and all additional tax liabilities resulting from such audits must be paid with high interest. This means that tax risk in Poland is higher than in countries with more stable tax systems.

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

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

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

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

# 26. Information on related parties

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

## 26.1 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, 2021 | Period ended September 30, 2020* |
|---|---|---|
| Sales to associates and jointly controlled entities | 127 | 228 |
| Purchases from associates and jointly controlled entities | 1,659 | 1,415 |

| | As at September 30, 2021 | As at 31 December 2020 |
|---|---|---|
| Trade receivables from associates and jointly controlled entities | 52 | 93 |
| Trade liabilities to associates and jointly controlled entities | 468 | 243 |

**Restated data*

This turnover and balances result from transactions with Polska Grupa Górnicza S.A. and Polimex-Mostostal S.A.

Advances paid to associates (mainly Polska Grupa Górnicza S.A. and Polimex-Mostostal S.A.) are included in the amounts presented in note *17.1 Other non-current assets*, amounting to approx. PLN 150 million (PLN 38 million in the comparative period) and in note *17.2 Other current assets*, amounting to approx. PLN 500 million.

## 26.2 State Treasury-controlled companies

The State Treasury is the dominant shareholder of 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 entities. 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, 2021 | Period ended September 30, 2020 |
|---|---|---|
| Sales to related parties | 3,300 | 1,755 |
| Purchases from related parties | 4,695 | 3,771 |

| | As at September 30, 2021 | As at 31 December 2020 |
|---|---|---|
| Trade receivables from related parties | 521 | 254 |
| Trade liabilities to related parties | 710 | 582 |

Largest transactions with the State Treasury's concern the following companies: Polskie Sieci Elektroenergetyczne S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A., Jastrzębska Spółka Węglowa S.A., ENERGA-OPERATOR S.A., PKP Cargo S.A., Zakłady Azotowe PUŁAWY S.A., PKN Orlen S.A., Grupa LOTOS S.A., TAURON Dystrybucja S.A., PKO Bank Polski S.A.

Moreover, PGE Group executes material transactions on the energy market via power exchange Towarowa Giełda Energii S.A. Due to the fact that this entity only manages exchange trading, purchases and sales transacted through this entity are not treated as transactions with related parties.

## 26.3 Management Board and Supervisory Board remuneration

The key management includes the Management Boards and Supervisory Boards of the parent company and significant Group entities.

| PLN 000s | Period ended September 30, 2021 | Period ended September 30, 2020 |
|---|---|---|
| Short-term employee benefits (salaries and salary related costs) | 26,315 | 26,482 |
| Post-employment benefits | 1,784 | 3,004 |
| **TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL** | **28,099** | **29,486** |
| Remuneration of key management personnel of entities of non-core operations | 18,970 | 17,631 |
| **TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL** | **47,069** | **47,117** |

| PLN 000s | Period ended September 30, 2021 | Period ended September 30, 2020 |
|---|---|---|
| Management Board of the parent company | 4,891 | 5,265 |
| *including post-employment benefits* | *-* | *49* |
| Supervisory Board of the parent company | 622 | 587 |
| Management Boards – subsidiaries | 20,009 | 20,820 |
| Supervisory Boards – subsidiaries | 2,577 | 2,814 |
| **TOTAL** | **28,099** | **29,486** |
| Remuneration of key management personnel of entities of non-core operations | 18,970 | 17,631 |
| **TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL** | **47,069** | **47,117** |

PGE Group companies (direct and indirect subsidiaries) apply a rule whereby management board members are employed on the basis of management services contracts. The cost of this remuneration is presented, by nature and function, in note *7.2 Costs by nature and function*.

# 27. Significant events during and after the reporting period

## 27.1 Impact of COVID-19 on PGE Group's business

PGE is identifying risk factors related to the COVID-19 pandemic that affect the Group's results on an on-going basis. The pandemic's impact on financial results remained limited in the first nine months of 2021. Further potential events and their scale are difficult to estimate. The duration, intensity and reach of the pandemic will be of significance, as well as the pandemic's impact on economic growth in Poland. At the same time, preparing precise estimate is difficult due to a variety of other factors having an impact on the electricity market, including demand for electricity. The fourth quarter of 2021 is expected to see the culmination of the pandemic's fourth wave, the effects of which can be assessed in PGE Group's annual report for 2021.

The onset of the pandemic caused an economic slowdown in 2020 globally and in Poland. Currently, following a lockdown of the Polish economy, the economic situation has improved. This can be seen in the major increase in GDP and industrial production in Q2 and Q3 2021 on a year-on-year basis.

Nonetheless, the re-introduction of restrictions may result in reduced economic activity, which would give rise to a temporarily lower domestic consumption of electricity, which in turn would reduce revenue and margins on the generation, distribution and sale of energy in the Conventional Energy, Distribution, Supply and District Heating segments. Most of the production in 2021 was contracted in previous years, which is why the potential negative impact of lower volumes in the Conventional Energy segment would largely be limited. At the same time, in contracting the production for 2022 the Group is largely hedging against the potential impact of the return of the pandemic or economic recession.

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

As of September 30, 2021, the impact of a predicted increase in payment backlogs, especially in receivables from SMEs, was not material. As described in note 2.4 to the consolidated financial statements, PGE Group recognised additional impairment losses of PLN 14 million. Depending on the further development of the pandemic and economic situation, liquidity risk and the risk of higher impairment of overdue receivables at PGE Group still exist and are being monitored on an on-going basis. PGE Group currently does not expect this risk to become material and has not identified liquidity risk.

PGE Group owns facilities of strategic importance from the viewpoint of uninterrupted generation and supply of electricity and heat in Poland. The COVID-19 pandemic has changed the way work is organised, especially with regard to PGE Group's generating assets. In many instances, this gives rise to additional costs, including for example the purchase of protective equipment for employees. Since the start of the pandemic, the Group has work rules in place that are aimed at reducing the risk of infection for employees as much as possible. As one of the largest employers in Poland, with more than 40 000 employees, PGE Group is undertaking a range of corporate and work organisation efforts intended to ensure operational continuity, protection of employee health and life, including remote and rotational work, raising awareness of the basic rules for protecting against COVID-19, prevention and quarantine.

PGE Group is constantly performing communication activities for employees, intended to build awareness of the positive impact of vaccinations - both individual and societal. Furthermore, internal communication is maintained in connection with the course of the pandemic and encouraging to minimise the risk of infection - this means keeping distance, frequently washing hands or using office space in a safe manner. PGE has appointed a crisis team, which collects information from all Group companies, monitors the situation at the companies and undertakes appropriate activities.

Production units also have operational plans, drafted and approved on an on-going basis, in the event of elevated absences - as they are of strategic importance from the viewpoint of maintaining the continuity of production and supply of electricity and heat, they also remain in continuous contact with local services responsible for monitoring the situation in the country across all PGE Group sites.

In the retail customer area, PGE Group has been primarily focusing on expanding its remote service channels.

Having implemented appropriate remedial measures at an early stage of the pandemic, PGE Group has been producing and supplying electricity and heat with no interruptions.

PGE Group is monitoring the further impact of COVID-19 on its financial position and is preparing for various scenarios. The pandemic has accelerated the roll-out of measures intended to prepare the entire organisation for changes in order to take on the challenges that energy companies are facing in connection with decarbonisation. They will require financial expenditures. All potential savings scenarios, in both investment expenditures and operational costs, have been analysed in order to focus on flagship development projects related to PGE Group's core business.

## 27.2 Preliminary proposal to purchase share in Fortum's assets

On October 27, 2020, an investor consortium that included PGE submitted a preliminary, non-binding proposal to purchase from Fortum Holding B.V. its district heating and cooling business in Estonia, Lithuania, Latvia and Poland. Consortium members included: PGE, Polskie Górnictwo Naftowe i Gazownictwo S.A., PFR Inwestycje FIZ, whose investment portfolio is managed in part by Polski Fundusz Rozwoju S.A., and IFM Investors Pty Ltd.

On November 16, 2021, a consortium consisting of: PGE and Polskie Górnictwo Naftowe i Gazownictwo S.A. (Partners) submitted a modified preliminary non-binding offer to purchase shares belonging to Fortum Holding B.V.

The modified proposal entails the acquisition of Fortum Holding B.V.'s district heating business in Poland only. At the same time, the Partners withdrew from the intended acquisition of Fortum's assets in Estonia, Lithuania, Latvia and from participating in the investor consortium with PFR Inwestycje FIZ and IFM Investors Pty Ltd.

Joint work is currently in progress to submit a binding proposal.

Fortum Holding B.V.'s Polish subsidiary is involved in the generation, distribution and sale of heat and the generation of electricity.

The purchase of Fortum's assets is in line with PGE Group's Strategy 2030, announced on October 19, 2020.

## 27.3 Investment agreement with Ørsted for offshore wind farm projects

On February 10, 2021 PGE Group entities and Ørsted signed an agreement to form a 50%/50% joint venture to develop two offshore wind farm projects. These are PGE's on-going projects Baltica 2 through SPV EWB2 (with a planned capacity of approx. 1.5 GW) and Baltica 3 through SPV EWB3 (with a planned capacity of approx. 1 GW).

PGE Baltica 6 sp. z o.o., PGE Baltica 5 sp. z o.o. (PGE's subsidiaries) ("Existing Shareholders"), Orsted Baltica 2 Holding sp. z o.o., Orsted Baltica 3 Holding sp. z o.o., (subsidiaries of Ørsted Wind Power A/S ("OWPAS"), hereinafter jointly referred to as "Investors"), Elektrownia Wiatrowa Baltica – 2 sp. z o.o. and Elektrownia Wiatrowa Baltica – 3 sp. z o.o. signed an investment agreement concerning the development by the Investors of projects Baltica 2 and Baltica 3.

The investment agreement establishes the legal framework for the formation of a joint venture between PGE and OWPAS for the development, construction and operation of offshore wind projects Baltica 2 and Baltica 3.

Under the investment agreement, the Investors undertake to acquire newly-issued shares in EWB2 and EWB3 constituting 50% of share capital and granting the Investors 50% of votes at each of the companies.

On March 10, 2021 the President of the Polish Office of Competition and Consumer Protection approved the concentration.

On May 6, 2021, after the fulfilment of the conditions precedent, relevant PGE Group entities and Ørsted completed the transaction in which Ørsted entities acquired shares representing a 50% stake in EWB2 and EWB3. Once the share capital increase was registered, Ørsted and PGE (acting through subsidiaries) became 50/50 partners in this joint operation.

The total price for the 50% stake in EWB2 and EWB3 constitutes the equivalent of approx. PLN 686 million. The increased price includes in particular contributions made by PGE to the companies after the investment agreement was signed.

Once the relevant assumptions are met, Ørsted entities will be required to make additional contributions to EWB2 and EWB3, which can amount to a total of PLN 1,024 million.

In closing the transactions, Ørsted and PGE entities signed a number of documents, separately for Baltica 2 and Baltica 3, including in particular:

- shareholder agreements, regulating the companies' corporate governance, operational rules for integrated project teams, commitments by the parties regarding financing and the provision of other services to the companies, restrictions on the disposal of shares in the companies constituting the joint operation as well as the consequences of contractual breaches and change of control;
- agreements concerning the provision of development services for the companies constituting the joint operation by relevant subsidiaries from both sides;
- agreements regarding access to resources, based on which both of the parties will delegate personnel to the companies;
- shareholder loan agreements, pursuant to which the shareholders will provide debt financing (aside from equity financing) to the companies,
- corporate guarantees issued by PGE and Ørsted Wind Power A/S, pursuant to which both of the parties guarantee due performance of liabilities at the development stage of the projects by their respective subsidiaries.

## 27.4 Czechia's complaint against Poland regarding prolongation of mining concession for KWB Turów

On September 30, 2020 the Czech Republic sent a letter to the European Commission pursuant to art. 259 of the Treaty on the Functioning of the EU, initiating a procedure against Poland for alleged violations of EU law in connection with the extension of the term of KWB concession for lignite mining for 6 years for KWB Turów. The case number is C-121/21.

On December 17, 2020, the European Commission issued a reasoned opinion, in which it shared some of the objections of the Czech side, while pointing out that the extension of the operation of KWB Turów did not violate the provisions of the Water Framework Directive. The European Commission also stressed that some of the remaining allegations from the Czech side turned out to be wrong.

On February 26, 2021 the Czech government lodged a complaint against Poland with the Court of Justice of the EU. A summary of the complaint and key arguments were published in the EU Official Journal on April 19, 2021. The parties in this proceeding are member states, which precludes the participation of natural and legal persons even if the case directly concerns their activities.

On May 21, 2021, the Vice-President of the Court of Justice issued an order for an interim measure as follows: "The Republic of Poland will cease immediately and until a ruling in case C-121/21 lignite mining at the Turów mine (Poland)." An interim measure does not decide the merits of the case.

On June 9, 2021, the European Commission joined the main proceedings as an intervener supporting some of the claims of the Czech side. In the interim measure procedure, the Czech Republic additionally demanded a fine for each day of non-compliance with the decision to immediately cease lignite mining. At the same time, the Republic of Poland applied for annulment of the decision on interim measures due to a change in circumstances within the meaning of art. 163 of the Rules of the Court of Justice. In accordance with the decision of September 20, 2021, the Vice-President of the Court of Justice dismissed the request to revoke the interim measure and ordered Poland to pay the European Commission a fine in the amount of EUR 500,000 per day, starting from delivery of the ruling to Poland and ending when the member states abides by the ruling of May 21, 2021. In the opinion of the Company, it is not possible to transfer the above-mentioned penalties onto PGE Group companies.

A hearing at the EU Court of Justice was held on November 9, 2021. A ruling in the main case (C-121/21) should be expected in the first quarter of 2022 at the earliest.

The Group does not plan to stop coal mining activities at KWB Turów and electricity generation activities at the Turów plant. Mining at KWB Turów complies with domestic laws and European environmental norms, based on a legally obtained concession. The government of the Republic of Poland takes the same position in this respect, additionally pointing out that the suspension of works in the mine would endanger the stability of the Polish power system and would have negative consequences for energy security. Government representatives also point to the lack of legal grounds to order the suspension of work at KWB Turów.

According to PGE Group, the dispute has no impact on these financial statements as of the date on which they were prepared. At the same time, the Group will continuously monitor the case, and any events that arise will be reflected in future financial statements as appropriate.

## 27.5 Planned disposal of coal assets to National Energy Security Agency

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

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

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

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

# II. PGE Polska Grupa Energetyczna S.A. Quarterly financial information for the 3- and 9-month period ended September 30, 2021, in accordance with IFRS EU (in PLNm)

## SEPARATE STATEMENT OF COMPREHENSIVE INCOME

| | 3 months ended September 30 2021 *(unaudited)* | 9 months ended September 30 2021 *(unaudited)* | 3 months ended September 30, 2020 *(unaudited)* | 9 months ended September 30, 2020 *(unaudited)* |
|---|---|---|---|---|
| **STATEMENT OF PROFIT OR LOSS** | | | | |
| | | | | |
| **REVENUE FROM SALES** | **3,283** | **16,112** | **3,965** | **19,065** |
| Cost of goods sold | (3,058) | (15,411) | (3,746) | (18,317) |
| **GROSS PROFIT ON SALES** | **225** | **701** | **219** | **748** |
| Distribution and selling expenses | (4) | (13) | (5) | (15) |
| General and administrative expenses | (40) | (138) | (66) | (173) |
| Other operating income / (expenses) | 6 | 1 | (1) | (9) |
| **OPERATING PROFIT** | **187** | **551** | **147** | **551** |
| Finance income / (costs), including | 21 | 1,285 | (53) | 1,147 |
| *Interest income calculated using the effective interest rate method* | *34* | *108* | *38* | *120* |
| **GROSS PROFIT** | **208** | **1,836** | **94** | **1,698** |
| Income tax | (110) | (137) | 12 | (45) |
| **NET PROFIT FOR THE REPORTING PERIOD** | **98** | **1,699** | **106** | **1,653** |
| | | | | |
| **OTHER COMPREHENSIVE INCOME** | | | | |
| **Items that may be reclassified to profit or loss:** | | | | |
| Measurement of hedging instruments | 105 | 304 | 26 | (328) |
| Deferred tax | (20) | (58) | (6) | 62 |
| **Items that may not be reclassified to profit or loss:** | | | | |
| Actuarial gains and losses from valuation of provisions for employee benefits | 2 | 3 | - | (2) |
| Deferred tax | - | - | - | - |
| **OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET** | **87** | **249** | **20** | **(268)** |
| | | | | |
| **TOTAL COMPREHENSIVE INCOME** | **185** | **1,948** | **126** | **1,385** |
| | | | | |
| **NET PROFIT AND DILUTED NET PROFIT PER SHARE (IN PLN)** | **0.05** | **0.91** | **0.06** | **0.88** |

The additional notes constitute an integral part of the quarterly financial information

# SEPARATE STATEMENT OF FINANCIAL POSITION

| | As at September 30, 2021 *(unaudited)* | As at 31 December 2020 *(audited)* |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| Property, plant and equipment | 147 | 155 |
| Right-of-use assets | 20 | 20 |
| Financial receivables | 6,503 | 9,139 |
| Derivatives and other assets measured at fair value through profit or loss | 114 | 132 |
| Shares in subsidiaries | 29,534 | 29,401 |
| Shares in subsidiaries, jointly controlled entities and associates | 83 | 101 |
| Deferred income tax assets | 49 | 119 |
| Other non-current assets | 3 | - |
| | **36,453** | **39,067** |
| **CURRENT ASSETS** | | |
| Inventories | 1 | 1 |
| Trade and other receivables | 11,693 | 9,762 |
| Derivatives | 2,264 | 1,244 |
| Shares in subsidiaries | - | 369 |
| Other current assets | 1,375 | 54 |
| Cash and cash equivalents | 7,120 | 3,507 |
| | **22,453** | **14,937** |
| **TOTAL ASSETS** | **58,906** | **54,004** |
| | | |
| **EQUITY** | | |
| Share capital | 19,165 | 19,165 |
| Reserve capital | 20,154 | 18,410 |
| Hedging reserve | (41) | (288) |
| Retained earnings | 1,699 | 1,742 |
| | **40,977** | **39,029** |
| **NON-CURRENT LIABILITIES** | | |
| Non-current provisions | 17 | 19 |
| Loans, borrowings, bonds and leases | 7,025 | 8,602 |
| Derivatives | 101 | 385 |
| Other liabilities | 13 | 17 |
| | **7,156** | **9,023** |
| **CURRENT LIABILITIES** | | |
| Current provisions | 40 | 21 |
| Loans, borrowings, bonds, cash pooling, leases | 4,325 | 2,150 |
| Derivatives | 2,267 | 1,243 |
| Trade and other liabilities | 3,801 | 1,583 |
| Income tax liabilities | 164 | 456 |
| Other non-financial liabilities | 176 | 499 |
| | **10,773** | **5,952** |
| **TOTAL LIABILITIES** | **17,929** | **14,975** |
| **TOTAL EQUITY AND LIABILITIES** | **58,906** | **54,004** |

# SEPARATE STATEMENT OF CHANGES IN EQUITY

| | Share capital | Supplementary capital | Hedging reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **AS AT JANUARY 1, 2021** | **19,165** | **18,410** | **(288)** | **1,742** | **39,029** |
| Net profit for the reporting period | - | - | - | 1,699 | **1,699** |
| Other comprehensive income | - | - | 247 | 2 | **249** |
| **COMPREHENSIVE INCOME FOR THE PERIOD** | **-** | **-** | **247** | **1,701** | **1,948** |
| Allocation of profit from previous years | **-** | 1,744 | - | (1,744) | - |
| **AS AT SEPTEMBER 30, 2021** | **19,165** | **20,154** | **(41)** | **1,699** | **40,977** |

| | Share capital | Supplementary 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** |
| Coverage of loss | - | (1,259) | - | 1,259 | **-** |
| Other changes | - | - | - | - | **-** |
| **AS AT SEPTEMBER 30, 2020** | **19,165** | **18,410** | **(338)** | **1,652** | **38,889** |

# SEPARATE STATEMENT OF CASH FLOWS

| | Period ended September 30, 2021 *(unaudited)* | Period ended September 30, 2020 *(unaudited)* |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| **Gross profit** | **1,836** | **1,698** |
| Income tax paid | (451) | 303 |
| | | |
| **Adjustments for:** | | |
| Depreciation, amortisation and impairment losses | 9 | 9 |
| Interest and dividend, net | (1,359) | (1,581) |
| (Gain) / loss on investing activities | 74 | 533 |
| Change in receivables | (941) | 25 |
| Change in inventories | - | 2 |
| Change in liabilities, excluding loans and borrowings | 1,914 | (84) |
| Change in other non-financial assets | (64) | (199) |
| Change in provisions | (19) | 18 |
| Exchange differences | 1 | - |
| **NET CASH FROM OPERATING ACTIVITIES** | **1,000** | **724** |
| | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of property, plant and equipment and intangible assets | (2) | (4) |
| (Purchase) / buy-back of bonds issued by PGE Group companies | - | 1,610 |
| Dividends received | 7 | 10 |
| Sale of other financial assets | 384 | 15 |
| Expenditure on purchase of shares in subsidiaries | (122) | (18) |
| Origination / (repayment) of loans granted under cash pooling agreement | 1,254 | 1,083 |
| Loans granted | (7,336) | (2,835) |
| Interest received | 279 | 313 |
| Loans repaid | 9,227 | 2,630 |
| **NET CASH FROM INVESTING ACTIVITIES** | **3,691** | **2,804** |
| | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from loans, borrowings | - | 4,100 |
| Repayment of loans, borrowings, leases | (851) | (5,099) |
| Interest paid | (226) | (250) |
| Other | **-** | (1) |
| **NET CASH FROM FINANCING ACTIVITIES** | **(1,077)** | **(1,250)** |
| | | |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | **3,614** | **2,278** |
| Net exchange differences | (1) | (1) |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD** | **3,493** | **219** |
| **CASH AND CASH EQUIVALENTS AT THE END OF PERIOD** | **7,107** | **2,497** |

# 1. Changes in accounting principles and data presentation

In the present period, the Company did not change accounting rules or data presentation.

New standards and interpretations that went into force on January 1, 2021 and had no impact on the Company's separate financial statements are described in note 4 to the consolidated financial statements.

# III. APPROVAL OF QUARTERLY FINANCIAL REPORT

This financial report, containing PGE Group's consolidated interim financial statements and PGE S.A.'s quarterly financial information for the 3- and 9-month period ended September 30, 2021, was approved for publication by the Management Board on November 23, 2021.

Warsaw, November 23, 2021

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

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

# GLOSSARY OF TERMS AND ABBREVIATIONS

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

| Abbreviation | Full term |
|---|---|
| CCIRS | Cross Currency Interest Rate Swap |
| CGU | Cash Generating Unit |
| EBIT | Earnings Before Interest and Taxes |
| EBITDA | Earnings Before Interest, Taxes, Depreciation and Amortization |
| EWB2 | Elektrownia Wiatrowa Baltica – 2 sp. z o.o. |
| EWB3 | Elektrownia Wiatrowa Baltica – 3 sp. z o.o. |
| EUA | European Union Allowances |
| PGE Group, Group | PGE Polska Grupa Energetyczna S.A. Group |
| IRGiT | Izba Rozliczeniowa Giełd Towarowych S.A. |
| IRS | Interest Rate Swap |
| LTC | Long-term capacity and electricity sale contracts |
| KOGENERACJA S.A. | Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. |
| IFRS | International Financial Reporting Standards |
| IFRS EU | International Financial Reporting Standards approved by the European Union |
| NABE | Narodowa Agencja Bezpieczeństwa Energetycznego S.A. |
| NFOŚiGW | National Fund for Environmental Protection and Water Management |
| Investment property | Investment property |
| Right-of-use assets | Right-of-use assets |
| PEP 2040 | Poland's energy policy 2040 |
| PGE S.A., PGE, Company, parent | PGE Polska Grupa Energetyczna S.A. |
| PGE EC S.A. | PGE Energia Ciepła S.A. |
| PGE EO S.A. | PGE Energia Odnawialna S.A. |
| PGE GiEK S.A. | PGE GiEK S.A. |
| PGG | Polska Grupa Górnicza S.A. |
| PGE PGK | PGE's tax group |
| Property, plant and equipment | Property, plant and equipment |
| Financial statements, consolidated financial statements | PGE Group's consolidated financial statements |
| Act on electricity prices | Act on amendment of the excise tax act and certain other acts |
| WACC | Weighted Average Cost of Capital |
| Voivodship Fund for Environmental Protection and Water Management (WFOŚiGW) | Voivodship Fund for Environmental Protection and Water Management |
| Intangible assets | Intangible assets |
| Organised part of enterprise | Organised part of enterprise |