QUARTERLY FINANCIAL REPORT

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

ended March 31, 2022,
in accordance with IFRS (in PLNm)

Prowadzimy w zielonej zmianie

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I. PGE GROUP CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 3-MONTH PERIOD ENDED MARCH 31, 2022, IN ACCORDANCE WITH IFRS EU

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended March 31, 2022 *(unaudited)*	Period ended March 31, 2021 *(unaudited)* *restated data**
STATEMENT OF PROFIT OR LOSS			
REVENUE FROM SALES	*6.1*	**16,897**	**11,942**
Cost of goods sold	*6.2*	(14,675)	(10,200)
GROSS PROFIT ON SALES		**2,222**	**1,742**
Distribution and selling expenses	*6.2*	(438)	(417)
General and administrative expenses	*6.2*	(264)	(260)
Net other operating income / expenses	*6.4*	30	99
OPERATING PROFIT		**1,550**	**1,164**
Net finance income / costs, including:	*6.5*	(168)	(134)
Interest income calculated using the effective interest rate method		*22*	*8*
Share of profit/(loss) of entities accounted for using the equity method	*6.6*	7	(6)
GROSS PROFIT/(LOSS)		**1,389**	**1,024**
Income tax	*8*	(327)	(189)
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD		**1,062**	**835**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss in the future:			
Valuation of debt financial instruments	*19.2*	-	7
Valuation of hedging instruments	*19.2*	414	83
Foreign exchange differences from translation of foreign entities		1	1
Deferred tax	*8*	(79)	(18)
Items that may not be reclassified to profit or loss in the future:			
Share of profit of equity-accounted entities		2	
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**338**	**73**
TOTAL COMPREHENSIVE INCOME		**1,400**	**908**
NET PROFIT/(LOSS) ATTRIBUTABLE TO:			
shareholders of the parent		1,022	808
non-controlling interests		40	27
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
shareholders of the parent		1,360	880
non-controlling interests		40	28
EARNINGS AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT (IN PLN)		**0.55**	**0.43**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	At March 31, 2022 (unaudited)	At December 31, 2021 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		60,593	60,817
Investment property		34	39
Intangible assets		674	682
Right-of-use assets		1,253	1,257
Financial receivables	*16.1*	212	204
Derivatives and other assets measured at fair value through profit or loss	*18*	578	364
Shares and other equity instruments		133	117
Shares accounted for using the equity method	*11*	168	156
Other non-current assets		820	873
CO_2 emission allowances for captive use	*15*	836	797
Deferred income tax assets	*13.1*	1,684	933
		66,985	**66,239**
CURRENT ASSETS			
Inventories	*14*	2,860	2,189
CO_2 emission allowances for captive use	*15*	9,248	4,106
Income tax receivables		133	144
Derivatives and other assets measured at fair value through profit or loss	*18*	949	575
Trade and other financial receivables	*16.1*	7,299	7,727
Other current assets		1,356	1,240
Cash and cash equivalents	*16.2*	6,123	6,733
		27,968	**22,714**
ASSETS CLASSIFIED AS HELD FOR SALE		**13**	**13**
TOTAL ASSETS		**94,966**	**88,966**
EQUITY			
Share capital	*19.1*	19,165	19,165
Reserve capital		20,154	20,154
Hedging reserve	*19.2*	944	609
Foreign exchange differences from translation		3	2
Retained earnings		8,591	7,564
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**48,857**	**47,494**
Equity attributable to non-controlling interests		837	797
TOTAL EQUITY		**49,694**	**48,291**
NON-CURRENT LIABILITIES			
Non-current provisions	*20*	8,642	8,559
Loans, borrowings, bonds and lease	*21.1*	7,904	8,666
Derivatives	*18*	1	1
Deferred income tax liabilities	*13.2*	1,246	402
Deferred income and government grants		588	600
Other financial liabilities	*21.2*	519	517
Other non-financial liabilities	*22.1*	129	133
		19,029	**18,878**
CURRENT LIABILITIES			
Current provisions	*20*	17,018	12,600
Loans, borrowings, bonds and leases	*21.1*	2,072	2,160
Derivatives	*8*	183	82
Trade and other financial liabilities	*21.2*	4,887	4,601
Income tax liabilities		162	20
Deferred income and government grants		76	76
Other non-financial liabilities	*22.2*	1,845	2,258
		26,243	**21,797**
TOTAL LIABILITIES		**45,272**	**40,675**
TOTAL EQUITY AND LIABILITIES		**94,966**	**88,966**

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	*19.1*		*19.2*					
JANUARY 1, 2022	**19,165**	**20,154**	**609**	**2**	**7,564**	**47,494**	**797**	**48,291**
Net profit for the reporting period	-	-	-	-	1,022	1,022	40	1,062
Other comprehensive income	-	-	335	1	2	338	-	338
COMPREHENSIVE INCOME	**-**	**-**	**335**	**1**	**1,024**	**1,360**	**40**	**1,400**
Accounting for purchase of additional shares in subsidiaries	-	-	-	-	1	1	-	1
Other changes	-	-	-	-	2	2	-	2
MARCH 31, 2022	**19,165**	**20,154**	**944**	**3**	**8,591**	**48,857**	**837**	**49,694**

	Share capital	Reserve capital	Hedging reserve	Foreign exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total equity
Note	*19.1*		*19.2*					
JANUARY 1, 2021	**19,165**	**18,410**	**(13)**	**5**	**4,951**	**42,518**	**983**	**43,501**
Net profit for the reporting period	-	-	-	-	808	808	27	835
Other comprehensive income	-	-	71	1	-	72	1	73
COMPREHENSIVE INCOME	**-**	**-**	**71**	**1**	**808**	**880**	**28**	**908**
Entity's exit from PGE Group	-	-	-	-	-	-	(155)	(155)
Other changes	-	-	-	-	(1)	(1)	-	(1)
MARCH 31, 2021	**19,165**	**18,410**	**58**	**6**	**5,758**	**43,397**	**856**	**44,253**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Period ended March 31, 2022 *(unaudited)*	Period ended March 31, 2021 *(unaudited)*
CASH FLOWS FROM OPERATING ACTIVITIES			
Gross profit / loss		**1,389**	**1,024**
Income tax paid		(188)	(213)
Adjustments for:			
Share of (profit)/loss of equity-accounted entities		(7)	6
Depreciation, amortisation, disposal and impairment losses		1,065	1,042
Interest and dividend, net		83	71
(Profit) / loss on investing activities		(64)	(58)
Change in receivables		602	(108)
Change in inventories		(670)	531
Change in CO_2 emission allowances for captive use		(5,181)	(4,417)
Change in liabilities, excluding loans and borrowings		(165)	733
Change in other non-financial assets, prepayments		(113)	(778)
Change in provisions		4,494	1,768
Other		59	1
NET CASH FROM OPERATING ACTIVITIES		**1,304**	**(398)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets		(1,001)	(1,164)
Sale of property, plant and equipment and intangible assets		8	10
Recognition of deposits with maturity over 3 months		(293)	(8)
Termination of deposits with maturity over 3 months		283	-
Purchase of financial assets		(16)	(41)
Loans repaid		15	-
Sale of other financial assets after offsetting cash		89	361
Other		2	(3)
NET CASH FROM INVESTING ACTIVITIES		**(913)**	**(845)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans, borrowings		2,214	98
Repayment of loans, borrowings, leases		(3,113)	(50)
Interest paid		(79)	(89)
Other		-	5
NET CASH FROM FINANCING ACTIVITIES		**(978)**	**(36)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(587)**	**(1,279)**
Net exchange differences		*(22)*	*(6)*
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	*16.2*	**6,734**	**4,173**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	*16.2*	**6,147**	**2,894**

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. As of March 31, 2022, the parent company's registered office is in Warsaw, ul. Mysia 2. On April 6, 2022, an Extraordinary General Meeting adopted a resolution to change the Company's registered office to Lublin. Until the date on which these financial statements were approved for publication, the amendment of the articles of association concerning the change of registered office was not yet registered with the National Court Register.

As at January 1, 2022, 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,
- Lechosław Rojewski – Vice-President of the Management Board,
- Paweł Śliwa – Vice-President of the Management Board,
- Ryszard Wasiłek – Vice-President of the Management Board.

At March 31, 2022, and on the date on which these financial statements were published, the Company's Management Board did not change.

Ownership structure

The parent's ownership structure was as follows:

	As at March 31, 2022	As at December 31, 2021
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 the information available in the Company, as at the date of publication of these financial statements, the only shareholder holding at least 5% of the total number of votes at the General Meeting of Shareholders of PGE S.A. is the State Treasury.

In accordance with the information contained in note 26.3 of these financial statements, the Company in the current period curried out a reduction and increase in the share capital. On 18 May, 2022, changes in Company’s share capital were registered in the National Court Register.

On May 20, 2022, the Company received a notification concerining change in total number of votes held by the State Treasury. As at the date of approval of these financial statements for publication, the State Treasury holds 60.86% share in the total number of votes. With the regards of shares held by Towarzystwo Finansowe Silesia sp. z o.o.(subsidiary of State Treasury), the State Treasury holds a total of 61.70% shares in total number of votes.

1.2 Information on PGE Group

PGE Group consists of the parent, PGE Polska Grupa Energetyczna S.A., along with 77 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, 2022 to March 31, 2022 and include comparative data for the period from January 1, 2021 to March 31, 2021 and as at December 31, 2021. 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, 2021, approved for publication on March 21, 2022.

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 PGE 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. reports as of March 31, 2022, a high level of debt and a considerable amount of accumulated losses from previous years. This situation largely results from negative changes on the retail electricity 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

With the exception of the change described in note 3, 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, 2021, published on March 21, 2022.

1.3 PGE Group's consolidated companies

1.3.1 Fully consolidated direct and indirect subsidiaries

	Entity	Entity holding stake	Stake held by Group entities as at March 31, 2022	Stake held by Group entities as at December 31, 2021
	SEGMENT: SUPPLY			
1.	PGE Polska Grupa Energetyczna S.A. Warsaw	Parent		
2.	PGE Dom Maklerski S.A. Warsaw	PGE S.A.	100.00%	100.00%
3.	PGE 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 Paliwa sp. z o.o. Kraków	PGE EC S.A.	100.00%	100.00%
	SEGMENT: CONVENTIONAL GENERATION			
6.	PGE Górnictwo i Energetyka Konwencjonalna S.A. Bełchatów	PGE S.A.	100.00%	100.00%
7.	Elbest Security sp. z o.o. Bełchatów	PGE S.A.	100.00%	100.00%
8.	MegaSerwis sp. z o.o. Bogatynia	PGE S.A.	100.00%	100.00%
9.	ELMEN sp. z o.o. Rogowiec	PGE S.A.	100.00%	100.00%
10.	ELTUR-SERWIS sp. z o.o. Bogatynia"	PGE S.A.	100.00%	100.00%

	Entity	Entity holding stake	Stake held by Group entities as at March 31, 2022	Stake held by Group entities as at December 31, 2021
11.	BETRANS sp. z o.o. Bełchatów	PGE S.A.	100.00%	100.00%
12.	BESTGUM POLSKA sp. z o.o. Rogowiec	PGE S.A.	100.00%	100.00%
13.	RAMB sp. z o.o. Piaski	PGE S.A.	100.00%	100.00%
14.	„Energoserwis – Kleszczów" sp. z o.o. Rogowiec	PGE GiEK S.A.	51.00%	51.00%
	SEGMENT: DISTRICT HEATING			
15.	PGE Energia Ciepła S.A. Warsaw	PGE S.A.	100.00%	100.00%
16.	PGE Toruń S.A. Toruń	PGE EC S.A.	95.22%	95.22%
17.	PGE Gaz Toruń sp. z o.o. Warsaw	PGE EC S.A.	100.00%	100.00%
18.	Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. Wrocław	PGE EC S.A.	58.07%	58.07%
19.	Elektrociepłownia Zielona Góra S.A. Zielona Góra	KOGENERACJA S.A.	98.40%	98.40%
20.	MEGAZEC sp. z o.o. Bydgoszcz	PGE S.A.	100.00%	100.00%
	Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. Zgierz	PGE EC S.A.	-	100.00%
	SEGMENT: CIRCULAR ECONOMY			
21.	PGE Ekoserwis S.A. Wrocław	PGE S.A.	100.00%	100.00%
22.	EPORE S.A. Bogatynia	PGE GiEK S.A.	100.00%	100.00%
23.	ZOWER sp. z o.o. Rybnik	PGE Ekoserwis S.A.	100.00%	100.00%
	SEGMENT: RENEWABLES			
24.	PGE Energia Odnawialna S.A. Warsaw	PGE S.A.	100.00%	100.00%
25.	Elektrownia Wiatrowa Baltica-1 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
26.	Elektrownia Wiatrowa Baltica-4 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
27.	Elektrownia Wiatrowa Baltica-5 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
28.	Elektrownia Wiatrowa Baltica-6 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
29.	Elektrownia Wiatrowa Baltica-9 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
30.	Elektrownia Wiatrowa Baltica-10 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
31.	Elektrownia Wiatrowa Baltica-11 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
32.	Elektrownia Wiatrowa Baltica-12 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
33.	Elektrownia Wiatrowa Baltica-8 sp. z o.o. (formerly PGE Baltica 1 sp. z o.o.) Warsaw	PGE S.A.	100.00%	100.00%
34.	PGE Baltica 2 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
35.	PGE Baltica 3 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
36.	PGE Baltica 4 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
37.	PGE Baltica 5 sp. z o.o. Warsaw	PGE Baltica 3 sp. z o.o.	100.00%	100.00%
38.	PGE Baltica 6 sp. z o.o. Warsaw	PGE Baltica 2 sp. z o.o.	100.00%	100.00%
39.	PGE Baltica sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
40.	PGE Klaster sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
41.	PGE Soleo 1 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
42.	PGE Soleo 2 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
43.	PGE Soleo 3 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%

	Entity	Entity holding stake	Stake held by Group entities as at March 31, 2022	Stake held by Group entities as at December 31, 2021
44.	PGE Soleo 4 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
45.	PGE Soleo 5 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
46.	PGE Soleo 6 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
47.	PGE Soleo 7 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	-
48.	Mithra A sp. z o.o. Poznań	PGE EO S.A.	100.00%	-
49.	Mithra B sp. z o.o. Poznań	PGE EO S.A.	100.00%	-
50.	Mithra L sp. z o.o. Poznań	PGE EO S.A.	100.00%	-
51.	Mithra V sp. z o.o. Warsaw	PGE EO S.A.	100.00%	-
	SEGMENT: DISTRIBUTION			
52.	PGE Dystrybucja S.A. Lublin	PGE S.A.	100.00%	100.00%
	SEGMENT: OTHER ACTIVITY			
53.	PGE Systemy S.A. Warsaw	PGE S.A.	100.00%	100.00%
54.	PGE Sweden AB (publ) Stockholm	PGE S.A.	100.00%	100.00%
55.	PGE Synergia sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
	„Elbest" sp. z o.o. Bełchatów	PGE S.A.	-	100.00%
56	ELBIS sp. z o.o. Rogowiec	PGE S.A.	100.00%	100.00%
57.	PGE Inwest 2 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
58.	PGE Ventures sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
59.	PGE Gryfino 2050 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
60.	PGE Inwest 9 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
61.	PGE Inwest 10 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
62.	PGE Inwest 11 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
63.	PGE Inwest 12 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
64.	PGE Inwest 13 S.A. Warsaw	PGE S.A.	100.00%	100.00%
65.	PGE Inwest 14 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
66.	PGE Nowa Energia sp. z o.o. w likwidacji Warsaw	PGE S.A.	100.00%	100.00%
67.	Towarzystwo Funduszy Inwestycyjnych Energia S.A. Warsaw	PGE S.A.	100.00%	100.00%
68.	Rybnik 2050 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
69.	PGE Inwest 20 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
70.	PGE Inwest 21 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
71.	PGE Inwest 22 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
72.	PGE Inwest 23 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
73.	PGE Inwest 24 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
74.	PGE Inwest 25 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
75.	BIO-ENERGIA sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
	Przedsiębiorstwo Transportowo-Usługowe „ETRA" sp. z o.o. Białystok	PGE Dystrybucja S.A.	-	100.00%
76.	Energetyczne Systemy Pomiarowe sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%

	Entity	Entity holding stake	Stake held by Group entities as at March 31, 2022	Stake held by Group entities as at December 31, 2021
77.	Przedsiębiorstwo Usługowo-Handlowe TOREC sp. z o.o. Toruń	PGE Toruń S.A.	51.05%	51.05%
78.	4Mobility S.A. Warsaw	PGE Nowa Energia sp. z o.o.	51.47%	51.47%
	PIMERGE S.A. Wrocław	PGE Ventures sp. z o.o.	-	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 March 31, 2022:

- The merger of PGE EC S.A. (acquiring company) and Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. (acquired company) was registered at the National Court Register on January 3, 2022. The merger had no impact on these consolidated financial statements of PGE Group.
- On January 14, 2022 the Extraordinary General Meeting of 4Mobility S.A. adopted a resolution to increase share capital of PLN 130,000 by shares issue. All of the new shares were offered in a private placement exclusively to EFF B.V., based in Maastricht - an existing shareholder of 4Mobility S.A. As a result of the share capital increase, PGE Nowa Energia sp. z o.o.'s stake will decrease from 51.47% to 37.93%, which means that 4Mobility S.A. will become a PGE Group associate. At the date on which these financial statements were approved for publication, the share capital increase was not yet registered at the National Court Register.
- On February 4, 2022 PGE EO S.A. purchased 100% of shares in Mithra A sp. z o.o., Mithra B sp. z o.o., Mithra L sp. z o.o. and Mithra V sp. z o.o., which own 7 PV projects with a total capacity of 26 MW, for the total price of PLN 18.7 million.
- On February 15, 2022, the Management Board of PGE EO S.A. adopted a resolution to adopt and agree on the Merger Plan of PGE EO S.A. as the acquiring company and Bio-Energia sp. z o.o. as the acquired company. At the date on which these financial statements were approved for publication, the share capital increase was not yet registered at the National Court Register. This merger will have no impact on PGE Group's financial statements in the future.
- On March 4, 2022 an agreement was performed to sell all Elbest sp. z o.o. shares held by PGE S.A. to Polski Holding Hotelowy sp. z o.o. The gain on this company's sale at the level of the consolidated financial statements was PLN 19 million.
- On March 17, 2022, PGE S.A. and Powszechny Zakład Ubezpieczeń S.A. executed a preliminary agreement to sell 100% shares of TFI Energia S.A. Approvals from the Polish Financial Supervision Authority and the President of the Office of Competition and Consumer Protection are required to finalise the transaction.
- The merger of PGE Dystrybucja S.A. (acquiring company) and Przedsiębiorstwo Transportowo-Usługowe "ETRA" sp. z o.o. (acquired company) was registered at the National Court Register on March 21, 2022. The merger had no impact on these consolidated financial statements of PGE Group.
- On March 31, 2022, an Extraordinary General Meeting of PGE Nowa Energia sp. z o.o. adopted a resolution to dissolve PGE Nowa Energia sp. z o.o. and appoint a liquidator to carry out liquidation.
- Due to the submitted applications to put the company into bankruptcy, PIMERGE S.A. was removed from consolidation at the beginning of 2022. The loss on this at the level of the consolidated financial statements was PLN 1 million.

Events after the reporting period

- On April 1, 2022, PGE EO S.A. and Vanadium Holdco Limited, which is owned by Green Investment Group, a part of the Australia-based global fund Macquarie, executed a conditional share purchase agreement as a result of which PGE EO S.A. will acquire 100% of shares in Collfield Investments, which owns 100% of shares in three SPVs operating three wind farms with a total capacity of 84.2 MW. The transaction value will be more than PLN 900 million. A condition precedent for this transaction is the approval of the Office of Competition and Consumer Protection. The transaction is expected to close in the second quarter of 2022.
- A conditional agreement to sell all PHU Torec sp. z o.o. shares held by PGE Toruń S.A. was executed on April 4, 2022. The conditions for the transfer of the ownership right to shares specified in the above agreement, i.e. transfer of the sale price to the seller and adoption of a resolution on cancellation of shares by the General Meeting of PHU Torec sp. z o.o., were fulfilled, therefore as of April 21, 2022 PHU Torec sp. z o.o. is no longer part of PGE Group.
- On May 12, 2022, an increase in the share capital of PGE Soleo 1 Sp. z o.o. by 4.1 million was registered in the National Court Register by creating new 4,100 shares with nominal value of PLN 1,000 each. The share capital increase involved as follows: PGE EO S.A. acquired 2,000 newly created shares and covered them in full with a cash contribution of PLN 2 million, The Kleszczów Commune took up 2,100 newly created shares and covered them in full with a cash contribution of PLN 2.1 million. As a result of the above transaction, PGE EO S.A. and Kleszczów Commune hold shares representing 50% of the share

capital each, and PGE Soleo 1 sp. z o.o. is no longer a subsidiary within the PGE Capital Group, but a joint venture subject to consolidation in terms of PGE Group's assets and liabilities as well as revenues and expenses.

1.3.2 Joint ventures subject to consolidation as regards assets, equity and liabilities, revenues and costs attributable to PGE Group

	Entity	Entity holding stake	Stake held by Group entities as at March 31, 2022	Stake held by Group entities as at December 31, 2021
	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%

1.3.3 The following associates and jointly controlled entities are subject to consolidation using the equity method:

	Entity	Entity holding stake	Stake held by Group entities as at March 31, 2022	Stake held by Group entities as at December 31, 2021
1.	Polska Grupa Górnicza S.A. Katowice	PGE GiEK S.A.	15.32%	15.32%
2.	Polimex Mostostal S.A. Warsaw	PGE S.A.	16.45%	16.40%
3.	PEC Bogatynia Bogatynia	PGE EC S.A.	34.93%	34.93%
4.	Energopomiar sp. z o.o. Gliwice	PGE Group companies	49.79%	49.79%

Two tranches of the call options were exercised on February 24, 2022, as a result of which PGE S.A. acquired 312,500 shares of Polimex Mostostal S.A. In effect, PGE S.A.'s stake in Polimex Mostostal S.A. increased from 16.40% to 16.45%.

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:

	March 31, 2022	December 31, 2021	March 31, 2021
USD	4.1801	4.0600	3.9676
EUR	4.6525	4.5994	4.6603

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, 2022:

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 IFRS 17 Insurance Contracts	First-time Adoption of IFRS 17 and IFRS 9 - Comparative Data	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 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 with regards to the below issues, management has made judgements and estimates that affect the amounts presented in the consolidated financial statements, including in other explanatory information. The estimates are based on the best knowledge of the Management Board relating to current and future operations and events in particular areas. Detailed information on the assumptions made is presented below or in respective explanatory notes.

- In the previous reporting periods the Group recognised impairment losses on assets, in particular of property, plant and equipment. In the present period, the Group did not identify any need to conduct impairment testing or reverse impairment losses recognised in previous reporting periods. 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 has adopted the figures and values that it believes to be the most appropriate, however, it cannot be ruled out that individual assumptions will differ from those adopted 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.
- Uncertainties concerning tax settlements are described in note 24 to these consolidated financial statements.

3. Changes in accounting principles and data presentation

New standards and interpretations that went into force on January 1, 2022

The accounting principles (policy) applied in preparing these financial statements are consistent with those applied in preparing the financial statements for 2021, except for the amendment to IAS 16, as described below. The following amendments to IFRSs are applied in these financial statements in line with their effective dates. With the exception of the amendment to IAS 16, 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 resulting from IFRS annual improvement cycle 2018-2020 - amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41, mainly concerning clarifications and wording;
- Amendments to IFRS 3 - amendments concerning references to conceptual assumptions;
- Amendments to IAS 16 - amendments concerning proceeds from property, plant and equipment before intended use;
- Amendments to IAS 37 - Onerous Contracts — Cost of Fulfilling a Contract;

- Amendments to IFRS 16 - amendments concerning rent concessions in connection with COVID-19.

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.

Proceeds from trial run

In accordance with the requirements of IAS 16 effective from January 1, 2022, revenue from the sale of items generated in the course of bringing an item of property, plant and equipment to the location and condition necessary to enable it to operate properly and the costs of such items are recognised in the statement of profit and loss. IAS 16 requires retrospective application of the regulation described above, but only in respect of property, plant and equipment that was placed in service in the earliest period presented in the financial statements.

This regulation applies to revenue from the trial run of the power unit, which was generated in the first quarter of 2021 by PGE GiEK S.A., Elektrownia Turów Branch. According to the accounting policy in place in 2021, revenue from the so-called trial run reduced the cost of production of the power unit, but the amount of revenue that reduces the cost of production of the asset could not exceed the amount of the cost of verification (testing). In accordance with the accounting policy in place in 2021, in the first quarter of 2021 expenses related to the construction of the power unit were recognised as costs related to the trial run as well as revenue from the sale of electricity from the trial run in the amount of PLN 42 million. The surplus of revenue from the sale of electricity from trial run over the costs incurred for this amounted to PLN 9 million and was recognised in the statement of profit and loss.

In order to make the data for the first quarter of 2021 comparable, revenue from electricity sales and own costs of sales were increased by PLN 42 million. The change had no impact on the financial result.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Period ended March 31, 2021 published data	Change in presentation	Period ended March 31, 2021 restated data
REVENUE FROM SALES	**11,900**	42	**11,942**
Cost of goods sold	(10,158)	(42)	(10,200)
GROSS PROFIT ON SALES	**1,742**	-	**1,742**

4. 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), an interest rate CCIRS and IRS hedging transactions exchanging a variable interest in PLN for a fixed interest rate in PLN (Level 2).

FAIR VALUE HIERARCHY	Assets at March 31, 2022		Liabilities at March 31, 2022	
	Level 1	Level 2	Level 1	Level 2
CO_2 emission allowances in trading activities	1	-	-	-
Hard coal in trading activities	132	-	-	-
INVENTORIES	**133**	**-**	**-**	**-**
Currency forwards		11	-	26
Commodity forwards		82	-	1
Commodity SWAP		89	-	44
Contracts for purchase/sale of coal		63	-	79
Options		18	-	-
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS	**-**	**263**		**150**
CCIRS hedges	-	130	-	-
IRS hedges	-	401	-	-
Currency forward - USD	-	4	-	-
Currency forward - EUR	-	703	-	34
HEDGING DERIVATIVES	**-**	**1,238**	**-**	**34**
Investment fund participation units	-	28	-	-
OTHER ASSETS / LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	**-**	**28**	**-**	**-**

FAIR VALUE HIERARCHY	Assets at December 31, 2021		Liabilities at December 31, 2021	
	Level 1	Level 2	Level 1	Level 2
CO_2 emission allowances in trading activities	1	-	-	-
Hard coal in trading activities	17	-	-	-
INVENTORIES	**18**	**-**	**-**	**-**
Currency forwards		4	-	6
Commodity forwards		47	-	1
Commodity SWAP		22	-	31
Contracts for purchase/sale of coal		19	-	11
Options		16	-	-
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS	**-**	**108**		**49**
CCIRS hedges	-	110	-	-
IRS hedges	-	203	-	-
Currency forward - USD	-	3	-	-
Currency forward - EUR	-	485	-	34
HEDGING DERIVATIVES	**-**	**801**	**-**	**34**
Investment fund participation units	-	30	-	-
OTHER ASSETS / LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	**-**	**30**	**-**	**-**

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

5. 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 are generally issued for a 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. The segment also includes companies in charge of the construction of new low-carbon generation units.

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.

Seasonality of operating 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.

5.1 Information on operating segments

Information on business segments for the period ended March 31, 2022

	Conventional Generation	District Heating	Renewables	Supply	Distribution	Circular Economy	Other activity	Adjustments	Total
STATEMENT OF PROFIT OR LOSS									
Sales to external customers	7,359	1,736	417	5,539	1,787	31	28	-	16,897
Inter-segment sales	394	724	349	6,314	20	47	62	(7,910)	-
TOTAL SEGMENT REVENUE	**7,753**	**2,460**	**766**	**11,853**	**1,807**	**78**	**90**	**(7,910)**	**16,897**
Cost of goods sold	(7,419)	(2,330)	(322)	(10,764)	(1,244)	(52)	(70)	7,526	(14,675)
EBIT	**(52)**	**28**	**416**	**585**	**497**	**13**	**6**	**57**	**1,550**
Depreciation, amortisation, liquidation and impairment recognised in profit or loss	490	173	84	8	301	3	13	**(7)**	**1,065**
EBITDA	**438**	**201**	**500**	**593**	**798**	**16**	**19**	**50**	**2,615**
GROSS PROFIT	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,389**
Income tax	-	-	-	-	-	-	-	-	(327)
NET PROFIT FOR THE REPORTING PERIOD	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,062**
ASSETS AND LIABILITIES									
Segment assets excluding trade receivables	42,439	8,107	4,191	2,026	19,579	70	2,131	(869)	77,674
Trade receivables	559	599	255	5,116	1,086	88	49	(2,941)	4,811
Equity-accounted interests	-	-	-	-	-	-	-	-	168
Unallocated assets	-	-	-	-	-	-	-	-	12,313
TOTAL ASSETS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**94,966**
Segment liabilities excluding trade liabilities	22,870	2,509	678	5,677	1,914	46	227	(2,525)	31,396
Trade liabilities	926	504	90	3,246	394	46	27	(2,925)	2,308
Unallocated liabilities	-	-	-	-	-	-	-	-	11,568
TOTAL LIABILITIES	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**45,272**
OTHER INFORMATION ON BUSINESS SEGMENT									
Capital expenditures	94	110	53	5	252	-	394	(15)	893
Increases in right-of-use assets	1	-	-	-	1	-	-	-	2
TOTAL INVESTMENT EXPENDITURES	**95**	**110**	**53**	**5**	**253**	**-**	**394**	**(15)**	**895**
Impairment losses on financial and non-financial assets	7	2	-	7	(1)	(1)	(2)	1	13
Other non-monetary expenses *)	4,433	764	5	358	50	-	8	(59)	5,559

** 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 March 31, 2021

*restated data**	Conventional Generation	District Heating	Renewables	Supply	Distribution	Circular Economy	Other activity	Adjustments	Total
STATEMENT OF PROFIT OR LOSS									
Sales to external customers	4,313	1,309	197	4,428	1,657	21	15	2	11,942
Inter-segment sales	1,577	575	126	6,070	20	37	87	(8,492)	-
TOTAL SEGMENT REVENUE	**5,890**	**1,884**	**323**	**10,498**	**1,677**	**58**	**102**	**(8,490)**	**11,942**
Cost of goods sold	(5,649)	(1,436)	(201)	(9,743)	(1,273)	(42)	(92)	8,236	(10,200)
EBIT	**41**	**357**	**104**	**343**	**348**	**7**	**(4)**	**(32)**	**1,164**
Depreciation, amortisation, liquidation and impairment recognised in profit or loss	470	153	89	9	310	2	16	(7)	1,042
EBITDA	**511**	**510**	**193**	**352**	**658**	**9**	**12**	**(39)**	**2,206**
GROSS PROFIT	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,024**
Income tax	-	-	-	-	-	-	-	-	(189)
NET PROFIT FOR THE REPORTING PERIOD	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**835**
ASSETS AND LIABILITIES									
Segment assets excluding trade receivables	40,931	8,399	4,265	1,807	19,446	68	355	(1,003)	74,268
Trade receivables	1,850	597	185	11,429	1,025	38	71	(11,242)	3,953
Equity-accounted interests	-	-	-	-	-	-	-	-	154
Unallocated assets	-	-	-	-	-	-	-	-	5,848
TOTAL ASSETS									**84,223**
Segment liabilities excluding trade liabilities	17,972	2,218	514	4,524	2,039	48	102	(1,073)	26,344
Trade liabilities	6,915	1,049	32	4,509	382	11	24	(11,695)	1,227
Unallocated liabilities									12,399
TOTAL LIABILITIES									**39,970**
OTHER INFORMATION ON BUSINESS SEGMENT									
Capital expenditures	416	116	18	2	285	4	17	(30)	828
Increases in right-of-use assets	1	4	2	1	2	-	1	-	11
TOTAL INVESTMENT EXPENDITURES	**417**	**120**	**20**	**3**	**287**	**4**	**18**	**(30)**	**839**
Impairment losses on financial and non-financial assets	43	(4)	-	1	4	-	-	-	44
Other non-monetary expenses *)	1,795	375	10	319	42	(1)	7	-	2,547

** 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

6. Revenue and costs

6.1 Revenue from sales

Revenue from sales for the period ended March 31, 2022, 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	7,751	2,331	765	11,852	1,792	78	90	(7,907)	**16,752**
Revenues from LTC compensations	-	1	-	-	-	-	-	-	**1**
Revenue from support for high-efficiency cogeneration	-	123	-	-	-	-	-	-	**123**
Revenue from leases	2	5	1	1	15	-	-	(3)	**21**
TOTAL REVENUE FROM SALES	**7,753**	**2,460**	**766**	**11,853**	**1,807**	**78**	**90**	**(7,910)**	**16,897**

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	7,738	2,317	758	11,519	2,154	32	19	**(7,450)**	**17,087**
Taxes and fees collected on behalf of third parties	*(2)*	*(1)*	-	*(20)*	*(375)*	-	-	**-**	***(398)***
Revenue from sale of goods and products, including:	**7,736**	**2,316**	**758**	**11,499**	**1,779**	**32**	**19**	**(7,450)**	**16,689**
Sale of electricity	7,110	1,242	627	5,256	5	-	-	(1,690)	**12,550**
Capacity market	530	59	69	7	-	-	-	-	**665**
Sale of distribution services	4	4	-	14	1,694	-	-	(20)	**1,696**
Sale of heat	29	970	-	5	-	-	-	(4)	**1,000**
Sale of energy origin rights	-	38	72	-	-	-	-	24	**134**
Regulatory system services	39	-	4	-	-	-	-	-	**43**
Sale of natural gas	-	-	-	292	-	-	-	(64)	**228**
Sale of fuel	-	-	-	513	-	-	-	(382)	**131**
Sale of CO_2 emission allowances	-	-	-	5,413	-	-	-	(5,299)	**114**
Other sale of goods and materials	24	3	(14)	(1)	80	32	19	(15)	**128**
Revenue from sale of services	**15**	**15**	**7**	**353**	**13**	**46**	**71**	**(457)**	**63**
REVENUE FROM CONTRACTS WITH CUSTOMERS	**7,751**	**2,331**	**765**	**11,852**	**1,792**	**78**	**90**	**(7,907)**	**16,752**

Revenue from sales for the period ended March 31, 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.

*restated data**	Conventional Generation	District Heating	Renewables	Supply	Distribution	Circular Economy	Other activity	Adjustments	Total
Revenue from contracts with customers	5,887	1,874	322	10,497	1,661	58	101	(8,483)	**11,917**
Revenues from LTC compensations	-	1	-	-	-	-	-	-	**1**
Revenue from support for high-efficiency cogeneration	-	2	-	-	-	-	-	-	**2**
Revenue from leases	3	7	1	1	16	-	1	(7)	**22**
TOTAL REVENUE FROM SALES	**5,890**	**1,884**	**323**	**10,498**	**1,677**	**58**	**102**	**(8,490)**	**11,942**

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 *restated data**	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	5,890	1,859	322	10,311	1,939	20	10	(8,137)	**12,214**
Taxes and fees collected on behalf of third parties	*(3)*	*(1)*	-	*(38)*	*(290)*	-	-	-	***(332)***
Revenue from sale of goods and products, including:	**5,887**	**1,858**	**322**	**10,273**	**1,649**	**20**	**10**	**(8,137)**	**11,882**
Sale of electricity	4,146	824	199	3,369	1	-	-	(1,316)	**7,223**
Capacity market	513	77	71	10	-	-	-	-	**671**
Sale of distribution services	5	3	-	13	1,599	-	-	(20)	**1,600**
Sale of heat	78	922	-	5		-	-	-	**1,005**
Sale of energy origin rights	20	4	44	-		-	-	-	**68**
Regulatory system services	90	-	8	-		-	-	-	**98**
Sale of natural gas	-	-	-	105		-	-	(56)	**49**
Sale of fuel	-	-	-	132		-	-	(72)	**60**
Sale of CO_2 emission allowances	1,018	28	-	6,639		-	-	(6,664)	**1,021**
Other sale of goods and materials	17	-	-	-	49	20	10	(9)	**87**
Revenue from sale of services	**-**	**16**	**-**	**224**	**12**	**38**	**91**	**(346)**	**35**
REVENUE FROM CONTRACTS WITH CUSTOMERS	**5,887**	**1,874**	**322**	**10,497**	**1,661**	**58**	**101**	**(8,483)**	**11,917**

6.2 Costs by nature and function

	Period ended March 31, 2022	Period ended March 31, 2021 *restated data**
COSTS BY NATURE		
Depreciation, amortisation and impairment losses	1,066	1,044
Materials and energy	1,929	1,560
External services	613	556
Taxes and fees	5,646	2,648
Employee benefits expenses	1,368	1,351
Other costs by nature	87	80
TOTAL COST BY NATURE	**10,709**	**7,239**
Change in product inventories	(1)	(10)
Cost of products and services for internal purposes	(39)	(117)
Distribution and selling expenses	(438)	(417)
General and administrative expenses	(264)	(260)
Cost of goods and materials sold	4,708	3,765
COST OF GOODS SOLD	**14,675**	**10,200**

6.3 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 March 31, 2022	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	1,022	10	11	1	**1,044**	8	-	(2)	**6**
Distribution and selling expenses	2	-	1	-	**3**	-	-	-	**-**
General and administrative expenses	8	2	2	-	**12**	-	-	-	**-**
RECOGNISED IN PROFIT OR LOSS	**1,032**	**12**	**14**	**1**	**1,059**	**8**	**-**	**(2)**	**6**
Change in product inventories	(1)	-	-	-	**(1)**	-	-	-	**-**
Cost of products and services for internal purposes	-	1	1	-	**2**	-	-	-	**-**
TOTAL	**1,031**	**13**	**15**	**1**	**1,060**	**8**	**-**	**(2)**	**6**

Period ended March 31, 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	952	13	12	1	**978**	45	(1)	-	**44**
Distribution and selling expenses	3	1	-	-	**4**	-	-	-	**-**
General and administrative expenses	9	4	3	-	**16**	-	-	-	**-**
RECOGNISED IN PROFIT OR LOSS	**964**	**18**	**15**	**1**	**998**	**45**	**(1)**	**-**	**44**
Change in product inventories	-	-	-	-	**-**	-	-	-	**-**
Cost of products and services for internal purposes	2	-	-	-	**2**	-	-	-	**-**
TOTAL	**966**	**18**	**15**	1	**1,000**	**45**	**(1)**	**-**	**44**

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 6 million net as liquidation of property, plant and equipment and intangible assets.

6.4 Other operating income and costs

	Period ended March 31, 2022	Period ended March 31, 2021
NET OTHER OPERATING INCOME/(COSTS)		
Donations granted	(61)	-
Measurement and exercise of derivatives, including:	53	74
CO_2	*34*	*73*
Coal	*19*	*1*
Penalties, fines and compensations received	9	14
Grants received	8	8
(Creation)/reversal of impairment losses on receivables	(8)	4
Gain on sale of property, plant and equipment / intangible assets	7	3
Asset surpluses/disclosures	6	-
Property, plant and equipment/intangible assets and other infrastructure received free-of-charge	5	4
Other	11	(8)
TOTAL NET OTHER OPERATING INCOME/(EXPENSES)	**30**	**99**

The item 'donations granted' mainly includes a donation given by PGE Group to the Liberec Region in the Czech Republic, amounting to EUR 10 million.

6.5 Finance income and finance costs

	Period ended March 31, 2022	Period ended March 31, 2021
NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS		
Interest, including	(68)	(65)
Interest income calculated using the effective interest rate method	*22*	*8*
Impairment	-	10
Reversal/(recognition) of impairment	-	(2)
Exchange differences	(33)	(10)
Gain / (loss) on sale of investment	18	(19)
TOTAL NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS	**(83)**	**(86)**
NET OTHER FINANCE INCOME/(COSTS)		
Interest cost on non-financial items	(82)	(46)
Recognition of provisions	-	(1)
Other	(3)	(1)
TOTAL NET OTHER FINANCE INCOME/(COSTS)	**(85)**	**(48)**
TOTAL NET FINANCE INCOME/(COSTS)	**(168)**	**(134)**

Interest costs mainly relate to outstanding bonds, credit facilities, loans, settled IRS transactions and leases. The interest cost on lease liabilities reached PLN 10 million in the current report (PLN 10 million in the comparative period).

The interest cost on non-financial items concerns land rehabilitation provisions and employee benefit provisions.

6.6 Share of profit of equity-accounted entities

Period ended March 31, 2022	Polska Grupa Górnicza	Polimex Mostostal	PEC Bogatynia	Energopomiar
SHARE IN VOTES	15.32%	16.45%	34.93%	49.79%
Revenue	2,239	633	13	15
Result on continuing operations	499	16	-	3
Share of profit of equity-accounted entities before consolidation adjustments	**76**	**3**	**-**	**2**
Elimination of unrealised gains and losses	4	(2)	-	-
Impairment	(76)	-	-	-
SHARE OF PROFIT OF EQUITY-ACCOUNTED ENTITIES	**4**	**1**	**-**	**2**
Other comprehensive income	-	11	-	-
Share of the result of equity-accounted entities in other comprehensive income	**-**	**2**	**-**	**-**

Period ended March 31, 2021	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
SHARE IN VOTES	15.32%	16.48%	25.00%	34.93%	49,79%
Revenue	1,956	421	-	7	17
Result on continuing operations	(148)	-	(1)	1	3
Share of profit of equity-accounted entities before consolidation adjustments	**(23)**	-	-	-	**2**
Elimination of unrealised gains and losses	(7)	-	-	-	-
Impairment	23	-	-	-	
SHARE OF PROFIT OF EQUITY-ACCOUNTED ENTITIES	**(7)**	**-**	**-**	**-**	**1**

The Group makes a consolidation adjustment related to margin on sale of coal between PGG and the Group and an adjustment of margin on Polimex Mostostal's contracts for the Group.

The Group has recognised an impairment loss on its share in the result of Polska Grupa Górnicza due to the fact that its stake in that entity is subject to a complete impairment loss.

7. Impairment losses on assets

In the current and comparative reporting period, the Group did not recognise or release any significant impairment losses on assets.

8. Income tax

8.1 Tax in the statement of comprehensive income

The main elements of the tax burden for the period ended March 31, 2022 and March 31, 2021 were as follows:

	Period ended March 31, 2022	Period ended March 31, 2021
INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS		
Current income tax	311	42
Adjustments concerning current income tax from prior years	13	-
Deferred income tax	17	144
Adjustments of deferred income tax	(14)	3
INCOME TAX EXPENSE RECOGNISED IN STATEMENT OF PROFIT OR LOSS	**327**	**189**
INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME		
From actuarial gains and losses from valuation of provisions for employee benefits	-	-
From measurement of hedging instruments	79	18
(Tax benefit) / tax burden recognised in other comprehensive income (equity)	**79**	**18**

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

9. 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 893 million, along with the right-of-use for underlying assets worth PLN 2 million. The largest expenditures were incurred in the Other Activity segment (PLN 394 million), Distribution segment (PLN 252 million), District Heating segment (PLN 110 million) and the Conventional Generation segment (PLN 9 million). The main expenditures were as follows: construction of two gas-and-steam units (PGE Gryfino 2050 Sp. z o.o. PLN 385 million) and connection of new customers to the DSO's network (PLN 139 million). These values include borrowing costs.

10. Future investment commitments

As at March 31, 2022, PGE Group committed to incur capital expenditures on property, plant and equipment of approximately PLN 6,674 million. These amounts relate mainly to construction of new power units, modernisation of Group's assets and the purchase of machinery and equipment.

	As at March 31, 2022	As at December 31, 2021
Conventional Generation	210	256
Distribution	1,264	1,058
District Heating	1,563	1,549
Renewables	391	414
Supply	2	1
Circular Economy	-	4
Other activity	3,244	3,570
TOTAL FUTURE INVESTMENT COMMITMENTS	**6,674**	**6,852**

The most significant future investment commitments concern:

- Other Activity - construction of two gas-and-steam units (PGE Gryfino 2050 sp. z o.o.) and contract for service for two gas turbines - approx. PLN 3,150 million,
- District Heating - construction of gas-and-steam CHP Nowa EC Czechnica in Siechnice - approx. PLN 1,095 million,
- Distribution – investment commitments mainly related to grid assets with the total value of approximately PLN 1,264 million,

11. Shares accounted for using the equity method

	As at March 31, 2022	As at December 31, 2021
Polska Grupa Górnicza S.A., Katowice	-	-
Polimex - Mostostal S.A., Warsaw	151	144
PEC Bogatynia Sp. z o.o., Bogatynia	-	-
Energopomiar Sp. z o.o., Gliwice	17	12
EQUITY-ACCOUNTED INTERESTS	**168**	**156**

	Polska Grupa Górnicza	Polimex Mostostal	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16.45%**	**34.93%**	**49.79%**
AT MARCH 31, 2022				
Current assets	1,572	2,094	5	33
Non-current assets	8,737	673	20	20
Current liabilities	7,245	1,677	4	17
Non-current liabilities	2,894	277	-	3
NET ASSETS	**170**	**813**	**21**	**33**
Share in net assets	**26**	**135**	**7**	**17**
Goodwill	1	16	-	-
Impairment of investment	(27)	-	(7)	-
EQUITY-ACCOUNTED INTERESTS	**-**	**151**	**-**	**17**

	Polska Grupa Górnicza	Polimex Mostostal	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16.40%**	**34.93%**	**49.79%**
AT DECEMBER 31, 2021				
Current assets	1,749	1,544	4	32
Non-current assets	8,722	673	20	19
Current liabilities	7,766	1,156	2	25
Non-current liabilities	3,034	276	-	3
NET ASSETS	**(329)**	**785**	**22**	**23**
Share in net assets	**-**	**128**	**8**	**12**
Goodwill	-	16	-	-
Impairment of investment	-	-	(8)	-
EQUITY-ACCOUNTED INTERESTS	**-**	**144**	**-**	**12**

12. Joint operations

In May 2021, Ørsted Group entities acquired stakes 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*.

13. Deferred tax in statement of financial position

13.1 Deferred income tax assets

	As at March 31, 2022	As at December 31, 2021
Difference between tax value and carrying amount of property, plant and equipment	2,559	2,585
Rehabilitation provision	907	859
Provision for cost of CO_2 emissions	2,977	2,157
Provisions for employee benefits	593	626
Difference between tax value and carrying amount of liabilities	436	335
Difference between tax value and carrying amount of financial assets	460	545
Difference between carrying amount and tax value of right-of-use assets	166	152
Tax losses	269	55
Other provisions	172	111
LTC compensations	85	85
Energy infrastructure acquired free of charge and connection payments received	25	26
Difference between tax value and carrying amount of inventories	13	14
Other	10	3
TOTAL DEFERRED INCOME TAX ASSETS	**8,672**	**7,553**

13.2 Deferred tax liabilities

	As at March 31, 2022	As at December 31, 2021
Difference between tax value and carrying amount of property, plant and equipment	4,982	4,938
Difference between tax value and present carrying amount of financial assets	1,210	1,012
Difference between carrying amount and tax value of lease liabilities	189	190
CO_2 emission allowances	1,714	792
Difference between tax value and carrying amount of energy origin units	38	15
Difference between tax value and present carrying amount of financial liabilities	14	11
Other	87	64
TOTAL DEFERRED TAX LIABILITIES	**8,234**	**7,022**

Group's deferred tax after offsetting assets and liabilities at companies and in 2021 also within tax group

Deferred income tax assets	1,684	933
Deferred income tax liabilities	(1,246)	(402)

14. Inventories

	As at March 31, 2022	As at December 31, 2021
Hard coal	763	499
Repair and maintenance materials	677	654
Heavy oil	53	50
Other materials	83	73
TOTAL MATERIALS	**1,576**	**1,276**
Green energy origin rights	1,075	824
Other energy origin rights	7	3
TOTAL ENERGY ORIGIN RIGHTS	**1,082**	**827**
CO_2 emission allowances held for sale	1	1
Hard coal held for sale	132	17
Other goods	9	9
TOTAL GOODS	**142**	**27**
OTHER INVENTORIES	**60**	**59**
TOTAL INVENTORIES	**2,860**	**2,189**

15. CO_2 emission allowances for captive use

Pursuant to the provisions of the Regulation of the Council of Ministers of 8 April 2014 on the list of electricity generating installations covered by the greenhouse gas emission allowance trading scheme, installations belonging to PGE Group are not entitled to the allocation of free emission allowances from 2020. Only EUAs for CO_2 emissions related to the production of heat (1 million EUAs) are allocated.

EUA	At March 31, 2022		At December 31, 2021	
	Non-current	Current	Non-current	Current
Quantity (Mg million)	**3**	**57**	**2**	**41**
Value (PLN million)	**836**	**9,248**	**797**	**4,106**

EUA	Quantity (Mg million)	Value (PLN million)
AT JANUARY 1, 2021	**21**	**1,774**
Purchase/sale	80	9,447
Granted free of charge	1	-
Redemption	(59)	(6,318)
AT DECEMBER 31, 2021	**43**	**4,903**
Purchase/sale	23	6,047
Redemption	(6)	(866)
AT MARCH 31, 2022	**60**	**10,084**

16. Selected financial assets

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

16.1 Trade and other financial receivables

	At March 31, 2022		At December 31, 2021	
	Non-current	Current	Non-current	Current
Trade receivables	-	4,811	-	4,209
Deposits and loans	205	-	194	-
Loans granted	-	-	-	77
Deposits, security and collateral	2	2,275	5	3,348
Support system for high-efficiency cogeneration	-	90	-	-
Other financial receivables	5	123	5	93
FINANCIAL RECEIVABLES	**212**	**7,299**	**204**	**7,727**

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

16.2 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 March 31, 2022	As at December 31, 2021
Cash on hand and cash at bank	5,274	5,059
Overnight deposits	11	5
Short-term deposits	519	1,124
Cash in VAT accounts	319	545
TOTAL	**6,123**	**6,733**
Exchange differences on cash in foreign currencies	24	1
Cash and cash equivalents presented in the statement of cash flows	**6,147**	**6,734**
Unused credit facilities at the reporting date	6,133	6,002
including overdraft facilities	*1,970*	*1,830*

A detailed description of credit agreements is presented in note 21.1 to these financial statements.

The value of cash includes restricted cash amounting to PLN 341 million (PLN 212 million in the comparative period) in customer accounts at PGE Dom Maklerski S.A., which constitute collateral for settlements with clearinghouse IRGiT.

17. Other current and non-current assets

17.1 Other non-current assets

	As at March 31, 2022	As at December 31, 2021
Advances for property, plant and equipment	698	749
Cost to acquire customers	102	106
Other non-current assets	20	18
TOTAL OTHER ASSETS	**820**	**873**

Advances for property, plant and equipment are mainly related to the construction of two gas and steam units by PGE Gryfino 2050 sp. z o.o. The cost to acquire customers concerns co-financing by PGE Energia Ciepła S.A. of investments in the development of district heating networks and agency commissions at PGE Obrót S.A.

17.2 Other current assets

	As at March 31, 2022	As at December 31, 2021
PREPAYMENTS		
Cost to acquire customers	56	56
Long-term contracts	42	38
Property and tort insurance	19	14
Logistics costs related to coal purchases	9	4
IT services	11	15
Social Fund	5	7
Fees for mining usufruct	20	-
Fees for installing equipment and taking up a road lane	24	-
Other prepayments	32	18
OTHER CURRENT ASSETS		
VAT receivables	589	537
Excise tax receivables	12	17
Advances for deliveries	509	507
Other current assets	28	27
TOTAL OTHER ASSETS	**1,356**	**1,240**

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

	At March 31, 2022	
	Assets	Liabilities
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS		
Currency forwards	11	26
Commodity forwards	82	1
Commodity SWAP	89	44
Contracts for purchase/sale of coal	63	79
Options	18	-
HEDGING DERIVATIVES		
CCIRS hedges	130	-
IRS hedges	401	-
Currency forward - USD	4	-
Currency forward - EUR	703	34
Other assets carried at fair value through profit or loss		
Investment fund participation units	26	-
TOTAL	**1,527**	**184**
current	949	183
non-current	578	1

	At December 31, 2021	
	Assets	Liabilities
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS		
Currency forwards	4	6
Commodity forwards	47	1
Commodity SWAP	22	31
Contracts for purchase/sale of coal	19	11
Options	16	-
HEDGING DERIVATIVES		
CCIRS hedges	110	-
IRS hedges	203	-
Currency forward - USD	3	-
Currency forward - EUR	485	34
Other assets carried at fair value through profit or loss		
Investment fund participation units	30	-
TOTAL	**939**	**83**
current	575	82
non-current	364	1

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). Due to the commencement of principal repayments on certain loans, the current nominal amount of loan-hedging IRS transactions is PLN 3,803 million. To recognise these IRS transactions, the Group uses hedge accounting.

The impact of hedge accounting on the revaluation reserve is presented in note 19.2 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.

19. 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.

19.1 Share capital

	As at March 31, 2022	As at December 31, 2021
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.

On April 6, 2022, the Company's Extraordinary General Meeting adopted a resolution on lowering the share capital by reducing the nominal value of shares with a simultaneous increase in the share capital by way of issuing E series shares in a private subscription, depriving the existing shareholders of the pre-emptive right to all E series shares entirely, applying for admission and introduction of E series shares or rights to E series shares to trading on a regulated market managed by the Warsaw Stock Exchange, dematerialisation of E series shares or rights to E series shares and amendment to the Company's Articles of Association.

The share capital was reduced by lowering the nominal value of each Company share from PLN 10.25 to PLN 8.55. The share capital was reduced by PLN 3 178 593 409.30, with this amount being transferred to supplementary capital. Next, the share capital was increased by PLN 3 197 291 010.75 through the issue of 373 952 165 series E shares with a nominal value of PLN 8.55.

On May 18, 2022, changes in share capital of PGE S.A. were registered with the National Court Register.

The Company's recapitalisation is also discussed in note 26.3 to these financial statements.

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.

19.2 Hedging reserve

	Period ended March 31, 2022	Year ended December 31, 2021
AS AT JANUARY 1	**609**	**(13)**
Change in hedging reserve:	**414**	**768**
Measurement of hedging instruments, including:	**414**	**756**
Recognition of the effective part of change in fair value of hedging instruments in the part considered as effective hedge	*441*	*762*
Accrued interest on derivatives transferred from hedging reserve and recognised in interest expense	*(16)*	*(8)*
Currency revaluation of CCIRS transaction transferred from hedging reserve and recognised in the result on foreign exchange differences	*(8)*	*2*
Ineffective portion of changes in fair value of hedging derivatives recognised in profit or loss	*(3)*	*-*
Measurement of other financial assets	**-**	**12**
Deferred tax	**(79)**	**(146)**
HEDGING RESERVE AFTER DEFERRED TAX	**944**	**609**

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

19.3 Dividends paid and recommended for payment

On March 22, 2022 the Management Board of PGE S.A. decided to recommend that a dividend for 2021 will not be distributed. This decision was taken in line with the dividend policy and is the result of an analysis of the overall level of the Company's debt and expected capital expenditures and potential acquisitions (in accordance with PGE Group's Strategy until 2030 with an Outlook to 2050), in the context of current market instability and uncertainty.

Until the date on which these financial statements were approved, the Ordinary General Meeting of PGE S.A. deciding on the distribution of the Company's net profit for the financial year 2021 has not been held.

20. Provisions

The carrying amount of provisions is as follows:

	At March 31, 2022		At December 31, 2021	
	Non-current	Current	Non-current	Current
Employee benefits	2,376	276	2,381	276
Rehabilitation provision	6,157	1	6,071	4
Provision for cost of CO_2 emissions	-	15,645	-	11,553
Provision for energy origin units held for redemption	-	630	-	276
Provision for non-contractual use of property	6	5	6	5
Other provisions	103	461	101	486
TOTAL PROVISIONS	**8,642**	**17,018**	**8,559**	**12,600**

The discount rate for the mine excavation rehabilitation provision as at March 31, 2022 and in the comparative period is:

- for expenses expected to be incurred within 15 years from the balance sheet date - 3.6%,
- for expenses expected to be incurred 16-25 years from the balance sheet date - 4.08%, PGE's extrapolation in accordance with the adopted method,
- for expenses expected to be incurred more than 25 years from the balance sheet date - 4.17%, PGE's extrapolation in accordance with the adopted method.

The discount rate for employee benefit provisions and other provisions for land rehabilitation as at March 31, 2022 and for the comparative period is 3.6%.

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, 2022	**2,657**	**6,075**	**11,553**	**276**	**11**	**587**	**21,159**
Current employment costs	23	-	-	-	-	-	23
Interest costs	22	60	-	-	-	-	82
Benefits paid / Provisions used	(49)	-	(866)	-	-	(8)	(923)
Provisions reversed	-	-	-	-	-	(24)	(24)
Provisions recognised - costs	-	16	4,958	354	-	9	5,337
Provisions recognised - expenditures	-	7	-	-	-	-	7
Other changes	(1)	-	-	-	-	-	(1)
MARCH 31, 2022	**2,652**	**6,158**	**15,645**	**630**	**11**	**564**	**25,660**

	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	209	-	-	-	-	-	209
Current employment costs	86	-	-	-	-	-	86
Past employment costs	(51)	-	-	-	-	-	(51)
Interest costs	42	177	-	-	-	-	219
Adjustment of discount rate and other assumptions	(678)	(2,323)	-	-	-	-	(3,001)
Benefits paid / Provisions used	(233)	(1)	(6,318)	(1,284)	(1)	(45)	(7,882)
Provisions reversed	-	(3)	(2)	(1)	(56)	(34)	(96)
Provisions recognised - costs	-	74	11,555	972	5	500	13,106
Provisions recognised - expenditures	-	40	-	-	-	-	40
Sale of Group companies	(1)	-	-	-	-	(2)	(3)
Other changes	-	-	-	-	-	14	14
DECEMBER 31, 2021	**2,657**	**6,075**	**11,553**	**276**	**11**	**587**	**21,159**

20.1 Provision for employee benefits

Provisions for employee benefits mainly include:

- post-employment benefits - PLN 1,881 million (PLN 1,885 million as at December 31, 2021),
- seniority bonuses - PLN 771 million (PLN 772 million as at December 31, 2021),

20.2 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 provision as at March 31, 2022 amounted to PLN 5,648 million and as at December 31, 2021 to PLN 5,571 million.

Provision for rehabilitation of ash landfills

PGE Group's generating assets create provisions for the rehabilitation of ash landfills. As at March 31, 2022, this provision amounted to PLN 252 million (PLN 248 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 March 31, 2022 and at the end of the comparative period, this provision amounted to PLN 26 million.

Liquidation of property, plant and equipment

As at the reporting date, the provision amounted to PLN 232 million (PLN 230 million as at the end of the comparative period) and referred to certain assets in the Conventional Generation and Renewables segments.

20.3 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 March 31, 2022, this provision amounted to PLN 15,645 million (PLN 11,553 million at the end of the comparative period). CO_2 emission allowances concerning 2021 were being redeemed until the end of April 2022.

20.4 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 provision as at March 31, 2022 amounted to PLN 630 million (PLN 276 million in the comparative period) and was created mainly by PGE Obrót S.A.

20.5 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. The provision recognised at the reporting date and at the end of the comparative period amounted to PLN 11 million - this is a provision for cases under legal proceedings.

20.6 Other provisions

Provision for settlements with prosumers

In 2021, there was a significant increase in prosumer installations, mainly as a result of the "My Electricity" support program. According to the Energy Market Agency, installed PV capacity in Poland grew by 94% to 7.67 GW in 2021 vs. 3.96 GW at the end of 2020. In turn, the Act on Renewable Energy Sources of February 20, 2015 introduced a billing system for prosumers and energy cooperatives that generates losses for the obliged seller (i.e. PGE Obrót S.A.) the higher the percentage of electricity fed into the grid the prosumer or energy cooperative can compensate with its own consumption.

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 framework contract with the customer.

The rights to use the current billing system are valid for the prosumer for 15 years. Current prosumers and new prosumers who apply for connection to the electricity grid by March 31, 2022 will be able to settle under the current rules. New regulations abolishing the discount system came into force from April 1, 2022. As of that date, a net-billing system based on the purchase and sale of energy will be in force, involving the settlement of energy by value. From July 1, 2022, the prosumer will sell energy at an average monthly price. The surplus generated will be collected in the course of the year, but with all charges according to the seller's tariff, so it will also pay distribution charges (hitherto charged to energy sellers). If, after one year, it obtains an overpayment, it will not pay out more than 20% of the value of the energy injected into the grid in the month to which the overpayment relates.

The necessity to respect the prosumer's right to use the settlement system based on net-metering in accordance a the currently binding regulations of the Renewable Energy Sources Act for a period of 15 years generates further losses for PGE Obrót S.A. Therefore, a provision of PLN 55 million for agreements creating liabilities within the meaning of IAS 37 was recognised in these statements. The provision has been recognised for losses projected for 2022, i.e. a period of reliably predictable energy price developments.

Provision for potential claims from counterparties

In 2021, ENESTA sp. z o.o. terminated unfavourable contracts for the supply of electricity and natural gas. In connection with this, as of December 31, 2021 a PLN 279 million provision for counterparty claims was created. Some counterparties took their claims to court in the first quarter of 2022. In certain cases, the amount of the claims is higher than the amount of the provision. The difference between the claim amount and provision amount is recognised in conditional liabilities.

21. 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 March 31, 2022 amounted to PLN 655 million and their fair value amounted to PLN 675 million.

21.1 Loans, borrowings, bonds and leases

	At March 31, 2022		At December 31, 2021	
	Non-current	Current	Non-current	Current
Loans and borrowings	5,008	1,996	5,757	2,099
Bonds issued	2,040	29	2,033	13
Leases	856	47	876	48
TOTAL CREDIT, LOANS, BONDS AND LEASES	**7,904**	**2,072**	**8,666**	**2,160**

Loans and borrowings

Among loans and borrowings presented above as at March 31, 2022, and December 31, 2021, PGE Group presents mainly the following facilities:

Lender	Security instrument	Maturity	Limit in currency	Currency	Interest rate	Liability as at 31-03-2022	Liability as at 31-12-2021
Bank consortium	IRS	2023-09-30	3,630	PLN	Variable	2.178	2.909
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	758	751
European Investment Bank	-	2034-08-25	490	PLN	Fixed	496	493
Bank Gospodarstwa Krajowego	IRS	2028-12-31	500	PLN	Variable	442	438
European Bank for Reconstruction and Development	IRS	2028-06-07	500	PLN	Variable	442	439
European Investment Bank	-	2038-10-16	273	PLN	Fixed	275	274
Nordic Investment Bank	-	2024-06-20	150	EUR	Variable	130	129
Bank Pekao S.A.	-	2022-09-21	40	USD	Variable	-	135
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	-	-
PKO BP S.A.	-	2022-04-29	300	PLN	Variable	-	-
PKO BP S.A.	-	2022-06-11	3	PLN	Variable	-	-
NFOŚiGW	-	June 2022 – December 2028	215	PLN	Fixed	101	116
NFOŚiGW	-	June 2024 – June 20	630	PLN	Variable	481	491
Voivodship Fund for Environmental Protecti and Water Management (WFOŚiGW)	-	September 2026 - December 2029	34	PLN	Fixed	24	25
WFOŚiGW	-	March 2026 - September 2028	187	PLN	Variable	161	151
TOTAL LOANS AND BORROWINGS						**7,004**	**7,856**

As at March 31, 2022, the value of the available overdrafts at significant PGE Group companies was PLN 1,970 million. The repayment dates for the available overdraft facilities of PGE Group's key companies are in 2022-2024.

In the period ended on March 31, 2022 and after the reporting period no failures to make payment or other breaches of credit agreement terms were recorded.

Bonds issued

Issuer	Security instrument	Date maturity date	Program limit in currency	Currency	Interest rate	Tranche issue date	Tranche buy-back date	Liability as at 31-03-2022	Liability as at 31-12-2021
PGE S.A.	IRS	indefinite	5,000	PLN	Variable	2019-05-21	2029-05-21	1.010	1.003
						2019-05-21	2026-05-21	404	401
PGE Sweden AB (publ)	CCIRS	indefinite	2,000	EUR	Fixed	2014-08-01	2029-08-01	655	642
TOTAL OUTSTANDING BONDS								**2,069**	**2,046**

21.2 Trade and other financial liabilities

	At March 31, 2022		At December 31, 2021	
	Non-current	Current	Non-current	Current
Trade liabilities	-	2,308	-	1,608
Settlements related to transactions on exchange	-	1,312	-	1,663
Purchase of property, plant and equipment and intangible assets	5	750	7	909
Security deposits received	20	144	30	106
Liabilities related to LTC	430	17	430	17
Other	64	356	50	298
TRADE AND OTHER FINANCIAL LIABILITIES	**519**	**4,887**	**517**	**4,601**

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

22. Other non-financial liabilities

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

22.1 Other non-current non-financial liabilities

	As at March 31, 2022	As at December 31, 2021
OTHER NON-CURRENT LIABILITIES		
Liabilities related to a contract	128	132
Other	1	1
TOTAL OTHER NON-CURRENT LIABILITIES	**129**	**133**

22.2 Other current non-financial liabilities

	As at March 31, 2022	As at December 31, 2021
OTHER CURRENT LIABILITIES		
VAT liabilities	389	564
Excise tax liabilities	8	27
Liabilities related to a contract	377	344
Environmental fees	109	240
Payroll liabilities	196	257
Bonuses for employees	190	278
Unused holidays and other employee benefits	168	101
Bonuses for the Management Board	21	17
Personal income tax	56	99
Liabilities from social insurances	222	255
Other	109	76
TOTAL OTHER CURRENT LIABILITIES	**1,845**	**2,258**

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

23. Contingent liabilities and receivables. Legal claims

23.1 Contingent liabilities

	As at March 31, 2022	As at December 31, 2021
Contingent return of grants from environmental funds	480	476
Legal claims	418	104
Liabilities related to bank guarantees and sureties securing exchange transactions	578	262
Usufruct of land	66	67
Other contingent liabilities	11	5
Total contingent liabilities	**1,553**	**914**

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

Liability concerning lawsuits brought by ENESTA counterparties

As described in note 20, in 2021, ENESTA sp. z o.o. terminated unfavourable contracts for the supply of electricity and natural gas. Some counterparties took their claims to court in the first quarter of 2022. In cases where the amount of claims is higher than the amount of the provision made at December 31, 2021 (279 million), the value of the litigation is recognised as a contingent liability (324 million).

Worley Parsons liability

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.

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.

23.2 Other significant issues related to contingent liabilities

Non-contractual use of property

As described in note 20.5, 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.

Commitments to maintain fuel stocks

According to the applicable legislation, an energy enterprise producing electricity or heat is required to maintain fuel stocks in an amount sufficient to ensure continuity of supply of electricity or heat to consumers. In October 2021, the minimum hard coal stockpile was breached at all PGE GiEK S.A. generating units operating on hard coal (Opole Power Plant, Dolna Odra Power Plant, Rybnik Power Plant). By the end of 2021, hard coal stock levels were below the minimum volumes set for the month. The President of the Energy Regulatory Office positively considered the Branches' applications submitted in November 2021 and issued three separate administrative decisions extending the deadline for rebuilding hard coal stocks in the aforementioned Branches until February 28, 2022.

By the end of February 2022, at the Dolna Odra Power Plant and Rybnik Power Plant the coal stock was rebuilt and exceeded the minimum level indicated in the legislation, while at Opole Power Plant the required coal stock was not rebuilt by this deadline.

The failure to meet the minimum levels of hard coal stocks and the problems in rebuilding these stocks at the power plants were driven by a number of factors beyond the Group's control.

Pursuant to art. 56 sec. 1 point 2) of the Energy Law, a fine will be imposed on anyone who fails to comply with the obligation to maintain the fuel stocks, (...), or does not replenish them in time, (...). It should be noted that the mere fact of violating a prohibition or order provided for in the Energy Law results in the imposition of a penalty by the President of the Energy Regulatory Office. As the Opole Power Plant failed to rebuild the required coal reserves by February 28, 2022, the risk of the President of the Energy Regulatory Office imposing a penalty on PGE GiEK S.A. is high. Pursuant to art. 56 sec. 3 of the Energy Law, the penalty may not be lower than PLN 10 thousand and higher than 15% of the penalised enterprise's revenue generated in the previous tax year, and if the cash penalty is related to a concession activity, then the penalty may not be lower than PLN 10 thousand or higher than 15% of the penalised enterprise's revenue generated from the concession activity in the previous tax year.

Until the date on which these financial statements were prepared, no penalty was imposed on PGE GiEK S.A. for failure to meet the obligation to maintain and restore coal reserves at an appropriate level. As at the date on which these financial statements were prepared, the level of coal stocks is maintained at the required level.

Taking into account the above mentioned reasons, independent from the Group, for not complying and not building the required minimum coal stocks within the designated timeframe, as well as the fact that PGE GiEK S.A. did not have any previous penalties on this account, which should be a premise for appropriate mitigation of the penalty, the Group estimates that the value of the potential penalty calculated should not be significant for the Group, therefore no provisions on this account were recognised in these financial statements.

23.3 Contingent receivables

As at the reporting date, the Group held PLN 120 million in contingent receivables (PLN 72 million in the comparative period) 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.

23.4 Other court cases and disputes

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. In February 2022, the conciliation was concluded and the parties took steps to resume the litigation.

According to PGE Group, the notices terminating the contracts sent by Enea S.A. were submitted in breach of contractual obligations. As at March 31, 2022, the Group recognised receivables of PLN 68 million, all of which was recognised as revenue in prior reporting periods. According to PGE Group companies, based, inter alia, on available legal opinions, a favourable settlement of the above disputes with respect to the recovery of the above receivables is more likely than an unfavourable settlement.

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. In February 2022, the conciliation was concluded and the parties took steps to resume the litigation.

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.

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. On April 8, 2022, a further hearing was held on the need and possibility of a supplementary opinion by an additional expert. No final opinion was issued by the court experts prior to the approval of these financial statements.

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.

24. 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.

The basic tax rates were as follows: 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.

As of January 1, 2022, a regulation concerning the so-called minimum income tax is to apply to taxpayers who incur a loss from sources of income other than capital gains or have achieved a share of income from sources of income other than capital gains, in income other than capital gains, of no more than 1%. Such taxpayers will have to pay 10% tax on a very specifically defined tax base. The tax base consists of non-capital gains income, a portion of debt financing costs to related parties, deferred income tax arising from the amount of amortisation of intangible assets and the value of certain intangible services. The law also introduces many subject and object exemptions.

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 of September 18, 2014 on a tax group entitled PGK PGE 2015 was in effect in previous years. Pursuant to an annex of July 28, 2021, the term of the agreement was reduced from 25 years to 7 years. PGK PGE 2015 no longer exists as of December 31, 2021. From 1 January 2022, all companies included in the tax group agreement have become independent CIT taxpayers again.

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 March 31, 2022 the cash balance in these VAT accounts totalled PLN 319 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.

25. 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.

25.1 Associates and jointly controlled entities

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

	Period ended March 31, 2022	Period ended March 31, 2021
Sales to associates and jointly controlled entities	8	60
Purchases from associates and jointly controlled entities	387	534

	As at March 31, 2022	As at December 31, 2021
Trade receivables from associates and jointly controlled entities	17	51
Trade liabilities to associates and jointly controlled entities	157	178

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 109 million (PLN 114 million in the comparative period) and in note *17.2 Other current assets, amounting to approx. PLN 500 million.*

25.2 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 March 31, 2022	Period ended March 31, 2021
Sales to related parties	1,394	898
Purchases from related parties	2,331	1,562

	As at March 31, 2022	As at December 31, 2021*
Trade receivables from related parties	634	616
Trade liabilities to related parties	942	895

**Restated data*

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., PKO Bank Polski S.A., Zakłady Azotowe PUŁAWY S.A., PKP Cargo S.A., Grupa LOTOS S.A., Węglokoks Kraj Sp. z o.o., PKN Orlen 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.

25.3 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 March 31, 2022	Period ended March 31, 2021
Short-term employee benefits (salaries and salary related costs)	10,056	9,981
Post-employment benefits	83	-
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**10,139**	**9,981**
Remuneration of key management personnel of entities of non-core operations	5,303	6,084
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**15,442**	**16,065**

PLN 000s	Period ended March 31, 2022	Period ended March 31, 2022
Management Board of the parent company	2,662	2,164
Supervisory Board of the parent company	213	210
Management Boards – subsidiaries	6,278	6,597
Supervisory Boards – subsidiaries	986	1,010
TOTAL	**10,139**	**9,981**
Remuneration of key management personnel of entities of non-core operations	5,303	6,084
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**15,442**	**16,065**

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 6.2 other costs by nature.

26. Significant events during and after the reporting period

26.1 Impact of war in Ukraine on PGE Group's activities

PGE is the largest energy company in Poland. PGE's units meet approx. 43% of the country's electricity demand and serve over 5.5 million customers, while PGE's distribution area covers over 40% of Poland's territory, including areas on the border with Ukraine and Belarus. The Group's activities are therefore of exceptional importance for the country's energy security. It is crucial for PGE Group to secure the continuity of operation of power plants and CHPs and distribution infrastructure so as to ensure uninterrupted supplies of electricity and heat to residents, institutions and businesses.

In connection with the situation in Ukraine, a Crisis Team has been established at the central level of PGE Group to continuously monitor threats and identify potential risks. The Crisis Team's work includes monitoring the security of electricity and heat generation and supply and the protection of critical and IT infrastructure. Its tasks also include undertaking actions minimising the risk of a crisis situation, preparing the Company in the event of a crisis situation and planning, organising and coordinating works ensuring continuity of the Company's and PGE Group's operations.

Crisis teams have also been formed at the Group's key companies, operating 24 hours a day, carrying out continuous monitoring and identifying potential risks in order to minimise risk to electricity and heat supplies.

All key PGE Group companies have adopted guidelines for developing business continuity plans. On this basis, companies develop and then implement their own business continuity plans that take into account the specifics of the company. A key assumption of business continuity plans is the development of a catalogue of risks for critical processes, on the basis of which emergency scenarios (instructions, procedures) are developed and adopted. The emergency scenarios are periodically tested and continuously updated. In the current situation, companies have been tasked with urgently updating and reviewing internal regulations and business continuity plans.

Cybersecurity is also particularly important in the current geopolitical situation. PGE Group has implemented special procedures for monitoring ICT networks due to increased activity of criminal groups aiming to attack ICT and OT systems. With the CHARLIE-CRP state of alert in force, the emergency plans have been reviewed. This significant change in the Group's operating context triggered the launch of a threat analysis and risk estimation for cybersecurity incidents. There is also an increased focus on protecting the supply chain against cyberattacks.

The physical security of the Group's facilities has been strengthened. In order to protect key energy infrastructure, the Group cooperates with all services responsible for security in Poland, with a particular focus on the Internal Security Agency (ABW). In addition, PGE Dystrybucja is continuously supported by the Territorial Defence Forces (TDF).

Key areas in PGE Group affected by the war in Ukraine:

- fuel availability and prices,
- disruption of the component supply chain,
- rising inflation and interest rates and a weakening of the national currency,
- prices of CO_2 emission allowances
- greater pressure on the energy transition,
- cybersecurity,
- geopolitics,
- counterparties (sanctions lists).

PGE Group's key operating risks related to the war in Ukraine:

- reduced availability of hard coal on the Polish market due to the embargo on supplies of this raw material from Russia,
- increase in hard coal prices and gas on the international market,
- logistical disruptions due to the high utilisation of rolling stock and changes to current travel routes,
- reduced availability of biomass on the Polish market due to the suspension of feedstock imports from Belarus,
- logistical disruptions in road transport related to fuel prices and the availability of service providers' employees.

Risks related to gas supplies:

- CHP Gorzów and CHP Zielona Góra are supplied with field gas (so-called Ln nitrogenous gas). Due to the use of dedicated transmission infrastructure between the mine and the CHP plant, these generating assets are neutral to supply disruptions to Poland's National Gas Transmission System.
- CHP Toruń, CHP Zawidawie, CHP Lublin-Wrotków and CHP Rzeszów are supplied with high-methane gas (so-called gas E). Gas E taken from the National Gas Transmission System is secured in the form of adequate storage and in Poland this is at a relatively high level.

PGE Group has no influence over the directions of supply and management of fuel transmission therefore the risk of possible disruptions lies with PGNiG S.A. and the Transmission System Operator (Gaz-System S.A.). PGE has established communication channels with PGNiG S.A. and Gaz-System S.A. in commercial and operational management in cooperation with the respective PGE Group location. In accordance with national gas supply constraint management programs, securing supplies for electricity and heat generation is favoured over other customers.

Impact of fuel availability constraints on electricity and heat generation:

- In the case of gas fuel, due to the lack of stock-holding capacities, a reduced availability translates into an immediate disruption in electricity and heat production. However, if there are back-up coal-fuelled water boilers at a CHP plant, it is possible to produce heat until these stocks are exhausted (this pertains to CHP Lublin Wrotków and CHP Rzeszów). In the case of CHP Gorzów, an OP-140 coal-fired steam boiler constitutes a back-up. At CHP Zielona Góra, oil boilers serve as back-up for heat production.
- The main suppliers of hard coal for electricity and heat production are Polish mining companies. The generating units have reserves of hard coal to enable uninterrupted production of electricity and heat.

The electricity supply for PGE Dystrybucja and PGE Obrót is secured on a commercial basis. The physical supply of energy is conditioned by the current balancing and operation of the National Power System. Disruptions in electricity generation will affect the energy supply depending on the location on the grid in the NPS. So far, PGE Group has not identified any risk associated with electricity or heat supply to residents, institutions and businesses.

Impact of war on commodity and financial markets:

The war in Ukraine has significantly affected energy commodity prices, which has translated into energy and CO_2 prices and the prices of goods and services, thereby affecting margin levels and capital raising opportunities. The disruption or complete shutdown of many production sites in Ukraine has disrupted the supply chain of components for key investments, or significantly increased their prices. PGE Group mitigates these risks by continuing its policy of hedging electricity generation costs along with energy sales on the wholesale market, which is reflected both in hedging CO_2 emission allowances and foreign currencies for transaction purposes.

As a consequence, the aforementioned risks may have a material impact on individual areas of PGE Group's operations and future financial performance. In particular, the recoverable amount of selected asset items, the level of expected credit losses and the measurement of financial instruments may change.

In view of the dynamic course of the war on the territory of Ukraine and its macroeconomic and market consequences, PGE Group will monitor its development on an ongoing basis and any events that occur will be reflected accordingly in the Group's future financial statements.

26.2 Planned disposal of coal assets to National Energy Security Agency

On March 1, 2022, the Council of Ministers adopted a resolution on the adoption of the document "Energy sector transition in Poland." Carve out of coal-based generation assets from companies with a State Treasury shareholding." According to the document, the carve out process will follow the formula of purchase by the State Treasury from PGE S.A., ENEA S.A., TAURON Polska Energia S.A. and ENERGA S.A. of all assets connected to generation of energy in power plants fuelled by hard coal and lignite, including the accompanying service companies. 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. The district heating assets in connection with their planned upgrades to low- and zero-carbon sources will not be the subject of this transaction. The assets may be carved out from the energy groups by:

- purchase of shares of each of the companies directly by the State Treasury and their consolidation within NABE - if this option is selected, consolidation within NABE will take place through their contribution to the capital increase at PGE GiEK,
- or through a conditional purchase of shares of these companies by PGE GiEK, on the condition that PGE GiEK S.A. shares are purchased by the State Treasury.

NABE will operate in the form of a holding company centred around PGE GiEK S.A., with the companies acquired from ENEA, Tauron and Energa being subsidiaries included in its capital group.

NABE will be a fully self-sufficient entity, i.e. it will be able to provide on its own or - in the interim period - on the basis of agreements concluded with external entities, including the companies from which the assets are spun off, all internal and external functions necessary for uninterrupted operation, i.e. HR, IT, purchasing, trading.

All transactions required under the selected structure, if any, relating to the carve out of assets will be carried out on the basis of a market valuation by an independent entity and following independent due diligence. The individual valuations will take into account the financial liabilities that the generating companies, carved out as part of the transaction, have to their parent companies and/or financial liabilities to financing institutions.

Given the debt of the generating companies to their parent companies, accounting for the transactions will be subject to detailed arrangements between the State Treasury and the current owners and their lenders.

According to the document, after the carve out of coal-based generating assets, the energy companies will focus on developing their activities on the basis of their assets in the area of distribution, heating, trading and generation of energy in low- and zero-emission sources.

NABE's role will be to provide the necessary capacity balance in the power system. NABE will focus on maintenance and modernisation investments necessary to maintain the efficiency of the coal units in operation, including those aimed at reducing the carbon intensity of these units.

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.

According to the framework schedule, the start of the due diligence process has been scheduled for Q3/Q4 2022, and the valuation of the carved-out assets for Q4 2022. The sale of these assets to NABE is planned for the fourth quarter of 2022.

The method of valuation and settlement of debt and other asset-related liabilities has not yet been determined. In connection with this, it is currently not possible to determine the impact of this carve out on the future financial statements of PGE S.A. and PGE Group.

26.3 Capital injection for PGE S.A. by way of share issue

On January 18, 2022, the Management Board of PGE S.A. adopted a resolution to initiate a capital injection process for the Company in connection with planned investment projects in the area of renewable energy, decarbonisation and distribution.

The proceeds from the share issue, approx. PLN 3.2 billion, are intended to support PGE Group's investments across three areas:

- development of renewable energy sources,
- decarbonisation via development of low-carbon sources;
- development of the distribution segment.

On April 5, 2022, an investment agreement was concluded between PGE S.A. and the State Treasury concerning the acquisition by the State Treasury of shares issued as a result of the share capital increase. Under the terms of the agreement, the proceeds from the share issue may only be used for investment in the three areas described above. The way in which the issue proceeds are spent will be subject to detailed reporting and audit. Spending in contravention of the provisions of the investment agreement may result in fines or even the necessity to repay the funds. Which in turn may result in the share capital having to be reduced by the amount to be repaid.

On April 6, 2022, the Company's Extraordinary General Meeting adopted a resolution on lowering the share capital by reducing the nominal value of shares with a simultaneous increase in the share capital by way of issuing E series shares in a private subscription, depriving the existing shareholders of the pre-emptive right to all E series shares entirely, applying for admission and introduction of E series shares or rights to E series shares to trading on a regulated market

managed by the Warsaw Stock Exchange, dematerialisation of E series shares or rights to E series shares and amendment to the Company's Articles of Association.

On May 2, 2022, the rights to series E shares were registered with the National Depository for Securities.

The private subscription for series E shares was completed on May 11, 2022.

On May 18, 2022, changes in share capital of PGE S.A. were registered with the National Court Register.

On May 20, 2022, the Company received a notification concerining change in total number of votes held by the State Treasury. As at the date of approval of these financial statements for publication, the State Treasury holds 60.86% share in the total number of votes. With the regards of shares held by Towarzystwo Finansowe Silesia sp. z o.o.(subsidiary of State Treasury), the State Treasury holds a total of 61.70% shares in total number of votes.

26.4 Conditional agreement to acquire wind farms

On April 1, 2022, PGE EO S.A. and Vanadium Holdco Limited executed a conditional share purchase agreement as a result of which PGE EO S.A. will acquire 100% of shares in Collfield Investments, which owns 100% of shares in three SPVs operating three wind farms with a total capacity of 84.2 MW. A condition precedent for this transaction is the approval of the Office of Competition and Consumer Protection. The transaction is expected to close in the second quarter of 2022. The transaction will be valued at more than PLN 900 million and will be settled on the transaction closing date based on appropriate contractual mechanisms.

The transaction is in alignment with PGE Group's strategy to 2030, announced on October 19, 2020, which aims to add more than 1 GW in new onshore wind capacities by 2030, including through acquisitions.

II. PGE POLSKA GRUPA ENERGETYCZNA S.A. QUARTERLY FINANCIAL INFORMATION FOR THE 3-MONTH PERIOD ENDED MARCH 31, 2022, IN ACCORDANCE WITH IFRS EU (IN PLNm)

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	Period ended March 31, 2022 *(unaudited)*	Period ended March 31, 2021 *(unaudited)*
STATEMENT OF PROFIT OR LOSS		
REVENUE FROM SALES	**10,640**	**9,920**
Cost of goods sold	(10,059)	(9,673)
GROSS PROFIT ON SALES	**581**	**247**
Distribution and selling expenses	(3)	(5)
General and administrative expenses	(59)	(54)
Other operating income / (expenses)	(8)	-
OPERATING PROFIT	**511**	**188**
Finance income / (costs), including	50	(4)
Interest income calculated using the effective interest rate method	*82*	*28*
GROSS PROFIT	**561**	**184**
Income tax	(105)	12
NET PROFIT FOR THE REPORTING PERIOD	**456**	**196**
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified to profit or loss:		
Measurement of hedging instruments	195	174
Deferred tax	(37)	(33)
Items that may not be reclassified to profit or loss:		
Actuarial gains and losses from valuation of provisions for employee benefits	-	-
Deferred tax	-	-
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET	**158**	**141**
TOTAL COMPREHENSIVE INCOME	**614**	**337**
NET PROFIT AND DILUTED NET PROFIT PER SHARE (IN PLN)	**0.24**	**0.10**

SEPARATE STATEMENT OF FINANCIAL POSITION

	At March 31, 2022 *(unaudited)*	At December 31, 2021 *(audited)*
NON-CURRENT ASSETS		
Property, plant and equipment	144	146
Right-of-use assets	20	20
Financial receivables	7,243	6,936
Derivatives and other assets measured at fair value through profit or loss	573	358
Shares in subsidiaries	29,400	29,370
Shares in subsidiaries, jointly controlled entities and associates	83	96
Other non-current assets	-	3
	37,463	**36,929**
CURRENT ASSETS		
Inventories	1,038	1
Income tax receivables	128	136
Trade and other receivables	13,504	19,637
Derivatives	2,079	2,254
Shares in subsidiaries	74	162
Other current assets	182	375
Cash and cash equivalents	4,619	5,316
	21,624	**27,881**
TOTAL ASSETS	**59,087**	**64,810**
EQUITY		
Share capital	19,165	19,165
Reserve capital	20,154	20,154
Hedging reserve	404	246
Retained earnings	2,193	1,737
	41,916	**41,302**
NON-CURRENT LIABILITIES		
Non-current provisions	14	13
Loans, borrowings, bonds and leases	6,367	7,084
Deferred income tax liability	124	34
Other liabilities	9	13
	6,514	**7,144**
CURRENT LIABILITIES		
Current provisions	40	40
Loans, borrowings, bonds, cash pooling, leases	5,922	3,164
Derivatives	2,084	2,278
Trade and other liabilities	2,349	10,238
Income tax liabilities	-	1
Other non-financial liabilities	262	643
	10,657	**16,364**
TOTAL LIABILITIES	**17,171**	**23,508**
TOTAL EQUITY AND LIABILITIES	**59,087**	**64,810**

SEPARATE STATEMENT OF CHANGES IN EQUITY

	Share capital	Supplementary capital	Hedging reserve	Retained earnings	Total equity
AS AT JANUARY 1, 2022	**19,165**	**20,154**	**246**	**1,737**	**41,302**
Net profit for the reporting period	-	-	-	456	**456**
Other comprehensive income	-	-	158	-	**158**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**158**	**456**	**614**
AS AT MARCH 31, 2022	**19,165**	**20,154**	**404**	**2,193**	**41,916**

	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	-	-	-	196	**196**
Other comprehensive income	-	-	141	-	**141**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**141**	**196**	**337**
AS AT MARCH 31, 2021	**19,165**	**18,410**	**(147)**	**1,938**	**39,366**

SEPARATE STATEMENT OF CASH FLOWS

	Period ended March 31, 2022 *(unaudited)*	Period ended March 31, 2021 *(unaudited)*
CASH FLOWS FROM OPERATING ACTIVITIES		
Gross profit	**561**	**184**
Income tax paid	(5)	3
Adjustments for:		
Depreciation, amortisation and impairment losses	3	3
Interest and dividend, net	(75)	(28)
(Gain) / loss on investing activities	(19)	23
Change in receivables	6,806	(7,119)
Change in inventories	(1,038)	1
Change in liabilities, excluding loans and borrowings	(8,280)	2,707
Change in other non-financial assets	151	(214)
Change in provisions	-	(8)
Exchange differences	22	9
NET CASH FROM OPERATING ACTIVITIES	**(1,874)**	**(4,439)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	(2)	(1)
Sale of other financial assets	94	374
Expenditure on purchase of shares in subsidiaries	(4)	(91)
Origination / (repayment) of loans granted under cash pooling agreement	2,941	1,407
Loans granted	(6,310)	(2,040)
Interest received	80	53
Loans repaid	5,196	3,252
NET CASH FROM INVESTING ACTIVITIES	**1,995**	**2,954**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans, borrowings	2,200	-
Repayment of loans, borrowings, leases	(2,927)	(1)
Interest paid	(69)	(69)
NET CASH FROM FINANCING ACTIVITIES	**(796)**	**(70)**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(675)**	**(1,555)**
Net exchange differences	(22)	(9)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**5,317**	**3,493**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	**4,642**	**1,938**

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, 2022 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 condensed consolidated financial statements and PGE S.A.'s quarterly financial information for the 3-month period ended March 31, 2022, was approved for publication by the Parent's Management Board on May 24, 2022.

Warsaw, May 24, 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 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
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
EWB2	Elektrownia Wiatrowa Baltica – 2 sp. z o.o o
EWB3	Elektrownia Wiatrowa Baltica – 3 sp. z o.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
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 Górnictwo i Energetyka Konwencjonalna 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
Voivodship Fund for Environmental Protection and Water Management (WFOŚiGW)	Voivodship Fund for Environmental Protection and Water Management
Intangible assets	Intangible assets