PGE Polska Grupa Energetyczna S.A.
Semi-annual financial report
for the 6-month period

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

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended June 30, 2020 *(unaudited)*	Period ended June 30, 2019 *(unaudited)*
STATEMENT OF PROFIT OR LOSS			
SALES REVENUES	7.1	**22,776**	**18,236**
Cost of goods sold	7.2	(20,893)	(15,848)
GROSS PROFIT ON SALES		**1,883**	**2,388**
Distribution and selling expenses	7.2	(738)	(582)
General and administrative expenses	7.2	(535)	(508)
Net other operating income/expenses	7.3	(339)	1,148
OPERATING PROFIT		**271**	**2,446**
Net finance costs, including:	7.4	(270)	(228)
Interest income calculated using the effective interest rate method		*17*	*18*
Share of profit/(loss) of equity-accounted entities	7.5	(545)	22
GROSS PROFIT/(LOSS)		**(544)**	**2,240**
Income tax	9	(93)	(475)
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD		**(637)**	**1,765**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss in the future:			
Valuation of debt financial instruments	18.2	(3)	3
Valuation of hedging instruments	18.2	(55)	(146)
Foreign exchange differences from translation of foreign entities		4	(1)
Deferred tax	9	11	27
Items that may not be reclassified to profit or loss in the future:			
Actuarial gains and losses from valuation of provisions for employee benefits		(207)	(142)
Deferred tax	9	39	27
Share of profit of equity-accounted entities		(3)	(1)
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**(214)**	**(233)**
TOTAL COMPREHENSIVE INCOME		**(851)**	**1,532**
NET PROFIT/(LOSS) ATTRIBUTABLE TO:			
– equity holders of the parent company		(688)	1,702
– non-controlling interests		51	63
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
– equity holders of the parent company		(902)	1,469
– non-controlling interests		51	63
EARNINGS AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (IN PLN)		**(0.37)**	**0.91**

for the 6-month period ended June 30, 2020, in accordance with IFRS EU (in PLN million)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at June 30, 2020 (unaudited)	As at December 31, 2019 audited
NON-CURRENT ASSETS			
Property, plant and equipment		60,570	59,690
Investment property		43	47
Intangible assets		733	735
Right-of-use assets		1,315	1,303
Financial receivables	16.1	193	180
Derivatives and other assets measured at fair value through profit or loss	17	89	93
Shares and other equity instruments		56	58
Shares accounted for using the equity method	12	157	715
Other non-current assets		695	676
CO_2 emission allowances for captive use	15	32	240
Deferred income tax assets	13.2	1,059	1,318
		64,942	**65,055**
CURRENT ASSETS			
Inventories	14	3,019	4,509
CO_2 emission allowances for captive use	15	207	965
Income tax receivables		8	59
Derivatives and other assets measured at fair value through profit or loss	17	111	327
Trade and other financial receivables	16.1	4,059	4,815
Other current assets		755	605
Cash and cash equivalents	16.2	2,023	1,313
		10,182	**12,593**
ASSETS CLASSIFIED AS HELD FOR SALE		**1**	**2**
TOTAL ASSETS		**75,125**	**77,650**
EQUITY			
Share capital	18.1	19,165	19,165
Reserve capital		18,410	19,669
Hedging reserve	18.2	(370)	(323)
Foreign exchange differences from translation		3	(1)
Retained earnings		4,172	3,779
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**41,380**	**42,289**
Equity attributable to non-controlling interests		892	848
TOTAL EQUITY		**42,272**	**43,137**
NON-CURRENT LIABILITIES			
Non-current provisions	19	11,322	9,652
Loans, borrowings, bonds and lease	20.1	10,712	10,859
Derivative instruments	17	433	107
Deferred income tax liabilities	13.2	246	920
Deferred income and government grants		601	616
Other financial liabilities	20.2	455	475
Other non-financial liabilities	21.1	59	58
		23,828	**22,687**
CURRENT LIABILITIES			
Current provisions	19	3,967	4,366
Credit facilities, loans, bonds and leases	20.1	720	1,449
Derivative instruments	17	98	372
Trade and other financial liabilities	20.2	1,986	3,636
Income tax liabilities		308	58
Deferred income and government grants		83	80
Other non-financial liabilities	21.2	1,863	1,865
		9,025	**11,826**
TOTAL LIABILITIES		**32,853**	**34,513**
TOTAL EQUITY AND LIABILITIES		**75,125**	**77,650**

for the 6-month period ended June 30, 2020, in accordance with IFRS EU (in PLN million)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserve capital	Hedging reserve	Foreign exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total equity
Note	*18.1*		*18.2*					
JANUARY 1, 2020	**19,165**	**19,669**	**(323)**	**(1)**	**3,779**	**42,289**	**848**	**43,137**
Net profit/(loss) for the reporting period	-	-	-	-	(688)	(688)	51	(637)
Other comprehensive income	-	-	(47)	4	(171)	(214)	-	(214)
COMPREHENSIVE INCOME	**-**	**-**	**(47)**	**4**	**(859)**	**(902)**	**51**	**(851)**
Coverage of accumulated losses	-	(1,259)	-	-	1,259	-	-	-
Dividend	-	-	-	-	-	-	(1)	(1)
Settlement of purchase of additional shares in subsidiaries	-	-	-	-	(6)	(6)	(5)	(11)
Other changes	-	-	-	-	(1)	(1)	(1)	(2)
TRANSACTIONS WITH OWNERS	**-**	**(1,259)**	**-**	**-**	**1,252**	**(7)**	**(7)**	**(14)**
JUNE 30, 2020	**19,165**	**18,410**	**(370)**	**3**	**4,172**	**41,380**	**892**	**42,272**

	Share capital	Reserve capital	Hedging reserve	Foreign exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total equity
Note	*18.1*		*18.2*					
JANUARY 1, 2019	**19,165**	**19,872**	**(52)**	**(1)**	**7,743**	**46,727**	**1,074**	**47,801**
Net profit for the reporting period	-	-	-	-	1,702	1,702	63	1,765
Other comprehensive income	-	-	(116)	(1)	(116)	(233)	-	(233)
COMPREHENSIVE INCOME	**-**	**-**	**(116)**	**(1)**	**1,586**	**1,469**	**63**	**1,532**
Coverage of accumulated losses	-	(203)	-	-	203	-	-	-
Dividend	-	-	-	-	-	-	(4)	(4)
Settlement of purchase of additional shares in subsidiaries	-	-	-	-	(21)	(21)	(254)	(275)
Acquisition of a new subsidiary	-	-	-	-	-	-	8	8
TRANSACTIONS WITH OWNERS	**-**	**(203)**	**-**	**-**	**182**	**(21)**	**(250)**	**(271)**
JUNE 30, 2019	**19,165**	**19,669**	**(168)**	**(2)**	**9,511**	**48,175**	**887**	**49,062**

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CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Period ended June 30, 2020 *(unaudited)*	Period ended June 30, 2019 *(unaudited)*
CASH FLOWS FROM OPERATING ACTIVITIES			
Gross profit/(loss)		**(544)**	**2,240**
Income tax paid		(174)	(238)
Adjustments for:			
Share in (profit)/loss of equity-accounted entities		545	(22)
Depreciation, amortisation, disposal and impairment losses		2,534	1,949
Interest and dividend, net		150	106
(Gain)/loss from investing activities		240	(30)
Change in receivables		765	(818)
Change in inventories		1,490	(1,472)
Change in liabilities, excluding credit facilities and loans		(598)	956
Change in other non-financial assets, prepayments and CO_2 emission allowances		785	123
Change in provisions		109	292
Other		7	107
NET CASH FROM OPERATING ACTIVITIES		**5,309**	**3,193**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets		(3,454)	(3,180)
Recognition of deposits with maturity over 3 months		(43)	(94)
Termination of deposits with maturity over 3 months		33	83
Purchase of financial assets		(1)	(14)
Other		16	19
NET CASH FROM INVESTING ACTIVITIES		**(3,449)**	**(3,186)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from credit facilities, loans		3,634	4,436
Proceeds from issue of bonds		-	1,400
Repayment of loans, credit facilities and leases		(4,602)	(3,258)
Redemption of bonds issued		-	(2,139)
Interest and commission paid		(186)	(163)
Increase of share in Group companies		(11)	(275)
Other		12	-
NET CASH FROM FINANCING ACTIVITIES		**(1,153)**	**1**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**707**	**8**
Net foreign exchange differences		12	*(1)*
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	*16.2*	**1,311**	**1,279**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	*16.2*	**2,018**	**1,287**

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

1. General information

1.1 Information on the parent

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

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

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

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

As at June 30, 2020

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

On August 18, 2020, the Supervisory Board appointed Ms Wanda Buk to the Management Board with effect as of September 1, 2020.

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

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

Ownership structure

The parent's ownership structure was as follows:

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

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

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

1.2 Information on PGE Group

PGE Group includes the parent, PGE Polska Grupa Energetyczna S.A., 66 consolidated subsidiaries, 4 associates and 1 jointly controlled entity. For additional information about subordinated entities included in the consolidated financial statements please refer to note 1.3.

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

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

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

for the 6-month period ended June 30, 2020, in accordance with IFRS EU (in PLN million)

PGE Group companies' core activities are as follows:

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

Going concern

These financial statements have been prepared on the assumption that significant Group companies will continue as going concerns for a period of at least 12 months from the reporting date. As at June 30, 2020, the subsidiary, PGE Obrót S.A., reports negative equity, primarily due to negative developments on the retail electricity trading market. PGE Obrót S.A., like other PGE Group companies, has access to financing provided by PGE S.A., therefore the going concern for this company is justified.

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

Changes in accounting policies

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

1.3 PGE Group's composition

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

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

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	Entity	Entity holding stake	Stake held by PGE Group companies as at June 30, 2020	Stake held by PGE Group companies as at December 31, 2019
	SEGMENT: DISTRICT HEATING			
18.	PGE Energia Ciepła S.A. * Warsaw	PGE S.A.	100.00%	100.00%
19.	PGE Toruń S.A. Toruń	PGE EC S.A.	95.22%	95.22%
20.	PGE Gaz Toruń sp. z o.o. Warsaw	PGE EC S.A.	100.00%	100.00%
21.	Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. Wrocław	PGE EC S.A.	58.07%	58.07%
22.	Elektrociepłownia Zielona Góra S.A. Zielona Góra	KOGENERACJA S.A.	98.40%	98.40%
23.	MEGAZEC sp. z o.o. Bydgoszcz	PGE S.A.	100.00%	100.00%
24.	Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. Zgierz	PGE EC S.A.	50.98%	50.98%
25.	PGE Ekoserwis sp. z o.o. Wrocław	PGE S.A.	95.08%	95.08%
	SEGMENT: RENEWABLES			
26.	PGE Energia Odnawialna S.A. Warsaw	PGE S.A.	100.00%	100.00%
27.	Elektrownia Wiatrowa Baltica-1 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
28.	Elektrownia Wiatrowa Baltica-2 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
29.	Elektrownia Wiatrowa Baltica-3 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
30.	Elektrownia Wiatrowa Baltica-4 sp. z o.o. (formerly: PGE Inwest 17 sp. z o.o.) Warsaw	PGE S.A.	100.00%	100.00%
31.	Elektrownia Wiatrowa Baltica-5 sp. z o.o. (formerly: PGE Inwest 18 sp. z o.o.) Warsaw	PGE S.A.	100.00%	100.00%
32.	PGE Baltica sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
33.	PGE Klaster sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
34.	PGE Soleo 1 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
35.	PGE Soleo 2 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
36.	PGE Soleo 3 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
37.	PGE Soleo 4 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
38.	PGE Soleo 5 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
39.	PGE Soleo 6 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
40.	PGE Soleo 7 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
	SEGMENT: DISTRIBUTION			
41.	PGE Dystrybucja S.A. Lublin	PGE S.A.	100.00%	100.00%
	SEGMENT: OTHER ACTIVITIES			
42.	PGE EJ 1 sp. z o.o. Warsaw	PGE S.A.	70.00%	70.00%
43.	PGE Systemy S.A. Warsaw	PGE S.A.	100.00%	100.00%
44.	PGE Sweden AB (publ) Stockholm	PGE S.A.	100.00%	100.00%
45.	PGE Synergia sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%

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

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

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

- On January 2, 2020, the demerger of PGE EC S.A. was entered in the National Court Register. The demerger was effected by way of transfer from PGE EC S.A. to PGE GiEK S.A. an organized part of the enterprise covering Elektrownia Rybnik (Rybnik Power Plant). The transaction did not affect these consolidated financial statements.
- On May 29, 2020, PGE GiEK S.A. acquired 14.62% of shares in EPORE sp z o.o. and became the sole shareholder of this company. The ownership of shares was transferred to PGE GiEK S.A. on June 18, 2020. Following the transaction, the Group's equity decreased by PLN 11 million, including PLN 5 million attributable to non-controlling interests.

Additionally, the following events took place after the reporting date:

- On October 14, 2019, the Extraordinary General Meeting of Shareholders of PIMERGE S.A. resolved to increase the company's share capital. Following the capital increase, the share held by PGE Group increased from 42.37% to 89.87% and PIMERGE S.A. was included in consolidation. The capital increase was registered and control of the company was taken over on July 1, 2020. As of the third quarter of 2020, PIMERGE will be a fully consolidated subsidiary.
- On July 30, 2020, PGE EO S.A. purchased 100% of shares in Eco-Power sp. z o.o. The ownership of shares was transferred to PGE EO S.A. on July 31, 2020. As of the third quarter of 2020, Eco-Power will be a fully consolidated subsidiary.
- On August 17, 2020, the Investors' Meeting of the Closed-end private equity fund (FIZAN) Eko-Inwestycje resolved to dissolve the fund. The liquidation will be completed by the end of this year.

2. Basis for preparation of the financial statements

2.1 Statement of compliance

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

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

2.2 Presentation and functional currency

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

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

	June 30, 2020	December 31, 2019	June 30, 2019
USD	3.9806	3.7977	3.7336
EUR	4.4660	4.2585	4.2520

2.3 New standards and interpretations published, not yet effective

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

Standard	Description of changes	Effective date
IFRS 14 Regulatory Deferral Accounts	Accounting and disclosure principles for regulatory deferral accounts.	Standard in the current version will not be effective in the EU
Amendments to IFRS 10 and IAS 28	Deals with the sale or contribution of assets between an investor and its joint venture or associate.	Postponed indefinitely
IFRS 17 Insurance contracts	Defines a new approach to recognising revenue and profit/loss in the period in which insurance services are provided	January 1, 2023
Amendments to IAS 1	The amendments concern the presentation of financial statements	January 1, 2022
Annual improvements to IFRS (cycle 2018-2020)	Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 focus on resolving inconsistencies and clarifying terminology.	January 1, 2022
Amendments to IFRS 16	COVID-19-Related Rent Concessions	June 1, 2020
Amendments to IFRS 3	Amendments to references in the Conceptual Framework	January 1, 2022
Amendments to IAS 16	Proceeds before intended use	January 1, 2022
Amendments to IAS 37	Onerous Contracts — cost of fulfilling a contract	January 1, 2022
Amendments to IFRS 4	Extension of the temporary exemption from applying IFRS 9	January 1, 2021

PGE Group intends to adopt the above mentioned new standards, amendments to standards and interpretations published by the International Accounting Standards Board but not yet effective at the reporting date, when they become effective.

These regulations will not have a significant effect on the future financial statements of PGE Group.

2.4 Professional judgment of management and estimates

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

- During the reporting period, the Group revised the amount of impairment losses on assets, including in particular on property, plant and equipment. For a description of changes, see Note 3 to these financial statements.
  Estimate of recoverable amount of property, plant and equipment is based on a number of significant assumptions to the factors, realisation of which is uncertain and mostly beyond PGE Group's control. The Group believes that it has assumed the most accurate volumes and values. Nevertheless, realisation of the particular assumptions may diverge from the ones established by the Group.
- On December 28, 2018, an act amending the act on excise duty and certain other acts was adopted. The Act, as amended, regulated prices for final customers of electricity for 2019 and introduced a system of compensation for energy companies offering reduced prices. In connection with the provisions of the Act, the Group made estimates of revenues from compensation due and estimates of reductions in revenues. The estimates were related to the previous reporting period but it is possible that they will be adjusted in the current reporting period. For details, see note 25.1 to these financial statements.
- Provisions are liabilities of uncertain amount or timing. During the reporting period, the Group changed estimates regarding the validity or amounts of some provisions.
  In particular, the rehabilitation provision and provisions for employee benefits were remeasured in the reporting period due to a decrease in the discount rate. For details, see note 19 to these financial statements.
- Uncertainties concerning tax treatment are described in note 23 to the consolidated financial statements.
- As at the reporting date, the Group did not observe any significant extension of the receivables repayment period or liquidity problems resulting from the COVID-19 pandemic. Nevertheless, the Group has updated the models used to estimate the expected credit losses. For the purpose of estimating expected credit losses, counterparties were divided into two groups: strategic counterparties that are internally rated on the basis of a scoring model and other counterparties for whom expected credit losses are estimated on the basis of a provision matrix. For the first group of counterparties, the basis for calculating expected credit losses was changed - as at June 30, 2020, losses were calculated based on quotations of Credit Default Swaps (CDSs), whereas for the second group of counterparties, the percentage rates in the respective time intervals of the provisioning matrix were updated to the level corresponding to the current recoverability of receivables. As a result of these two changes, the level of provisions for expected credit losses as at June 30, 2020 is 20 million more than if the provisions had been recognised in accordance with previous rules. For a more detailed description of the impact of the pandemic on PGE Group's operations, see Note 25.3 of these statements.

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

Property, plant and equipment is PGE Group's most significant group of assets. Due to the changing macroeconomic and regulatory environment, PGE Group verifies regularly the premises that may indicate that its assets may be impaired. In assessing the market situation, PGE Group uses both its own analytical tools and the support of independent analytical institutions. In previous reporting periods, PGE Group recognised significant impairment losses on non-current assets in the Conventional Generation segment and the Renewables segment.

In the current reporting period, PGE Group analysed indications and identified drivers that could have substantial impact on changes in the value of assets in the aforesaid segments.

External indications

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

Macroeconomic assumptions

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

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

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

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

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

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

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

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

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

3.1 Description of assumptions for the Conventional Generation segment

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

Detailed assumptions regarding the segment

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

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

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

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

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

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

Sensitivity analysis

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

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

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

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

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

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

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

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

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

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

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

The most significant factors analysed included:

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

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

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

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

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

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

The most significant factors analysed included:

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

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

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

4. Changes in accounting principles and data presentation

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

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

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

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

5. Fair value hierarchy

Derivatives

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

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

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

for the 6-month period ended June 30, 2020, in accordance with IFRS EU (in PLN million)

FAIR VALUE HIERARCHY	As at June 30, 2020		As at December 31, 2019	
	Level 1	Level 2	Level 1	Level 2
CO_2 emission allowances in trading activities	1	-	1,303	-
Hard coal in trading activities	42	-	125	-
Inventories	**43**	**-**	**1,428**	**-**
Currency forwards	-	82	-	13
Commodity forwards	-	16	-	265
Commodity SWAP	-	13	-	11
Contracts for purchase/sale of coal	-	-	-	6
Valuation of CCIRS	-	13	-	18
Valuation of IRS	-	-	-	34
Options	-	6	-	5
Fund participation units	-	70	-	68
Financial assets	**-**	**200**	**-**	**420**
Currency forwards	-	80	-	348
Commodity forwards	-	4	-	8
Commodity SWAP	-	2	-	16
Contracts for purchase/sale of coal	-	13	-	1
Valuation of IRS	-	432	-	106
Financial liabilities	**-**	**531**	**-**	**479**

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

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

6. Information on operating segments

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

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

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

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

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

Seasonality of business segments

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

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

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

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

for the 6-month period ended June 30, 2020, in accordance with IFRS EU (in PLN million)

6.1 Information on business segments

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

	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
STATEMENT OF PROFIT OR LOSS								
Sales to external customers	9,276	1,556	382	9,987	3,091	38	(1,554)	22,776
Inter-segment sales	3,291	1,061	139	5,699	44	199	(10,433)	-
TOTAL SEGMENT REVENUE	**12,567**	**2,617**	**521**	**15,686**	**3,135**	**237**	**(11,987)**	**22,776**
Cost of goods sold	(12,288)	(2,234)	(335)	(14,843)	(2,493)	(232)	11,532	(20,893)
EBIT	**(667)**	**193**	**152**	**169**	**502**	**(39)**	**(39)**	**271**
Depreciation, amortisation, disposal and impairment losses recognised in profit or loss	1,441	300	149	18	625	44	(43)	2,534
EBITDA	**774**	**493**	**301**	**187**	**1,127**	**5**	**(82)**	**2,805**
LOSS BEFORE TAX								**(544)**
Income tax								(93)
NET LOSS FOR THE REPORTING PERIOD								**(637)**
ASSETS AND LIABILITIES								
Segment's assets excluding trade receivables	34,164	7,833	4,118	3,251	19,203	854	(2,054)	67,369
Trade receivables	603	220	145	3,645	812	67	(2,304)	3,188
Shares accounted for using the equity method								157
Unallocated assets								4,411
TOTAL ASSETS								**75,125**
Segment's liabilities excluding trade liabilities	14,712	2,127	1,015	2,538	2,812	138	(4,024)	19,318
Trade liabilities	889	213	30	1,891	221	30	(2,258)	1,016
Unallocated liabilities								12,517
TOTAL LIABILITIES								**32,851**
OTHER INFORMATION ON BUSINESS SEGMENT								
Capital expenditures	811	175	647	5	819	85	(51)	2,491
Increases in ROUA	2	3	2	1	6	2	(3)	13
TOTAL CAPITAL EXPENDITURES	**813**	**178**	**649**	**6**	**825**	**87**	**(54)**	**2,504**
Impairment losses on financial and non-financial assets	622	2	-	34	8	-	-	666
Other non-monetary expenses *)	3,385	497	20	362	180	26	174	4,644

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

for the 6-month period ended June 30, 2020, in accordance with IFRS EU (in PLN million)

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

	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
STATEMENT OF PROFIT OR LOSS								
Sales to external customers	6,038	2,168	522	6,510	2,982	51	(35)	18,236
Inter-segment sales	3,260	933	36	2,632	46	177	(7,084)	-
TOTAL SEGMENT REVENUE	**9,298**	**3,101**	**558**	**9,142**	**3,028**	**228**	**(7,119)**	**18,236**
Cost of goods sold	(8,430)	(2,674)	(344)	(8,294)	(2,293)	(202)	6,389	(15,848)
EBIT	**1,216**	**481**	**180**	**457**	**609**	**(15)**	**(482)**	**2,446**
Depreciation, amortisation, disposal and impairment losses recognised in profit or loss	890	291	130	16	602	42	(22)	1,949
EBITDA	**2,106**	**772**	**310**	**473**	**1,211**	**27**	**(504)**	**4,395**
GROSS PROFIT								**2,240**
Income tax								(475)
NET PROFIT FOR THE REPORTING PERIOD								**1,765**
ASSETS AND LIABILITIES								
Segment's assets excluding trade receivables	41,025	8,115	3,311	2,687	18,182	729	(2,011)	72,038
Trade receivables	708	350	180	3,530	902	60	(2,388)	3,342
Shares accounted for using the equity method								800
Unallocated assets								3,721
TOTAL ASSETS								**79,901**
Segment's liabilities excluding trade liabilities	9,446	1,719	384	3,048	2,855	112	(2,068)	15,496
Trade liabilities	942	312	38	2,121	204	39	(2,331)	1,325
Unallocated liabilities								14,018
TOTAL LIABILITIES								**30,839**
OTHER INFORMATION ON BUSINESS SEGMENT								
Capital expenditures	1,580	111	31	6	818	93	(96)	2,543
Increases in ROUA	1	-	1	3	2	7	-	14
TOTAL CAPITAL EXPENDITURES	**1,581**	**111**	**32**	**9**	**820**	**100**	**(96)**	**2,557**
Impairment losses on financial and non-financial assets	95	90	1	10	4	-	(1)	199
Other non-monetary expenses *)	2,177	255	38	277	157	20	89	3,013

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

for the 6-month period ended June 30, 2020, in accordance with IFRS EU (in PLN million)

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

7. Revenue and expenses

7.1 Revenue from sales

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

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

	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
Revenue from contracts with customers	12,560	2,560	415	15,683	3,109	237	(11,981)	**22,583**
Revenue from support for high-efficiency cogeneration	-	7	-	-	-	-	-	**7**
Revenue from LTC compensations	-	41	-	-	-	-	-	**41**
Revenue from leases	7	9	106	3	26	-	(6)	**145**
TOTAL REVENUE FROM SALES	**12,567**	**2,617**	**521**	**15,686**	**3,135**	**237**	**(11,987)**	**22,776**

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

Type of goods or services	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
Revenue from sales of goods and products, without excluding taxes and fees	12,539	2,511	414	15,289	3,117	37	(11,310)	**22,597**
Taxes and fees collected on behalf of third parties	*(2)*	*(2)*	-	*(61)*	*(36)*	-	-	***(101)***
Revenue from sales of goods and products, including:	**12,537**	**2,509**	**414**	**15,228**	**3,081**	**37**	**(11,310)**	**22,496**
Sale of electricity	10,595	1,200	268	7,573	1	-	(4,012)	**15,625**
Sale of distribution services	7	7	-	23	2,972	-	(42)	**2,967**
Sale of heat	85	1,066	-	5	-	-	-	**1,156**
Sale of energy origin rights	27	6	120	-	-	-	31	**184**
Regulatory system services	221	-	24	-	-	-	-	**245**
Sale of natural gas	-	-	-	154	-	-	(77)	**77**
Sale of fuel	-	-	-	384	-	-	(215)	**169**
Sale of CO_2 emission allowances	1,535	202	-	7,086	-	-	(6,993)	**1,830**
Other sales of goods and materials	67	28	2	3	108	37	(2)	**243**
Revenue from sales of services	**23**	**51**	**1**	**455**	**28**	**200**	**(671)**	**87**
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**12,560**	**2,560**	**415**	**15,683**	**3,109**	**237**	**(11,981)**	**22,583**

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

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

	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
Revenue from contracts with customers	9,288	3,087	455	8,233	3,005	226	(7,110)	**17,184**
Revenue from recognised compensations based on the Act on Electricity Prices	4	20	-	907	-	-	-	**931**
Revenue from LTC compensations	-	(15)	-	-	-	-	-	**(15)**
Revenue from leases	6	9	103	2	23	2	(9)	**136**
TOTAL REVENUE FROM SALES	**9,298**	**3,101**	**558**	**9,142**	**3,028**	**228**	**(7,119)**	**18,236**

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

Type of goods or services*	Conventional Generation	District Heating	Renewables	Supply	Distribution	Other activities	Adjustments	Total
Revenue from sales of goods and products, without excluding taxes and fees	9,235	3,039	454	7,864	3,011	44	(6,444)	**17,203**
Taxes and fees collected on behalf of third parties	*(2)*	*(6)*	-	*(74)*	*(34)*	-	-	***(116)***
Revenue from sales of goods and products, including:	**9,233**	**3,033**	**454**	**7,790**	**2,977**	**44**	**(6,444)**	**17,087**
Sale of electricity	8,767	1,942	333	5,543	2	-	(4,547)	**12,040**
Sale of distribution services	7	6	-	25	2,870	-	(43)	**2,865**
Sale of heat	91	1,037	-	6	-	-	-	**1,134**
Sale of energy origin rights	15	12	91	8	-	-	(5)	**121**
Regulatory system services	182	-	26	-	-	-	-	**208**
Sale of natural gas	-	-	-	285	-	-	(30)	**255**
Sale of fuel	-	-	-	647	-	-	(441)	**206**
Sale of CO_2 emission allowances	99	12	-	1,276	-	-	(1,375)	**12**
Other sales of goods and materials	72	24	4	-	105	44	(3)	**246**
Revenue from sales of services	**55**	**54**	**1**	**443**	**28**	**182**	**(666)**	**97**
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**9,288**	**3,087**	**455**	**8,233**	**3,005**	**226**	**(7,110)**	**17,184**

**There was a reclassification between items in the table above.*

7.2 Costs by nature and function

	Period ended June 30, 2020	Period ended June 30, 2019
COSTS BY NATURE		
Depreciation, amortisation and impairment losses	2,545	1,994
Materials and energy consumption	2,582	2,660
External services	1,230	1,155
Taxes and fees	4,103	2,783
Employee benefits expenses	2,835	2,679
Other costs by nature	138	139
TOTAL COST BY NATURE	**13,433**	**11,410**
Change in products	(5)	(20)
Cost of products and services for the entity's own needs	(512)	(569)
Distribution and selling expenses	(738)	(582)
General and administrative expenses	(535)	(508)
Cost of goods and materials sold	9,250	6,117
COST OF GOODS SOLD	**20,893**	**15,848**

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

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

7.2.1 Depreciation, amortisation, disposal and impairment losses

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

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Period ended June 30, 2020	Depreciation, amortisation, disposal					Impairment losses		
	PPE	IA	ROUA	IP	TOTAL	PPE	IA	TOTAL
Cost of goods sold	1,804	37	27	1	**1,869**	623	-	**623**
Distribution and selling expenses	7	2	1	-	**10**	-	-	**-**
General and administrative expenses	17	9	5	-	**31**	1	-	**1**
RECOGNISED IN PROFIT OR LOSS	**1,828**	**48**	**33**	**1**	**1,910**	**624**	**-**	**624**
Change in products	(4)	-	-	-	**(4)**	-	-	**-**
Cost of products and services for the entity's own needs	14	-	1	-	**15**	-	-	**-**
TOTAL	**1,838**	**48**	**34**	**1**	**1,921**	**624**	**-**	**624**

Period ended June 30, 2019	Depreciation, amortisation, disposal				Impairment losses		
	PPE	IA	ROUA	TOTAL	PPE	IA	TOTAL
Cost of goods sold	1,756	42	19	**1,817**	95	-	**95**
Distribution and selling expenses	6	1	-	**7**	-	-	**-**
General and administrative expenses	15	9	5	**29**	1	-	**1**
RECOGNISED IN PROFIT OR LOSS	**1,777**	**52**	**24**	**1,853**	**96**	**-**	**96**
Cost of products and services for the entity's own needs	45	-	-	**45**	-	-	**-**
TOTAL	**1,822**	**52**	**24**	**1,898**	**96**	**-**	**96**
Other operating income	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**

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

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

Under "Depreciation, amortisation, disposal", the Group recognised the net disposals of PPE and IA of PLN 17 million in the current period and PLN 27 million in the corresponding period.

7.3 Other operating income and expenses

	Period ended June 30, 2020	Period ended June 30, 2019
NET OTHER OPERATING INCOME/(EXPENSES)		
Effect of revaluation of rehabilitation provisions	(434)	(246)
Valuation and exercise of derivatives, including:	70	(44)
- CO_2	*66*	*33*
- Coal	*4*	*(77)*
Penalties, fines and compensations	40	129
(Recognition)/Reversal of impairment losses on receivables	(40)	(97)
Grants	17	14
Reversal/(Recognition) of other provisions	(7)	9
Gain on disposal of PPE/IA	4	6
Income from additional CO_2 emission allowances	-	1,391
Other	11	(14)
TOTAL NET OTHER OPERATING INCOME/(EXPENSES)	**(339)**	**1,148**

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7.4 Finance income and costs

	Period ended June 30, 2020	Period ended June 30, 2019
NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS		
Dividends	2	1
Interest, including:	(133)	(101)
Interest income calculated using the effective interest rate method	*17*	*18*
Revaluation	3	(5)
Reversal/(recognition) of impairment losses	(2)	(1)
Foreign exchange differences	(17)	(14)
Loss on disposal of investments	-	(7)
TOTAL NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS	**(147)**	**(127)**
OTHER NET FINANCE INCOME/(COSTS)		
Interest expense on non-financial items	(117)	(97)
Interest on statutory receivables	(1)	-
Recognition of provisions		(1)
Other	(5)	(3)
TOTAL NET OTHER FINANCE INCOME/(COSTS)	**(123)**	**(101)**
TOTAL NET FINANCE INCOME/(COSTS)	**(270)**	**(228)**

Interest expenses mainly relate to bonds issued and credit and loans incurred as well as leases. In the current period, interest expenses on lease liabilities amounted to PLN 21 million.

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

7.5 Share of profit of equity-accounted entities

Period ended June 30, 2020	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**	**49.79%**
Revenue	3,524	644	-	5	33
Profit (loss) on continuing operations	(547)	64	(2)	1	4
Share of profit of equity-accounted entities before consolidation adjustments	**(84)**	**11**	**(1)**	**-**	**2**
Elimination of unrealised gains and losses	9	-	-	-	-
Impairment loss	(482)	-	-	-	
SHARE OF PROFIT (LOSS) OF EQUITY-ACCOUNTED ENTITIES	**(557)**	**11**	**(1)**	**-**	**2**
Other comprehensive income	(21)	-	-	-	-
SHARE OF PROFIT (LOSS) OF EQUITY-ACCOUNTED ENTITIES IN OTHER COMPREHENSIVE INCOME	**(3)**	**-**	**-**	**-**	**-**

Period ended June 30, 2019	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**	**49.79%**
Revenue	4,486	632	-	8	34
Profit (loss) on continuing operations	128	(7)	(3)	-	3
Share of profit of equity-accounted entities before consolidation adjustments	**20**	**(1)**	**(1)**	**-**	**1**
Elimination of unrealised gains and losses	2	-	-	-	-
SHARE OF PROFIT (LOSS) OF EQUITY-ACCOUNTED ENTITIES	**22**	**(1)**	**(1)**		**2**
Other comprehensive income	(9)	-	-	-	-
SHARE OF PROFIT (LOSS) OF EQUITY-ACCOUNTED ENTITIES IN OTHER COMPREHENSIVE INCOME	**(1)**	**-**	**-**	**-**	**-**

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

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8. Impairment losses on assets

	Period ended June 30, 2020	Period ended June 30, 2019
IMPAIRMENT LOSSES ON PROPERTY, PLANT AND EQUIPMENT		
Recognition of impairment losses	883	241
Reversal of impairment losses	259	146
IMPAIRMENT LOSSES ON SHARES ACCOUNTED FOR USING THE EQUITY METHOD		
Recognition of impairment losses	482	-
Reversal of impairment losses	-	-
IMPAIRMENT LOSSES ON INVENTORY		
Recognition of impairment losses	9	37
Reversal of impairment losses	16	4

9. Income tax

9.1 Tax in the statement of comprehensive income

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

	Period ended June 30, 2020	Period ended June 30, 2019
INCOME TAX RECOGNISED IN THE STATEMENT OF PROFIT OR LOSS		
Current income tax	458	329
Adjustments to current income tax for previous years	1	11
Deferred income tax	(369)	145
Adjustments to deferred income tax	3	(10)
INCOME TAX EXPENSE RECOGNISED IN THE STATEMENT OF PROFIT OR LOSS	**93**	**475**
INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME		
On actuarial gains (losses) on valuation of employee benefit provisions	(39)	(27)
On valuation of hedging instruments	(11)	(27)
(Tax benefit)/tax expense recognised in other comprehensive income (equity)	**(50)**	**(54)**

9.2 Effective tax rate

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

	Period ended June 30, 2020	Period ended June 30, 2019
PROFIT / (LOSS) BEFORE TAX	**(544)**	**2,240**
Income tax at the 19% statutory rate applicable in Poland	(103)	426
ITEMS ADJUSTING INCOME TAX		
Recognition of impairment losses with respect to which no deferred tax was recognised	111	7
Recognition of rehabilitation provisions with respect to which no deferred tax was recognised	74	48
Other non-deductible costs	26	31
Non-taxable income	-	(15)
Other adjustments	(15)	(22)
INCOME TAX AT THE EFFECTIVE TAX RATE **Income tax (expense) in the consolidated financial statements**	**93**	**475**
EFFECTIVE TAX RATE	**17%**	**21%**

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EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

In the current reporting period, PGE Group purchased property, plant and equipment and intangible assets worth PLN 2,491 million and obtained right-of-use assets worth PLN 13 million. The largest expenditure was incurred by the Conventional Generation segment (PLN 813 million) and the Distribution segment (PLN 825 million). The key expenditure items included: construction of a new unit at the Turów power plant (PLN 120 million) and connection of new customers (PLN 350 million).

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

11. Future investment commitments

As at June 30, 2020, PGE Group committed to incur capital expenditures on property, plant and equipment of approximately PLN 8,895 million. These amounts relate mainly to construction of new power units, modernisation of Group's assets and purchase of machinery and equipment.

	As at June 30, 2020	As at December 31, 2019
Conventional Generation	6,584	2,363
Distribution	1,680	1,405
District Heating	267	227
Renewables	183	363
Supply	4	1
Other activities	177	213
TOTAL FUTURE INVESTMENT COMMITMENTS	**8,895**	**4,572**

The most significant future investment commitments concern:

- Conventional Generation:
    - Branch Bełchatów Power Plant – upgrade of FGD unit – approximately PLN 286 million,
    - Branch Opole Power Plant – modernisation of power units no. 1-4 – approximately PLN 163 million,
    - Branch Turów Power Plant – construction of new power unit no. 7 – approximately PLN 786 million,
    - Branch Zespół Elektrowni Dolna Odra – construction of two CCGT units and agreement on maintenance services for two gas turbines – approximately PLN 4,366 million,
- Distribution – investment commitments related to network distribution assets with the total value of approximately PLN 1,680 million,
- Other activity, PGE EJ1 sp. z o.o. – agreement for owners engineer in the investment process related to construction of the first Polish nuclear power plant – approximately PLN 128 million (basic scope). An optional scope includes the amount of approx. PLN 1,112 million.

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

PGE Group intends to continue providing financial support for PGE EJ1 sp. z o.o., as is necessary to continue works under the existing scope of works and approved financial plan.

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

On August 6, 2020, the Ministry of Climate has submitted a draft resolution of the Council of Ministers on the amendment of the multi-annual Polish Nuclear Power Programme for public consultation. The program provides for the acquisition by the State Treasury of 100% of shares in the special purpose vehicle PGE EJ1 sp. z o. o. The programme is expected to be adopted in the fourth quarter of 2020.

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12. Shares accounted for using the equity method

	As at June 30, 2020	As at December 31, 2019
Polska Grupa Górnicza S.A., Katowice	-	570
Polimex-Mostostal S.A., Warsaw	123	112
ElectroMobility Poland S.A., Warsaw	14	14
PEC Bogatynia Sp. z o.o., Bogatynia	8	8
Energopomiar Sp. z o.o. , Gliwice	12	11
SHARES ACCOUNTED FOR USING THE EQUITY METHOD	**157**	**715**

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**	**49.79%**
AS AT JUNE 30, 2020					
Current assets	1,709	1,085	35	4	29
Non-current assets	10,405	659	22	21	18
Current liabilities	4,292	810	1	1	12
Non-current liabilities	4,668	287	-	-	8
NET ASSETS	**3,154**	**647**	**56**	**24**	**27**
Share in net assets	**481**	**107**	**14**	**8**	**12**
Goodwill	1	16	-	-	-
Impairment loss on investments	(482)	-	-	-	-
SHARES ACCOUNTED FOR USING THE EQUITY METHOD	**-**	**123**	**14**	**8**	**12**

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

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

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

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

Following the test, an impairment loss of PLN 482 million was recognised on the investment in PGG. After the recognition of the impairment loss, the carrying amount of PGG in the consolidated financial statements of PGE Group is 0.

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13. Deferred tax in the statement of financial position

13.1 Deferred income tax assets

	As at June 30, 2020	As at December 31, 2019
Difference between tax value and carrying amount of property, plant and equipment	2,889	3,403
Rehabilitation provision	1,190	984
Provisions for employee benefits	752	677
Provision for purchase of CO_2 emission allowances	596	671
Difference between tax value and carrying amount of financial liabilities	281	429
Difference between carrying amount and tax value of right-of-use assets	171	171
Tax losses	158	160
Other provisions	134	151
Difference between tax value and carrying amount of financial assets	208	146
LTC compensations	81	89
Difference between tax value and carrying amount of inventories	15	21
Energy infrastructure acquired free of charge and connection fees received	30	31
Other	5	14
TOTAL DEFERRED INCOME TAX ASSETS	**6,510**	**6,947**

13.2 Deferred tax liabilities

	As at June 30, 2020	As at December 31, 2019
Difference between tax value and carrying amount of property, plant and equipment	4,927	5,281
CO_2 emission allowances	44	476
Difference between tax value and carrying amount of financial assets	436	447
Difference between carrying amount and tax value of lease liabilities	186	169
Receivables from recognised compensations – Act on Electricity Prices	3	58
Difference between tax value and carrying amount of energy origin units	29	25
Difference between tax value and carrying amount of financial liabilities	12	12
Other	60	81
TOTAL DEFERRED TAX LIABILITIES	**5,697**	**6,549**

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

Deferred tax assets	1,059	1,318
Deferred income tax liabilities	(246)	(920)

14. Inventories

	As at June 30, 2020	As at December 31, 2019
Hard coal	908	1,077
Materials for repairs and operations	675	628
Mazut	39	43
Other materials	85	56
TOTAL MATERIALS	**1,707**	**1,804**
Green property rights	1,165	1,096
Other property rights	4	76
TOTAL ENERGY ORIGIN RIGHTS	**1,169**	**1,172**
CO_2 emission allowances held for sale	1	1,303
Hard coal held for sale	42	125
Other goods	21	26
TOTAL GOODS	**64**	**1,454**
OTHER INVENTORIES	**79**	**79**
TOTAL INVENTORIES	**3,019**	**4,509**

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

15. CO_2 emission allowances for captive use

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

In September 2019, PGE Group submitted further reports on investments included in the National Investment Plan in order to obtain CO_2 EUA allocations for power generating installations, justified by expenses incurred for investment tasks included in the National Investment Plan in the reporting period from July 1, 2018 to June 30, 2019. This period is the last period of allocation of free emission allowances in the current settlement period. The requested allowances (12 million of EUA allowanced) were released to the operator's accounts in the EU register in April 2020.

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

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

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

16. Selected financial assets

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

16.1 Trade and other financial receivables

	As at June 30, 2020		As at December 31, 2019	
	Non-current	Current	Non-current	Current
Trade receivables	-	3,188	-	3,483
Deposits and loans	185	18	174	8
Receivables from recognised compensations based on the Act on Electricity Prices	-	17	-	304
Deposits, securities and collateral	-	647	1	801
Damages and penalties	-	103	-	112
Other financial receivables	8	86	5	107
FINANCIAL RECEIVABLES	**193**	**4,059**	**180**	**4,815**

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

Deposits, securities and collateral mainly concern transaction and hedging deposits and the guarantee fund related to transactions on the electricity and CO_2 markets.

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16.2 Cash and cash equivalents

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

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

	As at June 30, 2020	As at December 31, 2019
Cash in hand and at banks	1,841	1,093
Overnight deposits	12	19
Short-term deposits	33	103
Cash in VAT accounts	137	98
TOTAL	**2,023**	**1,313**
Exchange differences on cash in foreign currencies	(5)	(2)
Cash and cash equivalents presented in the statement of cash flows	**2,018**	**1,311**
Undrawn borrowing facilities as at the reporting date	6,487	5,309
including overdraft facilities	*1,827*	*1,035*

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

The balance of cash includes restricted cash:

- PLN 102 million (PLN 230 million in the comparative period) in PGE Dom Maklerski S.A. clients' accounts as collateral for settlements with IRGiT,
- cash in VAT accounts in the amount of PLN 137 million (PLN 98 million in the comparative period) as well as
- securities and collateral of PLN 98 million (PLN 100 million in the comparative period).

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

	As at June 30, 2020	
	Assets	**Liabilities**
DERIVATIVES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		
Currency forwards	4	2
Commodity forwards	16	4
Commodity SWAP	13	2
Contracts for purchase/sale of coal	-	13
Options	6	-
HEDGING DERIVATIVES		
CCIRS hedges	13	-
IRS hedges	-	432
Currency forward - USD	1	1
Currency forward - EUR	77	77
OTHER ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		
Investment fund participation units	70	-
TOTAL	**200**	**531**
current	111	98
non-current	89	433

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

Commodity and currency forwards

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

Options

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

Coal swaps

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

Purchase and sale contracts with physical delivery of coal

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

IRS transactions

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

CCIRS hedges

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

Investment fund participation units

In previous years, PGE S.A. purchased investment certificates from the PGE Ventures Closed-end Private Equity Investment Fund (FIZAN); their value as at the reporting date is PLN 14 million. It also purchased participation units from TFI Energia S.A. in three sub-funds; their value as at the reporting date is PLN 53 million.

18. Equity

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

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18.1 Share capital

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

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

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

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

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

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

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

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

18.2 Hedging reserve

	Period ended June 30, 2020	Year ended December 31, 2019
AS AT JANUARY 1	**(323)**	**(52)**
Change in hedging reserve:	**(58)**	**(336)**
Measurement of hedging instruments, including:	**(55)**	**(336)**
Recognition of the effective portion of change in fair value of hedging financial instruments in the part considered as effective hedge	*(33)*	*(438)*
Accrued interest on derivatives transferred from hedging reserve and recognised in interest expense	*8*	*3*
Currency revaluation of CCIRS transaction transferred from hedging reserve and recognised in net foreign exchange gains (losses)	*(30)*	*91*
Ineffective portion of change in fair value of hedging derivatives recognised in profit or loss	*-*	*8*
Measurement of other financial assets	**(3)**	**-**
Deferred tax	**11**	**65**
HEDGING RESERVE AFTER DEFERRED TAX	**(370)**	**(323)**

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

18.3 Dividends paid and proposed

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

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19. Provisions

The carrying amount of provisions is as follows:

	As at June 30, 2020		As at December 31, 2019	
	Non-current	Current	Non-current	Current
Employee benefits	3,045	271	2,796	270
Rehabilitation provision	8,186	1	6,648	1
Provision for shortage of CO_2 emission allowances	-	3,109	121	3,411
Provisions for property rights held for surrender	-	481	-	572
Provision for non-contractual use of property	65	9	62	10
Other provisions	26	96	25	102
TOTAL PROVISIONS	**11,322**	**3,967**	**9,652**	**4,366**

Due to the change of market interest rates, PGE Group updated the discounting rate applied for the measurement of rehabilitation end employee benefit provisions. As at June 30, 2020, the discounting rate for the costs of rehabilitation of mining excavations is 2.15% (2.8% as at December 31, 2019). As at June 30, 2020, the discounting rate for the employee benefits provision and other provisions for rehabilitation costs is 1.4% (2.0% as at December 31, 2019). Changes in the discounting rate resulted in:

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

Changes in provisions

	Employee benefits	Rehabilitation provision	Provision for shortage of CO_2 emission allowances	Provisions for property rights held for surrender	Provision for non-contractual use of property	Other	Total
JANUARY 1, 2020	**3,066**	**6,649**	**3,532**	**572**	**72**	**127**	**14,018**
Actuarial gains and losses	31	-	-	-	-	-	31
Current service costs	55	-	-	-	-	-	55
Interest expense	30	87	-	-	-	-	117
Adjustment to discount rate and other assumptions	216	1,377	-	-	-	-	1,593
Benefits paid / Provisions used	(82)	(1)	(3,411)	(553)	-	(15)	(4,062)
Provisions reversed	-	-	(121)	(7)	(6)	(15)	(149)
Provisions recognised – costs	-	24	3,109	469	8	26	3,636
Provisions recognised – expenditure	-	49	-	-	-	-	49
Other changes	-	2	-	-	-	(1)	1
JUNE 30, 2020	**3,316**	**8,187**	**3,109**	**481**	**74**	**122**	**15,289**

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

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19.1 Provision for employee benefits

Provisions for employee benefits mainly include:

- post-employment benefits - PLN 2,358 million (PLN 2,149 million as at December 31, 2019),
- jubilee awards - PLN 958 million (PLN 917 million as at December 31, 2019).

19.2 Rehabilitation provision

Provision for rehabilitation of post-exploitation mining properties

PGE Group recognises provisions for rehabilitation of post-exploitation mining properties. The amount of the provision recognised in the financial statements includes also the value of Mine Liquidation Fund created in accordance with the Geological and Mining Law Act. As at June 30, 2020, the provision amounted to PLN 7,564 million (as at December 31, 2019: PLN 6,127 million).

Provision for rehabilitation of ash storage sites

PGE Group power generating units recognise provisions for rehabilitation of ash storage sites. As at June 30, 2020, the provision amounted to PLN 296 million (PLN 249 million as at the end of the comparative period).

Provision for rehabilitation of wind-farm sites

Companies that own wind farms recognise provision for rehabilitation of wind-farm sites. As at June 30, 2020, the provision amounted to PLN 66 million (PLN 60 million as at the end of the comparative period).

Liquidation of property, plant and equipment

As at the reporting date, the provision amounts to PLN 261 million (PLN 213 million as at the end of the comparative period) and refers to some assets of the Conventional Generation and Renewables segments.

19.3 Provision for shortage of CO_2 emission allowances

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

19.4 Provision for energy origin units held for redemption

PGE Group companies recognise provision for energy origin rights relating to sales carried out during the reporting period or in the prior reporting periods, in a part unredeemed until the reporting date. As at June 30, 2020, the provision amounts to PLN 481 million (PLN 572 million in the comparative period) and is recognised mainly by PGE Obrót S.A.

19.5 Provision for non-contractual use of property

PGE Group companies recognise a provision for claims concerning non-contractual use of property. This mainly relates to the distribution company that owns distribution networks. As at the reporting date, the provision amounted to approximately PLN 74 million (including PLN 32 million for litigations). In the comparative period, the provision amounted to PLN 72 million (including PLN 32 million for litigations).

20. Financial liabilities

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

Bonds issued by PGE Sweden AB (publ) are based on a fixed interest rate. As at June 30, 2020, their value at amortised cost, as disclosed in these consolidated financial statements, amounted to PLN 633 million and their fair value was PLN 744 million.

20.1 Credit facilities, loans, bonds and leases

	As at June 30, 2020		As at December 31, 2019	
	Non-current	Current	Non-current	Current
Credit facilities and loans	7,806	657	7,999	1,382
Bonds issued	2,014	20	1,986	12
Leases	892	43	874	55
TOTAL CREDIT FACILITIES, LOANS, BONDS AND LEASES	**10,712**	**720**	**10,859**	**1,449**

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Credit facilities and loans

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

Lender	Hedging instrument	Maturity date	Limit in currency	Currency	Interest rate	Liability as at June 30, 2020	Liability as at December 31, 2019
Bank consortium	IRS	2023-09-30	3,630	PLN	Variable	3,644	3,649
European Investment Bank	-	2034-08-25	1,500	PLN	Fixed	1,505	1,505
Bank Gospodarstwa Krajowego	IRS	2027-12-31	1,000	PLN	Variable	938	1,001
European Bank for Reconstruction and Development	IRS	2028-06-07	500	PLN	Variable	501	502
Bank Gospodarstwa Krajowego	IRS	2028-12-31	500	PLN	Variable	500	500
European Investment Bank	-	2034-08-25	490	PLN	Fixed	493	493
Nordic Investment Bank	-	2024-06-20	150	EUR	Variable	260	293
Bank Gospodarstwa Krajowego	-	2021-05-31	1,000	PLN	Variable	139	455
Bank Pekao S.A.	-	2020-09-21	40	USD	Variable	93	83
Millennium	-	2021-06-16	7	PLN	Fixed	1	1
Revolving credit facility	-	2022-12-16	4,100	PLN	Variable	-	300
Bank Pekao S.A.	-	2024-12-22	500	PLN	Variable	-	160
PKO BP S.A.	-	2022-04-29	300	PLN	Variable	-	21
Bank Ochrony Środowiska SA	-	2020-10-01	136	PLN	Variable	-	5
European Investment Bank	-	2038-10-16	273	PLN	Fixed	-	-
NFOŚiGW (State Fund for Environmental Protection and Water Management)	-	March 2023 – December 2028	215	PLN	Fixed	181	204
NFOŚiGW (State Fund for Environmental Protection and Water Management)	-	September 2021 - March 2031	279	PLN	Variable	87	101
WFOŚiGW (Provincial Fund for Environmental Protection and Water Management)	-	September 2020 - September 2026	21	PLN	Fixed	1	2
WFOŚiGW (Provincial Fund for Environmental Protection and Water Management)	-	September 2021 - September 2028	256	PLN	Variable	83	82
Loan from shareholders	-	November 2020 - June 2023	35	PLN	Fixed	37	24
TOTAL CREDIT FACILITIES AND LOANS						**8,463**	**9,381**

As at June 30, 2020, the value of the available overdrafts at significant PGE Group companies was PLN 1,827 million. The repayment date of used overdraft facilities of PGE Group's key companies is 2020-2021. In the first half of 2020 and after the reporting period, there were no cases of default on repayment or breach of other terms of credit agreements.

Bonds issued

Issuer	Hedging instrument	Maturity date of the programme	Limit in the programme currency	Currency	Interest rate	Tranche issue date	Tranche maturity date	Liability as at June 30, 2020	Liability as at December 31, 2019
PGE SA	IRS	indefinite	5,000	PLN	Variable	2019-05-21 2019-05-21	2029-05-21 2026-05-21	1,001 400	1,002 401
PGE Sweden AB (publ)	CCIRS	indefinite	2,000	EUR	Fixed	2014-08-01	2029-08-01	633	595
TOTAL BONDS ISSUED								**2,034**	**1,998**

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20.2 Trade and other financial liabilities

	As at June 30, 2020		As at December 31, 2019	
	Non-current	Current	Non-current	Current
Trade liabilities	-	1,016	-	1,506
Purchase of PPE and IA	2	507	3	1,633
Security deposits received	30	85	21	99
Liabilities on account of LTC	404	24	432	36
Insurance	-	15	-	8
Settlements related with stock market transactions	-	229	-	269
Other	19	110	19	85
TRADE AND OTHER FINANCIAL LIABILITIES	**455**	**1,986**	**475**	**3,636**

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

21. Other non-financial liabilities

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

21.1 Other non-financial liabilities – non-current

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

21.2 Other current non-financial liabilities

	As at June 30, 2020	As at December 31, 2019
OTHER CURRENT LIABILITIES		
VAT liabilities	333	176
Excise tax liabilities	27	35
Environmental fees	137	213
Payroll liabilities	199	292
Bonuses for employees	225	238
Unused holiday leave	202	143
Estimated liabilities on account of St. Barbara's Day and Energy Day	56	-
Liabilities under the Voluntary Redundancy Programmes	3	6
Awards for Management Boards	23	27
Estimated liabilities on account of other employee benefits	39	6
Personal income tax	63	89
Social security liabilities	219	276
Contract liabilities	263	290
Dividends payable	8	7
Other	66	67
TOTAL OTHER CURRENT LIABILITIES	**1,863**	**1,865**

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

Contract liabilities

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

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OTHER EXPLANATORY NOTES

22. Contingent liabilities and receivables. Legal claims

22.1 Contingent liabilities

	As at June 30, 2020	As at December 31, 2019
Contingent return of grants from environmental funds	455	505
Legal claims	178	248
Bank guarantee liabilities	180	1,846
Perpetual usufruct of land	95	-
Claim for contractual penalties	10	-
Share purchase option	4	-
Other contingent liabilities	39	37
TOTAL CONTINGENT LIABILITIES	**961**	**2,636**

Contingent return of grants from environmental funds

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

Legal claims

Dispute with Worley Parsons

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

Bank guarantee liabilities

These liabilities comprise bank guarantees provided as collateral for exchange transactions resulting from membership in the Warsaw Commodity Clearing House. As at June 30, 2020, the total amount of bank guarantees was PLN 180 million. In the comparative period, it amounted to PLN 1,846 million. The decrease in guarantees results from the offsetting agreement concluded in January 2020 between PGE Group companies. Under this agreement, in accordance with the Regulations of the Exchange Clearing House, security deposits within the energy group may be offset, owing to which offsetting positions within the PGE Group were offset and thus required only a minor security.

Perpetual usufruct of land

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

Other contingent liabilities

Other contingent liabilities mainly comprise a potential claim by WorleyParsons amounting to PLN 33 million (as described above), and PLN 1 million from the imbalance between purchases and sales of energy in the domestic market. In the previous year, as at December 31, 2019, this occurance related to contingent receivables and amounted to PLN 33 million.

22.2 Other significant issues related to contingent liabilities

Non-contractual use of property

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

Contractual liabilities related to purchase of fuels

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

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

22.3 Contingent receivables

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

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

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

22.4 Other legal claims and disputes

Compensation for conversion of shares

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

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

Moreover, a similar claim was raised by Pozwy sp. z o.o., a buyer of claims from the former shareholders of PGE Elektrownia Opole S.A. Through a lawsuit filed at the District Court in Warsaw against PGE GiEK S.A., PGE S.A. and PwC Polska sp. z o.o. ("Defendants"), Pozwy sp. z o.o. demanded from the Defendants, in solidum, or jointly damages for Pozwy sp. z o.o. totalling over PLN 260 million with interest for allegedly incorrect (in its opinion) determination of exchange ratio for PGE Elektrownia Opole S.A. shares for PGE Górnictwo i Energetyka Konwencjonalna S.A. shares in a merger of these companies. This lawsuit was served on PGE S.A. on March 9, 2017, and the deadline for responding to it was set by the court as July 9, 2017. The following companies: PGE S.A. and PGE GiEK S.A. submitted a response to the claim on July 8, 2017. On September 28, 2018, the District Court in Warsaw ruled in the first instance and the lawsuit by Pozwy sp. z o.o. against PGE S.A., PGE GiEK S.A. and PWC Polska sp. z o.o. was dismissed. On April 8, 2019, PGE S.A. received a copy of the appeal filed by the claimant on December 7, 2018. A response to the appeal was prepared on April 23, 2019. The Court of Appeal scheduled the hearing for August 28, 2020. Due to the complexity of the case, the hearing was postponed until October 26, 2020.

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

PGE Group has not recognised any provisions for these claims.

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

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

In the opinion of PGE Group, notices of termination of contracts presented by Enea S.A. were filled in with a violation terms of the agreements. The companies took appropriate steps to enforce their rights. With Enea S.A. refusing to perform long-term contracts to purchase energy origin certificates resulting from certificates of origin received by PGE Group companies in connection with the production of renewable energy, PGE GiEK S.A. and PGE Energia Natury PEW sp. z o.o. have demanded from Enea S.A. payment of contractual penalties, while PGE EO S.A. has demanded payment of compensation for damages. Proceedings in all of the cases are pending.

Due to the fact that according to PGE Group termination notices presented by Enea S.A. were submitted in breach of contractual terms, as at June 30, 2020, the Group recognised contractual penalty and compensation receivables of PLN 159 million (of which PLN 6 million was recognised as present-period incomes). According to PGE Group companies, based on available legal opinions, a favourable resolution in the above disputes is more probable than an unfavourable one.

The estimated volume of green certificates covered by the contracts with Enea S.A. amounts to approximately 2,691 thousand MWh. The above amount was calculated for the period from the date of termination of the contracts to the end of the expected initial term of the contracts.

In addition, PGE GiEK S.A., PGE Energia Natury PEW sp. z o.o. (acquired by PGE EO S.A.) and PGE EO S.A. filed lawsuits against Enea S.A. for the payment of receivables totalling PLN 47 million concerning invoices issued to Enea S.A. for the sale of energy origin certificates based on these contracts. Enea S.A. refused to pay these receivables, claiming that they were offset by receivables from the Group's companies related to compensation for alleged damages arising as a result of the companies' failure to re-negotiate the contracts. According to Group companies, such offsets are groundless because Enea S.A.'s receivables concerning the payment of compensation never arose and there are no grounds for acknowledging Enea S.A.'s claim that the companies breached contractual provisions. Proceedings in all of the cases are pending.

23. Tax settlements

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

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

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

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

Tax group

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

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

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

The Group uses funds received from counterparties in VAT accounts to pay its liabilities that contain VAT. The level of funds in these VAT accounts at a given date depends mainly on the number of the Group's counterparties that decide to use this mechanism and on the relation between the payment dates of receivables and liabilities. As at June 30, 2020, the cash balance in these VAT accounts totalled PLN 137 million.

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

Reporting of tax schemes (MDR)

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

Excise tax

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

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

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

Property tax

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

Uncertainty related to tax settlements

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

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

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

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

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

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

24. Information on related parties

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

24.1 Associates and jointly controlled entities

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

	Period ended June 30, 2020	Period ended June 30, 2019
Sales to associates and jointly controlled entities	6	8
Purchases from associates and jointly controlled entities	984	1,074

	As at June 30, 2020	As at December 31, 2019
Trade receivables from associates and jointly controlled entities	1	3
Trade liabilities to associates and jointly controlled entities	193	164

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

24.2 State Treasury-controlled companies

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

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

	Period ended June 30, 2020	Period ended June 30, 2019
Sales to related parties	1,192	1,018
Purchases from related parties	2,509	2,730

	As at June 30, 2020	As at December 31, 2019
Trade receivables from related parties	206	266
Trade liabilities to related parties	455	612

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

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

24.3 Management remuneration

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

PLN '000	Period ended June 30, 2020	Period ended June 30, 2019
Short-term employee benefits (salaries and salary related costs)	18,349	17,119
Post-employment benefits	1,863	1,427
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**20,212**	**18,546**
Remuneration of key management personnel of entities of non-core operations	12,024	11,747
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**32,236**	**30,293**

PLN '000	Period ended June 30, 2020	Period ended June 30, 2019
Management Board of the parent company	3,357	3,947
including post-employment benefits	*(143)*	-
Supervisory Board of the parent company	407	379
Management Boards – subsidiaries	14,669	12,447
Supervisory Boards – subsidiaries	1,779	1,773
TOTAL	**20,212**	**18,546**
Remuneration of key management personnel of entities of non-core operations	12,024	11,747
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**32,236**	**30,293**

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

25. Significant events during and after the reporting period

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

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

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

The final amount of compensations will depend on the actual consumption of energy by end users in 2019, determined on the basis of readings of meters for the period from January 1 to June 30 and from July 1 to December 31, 2019, respectively, and after the completion of the ERO procedure related to the recognition of individual own costs of the Company. This value may differ from the Group's estimates.

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

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

Effects on reporting

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

In turn, in the first half of 2020, the Supply segment reversed PLN 180 million from the provision for onerous contracts recognised in 2019. This had no effect on the results of PGE Group.

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

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

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

Due to the reduced level of economic activity, PGE Group identifies the risk that the lower level of domestic electricity consumption will continue. This affects the decrease in revenues and margins from energy generation, distribution and sales in the Distribution, Supply, Conventional Generation and District Heating segments.

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

For the Supply segment, the decrease in demand volume affected the past period and the negative impact was associated with a lower level of sales to final off-takers and higher cost of balancing electricity. Also in the Distribution segment, a lower volume of deliveries made to final off-takes directly translates into lower revenues earned on this account. Taking into account the entire value chain, the impact of the above factors at the Group level was not material.

As at June 30, 2020, the impact of the expected increase in payment congestion, especially regarding receivables from small and medium-sized enterprises, was not significant. As described in note 2.4 to these financial statements, the Group recognised additional impairment losses on receivables in the amount of PLN 20 million. On the other hand, depending on the further epidemiological and economic situation, the risk of deteriorated liquidity of PGE Group and increased impairment losses on overdue receivables still exists and is monitored on an ongoing basis. Currently, the Group does not expect this phenomenon to be more material than for the first half year of 2020. Regardless, however, due to the high availability of credit lines and the financial liquidity released in the second quarter of this year, the Group does not identify any liquidity risk.

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

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

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

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

25.4 Publication of Energy Policy of Poland until 2040

On September 8, 2020, the Ministry of Climate published a summary of the updated draft document "Energy Policy of Poland until 2040" (EPP2040). Due to the fact that EPP2040 is to set the direction for the development of the power sector in Poland in the next twenty years, the PGE Group has verified the presented assumptions regarding the future generation mix and the use of conventional units based on hard and lignite coal in it. The share of conventional units assumed by PGE in the impairment tests is within the range indicated by the EPP2040 scenarios, therefore, in the Company's opinion, the publication of the document is not an event causing an adjustment of the test results. PGE will conduct further analyzes after the full assumptions of EPP2040 are available, having regard to the fact that these assumptions may have an impact on the recoverable amount of assets

for the 6-month period ended June 30, 2020, in accordance with IFRS EU (in PLN million)

II. CONDENSED SEPARATE INTERIM FINANCIAL STATEMENTS OF PGE POLSKA GRUPA ENERGETYCZNA S.A. FOR THE 6-MONTH PERIOD ENDED JUNE 30, 2020, IN ACCORDANCE WITH IFRS EU

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended June 30, 2020 *(unaudited)*	Period ended June 30, 2019 *(unaudited)*
STATEMENT OF PROFIT OR LOSS			
SALES REVENUES	6	**15,100**	**8,048**
Cost of goods sold	7	(14,571)	(7,488)
GROSS PROFIT ON SALES		**529**	**560**
Distribution and selling expenses	7	(10)	(8)
General and administrative expenses	7	(107)	(102)
Other operating income/(expenses)		(8)	-
OPERATING PROFIT		**404**	**450**
Finance income/(costs), including:	8	1,200	1,021
Interest income calculated using the effective interest rate method		*82*	*86*
GROSS PROFIT		**1,604**	**1,471**
Income tax		(57)	(67)
NET PROFIT FOR THE REPORTING PERIOD		**1,547**	**1,404**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss in the future:			
Valuation of hedging instruments		(356)	(39)
Deferred tax		68	7
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**(288)**	**(32)**
TOTAL COMPREHENSIVE INCOME		**1,259**	**1,372**
NET PROFIT AND DILUTED NET PROFIT PER SHARE (IN PLN)		**0.83**	**0.75**

for the 6-month period ended June 30, 2020, in accordance with IFRS EU (in PLN million)

SEPARATE STATEMENT OF FINANCIAL POSITION

	Note	As at June 30, 2020 (unaudited)	As at December 31, 2019 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		157	162
Intangible assets		1	-
Right-of-use assets		20	21
Financial receivables	10.1	10,015	10,955
Derivatives and other assets measured at fair value through profit or loss	11	90	105
Shares in subsidiaries	9	29,675	29,995
Shares in associates and jointly controlled entities		101	101
Deferred tax assets		102	16
		40,161	**41,355**
CURRENT ASSETS			
Inventories		1	3
Income tax receivables		-	37
Trade and other receivables	10.1	8,066	7,889
Derivative instruments	11	311	446
Other current assets	12	2,132	487
Cash and cash equivalents	10.2	1,125	221
		11,635	**9,083**
TOTAL ASSETS		**51,796**	**50,438**
EQUITY			
Share capital		19,165	19,165
Reserve capital		18,410	19,669
Hedging reserve		(358)	(72)
Retained earnings/(accumulated losses)		1,547	(1,258)
		38,764	**37,504**
NON-CURRENT LIABILITIES			
Non-current provisions		21	18
Credit facilities, loans, bonds, leases	13	9,426	9,521
Derivative instruments	11	432	106
Other liabilities		17	20
		9,896	**9,665**
CURRENT LIABILITIES			
Current provisions		1	1
Credit facilities, loans, bonds, cash pooling, leases	13	1,812	2,015
Derivative instruments	11	297	338
Trade and other liabilities		682	760
Income tax liabilities		290	-
Other non-financial liabilities		54	155
		3,136	**3,269**
TOTAL LIABILITIES		**13,032**	**12,934**
TOTAL EQUITY AND LIABILITIES		**51,796**	**50,438**

for the 6-month period ended June 30, 2020, in accordance with IFRS EU (in PLN million)

SEPARATE STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserve capital	Hedging reserve	Retained earnings/ (accumulated losses)	Total equity
AS AT JANUARY 1, 2020	**19,165**	**19,669**	**(72)**	**(1,258)**	**37,504**
Net profit for the reporting period	-	-	-	1,547	**1,547**
Other comprehensive income	-	-	(286)	(2)	**(288)**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**(286)**	**1,545**	**1,259**
Loss coverage	-	(1,259)	-	1,259	**-**
Other changes	-	-	-	1	**1**
AS AT JUNE 30, 2020	**19,165**	**18,410**	**(358)**	**1,547**	**38,764**

	Share capital	Reserve capital	Hedging reserve	Retained earnings/ (accumulated losses)	Total equity
AS AT JANUARY 1, 2019	**19,165**	**19,872**	**(2)**	**(201)**	**38,834**
Net profit for the reporting period	-	-	-	1,404	**1,404**
Other comprehensive income	-	-	(30)	(2)	**(32)**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**(30)**	**1,402**	**1,372**
Loss coverage	-	(203)	-	203	**-**
Other changes	-	-	-	-	**-**
AS AT JUNE 30, 2019	**19,165**	**19,669**	**(32)**	**1,404**	**40,206**

for the 6-month period ended June 30, 2020, in accordance with IFRS EU (in PLN million)

SEPARATE STATEMENT OF CASH FLOWS

	Period ended June 30, 2020 *(unaudited)*	Period ended June 30, 2019 *(unaudited)*
CASH FLOWS FROM OPERATING ACTIVITIES		
Gross profit	**1,604**	**1,471**
Income tax paid	191	(66)
Adjustments for:		
Depreciation, amortisation and impairment losses	6	6
Interest and dividend, net	(1,542)	(1,034)
(Gain)/loss on investing activities	440	(118)
Change in receivables	54	(168)
Change in inventories	2	2
Change in liabilities, excluding credit facilities and loans	(138)	(68)
Change in other non-financial assets	(160)	(203)
Foreign exchange differences	(3)	11
NET CASH FROM OPERATING ACTIVITIES	**454**	**(167)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	(3)	(2)
(Purchase)/buy-back of bonds issued by PGE Group companies	910	(252)
Sale of other financial assets	-	-
Acquisition of shares in subsidiaries	(18)	(15)
Loans granted/(repaid) under the cash pooling agreement	683	527
Loans advanced	(2,088)	(1,267)
Interest received	279	279
Repayment of loans advanced	1,724	380
NET CASH FROM INVESTING ACTIVITIES	**1,487**	**(350)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from credit facilities, loans	3,603	4,420
Proceeds from issue of bonds	-	1,400
Repayment of credit facilities, loans and leases	(4,463)	(5,271)
Interest paid	(180)	(160)
NET CASH FROM FINANCING ACTIVITIES	**(1,040)**	**389**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**901**	**(128)**
Net foreign exchange differences	-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**219**	**233**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	**1,120**	**105**

1. General information

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

PGE S.A. is the parent company of the PGE Polska Grupa Energetyczna S.A. Group and prepares separate and consolidated financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union.

The State Treasury is the Company's principal shareholder.

The Company's core activities are as follows:

- trade in electricity and other energy market products;
- oversight of head offices and holding companies;
- provision of financial services to PGE Group companies;
- provision of other services related to these activities.

PGE S.A.'s business activities are conducted under appropriate concessions, including concession for electricity trading granted by the Energy Regulatory Office. The concession is valid until 2025. No significant assets or liabilities are assigned to the concession. For its concession, the Group incurs annual charges dependent on the level of turnover,

Revenue from the sale of electricity and other energy market products is the only significant items in operating revenue. This revenue is generated on the domestic market. Therefore, the Company does not report business or geographical segments.

PGE S.A.'s accounting books are maintained by a subsidiary, PGE Synergia sp. z o.o.

Statement of compliance

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

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

Going concern

These condensed interim financial statements have been prepared on the assumption that the Company will continue as a going concern for a period of at least 12 months from the reporting date. As at the date of authorisation of these separate financial statements, no circumstances were identified which would indicate any threat to the Company continuing as a going concern.

These financial statements cover the period from January 1 to June 30, 2020 ("separate financial statements") and contain comparative figures for the period from January 1 to June 30, 2019 and as at December 31, 2019.

The same accounting rules (policies) and calculation methods were applied in these financial statements as in the most recent annual financial statements. These financial statements should be read in conjunction with the audited separate financial statements of PGE S.A. prepared in accordance with IFRS EU for the year ended December 31, 2019.

Seasonality of operations

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

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

The seasonality of sales of PGE S.A. results from the fact that 78% of the volume of the Company's sales was made to PGE Obrót S.A. and PGE Dystrybucja S.A., whose demand for electricity is subject to seasonality.

2. Professional judgment of management and estimates

In the reporting period, the Company recognised impairment losses on its shares in subsidiaries, as described in notes 8 and 9 to these financial statements. Apart from these impairment losses, there were no other significant changes to the estimates affecting the figures presented in the financial statements.

3. Effect of new regulations on future financial statements of the Company

New standards and interpretations published, not yet effective, are described in note 2.3 to the consolidated financial statements.

4. Changes in accounting principles and data presentation

In the current period, the Company has not made any changes in accounting policies or data presentation

for the 6-month period ended June 30, 2020, in accordance with IFRS EU (in PLN million)

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

5. Fair value hierarchy

The principles for measurement of inventories, shares and instruments not quoted on active markets, for which fair value may not be determined reliably, are the same as presented in the financial statements for the year ended December 31, 2019.

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

During the current and comparative reporting periods, there have been no transfers of financial instruments between the first and the second level of the hierarchy.

6. Revenue from sales

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

Type of goods or services	Period ended June 30, 2020	Period ended June 30, 2019
REVENUE FROM CONTRACTS WITH CUSTOMERS	**15,097**	**8,045**
Revenue from sale of goods, including:	**14,568**	**7,578**
Sale of electricity	*7,333*	*6,026*
Sale of gas	*149*	*276*
Sale of CO_2 emission allowances	*7,086*	*1,276*
Revenue from sales of services	**529**	**467**
LEASE INCOME	**3**	**3**
TOTAL SALES REVENUES	**15,100**	**8,048**

The Company operates mainly in Poland.

The year-on-year increase in revenue from electricity sales in the first half of 2020 results from higher turnover volume and higher sales prices. The increase in the turnover volume results mainly from the revision of the electricity sales strategy in the first half of 2020, implemented in order to secure the demand of retail customers for electricity supplies. The change consists in the fact that surpluses of electricity not sold by PGE S.A. are resold again to producers.

The decline in revenue from sales of natural gas in the first half of 2020 resulted from a decrease in the volume of gas traded and a decrease in the selling price. The decrease in gas volume concerns mainly sales on the exchange and transactions with PGE Obrót S.A.

The increase in revenue from the sale of CO_2 emission allowances in the current period results from the increase in sales prices and volume of sales to PGE Group companies, revenue from sales to third parties of surplus CO_2 emission allowances bought back from PGE Group companies and revenue from sales to third parties of free CO_2 emission allowances received in 2019 and 2020. The increase in the volume of CO_2 emission allowances sold to PGE Group companies is attributable to a lower volume of free allowances granted in 2020 and the contracting of a higher volume of electricity sold, which results in higher demand for CO_2 emission allowances.

Revenue from sales of services mainly concern services provided to PGE Group subsidiaries and cover electricity trade and supply, fuel deliveries, licences and support services. Increased revenues are mainly due to higher revenues from electricity trading services provided on behalf of PGE Group companies, as a result of both higher volume and higher electricity price.

Information concerning key clients

The Company's main counterparties are PGE Group subsidiaries. In the first half of 2020, sales to PGE Obrót S.A. accounted for 38% of revenue from sales, while sales to PGE GiEK S.A. accounted for 30%. In the first half of 2019, sales to these companies accounted for 68% and 18% respectively.

for the 6-month period ended June 30, 2020, in accordance with IFRS EU (in PLN million)

7. Costs by nature and function

	Period ended June 30, 2020	Period ended June 30, 2019
COSTS BY NATURE		
Amortisation and depreciation	6	6
External services	36	33
Employee benefits expenses	83	70
Other costs by nature	25	33
TOTAL COSTS BY NATURE	**150**	**142**
Distribution and selling expenses	(10)	(8)
General and administrative expenses	(107)	(102)
Cost of goods and materials sold	14,538	7,456
COST OF GOODS SOLD	**14,571**	**7,488**

**There was a reclassification between items in the table above.*

The increase in the cost of goods and materials sold in the first half of 2020, as compared to the first half of 2019, is largely the effect of higher revenue from sales, as described above, and higher prices on the wholesale market.

8. Finance income and costs

	Period ended June 30, 2020	Period ended June 30, 2019
NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS		
Dividends	1,464	950
Interest accrued at effective interest rate	80	95
Revaluation of financial instruments	(10)	2
Reversal/(recognition) of impairment losses	(337)	-
Foreign exchange differences	3	(17)
Gain on disposal of investments	-	(9)
TOTAL NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS	**1,200**	**1,021**
OTHER NET FINANCE INCOME/(COSTS)	-	-
TOTAL NET FINANCE INCOME/(COSTS)	**1,200**	**1,021**

In the period ended June 30, 2020, the Company reported dividend income mainly from GE Dystrybucja S.A. (PLN 792 million), PGE Energia Odnawialna S.A. (PLN 467 million) and PGE Energia Ciepła S.A. (PLN 186 million), and in the comparative period mainly from PGE Dystrybucja (PLN 935 million).

Under the heading “Reversal / (recognition) of impairment losses”, in the current reporting period, the Company presents the recognition of impairment losses on shares in PGE Obrót SA. (PLN 278 million), Elbest sp. z o.o (PLN 31 million), PGE Nowa Energia sp. z o.o. (PLN 16 million) and PGE Trading GmbH (PLN 12 million).

The Company reports interest income mainly from financing granted to its subsidiaries.

Interest expenses mainly relate to bonds issued and credit and loans contracted, as described in note 13 to these financial statements.

In the item “Revaluation of financial instruments”, the Company presents mainly measurements of hedging transactions in their ineffective part for instruments designated as cash flow hedges and in full as regards other instruments.

9. Shares in subsidiaries

9.1 Analysis of value of shares in PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE Energia Ciepła S.A. and PGE Energia Odnawialna S.A.

In the first half of 2020, the Company analysed indications and identified drivers that could have substantial impact on changes in the value of its generating assets and, as a result, have an impact on the value of PGE S.A.'s shares in PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE Energia Ciepła S.A. and PGE Energia Odnawialna S.A.

Key changes in the environment are as follows:

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

Following the analysis of the premises listed above, PGE S.A. performed impairment tests on its shares in PGE GiEK S.A. The basis for the estimates was the enterprise value calculated using the income method obtained based on the results of tests of non-current assets, adjusted to the level of equity. The tests were carried out with respect to CGUs by establishing their recoverable amounts. The recoverable amount of the analysed assets was determined based on value in use estimated using the discounted net cash flow method, based on financial projections prepared for the assumed useful life of the particular CGU. According to the Company, financial projections longer than five years are justified because the property, plant and equipment items used by the tested entities have significant longer useful lives and also due to significant and long-term effects of projected changes in the regulatory environment.

With respect to PGE EC S.A. and PGE EO S.A., there were no prerequisites for testing.

Key assumptions adopted for tests of the value in use of PGE GiEK S.A. are listed below.

Macroeconomic and market assumptions

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

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

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

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

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

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

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

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

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

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Other detailed assumptions

- taking into account the allocation of free CO_2 emission allowances in 2021-2030 only for system district heating, based on the 2020 level and assuming annual reduction,
- assumption for conventional plants that in the period after June 2025 there will be support from the capacity market or equivalent only for units that meet the emission criterion of 550 g of CO_2 for electricity produced per kWh, whereby multiannual contracts concluded in auctions for 2021-2024 will be performed in accordance with their term,
- assumption for CHP plants that during the residual period there will be support from the capacity market or equivalent, only for units that meet the emission criterion of 550 g of CO_2 of electricity produced,
- Taking into account work cost optimisation resulting from current work plans, among other things,
- Maintaining production capacities as a result of replacement-type investments,
- Taking into account highly advanced development investments,
- Assuming WACC after tax over the projection period of 6.5%-8.0%, differentiated for individual CGUs according to the risk level assessed on a case by case basis.

Impairment test and analysis of sensitivity of shares in PGE GiEK S.A.

As regards shares in PGE GiEK S.A., the tests carried out did not demonstrate the necessity to recognise an impairment loss. The carrying amount of shares in PGE GiEK S.A. recognised in the Company's accounting books is PLN 11,979 million. Following the impairment test, the value of PGE GiEK S.A.'s equity was estimated at PLN 13,251 million, and consequently PGE S.A. was not required to recognise an impairment loss.

The basis for the estimates was the enterprise value calculated using the income method adjusted to the level of equity by interest liabilities, financial assets and discounted expenses for reclamation. The analysis revealed that the value of the measured shares is most sensitive to changes in assumptions concerning the price of electricity, the price of CO_2 emission allowances and the weighted average cost of capital. The estimated effect of the change of key assumptions on the change in PGE GiEK S.A.'s equity as at June 30, 2020 is presented below.

Parameter	Change	Effect on equity	
		Increase	Decrease
Change in electricity prices in the entire projection period	1%	2,074	-
	-1%	-	2,090

A 1% decrease in electricity price would decrease the equity by PLN 2,090 million.

Parameter	Change	Effect on equity	
		Increase	Decrease
Change in WACC	+0.5 pp	-	1,025
	-0.5 pp	1,133	-

A 0.5 p.p. increase WACC would decrease the equity by PLN 1,025 million.

Parameter	Change	Effect on equity	
		Increase	Decrease
Change in prices of CO_2 emission allowances	1%	-	744
	-1%	736	-

A 1% increase in prices of CO_2 emission allowances would decrease the equity by PLN 744 million.

9.2 Analysis of the value of shares in PGE Obrót S.A.

In the first half of 2020, the retail electricity trading market was under pressure due to lower demand caused by the COVID-19 pandemic. The lower volume results in a lower margin generated due to the resale of the excess volume in SPOT transactions with a negative outcome. Therefore, PGE S.A. has identified indications of impairment of financial non-current assets in the form of shares in PGE Obrót S.A. Such indications include:

- Significant decrease in demand for electricity in connection with the COVID-19 pandemic, which caused a significant decrease in the volume sold to final off-takers, which negatively affects the financial performance of trading companies, including PGE Obrót S.A.
- Non-recognition by the President of the ERO of the qualified costs incurred by PGE Obrót related to the sale of electricity for the G tariff customer portfolio for 2020, which significantly affected the Company's performance in terms of sales margins.
- The effects of the Act of February 20, 2015 on Renewable Energy Sources, which introduced rules for the settlement of prosumers and energy cooperatives consisting in compensating the amount of electricity introduced into and received from the power grid. The introduced settlement system generates losses for the obliged seller (i.e. PGE Obrót S.A.). These losses are higher the higher the percentage of electricity introduced into the grid that can be compensated by the prosumer or energy cooperative. In connection with the dynamic development of photovoltaic microinstallations in recent years supported by the activities of state administration in the form of aid programmes, such as "Mój Prąd" and as a result of the aforementioned settlement system, the financial performance of electricity sellers will be under pressure from the expected further growth of the prosumer market segment.

In view of the above, the Company performed an impairment test on shares in PGE Obrót S.A. The test was conducted in line with IAS 36 using the discounted cash flows method. A five-year cash flow model for PGE Obrót S.A. was used in developing the projections. The key assumptions used in the measurement were as follows:

- decrease in total sales volume in 2020 related to the COVID-19 pandemic,
- increase in overall sales volume in 2024 by approx. 2.1% compared to 2020,
- price assumptions for electricity, which were the basis for estimating the level of margins, were derived from a study prepared by an independent expert, taking into account own estimates, based on the current market situation for the first two years of the projection,
- taking into account the economic effects related to the level of prices approved by the ERO President for households throughout 2020 in the projection,
- change in margin after 2021 calculated on the basis of the assumptions of stabilisation on the electricity market and improvement of price risk management efficiency,
- correlation between electricity prices in 2022-2024 for sales to retail customers with wholesale prices and impact on their level resulting from a change in the obligation to redeem property rights as well as changes in the prices of property rights,
- taking into account the economic effects related to the dynamic development of prosumer microinstallations in the projection horizon on the basis of observed market trends in 2019
- assumption of WACC after tax over the projection period of 7.0%.

The higher sales volume and margins for 2022-2024 assumed for these tests were estimated on the assumption that PGE Obrót S.A. will strengthen its position on the electricity sales market. In recent years, as a result of considerable volatility of prices on the wholesale market, many companies engaged in trade of electricity ceased their activities and terminated their sales contracts with customers.

Impairment test and analysis of sensitivity of shares in PGE Obrót S.A.

The carrying amount of shares in PGE Obrót S.A. recognised in the Company's accounting books is PLN 852 million. Following the test, the value of shares in PGE Obrót S.A. was estimated at PLN 574 million, and therefore PGE S.A. recognized an impairment loss of PLN 278 million. The need to recognise an impairment loss is primarily caused by rising electricity prices on the wholesale market, which translates into lower projected margins in 2020-2021 and a drop in sales related to the COVID-19 pandemic.

The analysis revealed that the value of the measured shares is most sensitive to changes in assumptions concerning the weighted average cost of capital and stand-alone margins. The estimated effect of the change of key assumptions on the change in impairment loss on shares in PGE Obrót S.A. is presented below.

Parameter	Change	Effect on impairment loss in PLN million	
		Increase in impairment loss	Decrease in impairment loss
Change in stand-alone margin	1%	-	119
	-1%	119	-

A 1% decrease in stand-alone margin would increase the impairment loss by PLN 119 million.

Parameter	Change	Effect on impairment loss in PLN million	
		Increase in impairment loss	Decrease in impairment loss
Change in WACC	+0.5 pp	259	-
	-0.5 pp	-	324

A 0.5 p.p. increase WACC would increase the impairment loss by PLN 259 million.

9.3 Analysis of value of other shares

In the first half of 2020, the Company recognised an impairment loss on shares in PGE Nowa Energia sp. z o.o. in the amount of PLN 16 million and on shares in PGE Trading GmbH in the amount of PLN 13 million. The rationale for recognition of impairment losses is a significant difference between the carrying amount of shares in PGE Nowa Energia sp. z o.o. and shares in PGE Trading GmbH in the accounting books of PGE S.A. and the value of these companies estimated with the adjusted net assets method. In addition, the Company recognised impairment losses on shares in Elbest sp. z o.o. in the amount of PLN 31 million. The rationale for recognition of impairment losses is a significant difference between the carrying amount of shares in Elbest sp. z o.o. in the accounting books of PGE S.A. and the value of these companies estimated with the discounted cash flows method.

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10. Selected financial assets

The carrying amount of financial assets measured at amortised cost is a reasonable estimate of their fair value.

10.1 Trade and other financial receivables

	As at June 30, 2020		As at December 31, 2019	
	Non-current	Current	Non-current	Current
Trade receivables	-	1,060	-	1,190
Bonds acquired	9,930	1,799	10,840	1,799
Cash pooling receivables	-	874	-	1,016
Loans advanced	85	4,104	115	3,730
Other financial receivables	-	229	-	154
TOTAL FINANCIAL RECEIVABLES	**10,015**	**8,066**	**10,955**	**7,889**

Trade receivables

Trade receivables of PLN 1,060 million relate mainly to the sale of electricity and services to subsidiaries in PGE Group. As at June 30, 2020, the balance of the three most important customers, i.e. PGE Obrót S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE Dystrybucja S.A., accounted for 94% of total trade receivables.

Bonds acquired

	As at June 30, 2020		As at December 31, 2019	
	Non-current	Current	Non-current	Current
BONDS ACQUIRED – ISSUER				
PGE Górnictwo i Energetyka Konwencjonalna S.A.	9,930	713	10,840	713
PGE Energia Odnawialna S.A	-	1,086	-	1,086
TOTAL BONDS ACQUIRED	**9,930**	**1,799**	**10,840**	**1,799**

PGE S.A. acquires bonds issued by PGE Group companies. Proceeds from the issue of bonds are used for financing investment projects, refinancing financial liabilities as well as for financing current operations.

Bonds with maturities not exceeding 12 months from the reporting date are classified as current assets, and bonds with maturities exceeding 12 months from the reporting date are classified as non-current assets; however, this classification depends not only on maturity dates, but also on the Company's intentions with regard to roll-overs. Inter-group bonds that mature within one year and are expected to be rolled over are classified as non-current instruments. This classification reflects the nature of cash management in a mid- and long-term.

Cash pooling receivables

In order to centralize the management of financial liquidity in PGE Group, agreements for real cash pooling services were executed between 16 companies of PGE Group and each bank separately, i.e. with PKO BP S.A. and PeKaO S.A. PGE S.A. coordinates the cash pooling service in PGE Group. This means, among others, that individual companies settle their accounts with the Company, and the Company settles with the banks. Therefore, balances of settlements with related parties participating in cash pooling are reported in financial receivables and financial liabilities of PGE S.A.

Loans advanced

	As at June 30, 2020		As at December 31, 2019	
	Non-current	Current	Non-current	Current
LOANS ADVANCED – BORROWER				
PGE Energia Ciepła S.A.	-	1,560	-	1,938
PGE Obrót	-	1,464	-	1,015
PGE Dystrybucja S.A.	-	751	-	627
PGE Systemy S.A.	-	197	-	116
PGE EJ 1 sp. z o.o.	76	80	110	22
PGE Dom Maklerski sp. z o.o.		32		
PGE Trading GmbH	-	13	-	12
Betrans sp. z o.o.	9	2	4	-
Elbest Sp. o.o.	-	5		
Bestgum sp. z o.o.	-	-	1	-
TOTAL LOANS ADVANCED	**85**	**4,104**	**115**	**3,730**

Loan repayment dates range from 2020 to 2024.

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10.2 Cash and cash equivalents

Short-term deposits are placed for various maturities, ranging from one day to one month, depending on the Company's current cash requirement, and bear interest at agreed interest rates.

Cash at banks earns interest at variable rates linked to O/N deposit rates.

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

	As at June 30, 2020	As at December 31, 2019
Cash at bank	1,051	182
Cash in VAT accounts	74	39
TOTAL	**1,125**	**221**
Exchange differences on cash in foreign currencies	(5)	(2)
Cash and cash equivalents presented in the statement of cash flows	**1,120**	**219**
Undrawn borrowing facilities	4,373	4,973
including overdraft facilities	1,661	864

The balance of cash includes restricted cash in the amount of PLN 74 million, representing cash in VAT accounts in the amount as well as securities and collateral.

A detailed description of credit agreements is presented in note 13 to these financial statements.

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

All derivatives are recognised in the Company's financial statements at fair value.

	As at June 30, 2020		As at December 31, 2019	
	Assets	Liabilities	Assets	Liabilities
DERIVATIVES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Commodity forwards	-	220	324	-
Futures	233	-	79	-
Currency forwards	78	77	43	338
Options	6	-	5	-
HEDGING DERIVATIVES				
CCIRS hedges	13	-	18	-
IRS hedges	-	432	-	106
OTHER ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Investment fund participation units	71	-	82	-
TOTAL	**401**	**729**	**551**	**444**
non-current	311	432	105	106
current	90	297	446	338

Commodity and currency forwards

Commodity and currency forward transactions mainly relate to trade in CO_2 emission allowances.

IRS transactions

The Company entered into IRS transactions to hedge interest rates on credit facilities and bonds issued with a total nominal value of PLN 7,030 million (PLN 5,630 million for credit facilities and PLN 1,400 million for bonds). To recognise these IRS transactions, the Company uses hedge accounting.

CCIRS hedges

In connection with loans received from the subsidiary, PGE Sweden AB (publ), referred to in note 13 to these financial statements, in June and August 2014 PGE S.A. concluded CCIRS transactions, hedging both the exchange rate and interest rate. In these transactions, banks-counterparties pay PGE interest based on a fixed rate in EUR and PGE S.A. pays interest based on a fixed rate in PLN. The notional amount, payment of interest and repayment of notional amount in CCIRS transactions are correlated with the relevant conditions arising from loan agreements.

In 2019, the company repaid a loan with the nominal amount of EUR 514 million, and the CCIRS transaction concluded to hedge it was settled.

To recognise these CCIRS transactions, the Company uses hedge accounting.

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Options

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

Investment fund participation units

In previous years, the Company purchased investment certificates from the PGE Ventures Closed-end Private Equity Investment Fund (FIZAN) – their value as at the reporting date is PLN 14 million, and investment certificates from the PGE Ventures Closed-end Private Equity Investment Fund (FIZAN) – their value as at the reporting date is PLN 4 million. It also purchased participation units from TFI Energia S.A. in three sub-funds; their value as at the reporting date is PLN 53 million.

12. Other current assets

	As at June 30, 2020	As at December 31, 2019
Dividends receivable	1,464	-
Receivables from tax group	27	9
Advance payments	616	475
VAT receivable	21	-
Other	4	3
TOTAL	**2,132**	**487**

Dividends receivable mainly concern receivables from PGE Dystrybucja S.A., PGE Energia Odnawialna S.A. and PGE Energia Ciepła S.A.

Advance payments comprise mainly funds transferred to the subsidiary, PGE Dom Maklerski S.A., for the purchase of electricity and gas of PLN 612 million in the current reporting period as compared to PLN 475 million in the comparative period.

13. Credit facilities, loans, bonds, cash pooling, leases

	As at June 30, 2020		As at December 31, 2019	
	Non-current	Current	Non-current	Current
Liability on account of credit facilities	7,367	353	7,492	1,094
Loans received	641	8	611	8
Bonds issued	1,398	3	1,398	5
Cash pooling liabilities	-	1,447	-	907
Lease liabilities	20	1	20	1
TOTAL CREDIT FACILITIES, LOANS, BONDS AND CASH POOLING	**9,426**	**1,812**	**9,521**	**2,015**

Credit facilities

Lender	Hedging instrument	Execution date	Maturity date	Limit in currency	Currency	Interest rate	Liability as at June 30, 2020	Liability as at December 31, 2019
Bank consortium	IRS	2015-09-07	2023-09-30	3,630	PLN	Variable	3,644	3,649
European Investment Bank	-	2015-10-27	2034-08-25	1,500	PLN	Fixed	1,505	1,505
Bank Gospodarstwa Krajowego	IRS	2014-12-17	2027-12-31	1,000	PLN	Variable	938	1,001
European Bank for Reconstruction and Development	IRS	2017-06-07	2028-06-07	500	PLN	Variable	501	502
Bank Gospodarstwa Krajowego	IRS	2015-12-04	2028-12-31	500	PLN	Variable	500	500
European Investment Bank	-	2015-10-27	2034-08-25	490	PLN	Fixed	493	493
Bank Gospodarstwa Krajowego	-	2018-06-01	2021-05-31	1,000	PLN	Variable	139	455
Revolving credit facility	-	2018-09-17	2022-12-16	4,100	PLN	Variable	-	300
Bank Pekao S.A.	-	2018-07-05	2024-12-22	500	PLN	Variable	-	160
PKO BP S.A.	-	2018-04-30	2022-04-29	300	PLN	Variable	-	21
European Investment Bank	-	2019-12-16	2038-10-16	273	PLN	Fixed	-	-
TOTAL CREDIT FACILITIES							**7,720**	**8,586**

In the first half of 2020 and after the reporting period, there were no cases of default on repayment or breach of other terms of credit agreements.

for the 6-month period ended June 30, 2020, in accordance with IFRS EU (in PLN million)

Loans received

Lender	Hedging instrument	Execution date	Maturity date	Limit in currency	Currency	Interest rate	Liability as at June 30, 2020	Liability as at December 31, 2019
PGE Sweden AB	CCIRS	2014-08-27	2029-07-31	100	EUR	Fixed	452	431
PGE Sweden AB	CCIRS	2014-08-27	2029-07-31	43	EUR	Fixed	197	188
TOTAL LOANS RECEIVED							**649**	**619**

In 2014, PGE S.A. and PGE Sweden AB (publ) established the Medium term Eurobonds Issue Programme under which PGE Sweden AB (publ) may issue eurobonds up to the amount of EUR 2 billion with a minimum maturity of 1 year. In 2014, PGE Sweden AB (publ) issued Eurobonds in the total amount of EUR 638 million. The subsidiary allocated the funds raised under this program to grant loans to its parent company.

Domestic market bond issues

Conclusion date	Maturity date	Limit in currency	Hedging instrument	Currency	Interest rate	Tranche issue date	Tranche maturity date	Liability as at June 30, 2020	Liability as at December 31, 2019
2013-06-27	indefinite	1,002	IRS	PLN	Variable	2019-05-21	2029-05-21	1,001	1,002
		401				2019-05-21	2026-05-21	400	401
TOTAL BONDS ISSUED								**1,401**	**1,403**

Cash pooling liabilities

The establishment of the real cash pooling arrangement is described in note 10 to these financial statements.

14. Contingent liabilities

	As at June 30, 2020	As at December 31, 2019
Bank guarantee liabilities	12,050	11,549
Collateral for exchange transactions	180	1,800
Other contingent liabilities	-	-
TOTAL CONTINGENT LIABILITIES	**12,230**	**13,349**

Guarantee for PGE Sweden AB (publ) liabilities

Due to establishment of the Eurobonds programme in 2014, an agreement was concluded for the issue of guarantee by PGE S.A. for the liabilities of PGE Sweden AB (publ). The guarantee was granted to the amount of EUR 2,500 million (PLN 10,750 million) and will be valid until December 31, 2041. As at June 30, 2020, PGE Sweden AB (publ)'s liabilities on account of bonds issued amounted to EUR 140 million (PLN 633 million), as at December 31, 2019 liabilities amounted to EUR 140 million (PLN 596 million).

Collateral for exchange transactions

These liabilities comprise bank guarantees provided as collateral for exchange transactions resulting from membership in the Warsaw Commodity Clearing House. As at June 30, 2020, the total amount of bank guarantees was PLN 180 million. In the comparative period, it amounted to PLN 1,800 million. The decrease in guarantees results from the offsetting agreement concluded in January 2020 between PGE Group companies. Under this agreement, in accordance with the Regulations of the Exchange Clearing House, security deposits within the energy group may be offset, owing to which offsetting positions within the PGE Group were offset and thus required only a minor security.

Standby commitments to ensure financing of new investments for PGE Group companies

Due to planned strategic investments in PGE Group, the Company committed to its subsidiaries, in the form of standby commitments, to ensure financing of the planned investments. The standby commitments relate to specific investments and may be used only for such purposes. As at the reporting date, the approximate value of future investment commitments related to these projects amounts to about PLN 800 million.

Other legal claims and disputes

Compensation for share conversions and lawsuits seeking annulment of the General Meeting resolutions have been described in note 22.4 to the consolidated financial statements.

15. Information on related parties

Transactions with related parties are concluded based on market prices for provided goods, products and services or are based on the cost of manufacturing. Exceptions to this rule were tax losses settlements within the tax group.

Any benefits from the current settlement of tax losses are attributable to PGE S.A.

for the 6-month period ended June 30, 2020, in accordance with IFRS EU (in PLN million)

16. PGE Group subsidiaries

	Period ended June 30, 2020	Period ended June 30, 2019
Sales to related parties	11,210	7,610
Purchases from related parties	6,100	3,548
Net finance income/(expenses)	1,421	1,168

The Company recognises revenues from sales to subsidiaries in PGE Group mainly from sales of electricity.

	As at June 30, 2020	As at December 31, 2019
RECEIVABLES FROM RELATED PARTIES		
Bonds issued by subsidiaries	11,729	12,639
Dividends receivable	1,464	-
Trade receivables from subsidiaries	1,030	1,145
Loans granted to subsidiaries	4,189	3,845
Cash pooling receivables	874	1,017
Receivables from the tax group settlements	27	9
TOTAL RECEIVABLES FROM RELATED PARTIES	**19,313**	**18,655**

	As at June 30, 2020	As at December 31, 2019
LIABILITIES TO RELATED PARTIES		
Loans received from subsidiaries	649	619
Trade liabilities to related parties	414	561
Cash pooling liabilities	1,447	907
Liabilities from the tax group settlements	5	47
TOTAL LIABILITIES TO RELATED PARTIES	**2,515**	**2,134**

Standby commitments and sureties granted to PGE S.A.'s subsidiaries are described in note 14 to these separate financial statements.

17. State Treasury-controlled companies

The State Treasury is the dominant shareholder of PGE Group and as a result the State Treasury companies are treated as related entities. The Company closely monitors transactions with key State Treasury subsidiaries. The total value of transactions with such entities is presented in the table below.

	Period ended June 30, 2020	Period ended June 30, 2019
Sales to related parties	68	61
Purchases from related parties	101	106

	As at June 30, 2020	As at December 31, 2019
Trade receivables from related parties	6	18
Trade liabilities to related parties	19	8

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

18. Management remuneration

The management personnel comprises the Management Board and the Supervisory Board of the Company.

PLN '000	Period ended June 30, 2020	Period ended June 30, 2019
Short-term employee benefits (salaries and salary related costs)	3,907	4,326
Post-employment and termination benefits	(143)	-
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**3,764**	**4,326**

PLN '000	Period ended June 30, 2020	Period ended June 30, 2019
Management Board of the Company	3,357	3,947
Supervisory Board of the Company	407	379
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**3,764**	**4,326**

Members of the Company's Management Board are employed on the basis of civil law contracts for management (so called management contracts). The above remuneration is included in other costs by nature disclosed in note 7 Costs by nature and function.

The amount of post-employment and termination benefits in the current period was negative due to the reversal of unused provisions from previous years.

19. Significant events during and after the reporting period

Significant events in the period have been described in note 25 to the consolidated financial statements. No other significant events took place between the end of the reporting period and the date on which these separate financial statements were approved.

III. APPROVAL OF THE SEMI-ANNUAL FINANCIAL REPORT

This semi-annual financial report was approved for publication by the Management Board of the parent company on September 15, 2020.

Warsaw, September 15, 2020

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

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

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

Glossary of terms and acronyms

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

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