PGE Polska Grupa Energetyczna S.A. Separate financial statements for 2019

ended December 31, 2019

in accordance with IFRS EU (in PLN million)

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in accordance with EU IFRS (in PLN million)

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2019	Year ended December 31, 2018 *restated data*
STATEMENT OF PROFIT OR LOSS			
SALES REVENUE	4.1	**15,146**	**11,450**
Cost of goods sold	4.2	(14,109)	(10,674)
GROSS PROFIT ON SALES		**1,037**	**776**
Distribution and selling expenses	4.2	(15)	(17)
General and administrative expenses	4.2	(223)	(222)
Other operating income/(expenses)		(20)	(28)
OPERATING PROFIT		**779**	**509**
Finance income/(costs), including:	4.3	(1,969)	(658)
Interest income calculated using the effective interest rate method		*180*	*100*
GROSS (LOSS)		**(1,190)**	**(149)**
Income tax	5.1	(69)	(54)
NET (LOSS) FOR THE REPORTING PERIOD		**(1,259)**	**(203)**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss in the future:			
Valuation of hedging instruments	12.3	(86)	(138)
Deferred tax	5.1	16	26
Items that may not be reclassified to profit or loss in the future:			
Actuarial gains and losses from valuation of provisions for employee benefits		(1)	6
Deferred tax		-	(1)
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**(71)**	**(107)**
TOTAL COMPREHENSIVE INCOME		**(1,330)**	**(310)**
NET PROFIT/(LOSS) AND DILUTED NET PROFIT/(LOSS) PER SHARE (IN PLN)	12.5	**(0.67)**	**(0.11)**

in accordance with EU IFRS (in PLN million)

STATEMENT OF FINANCIAL POSITION

	Note	As at December 31, 2019	As at December 31, 2018 *restated data**	As at January 1, 2018 *restated data**
NON-CURRENT ASSETS				
Property, plant and equipment	6.	162	167	176
Intangible assets		-	1	3
Right-of-use assets	7.	21	-	-
Financial receivables	16.1.1	10,955	13,000	11,976
Derivatives and other assets measured at fair value through profit or loss	16.1.2	105	115	216
Shares in subsidiaries	8.	29,995	32,024	32,568
Shares in associates and jointly controlled entities	8.2	101	101	84
Deferred tax assets	5.3.1	16	19	-
		41,355	**45,427**	**45,023**
CURRENT ASSETS				
Inventories		3	4	2
Income tax receivables		37	57	-
Trade and other receivables	16.1.1	7,889	5,306	2,500
Derivatives	16.1.2	446	231	54
Other current assets	10.	487	51	220
Cash and cash equivalents	11.	221	235	1,832
		9,083	**5,884**	**4,608**
TOTAL ASSETS		**50,438**	**51,311**	**49,631**
EQUITY				
Share capital	12.1	19,165	19,165	19,165
Reserve capital	12.2	19,669	19,872	15,328
Hedging reserve	12.3	(72)	(2)	110
Retained earnings	12.4	(1,258)	(201)	4,541
		37,504	**38,834**	**39,144**
NON-CURRENT LIABILITIES				
Non-current provisions	13, 14	18	16	20
Credit facilities, loans, bonds, leases	16.1.3	9,521	5,744	7,867
Derivatives	16.1.2	106	24	5
Deferred income tax liabilities		-	-	13
Other liabilities	16.1	20	21	23
		9,665	**5,805**	**7,928**
CURRENT LIABILITIES				
Current provisions	13, 14	1	9	33
Credit facilities, loans, bonds, cash pooling, leases	16.1.3	2,015	5,428	1,611
Derivatives	16.1.2	338	164	27
Trade and other liabilities	16.1.4	760	840	682
Income tax liabilities		-	-	176
Other non-financial liabilities	15.	155	231	30
		3,269	**6,672**	**2,559**
TOTAL LIABILITIES		**12,934**	**12,477**	**10,487**
TOTAL EQUITY AND LIABILITIES		**50,438**	**51,311**	**49,631**

** restatement of comparative data is described in note 3 to these financial statements*

in accordance with EU IFRS (in PLN million)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserve capital	Hedging reserve	Retained earnings	Total equity
Note	*12.1*	*12.2*	*12.3*	*12.4*	
AS AT JANUARY 1, 2018	**19,165**	**15,328**	**110**	**4,541**	**39,144**
Net (loss) for the reporting period	-	-	-	(203)	**(203)**
Other comprehensive income	-	-	(112)	5	**(107)**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**(112)**	**(198)**	**(310)**
Retained earnings distribution	-	4,544	-	(4,544)	**-**
Other changes	-	-	-	-	**-**
AS AT DECEMBER 31, 2018	**19,165**	**19,872**	**(2)**	**(201)**	**38,834**
Net (loss)for the reporting period	-	-	-	(1,259)	**(1,259)**
Other comprehensive income	-	-	(70)	(1)	**(71)**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**		**(70)**	**(1,260)**	**(1,330)**
Retained earnings distribution	-	(203)	-	203	**-**
Other changes	-	-	-	-	**-**
AS AT DECEMBER 31, 2019	**19,165**	**19,669**	**(72)**	**(1,258)**	**37,504**

in accordance with EU IFRS (in PLN million)

STATEMENT OF CASH FLOWS

	Note	Year ended December 31, 2019	Year ended December 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Gross (loss)		**(1,190)**	**(149)**
Income tax paid		(157)	16
Adjustments for:			
Depreciation, amortisation and impairment losses		12	13
Interest and dividend, net	18.1	(1,127)	(133)
Gain / loss on investing activities	18.1	2,950	849
Change in receivables	18.1	(1,232)	(228)
Change in inventories		2	(2)
Change in liabilities, excluding credit facilities and loans	18.1	(30)	175
Change in other non-financial assets	18.1	436	7
Change in provisions		(7)	11
Foreign exchange differences		12	-
Other		-	(1)
NET CASH FROM OPERATING ACTIVITIES		**(331)**	**558**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(6)	(1)
(Proceeds)/repayment of bonds issued by PGE Group companies	18.2	515	(2,101)
Sale of other financial assets		1	1
Acquisition of subsidiaries	18.2	(1,035)	(284)
Purchase of other financial assets		(15)	(30)
Dividends received	18.2	950	46
Loans granted/(repaid) under the cash pooling agreement	18.2	(351)	(202)
Loans advanced		(2,658)	(612)
Interest received		513	360
Repayment of loans granted		1,790	260
Other		(1)	-
NET CASH FROM INVESTING ACTIVITIES		**(297)**	**(2,563)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from credit facilities, loans	18.3	5,288	2,438
Proceeds from issue of bonds		1,400	-
Repayment of credit facilities, loans and leases	18.3	(5,736)	(700)
Redemption of bonds		-	(1,000)
Interest paid		(338)	(315)
Other		-	(16)
NET CASH FROM FINANCING ACTIVITIES		**614**	**407**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(14)**	**(1,598)**
Net foreign exchange differences			-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	11	**233**	**1,831**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	11	**219**	**233**

in accordance with EU IFRS (in PLN million)

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

1. General information

1.1 Company operations

PGE Polska Grupa Energetyczna S.A. ("Company," "PGE 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 ("PGE Group", "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, Both in 2019 and in 2018, the Company's costs relating to the concession amounted to PLN 1 million.

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. The Company's Management Board does not analyse its business based on segments as a result of which 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.

Going concern

These 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 financial statements for publication, 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 December 31, 2019 and contain comparative figures for the period from January 1 to December 31, 2018.

1.2 Ownership structure

	State Treasury	Other shareholders	Total
As at January 1, 2019	57.39%	42.61%	100.00%
As at December 31, 2019	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 was the only shareholder with at least 5% of votes at the general meeting of PGE S.A.

1.3 Composition of the Company's Management Board

During the year ended December 31, 2019 and as at December 31, 2019, the Management Board was composed of the following members:

- 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.

After the reporting date, 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 the date of publication of these financial statements, the composition of the Management Board is as follows:

- 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.

2. Basis for preparation of the financial statements

2.1 Statement of compliance

These financial statements are prepared in accordance with EU IFRSs. The EU IFRSs comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretation Committee ("IFRIC").

Included in these financial statements, in note 23, is the financial information referred to in Article 44(2) of the Energy Law of April 10, 1997 (Official Journal of 2012 item 1059 as amended).

The financial statements have been prepared under the historical cost convention, as modified with respect to:

- Property, plant and equipment and intangible assets – property, plant and equipment and intangible assets that were owned by the Company at the date of transition to IFRSs were measured at deemed cost as at that date. In addition, for certain items of property, plant and equipment and intangible assets impairment loss has been recognised.
- Financial instruments – selected categories of financial instruments are measured and presented in the statement of financial position at fair value. Details on the measurement of particular categories of financial instruments are presented in the description of the accounting policies applied.
- Impaired assets – presented at historical cost adjusted for impairment losses.

The accounting policies employed in the preparation of these financial statements, discussed in the detailed notes, were consistently applied by the Company in all periods presented, unless stated otherwise.

2.2 Presentation and functional currency

The functional currency of the Company and presentation currency of these financial statements is the Polish zloty ("PLN"). All amounts are in PLN million, 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:

	December 31, 2019	December 31, 2018
USD	3.7977	3.7597
EUR	4.2585	4.3000

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, 2019:

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
Amendments to the Conceptual Framework	These amendments aim to harmonise the Conceptual Framework	January 1, 2020
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, 2021
Amendments to IFRS 3	These changes clarify the definition of economic activity	January 1, 2020
Amendments to IAS 1 and IAS 8	The amendments concern the definition of 'material.'	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7	The amendments concern the reform of the benchmark rate	January 1, 2020

The Company intends to adopt the above-mentioned new standards, amendments to standards and interpretations of the EU IFRSs published by the International Accounting Standards Board but not yet effective as at the reporting date, when they become effective.

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

in accordance with EU IFRS (in PLN million)

3. Changes in accounting principles and data presentation

New standards and interpretations which became effective on January 1, 2019

The accounting principles (policies) applied in preparing these financial statements are consistent with those applied in preparing the separate financial statements for 2018, except for as stated below. The following amendments to EU IFRSs are applied in these financial statements in line with their effective dates. Amendments relating to IFRS 16 are described below. The other amendments did not have material impact on the presented and disclosed financial information or they were not applicable to the Company's transactions:

- Amendments to IFRS 9 – Amendments related to the early repayment option with negative compensation;
- Amendments to IFRIC 23 – This interpretation applies to establishing taxable revenue, tax base, unsettled tax losses, unused tax rebates and tax rates;
- Annual improvements to EU IFRS (cycle 2015-2017) – amendments to IFRS 3, IFRS 11; IFRS 12; IAS 23;
- Amendments to IAS 28 – This amendment concerns measurement of non-current investments in associates;
- Amendments to IAS 19 – Amendments concern defined benefit plans.

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

IFRS 16 *Leases*

IFRS 16 Leases replaced IAS 17 Leases and interpretations in this respect. The Company has implemented the new IFRS 16 starting from financial statements prepared for the periods starting after January 1, 2019. The Company has selected the implementation option set out in paragraph C5.b) of IFRS 16, i.e. retrospectively, with the cumulative effect of the initial application of the standard recognised as at January 1, 2019 as an adjustment to the opening balance of retained earnings.

The new IFRS 16 changes principles for the recognition of contracts which meet the criteria of lease. The main change is to move away from the classification of leases as either operating leases or finance leases in the lessee's accounts. All contracts which meet the criteria of a lease will be recognised as a finance lease.

The Company has analysed the contracts concluded in order to determine whether a given contract contains a lease in accordance with the definition set out in IFRS 16.

The analysis showed that the definition of a lease is met by the right of perpetual usufruct of land which was recognised as an operating lease before the effective date of IFRS 16.

In accordance with the selected implementation option, the Company did not restate comparative data. On the date of implementation of IFRS 16, the Company recognised right-of-use assets in the case of leases previously classified as operating leases under IAS 17, in an amount equal to the value of their lease liabilities, by measuring the asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognised in the statement of financial position immediately before the date of initial application, in accordance with paragraph C8.b.ii).

As a result of the application of IFRS 16:

- right-of-use assets for new lease agreements recognised and lease liabilities increased by PLN 21 million as at January 1, 2019.
- as at January 1, 2019, retained earnings remained unchanged.
- profit before tax for 2019 is lower by approximately PLN 253 thousand.
- as estimated, EBITDA for 2019 is higher by PLN 932 thousand.

	Carrying amounts in the statement of financial position as at January 1, 2019
Future operating lease payments to be made by the lessee as at December 31, 2018	**67**
Discounted using weighted average incremental borrowing rate of the lessee as at January 1, 2019	21
Lease liabilities recognised as at January 1, 2019	**21**

The lease liability was measured at the present value of lease payments. Lease payments were discounted using the lessee's incremental borrowing rate of 4,495%.

There were no material sale and leaseback transactions in the current period.

In 2019, the total cash outflow on account of leases amounted to approximately PLN 1 million.

Right-of-use assets are described in note 7 to these financial statements and lease liabilities are described in notes 16.1.3 and 17.2.

The value of other disclosures under IFRS 16 is immaterial.

in accordance with EU IFRS (in PLN million)

Changes in accounting principles

In the current period, the Company decided to change the presentation of derivatives relating to the trade in CO_2 emission allowances by way of moving their disclosure from financial activities to operating activities. The trade in CO_2 emission allowances for the benefit of PGE Group forms part of the Company's core activities, and therefore the new presentation reflects the nature of activities in a more suitable manner.

The Company also decided to change the way in which receivables and liabilities are split for long and short-term credit facilities, loans and bonds. The previous present value of generated cash flows was replaced by the due date method. The Company believes that the amended presentation reflects the nature of this item in a more suitable manner.

The Company has restated the comparative data presented in the statements of financial position and comprehensive income. The restatement is presented in the tables below.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME	Year ended December 31, 2018 published data	Change in the recognition of forwards related to trading in CO_2 allowances	Year ended December 31, 2018 restated data
STATEMENT OF PROFIT OR LOSS			
SALES REVENUE	**11,450**	**-**	**11,450**
Cost of goods sold	(10,634)	(40)	(10,674)
GROSS PROFIT ON SALES	**816**	**(40)**	**776**
OPERATING PROFIT	**549**	**(40)**	**509**
Net finance income/(costs)	(698)	40	(658)
GROSS PROFIT	**(149)**	**-**	**(149)**
NET PROFIT FOR THE REPORTING PERIOD	**(203)**	**-**	**(203)**

SEPARATE STATEMENT OF FINANCIAL POSITION	As at December 31, 2018 *published data*	Change of presentation	As at December 31, 2018 *restated data*
NON-CURRENT ASSETS, including:			
Financial receivables	12,756	244	13,000
TOTAL NON-CURRENT ASSETS	**45,183**	**244**	**45,427**
CURRENT ASSETS, including:			
Trade and other receivables	5,550	(244)	5,306
TOTAL CURRENT ASSETS	**6,128**	**(244)**	**5,884**
TOTAL ASSETS	**51,311**	-	**51,311**
NON-CURRENT LIABILITIES, including:			
Credit facilities, loans, bonds, leases	5,628	116	5,744
TOTAL NON-CURRENT LIABILITIES	**5,689**	**116**	**5,805**
CURRENT LIABILITIES, including:			
Credit facilities, loans, bonds, cash pooling, leases	5,544	(116)	5,428
TOTAL CURRENT LIABILITIES	**6,788**	**(116)**	**6,672**
TOTAL LIABILITIES	**12,477**	**-**	**12,477**
TOTAL EQUITY AND LIABILITIES	**51,311**	**-**	**51,311**

SEPARATE STATEMENT OF FINANCIAL POSITION	As at January 1, 2018 *published data*	Change of presentation	As at January 1, 2018 *restated data*
NON-CURRENT ASSETS, including:			
Financial receivables	11,840	136	11,976
TOTAL NON-CURRENT ASSETS	**44,887**	**136**	**45,023**
CURRENT ASSETS, including:			
Trade and other receivables	2,636	(136)	2,500
TOTAL CURRENT ASSETS	**4,744**	**(136)**	**4,608**
TOTAL ASSETS	**49,631**	-	**49,631**
NON-CURRENT LIABILITIES, including:			
Credit facilities, loans, bonds, leases	7,714	153	7,867
TOTAL NON-CURRENT LIABILITIES	**7,775**	**153**	**7,928**
CURRENT LIABILITIES, including:			
Credit facilities, loans, bonds, cash pooling, leases	1,764	(153)	1,611
TOTAL CURRENT LIABILITIES	**2,712**	**(153)**	**2,559**
TOTAL LIABILITIES	**10,487**	**-**	**10,487**
TOTAL EQUITY AND LIABILITIES	**49,631**	**-**	**49,631**

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

4. Revenue and expenses

4.1 Revenue from sales

ACCOUNTING POLICIES

Revenue from contracts with customers

Revenue is recognised so as to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is recognised when the performance obligation concerning the goods and services is met (or is in the process of being met) by delivery to the customer. The product is delivered when the customer obtains control over it.

The entity recognises revenue from a contract with customer only when all of the following criteria are met:

- the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are obligated to perform their duties;
- the entity is able to identify the rights of each of party with regard to the goods or services to be transferred;
- the entity can identify the payment terms for the goods or services to be transferred;
- the contract has commercial substance;
- it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

At contract inception, the entity assesses the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the customer either:

- a good or service (or a bundle of goods or services) that is distinct; or
- a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

The Company recognises revenue when (or as) the Company satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to the customer. An asset is transferred when the customer obtains control of that asset, i.e. when the customer obtains the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The Company transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs;
- the Company's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
- the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

For each performance obligation satisfied over time, the entity recognises revenue over time by measuring the progress towards complete satisfaction of that performance obligation. The objective when measuring progress is to depict an entity's performance in transferring control of goods or services promised to a customer (i.e. the satisfaction of an entity's performance obligation).

When (or as) a performance obligation is satisfied, the entity recognises as revenue the amount of the transaction price that is allocated to that performance obligation. The transaction price includes some or all of an amount of estimated variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The entity considers the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which the entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Lease income

The Company, as a lessor, classified the lease contracts concluded as operating leases. Operating lease income is recognised in profit of the current period, on a straight-line basis. The contracts concern mainly office and usable space.

in accordance with EU IFRS (in PLN million)

Revenue from wholesale of electricity

Contracts for the sale of electricity concluded on the wholesale market are reported to the Transmission System Operator as a notification of the volume of electricity declared per each hour which the company is obliged to provide as a supplier or ensure its provision and the client is obliged to accept. Both the settlement price and volume of electricity per each hour are set out in OTC (Over the Counter) contracts signed or – in the case of sales on the Polish Power Exchange – determined on the basis of transactions recorded electronically.

The actual electricity supply takes place through the Balancing Market, where the Transmission System Operator ensures reliability of data concerning the supplied volume of energy and deviations in volume from the previously notified work schedules (the so-called ESC: Energy Sale Contracts) are settled at prices resulting from the mechanism of operation of the Balancing Market. Settlements of the Balancing Market are executed with the Transmission System Operator every decade, whereas settlements of the wholesale sale on the Polish Power Exchange are carried out with the Warsaw Commodity Clearing House that is the guarantor of settlements of transactions entered into on the Polish Power Exchange, they are executed on a daily basis in accordance with the Warsaw Commodity Clearing House's clearing regulations. For OTC Contracts, settlements are performed in accordance with the provisions of such Contracts, i.e. on a decade or monthly basis.

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	Year ended December 31, 2019	Year ended December 31, 2018
REVENUE FROM CONTRACTS WITH CUSTOMERS	**15,141**	**11,445**
Revenue from sale of goods, including:	**14,174**	**10,583**
Sale of electricity	*12,302*	*8,835*
Sale of gas	*497*	*531*
Sale of CO_2	*1,375*	*1,217*
Revenue from sales of services	**967**	**862**
LEASE INCOME	**5**	**5**
TOTAL SALES REVENUE	**15,146**	**11,450**

The total revenue amount includes approx. PLN 2 million in sales transactions for which the value was not ultimately established as at the end of the reporting period.

In 2019, the Company recognised revenue from performance obligations satisfied in previous periods resulting from adjustments of the amounts of electricity sales on the balancing market made in previous years. The total amount of these adjustments was approx. PLN 3 million (approx. PLN 2 million in 2018).

Timing of transfer of goods or services	Year ended December 31, 2019	Year ended December 31, 2018
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS		
Revenue from sales of goods and services transferred to customers over time:	*13,766*	*10,228*
Revenue from sales of goods and services transferred to customers at a specific point in time	*1,375*	*1,217*
TOTAL SALES REVENUE	**15,141**	**11,445**

The Company operates mainly in Poland. Sales to foreign customers in 2019 and in 2018 reached PLN 72 million and PLN 204 million respectively and concerned mainly electricity and gas.

The year-on-year increase in revenue from electricity sales in 2019 results from higher turnover volume and higher sales prices, mainly in transactions with PGE Obrót S.A. Sales to PGE Obrót S.A. are made in order to satisfy retail clients' demand for electricity.

The decline in revenue from sales of natural gas in 2019 resulted from a decrease in gas sales volumes on the exchange and to entities outside PGE Group.

The increase in sales of other goods and materials in 2019 resulted from higher sales of CO_2 emission allowances to PGE Group companies. The growth in sales of CO_2 emission allowances resulted from both an increase in sales prices and sales volumes.

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.

Information concerning key clients

The Company's main counterparties are PGE Group subsidiaries. In 2019, sales to PGE Obrót S.A. accounted for 72% of revenue from sales, while sales to PGE GiEK S.A. accounted for 12%. In 2018, sales to these companies accounted for 68% and 16% respectively.

in accordance with EU IFRS (in PLN million)

4.2 Costs by nature and function

ACCOUNTING POLICIES

Cost of goods sold

Cost of goods sold includes: value of electricity, CO_2 emission allowances, gas sold and other goods and materials at acquisition prices.

Costs that can be directly attributable to revenue recognised by the Company are recognised in profit or loss for the reporting period in which the revenue was recognised.

Costs that can only be indirectly attributed to revenue or other economic benefits recognised by the Company, are recognised in the profit or loss in the reporting periods to which they relate, in accordance with accrual basis of accounting, taking into account the principles of measurement of fixed assets and inventories.

	Year ended December 31, 2019	Year ended December 31, 2018
COSTS BY NATURE		
Amortisation and depreciation	12	13
External services	69	62
Employee benefits expenses	144	127
Other costs by nature	76	83
TOTAL COSTS BY NATURE	**301**	**285**
Distribution and selling expenses	(15)	(17)
General and administrative expenses	(223)	(222)
Cost of goods and materials sold	14,046	10,628
COST OF GOODS SOLD	**14,109**	**10,674**

The increase in the cost of goods and materials sold in 2019, as compared to 2018, is largely the effect of higher revenue from sales, as described above, and higher prices on the wholesale market.

4.2.1 Depreciation, amortisation and impairment losses

	Amortisation and depreciation					
	Year ended December 31, 2019			Year ended December 31, 2018		
	Property, plant and equipment	Intangible assets	TOTAL	Property, plant and equipment	Intangible assets	TOTAL
Cost of goods sold	4	1	**5**	4	1	**5**
Distribution and selling expenses	-	-	**-**	-	-	**-**
General and administrative expenses	7	-	**7**	7	1	**8**
TOTAL	**11**	**1**	**12**	**11**	**2**	**13**

4.2.2 External services

	Year ended December 31, 2019	Year ended December 31, 2018
Trading commissions	17	13
IT services	28	24
Consultancy services	12	13
Transmission services	2	2
Other	10	10
TOTAL COSTS OF EXTERNAL SERVICES	**69**	**62**

in accordance with EU IFRS (in PLN million)

4.2.3 Employee benefits expenses and employee structure

	Year ended December 31, 2019	Year ended December 31, 2018
Payroll	112	96
Social security expenses	16	14
Change in provisions for employee benefits	2	5
Other employee benefits expenses	14	12
TOTAL EMPLOYEE BENEFITS EXPENSES, INCLUDING:	**144**	**127**
Items recognised in cost of goods sold	33	22
Items recognised in distribution and selling expenses	2	7
Items recognised in general and administrative expenses	109	98

As at December 31, 2019 and December 31, 2018, headcount (in FTEs) amounted to, respectively, 667 and 614.

4.2.4 Other costs by nature

	Year ended December 31, 2019	Year ended December 31, 2018
Sponsorship and advertising	50	58
Management remuneration	8	8
Taxes and fees	5	4
Other	13	13
TOTAL COSTS OF EXTERNAL SERVICES	**76**	**83**

4.3 Finance income and costs

ACCOUNTING POLICIES

Finance income and costs

Interest income and costs are recognised as they accrue (using the effective interest rate method) by reference to the net carrying amount of a particular financial instrument as at the reporting date.
Dividends are recognised when the shareholders' right to receive the payment is established.

	Year ended December 31, 2019	Year ended December 31, 2018
NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS		
Dividends	950	46
Interest accrued at effective interest rate	180	100
Revaluation of financial instruments	(6)	(3)
Reversal/(recognition) of impairment allowances	(3,065)	(799)
Foreign exchange differences	(25)	-
Gain on disposal of investments	-	1
TOTAL NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS	**(1,966)**	**(655)**
OTHER NET FINANCE INCOME/(COSTS)		
Interest costs, including the effect of discount unwinding	(1)	(1)
Other	(2)	(2)
TOTAL NET OTHER FINANCE INCOME/(COSTS)	**(3)**	**(3)**
TOTAL NET FINANCE INCOME/(COSTS)	**(1,969)**	**(658)**

In 2019, the Company reported dividend income mainly from PGE Dystrybucja S.A. (PLN 935 million), and in the comparative period mainly from PGE Obrót S.A. (PLN 28 million).

In the item "Recognition / (reversal) of impairment allowances", in the current period, the Company presents the recognition of impairment losses on shares in PGE GiEK S.A., PGE Obrót SA, PGE Sweden AB and EJ1 sp. z o.o., and in the comparative period – on shares in PGE Obrót S.A. and PGE Sweden AB.

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

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

Interest costs mainly relate to bonds issued and credit and loans contracted, as described in note 16.1.3 of these financial statements.

in accordance with EU IFRS (in PLN million)

5. Income tax

ACCOUNTING POLICIES

Taxes

Income tax recognised in profit or loss comprises current and deferred income tax. The Company recognises the actual tax expense for the given reporting period, as determined by the Company in accordance with the provisions of the Corporate Income Tax Act, as well as movements in the balance of the deferred tax asset and deferred tax liability that is not settled against equity.

The Company recognizes deferred tax liabilities and deferred tax assets in respect of temporary differences between the carrying values of assets or liabilities and their tax bases, and tax loss carryforwards.

The carrying amount of deferred tax assets and liabilities in the statement of financial position is reviewed at the end of each reporting period. Deferred tax assets and liabilities are treated entirely as non-current. The Company offsets deferred tax assets and liabilities.

The Company recognises the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised.

5.1 Tax in the statement of comprehensive income

The main items of the tax expense for the annual periods ended December 31, 2019 and December 31, 2018 were as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
INCOME TAX RECOGNISED IN THE STATEMENT OF PROFIT OR LOSS		
Current income tax of PGE S.A.	161	125
Benefits from current tax group settlements	(121)	(65)
Adjustments related to settlement of current income tax for previous years	10	-
Deferred income tax	19	(6)
INCOME TAX EXPENSE RECOGNISED IN THE STATEMENT OF PROFIT OR LOSS	**69**	**54**
INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME		
On valuation of hedging instruments	(16)	(26)
On actuarial gains (losses) on valuation of employee benefit provisions	-	1
INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME (EQUITY)	**(16)**	**(25)**

Rules regarding settlements between companies forming the PGE tax group are described in note 20 to these financial statements.

Adjustments related to settlement of current income tax from previous years concern mainly final settlement of the tax group for the previous year. The differences arise from sales of electricity for the previous year invoiced in the first quarter of the current year, previously recognised based on estimates.

5.2 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 Company:

	Year ended December 31, 2019	Year ended December 31, 2018
(LOSS) BEFORE TAX	**(1,190)**	**(149)**
Income tax at the 19% statutory rate applicable in Poland	(226)	(28)
ITEMS ADJUSTING INCOME TAX		
Adjustments related to settlement of current income tax for previous years	10	-
Tax losses of companies belonging to the tax group	(121)	(65)
Non-taxable income	(181)	(9)
Non-deductible costs	587	156
INCOME TAX AT THE EFFECTIVE TAX RATE (Income tax (charge) in the financial statements)	**69**	**54**
EFFECTIVE TAX RATE	**(5.8%)**	**(36.2%)**

in accordance with EU IFRS (in PLN million)

In accordance with the agreements within PGE tax group, when the company belonging to the tax group incurs tax loss, the respective tax benefits are transferred to the representing company, PGE S.A.

Non-taxable income refers mainly to dividend income which is not included in the calculation of current income tax base (tax amount: PLN 180 million in 2019 and PLN 9 million in 2018).

In the item "Non-deductible costs", the Company recognised impairment losses on shares in PGE GiEK S.A., PGE Obrót S.A., PGE Sweden AB and EJ1 sp. z o.o in 2019, and on shares in PGE Obrót SA and PGE Sweden AB in 2018 (tax amount: PLN 584 million in 2019 and PLN 153 million in 2018).

5.3 Deferred tax in the statement of financial position

5.3.1 Deferred income tax assets

	As at December 31, 2019	As at December 31, 2018
Difference between tax value and carrying amount of financial liabilities	11	28
Difference between tax value and carrying amount of financial assets	110	59
Provisions for employee benefits	11	9
Other	6	5
DEFERRED TAX ASSETS	**138**	**101**

Change in deferred tax assets

	Year ended December 31, 2019	Year ended December 31, 2018
AS AT JANUARY 1	**101**	**51**
Changes in correspondence with profit or loss	37	50
AS AT DECEMBER 31	**138**	**101**

5.3.2 Deferred tax liabilities

	As at December 31, 2019	As at December 31, 2018
Difference between tax value and carrying amount of property, plant and equipment	18	19
Difference between tax value and carrying amount of other financial assets	104	63
Other	-	-
DEFERRED TAX LIABILITIES	**122**	**82**

Change in deferred tax liabilities

	Year ended December 31, 2019	Year ended December 31, 2018
AS AT JANUARY 1	**82**	**64**
Changes in correspondence with profit or loss	56	43
Changes in correspondence with other comprehensive income	(16)	(25)
AS AT DECEMBER 31	**122**	**82**

Changes in the correspondence with other comprehensive income concern changes in deferred tax on the measurement of hedging instruments. Other changes in each item are recognised in profit or loss.

Deferred tax assets	16	19
Income tax liabilities	-	-

The Company does not recognise deferred tax asset and deferred tax liabilities related to difference between tax value and carrying amount of shares in subsidiaries due to the uncertainty as to their utilisation. Deductible temporary differences connected with the recognition of impairment allowances on shares in subsidiaries would be PLN 8,353 million, which would affect deferred tax assets the amount of PLN 1,587 million.

Positive temporary differences connected with using in past interest rates below market rates of the Company's bonds issued by subsidiaries would be PLN 127 million, which would affect deferred tax liabilities the amount of PLN 24 million.

in accordance with EU IFRS (in PLN million)

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

6. Property, plant and equipment

ACCOUNTING POLICIES

Property, plant and equipment

Property, plant and equipment are assets:

- held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- expected to be used for more than one period.

After initial recognition, an item of property, plant and equipment is measured at carrying amount, i.e. initial value (or deemed cost for items of property, plant and equipment used before the transition to EU IFRSs) less any accumulated depreciation and any impairment losses. Initial value of an item of property, plant and equipment comprises its cost, which includes all costs directly related to its acquisition and bringing it to working condition for its intended use. The cost comprises estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having it used for purposes other than to produce inventories.

The depreciable amount is the cost of an item of property, plant and equipment less its residual value. Depreciation commences when the asset is available for use. Depreciation of property, plant and equipment is based on a schedule plan reflecting the future useful life of the item of property, plant and equipment. The depreciation method used reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

The following useful lives are adopted for particular groups of property, plant and equipment:

Group	Average remaining depreciation period in years	Total depreciation periods applied, in years
Buildings, premises, civil and marine engineering structures	16	2-31
Machinery and technical equipment	6	1-39
Vehicles	5	1-10
Other property, plant and equipment	1	1-15

	As at December 31, 2019	As at December 31, 2018
Buildings	148	156
Other non-current assets	14	11
NET VALUEOF PROPERTY, PLANT AND EQUIPMENT	**162**	**167**

In the reporting and comparative period, the Company did not execute any material transactions to purchase or sell items of property, plant and equipment.

Part of the area of the building owned by the Company has been leased out under an operating lease. The net value of property, plant and equipment under operating leases amounted to PLN 20 million as at December 31, 2019. Depreciation of these assets recognised in the current period costs amounted to PLN 1 million.

in accordance with EU IFRS (in PLN million)

7. Right-of-use assets

ACCOUNTING POLICIES

Right-of-use assets

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company defines the lease period as the non-cancellable period for which a lessee has the right to use an underlying asset, together with both:

- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option and
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

In determining the lease term and assessing the length of the non-cancellable period of a lease, the Company applies the definition of a contract and determine the period for which the contract is enforceable. A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty. The concept of a penalty includes any economic 'disadvantage' of any kind that creates barriers to exit from the contract.

If only a lessee has the right to terminate a lease, that right is considered to be an option to terminate the lease available to the lessee that an entity considers when determining the lease term. If only a lessor has the right to terminate a lease, the non-cancellable period of the lease includes the period covered by the option to terminate the lease.

The lease term begins at the commencement date (date of making the underlying asset available for use by the lessee) and includes any rent-free periods provided to the lessee by the lessor.

At the lease commencement date, the Company takes into account all relevant facts and circumstances that create an economic incentive for the lessee to exercise, or not to exercise, the option to extend the lease or to purchase the underlying asset, or not to exercise an option to terminate the lease.

The lessee recognises a right-of-use asset at the commencement date.

At the commencement date, the lessee measures the right-of-use asset at cost.

After the commencement date, a lessee measures the right-of-use asset applying a cost model. The lessee measures the right-of-use asset at cost:

- less any accumulated depreciation and any accumulated impairment losses. Depreciation is recognised throughout the lease term, from the moment the asset is placed in service. No depreciation is recognised for right-of-use assets classified as non-current assets held for sale.
- adjusted for any remeasurement of the lease liability (e.g. to reflect revised lease payments).

The Company as a lessee applies the exemption in respect of recognition, measurement and presentation in relation to:

- short-term leases, i.e. leases with a term of up to 12 months and without a purchase option; The exemption applies mainly to the lease of office premises;
- leases for which the underlying asset is of low value and is not sub-leased. The Company considers that the underlying asset is of low value (value of the asset when it is new, regardless of the age of the asset being leased) if that value is not higher than PLN 18 thousand. The exemption applies to small office equipment (printing equipment, photocopiers, computers, etc.).

Under “Right-of-use assets”, the Company reports the perpetual usufruct rights to land which, as at the effective date of IFRS 16, i.e. January 1, 2019, was measured at the amount of future discounted payments.

As at January 1, 2019 and December 31, 2019, the right-of-use assets amounted to PLN 21 million.

Depreciation periods for the right-of-use assets are as follows:

Group	Remaining depreciation period in years	Total depreciation period in years
RPUL	70	99

As at December 31, 2019, no risk of impairment of those assets was identified.

in accordance with EU IFRS (in PLN million)

8. Shares in subsidiaries

ACCOUNTING POLICIES

Shares in subsidiaries, jointly controlled entities and associates

Subsidiaries are entities which the Company has control over as a result of an investment if the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. This involves holding the majority of total votes in decision-making bodies of these entities. While assessing whether the Company controls a given entity, it takes into consideration the existence and effect of potential voting rights which may be exercised or converted at a given time.

A jointly controlled entity is an entity in which the contractually agreed sharing of control over an economic activity requires the unanimity of the parties exercising control over the strategic financial and operational decisions.

An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor a jointly-controlled entity. IAS 28 defines the “significant influence” as the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

Shares in subsidiaries, jointly controlled entities and associates held by the Company are measured at historical acquisition cost in accordance with IAS 27 Separate financial statements. If there is an objective evidence of impairment of these assets, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the estimated recoverable amount.

Shares in subsidiaries are measured at cost less impairment losses.

	Registered office	Ownership interest as at December 31, 2019	As at December 31, 2019	Ownership interest as at December 31, 2018	As at December 31, 2018
COMPANIES BELONGING TO TG PGE 2015					
PGE Górnictwo i Energetyka Konwencjonalna S.A.	Bełchatów	100.00%	11,840	100.00%	15,437
PGE Dystrybucja S.A.	Lublin	100.00%	10,595	100.00%	10,595
PGE Obrót S.A.	Rzeszów	100.00%	852	100.00%	1,647
PGE Energia Odnawialna S.A.	Warsaw	100.00%	1,349	100.00%	1,349
PGE Systemy S.A.	Warsaw	100.00%	131	100.00%	131
ELBEST sp. z o.o.	Bełchatów	100.00%	101	100.00%	101
PGE Dom Maklerski S.A.	Warsaw	100.00%	97	100.00%	97
PGE Ventures sp. z o.o	Warsaw	100.00%	68	100.00%	68
PGE Nowa Energia sp. z o.o	Warsaw	100.00%	60	100.00%	15
PGE Centrum sp. z o.o.	Warsaw	100.00%	39	100.00%	14
BETRANS sp. z o.o.	Bełchatów	100.00%	35	100.00%	35
ELMEN sp. z o.o.	Rogowiec	100.00%	23	100.00%	23
BESTGUM sp. z o.o.	Rogowiec	100.00%	12	100.00%	12
MEGAZEC sp. z o.o.	Bydgoszcz	100.00%	10	100.00%	10
PGE Baltica sp. z o.o.	Warsaw	100.00%	9	100.00%	9
ELBIS sp. z o.o.	Rogowiec	100.00%	8	100.00%	8
Ramb sp. z o.o.	Piaski	100.00%	7	100.00%	7
MegaSerwis sp. z o.o.	Bogatynia	100.00%	7	100.00%	7
PGE Synergia sp. z o.o.	Warsaw	100.00%	6	100.00%	6
ELTUR SERWIS sp. z o.o.	Bogatynia	100.00%	5	100.00%	5
PGE Inwest 13 S.A.	Warsaw	100.00%	1	100.00%	1
ELBEST Security sp. z o.o.	Warsaw	100.00%	<1	100.00%	<1
7 limited liability companies named PGE Inwest 2;8 to 12;14	Warsaw	100.00%	<1	100.00%	<1
COMPANIES NOT BELONGING TO TG PGE 2015					
PGE Energia Ciepła S.A.	Warsaw	100.00%	4,258	100.00%	2,005
PGE EJ 1 sp. z o.o.	Warsaw	70.00%	125	70.00%	155
PGE Sweden AB (publ)	Stockholm	100.00%	52	100.00%	72
PGE Ekoserwis sp. z o.o.	Wrocław	95.08%	65	-	-
PGE Trading GmbH	Berlin	100.00%	43	100.00%	23
PGE Towarzystwo Funduszy Inwestycyjnych S.A.	Warsaw	100.00%	24	100.00%	24
Elektrownia Wiatrowa Baltica 1 sp. z o.o.	Warsaw	100.00%	20	100.00%	17
Elektrownia Wiatrowa Baltica 2 sp. z o.o.	Warsaw	100.00%	65	100.00%	65
Elektrownia Wiatrowa Baltica 3 sp. z o.o.	Warsaw	100.00%	85	100.00%	85
Elektrownia Wiatrowa Baltica 4 sp. z o.o.(Inwest 17)	Warsaw	100.00%	<1	100.00%	<1
Elektrownia Wiatrowa Baltica 5 sp. z o.o.(Inwest 18)	Warsaw	100.00%	<1	100.00%	<1
PGE Inwest 16 sp. o.o.	Warsaw	100.00%	1	100.00%	1
PGE Inwest 19 sp. z o.o.	Warsaw	100.00%	<1	100.00%	<1
TOTAL			**29,995**		**32,024**

In 2019, the following significant changes in the structure of subsidiaries took place:

- On January 2, 2019, the demerger of PGE Górnictwo i Energetyka Konwencjonalna S.A. was entered in the National Court Register. The demerger was effected by transferring the following PGE Górnictwo i Energetyka Konwencjonalna S.A. branches to PGE Energia Ciepła S.A.:
  - Elektrociepłownia Kielce,
  - Elektrociepłownia Gorzów,
  - Elektrociepłownia Rzeszów,
  - Elektrociepłownia Lublin Wrotków,
  - Elektrociepłownia Zgierz,
  - Zespół Elektrociepłowni Bydgoszcz.
- On October 10, 2019 the Extraordinary General Meeting of Shareholders of PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE Energia Ciepła S.A. adopted resolutions on the demerger of PGE Energia Ciepła S.A. (the demerged company) through spin-off pursuant to Article 529 § 1(4) of the Commercial Companies Code by way of transfer to PGE Górnictwo i Energetyka Konwencjonalna S.A. (the acquiring company) a part of the assets of the demerged company in the form of an organized part of the enterprise covering the activity conducted by PGE Energia Ciepła S.A. Rybnik Branch related to electricity and heat generation, as well as electricity and heat distribution. The demerger was entered in the National Court Register on January 2, 2020.
- On December 19, 2019, an agreement was signed under which PGE Polska Grupa Energetyczna S.A. purchased 222,850 shares in PGE Ekoserwis sp. z o.o. The ownership of shares was transferred on December 19, 2019.

8.1 Analysis of value of non-current financial assets

In 2019, the Company recognised an impairment loss on shares of PGE EJ1 sp. z o.o. in the amount of PLN 30 million and on shares of PGE Sweden AB in the amount of PLN 20 million. The rationale for recognition of impairment losses is a significant difference between the carrying amount of shares in PGE EJ1 sp. z o.o. and shares in PGE Sweden AB in the accounting books of PGE S.A. and the value of these companies estimated with the adjusted net assets method.

In addition, PGE S.A. holds bonds issued by Autostrada Wielkopolska S.A. which have been fully impaired.

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

In 2019, PGE Group 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 Energia Odnawialna S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE Energia Ciepła S.A.

Key changes in the environment are as follows:

- Market capitalisation of PGE Polska Grupa Energetyczna S.A. remaining below the net carrying amount of assets.
- Decrease in prices of futures contracts for electricity
  The prices of annual futures contracts for the BASE and PEAK profiles decreased 12-20% in 2019.
- High energy imports and low demand in the National Power System
  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.
- Increase in planned reclamation costs
  According to the most recent report on the assessment of the costs of open-pit mine decommissioning after the end of operation of Kopalnia Turów, prepared by an external expert, the scope of work will need to be significantly larger than previously assumed. As a result, the projected cost of reclamation also increases significantly.
- Increase in hard coal prices in Poland
  Rising hard coal prices translate into rising costs in hard coal-fired power plants which, in the context of falling electricity prices, translates into weaker financial performance of these entities.
- Increase in the overall level of prices and wages in Poland
  The rapid growth of prices and wages in Poland, observed recently and expected in the near future, will translate to some extent into an increase in fixed costs and capital expenditure. In particular, this applies to the cost of salaries and third-party services, and indirectly to the cost of materials.
- Approaching depletion of lignite resources
  The lifetime of lignite-fired power plants is limited due to the 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 energy origin rights (TGEozea index)
  The price of energy origin rights increased between Q1 and Q4 2018 from 63 PLN/MWh to 149 PLN/MWh and then remained high in 2019 to reach 143 PLN/MWh in Q4 2019.

Following the analysis of the premises listed above, PGE S.A. performed impairment tests on its shares in PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE Energia Ciepła S.A. and PGE Energia Odnawialna 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.

Macroeconomic assumptions

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

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

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

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

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

Projections for prices of energy origin rights 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 2024 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.

Detailed assumptions regarding the tested companies

Presented below are the key assumptions having impact on estimates of the value in use of PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE Energia Ciepła S.A.:

- assumption of a quantity of free-of-charge CO_2 emission allowances for the purposes of electricity generation for 2019-2020 for specific CGUs in accordance with Poland's application for a transition allocation of free emission allowances for the modernisation of electricity generation activities pursuant to Article 10c(5) of directive 2003/87/EC of the European Parliament and the Council (derogation application), which meets the requirements of Commission Decision of July 13, 2012. As regards heat generation, free-of-charge allowances were taken into account in accordance with the list of quantities of CO_2 emission allowances allocated for heat for 2013-2020, published by the Environment Ministry,
- taking into account the allocation of free CO_2 emission allowances in 2021-2030 only for system district heating and high-efficiency cogeneration, 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 the support system for high-efficiency cogeneration over the maximum period of 15 years, for gas units for which the statutory period expires after 2030, the support also included in the residual value,
- 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, including tenders in progress,
- 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.

Presented below are the key assumptions having impact on estimates of the value in use of PGE Energia Odnawialna S.A.:

- production of electricity and energy origin rights was estimated based on historic data, including the availability of individual units;
- unit availability was estimated based on repair plans, including statistical failure rates;
- revenue from regulatory system services was based on existing bilateral agreements with PSE S.A.;
- recognition of cash flows related to contracts covered by the dispute with Enea S.A. and Energa Obrót S.A., in the amount resulting from the contract;
- maintaining production capacities as a result of replacement investments;
- assumption of the weighted average cost of capital after tax (WACC) over the projection period of 7.0%.

The tests did not indicate the necessity to recognise an impairment loss on shares in PGE Energia Odnawialna S.A. and PGE Energia Ciepła S.A. The recoverable amount of these shares exceeds their carrying amount indicated in these financial statements.

Impairment test and analysis of sensitivity of shares in PGE Górnictwo i Energetyka Konwencjonalna S.A.

As regards shares in PGE Górnictwo i Energetyka Konwencjonalna S.A., the tests carried out demonstrated the necessity to recognise an impairment loss. The carrying amount of shares in PGE Górnictwo i Energetyka Konwencjonalna S.A. recognised in the Company's accounting books is PLN 14,060 million. Following the impairment test of financial assets, the value of PGE Górnictwo i Energetyka Konwencjonalna S.A.'s equity was estimated at PLN 11,840 million, and consequently PGE S.A. recognised an impairment loss of PLN 2,220 million. 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 impairment loss on shares in PGE Górnictwo i Energetyka Konwencjonalna S.A. as at December 31, 2019 is presented below.

Parameter	Change	Effect on impairment loss in PLN million	
		Increase in impairment loss	Decrease in impairment loss
Change in electricity prices in the entire projection period	1%	-	1,867
	-1%	1,970	-

A 1% decrease in electricity price would increase the impairment loss by PLN 1,970 million.

Parameter	Change	Effect on impairment loss in PLN million	
		Increase in impairment loss	Decrease in impairment loss
Change in WACC	+0.5 pp	886	-
	-0.5 pp	-	959

A 0.5 p.p. increase WACC would increase the impairment loss by PLN 886 million.

Parameter	Change	Effect on impairment loss in PLN million	
		Increase in impairment loss	Decrease in impairment loss
Change in prices of CO_2 emission allowances	1%	706	-
	-1%	-	585

A 1% increase in prices of CO_2 emission allowances would increase the impairment loss by PLN 706 million.

Analysis of impairment of shares in PGE Obrót S.A.

In 2019, the retail electricity trading market was under pressure from volatility of electricity prices on the wholesale market and prices of related products, mainly prices of origin rights to support electricity generation from renewable sources. These prices have not stabilised yet. As a result of this situation, PGE Obrót S.A. is expected in the foreseeable future to generate lower margins than planned. 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:

- The consequences of the act amending the act on excise duty and certain other acts of December 28, 2018. The Act aimed to stabilise electricity prices for final customers in 2019. The compensation system introduced by the Act will not cover all losses incurred by PGE Obrót S.A. The final value of the compensation will be known after the President of ERO has considered the requests: for the determination of individual, outstanding unit costs which are not covered by the price difference paid and financial compensation, and for adjustment of requests submitted to the Settlement Administrator for payment of the price differences and financial compensations
- The tariff 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 does not fully cover the purchase prices of electricity, energy origin rights and own costs.
- 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:

- increase in overall sales volume in 2024 by approx. 1.1% compared to 2019,
- price assumptions for electricity 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,
- lower projected margins on electricity in 2020-2021 due to higher costs to purchase electricity,
- 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 origin rights as well as changes in the prices of energy origin 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 1,647 million. Following the test, the value of shares in PGE Obrót S.A. was estimated at PLN 852 million, and therefore PGE S.A. recognized an impairment loss of PLN 795 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 dynamic development of prosumer installations, which increase losses under the current settlement system.

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. as at November 30, 2019 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%	-	123
	-1%	123	-

A 1% decrease in stand-alone margin would increase the impairment loss by PLN 123 million.

Parameter	Change	Effect on impairment loss in PLN million	
		Increase in impairment loss	Decrease in impairment loss
Change in WACC	+0.5 pp	198	-
	-0.5 pp	-	248

A 0.5 p.p. increase WACC would increase the impairment loss by PLN 198 million.

8.2 Shares in associates

	As at December 31, 2019	As at December 31, 2018
Polimex Mostostal S.A.	81	81
ElectroMobility Poland S.A.	18	18
Energopomiar Sp. z o.o.	2	2
TOTAL	**101**	**101**

9. Participation in joint venture

In 2019 and 2018, the Company did not participate in any joint venture.

10. Other current assets

ACCOUNTING POLICIES

Other assets (including prepayments)

The Company recognises an asset as a prepayment under the following conditions:

- an expense was incurred in the past in relation to operating activity,
- it can be reliably measured,
- it refers to future reporting periods.

Prepayments are recognised at reliably measured amounts, relate to future periods and will generate future economic benefits.

Other assets include in particular state receivables, advances for deliveries and services and dividend receivables.

	As at December 31, 2019	As at December 31, 2018
Receivables from tax group	9	8
Advance payments	475	37
Other	3	6
TOTAL	**487**	**51**

PGE S.A. is the representative entity in its tax group, which covers the Company and some of its subsidiaries. Rules regarding settlements between companies are described in note 20 to these financial statements.

Advance payments comprise mainly funds transferred to the subsidiary, PGE Dom Maklerski S.A., for the purchase of electricity and gas of PLN 475 million in the current reporting period as compared to PLN 37 million in the comparative period.

in accordance with EU IFRS (in PLN million)

11. Cash and cash equivalents

ACCOUNTING POLICIES

Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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 December 31, 2019	As at December 31, 2018
Cash at bank	182	211
Cash in VAT accounts	39	24
TOTAL	**221**	**235**
Exchange differences on cash in foreign currencies	(2)	(2)
Cash and cash equivalents presented in the statement of cash flows	**219**	**233**
Undrawn borrowing facilities as at December 31	4,973	7,290
including overdraft facilities	864	*932*

The balance of cash includes restricted cash in the amount of PLN 39 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 16.1.3 to these financial statements.

12. Equity

ACCOUNTING POLICIES

Equity

Equity is stated at nominal value, classified by type and in accordance with legal regulations and the Company's Articles of Association.

Share capital is disclosed in the financial statements in the amount specified in the Articles of Association and disclosed in the court register.

Declared but outstanding contributions to equity are disclosed under called-up share capital not paid as a negative amount.

The objective of equity management is to ensure a secure and effective financing structure that takes into account operational risk, investment expenditures and the interests of shareholders and debt investors. Equity is managed at the Group level.

In accordance with common practice, the Company monitors the net debt to EBITDA ratios at PGE Group level, as described in note 20 to the consolidated financial statements. Net debt is understood as short- and long-term financial debt (interest-bearing credits and loans, bonds and other debt instruments as well as lease liabilities), less cash and cash equivalents and short-term deposits. Restricted cash is not included in calculating net debt.

The Company's aim is to maintain its investment grade credit ratings. However, given the on-going investment programme, financial leverage is expected to increase in the coming years. The net debt to EBITDA ratio is a central element of the Company's financial forecasts and plans.

12.1 Share capital

	As at December 31, 2019	As at December 31, 2018
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.

in accordance with EU IFRS (in PLN million)

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 the 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.

12.2 Reserve capital

Reserve capital has been accumulated from statutory contributions from profits generated in previous financial years, from surplus of profit distribution in excess of the value of statutory allocations, as well as from merger of PGE S.A. with its subsidiaries.

Under the Commercial Companies Code, the joint-stock companies are required to create reserve capital to cover losses. After each financial year, at least 8% of net profit disclosed in the Company's separate financial statements should be contributed to this capital, until the funds reach at least one-third of the entity's share capital. A part of reserve capital equal to one-third of the share capital may be used exclusively to cover a loss disclosed in separate financial statements and may not be used for any other purposes. Decisions as to the use of reserve capital and other capital reserves may made by the General Meeting.

Reserve capital subject to distribution to shareholders amounted to PLN 13,281 million as at December 31, 2019 and to PLN 13,281 million as at December 31, 2018.

12.3 Hedging reserve

Change in hedging reserve due to applied cash flow hedge accounting:

	Year ended December 31, 2019	Year ended December 31, 2018
AS AT JANUARY 1	**(2)**	**110**
Change in hedging reserve, including:	**(86)**	**(138)**
Recognition of the effective portion of change in fair value of hedging financial instruments in the part considered as effective hedge	(181)	(44)
Accrued interest on derivatives transferred from hedging reserve and recognised in interest cost	4	(10)
Currency revaluation of CCIRS transaction transferred from hedging reserve and recognised in foreign exchange gains/losses	91	(84)
Ineffective portion of change in fair value of hedging derivatives recognised in profit or loss	-	-
Deferred tax	**16**	**26**
HEDGING RESERVE AFTER REFERRED TAX	**(72)**	**(2)**

in accordance with EU IFRS (in PLN million)

12.4 Undistributed profit and limitations on dividend payment

Retained earnings which are not subject to distribution are amounts that cannot be paid out as dividend.

	As at December 31, 2019	As at December 31, 2018
Retained earnings not subject to distribution - profits/losses recognised in other comprehensive income	1	2
Retained earnings subject to distribution	-	-
Net (loss)	(1,259)	(203)
TOTAL RETAINED EARNINGS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION	**(1,258)**	**(201)**

The Company plans that the net loss for the year ended December 31, 2019, amounting to PLN 1,259 million, will be covered from the reserve capital.

Limitations in the payment of dividends from the reserve capital are described in note 12.2 to these financial statements. As at December 31, 2019, there were no other limitations on dividend payments.

12.5 Earnings per share

ACCOUNTING POLICIES

Earnings per share

For each period, earnings per share are calculated by dividing the net profit attributable to equity holders of the Company for the reporting period by the weighted average number of shares outstanding in that period.

Diluted earnings per share are calculated by dividing the net profit for a given period attributable to holders of ordinary shares (net of interest on redeemable preference shares convertible into ordinary shares) by the weighted average number of outstanding ordinary shares in that period (adjusted for the effect of dilutive options and dilutive redeemable preference shares convertible into ordinary shares).

During current and comparative reporting period there was no dilutive effect on earnings per share.

	Year ended December 31, 2019	Year ended December 31, 2018
NET PROFIT/(LOSS)	**(1,259)**	**(203)**
NET PROFIT/(LOSS) ATTRIBUTABLE TO HOLDERS OF ORDINARY SHARES, APPLIED TO CALCULATE EARNINGS PER SHARE	**(1,259)**	**(203)**
Number of ordinary shares at the beginning of the reporting period	1,869,760,829	1,869,760,829
Number of ordinary shares at the end of the reporting period	1,869,760,829	1,869,760,829
WEIGHTED AVERAGE NUMBER OF OUTSTANDING ORDINARY SHARES USED TO CALCULATE EARNINGS PER SHARE	**1,869,760,829**	**1,869,760,829**
NET PROFIT/(LOSS) AND DILUTED NET PROFIT PER SHARE (IN PLN)	**(0.67)**	**(0.11)**

12.6 Dividends paid and proposed

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

in accordance with EU IFRS (in PLN million)

13. Provisions

ACCOUNTING POLICIES

Provisions

The Company recognises a provision if the Company has a present obligation (legal or constructive) resulting from past events whose settlement is likely to result in an outflow of economic benefits and whose amount can be reliably estimated. Where the effect of changes in the time value of money is material, the amount of provision matches the current value of expenditure expected to be necessary to settle the obligation. A discount rate is determined before tax; therefore, it reflects the current market assessment of the time value of money and the risk relating specifically to a given liability. A discount rate is not burdened by the risk by which estimated future cash flows have been adjusted.

Provision for post-employment benefits

The Company's employees are entitled to the following post-employment benefits:

- retirement and pension benefits – paid once when the employee retires or becomes a pensioner,
- death benefits,
- cash equivalent related to energy tariff for employees of power industry,
- benefits from the Company Social Benefits Fund,
- medical benefits.

The Company recognises a provision for post-employment benefits in order to allocate costs to the periods to which they relate. The provision is recognised as an operating expense in the amount corresponding with accrued future employees' benefits. The present value of these obligations is measured by an independent actuary.

Actuarial gains and losses arising from the change of actuarial assumptions (including change in discount rate) and ex post actuarial adjustments are recognised in other comprehensive income.

The most significant values relate to provisions for post-employment benefits. Provisions for employee benefits were estimated using actuarial methods.

The actuary made the following assumptions as at the reporting date to calculate the amount of the obligations:

	As at December 31, 2019	As at December 31, 2018
Expected inflation rate (%)	2.5-2.85	2.3-2.5
Discount rate (%)	2.0	3.0
Expected salary growth rate (%)	2.5	2.5
Employee turnover ratio (%)	4.9-8.5	5.1-8.4
Expected medical care costs growth rate (%)	2.5-2.85	2.3-2.5
Expected Social Fund (ZFŚS) contribution growth rate (%)	4-13	3.6

- The employee attrition probability is based on the historical data on employee turnover at the Company and statistical data on employee attrition in the industry.
- The mortality and life expectancy ratios are based on the Life Expectancy Tables of Poland , published by the Polish Central Statistics Office (GUS), and assume that the Company's employee population is representative of the average Polish population in terms of mortality.
- It was assumed that employees would retire in accordance with the standard procedure, as prescribed by the Pensions Act, with the exception of employees who meet the conditions for early retirement entitlement.
- The discount rate on future benefits was assumed at 2.0% (December 31, 2018: 3.0%), i.e. at the level close to the yield on long-term Treasury bonds listed on the Polish capital market.

The current carrying amount of provisions is as follows:

	As at December 31, 2019		As at December 31, 2018	
	Non-current	Current	Non-current	Current
Post-employment benefits	18	1	16	1
Other	-	-	-	8
TOTAL PROVISIONS	**18**	**1**	**16**	**9**

Changes in provisions

Year ended December 31, 2019	Post-employment benefits	Other
AS AT JANUARY 1, 2019	**17**	**8**
Current service costs	1	-
Adjustment to discount rate and other assumptions	2	-
Utilisation	(1)	(8)
AS AT DECEMBER 31, 2019	**19**	**-**

in accordance with EU IFRS (in PLN million)

Year ended December 31, 2018	Post-employment benefits	Other
AS AT JANUARY 1, 2018	**22**	**-**
Current service costs	1	-
Adjustment to discount rate and other assumptions	(7)	-
Other changes	1	**8**
AS AT DECEMBER 31, 2018	**17**	**8**

Based on data received from the actuary, the Company estimates that the effect of changes in assumptions on the value of provisions for post-employment benefits would be as follows:

- should the discount rate be higher by 1 percentage point (p.p.), the provision would decrease by PLN 3 million, and should the discount rate be lower by 1 p.p., the provision would increase by PLN 4 million.
- should the growth rates be higher by 1 p.p., the provision would increase by PLN 4 million, and should the rates be lower by 1 p.p., the provision would decrease by PLN 3 million.

Other provisions

In 2018, the Company recognised a provision in the amount of PLN 8 million for the risk of incurring additional costs related to the payment of withholding tax with respect to interest on loans financed from the Eurobond issue programme by its subsidiary, PGE Sweden AB (publ). In 2019, in order to eliminate the tax risk, the Company used the new provisions of the CIT Act concerning loans and bonds issued before 2019. PGE S.A. submitted appropriate notifications to the Tax Office and paid a flat-rate income tax of 3% of the value of interest paid in the years 2014-2019 (in the amount of PLN 8 million) and will pay the flat-rate tax in the future. As a result, the provision was utilised and the issue of withholding tax in Poland was settled.

14. Post-employment benefits

The amount of provisions for post-employment benefits recognised in the financial statements results from the valuation prepared by an independent actuary.

The carrying amount of provisions for employee benefits:

	As at December 31, 2019		As at December 31, 2018	
	Non-current	Current	Non-current	Current
Retirement, pension and death benefits	1	1	2	-
Energy tariff	10	-	9	1
Company Social Benefits Fund	2	-	1	-
Medical benefits	5	-	4	-
TOTAL EMPLOYEE BENEFITS	**18**	**1**	**16**	**1**

15. Other non-financial liabilities

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

	As at December 31, 2019	As at December 31, 2018
Liabilities on account of settlements in the tax group	47	174
VAT liabilities	63	13
Bonuses for employees (annual, quarterly bonuses) and the Management Board	33	29
Accrued holiday entitlements	4	4
Estimated liabilities on account of other employee benefits	4	5
Other	4	6
TOTAL OTHER LIABILITIES	**155**	**231**

PGE S.A. is the representative entity in its tax group, which covers the Company and most of its subsidiaries. Rules regarding settlements between companies are described in note 20 to these financial statements.

EXPLANATORY NOTES TO FINANCIAL INSTRUMENTS

16. Financial instruments

ACCOUNTING POLICIES

Classification and measurement

Financial assets are classified into the following categories of financial instruments:

- measured at amortised cost;
- measured at fair value through other comprehensive income, FVOCI;
- measured at fair value through profit or loss, FVTPL.

The classification of financial assets is based on the business model and characteristics of cash flows.

A debt financial asset is measured at amortised cost if both of the following conditions are met:

- the objective of the business model is to hold assets in order to collect contractual cash flows;
- contractual cash flows from the instrument are solely payments of principal and interest on the principal amount outstanding (the SPPI test).

A debt financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- contractual cash flows from the instrument are solely payments of principal and interest on the principal amount outstanding (the SPPI test).

Debt instruments that do not meet the above conditions are measured at fair value through profit or loss.

Investments in equity instruments are always measured at fair value. If an equity instruments is not held for trading, the Company can make an irrevocable election at initial recognition to measure it at fair value through other comprehensive income. For equity instruments held for trading, changes in fair value are recognised in profit or loss.

All regular way purchase or sale of a financial asset is recognised on the transaction date, i.e. the date on which the entity agreed to purchase a financial asset. A regular way purchase or sale of a financial asset is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

The impairment model is based on expected credit losses and covers the following:

- financial assets measured at amortised cost;
- financial assets measured at FVOCI;
- loan commitments when there is a present obligation to disburse;
- financial guarantees issued that are within the scope of IFRS 9;
- lease receivables that are within the scope of IAS 17;
- contract assets that are within the scope of IFRS 15.

The Company classified financial liabilities into one of the following categories:

- measured at amortised cost;
- measured at fair value through profit or loss.

in accordance with EU IFRS (in PLN million)

16.1 Description of significant items within particular categories of financial instruments

16.1.1 Trade and other financial receivables

ACCOUNTING POLICIES

Financial receivables

Financial receivables, including trade receivables, are measured at fair value at the date on which they arise, and subsequently at amortised cost using the effective interest rate method, taking into account an allowance for expected credit losses.

The Company uses simplified methods to measure receivables at amortised cost, unless this would distort information contained in its statement of financial position, in particular where the period until the due date for payment is not long.

In the case of trade receivables, the Company measures loss allowance for expected credit losses at an amount equal to lifetime expected credit losses of the instrument.

The Company measures financial assets at amortised cost, in line with the business model adopted.

	As at December 31, 2019		As at December 31, 2018	
	Non-current	Current	Non-current	Current
Trade receivables	-	1,190	-	844
Bonds acquired	10,840	1,799	12,821	332
Cash pooling receivables	-	1,016	-	1,204
Loans advanced	115	3,730	179	2,785
Other financial receivables	-	154	-	141
TOTAL FINANCIAL RECEIVABLES	**10,955**	**7,889**	**13,000**	**5,306**

Trade receivables

Trade receivables of PLN 1,190 million relate mainly to the sale of electricity and services to subsidiaries in PGE Group. As at December 31, 2019, the balance of the three most important customers, i.e. PGE Obrót S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE Dom Maklerski S.A., accounted for 92% of total trade receivables.

For additional information on trade receivables, see note 17.3.1 to these financial statements.

Bonds acquired

	As at December 31, 2019		As at December 31, 2018	
	Non-current	Current	Non-current	Current
BONDS ACQUIRED – ISSUER				
PGE Górnictwo i Energetyka Konwencjonalna S.A.	10,840	713	11,736	154
PGE Energia Odnawialna S.A	-	1,086	1,085	178
TOTAL BONDS ACQUIRED	**10,840**	**1,799**	**12,821**	**332**

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.

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 Powszechna Kasa Oszczędności Bank Polski S.A. and Polska Kasa Opieki 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.

in accordance with EU IFRS (in PLN million)

Loans advanced

	As at December 31, 2019		As at December 31, 2018	
	Non-current	Current	Non-current	Current
LOANS ADVANCED – BORROWER				
PGE Energia Ciepła S.A.	-	1,938	-	2,771
PGE Obrót	-	1,015	-	-
PGE Dystrybucja S.A.	-	627	-	-
PGE Systemy S.A.	-	116	115	1
PGE EJ 1 sp. z o.o.	110	22	56	-
PGE Trading GmbH	-	12	-	13
Betrans sp. z o.o.	4	-	3	-
Bestgum sp. z o.o.	1	-	5	-
TOTAL LOANS ADVANCED	**115**	**3,730**	**179**	**2,785**

Loan repayment dates range from 2020 to 2024.

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

ACCOUNTING POLICIES

Derivative financial instruments and hedges

Derivative financial instruments used by the Company to hedge against interest rate and currency risks include in particular currency forwards, futures and interest rate swaps (IRSs), as well as CCIRS transactions hedging both the exchange rate and interest rate. Derivative financial instruments of this type are measured at fair value. Derivatives are recognised as assets if their value is positive and as liabilities if their value is negative.

Gains or losses resulting from changes in the fair value of a derivative which does not qualify for hedge accounting and ineffective portion of hedging relationships in cash flow hedges are charged directly to the net profit or loss for the financial year.

The fair value of currency forwards is established by reference to the prevailing forward rates calculated on the basis of market data. The fair value of interest rate swaps is calculated on the basis of yield curves.

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

	As at December 31, 2019			
	Recognised in profit or loss	Recognised in other comprehensive income	Assets	Liabilities
DERIVATIVES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Commodity forwards	463	-	324	-
Futures	(68)	-	79	-
Currency forwards	(270)	-	43	338
Options	(7)	-	5	-
HEDGING DERIVATIVES				
CCIRS hedges	(90)	4	18	-
IRS hedges	5	(90)	-	106
OTHER ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Investment fund participation units	1		82	
TOTAL DERIVATIVES AND OTHER RECEIVABLES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	**34**	**(86)**	**551**	**444**
non-current			105	106
current			446	338

in accordance with EU IFRS (in PLN million)

	As at December 31, 2018			
	Recognised in profit or loss	Recognised in other comprehensive income	Assets	Liabilities
DERIVATIVES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Commodity forwards	(162)	-	-	116
Futures	147	-	147	-
Currency forwards	(25)	-	4	48
IRS hedges	8	-	-	-
Options	(12)	-	12	-
HEDGING DERIVATIVES				
CCIRS hedges	98	(29)	113	-
IRS hedges	(4)	(109)	4	24
OTHER ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Investment fund participation units	1	-	66	-
TOTAL DERIVATIVES AND OTHER RECEIVABLES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	**51**	**(138)**	**346**	**188**
non-current			115	24
current			231	164

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. The impact of hedge accounting on equity is presented in note 12.3 to these financial statements.

In 2014, PGE S.A. entered into IRS transactions to hedge interest rates on bonds issued with a total nominal value of PLN 1,000 million. Payments arising from IRS transactions are correlated with interest payments on bonds. Changes in fair value of IRS transactions are fully recognised in profit or loss. In 2018, the company redeemed the bonds and the IRS hedging transaction was finally settled.

CCIRS hedges

In connection with loans received from the subsidiary, PGE Sweden AB (publ), referred to in note 16.1.3 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. The impact of hedge accounting on equity is presented in note 12.3 to these financial statements.

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 the current reporting period, the Company acquired investment certificates from the closed-end private equity fund Eko-Inwestycje. As at the reporting date, their value stood at PLN 15 million.

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

in accordance with EU IFRS (in PLN million)

Terms of individual derivatives and other assets measured at fair value through profit or loss are presented below.

	As at December 31, 2019		As at December 31, 2018		
	Amount in the financial statements in PLN	**Notional amount of the instrument in the original currency**	**Amount in the financial statements in PLN**	**Notional amount of the instrument in the original currency**	**Maturity as at December 31, 2019**
Currency forward, sale – EUR	43	582	4	203	October 2022
Commodity forward, sale EUA – PLN	324	13,653	-	-	December 2023
Commodity forward, purchase EUA – EUR		792		-	December 2021
Commodity forward, sale EUA – EUR		2,108		-	December 2023
Commodity forward, purchase EUA – PLN		3,435		-	December 2022
Futures, purchase EUA – EUR	79	942	147	144	December 2023
Futures, sale EUA – EUR		17		5	December 2022
CCIRS – EUR to PLN	18	-	113	514	June 2019
		144		144	July 2029
IRS – interest rate PLN	-	-	4	1,000	-
Options	5	6	12	6	July 2022
Fund participation units	82	80	66	65	n/a
FINANCIAL ASSETS	**551**	**-**	**346**	**-**	
Currency forward, sale – EUR	338	2,893	48	1,222	December 2023
Currency forward, sale – EUR		196	-	-	March 2020
Commodity forward, sale EUA – PLN	-	-	116	5,762	-
Commodity forward, purchase EUA – EUR		-		1,164	-
Commodity forward, sale EUA – EUR		-		19	-
Commodity forward, purchase EUA – PLN		-		63	-
IRS – interest rate PLN	106	500	24	-	June 2028
		1,000		500	December 2027
		500		-	December 2028
		3,630		3,630	September 2023
		1,000		-	May 2029
		400		-	May 2026
FINANCIAL LIABILITIES	**444**	**-**	**188**	**-**	

16.1.3 Credit facilities, loans, bonds, cash pooling, leases

	As at December 31, 2019		As at December 31, 2018	
	Non-current	**Current**	**Non-current**	**Current**
Liability on account of credit facilities	7,492	1,094	5,127	1,761
Loans received	611	8	617	2,221
Bonds issued	1,398	5	-	-
Cash pooling liabilities	-	907	-	1,446
Lease liabilities	20	1	-	-
TOTAL CREDIT FACILITIES, LOANS, BONDS AND CASH POOLING	**9,521**	**2,015**	**5,744**	**5,428**

in accordance with EU IFRS (in PLN million)

Credit facilities

Lender	Hedging instrument	Execution date	Maturity date	Limit in currency	Currency	Interest rate	Liability as at December 31, 2019	Liability as at December 31, 2018
Bank consortium	IRS	2015-09-07	2023-09-30	3,630	PLN	Variable	3,649	3,648
European Investment Bank	-	2015-10-27	2032-10-26	1,500	PLN	Fixed	1,505	-
Bank Gospodarstwa Krajowego	IRS	2014-12-17	2027-12-31	1,000	PLN	Variable	1,001	1,001
European Bank for Reconstruction and Development	IRS	2017-06-07	2028-06-06	500	PLN	Variable	502	-
Bank Gospodarstwa Krajowego	IRS	2015-12-04	2028-12-31	500	PLN	Variable	500	500
European Investment Bank	-	2015-10-27	2032-10-26	490	PLN	Fixed	493	-
Bank Gospodarstwa Krajowego	-	2018-06-01	2021-05-31	500	PLN	Variable	455	420
Revolving credit facility	-	2018-09-17	2023-12-17	4,100	PLN	Variable	300	-
Bank Pekao S.A.	-	2018-07-05	2021-07-03	500	PLN	Variable	160	148
PKO BP S.A.	-	2018-04-30	2020-04-29	500	PLN	Variable	21	-
Bank consortium	-	2015-09-07	2019-04-30	1,870	PLN	Variable	-	1,171
European Investment Bank	-	2019-12-16	2038-10-16	273	PLN	Fixed	-	-
TOTAL CREDIT FACILITIES							**8,586**	**6,888**

Total amount of overdraft facilities available to the Company as at December 31, 2019 and December 31, 2018 was, respectively, PLN 864 million and PLN 932 million. The aforesaid overdraft facilities are available until July 2021.

In 2019 and after the reporting period, there were no cases of default on repayment or breach of other terms of credit agreements.

Loans received

Lender	Hedging instrument	Execution date	Maturity date	Limit in currency	Currency	Interest rate	Liability as at December 31, 2019	Liability as at December 31, 2018
PGE Sweden AB	CCIRS	2014-08-27	2029-07-31	100	EUR	Fixed	431	436
PGE Sweden AB	CCIRS	2014-08-27	2029-07-31	43	EUR	Fixed	188	189
PGE Sweden AB	-	2014-06-10	2019-06-05	300	EUR	Fixed	-	1,292
PGE Sweden AB	-	2014-06-10	2019-06-05	210	EUR	Fixed	-	904
PGE Sweden AB	-	2014-06-10	2019-06-05	4	EUR	Fixed	-	17
TOTAL LOANS RECEIVED							**619**	**2,838**

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.

In the current period, the Company repaid a loan with a nominal value of EUR 514 million (PLN 2,186 million) and, at the same time, PGE Sweden AB (publ) redeemed bonds with a total value of EUR 500 million.

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 December 31, 2019	Liability as at December 31, 2018
2013-06-27	indefinite	5,000	IRS	PLN	Variable	2019-05-21 2019-05-21	2029-05-21 2026-05-21	1,002 401	-
TOTAL BONDS ISSUED								**1,403**	**-**

in accordance with EU IFRS (in PLN million)

Cash pooling liabilities

The establishment of the real cash pooling arrangement is described in note 15.1.1 to these financial statements.

Currency position and interest rates

As at December 31, 2019

Currency	Reference rate	Amount in respective currency	Amount in PLN	Final repayment date
PLN	Fixed	1,505	1,505	April 2034
	Fixed	493	493	June 2034
	Fixed	21	21	December 2089
	Variable	3,649	3,649	September 2023
	Variable	1,002	1,002	May 2029
	Variable	1,001	1,001	December 2027
	Variable	907	907	5-year programme
	Variable	636	636	July 2021
	Variable	502	502	June 2028
	Variable	500	500	December 2028
	Variable	401	401	May 2026
	Variable	300	300	December 2023
TOTAL – PLN		**10,917**	**10,917**	
EUR	Fixed	145	619	July 2029
TOTAL – EUR		**145**	**619**	
TOTAL CREDIT FACILITIES, LOANS, BONDS, CASH POOLING			**11,536**	

As at December 31, 2018

Currency	Reference rate	Amount in respective currency	Amount in PLN	Final repayment date
PLN	Variable	1,171	1,171	April 2019
	Variable	1,001	1,001	December 2027
	Variable	500	500	December 2028
	Variable	3,648	3,648	September 2023
	Variable	1,446	1,446	5-year programme
	Variable	568	568	July 2021
TOTAL – PLN		**8,334**	**8,334**	
EUR	Fixed	517	2,213	June 2019
	Fixed	145	625	July 2029
TOTAL – EUR		**662**	**2,838**	
TOTAL CREDIT FACILITIES, LOANS, BONDS, CASH POOLING			**11,172**	

Changes in interest-bearing debt in the years ended December 31, 2019 and 2018 are presented below:

	Year ended December 31, 2019	Year ended December 31, 2018
AS AT JANUARY 1	**11,172**	**9,478**
RECOGNITION OF LEASES	**21**	**-**
CHANGE IN OVERDRAFT FACILITY	**68**	**568**
CHANGE IN CASH POOLING LIABILITIES	**(539)**	**870**
CHANGE IN OTHER CREDIT FACILITIES, LOANS AND BONDS including on account of:	**814**	**256**
Credit facilities and loans drawn / bonds issued /	6,620	1,870
Interest accrued	251	213
Repayment of credit facilities, loans / buy-back of bonds	(5,736)	(1,700)
Repayment of interest	(239)	(212)
Foreign exchange differences	(80)	85
Commission fees paid	(2)	-
AS AT DECEMBER 31	**11,536**	**11,172**

in accordance with EU IFRS (in PLN million)

16.1.4 Other financial liabilities measured at amortised cost

ACCOUNTING POLICIES

Liabilities

A liability is a present obligation of the Company arising from past events the settlement of which is expected to result in an outflow of resources embodying economic benefits.

The Company recognises the following categories of financial liabilities:

- financial liabilities measured at fair value through profit or loss,
- other financial liabilities measured at amortised cost as at subsequent reporting dates.

Where the effect of the time value of money is material, the amount of liabilities is discounted.

	As at December 31, 2019		As at December 31, 2018	
	Non-current	Current	Non-current	Current
Trade payables	-	593	-	689
Other	20	167	21	151
TOTAL OTHER FINANCIAL LIABILITIES	**20**	**760**	**21**	**840**

Trade payables

Trade payables relate mainly to purchase of electricity and gas.

Other financial liabilities

In the item Other, the Company mainly presents settlements with exchanges, related mostly to the purchase of CO_2 emission allowances and future payments to the Polish National Foundation.

16.2 Fair value of financial instruments

The carrying amount of financial receivables and liabilities measured at amortised cost, except for loans received from PGE Sweden AB (publ), is a reasonable approximation of their fair value.

In the case of loans received from PGE Sweden AB (publ), PGE S.A. estimates their fair value at PLN 683 million (as compared to the carrying amount of PLN 619 million). The fair value was determined using the estimated credit risk of PGE S.A. It is Level 2 of fair value hierarchy.

16.3 Fair value hierarchy

Derivatives

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.

In the category of financial assets and financial liabilities at fair value through profit or loss, the Company presents financial instruments related to greenhouse gases emission rights – currency and commodity forwards and IRS hedging transaction swapping variable interest rate in PLN to fixed interest rate in PLN (Level 2).

In addition, the Company presents CCIRS derivative that hedges foreign exchange rate and interest rate (Level 2).

FAIR VALUE HIERARCHY	As at December 31, 2019		As at December 31, 2018	
	Level 1	Level 2	Level 1	Level 2
Currency forwards	-	43	-	4
Commodity forwards	-	324	-	-
Valuation of CCIRS	-	18	-	113
Futures	-	79	-	147
Valuation of IRS	-	-	-	4
Options	-	5	-	12
Fund participation units	-	82	-	66
Financial assets	**-**	**551**	**-**	**346**
Currency forwards	-	338	-	48
Commodity forwards	-	-	-	116
Valuation of IRS	-	106	-	24
Financial liabilities	**-**	**444**	**-**	**188**

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.

in accordance with EU IFRS (in PLN million)

Financial instruments not quoted on active markets, for which fair value cannot be estimated reliably

PGE S.A. holds significant amount of shares in companies not quoted on active markets. These are shares in subsidiaries and associates that are excluded from the scope of IFRS 9 and, as described in note 8, are measured at cost less impairment losses.

16.4 Collateral for repayment of receivables and liabilities

The Company uses a variety of collateral and its combinations to secure loans advanced. The most frequently used are declarations of submission to enforcement. Additionally, the Company uses the power of attorney to bank accounts and assignment of receivables. As a rule, there is no collateral on subsidiaries' liabilities towards PGE S.A.

As at December 31, 2019 and December 31, 2018, the Company had no assets pledged as collateral for its liabilities or contingent liabilities.

16.5 Statement of comprehensive income

The table below presents the combined effect of the individual categories of financial instruments on finance income and costs.

YEAR ENDED DECEMBER 31, 2019	Hedging derivatives	Derivatives measured at fair value through profit or loss	Cash and cash equivalents	Shares and other equity instruments in the Group	Other financial assets	Financial liabilities measured at amortised cost	Lease liabilities	TOTAL
Dividends	-	-	-	950	-	-	-	**950**
Interest income/(costs)	(45)	-	3	-	532	(309)	(1)	**180**
Foreign exchange differences	(91)	-	-	-	(16)	82	-	**(25)**
Revaluation of financial instruments / Reversal of impairment losses	1	1	-	-	-	-	-	**2**
Revaluation of financial instruments / Recognition of impairment losses	-	(8)	-	(3,065)	-	-	-	**(3,073)**
TOTAL PROFIT/ (LOSS)	**(135)**	**(7)**	**3**	**(2,115)**	**516**	**(227)**	**(1)**	**(1,966)**

YEAR ENDED DECEMBER 31, 2018	Hedging derivatives	Derivatives measured at fair value through profit or loss	Cash and cash equivalents	Shares and other equity instruments in the Group	Shares and other equity instruments outside the Group	Other financial assets	Financial liabilities measured at amortised cost	TOTAL
Dividends	-	-	-	45	1	-	-	**46**
Interest income/(costs)	9	-	14	-	-	414	(337)	**100**
Foreign exchange differences	85	-	(2)	-	-	1	(84)	**-**
Revaluation of financial instruments / Reversal of impairment losses	-	56	-	-	-	-	-	**56**
Revaluation of financial instruments / Recognition of impairment losses	(1)	(58)	-	(799)	-	-	-	**(858)**
Gain on disposal of investments	-	-	-	-	1	-	-	**1**
TOTAL PROFIT/ (LOSS)	**93**	**(2)**	**12**	**(754)**	**2**	**415**	**(421)**	**(655)**

The recognition of impairment losses on Shares in the current and comparative reporting period is described in notes 4.3 and 8.1 to these financial statements.

17. Objectives and principles of financial risk management

The main goal of financial risk management at PGE Group is to support the process of creating value for shareholders and to implement business strategies of the Group through maintaining the financial risk at the level acceptable for the Group management. Responsibility for managing financial risk lies with the Management Board of PGE S.A. The Management Board specifies risk appetite, understood as an acceptable level of deterioration of PGE Group's financial results, taking into consideration its current and planned economic and financial situation. The Management Board also decides on the allocation of risk appetite to specific business areas.

The organisation of the financial risk management function is based on the principle of independence of an entity responsible for measurement and control of risk (the Risk and Insurance Department) vs business entities (risk owners) responsible for taking and managing the risk on an ongoing basis. Risk reports are submitted directly to the Risk Committee, Audit Committee and the Management Board of PGE S.A.

The Company has a Risk Committee that exercises oversight of the financial and corporate risk management process at PGE Group. The Risk Committee monitors exposure levels, sets limits for significant financial risks, accepts methodologies in financial risk resulting from trade and finance activities, permits expansions of activities in new business areas and makes key decisions regarding risk management.

Financial risk is managed at Group level as a whole, with the Company having a leading role, being a centre of competence in this area, and managing the process in an integrated manner. Exposures to risk generated by business areas are examined on a comprehensive basis, taking into account interdependencies, the possibility of using natural hedging effects and the overall impact on PGE Group's risk profile and financial situation.

The financial risk management model includes:

- collection and analysis of market data and data on exposure to particular categories of financial risk;
- calculation of financial risk measures, such as Value-at-Risk and Profit-at-Risk for specific risk factors and overall for all risk factors;
- management of the PGE Group’s consolidated exposure in relation to capital at risk and risk limits established based on it (including the identification and implementation of hedging strategies).

In key areas of financial risk, the Company has implemented internal regulations for managing these risks.

The Company is exposed to various financial risks:

- market risk (commodity risk, interest rate risk, currency risk);
- liquidity risk;
- credit risk.

The Company's exposure to specific financial risks depends on the scope of activities in commodity and financial markets.

17.1 Market risk

Market risk covers commodity risk, interest rate risk, currency risk

The main objective of managing market risk is to retain a level of risk resulting from trade and finance activities at an acceptable level and to support business strategy and maximisation of the Group's value for shareholders.

The Company's procedures for managing specific market risk categories in trade and finance activities specify the following:

- objective, scope and rules for managing risk;
- responsibility for managing risk;
- management and operational processes within risk management in trade activities on electricity markets and electric product markets and as regards financing activities;
- methods for identifying sources of exposure to risk;
- methods for measuring and monitoring exposures to risk;

The Company's market risk management rules also specify the manner of defining risk appetite, limiting exposures to market risk based on Profit-at-Risk and Value-at-Risk and mechanisms for limiting risk when limits are exceeded.

17.1.1 Commodity risk

Commodity risk is related to the possibility that financial results deteriorate as a result of changes in commodity prices.

The Company's exposure to commodity risk mainly concerns the following commodity markets:

- electricity;
- CO_2 emission allowances;
- natural gas.

The Company has a strategy for hedging key exposures in trading electricity and related products over a 5-year horizon. The level of hedging for an open position is set taking into account risk appetite, results of monitoring the risk of electricity and related product prices, liquidity of specific markets as well as the financial situation of the Company and the Group and the Group's strategic objectives.

in accordance with EU IFRS (in PLN million)

17.1.2 Interest rate risk

Interest rate risk is related to the possibility that financial results deteriorate as a result of changes in interest rates.

The Company is exposed to interest rate risk as a result of financing its operating and investing activities with indebtedness bearing interest at variable interest rates, mainly in the form of credit facilities, loans and bonds issued in domestic or foreign currency and through investments in variable-rate financial assets..

The Company controls interest rate risk through a system of limits relating to the maximum potential loss due to changes in interest rates. The interest rate risk measure is based on the value-at-risk, understood as a product of the amount of the net interest rate position and the value of a potential change in market interest rates.

Moreover, the Company sets out hedging strategies for interest rate risk using hedging ratios subject to approval by PGE S.A.'s Risk Committee and Management Board. The hedging strategy and level of interest rate risk are subject to monitoring and are reported to the Risk Committee on a regular basis.

The Company enters into derivative transactions concerning instruments that are based on interest rates only in order to hedge identified risk exposures. Regulations in force at the PGE Group do not allow, with regard to derivative transactions based on interest rates, to enter into speculative transactions, i.e. transactions which would be aimed at generating additional gains resulting from changes in the level of interest rates, while exposing the Company to the risk of incurring a potential loss on this account.

Bonds issued in the amount of PLN 1 billion under the Bonds issue program of PLN 5 billion, as described in note 16.1.3 to these financial statements, bear interest at a variable rate in PLN. Payments relating to those bonds are hedged by IRS transactions, described in note 16.1.2.

Loans received from a subsidiary, PGE Sweden AB (publ), bear interest at a fixed interest rate in EUR. Payments for these loans are hedged by CCIRS transactions described in note 16.1.2.

In addition, the Company has a long-term credit facility of PLN 1.5 billion under Facilities Agreement signed on December 17, 2014 and December 4, 2015 with Bank Gospodarstwa Krajowego, as well a syndicated facility (term facility tranche) of PLN 3.63 billion under Facility Agreement signed on September 7, 2015. These credit facilities bear interest at variable rates in PLN. Payments on account of credit facilities are hedged by IRS transactions, described in note 16.1.2.

The Company's exposure to interest rate risk and concentration of this risk by currency:

		Type of interest	As at December 31, 2019	As at December 31, 2018
Derivatives – assets exposed to interest rate risk	PLN	Fixed	-	-
		Variable	5	16
	EUR	Fixed	-	-
		Variable	464	264
Loans advanced, bonds acquired and cash exposed to interest rate risk	PLN	Fixed	16,513	15,989
		Variable	1,016	1,381
	EUR	Fixed	191	185
		Variable	-	-
Derivatives – liabilities exposed to interest rate risk	PLN	Fixed	-	-
		Variable	(106)	(24)
	EUR	Fixed	-	-
		Variable	(338)	(164)
Loans received, bonds issued exposed to interest rate risk	PLN	Fixed	(2,019)	-
		Variable	(8,898)	(8,334)
	EUR	Fixed	(619)	(2,838)
		Variable	-	-
Net exposure	**PLN**	**Fixed**	**14,494**	**15,989**
		Variable	**(7,983)**	**(6,961)**
	EUR	**Fixed**	**(428)**	**(2,653)**
		Variable	**126**	**100**

Interest on variable-rate financial instruments is updated in periods of less than one year. Interest on fixed-rate financial instruments remains unchanged until maturity.

in accordance with EU IFRS (in PLN million)

17.1.3 Currency risk

Currency risk is related to the possibility that financial results deteriorate as a result of changes in exchange rates.

The main sources of exposure to currency risk are presented below:

- indebtedness denominated in foreign currencies;
- purchase and sale of CO_2 emission allowances denominated in foreign currencies;
- investment financial assets denominated in foreign currencies;
- foreign subsidiaries;
- other operating flows denominated in or indexed to foreign currencies.

The Company controls currency risk through a system of limits relating to the maximum potential loss due to changes in exchange rates. The currency risk measure is based on the value-at-risk, understood as a product of the amount of the absolute currency position and the value of a potential change in exchange rates.

Moreover, the Company sets out hedging strategies using hedging ratios subject to approval by the Company's Risk Committee and Management Board. The hedging strategy and level of currency risk are subject to monitoring and are reported to the Risk Committee on a regular basis.

The Company enters into derivative transactions concerning instruments that are based on currency only in order to hedge identified risk exposures. Regulations in force at the PGE Group do not allow, with regard to derivative transactions based on currencies, to enter into speculative transactions, i.e. transactions which would be aimed at generating additional gains resulting from changes in exchange rates, while exposing the Company to the risk of incurring a potential loss on this account.

The Company's exposure to currency risk by class of financial instruments:

	Total amount in the financial statements in PLN	CURRENCY POSITION AS AT DECEMBER 31, 2019	
		EUR	PLN
FINANCIAL ASSETS			
Trade and other financial receivables, including:	18,844	69	293
Trade receivables	1,190	30	127
Loans advanced	115	3	12
Other financial receivables	154	36	154
Cash and cash equivalents	221	42	178
Derivatives, including:	551	3,010	12,818
Measured at fair value through profit or loss	*446*	*2,823*	*12,022*
CCIRS hedges	*18*	*187*	*796*
FINANCIAL LIABILITIES			
Credit facilities, loans and bonds, including:	11,536	145	619
Loans received	*619*	*145*	*619*
Trade and other payables, including:	780	37	156
Trade payables	*593*	*1*	*4*
Other financial liabilities	*187*	*36*	*152*
Derivatives measured at fair value through profit or loss	338	2,697	11,486
NET CURRENCY POSITION		**242**	**1,028**

The carrying amount of derivatives represents their fair value. The value of exposure to currency risk for forwards represents their notional amount in the currency. The value of exposure to currency risk for CCIRSs represents the value of discounted cash flows in the currency leg in the currency.

in accordance with EU IFRS (in PLN million)

	Total amount in the financial statements in PLN	CURRENCY POSITION AS AT DECEMBER 31, 2018	
		EUR	PLN
FINANCIAL ASSETS			
Trade and other financial receivables, including:	18,305	47	203
Trade receivables	*844*	*11*	*49*
Loans advanced	*174*	*3*	*13*
Other financial receivables	*141*	*33*	*141*
Cash and cash equivalents	235	40	172
Derivatives, including:	346	868	3,732
Measured at fair value through profit or loss	*151*	*169*	*726*
CCIRS hedges	*113*	*699*	*3,006*
FINANCIAL LIABILITIES			
Credit facilities, loans and bonds, including:	11,172	660	2,838
Loans received	*2,838*	*660*	*2,838*
Trade and other payables, including:	861	34	145
Trade payables	*689*	*1*	*4*
Other financial liabilities	*172*	*33*	*141*
Derivatives measured at fair value through profit or loss	188	77	331
NET CURRENCY POSITION		**184**	**793**

The carrying amount of derivatives represents their fair value. The value of exposure to currency risk for forwards represents their notional amount in the currency. The value of exposure to currency risk for CCIRSs represents the value of discounted cash flows in the currency leg in the currency.

17.2 Liquidity risk

Liquidity risk concerns a situation in which the Company is unable to meet its liabilities (current or non-current) when they become due.

The main objective of liquidity risk management at PGE Group is to ensure and maintain the companies' ability to meet their existing and future financial liabilities, taking into account the cost to obtain liquidity. Liquidity risk management at PGE Group involves planning and monitoring short- and long-term cash flows from operating, investing and financing activities and taking action intended to secure funds for the activities of PGE S.A. and its subsidiaries, while limiting the cost of these actions.

Periodic planning and monitoring of liquidity makes it possible to secure funds for any liquidity gaps by allocating funds among PGE Group companies (cash pooling) as well as using external financing, including overdrafts.

Liquidity risk management in the long term allows PGE Group to define its borrowing capacity and supports decisions regarding the financing of long-term investments.

PGE Group has a central financing model in which, as a rule, agreements relating to external financing are executed by PGE S.A. PGE Group subsidiaries use various sources of intra-group financing such as loans, bonds, bank account consolidation agreements and real cash pooling agreements.

The Company has an active policy of investing free cash. The Company monitors its financial surpluses and forecasts future cash flows and, on this basis, implements an investment strategy for its free cash.

As part of the assessment of its liquidity, the Company monitors the level of the net debt/ EBITDA ratio, so as to ensure that the ratings are maintained at the investment grade and, consequently, that the Group's ambitious investment programme can be financed. The ratio is calculated on the basis of the consolidated statements of PGE Group.

	Year ended December 31, 2019	Year ended December 31, 2018
Net debt / EBITDA	1.60x	1.51x

In the event of cash shortages, the Company uses the following financing sources:

- overdraft facilities, term facilities and working capital facilities granted by banks;
- real cash-pooling agreements;
- bond issues addressed to external investors.

in accordance with EU IFRS (in PLN million)

Maturities of financial liabilities based on contractual undiscounted payments:

AS AT DECEMBER 31, 2019	Carrying amount	Total payments	Up to 3 months	3 to 12 months	1 year to 5 years	More than 5 years
Credit facilities	**8,586**	**8,936**	344	280	5,591	2,721
Bonds	**1,403**	**1,782**	-	44	176	1,562
Loans received	**619**	**803**	10	10	76	707
Cash pooling liabilities	**907**	**907**	907	-	-	-
Lease liability	**21**	**65**	1	-	4	60
Trade and other payables measured at amortised cost	**780**	**780**	759	-	21	-
Derivatives measured at fair value through profit or loss	**444**	**455**	140	100	196	19
TOTAL	**12,760**	**13,728**	**2,161**	**434**	**6,064**	**5,069**

AS AT DECEMBER 31, 2018	Carrying amount	Total payments	Up to 3 months	3 to 12 months	1 year to 5 years	More than 5 years
Credit facilities	**6,888**	**7,456**	1,783	87	4,717	869
Loans received	**2,838**	**3,061**	10	2,241	77	733
Cash pooling liabilities	**1,446**	**1,446**	1,446	-	-	-
Trade and other payables measured at amortised cost	**861**	**861**	691	149	21	-
Derivatives measured at fair value through profit or loss	**188**	**188**	5	10	173	-
TOTAL	**12,221**	**13,012**	**3,935**	**2,487**	**4,988**	**1,602**

17.3 Credit risk

Credit risk is connected with a potential credit event that can occur, such as insolvency of a customer, only a partial payment of receivables, significant delay in payment of receivables or other breaches of contract conditions (in particular the lack of delivery and acceptance of the goods as agreed in the contract and the possible non-payment for damages and contractual penalties).

The Company is exposed to credit risk arising in the following areas:

- Principal activities – the credit risk results from, among others, purchases and sales of electricity, gas and CO_2 emission allowances. This relates primarily to the possibility of a default of the other party of transaction, if fair value of the transaction is positive from the point of view of the Company;
- Investing free cash – the credit risk results from investing free cash of PGE S.A. in securities bearing credit risk, i.e. financial instruments other than those issued by the State Treasury.

The maximum credit risk exposure of financial assets reflects their carrying amounts.

	Year ended December 31, 2019	Year ended December 31, 2018
Trade receivables	1,190	844
Other financial assets	17,654	17,462
Cash and cash equivalents	221	235
Derivative instruments – assets	551	346
MAXIMUM EXPOSURE TO CREDIT RISK	**19,616**	**18,887**

in accordance with EU IFRS (in PLN million)

17.3.1 Trade and other financial receivables

Impairment losses on receivables

Receivables from loans advanced and bonds acquired from subsidiaries

The PGE Group's business model assumes that, as a rule, financing is granted to subsidiaries only by PGE S.A. The Company analyses the performance and financial plans of subsidiaries and issues internal ratings on this basis. In the event of a significant deterioration in the financial condition of the companies, analyses of the recoverability of all assets employed in a given subsidiary are performed. It was assumed that control over the assets of subsidiaries by PGE S.A. is a form of security that was taken into account when estimating the Recovery Rate parameter. Consequently, with respect to loans advanced to and bonds acquired from subsidiaries, this parameter was set at 0%. Receivables from loans advances and bond acquired are classified in stage 1.

Trade and other financial receivables

The Company does not monitor changes in the credit risk level during the life of financial receivables. The expected credit loss is estimated in the horizon up to maturity of the instrument.

The Company applies the following rules for estimating and recognising impairment losses on other financial receivables:

- for trade receivables from significant clients that are subject to a credit risk assessment procedure, the Company estimates expected credit losses based on a model used to evaluate this risk on the basis of ratings assigned to counterparties; ratings have a likelihood of default assigned, which is adjusted to reflect the impact of macroeconomic factors;
- for receivables from mass or clients not covered by the credit risk assessment procedure, the Company estimates expected credit losses based on an analysis of the likelihood of credit losses in each age bracket;
- in justified cases, the Company might estimate the amount of an impairment loss on a case by case basis.

Ratios adopted to estimate the value of expected losses calculated according to the provision matrix:

	December 31, 2019		December 31, 2018	
	Amount of allowance	Percentage of allowance	Amount of allowance	Percentage of allowance
Not past due receivables	394	0.0% - 100.0% (*)	389	1.5% - 100.0% (*)
Past due <30 days	1	0.0% - 100.0% (*)	12	0.0% - 100.0% (*)
Past due 30-90 days	3	0.0% - 100.0% (*)	6	0.0% - 100.0% (*)
Past due 90-180 days	1	0.0% - 100.0% (*)	-	0.0% - 100.0% (*)
Past due 180-360 days	2	0.0% - 100.0% (*)	-	-
Past due > 360 days	17	100%	26	100%
TOTAL FINANCIAL ASSETS	**418**		**433**	

(*) The allowance concerns receivables covered by an allowance calculated in accordance with the matrix (0%; 1.5%) and allowance determined on a case by case basis (100%).

Ratios adopted to estimate the value of expected losses calculated according to the model for key customers:

Rating level		December 31, 2019		December 31, 2018	
		Amount of allowance	Percentage of allowance	Amount of allowance	Percentage of allowance
Highest	AAA to AA- according to S&P and Fitch, and Aaa to Aa3 according to Moody's	-	-	-	-
Medium-high	A+ to A- according to S&P and Fitch, and A1 to A3 according to Moody's	-	-	-	-
Medium	BBB+ to BBB- according to S&P and Fitch, and Baa1 to Baa3 according to Moody's	<1	100.0%	<1	100.0%
TOTAL FINANCIAL ASSETS		**<1**		**<1**	

Trade receivables are, as a rule, paid in 2-3 weeks. In 2019, the average payment term of receivables was 25 days. Trade receivables relate mainly to receivables for energy sold. According to the management, owing to on-going control over trade receivables, there is no additional significant credit risk that would exceed the level reflected by allowances for credit losses.

The Company reduces and controls the credit risk related to trade transactions. In the case of trade transactions which due to high value may generate substantial loss in case of failure of business partner to comply with the agreement, the assessment of contractor is carried out before the transaction is conducted, taking into account contractor's financial analysis, its credit history and other factors. Based on the assessment, an internal rating is recognised or the Company uses a rating determined by an independent reputable agency. A limit for the contractor is set based on the rating. Entering into contracts that would increase exposure above the limit, requires in principle the collateral in line with rules pertaining to credit risk management. The level of used limit is regularly monitored and if it is substantially exceeded, units responsible for contractor's risk are obliged to undertake measures to eliminate them. The Company regularly monitors the payment of receivables and uses a system for early recovery. It also cooperates with credit bureaus.

in accordance with EU IFRS (in PLN million)

Credit risk relating to trade receivables by geographical region is presented in the table below:

	December 31, 2019		December 31, 2018	
	Balance of receivables	% share	Balance of receivables	% share
Poland	1,190	100.0%	795	94.2%
United Kingdom	-	-	49	5.8%
TOTAL	**1,190**	**100.0%**	**844**	**100.0%**

The majority of sales and trade receivables balances relate to related parties within the PGE Group, as well as large Polish entities from the electricity market. Information on transactions with related parties is presented in note 21 to these financial statements.

Ageing of receivables and allowances for expected credit losses

As at December 31, 2019, allowances for expected credit losses were recognised for a part of financial assets.

Changes in allowances for these classes of financial instruments are presented in the following table:

2019	Trade receivables	Loans advanced	Cash pooling receivables	Bonds acquired	Other financial receivables
Allowance for expected credit losses as at January 1	**(21)**	**-**	**-**	**(386)**	**(25)**
Recognition	(11)	-	-	-	-
Utilisation	-	-	-	-	25
Allowance for expected credit losses as at December 31	**(32)**	**-**	**-**	**(386)**	**-**
Vale of the item before allowances	**1,222**	**3,845**	**1,016**	**13,025**	**154**
Net carrying amount of the item	**1,190**	**3,845**	**1,016**	**12,639**	**154**

2018	Trade receivables	Loans advanced	Cash pooling receivables	Bonds acquired	Other financial receivables
Allowance for expected credit losses as at January 1	**(3)**	**-**	**-**	**(386)**	**(25)**
Recognition	(18)	-	-	-	-
Allowance for expected credit losses as at December 31	**(21)**	**-**	**-**	**(386)**	**(25)**
Vale of the item before allowances	**865**	**2,964**	**1,204**	**13,539**	**166**
Net carrying amount of the item	**844**	**2,964**	**1,204**	**13,153**	**141**

TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS

	December 31, 2019			December 31, 2018		
	Gross carrying amount	Impairment losses	Net carrying amount	Gross carrying amount	Impairment losses	Net carrying amount
Not past due receivables	**19,090**	**(394)**	**18,696**	**18,648**	**(389)**	**18,259**
Past due <30 days	149	(1)	148	*58*	*(12)*	*46*
Past due 30-90 days	3	(3)	-	*6*	*(6)*	*-*
Past due 90-180 days	1	(1)	-	*1*	*-*	***1***
Past due 180-360 days	2	(2)	-	*-*	*-*	*-*
Past due > 360 days	17	(17)	-	*26*	*(26)*	*-*
TOTAL PAST DUE RECEIVABLES	**172**	**(24)**	**148**	**91**	**(44)**	**47**
TOTAL FINANCIAL ASSETS	**19,262**	**(418)**	**18,844**	**18,739**	**(433)**	**18,306**

17.3.2 Deposits, cash and cash equivalents

The Company manages credit risk related to cash and cash equivalents by diversification of banks in which surplus cash is placed. All entities with which the Company concludes deposit transactions with operate in the financial sector. These can only be banks registered in Poland or branches of foreign banks with investment-grade or higher ratings, adequate solvency ratios and equity as well as strong, stable market position.

17.3.3 Derivatives

All entities with which the Company concludes derivative transactions with operate in the financial sector. These are banks with investment-grade ratings, adequate equity and strong, stable market position. As at the reporting date, the Company was party to the derivative transactions, described in detail in note 16.1.2 to these financial statements.

in accordance with EU IFRS (in PLN million)

17.3.4 Guarantees and sureties issued

Guarantees and sureties issued by the Company are presented in note 19 to these financial statements.

17.4 Market (financial) risk – sensitivity analysis

The Company identifies the following of market risks to which it is exposed:

- interest rate risk,
- currency risks.

At present, currency risk to the Company largely arises on account of fluctuations in the EUR/PLN exchange rates. In addition the Company is exposed to risk of changes in reference interest rates in PLN. The Company uses a scenario analysis for the purpose of analysing sensitivity to changes of market risk factors. The Company uses experts' scenarios reflecting the subjective opinion of the Company in relation to future development of market risk factors.

The scenario analyses presented in this section is intended to analyse the influence of changes in market risk factors on the Company's financial performance. Only those items that can be defined as financial instruments are subject to the analysis of interest and currency risk.

In sensitivity analysis related to interest rate risk, the Company applies parallel shift of interest rate curve by a potential possible change in reference interest rates in the subsequent year.

In case of analysis of sensitivity to interest rates' fluctuations, the effect of changes in risk factors' would be recognised in the statement of comprehensive income as income or expenses or as revaluation of financial instruments measured at fair value.

A sensitivity analysis for each type of market risk to which the Company is exposed at the reporting date, indicating the potential effect of changes of individual risk factors by class of financial assets and liabilities on profit or loss before tax is presented below.

Analysis of sensitivity to currency risk

The table below presents the sensitivity of profit or loss before tax and equity to reasonably possible changes in exchange rates, under the assumption that other risk factors for those classes of financial instruments that are exposed to currency risk remain unchanged.

CLASSES OF FINANCIAL INSTRUMENTS	Carrying amount in PLN	ANALYSIS OF SENSITIVITY TO CURRENCY RISK AS AT DECEMBER 31, 2019		
		Value at risk in PLN	EUR/PLN Effect on profit or loss / Equity	
			+10%	-10%
Trade and other financial receivables	18,844	293	29	(29)
Cash and cash equivalents	221	178	18	(18)
Derivative instruments – assets	446	12,022	(1,202)	1,202
CCIRS hedges	18	796	61	(61)
Credit facilities, loans and bonds	11,536	619	(62)	62
Trade and other payables	780	156	(16)	16
Derivatives – liabilities	338	11,485	1,149	(1,149)
EFFECT ON PROFIT OR LOSS			**(23)**	**23**
CCIRS hedges	18	796	19	(19)
EFFECT ON REVALUATION RESERVE			**19**	**(19)**

CLASSES OF FINANCIAL INSTRUMENTS	Carrying amount in PLN	ANALYSIS OF SENSITIVITY TO CURRENCY RISK AS AT DECEMBER 31, 2018		
		Value at risk in PLN	EUR/PLN Effect on profit or loss / Equity	
			+10%	-10%
Trade and other financial receivables	18,306	203	20	(20)
Cash and cash equivalents	235	172	17	(17)
Derivative instruments – assets	151	726	72	(72)
CCIRS hedges	113	3,006	283	(283)
Credit facilities, loans and bonds	11,172	2,838	(284)	284
Trade and other payables	861	145	(15)	15
Derivatives – liabilities	188	331	(33)	33
EFFECT ON PROFIT OR LOSS			**60**	**(60)**
CCIRS hedges	113	3,006	18	(18)
EFFECT ON REVALUATION RESERVE			**18**	**(18)**

in accordance with EU IFRS (in PLN million)

Analysis of sensitivity to interest rate risk

The table below presents the sensitivity of profit or loss before tax and equity to reasonably possible changes in interest rates, under the assumption that other risk factors for those classes of financial instruments that are exposed to interest rate risk remain unchanged:

FINANCIAL ASSETS AND LIABILITIES	ANALYSIS OF SENSITIVITY TO INTEREST RATE RISK AS AT DECEMBER 31, 2019					
	Amount in the financial statements in PLN	Value at risk in PLN	WIBOR Effect on profit or loss / Equity		EURIBOR Effect on profit or loss / Equity	
			+50pb	–50pb	+25pb	–25pb
Trade and other receivables	18,844	1,016	5	(5)	-	-
Derivative instruments – assets	551	451	2	(2)	-	-
Credit facilities, loans, bonds, cash pooling	11,536	8,898	(44)	44	-	-
Derivatives – liabilities	444	338	(2)	2	-	-
EFFECT ON PROFIT OR LOSS			**(39)**	**39**	**-**	**-**
CCIRS hedges	18	18	30	(31)	(17)	17
IRS hedges – liabilities	106	106	153	(147)	-	-
EFFECT ON REVALUATION RESERVE			**183**	**(178)**	**(17)**	**17**

The value at risk of derivatives, as regards interest rate risk, represents their fair value (carrying amount). Sensitivity analysis for CCIRS and IRS derivatives was carried out using the change in valuation due to the shift of interest rates curves for particular currency.

FINANCIAL ASSETS AND LIABILITIES	ANALYSIS OF SENSITIVITY TO INTEREST RATE RISK AS AT DECEMBER 31, 2018					
	Amount in the financial statements in PLN	Value at risk in PLN	WIBOR Effect on profit or loss / Equity		EURIBOR Effect on profit or loss / Equity	
			+50pb	–50pb	+25pb	–25pb
Trade and other receivables	18,306	1,381	7	(7)	-	-
Derivative instruments – assets	346	163	1	(1)	-	-
Credit facilities, loans, bonds, cash pooling	11,172	8,334	(42)	42	-	-
Derivatives – liabilities	188	48	-	-	-	-
EFFECT ON PROFIT OR LOSS			**(34)**	**34**	**-**	**-**
CCIRS hedges	113	113	35	(36)	(20)	21
IRS hedges – assets	4	4	24	(24)	-	-
IRS hedges – liabilities	24	24	82	(82)	-	-
EFFECT ON REVALUATION RESERVE			**141**	**(142)**	**(20)**	**21**

The value at risk of derivatives, as regards interest rate risk, represents their fair value (carrying amount). Sensitivity analysis for CCIRS and IRS derivatives was carried out using the change in valuation due to the shift of interest rates curves for particular currency.

in accordance with EU IFRS (in PLN million)

17.5 Hedge accounting

ACCOUNTING POLICIES

Hedge accounting

Changes in fair value of derivative financial instruments designated as cash flow hedges, CCIRSs and IRSs, are recognised in revaluation reserve in the portion determined to be an effective hedge, while the ineffective portion of the hedge is recognised in profit or loss.

The accumulated changes in fair value of a hedging instrument, previously recognised in revaluation reserve are taken to profit or loss in the period or periods in which the hedged item affects profit or loss. Alternatively, if the hedge of a forecast transaction results in the recognition of non-financial assets or non-financial liabilities, the Company excludes the amount from equity and includes it in the initial cost or other carrying amount of a non-financial asset or liability.

In connection with loans received from PGE Sweden AB (publ), in June and August 2014 PGE S.A. concluded CCIRS transactions, hedging the exchange 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. The notional amount, payment of interest and repayment of notional amount in CCIRS transactions are correlated with the relevant conditions arising from loan agreements. The Company applies hedge accounting to these transactions.

Hedge accounting is also applied to the IRS transactions hedging interest rate due to the financial liabilities under credit facility agreements such as the Facility Agreement with a syndicate of banks signed on September 7, 2015 and Facility Agreement with Bank Gospodarstwa Krajowego signed on December 17, 2014. In these transactions, banks – counterparties pay PGE S.A. interest based on a fixed rate in PLN and PGE S.A. pays interest based on a fixed rate in PLN.

The only source of inefficiency in hedge accounting is the CCIRS transaction hedging the interest rate on the loan contracted with PGE Sweden AB.

	Year ended December 31, 2019
VALUE OF THE HEDGED ITEM AS AT JANUARY 1	**2,838**
Loan repayment	(2,125)
Interest accrual	37
Interest repayment	(40)
Foreign exchange differences	(91)
VALUE OF THE HEDGED ITEM AS AT DECEMBER 31	**619**

Information on hedging instruments – maturity structure:

Derivative	Currency	Up to 1 year	1 year to 5 years	More than 5 years
CCIRS	EUR	11	41	(83)
IRS	PLN	21	71	19

The Company estimates that the effect of the ineffective portion of the hedge resulting from the EUR exchange rate and change in WIBOR, recognised in profit or loss, will not have a material impact on future financial statements.

The impact of hedge accounting on the revaluation reserve is presented in note 12.3 to these financial statements.

in accordance with EU IFRS (in PLN million)

EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

18. Statement of cash flows

ACCOUNTING POLICIES

Statement of cash flows

The statement of cash flows is prepared using the indirect method.

An analysis of most significant items of the statement of cash flows is presented below.

18.1 Cash flows from operating activities

Interest and dividends

	Year ended December 31, 2019	Year ended December 31, 2018
Dividends receivable	(950)	(46)
Interest on bonds purchased	(415)	(325)
Interest on bonds issued	27	12
Interest on loans advanced	(115)	-
Interest on loans received	69	61
Interest and commissions on credit facilities	211	141
Other	46	24
TOTAL INTEREST AND DIVIDENDS	**(1,127)**	**(133)**

(Profit) /loss on investing activities

	Year ended December 31, 2019	Year ended December 31, 2018
Accrual-based valuation of derivatives	(114)	52
Recognition and reversal of impairment losses on financial assets	3,065	799
Other	(1)	(2)
TOTAL (PROFIT) /LOSS ON INVESTING ACTIVITIES	**2,950**	**849**

Change in receivables

	Year ended December 31, 2019	Year ended December 31, 2018
Change in trade and other receivables	(3,216)	(3,830)
Adjustment for change in loans advanced (including cash pooling)	2,495	1,492
Adjustment for change in bonds purchased	(513)	2,110
Other	2	-
TOTAL CHANGE IN LOANS AND RECEIVABLES	**(1,232)**	**(228)**

Change in liabilities, excluding loans and borrowings

	Year ended December 31, 2019	Year ended December 31, 2018
Change in trade and other financial payables	(95)	16
Change in other non-financial liabilities	(74)	167
Change in other financial liabilities	15	143
Adjustment for change in settlements in the tax group	126	(148)
Other	(2)	(3)
TOTAL CHANGE INLIABILITIES, EXCLUDING LOANS AND BORROWINGS	**(30)**	**175**

Change in other non-financial assets

	Year ended December 31, 2019	Year ended December 31, 2018
Change in other short-term assets	438	169
Adjustment for change in settlements in the tax group	-	(161)
Other	(2)	(1)
TOTAL CHANGE IN OTHER NON-FINANCIAL ASSETS	**436**	**7**

18.2 Cash flows from investing activities

Purchase and buy-back of bonds issued by PGE Group companies

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. For a detailed description, see note 16.1.1.

Dividends received

The total amount of dividends received comprises primarily dividends from PGE Dystrybucja S.A. in the amount of PLN 935 million, and – in the comparative period – from PGE Obrót S.A. in the amount of PLN 28 million.

Cash flows under the cash pooling arrangement

As described in note 16.1.1, PGE S.A. serves as the coordinator for PGE Group's cash pooling services. This means, among others, that individual companies settle their accounts with the Company, and the Company settles with the banks. Therefore, the Company discloses loans advanced and proceeds under the cash pooling arrangement from entities participating in the cash pooling arrangement.

18.3 Cash flows from financing activities

Proceeds from credit facilities and loans

In the current reporting period, the Company contracted credit facilities in the total amount of PLN 5,288 million.

Proceeds from issue of bonds

In the current reporting period, the Company issued two tranches of bonds with the total value of PLN 1,400 million. The bonds will be redeemed in 2026 and 2029.

Repayment of loans, credit facilities and finance leases

In the current period, the Company repaid a loan with a nominal value of EUR 514 million and credit facilities. Total repayments amounts to PLN 5,736 million.

in accordance with EU IFRS (in PLN million)

OTHER EXPLANATORY NOTES

19. Contingent liabilities and receivables. Legal claims

ACCOUNTING POLICIES

Contingent liabilities

The recognition and measurement of provisions and contingent liabilities requires that the Company estimates the probability of occurrence of potential liabilities Where the occurrence of an adverse event is probable, the Company recognises an appropriate provision. Where the occurrence of an adverse event is possible but not probable in the Company's opinion, the Company recognises a contingent liability.

19.1 Contingent liabilities

	As at December 31, 2019	As at December 31, 2018
Bank guarantee liabilities	11,549	12,408
Collateral for exchange transactions	1,800	-
Other contingent liabilities	-	1
TOTAL CONTINGENT LIABILITIES	**13,349**	**12,409**

Guarantee for PGE Sweden AB (publ) liabilities

Due to establishment of the Eurobonds program 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 December 31, 2019, PGE Sweden AB (publ)'s liabilities on account of bonds issued amounted to EUR 140 million (PLN 596 million), as at December 31, 2018 liabilities amounted to EUR 644 million (PLN 2,769 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 December 31, 2019, the total amount of bank guarantees was PLN 1,800 million.

19.2 Other significant issues related to contingent liabilities

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 1,000 million. As at December 31, 2019 and December 31, 2018, the estimated value of the standby commitments amounts to approx. PLN 15 billion.

19.3 Other legal claims and disputes

Compensation for conversion of shares

Former shareholders of PGE Górnictwo i Energetyka 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. The next court hearing has not been scheduled.

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 their responses 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.

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.

The Company has not recognised a provision for this claim.

Claims for annulment of resolutions adopted by the General Meetings

On January 29, 2019, PGE S.A. received a copy of a lawsuit filed to the District Court of Warsaw by one of its shareholders. In the lawsuit, the shareholder is seeking annulment of resolutions No 7, 9 and 20 of the Company's Ordinary General Meeting held on July 19, 2018. On February 28, 2019, the Company submitted a response to the lawsuit.

At a hearing held on November 27, 2019, the claimant withdrew the claim for annulment of resolutions No 7, 9 and 20 of the Ordinary General Meeting of July 19, 2018, as a result of which the District Court in Warsaw issued a decision to discontinue the proceedings regarding this case.

20. 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 2018 were as follows: corporate income tax rate – 19%, for smaller enterprises a 15% 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.

VAT split payment mechanism

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 December 31, 2019, the cash balance in these VAT accounts totalled PLN 39 million (PLN 24 million in the corresponding period).

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.

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.

General Anti-Avoidance Rules (GAAR) are in effect in Poland. 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 Company recognises and measures current and deferred tax assets and liabilities in compliance with the requirements of IAS 12 Income Taxes, based on taxable income (tax loss), tax base, unused tax losses, unused tax credits and tax rates, taking into consideration the assessed uncertainty related to tax settlements. Whenever it is uncertain whether and to what extent a tax authority would accept accounting for individual transactions, the Company accounts for such transactions taking into consideration an uncertainty assessment.

21. Information on related parties

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 in the column “other 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, described in notes 5.2 and 21 to these financial statements.

in accordance with EU IFRS (in PLN million)

21.1 Transactions with related parties

Year ended December 31, 2019

	Subsidiaries	Other PGE Group related parties	Other related parties	Third parties	*TOTAL*
STATEMENT OF COMPREHENSIVE INCOME					
Sales revenue	14,073	-	136	937	**15,146**
Other operating income/(expenses)	7	-	-	(27)	**(20)**
Finance income/(costs)	(1,650)	-	-	(319)	**(1,969)**
Operating expenses	7,051	-	226	7,070	**14,347**

Year ended December 31, 2018

	Subsidiaries	Other PGE Group related parties	Other related parties	Third parties	TOTAL
STATEMENT OF COMPREHENSIVE INCOME					
Sales revenue	10,558	-	131	761	**11,450**
Other operating income/(expenses)	7	-	-	(35)	**(28)**
Finance income/(costs)	(419)	1	-	(240)	**(658)**
Operating expenses	8,245	-	255	2,413	**10,913**

The Company recognises revenue from sales to related parties in the PGE Group mainly related to sales of electricity, gas, energy origin rights and CO_2 emission allowances.

Financial income relates primarily to dividends and interest on bonds.

Operating costs relate to the cost of goods and materials sold.

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

21.2 Balances with related parties

As at December 31, 2019

ASSETS	Subsidiaries	Other PGE Group related parties	Other related parties	Third parties	TOTAL
Financial assets:	**18,799**		**18**	**27**	**18,844**
Bonds acquired	12,639	-	-	-	12,639
Trade receivables	1,145	-	18	27	1,190
Other loans and financial assets	5,015	-	-	-	5,015
Shares in subsidiaries	**29,995**	**-**	**-**	**-**	**29,995**
Shares in associates and jointly controlled entities	**-**	**101**	**-**	**-**	**101**
Derivative instruments – assets	**15**	**-**	**-**	**536**	**551**
Other current assets	**484**	**-**	**-**	**3**	**487**

As at December 31, 2018

ASSETS	Subsidiaries	Other PGE Group related parties	Other related parties	Third parties	TOTAL
Financial assets:	**18,262**	**-**	**10**	**34**	**18,306**
Bonds acquired	13,153	-	-		13,153
Trade receivables	800	-	10	34	844
Other loans and financial assets	4,309	-	-	-	4,309
Shares in subsidiaries	**32,024**	**-**	**-**	**-**	**32,024**
Shares in associates and jointly controlled entities	**-**	**101**	**-**	**-**	**101**
Derivative instruments – assets	**-**	**-**	**-**	**346**	**346**
Other current assets	**45**	**-**	**-**	**6**	**51**

As at December 31, 2019

	Subsidiaries	Other related parties	Third parties	TOTAL
LIABILITIES				
Derivatives – liabilities			**444**	**444**
Financial liabilities measured at amortised cost:	**2,087**	**8**	**10,221**	**12,316**
Bonds issued	-	-	*1,403*	*1,403*
Interest-bearing credit facilities and loans	*619*	-	*8,586*	*9,205*
Cash pooling liabilities	*907*	-	-	*907*
Trade payables	*561*	*8*	*25*	*594*
Lease liabilities in accordance with IFRS 16	-	-	*21*	*21*
Other financial liabilities	-	-	186	186

As at December 31, 2018

	Subsidiaries	Other related parties	Third parties	TOTAL
LIABILITIES				
Derivatives – liabilities	**-**	**-**	**188**	**188**
Financial liabilities measured at amortised cost:	**4,918**	**29**	**7,086**	**12,033**
Interest-bearing credit facilities and loans	*2,838*	-	*6,888*	*9,726*
Cash pooling liabilities	*1,446*	-	-	*1,446*
Trade payables	*634*	*29*	*26*	*689*
Other financial liabilities	-	-	172	172

Standby commitments and sureties granted to PGE S.A.'s subsidiaries are described in note 19 to these financial statements.

21.3 Management remuneration

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

PLN '000	Year ended December 31, 2019	Year ended December 31, 2018
Short-term employee benefits (salaries and salary related costs)	7,735	8,543
Post-employment and termination benefits	199	-
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**7,934**	**8,543**

PLN '000	Year ended December 31, 2019	Year ended December 31, 2018
Management Board of the Company	7,201	7,858
Supervisory Board of the Company	733	685
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**7,934**	**8,543**

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 4.2 Costs by nature and function.

22. Remuneration of the entity authorised to audit financial statements

The entity authorised to audit separate financial statements of PGE S.A. for 2019 and consolidated financial statements of PGE Group, as well as reviewing the semi-annual separate and consolidated financial statements for 2019, is Deloitte Audyt sp. z o.o. sp.k., under an agreement executed on April 26, 2019.

The entity that reviewed the semi-annual and audited the separate financial statements of PGE S.A. for 2018, as well as reviewed the semi-annual and audited the consolidated financial statements of PGE Group for 2018 was Ernst & Young Audyt Polska sp. z o.o. sp. k., executed on July 17, 2017.

PLN '000	Year ended December 31, 2019	Year ended December 31, 2018
Audit of the annual separate financial statements and the annual consolidated financial statements of the PGE Group	450	381
Other assurance services, including review of semi-annual financial statements	155	142
Total remuneration	**605**	**523**

23. Disclosures resulting from Article 44 of the Energy Law regarding specific types of activities

Article 44 of the Energy Law imposes an obligation on the energy companies to prepare regulatory financial statements with a balance sheet (statement of financial position) and the statement of profit or loss for the reporting periods separately for each type of business activity related to the following areas:

- supply of gaseous fuels or energy, including fixed costs, variable costs and revenue separately for the generation, transmission, distribution and trade in gaseous fuels or energy, gaseous fuel storage and liquefaction of natural gas or re-gasification of liquefied natural gas, also in relation to groups of recipients specified in the tariff;
- unrelated to the activities listed above.

23.1 Principles for allocation to different types of activities

The section below presents the types of activities referred to in Article 44 of the Energy Law and principles for allocation of revenues, expenses, assets and liabilities resulting from these types of activities.

23.1.1 Description of separate types of activities

The Company has identified the following types of activities pursuant to art. 44 point 1 of the Energy Law:

- trade in electricity,
- trade in gaseous fuels;
- other activities.

23.1.2 Rules for allocation of revenue, expenses, assets and liabilities

Selected items in the statement of comprehensive income and statement of financial position are allocated by the Company to certain types of activities based on the accounting records:

- sales revenue,
- cost of goods sold;
- selling and distribution costs;
- general and administrative expenses;
- finance income and costs;
- trade receivables;
- trade payables;
- derivatives;
- inventories;
- provisions, except for provisions for employee benefits.

Selected items in the statement of financial position are allocated by the Company to certain types of activities with the use of allocation keys:

- property, plant and equipment as well as intangible assets in proportion to the depreciation/amortisation costs;
- provisions for employee benefits and liabilities arising from wages, personal income tax and social security in proportion to the costs of employee benefits;
- VAT liabilities in proportion to revenue from sales.

Selected items in the statement of comprehensive income and statement of financial position are not allocated to certain types of activities as they pertain to all activities of the entity. The main unallocated items include:

- deferred tax assets and liabilities;
- loans and receivables other than trade receivables;
- interest-bearing credit facilities, loans, bonds;
- shares in subsidiaries and financial assets available for sale;
- income tax receivables and liabilities;
- cash and cash equivalents;
- equity, except for profit for the reporting period;
- income tax in statement of profit or loss.

Unallocated items are presented together with other activities.

in accordance with EU IFRS (in PLN million)

23.2 Breakdown by type of business activity

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2019

	Trade in electricity	Trade in natural gas	Other activities and unallocated items	Total
SALES REVENUE	**12,419**	**499**	**2,228**	**15,146**
Cost of goods sold	(12,291)	(498)	(1,320)	**(14,109)**
GROSS PROFIT ON SALES	**128**	**1**	**908**	**1,037**
Distribution and selling expenses	(11)	(4)	-	**(15)**
General and administrative expenses	(36)	(1)	(186)	**(223)**
Other operating income/(expenses)	-	-	(20)	**(20)**
OPERATING PROFIT/(LOSS)	**81**	**(4)**	**702**	**779**
Finance income/(costs)	-	-	(1,969)	**(1,969)**
GROSS PROFIT/(LOSS)	**81**	**(4)**	**(1.267)**	**(1,190)**
Income tax	-	-	(69)	**(69)**
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD	**81**	**(4)**	**(1.336)**	**(1,259)**

In note 4.1 Revenue from sales of each activity are presented in revenues from sales of goods and revenues from sales of services.

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2019

	Trade in electricity	Trade in natural gas	Other activities and unallocated items	Total
NON-CURRENT ASSETS				
Property, plant and equipment	1	1	160	162
Right-of-use assets	-	-	21	21
Financial receivables	-	-	10,955	10,955
Derivatives and other assets measured at fair value through profit or loss	-	-	105	105
Shares in subsidiaries	-	-	29,995	29,995
Shares in other related entities	-	-	101	101
Deferred income tax assets	-	-	16	16
	1	**1**	**41,353**	**41,355**
CURRENT ASSETS				
Inventories	-	-	3	3
Income tax receivables	-	-	37	37
Derivatives	-	-	446	446
Trade and other receivables	918	47	6,924	7,889
Other current assets	401	31	55	487
Cash and cash equivalents	-	-	221	221
	1,319	**78**	**7,686**	**9,083**
TOTAL ASSETS	**1,320**	**79**	**49.039**	**50,438**

in accordance with EU IFRS (in PLN million)

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2019

	Trade in electricity	Trade in natural gas	Other activities and unallocated items	Total
Net profit/(loss) for the reporting period	81	(4)	(1,336)	(1,259)
Other components of equity	-	-	38,763	38,763
TOTAL EQUITY	**81**	**(4)**	**37,427**	**37,504**
NON-CURRENT LIABILITIES				
Non-current provisions	-	-	18	18
Credit facilities, loans, bonds, cash pooling, leases	-	-	9,521	9,521
Derivatives	-	-	106	106
Other financial liabilities	-	-	20	20
	-	**-**	**9,665**	**9,665**
CURRENT LIABILITIES				
Current provisions	-	-	1	1
Credit facilities, loans, bonds, cash pooling, leases	-	-	2,015	2,015
Trade and other liabilities	553	5	202	760
Derivatives	-	-	338	338
Other non-financial liabilities	52	2	101	155
	605	**7**	**2,657**	**3,269**
TOTAL LIABILITIES	**605**	**7**	**12,322**	**12,934**
TOTAL EQUITY AND LIABILITIES	**686**	**3**	**49.749**	**50,438**

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2018

	Trade in electricity	Trade in natural gas	Other activities and unallocated items	Total
SALES REVENUE	**9,073**	**533**	**1,844**	**11,450**
Cost of goods sold	(8,843)	(540)	(1,291)	**(10,674)**
GROSS PROFIT/ (LOSS) ON SALES	**230**	**(7)**	**553**	**776**
Distribution and selling expenses	(13)	(4)	-	**(17)**
General and administrative expenses	(62)	-	(160)	**(222)**
Other operating income/(expenses)	-	-	(28)	**(28)**
OPERATING PROFIT/(LOSS)	**155**	**(11)**	**365**	**509**
Finance income/(costs)	-	-	(658)	**(658)**
GROSS PROFIT/(LOSS)	**155**	**(11)**	**(293)**	**(149)**
Income tax	-	-	(54)	**(54)**
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD	**155**	**(11)**	**(347)**	**(203)**

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2018

	Trade in electricity	Trade in natural gas	Other activities and unallocated items	Total
NON-CURRENT ASSETS				
Property, plant and equipment	6	1	160	167
Intangible assets	-	-	1	1
Financial receivables	-	-	13,000	13,000
Derivatives and other assets measured at fair value through profit or loss	-	-	115	115
Shares in other subsidiaries	-	-	32,024	32,024
Shares in other related entities	-	-	101	101
Deferred income tax assets	-	-	19	19
	6	**1**	**45,420**	**45,427**
CURRENT ASSETS				
Inventories	-	-	4	4
	-	-	57	57
Derivatives	-	-	231	231
Trade and other receivables	648	47	4,611	5,306
Other current assets	23	13	15	51
Cash and cash equivalents	-	-	235	235
	671	**60**	**5,153**	**5,884**
TOTAL ASSETS	**677**	**61**	**50,573**	**51,311**

in accordance with EU IFRS (in PLN million)

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2018

	Trade in electricity	Trade in natural gas	Other activities and unallocated items	Total
Net profit/(loss) for the reporting period	155	(11)	(347)	(203)
Other components of equity	-	-	39,037	39,037
TOTAL EQUITY	**155**	**(11)**	**38,690**	**38,834**
NON-CURRENT LIABILITIES				
Non-current provisions	1	-	15	16
Credit facilities, loans, bonds, cash pooling	-	-	5,744	5,744
Derivatives	-	-	24	24
Other financial liabilities	-	-	21	21
	1	**-**	**5,804**	**5,805**
CURRENT LIABILITIES				
Current provisions	-	-	9	9
Credit facilities, loans, bonds, cash pooling	-		5,428	5,428
Trade and other liabilities	628	18	194	840
Derivatives	-	-	164	164
Other non-financial liabilities	2	-	229	231
	630	**18**	**6,024**	**6,672**
TOTAL LIABILITIES	**631**	**18**	**11,828**	**12,477**
TOTAL EQUITY AND LIABILITIES	**786**	**7**	**50,518**	**51,311**

24. Significant events during and after the reporting period

24.1 Events after the reporting period

PGE S.A. identifies, on an ongoing basis, the risk factors that will potentially affect the Group's performance in connection with the COVID-19 pandemic. On the other hand, the dynamics of the situation and the lack of realistic predictions concerning its duration and economic impact make it impossible at this stage to precisely estimate the financial impact of the pandemic on PGE Group. 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.

At present, due to the reduced level of economic activity, the Group identifies the risk of further reduction in domestic electricity consumption, which may result in a decrease in revenues and margins from energy generation, distribution and sales in the Distribution, Supply, Conventional Generation and District Heating segments. As regards production activities, the majority of sales were contracted in previous periods, therefore in the short term the negative impact of lower production volumes in the Conventional Generation segment should be significantly limited. The negative effect 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. The actual impact will depend on the consumption profile, changes in consumption in particular tariff groups and the duration of the pandemic, or its effect on the global economic slowdown.

At the same time, PGE Group identifies the risk of growth of overdue receivables in connection with the expected deterioration of PGE customers' liquidity. It will depend on the scale of the reduction of economic activity and on the effects of the government's protective measures for entrepreneurs.

PGE Group's plants are of strategic importance for maintaining undisturbed production and supply of electricity and heat. In many cases, this involves additional costs resulting from changing work organisation and purchasing protective materials.

Regardless of the impact on the financial performance, there may be a greater demand for cash resulting from the need to increase security deposits in connection with purchases of CO_2 emission allowances. It is likely that the average collection period will deteriorate. The above effects will result in the need to contract additional financial liabilities, which may also be reflected in finance costs incurred by the PGE Group.

Until the date on which these consolidated financial statements were approved, no other significant events took place after the end of the reporting period the impact or disclosure of which is not included in these financial statements.

25. Approval of the financial statements

These financial statements were authorised for issue by the Management Board on March 31, 2020.

Warsaw, March 31, 2020

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

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

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

26. Glossary of terms and list acronyms

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

Abbreviation	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)
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
EU IFRSs	International Financial Reporting Standards
OSP	Transmission System Operator
PGE S.A., Company, Parent Company	PGE Polska Grupa Energetyczna S.A
PGE GiEK S.A.	PGE Górnictwo i Energetyka Konwencjonalna S.A.
PGK	Tax Group
RPUL	Right to perpetual usufruct of land
Financial statements	Separate financial statements of PGE S.A.
POLPX	Polish Power Exchange (Towarowa Giełda Energii)
ERO	Energy Regulatory Office (Urząd Regulacji Energetyki)
WACC	Weighted Average Cost of Capital
ZFŚS	Company Social Benefits Fund