Half-yearly financial report

PGE Polska Grupa Energetyczna S.A.

for the 6-month period

ended June 30, 2022,
in accordance with IFRS (in PLNm)

Prowadzimy w zielonej zmianie

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I. PGE GROUP CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED JUNE 30, 2022, IN ACCORDANCE WITH IFRS EU

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended June 30, 2022 *(unaudited)*	Period ended June 30, 2021 *(unaudited) restated data**
STATEMENT OF PROFIT OR LOSS			
REVENUE FROM SALES	*7.1*	**32,625**	**21,950**
Cost of sales	*7.2*	(28,857)	(18,834)
GROSS PROFIT ON SALES		**3,768**	**3,116**
Distribution and selling expenses	*7.2*	(805)	(759)
General and administrative expenses	*7.2*	(656)	(501)
Net other operating income/(costs)	*7.4*	1,947	1,302
OPERATING PROFIT		**4,254**	**3,158**
Net finance income / (costs), including:	*7.5*	(265)	53
Interest income calculated using the effective interest rate method		*89*	*15*
Share of profit/(loss) of entities accounted for using the equity method	*7.6*	11	(1)
GROSS PROFIT/(LOSS)		**4,000**	**3,210**
Income tax	*9*	(695)	(491)
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD		**3,305**	**2,719**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss in the future:			
Valuation of debt financial instruments	*20.2*	(5)	7
Valuation of hedging instruments	*20.2*	709	(161)
Foreign exchange differences from translation of foreign entities		2	(2)
Deferred tax	*9*	(134)	29
Items that may not be reclassified to profit or loss in the future:			
Actuarial gains and losses from valuation of provisions for employee benefits		190	82
Deferred tax		(36)	(15)
Share of profit of equity-accounted entities		1	-
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**727**	**(60)**
TOTAL COMPREHENSIVE INCOME		**4,032**	**2,659**
NET PROFIT/(LOSS) ATTRIBUTABLE TO:			
shareholders of the parent		3,288	2,690
non-controlling interests		17	29
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
shareholders of the parent		4,014	2,629
non-controlling interests		18	30
EARNINGS AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT (IN PLN)		**1.63**	**1.44**

** restatement of comparative data is described in note 4 of these consolidated financial statements.*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	At June 30, 2022 *(unaudited)*	As at December 31, 2021 *(audited)*
NON-CURRENT ASSETS			
Property, plant and equipment		60,820	60,817
Investment property		33	39
Intangible assets		683	682
Right-of-use assets		1,310	1,257
Financial receivables	*17.1*	212	204
Derivatives and other assets measured at fair value through profit or loss	*19*	788	364
Shares and other equity instruments		131	117
Shares accounted for using the equity method	*12*	172	156
Other non-current assets	*18.1*	879	873
CO_2 emission allowances for captive use	*16*	108	797
Deferred income tax assets	*14.1*	1,608	933
		66,744	**66,239**
CURRENT ASSETS			
Inventories	*15*	3,492	2,189
CO_2 emission allowances for captive use	*16*	1,701	4,106
Income tax receivables		103	144
Derivatives and other assets measured at fair value through profit or loss	*19*	996	575
Trade and other financial receivables	*17.1*	7,939	7,727
Other current assets	*18.2*	1,347	1,240
Cash and cash equivalents	*17.2*	10,956	6,733
		26,534	**22,714**
ASSETS CLASSIFIED AS HELD FOR SALE		**14**	**13**
TOTAL ASSETS		**93,292**	**88,966**
EQUITY			
Share capital	*20.1*	19,184	19,165
Reserve capital		25,049	20,154
Hedging reserve	*20.2*	1,179	609
Foreign exchange differences from translation		4	2
Retained earnings		9,305	7,564
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**54,721**	**47,494**
Equity attributable to non-controlling interests		802	797
TOTAL EQUITY		**55,523**	**48,291**
NON-CURRENT LIABILITIES			
Non-current provisions	*21*	5,729	8,559
Loans, borrowings, bonds and lease	*22.1*	7,723	8,666
Derivatives	*19*	305	1
Deferred income tax liabilities	*14.2*	1,294	402
Deferred income and government grants		587	600
Other financial liabilities	*22.2*	542	517
Other non-financial liabilities	*23.1*	131	133
		16,311	**18,878**
CURRENT LIABILITIES			
Current provisions	*21*	10,953	12,600
Loans, borrowings, bonds and leases	*22.1*	2,159	2,160
Derivatives	*19*	239	82
Trade and other financial liabilities	*22.2*	5,811	4,601
Income tax liabilities		114	20
Deferred income and government grants		76	76
Other non-financial liabilities	*23.2*	2,106	2,258
		21,458	**21,797**
TOTAL LIABILITIES		**37,769**	**40,675**
TOTAL EQUITY AND LIABILITIES		**93,292**	**88,966**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserve capital	Hedging reserve	Foreign exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total equity
Note	*20.1*		*20.2*					
JANUARY 1, 2022	**19,165**	**20,154**	**609**	**2**	**7,564**	**47,494**	**797**	**48,291**
Net profit for the reporting period	-	-	-	-	3,288	3,288	17	3,305
Other comprehensive income	-	-	570	2	154	726	1	727
COMPREHENSIVE INCOME	**-**	**-**	**570**	**2**	**3,442**	**4,014**	**18**	**4,032**
Allocation of profit from previous years	-	1,734	-	-	(1,734)	-	-	-
Dividend	-	-	-	-	-	-	(3)	(3)
Accounting for purchase of additional shares in subsidiaries	-	-	-	-	33	33	-	33
Reduction of nominal value of shares	(3,178)	3,178	-	-	-	-	-	-
Share capital increase	3,197	(17)	-	-	-	3,180	-	3,180
Changes in PGE Group	-	-	-	-	-	-	(10)	(10)
JUNE 30, 2022	**19,184**	**25,049**	**1,179**	**4**	**9,305**	**54,721**	**802**	**55,523**

	Share capital	Reserve capital	Hedging reserve	Foreign exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total equity
Note	*20.1*		*20.2*					
JANUARY 1, 2021	**19,165**	**18,410**	**(13)**	**5**	**4,951**	**42,518**	**983**	**43,501**
Net profit for the reporting period	-	-	-	-	2,690	2,690	29	2,719
Other comprehensive income	-	-	(125)	(2)	66	(61)	1	(60)
COMPREHENSIVE INCOME	**-**	**-**	**(125)**	**(2)**	**2,756**	**2,629**	**30**	**2,659**
Allocation of profit from previous years	-	1,744	-	-	(1,744)	-	-	-
Dividend	-	-	-	-	-	-	(2)	(2)
Changes in PGE Group	-	-	-	(2)	(18)	(20)	(155)	(175)
Other changes	-	-	-	-	(2)	(2)	-	(2)
JUNE 30, 2021	**19,165**	**20,154**	**(138)**	**1**	**5,943**	**45,125**	**856**	**45,981**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Period ended June 30, 2022 *(unaudited)*	Period ended June 30, 2021 *(unaudited)*
CASH FLOWS FROM OPERATING ACTIVITIES			
Gross profit / loss		**4,000**	**3,210**
Income tax paid		(479)	(709)
Adjustments for:			
Share of (profit)/loss of equity-accounted entities		(11)	1
Depreciation, amortisation, disposal and impairment losses		2,138	2,096
Interest and dividend, net		156	151
(Profit) / loss on investing activities		(9)	(563)
Change in receivables		(15)	(436)
Change in inventories		(1,278)	541
Change in CO_2 emission allowances for captive use		3,095	1,733
Change in liabilities, excluding loans and borrowings		1,234	362
Change in other non-financial assets, prepayments		(177)	176
Change in provisions		(3,577)	(3,268)
Other		(84)	(4)
NET CASH FROM OPERATING ACTIVITIES		**4,993**	**3,290**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets		(2,054)	(2,360)
Sale of property, plant and equipment and intangible assets		13	30
Recognition of deposits with maturity over 3 months		(770)	(93)
Termination of deposits with maturity over 3 months		750	84
Purchase of fully consolidated entities, after offsetting acquired cash		(773)	-
Purchase of other financial assets		(3)	(41)
Sale of subsidiaries, after offsetting cash received		94	368
Sale of other financial assets		-	50
Loss of control		(2)	(118)
Loans repaid		15	-
Other		10	4
NET CASH FROM INVESTING ACTIVITIES		**(2,720)**	**(2,076)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		3,197	347
Proceeds from loans, borrowings		2,224	139
Repayment of loans, borrowings, leases		(3,306)	(304)
Interest paid		(179)	(183)
Other		(8)	13
NET CASH FROM FINANCING ACTIVITIES		**1,928**	**12**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**4,201**	**1,226**
Net exchange differences		*24*	*(19)*
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	*17.2*	**6,734**	**4,173**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	*17.2*	**10,935**	**5,399**

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

1. General information

1.1 Information on the parent

PGE Polska Grupa Energetyczna S.A. was founded on the basis of a notarial deed of August 2, 1990 and registered in the District Court in Warsaw, XVI Commercial Department on September 28, 1990. The Company was entered into the National Court Register kept by the District Court for Krakow- Śródmieście in Kraków, XII Commercial Division of the National Court Register, under number KRS 0000059307. As of June 30, 2022, the parent company's registered office is in Warsaw, ul. Mysia 2. On April 6, 2022, an Extraordinary General Meeting adopted a resolution to change the Company's registered office to Lublin. On July 1, 2022, the change was registered in the National Court Register maintained by the District Court for Lublin-Wschód in Lublin, based in Świdnik, VI Commercial Division of the National Court Register, and the registered office is now located in Lublin at Aleja Kraśnicka 27.

As at January 1, 2022, the composition of the Company's Management Board was as follows:

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

At June 30, 2022, and on the date on which these financial statements were published, the Company's Management Board did not change.

Ownership structure

The parent's ownership structure was as follows:

	As at June 30, 2022	As at 31 December 2021
State Treasury	60.86%	57.39%
Other shareholders	39.14%	42.61%
Total	**100.00%**	**100.00%**

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

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

As disclosed in note 27.3 to these financial statements, the Company in the present period reduced the nominal value of its shares and increased its share capital. The changes in the Company's share capital were registered at the National Court Register on May 18, 2022.

On May 20, 2022, the Company received a notification of a change in the total number of votes held by the State Treasury. As at the date of approval of this report for publication, the State Treasury holds 60.86% of the total number of votes. Taking into account the shares held by State Treasury subsidiary Towarzystwo Finansowe Silesia sp. z o.o., the State Treasury holds a total share of 61.70% in the total number of votes.

1.2 Information on PGE Group

PGE Group consists of the parent, PGE S.A., along with 78 consolidated subsidiaries. Also subject to consolidation are 3 entities constituting a joint operation, 3 associates and 1 jointly controlled entity. For additional information about subsidiaries included in the consolidated financial statements please refer to note 1.3.

These consolidated financial statements of PGE Group cover the period from January 1, 2022 to June 30, 2022 and include comparative data for the period from January 1, 2021 to June 30, 2021. These condensed consolidated interim financial statements do not include all of the information and disclosures required in annual financial statements and they should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2021, approved for publication on March 21, 2022.

The financial statements of all subordinated entities were prepared for the same reporting period as the financial statements of the parent company, using consistent accounting principles. Companies acquired in the course of the financial year were the exception, preparing financial data for the period from the moment when PGE Group obtained control.

PGE Group companies' core activities are as follows:

- production of electricity,
- distribution of electricity,
- wholesale and retail trade in electricity, energy origin rights, CO_2 emission allowances and natural gas,
- production and distribution of heat,
- provision of other services related to these activities

Business activities are conducted under appropriate concessions granted to specific PGE Group companies.

Going concern

These financial statements were prepared under the assumption that the key Group companies will continue operating as a going concern for at least 12 months from the reporting date.

In 2021, ENESTA sp. z o.o. terminated unfavourable contracts for the supply of electricity and natural gas. In connection with this, as of December 31, 2021 a PLN 279 million provision for counterparty claims was created. Some counterparties took their claims to court in 2022. After unsuccessful attempts to reach an agreement with its counterparties, ENESTA filed for restructuring proceedings. On June 21, 2022, restructuring (sanitation) proceedings were opened - notice in the National Debtors Register. As at June 30, 2022, ENESTA recalculated the provisions and an additional provision of PLN 82 million was created. Additionally, receivables from counterparties who have taken legal action were written down by PLN 161 million. ENESTA sp. z o.o. recognised contingent liabilities of PLN 105 million due to claims from counterparties over and above the value of provisions and impairment losses recognised.

As at June 30, 2022, the value of ENESTA's assets and equity and liabilities is PLN 176 million and the value of equity is PLN (371) million.

Aside from the issue of ENESTA sp. z o.o. w restrukturyzacji, at the date of the approval of these financial statements, there is no evidence indicating that the going concern of significant Group companies is endangered.

Changes in accounting policies

With the exception of the change described in note 4, the same accounting principles (policy) and calculation methods were applied in these financial statements as in the most recent annual financial statements. These financial statements should be read in conjunction with PGE Group's consolidated financial statements for the year ended December 31, 2021, published on March 21, 2022.

1.3 PGE Group's consolidated companies

1.3.1 Fully consolidated direct and indirect subsidiaries

	Entity	Entity holding stake	Stake held by Group entities as at June 30, 2022	Stake held by Group entities as at 31 December 2021
	SEGMENT: SUPPLY			
1.	PGE Polska Grupa Energetyczna S.A. Warsaw	Parent		
2.	PGE Dom Maklerski S.A. Warsaw	PGE S.A.	100.00%	100.00%
3.	PGE Obrót S.A. Rzeszów	PGE S.A.	100.00%	100.00%
4.	ENESTA sp. z o.o. w restrukturyzacji Stalowa Wola	PGE Obrót S.A.	87.33%	87.33%
5.	PGE Paliwa sp. z o.o. Kraków	PGE EC S.A.	100.00%	100.00%

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

	Entity	Entity holding stake	Stake held by Group entities as at June 30, 2022	Stake held by Group entities as at 31 December 2021
39.	PGE Baltica sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
40.	PGE Klaster sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
	PGE Soleo 1 sp. z o.o. Warsaw	PGE EO S.A.	-	100.00%
41.	PGE Soleo 2 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
42.	PGE Soleo 3 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
43.	PGE Soleo 4 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
44.	PGE Soleo 5 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
45.	PGE Soleo 6 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
46.	PGE Soleo 7 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	-
47.	Mithra A sp. z o.o. Poznań	PGE EO S.A.	100.00%	-
48.	Mithra B sp. z o.o. Poznań	PGE EO S.A.	100.00%	-
49.	Mithra L sp. z o.o. Poznań	PGE EO S.A.	100.00%	-
50.	Mithra V sp. z o.o. Warsaw	PGE EO S.A.	100.00%	-
51.	Collfield Investments sp. z o.o. Kraków	PGE EO S.A.	100.00%	-
52.	Future Energy sp. z o.o. Kraków	PGE EO S.A.	100.00%	-
53.	Radzyn Clean Energy Poland sp. z o.o. Warsaw	PGE EO S.A.	100.00%	-
54.	Elwiatr Pruszyński sp. z o.o. Kraków	PGE EO S.A.	100.00%	-
	SEGMENT: DISTRIBUTION			-
55.	PGE Dystrybucja S.A. Lublin	PGE S.A.	100.00%	100.00%
	SEGMENT: OTHER ACTIVITY			
56.	PGE Systemy S.A. Warsaw	PGE S.A.	100.00%	100.00%
57.	PGE Sweden AB (publ) Stockholm	PGE S.A.	100.00%	100.00%
58.	PGE Synergia sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
	„Elbest" sp. z o.o. Bełchatów	PGE S.A.	-	100.00%
59	ELBIS sp. z o.o. Rogowiec	PGE S.A.	100.00%	100.00%
60.	PGE Inwest 2 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
61.	PGE Ventures sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
62.	PGE Gryfino 2050 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
63.	PGE Inwest 9 sp. z o.o. (currently PGE Obsługa Klienta sp. z o.o.) Warsaw	PGE S.A.	100.00%	100.00%
64.	PGE Inwest 10 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
65.	PGE Inwest 11 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
66.	PGE Inwest 12 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
67.	PGE Asekuracja S.A. (formerly PGE Inwest 13 S.A.) Warsaw	PGE S.A.	100.00%	100.00%
68.	PGE Inwest 14 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
69.	PGE Nowa Energia sp. z o.o. w likwidacji Warsaw	PGE S.A.	100.00%	100.00%
70.	Towarzystwo Funduszy Inwestycyjnych Energia S.A. Warsaw	PGE S.A.	100.00%	100.00%
71.	Rybnik 2050 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
72.	PGE Inwest 20 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%

	Entity	Entity holding stake	Stake held by Group entities as at June 30, 2022	Stake held by Group entities as at 31 December 2021
73.	PGE Inwest 21 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
74.	PGE Inwest 22 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
75.	PGE Inwest 23 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
76.	PGE Inwest 24 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
77.	PGE Inwest 25 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
	BIO-ENERGIA sp. z o.o. Warsaw	PGE EO S.A.	-	100.00%
	Przedsiębiorstwo Transportowo-Usługowe „ETRA" sp. z o.o. Białystok	PGE Dystrybucja S.A.	-	100.00%
78.	Energetyczne Systemy Pomiarowe sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
	Przedsiębiorstwo Usługowo-Handlowe TOREC sp. z o.o. Toruń	PGE Toruń S.A.	-	51.05%
79.	4Mobility S.A. Warsaw	PGE Nowa Energia sp. z o.o. w likwidacji	51.47%	51.47%
	PIMERGE S.A. Wrocław	PGE Ventures sp. z o.o.	-	89.87%

The table above includes the following changes in the structure of PGE Group companies subject to full consolidation which took place during the period ended June 30, 2022.

- The merger of PGE EC S.A. (acquiring company) and Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. (acquired company) was registered at the National Court Register on June 30, 2022. The merger had no impact on these consolidated financial statements of PGE Group.
- On February 4, 2022 PGE EO S.A. purchased 100% of shares in Mithra A sp. z o.o., Mithra B sp. z o.o., Mithra L sp. z o.o. and Mithra V sp. z o.o., which own 7 PV projects with a total capacity of 26 MW, for the total price of PLN 18.7 million.
- On March 4, 2022 an agreement was performed to sell all Elbest sp. z o.o. shares held by PGE S.A. to Polski Holding Hotelowy sp. z o.o. The gain on this company's sale at the level of the consolidated financial statements was PLN 19 million.
- The merger of PGE Dystrybucja S.A. (acquiring company) and Przedsiębiorstwo Transportowo-Usługowe "ETRA" sp. z o.o. (acquired company) was registered at the National Court Register on June 30, 2022. The merger had no impact on these consolidated financial statements of PGE Group.
- On March 31, 2022, an Extraordinary General Meeting of PGE Nowa Energia sp. z o.o. adopted a resolution to dissolve PGE Nowa Energia sp. z o.o. and appoint a liquidator to carry out liquidation.
- A conditional agreement to sell all PHU Torec sp. z o.o. shares held by PGE Toruń S.A. was executed on April 4, 2022. The conditions for the transfer of the ownership right to shares specified in the above agreement, i.e. transfer of the sale price to the seller and adoption of a resolution on cancellation of shares by the General Meeting of PHU Torec sp. z o.o., were fulfilled, therefore as of April 21, 2022 PHU Torec sp. z o.o. is no longer part of PGE Group.
- The merger of PGE EO S.A. (acquiring company) and Bio-Energia sp. z o.o. (acquired company) was registered at the National Court Register on June 30, 2022. The merger had no impact on these consolidated financial statements of PGE Group.
- Because of the submitted motions to put the company into bankruptcy, PIMERGE S.A. was removed from consolidation at the beginning of 2022. The loss on this at the level of the consolidated financial statements was PLN 1 million.
- On April 1, 2022, PGE EO S.A. and Vanadium Holdco Limited, which is owned by Green Investment Group, part of the Australia-based global fund Macquarie, executed a conditional share purchase agreement as a result of which PGE EO S.A. committed to acquiring 100% of shares in Collfield Investments, which owns 100% of shares in three SPVs operating three wind farms with a total capacity of 84.2 MW. The transaction value was PLN 939 million. A condition precedent for this transaction is the approval of the Office of Competition and Consumer Protection. The ownership of shares was transferred to PGE EO S.A. on June 21, 2022. As at June 30, 2022, Collfield Investments sp. z o.o., Future Energy sp. z o.o., Radzyn Clean Energy Poland sp. z o.o., Elwiatr Pruszyński sp. z o.o. were consolidated. A preliminary accounting for the acquisition of these companies is presented in note 1.4 of these consolidated financial statements.

Events after the reporting period

- On January 14, 2022 the Extraordinary General Meeting of 4Mobility S.A. adopted a resolution to increase share capital by PLN 130,000 by way of a share issue. All of the new shares were offered in a private placement exclusively to EFF B.V., based in Maastricht - an existing shareholder of 4Mobility S.A. As a result of the share capital increase, PGE Nowa Energia sp. z o.o.'s stake will decrease from 51.47% to 37.93%, which means that 4Mobility S.A. will become a PGE Group associate. The share capital increase was registered at the National Court Register on July 15, 2022. From that date forward, 4Mobility S.A. is no longer a PGE Group subsidiary.
- On March 17, 2022, PGE S.A. and Powszechny Zakład Ubezpieczeń S.A. executed a preliminary agreement to sell 100% shares of TFI Energia S.A. Closing the share sale transaction required approvals from the Polish Financial Supervision Authority and the President of the Office of Competition and Consumer Protection. The ownership of shares was transferred to PZU S.A. on July 15, 2022.
- On November 18, 2021 PGE S.A. as the vendor and ENEA S.A. as the buyer signed a conditional agreement for the sale of a 33.8% stake held by PGE S.A. in EWB4, EWB5 and EWB6. The entry into force of the conditional share purchase agreement and the transfer of ownership of the shares to ENEA was subject to fulfilment of conditions precedent. On July 25, 2022, the ownership of shares in EWB4, EWB5 and EWB6 was transferred to ENEA S.A. The result on the sale of 33.8% of shares in these companies, which will be recognised in the next period at the level of the consolidated financial statements, will amount to approx. PLN 1 million.

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

	Entity	Entity holding stake	Stake held by Group entities as at June 30, 2022	Stake held by Group entities as at 31 December 2021
	SEGMENT: RENEWABLES			
1.	Elektrownia Wiatrowa Baltica-2 sp. z o.o. Warsaw	PGE Baltica 6 sp. z o.o.	50.00%	50,00%
2.	Elektrownia Wiatrowa Baltica-3 sp. z o.o. Warsaw	PGE Baltica 5 sp. z o.o.	50.00%	50,00%
3.	PGE Soleo Kleszczów sp. z o.o. Kleszczów	PGE EO S.A.	50.00%	-

On May 12, 2022, a PLN 4.1 million increase in the share capital of PGE Soleo 1 sp. z o.o. was registered with the National Court Register, through the creation of 4,100 new shares with a nominal value of PLN 1,000 each. The share capital increase was recognised as follows: PGE EO S.A. acquired 2,000 of the new-issue shares in exchange for a PLN 2 million cash contribution, while the Municipality of Kleszczów acquired 2,100 of the new-issue shares and paid PLN 2.1 million.

As a result of the above transaction, PGE EO S.A. and Kleszczów Municipality hold shares representing 50% of share capital each, and PGE Soleo 1 sp. z o.o. is no longer a PGE Group subsidiary but a joint venture subject to consolidation to the extent of assets and liabilities, revenues and costs attributable to PGE Group.

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

	Entity	Entity holding stake	Stake held by Group entities as at June 30, 2022	Stake held by Group entities as at 31 December 2021
1.	Polska Grupa Górnicza S.A. Katowice	PGE GiEK S.A.	15,32%	15,32%
2.	Polimex Mostostal S.A. Warsaw	PGE S.A.	16,48%	16,40%
3.	PEC Bogatynia Bogatynia	PGE EC S.A.	34,93%	34,93%
4.	Energopomiar sp. z o.o. Gliwice	PGE Group companies	49,79%	49,79%

Three tranches of the call options were exercised in the first half of 2022, as a result of which PGE S.A. acquired 500,000 shares of Polimex Mostostal S.A. In effect, PGE S.A.'s stake in Polimex Mostostal S.A. increased from 16.40% to 16.48%.

A conditional agreement on the sale of shares in Polska Grupa Górnicza S.A. was executed on August 3, 2022. Pursuant to the agreement, PGE GiEK S.A. will sell to the State Treasury all of its shares in PGG at a price of PLN 1 for all shares held. The value of the investment in PGG has been fully written down and therefore the sale transaction will not have a material impact on the future consolidated financial statements of PGE Group.

The ownership of PGG shares will be transferred to the State Treasury on the condition that the National Agricultural Support Centre does not exercise its pre-emptive right.

1.4 Accounting for new acquisitions of subsidiaries

On June 21, 2022, PGE EO S.A. purchased from Vanadium Holdco Limited 100% of the shares in Collfield Investments, which holds a 100% stake in three special purpose vehicles (Future Energy sp. z o.o., Radzyn Clean Energy Poland sp. z o.o., Elwiatr Pruszyński sp. z o.o.) operating three wind farms with a total capacity of 84.2 MW.

In accordance with the requirements of IFRS 3 *Business Combinations*, a preliminary analysis was carried out as to whether the assets and liabilities acquired meet the definition of a business and the transaction should be accounted for under IFRS 3 as a business combination, or whether the assets acquired do not constitute a business and the transaction should be accounted for as an asset acquisition.

In these financial statements, the transaction was initially reported as an asset acquisition. However, analyses have not been completed yet.

The transaction value was PLN 939 million. The amount of PLN 344 million was used to pay for the shares, and PLN 595 million concerned a subrogation of liabilities.

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

2. Basis for preparation of financial statements

2.1 Statement of compliance

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

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

2.2 Presentation and functional currency

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

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

	June 30, 2022	31 December 2021	June 30, 2021
USD	4.4825	4.0600	3.8035
EUR	4.6806	4.5994	4.5208

2.3 New standards and interpretations that have been published but are not yet effective

The following standards, amendments to existing standards and interpretations are not yet endorsed by the European Union or are not effective as at January 1, 2022:

Standard	Description of changes	Effective date
IFRS 14 Regulatory Deferral Accounts	Accounting and disclosure principles for regulatory deferral accounts.	In accordance with a decision by the European Commission, the approval process for the standard in its preliminary version will not begin before the final version is published.
Amendments to IFRS 10 and IAS 28	Contains guidelines on the sale or contribution of assets between an investor and its joint venture or associate.	Postponed indefinitely
IFRS 17 Insurance contracts	Defines a new approach to recognising revenue and profit/loss in the period in which insurance services are provided	January 1, 2023
Amendments to IFRS 17 Insurance Contracts	First-time Adoption of IFRS 17 and IFRS 9 - Comparative Data	January 1, 2023
Amendments to IAS 1	The changes concern presentation of financial statements - Classification of Liabilities as Current or Non-current	January 1, 2023
Amendments to IAS 1	The amendments concern the presentation of financial statements - disclosures regarding the applied accounting policy	January 1, 2023
Amendments to IAS 8	The amendments concerning disclosures regarding the applied accounting policy, including changes in estimated values and correcting errors	January 1, 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	January 1, 2023

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

2.4 Professional judgement of management and estimates

In the process of applying accounting rules with regards to the below issues, management has made judgements and estimates that affect the amounts presented in the consolidated financial statements, including in other explanatory information. The estimates are based on the best knowledge of the Management Board relating to current and future operations and events in particular areas. Detailed information on the assumptions made is presented below or in respective explanatory notes.

- During the reporting period, the Group conducted asset impairment tests as of June 30, 2022. The test results are described in note 3 to these financial statements.
- Estimates of the recoverable amount of property, plant and equipment are based on a number of significant assumptions, the appearance of which is uncertain and mostly beyond PGE Group's control. The Group believes that it has assumed the most accurate volumes and values. Nevertheless, realisation of the particular assumptions may diverge from the ones established by the Group.
- Provisions are liabilities of uncertain amount or timing. During the reporting period, the Group changed estimates regarding the validity or amounts of some provisions.
  In particular, during the reporting period a provision for land rehabilitation and a provision for employee benefits were updated due to an increase in the discount rate and inflation. Details are presented in note 21 to these financial statements.
- Uncertainties concerning tax settlements are described in note 25 to these consolidated financial statements.

- No significant extensions in the payment of receivables or problems with liquidity resulting from the COVID-19 pandemic were observed as of the reporting date. Following the pandemic's outbreak, in 2020 the Group updated its models for estimating expected credit losses. For the purposes of estimating the expected credit losses, counterparties were split into two groups: strategic counterparties, which have been internally assigned ratings based on a scoring model, and other counterparties, for which expected credit losses are estimated based on a provisions matrix. For the first group of counterparties, the basis for calculating expected credit losses was changed. Losses are currently calculated on the basis of Credit Default Swap (CDS) prices, while for the other group of counterparties percentage coefficients in each time interval of the provisions matrix were updated to a level corresponding to the current recovery rate for receivables.

3. Impairment tests on property, plant and equipment, intangible assets, right-of-use assets and goodwill

Property, plant and equipment is PGE Group's most significant group of assets. Due to variable macroeconomic conditions PGE Group regularly verifies indications of impairment for its assets. When assessing the market situation PGE Group uses both its own analytical tools and support from independent analytical centres. In previous reporting periods, PGE Group recognised substantial impairment allowances of property, plant and equipment of Conventional Generation segment and the Renewables segment. An impairment loss that had been recognised in the Renewables segment was also reversed in previous reporting periods.

In the current reporting period, the Group analysed impairment indications and identified factors that could result in changes to the asset values in the above segments.

External factors

- PGE's market capitalisation remaining below net asset book value.
- Global energy crisis, characterised by rising levels of fuel, electricity and CO_2 prices and levels of volatility hitherto unobserved. This crisis was intensified by Russia's invasion of Ukraine on 24 February 2022 and the emergence of the risk of coal and gas shortages in Europe:
  - The average electricity price for forward contracts for the year ahead (Y+1) in the first half of 2022 was 820 PLN/MWh, and was 165% higher than in the same period last year.
  - CO_2 prices, after a sharp collapse triggered by the pandemic outbreak in mid-March 2020, began to recover until a sharp increase began in November 2021. In the first half of 2022, the average weighted price of the EUA DEC 22 instrument was 82.01 EUR/t and was significantly higher (+116%) than the average price of EUA DEC 21 in the same period of the previous year.
  - The average price of hard coal at ARA ports in monthly follow-on contracts in the first half of 2022 was USD 264/t, up 240% compared to the first half of 2021.
  - The average price of natural gas in futures contracts in the first half of 2022 was EUR 100/MWh, an increase of 361% compared to half year 2021.

- Rising inflation and changes in financial markets, where tighter monetary policy is being applied.

Following an analysis of these factors, the Group conducted asset impairment tests as at June 30, 2022 for the Conventional Generation and Renewables segments and the District Heating segment, in which goodwill is assigned. The tests showed that no impairment losses or reversals of impairment losses were necessary for mentioned segments.

In the current reporting period, the group also analysed whether there were indications of impairment of goodwill recognised on Elektrownia Wiatrowa Baltica - 2 sp. z o.o. and Elektrownia Wiatrowa Baltica - 3 sp. z o.o. This analysis showed no grounds for recognising an impairment loss.

Macroeconomic assumptions

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

Electricity price forecasts assume a decline between 2024 and 2026 relative to 2023 prices, followed by an average annual increase of approx. 6% in 2027-2030.

Price projections for CO_2 emission allowances assume an increase in 2024 relative to 2022, followed by an average annual decline in 2025-2026 at approx. 17.2% relative to 2024, and an average annual increase between 2027 and 2029 of approx. 14.6%. A slight decrease is expected in 2030, in comparison with 2029, followed by stable growth at approx. 4% annually until 2040.

Hard coal price forecasts assume an average annual decline of about 25.3% between 2024 and 2026 relative to 2023 prices, followed by an average annual increase of approx. 2.4% until 2040.

The forecasts for natural gas prices expect an annual average decrease of approx. 29.3% in 2024-2026 relative to 2023, followed by an average annual growth of approx. 3.8% in subsequent years.

The price forecasts for certificates of origin for energy expect an average annual decrease of approx. 2.7% in 2024-2031 relative to 2023, which is related to the decreasing obligation to redeem these certificates.

The forecast for revenue from the capacity market for 2023-2026 is based on the results of completed main and additional auctions for these delivery periods, taking into account the joint balancing mechanism at PGE Group companies. From 2027, the forecast was developed by a team of experts at PGE S.A. on the basis of assumptions concerning estimated future flows for generating units, based on, inter alia, results of completed auctions and forecasts from an external expert. As of 1 July 2025, all Capacity Market Entities that have entered into capacity contracts after 31 December 2019 (i.e. for contracts entered into in the Main Auction for the delivery year 2025 onwards) will be subject to an emissions criterion of 550g CO_2/kWh (so-called EPS 550), which will effectively exclude all coal units from participating in subsequent Capacity Market auctions.

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

Weighted average cost of capital

The first half of 2022 in the energy and related products market remained under strong pressure from the post-Covid rebound in economies around the world as well as changes in financial markets, where tighter monetary policy is being pursued. In addition, there is a war in Ukraine, which has created additional risks to the availability of hydrocarbons from the east. These factors have caused major disruption and abruptly changed trends in financial and commodity markets. One important element of the market that has been affected is the discount rate (weighted average cost of capital) adopted for asset impairment testing. According to PGE Group, the determination of a fixed cost of capital for subsequent years on the basis of recent market characteristics is not justified, therefore it was decided that in the first years of the projection the situation is influenced by current events, while in subsequent years the weighted average cost of capital will approach the average of the last 11 years (covering the full business cycle since the last crisis in the financial and commodity markets).

Climate matters

In July 2021, the European Commission published the Fit for 55 legislative package, which intends to, inter alia, reduce GHG emissions in the EU by 55% (previously 40%) by 2030, in comparison with 1990. In line with the expectations of market participants, the EU ETS reform included in the package should result in a considerable increase in the prices of CO_2 emission allowances, which in practice already took place in 2021. The high price level of CO_2 allowances also continued in the first half of 2022.

PGE Group is monitoring the market and regulatory situation on an on-going basis. The current record levels of fuel, electricity and CO_2 prices and their previously-not-seen levels of volatility mean that PGE Group faces a high degree of uncertainty regarding future developments. This is why, in the long term, the Group has decided to leave the assumptions developed by the independent think tank adopted for the impairment tests carried out in 2021. These assumptions have been adjusted for own estimates for the first three years of the forecast so as to account for the best present knowledge of the situation in energy markets. Future changes on the electricity market may differ from the current assumptions, which may lead to substantial changes in PGE Group's financial situation and results. They will be recognised in future financial statements.

3.1 Description of assumptions for the Conventional Generation segment

Impairment tests were conducted on June 30, 2022, on cash generating unit basis by establishing their recoverable amounts. Determining fair value for very large groups of assets for which there is no active market and there are few comparable transactions is very difficult in practice. In the case of complete power plants and mines for which a value on the local market should be determined there are no observable fair values. Given the above, the recoverable value of the analysed assets was estimated on the basis of discounted net cash flow method which relied on financial projections prepared for the period from July 2022 to the end of service life. According to the Group, financial projections longer than five years are justified due to significant and long-term effects of projected changes in the regulatory environment. Using longer projections, recoverable amounts may be determined more reliably.

Detailed segment assumptions

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

- classify the following as one CGU due to technological links:
  - Branch KWB Bełchatów and Branch Elektrownia Bełchatów,
  - Branch KWB Turów and Branch Elektrownia Turów,
- adopt the following assumptions about going concern:
  - until 2036 for the Bełchatów complex, based on a shut-down date for all units accepted by the trade unions and adopted for the purposes of the Just Transition Plan for Łódzkie Voivodship,
  - until 2044 for the Turów complex, based on a decision prolonging the mining concession to 2044, dated April 28, 2021,
- take into account work cost optimisation resulting from current work plans, among other things,
- maintain production capacities as a result of replacement-type investments,
- adopt varied levels of WACC after tax for the projection period, depending on the CGU, in accordance with an individually estimated level of risk:
  - for 2022-2025: average annual level for each CGU of 9.05% - 10.05%,
  - for 2026-2036: average annual level for each CGU of 6.73% - 7.64%,

As at June 30, 2022, the value of tested property, plant and equipment and intangible assets at PGE GiEK S.A. amounted to PLN 19,583 million. This value does not include CGUs for which the useful value of tested assets is negative. As a result of an asset impairment test, the Group concluded that there is no need to recognise or reverse impairment losses on these assets.

Sensitivity analysis

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

Presented below is the impact of changes in key assumptions on the useful value of assets in the Conventional Generation segment as at June 30, 2022.

Parameter	Change	Impact on useful value in PLNm	
		Increase	Decrease
Change in electricity prices throughout the forecast period	1%	2.368	
	-1%		2.371

A decline in electricity price by 1% would have caused a PLN 2.4 billion decrease in useful value.

Parameter	Change	Impact on useful value in PLNm	
		Increase	Decrease
Change in WACC	+0.5pp		1.071
	-0.5pp	1.147	

An increase in WACC by 0.5 percentage points would have caused a PLN 1.1 billion decrease in the useful value of assets.

Parameter	Change	Impact on useful value in PLNm	
		Increase	Decrease
Changes in prices for CO_2 emission allowances	1%		1.251

An increase in the price of CO_2 emission allowances by 1% would have caused a PLN 1.3 billion decrease in useful value.

Climate matters

The future of the Polish energy market is determined by the European Union's climate policy, and developments in the electricity market through 2050 will be influenced by the European Green Deal ("EGD"), which aims to achieve EU climate neutrality by 2050. One of the most important steps towards achieving climate neutrality was the European Council's acceptance in December 2020 of a new binding EU target to reduce net greenhouse gas emissions by at least 55% by 2030 relative to 1990 levels. The consequence of a higher CO_2 emission reduction target is the growing cost of CO_2 emission allowances, which may have a negative impact on the results of the Conventional Generation segment and PGE Group. The macroeconomic assumptions adopted for the impairment tests take into account the new higher CO_2 emission reduction target in 2030 and, as a result, the increasing level of CO_2 emission allowance prices in the long term.

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

3.2 Description of assumptions for the District Heating segment

Impairment tests on non-current assets were conducted as of June 30, 2022, on cash generating unit basis by establishing their recoverable amounts. Determining fair value for very large groups of assets for which there is no active market and there are few comparable transactions is very difficult in practice. In the case of complete power plants and mines for which a value on the local market should be determined there are no observable fair values. Given the above, the recoverable value of the analysed assets was estimated on the basis of discounted net cash flow method which relied on financial projections prepared for the period from July 2022 to the end of 2030. According to the Group, financial projections longer than five years are justified due to significant and long-term effects of projected changes in the regulatory environment. Using longer projections, recoverable amounts may be determined more reliably. For generating units with expected periods of economic useful lives in excess of 2030, a residual value was determined for the remaining service time.

The energy market, and especially the heat market, is a regulated market in Poland and as such is subject to numerous regulations and cannot be freely shaped on the basis of business decisions alone. The Energy Law's goals include taking effective regulatory action to ensure energy security. This means that the regulatory environment is intended to ensure a stable operation of heat suppliers in a given area to meet the long-term needs of consumers. According to the Energy Law, the Energy Regulatory Office President may, in extreme cases, even order an energy company to carry out activities covered by a concession (for a period not longer than 2 years), if the public interest so requires. If this is a loss-making activity, the energy company is entitled to loss coverage from the State Treasury.

As such, the Group does not use a finite CGU lifecycle due to the regulatory environment which limits the possibility of discontinuation. Due to the above, impairment tests assumed the continuation of operations (in the form of residual value), while maintaining expenditures at a replacement level, in the long-term due to, inter alia, social interest in the form of ensuring heat supply. With respect to the generation assets covered by the Decarbonisation Plan, replacement investments relate to the transition of generation capacity (to gas-fired assets) via the use of new low- or zero-carbon generation units, which means that the cash generated by these assets is taken into account in the impairment tests.

Climate matters

The 2050 Decarbonisation Plan for the District Heating segment was approved in October 2021, which aims to fulfil regulatory requirements in the energy industry and retain the existing generation potential in the long-term in order to meet customer needs. The Decarbonisation Plan operationalises objectives specified directly in PGE Group's strategy and in the District Heating segment strategy implementation plan. The plan identifies the locations where the transformation of manufacturing assets will take place, the timing of major activities, planned expenditures and effects. Generation capacity transition via new low- or zero-carbon generating units is planned for the 2030 horizon, and climate neutrality for the 2050 horizon.

Detailed segment assumptions

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

- specific units of PGE EC S.A. being considered as separate CGUs Branch no. 1 in Kraków (CHP Kraków), Branch Wybrzeże (CHP Gdańsk, CHP Gdynia), Branch in Rzeszów (CHP Rzeszów), Branch in Lublin (CHP in Lublin Wrotków), Branch in Bydgoszcz (CHP Bydgoszcz I, CHP Bydgoszcz II), Branch in Gorzów Wielkopolski (CHP in Gorzów Wielkopolski), Branch in Zgierz (CHP in Zgierz), Branch in Kielce (CHP in Kielce), Branch in Szczecin (CHP in Szczecin, CHP in Pomorzany, district heating network in Gryfino);
- three production facilities owned by KOGENERACJA S.A. being considered as one CGU: CHP Wrocław, CHP Czechnica, CHP Zawidawie;
- for the period from 2022 it is assumed that PGE Group producers do not receive free-of-charge allocations of CO_2 emission allowances for the production of electricity;
- taking account of the allocation of free CO_2 emission allowances in the period 2022-2030 for system district heating and high-efficiency cogeneration. Member States may apply for a 30% free allocation of emission allowances for heat in the period from 2022 to 2030, with the 30% value relating to the gas benchmark and district heating supply for municipal purposes,
- assumption for conventional plants that during the residual period there will be support from the capacity market or equivalent;
- take into account the support system for high-efficiency cogeneration in the forecast horizon and in the residual period: for existing units, support was assumed in the form of guaranteed bonus and, if the financing gap condition is met, individual guaranteed bonus; a cogeneration bonus is to be granted to new gas units;
- maintain production capacities as a result of replacement-type investments. For generating assets in respect of which actions have been taken to implement the Decarbonisation Plan, replacement expenditures represent the transition of generation assets to gas-fired assets. The decarbonisation plan encompasses the following locations: Kraków, Gdańsk, Gdynia, Wrocław, Bydgoszcz, Kielce, Zgierz;
- taking into account development investments, for projects with a high level of advancement, minimum inclusion in the Company's approved investment plan
- taking into account development investments, for projects with a high level of advancement, minimum inclusion in the Company's approved investment plan
- adopt WACC after tax for the projection period at different levels:
  - for 2022-2025: average annual level of 9.05%
  - for 2026-2030: average annual level of 6.73%

As at June 30, 2022, the value of tested property, plant and equipment in the District Heating segment was PLN 4,979 million, and goodwill amounted to PLN 192 million. As a result of an asset impairment test, the Group concluded that there is no need to recognise or reverse impairment losses on these assets.

Sensitivity analysis

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

Presented below is the impact of changes in key assumptions on the useful value of assets in the District Heating segment as at June 30, 2022.

Parameter	Change	Impact on useful value in PLNm	
		Increase	Decrease
Change in electricity prices throughout the forecast period	1%	547	
	-1%		548

A decline in electricity price by 1% would have caused a PLN 0.5 billion decrease in useful value.

Parameter	Change	Impact on useful value in PLNm	
		Increase	Decrease
Change in WACC	+0.5pp		1.768
	-0.5pp	1.992	

An increase in WACC by 0.5 percentage points would have caused a PLN 1.8 billion decrease in the useful value of assets.

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

3.3 Description of assumptions for the Renewables segment

Impairment tests were conducted as at June 30, 2022, on cash generating unit basis by establishing their recoverable amounts. The recoverable value of the analysed assets was estimated on the basis of discounted net cash flow method which relied on the financial projections prepared for the assumed useful life of the particular CGU in the case of wind farms or for 2022-2030 in the case of other CGUs. For CGUs with expected periods of economic useful lives in excess of 2030, a residual value was determined for the remaining service time. According to the Group, financial projections longer than five years are justified because the property, plant and equipment used by the Group have significantly longer useful lives and also due to considerable and long-term effects of projected changes in the regulatory environment included in the detailed forecast.

Detailed assumptions

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

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

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

- adopt WACC after tax for the projection period at different levels:
  - for 2022-2025: average annual level of 9.05%
  - for 2026-2030: average annual level of 6.73%

As at June 30, 2022, the value of tested property, plant and equipment in the Renewables segment was PLN 2,534 million. As a result of an asset impairment test, the Group concluded that there is no need to recognise or reverse impairment losses on these assets.

Sensitivity analysis

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

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

Parameter	Change	Impact on useful value in PLNm	
		Increase	Decrease
Change in electricity prices throughout the forecast period	1%	87	
	-1%		87

A decline in electricity price by 1% would have caused a PLN 0.1 billion decrease in useful value.

Parameter	Change	Impact on useful value in PLNm	
		Increase	Decrease
Change in WACC	+0.5pp		1.257
	-0.5pp	1.590	

An increase in WACC by 0.5 percentage points throughout the forecast period would have caused a PLN 1.3 billion decrease in the useful value of assets.

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

Impairment tests were conducted as at June 30, 2022, on cash generating unit basis by establishing their recoverable amounts. The recoverable value of the analysed assets was estimated on the basis of discounted net cash flow method which relied on the financial projections prepared for the assumed useful life of the wind farms.

Detailed assumptions

- production of electricity is assumed on the basis of assumptions for the investment model,
- adopt WACC after tax for the projection period at different levels:
  - adopt WACC in the period of support in the form of auction price for 2022-2024 at 7.25% and for 2025-2030 at 4.50%.
  - over the remaining projection period, after the end of the support period, at 5.56%.

As at June 30, 2022, the value of tested property, plant and equipment and intangible assets at PGE Klaster Sp. z o.o. amounted to PLN 677 million. As a result of an asset impairment test, the Group concluded that there is no need to recognise or reverse impairment losses on these assets.

Sensitivity analysis

In accordance with IAS 36, the Group performed a sensitivity analysis for PGE Klaster sp. z o.o.'s wind farms. Presented below is the impact of changes in WACC on the useful value of assets as at June 30, 2022:

Parameter	Change	Impact on useful value in PLNm	
		Increase	Decrease
Change in WACC	+0.5pp		60
	-0.5pp	65	

An increase in WACC by 0.5 percentage points throughout the forecast period would have caused a PLN 60 million decrease in the useful value of assets.

3.4 Analysis of indications for the Wind Energy project

In 2021, Ørsted acquired stakes in the increased share capital of Elektrownia Wiatrowa Baltica - 2 sp. z o.o. and Elektrownia Wiatrowa Baltica - 3 sp. z o.o. Following this transaction, Ørsted Group became a 50% shareholder in EWB2 and EWB3. In effect, PGE Group lost control over these two companies. *Based on agreements executed between PGE Group and Ørsted Group companies, Elektrownia Wiatrowa Baltica - 2 sp. z o.o. and Elektrownia Wiatrowa Baltica - 3 sp. z o.o. constitute a joint operation in the meaning of IFRS 11* Joint Arrangements. As a resulting of accounting for the loss of control, goodwill of PLN 81 million were recognised in the consolidated financial statements.

At the end of the reporting period, the Group performed an analysis of indications in order to determine whether goodwill is impaired.

The most important factors included:

- analysis of the revenue side secured with a contract for difference,
- impact of a rise in inflation and WACC,
- project timetables
- Project development phase budget, i.e. DEVEX.

The EWB2 and EWB3 projects are entitled to public support and consequently safety on the revenue side that is indexed for inflation, thus partially mitigating the negative aspects of the macroeconomic environment. In addition, the project is at an advanced stage of development and, as at the date of approval for publication of these consolidated financial statements, no delay in the date of the final investment decision is expected. The project development phase is implemented with an approved budget sufficient until the FID is made. In view of the above, in the opinion of PGE Group at the reporting date, there are no indications for an impairment of goodwill arising on the EWB2 and EWB3 projects.

4. Changes in accounting principles and data presentation

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

The accounting principles (policy) applied in preparing these financial statements are consistent with those applied in preparing the financial statements for 2021, except for the amendment to IAS 16, as described below. The following amendments to IFRSs are applied in these financial statements in line with their effective dates. With the exception of the amendment to IAS 16, the following amendments did not have a material impact on the presented and disclosed financial information or were not applicable to the Group's transactions:

- Amendments resulting from IFRS annual improvement cycle 2018-2020 - amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41, mainly concerning clarifications and wording;
- Amendments to IFRS 3 - amendments concerning references to conceptual assumptions;
- Amendments to IAS 16 - amendments concerning proceeds from property, plant and equipment before intended use;
- Amendments to IAS 37 - Onerous Contracts — Cost of Fulfilling a Contract;
- Amendments to IFRS 16 - amendments concerning rent concessions in connection with COVID-19.

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

Proceeds from trial start-up

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

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Period ended June 30, 2021 published data	Change in presentation	Period ended June 30, 2021 restated data
REVENUE FROM SALES	**21.908**	42	**21.950**
Cost of sales	(18,792)	(42)	(18.834)
GROSS PROFIT ON SALES	**3.116**	-	**3.116**

5. Fair value hierarchy

Derivatives

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

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

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

FAIR VALUE HIERARCHY	Assets as of June 30, 2022		Liabilities as of June 30, 2022	
	Level 1	**Level 2**	**Level 1**	**Level 2**
CO_2 emission allowances in trading activities	1	-	-	-
Hard coal in trading activities	435	-	-	-
INVENTORIES	**436**	**-**	**-**	**-**
Currency forwards	-	18	-	9
Commodity forwards	-	37	-	1
Commodity SWAP	-	43	-	30
Contracts for purchase/sale of coal	-	85	-	61
Derivatives embedded in sales contracts	-	-		406
Options	-	12	-	-
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS	**-**	**195**		**507**
CCIRS hedges	-	152	-	-
IRS hedges	-	593	-	-
Currency forward - USD	-	4	-	-
Currency forward - EUR	-	814	-	37
HEDGING DERIVATIVES	**-**	**1,563**	**-**	**37**
Investment fund participation units	-	26	-	-
OTHER ASSETS / LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	**-**	**26**	**-**	**-**

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

Derivative instruments are presented in note 19 to these financial statements. During the current and comparative reporting periods, there were no transfers of financial instruments between the first and second level of the fair value hierarchy.

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

EXPLANATORY NOTES TO OPERATING SEGMENTS

6. Information on business segments

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

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

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

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

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

Seasonality of business segments

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

The level of electricity sales varies throughout the year, depending especially on weather conditions - air temperature, length of the day. Growth in electricity demand is particularly evident in winter periods, while lower demand is observed during the summer months.

Moreover, seasonal changes are evident among selected groups of end users. Seasonality effects are more significant for households than for the industrial sector.

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

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

6.1 Information on operating segments

Information on operating segments for the period ended June 30, 2022

	Conventional Generation	District Heating	Renewables	Supply	Distribution	Circular Economy	Other activity	Adjustments	Total
STATEMENT OF PROFIT OR LOSS									
Sales to external customers	14,521	2,714	844	11,085	3,352	73	33	3	32,625
Inter-segment sales	1,060	1,082	587	10,961	40	87	128	(13,945)	-
TOTAL SEGMENT REVENUE	**15,581**	**3,796**	**1,431**	**22,046**	**3,392**	**160**	**161**	**(13,942)**	**32,625**
Cost of sales	(15,366)	(3,866)	(699)	(19,719)	(2,352)	(109)	(130)	13,384	(28,857)
EBIT	**1,548**	**(293)**	**672**	**1,160**	**870**	**25**	**5**	**267**	**4,254**
Depreciation, amortisation, liquidation and impairment recognised in profit or loss	982	352	169	16	602	5	25	(13)	2,138
EBITDA	**2,530**	**59**	**841**	**1,176**	**1,472**	**30**	**30**	**254**	**6,392**
GROSS PROFIT	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,000**
Income tax	-	-	-	-	-	-	-	-	(695)
NET PROFIT FOR THE REPORTING PERIOD	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,305**
ASSETS AND LIABILITIES									
Segment assets excluding trade receivables	33,203	8,179	4,498	4,266	19,657	71	2,259	(1,760)	70,373
Trade receivables	625	275	323	5,643	970	103	51	(3,160)	4,830
Equity-accounted interests	-	-	-	-	-	-	-	-	172
Unallocated assets	-	-	-	-	-	-	-	-	17,917
TOTAL ASSETS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**93,292**
Segment liabilities excluding trade liabilities	14,267	2,469	1,183	7,673	3,037	46	64	(4,755)	23,984
Trade liabilities	1,188	441	123	3,674	360	51	36	(3,922)	1,951
Unallocated liabilities	-	-	-	-	-	-	-	-	11,834
TOTAL LIABILITIES	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**37,769**
OTHER INFORMATION ON BUSINESS SEGMENT									
Capital expenditures	256	265	112	7	636	1	599	(34)	1,842
Increases in right-of-use assets	1	-	-	-	1	-	-	-	2
TOTAL INVESTMENT EXPENDITURES	**257**	**265**	**112**	**7**	**637**	**1**	**599**	**(34)**	**1,844**
Acquisition of property, plant and equipment, intangible assets, right-of-use assets and investment properties as part of acquisition of new companies	-	-	371	-	-	-	-	723	1,094
Impairment losses on financial and non-financial assets	578	17	-	228	5	(1)	-	-	827
Other non-monetary expenses *)	6,700	1,189	7	680	9	3	16	(113)	8,491

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

Information on operating segments for the period ended June 30, 2021

*restated data**	Conventional Generation	District Heating	Renewables	Supply	Distribution	Circular Economy	Other activity	Adjustments	Total
STATEMENT OF PROFIT OR LOSS									
Sales to external customers	8,619	2,098	396	7,543	3,186	68	36	4	21,950
Inter-segment sales	2,162	851	245	6,384	39	70	178	(9,929)	-
TOTAL SEGMENT REVENUE	**10,781**	**2,949**	**641**	**13,927**	**3,225**	**138**	**214**	**(9,925)**	**21,950**
Cost of sales	(10,385)	(2,405)	(367)	(12,458)	(2,345)	(103)	(184)	9,413	(18,834)
EBIT	**1,073**	**396**	**237**	**690**	**767**	**19**	**8**	**(32)**	**3,158**
Depreciation, amortisation, liquidation and impairment recognised in profit or loss	976	319	145	16	615	5	31	(11)	2,096
EBITDA	**2,049**	**715**	**382**	**706**	**1,382**	**24**	**39**	**(43)**	**5,254**
GROSS PROFIT	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,210**
Income tax	-	-	-	-	-	-	-	-	(491)
NET PROFIT FOR THE REPORTING PERIOD	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,719**
ASSETS AND LIABILITIES									
Segment assets excluding trade receivables	34,277	7,689	4,264	2,983	19,468	70	342	(2,142)	66,951
Trade receivables	659	199	178	3,326	915	53	59	(1,958)	3,431
Equity-accounted interests	-	-	-	-	-	-	-	-	161
Unallocated assets	-	-	-	-	-	-	-	-	9,012
TOTAL ASSETS									**79,555**
Segment liabilities excluding trade liabilities	13,218	2,068	676	3,664	2,856	48	97	(2,167)	20,460
Trade liabilities	722	259	44	2,745	336	35	26	(2,959)	1,208
Unallocated liabilities									11,906
TOTAL LIABILITIES									**33,574**
OTHER INFORMATION ON BUSINESS SEGMENT									
Capital expenditures	1,385	199	72	3	604	4	19	(57)	2,229
Increases in right-of-use assets	2	5	5	2	2	-	2	-	18
TOTAL INVESTMENT EXPENDITURES	**1,387**	**204**	**77**	**5**	**606**	**4**	**21**	**(57)**	**2,247**
Acquisition of property, plant and equipment, intangible assets, right-of-use assets and investment properties as part of acquisition of new companies	-	-	81	-	-	-	-	-	81
Impairment losses on financial and non-financial assets	106	(3)	(41)	(18)	5	-	(1)	-	48
Other non-monetary expenses *)	2,817	582	15	531	33	2	13	-	3,993

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

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

7. Revenue and costs

7.1 Revenue from sales

Revenue from sales for the period ended June 30, 2022, by category

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

	Conventional Generation	District Heating	Renewables	Supply	Distribution	Circular Economy	Other activity	Adjustments	Total
Revenue from contracts with customers	15,575	3,628	1,428	22,044	3,363	160	160	(13,934)	**32,424**
Revenues from LTC compensations	-	2	-	-	-	-	-	-	**2**
Revenue from support for high-efficiency cogeneration	-	155	-	-	-	-	-	-	**155**
Revenue from leases	6	11	3	2	29	-	1	(8)	**44**
TOTAL REVENUE FROM SALES	**15,581**	**3,796**	**1,431**	**22,046**	**3,392**	**160**	**161**	**(13,942)**	**32,625**

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

Type of goods or services	Conventional Generation	District Heating	Renewables	Supply	Distribution	Circular Economy	Other activity	Adjustments	Total
Revenue from sale of goods and products, without excluding taxes and fees	15,545	3,600	1,414	21,412	4,089	76	20	(13,058)	**33,098**
Taxes and fees collected on behalf of third parties third parties	*(4)*	*(2)*	-	*(38)*	*(752)*	-	-	-	***(796)***
Revenue from sale of goods and products, including:	**15,541**	**3,598**	**1,414**	**21,374**	**3,337**	**76**	**20**	**(13,058)**	**32,302**
Sale of electricity	14,169	1,959	1,210	10,246	6	-	-	(2,957)	**24,633**
Capacity market	1,045	116	137	14	-	-	-	-	**1,312**
Sale of distribution services	7	7	-	35	3,186	-	-	(38)	**3,197**
Sale of heat	47	1,447	-	7	-	-	-	(7)	**1,494**
Sale of energy origin rights	1	61	95	-	-	-	-	52	**209**
Regulatory system services	77	-	7	-	-	-	-	-	**84**
Sale of natural gas	-	-	-	510	-	-	-	(117)	**393**
Sale of fuel	-	-	-	1,757	-	-	-	(1,153)	**604**
Sale of CO_2 emission allowances	147	1	-	8,808	-	-	-	(8,803)	**153**
Other sale of goods and materials	48	7	(35)	(3)	145	76	20	(35)	**223**
Revenue from sale of services	**34**	**30**	**14**	**670**	**26**	**84**	**140**	**(876)**	**122**
REVENUE FROM CONTRACTS WITH CUSTOMERS	**15,575**	**3,628**	**1,428**	**22,044**	**3,363**	**160**	**160**	**(13,934)**	**32,424**

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

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

*restated data**	Conventional Generation	District Heating	Renewables	Supply	Distribution	Circular Economy	Other activity	Adjustments	Total
Revenue from contracts with customers	10,775	2,927	638	13,924	3,195	138	213	(9,912)	**21,898**
Revenues from LTC compensations	-	4	-	-	-	-	-	-	**4**
Revenue from support for high-efficiency cogeneration	-	5	-	-	-	-	-	-	**5**
Revenue from leases	6	13	3	3	30	-	1	(13)	**43**
TOTAL REVENUE FROM SALES	**10,781**	**2,949**	**641**	**13,927**	**3,225**	**138**	**214**	**(9,925)**	**21,950**

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

Type of goods or services *restated data**	Conventional Generation	District Heating	Renewables	Supply	Distribution	Circular Economy	Other activity	Adjustments	Total
Revenue from sale of goods and products, without excluding taxes and fees	10,758	2,901	632	13,564	3,827	56	23	(9,232)	**22,529**
Taxes and fees collected on behalf of third parties	*(5)*	*(2)*	-	*(73)*	*(657)*	-	-	-	***(737)***
Revenue from sale of goods and products, including:	**10,753**	**2,899**	**632**	**13,491**	**3,170**	**56**	**23**	**(9,232)**	**21,792**
Sale of electricity	8,324	1,340	390	6,411	1	-	-	(2,307)	**14,159**
Capacity market	1,046	138	145	16	-	-	-	-	**1,345**
Sale of distribution services	10	5	-	25	3,071	-	-	(37)	**3,074**
Sale of heat	116	1,373	-	7	-	-	-	-	**1,496**
Sale of energy origin rights	35	9	82	-	-	-	-	5	**131**
Regulatory system services	161	-	18	-	-	-	-	-	**179**
Sale of natural gas	-	-	-	177	-	-	-	(90)	**87**
Sale of fuel	-	-	-	215	-	-	-	(114)	**101**
Sale of CO_2 emission allowances	1,019	28	-	6,640	-	-	-	(6,666)	**1,021**
Other sale of goods and materials	42	6	(3)	-	98	56	23	(23)	**199**
Revenue from sale of services	**22**	**28**	**6**	**433**	**25**	**82**	**190**	**(680)**	**106**
REVENUE FROM CONTRACTS WITH CUSTOMERS	**10,775**	**2,927**	**638**	**13,924**	**3,195**	**138**	**213**	**(9,912)**	**21,898**

7.2 Costs by nature and function

	Period ended June 30, 2022	Period ended June 30, 2021 *restated data**
COSTS BY NATURE		
Depreciation, amortisation and impairment losses	2,142	2,098
Materials and energy	3,888	2,797
External services	1,222	1,142
Taxes and fees	10,918	5,257
Employee benefits expenses	2,865	2,633
Other costs by nature	187	165
TOTAL COST BY NATURE	**21,222**	**14,092**
Change in product inventories	(2)	9
Cost of products and services for internal purposes	(252)	(285)
Distribution and selling expenses	(805)	(759)
General and administrative expenses	(656)	(501)
Cost of goods and materials sold	9,350	6,278
COST OF SALES	**28,857**	**18,834**

7.3 Depreciation, amortisation, liquidation and impairment losses

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

Period ended June 30, 2022	Depreciation, amortisation, disposal					Impairment			
	Property, plant and equipment	Intangible assets	Right-of-use assets	Investment property	TOTAL	Property, plant and equipment	Intangible assets	Right-of-use assets	TOTAL
Cost of sales	2,044	21	25	1	**2,091**	15	-	(2)	**13**
Distribution and selling expenses	5	1	1	-	**7**	-	-	-	**-**
General and administrative expenses	18	4	5	-	**27**	-	-	-	**-**
RECOGNISED IN PROFIT OR LOSS	**2,067**	**26**	**31**	**1**	**2,125**	**15**	**-**	**(2)**	**13**
Change in product inventories	(1)	-	-	-	**(1)**	-	-	-	**-**
Cost of products and services for internal purposes	5	-	-	-	**5**	-	-	-	**-**
TOTAL	**2,071**	**26**	**31**	**1**	**2,129**	**15**	**-**	**(2)**	**13**

Period ended June 30, 2021	Depreciation, amortisation, disposal					Impairment			
	Property, plant and equipment	Intangible assets	Right-of-use assets	Investment property	TOTAL	Property, plant and equipment	Intangible assets	Right-of-use assets	TOTAL
Cost of sales	1,929	29	25	1	**1,984**	68	(1)	1	**68**
Distribution and selling expenses	5	1	-	-	**6**	-	-	-	**-**
General and administrative expenses	18	14	5	-	**37**	1	-	-	**1**
RECOGNISED IN PROFIT OR LOSS	**1,952**	**44**	**30**	**1**	**2,027**	**69**	**(1)**	**1**	**69**
Change in product inventories	(1)	-	-	-	**(1)**	-	-	-	**-**
Cost of products and services for internal purposes	3	-	-	-	**3**	-	-	-	**-**
TOTAL	**1,954**	**44**	**30**	**1**	**2,029**	**69**	**(1)**	**1**	**69**

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

In the item 'Depreciation/amortisation and liquidation' the Group recognised in the current and comparative period PLN 18 million net as liquidation of property, plant and equipment and intangible assets.

7.4 Other operating income and costs

	Period ended June 30, 2022	Period ended June 30, 2021
NET OTHER OPERATING INCOME/(COSTS)		
Effect of change in rehabilitation provision	2,160	932
(Creation)/reversal of impairment losses on receivables	(831)	8
Penalties, fines and compensations received	578	46
Measurement and exercise of derivatives, including:	110	268
CO_2	*34*	*264*
Coal	*76*	*4*
Donations granted	(66)	(8)
(Creation)/reversal of other provisions	(51)	13
Grants received	15	16
Gain on sale of property, plant and equipment / intangible assets	12	21
Asset surpluses/disclosures	8	17
Other	12	(11)
TOTAL NET OTHER OPERATING INCOME/(COSTS)	**1,947**	**1,302**

The increase in *Fines, damages* is due to the calculation by subsidiary PGE GiEK S.A. of a contractual penalty in the amount of PLN 562 million to the consortium of Mitsubishi Power Europe Gmbh, TECNICAS REUNIDAS S.A and BUDIMEX S.A for failure to meet the availability rate of the Turów Power Plant unit in the first year of the guarantee period. The contractual penalty is covered by an impairment loss of the same amount. In July 2022, PGE GiEK S.A. submitted a demand for payment to the consortium, to which it received a negative response. At the date of these financial statements, discussions with the consortium on this matter are on-going.

The issue of the measurement of a land rehabilitation provision is described in note 21.2 to these financial statements.

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

7.5 Finance income and finance costs

	Period ended June 30, 2022	Period ended June 30, 2021
NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS		
Dividends	4	2
Interest, including	(82)	(142)
Interest income calculated using the effective interest rate method	*89*	*15*
Impairment	(4)	(27)
Reversal/(recognition) of impairment	(2)	(3)
Exchange differences	(24)	8
Gain / (loss) on sale of investment	15	(7)
Settlement of loss of control	-	324
TOTAL NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS	**(93)**	**155**
NET OTHER FINANCE INCOME/(COSTS)		
Interest cost on non-financial items	(167)	(97)
Interest on statutory receivables/(liabilities)	-	2
Recognition of provisions	(1)	(1)
Other	(4)	(6)
TOTAL NET OTHER FINANCE INCOME/(COSTS)	**(172)**	**(102)**
TOTAL NET FINANCE INCOME/(COSTS)	**(265)**	**53**

Interest costs mainly relate to outstanding bonds, credit facilities, loans, settled IRS transactions and leases. The interest cost on lease liabilities reached PLN 20 million in the current report (PLN 20 million in the comparative period).
The interest cost on non-financial items concerns land rehabilitation provisions and employee benefit provisions.

7.6 Share of profit of equity-accounted entities

Period ended June 30, 2022	Polska Grupa Górnicza	Polimex Mostostal	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16.48%**	**34.93%**	**49.79%**
Revenue	4,627	1,880	10	30
Result on continuing operations	739	47	-	4
Share of profit of equity-accounted entities before consolidation adjustments	**113**	**8**	**-**	**2**
Elimination of unrealised gains and losses	6	(5)	-	-
Impairment	(113)	-	-	-
SHARE OF PROFIT OF EQUITY-ACCOUNTED ENTITIES	**6**	**3**	**-**	**2**
Other comprehensive income	76	12	-	-
Share in other comprehensive income	12	1		
Impairment	(12)	-	-	-
Share of other comprehensive income of equity-accounted entities	**-**	**1**	**-**	**-**

Period ended June 30, 2021	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**	**49,79%**
Revenue	3.810	969	-	11	34
Result on continuing operations	(366)	44	(1)	1	5
Share of profit of equity-accounted entities before consolidation adjustments	**(56)**	**7**	-	-	**3**
Elimination of unrealised gains and losses	(9)	(2)	-	-	-
Impairment	56	-	-	-	
SHARE OF PROFIT OF EQUITY-ACCOUNTED ENTITIES	**(9)**	**5**	**-**	**-**	**3**

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

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

8. Impairment losses on assets

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

Impairment losses on property, plant and equipment, intangible assets and right-of-use assets are presented in note 7.3.
The impairment loss on entity accounted for using the equity method (PGG) is presented in note 7.6, the value of the impairment was adjusted accordingly to the net assets attributable to PGE Group.

9. Income tax

9.1 Tax in the statement of comprehensive income

The main elements of the tax burden for the period ended June 30, 2022 and June 30, 2021, were as follows:

	Period ended June 30, 2022	Period ended June 30, 2021
INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS		
Current income tax	570	14
Adjustments concerning current income tax from prior years	16	28
Deferred income tax	128	448
Adjustments of deferred income tax	(19)	1
INCOME TAX EXPENSE RECOGNISED IN STATEMENT OF PROFIT OR LOSS	**695**	**491**
INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME		
From actuarial gains and losses from valuation of provisions for employee benefits	36	15
From measurement of hedging instruments	134	(29)
(Tax benefit) / tax burden recognised in other comprehensive income (equity)	**170**	**(14)**

9.2 Effective tax rate

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

	Period ended June 30, 2022	Period ended June 30, 2021
Gross profit before tax	**4,000**	**3,210**
Income tax according to Polish statutory tax rate of 19%	760	610
ITEMS ADJUSTING INCOME TAX		
Adjustments concerning current income tax from prior years	16	28
Adjustments concerning deferred income tax from prior years	(19)	1
Recognition of impairment losses and provisions for which no deferred tax was recognised	180	(1)
Non-taxable income	(126)	-
Release of land rehabilitation provisions for which no deferred tax was recognised	(143)	(67)
Result on settlement of loss of control	-	(62)
Other costs not recognised as tax-deductible costs	32	20
Other adjustments	(5)	(38)
TAX AT EFFECTIVE TAX RATE **Income tax (expense) as presented in the consolidated financial statements**	**695**	**491**
EFFECTIVE TAX RATE	**17%**	**15%**

As described in note 7.4, in the present period subsidiary PGE GiEK S.A. imposed a PLN 562 million contractual penalty. The contractual penalty is covered by an impairment loss of the same amount. No deferred tax was recognised on the revenue or on the created impairment loss (PLN 107 million).

In the comparative period, the result on the loss of control is related to Ørsted's acquisition of a 50% stake in the increased share capital of EW Baltica 2 and EW Baltica 3, as further described in note 13.

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

In the present reporting period, the Group purchased property, plant and equipment and intangible assets worth PLN 1,842 million, along with the right-of-use for underlying assets worth PLN 2 million. The largest expenditures were incurred in the Distribution segment (PLN 637 million), Other Activity segment (PLN 599 million), District Heating segment (PLN 265 million) and the Conventional Generation segment (PLN 257 million). The main expenditures were as follows: construction of two gas-and-steam units (PGE Gryfino 2050 Sp. z o.o. PLN 536 million) and connection of new customers to the DSO's network (PLN 346 million). These values include borrowing costs.

In the current period, the Group purchased shares in companies that own wind farms. The purchase is described in note 1.4 of these consolidated financial statements. As a result of this transaction, the net value of property, plant and equipment and right-of-use assets increased by PLN 1,094 million.

11. Future investment commitments

As at June 30, 2022, PGE Group committed to incur capital expenditures on property, plant and equipment of approximately PLN 7,382 million. These amounts relate mainly to construction of new power units, modernisation of Group's assets and the purchase of machinery and equipment.

	As at June 30, 2022	As at 31 December 2021
Conventional Generation	253	256
Distribution	1,649	1,058
District Heating	1,937	1,549
Renewables	457	414
Supply	1	1
Circular Economy	-	4
Other activity	3,085	3,570
TOTAL FUTURE INVESTMENT COMMITMENTS	**7,382**	**6,852**

The most significant future investment commitments concern:

- Other Activity - construction of two gas-and-steam units (PGE Gryfino 2050 sp. z o.o.) and contract for service for two gas turbines - approx. PLN 2,991 million,
- District Heating - construction of gas-and-steam CHP Nowa EC Czechnica in Siechnice - approx. PLN 1,037 million; construction of 2nd technological line for waste-to-energy incinerator in Rzeszów - amount of approx. PLN 362 million,
- Distribution – investment commitments mainly related to grid assets amounting to approx. PLN 1,649 million,

12. Shares accounted for using the equity method

	As at June 30, 2022	As at 31 December 2021
Polska Grupa Górnicza S.A., Katowice	-	-
Polimex - Mostostal S.A., Warsaw	156	144
PEC Bogatynia Sp. z o.o., Bogatynia	-	-
Energopomiar Sp. z o.o., Gliwice	16	12
EQUITY-ACCOUNTED INTERESTS	**172**	**156**

	Polska Grupa Górnicza	Polimex Mostostal	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16,48%**	**34.93%**	**49.79%**
AS AT JUNE 30, 2022				
Current assets	2,152	1,840	4	32
Non-current assets	6,444	654	20	20
Current liabilities	7,309	1,382	2	16
Non-current liabilities	3,169	265	-	4
NET ASSETS	**(1,882)**	**847**	**22**	**32**
Share in net assets	**-**	**140**	**7**	**16**
Goodwill	-	16	-	-
Impairment of investment	-	-	(7)	-
EQUITY-ACCOUNTED INTERESTS	**-**	**156**	**-**	**16**

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

13. Joint operations

In May 2021, Ørsted Group entities acquired stakes in the increased capital of EWB2 and EWB3. Following this transaction, Ørsted Group became a 50% shareholder in these companies.

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

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

On May 12, 2022, a PLN 4.1 million increase in the share capital of PGE Soleo 1 sp. z o.o. was registered with the National Court Register. The share capital increase was acquired as follows: PGE EO S.A. acquired 2,000 of the new-issue shares, while the Municipality of Kleszczów acquired 2,100 of the new-issue shares.

As a result of this transaction, PGE EO S.A. and the Municipality of Kleszczów will each hold a 50% stake in share capital, and PGE Soleo 1 sp. z o.o. (currently PGE Soleo Kleszczów sp. z o.o.) is no longer a PGE Group subsidiary but a joint venture subject to consolidation to the extent of assets and liabilities, revenues and costs attributable to PGE Group.

14. Deferred tax in statement of financial position

14.1 Deferred income tax assets

	As at June 30, 2022	As at 31 December 2021
Difference between tax value and carrying amount of property, plant and equipment	2,515	2,585
Rehabilitation provision	524	859
Provision for cost of CO_2 emissions	1,817	2,157
Provisions for employee benefits	596	626
Difference between tax value and carrying amount of liabilities	518	335
Difference between tax value and carrying amount of financial assets	636	545
Difference between carrying amount and tax value of right-of-use assets	180	152
Tax losses	176	55
Other provisions	144	111
LTC compensations	85	85
Energy infrastructure acquired free of charge and connection payments received	24	26
Difference between tax value and carrying amount of inventories	13	14
Other	22	3
TOTAL DEFERRED INCOME TAX ASSETS	**7,250**	**7,553**

14.2 Deferred tax liabilities

	As at June 30, 2022	As at 31 December 2021
Difference between tax value and carrying amount of property, plant and equipment	4,874	4,938
Difference between tax value and present carrying amount of financial assets	1,408	1,012
Difference between carrying amount and tax value of lease liabilities	221	190
CO_2 emission allowances	302	792
Difference between tax value and carrying amount of energy origin units	26	15
Difference between tax value and present carrying amount of financial liabilities	35	11
Other	70	64
TOTAL DEFERRED TAX LIABILITIES	**6,936**	**7,022**

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

Deferred income tax assets	1,608	933
Deferred income tax liabilities	(1,294)	(402)

15. Inventories

	As at June 30, 2022	As at 31 December 2021
Hard coal	989	499
Repair and maintenance materials	713	654
Mazut	67	50
Other materials	81	73
TOTAL MATERIALS	**1,850**	**1,276**
Green energy origin rights	1,132	824
Other energy origin rights	-	3
TOTAL ENERGY ORIGIN RIGHTS	**1,132**	**827**
CO_2 emission allowances held for sale	1	1
Hard coal held for sale	435	17
Other commodities	9	9
TOTAL GOODS	**445**	**27**
OTHER INVENTORIES	**65**	**59**
TOTAL INVENTORIES	**3,492**	**2,189**

16. CO_2 emission allowances for captive use

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

EUA	At June 30, 2022		At 31 December 2021	
	Non-current	Current	Non-current	Current
Quantity (Mg million)	**1**	**5**	**2**	**41**
Value (PLN million)	**108**	**1,701**	**797**	**4,106**

EUA	Quantity (Mg million)	Value (PLN million)
AT JANUARY 1, 2021	**21**	**1,774**
Purchase/sale	80	9,447
Granted free of charge	1	-
Redemption	(59)	(6,318)
AT DECEMBER 31, 2021	**43**	**4,903**
Purchase/sale	33	8,466
Granted free of charge	1	-
Redemption	(71)	(11,560)
AS AT JUNE 30, 2022	**6**	**1,809**

17. Selected financial assets

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

17.1 Trade and other financial receivables

	At June 30, 2022		At 31 December 2021	
	Non-current	Current	Non-current	Current
Trade receivables	-	4,830	-	4,209
Deposits and loans	207	-	194	-
Loans granted	-	1	-	77
Deposits, security and collateral	1	2,964	5	3,348
Support system for high-efficiency cogeneration	-	20	-	-
Other financial receivables	4	124	5	93
FINANCIAL RECEIVABLES	**212**	**7,939**	**204**	**7,727**

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

17.2 Cash and cash equivalents

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

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

	As at June 30, 2022	As at 31 December 2021
Cash on hand and cash at bank	5,526	5,059
Overnight deposits	13	5
Short-term deposits	2,253	1,124
Proceeds from share issue	2,963	-
Cash in VAT accounts	201	545
TOTAL	**10,956**	**6,733**
Exchange differences on cash in foreign currencies	(21)	1
Cash and cash equivalents presented in the statement of cash flows	**10,935**	**6,734**
Unused credit facilities at the reporting date	6,477	6,002
including overdraft facilities	*1,979*	*1,830*

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

The recapitalisation of PGE S.A. is described in note 27.3 of these consolidated financial statements.

The value of cash includes restricted cash amounting to PLN 492 million (PLN 212 million in the comparative period) in customer accounts at PGE Dom Maklerski S.A., which constitute collateral for settlements with clearinghouse IRGiT.

18. Other current and non-current assets

18.1 Other non-current assets

	As at June 30, 2022	As at 31 December 2021
Advances for property, plant and equipment	741	749
Cost to acquire customers	110	106
Other non-current assets	28	18
TOTAL OTHER ASSETS	**879**	**873**

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

18.2 Other current assets

	As at June 30, 2022	As at 31 December 2021
PREPAYMENTS		
Cost to acquire customers	49	56
Long-term contracts	48	38
IT services	19	15
Property and tort insurance	14	14
Social Fund	56	7
Logistics costs related to coal purchases	11	4
Fees for mining usufruct	13	-
Fees for installing equipment and taking up a road lane	16	-
Fees for exclusion of land from agricultural/ forestry production	27	-
Other prepayments	28	18
OTHER CURRENT ASSETS		
VAT receivables	618	537
Advances for deliveries	406	507
Excise tax receivables	14	17
Other current assets	28	27
TOTAL OTHER ASSETS	**1,347**	**1,240**

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

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

	At June 30, 2022	
	Assets	Liabilities
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS		
Currency forwards	18	9
Commodity forwards	37	1
Commodity SWAP	43	30
Contracts for purchase/sale of coal	85	61
Derivatives embedded in sales contracts	-	406
Options	12	-
HEDGING DERIVATIVES		
CCIRS hedges	152	-
IRS hedges	593	-
Currency forward - USD	4	-
Currency forward - EUR	814	37
Other assets carried at fair value through profit or loss		
Investment fund participation units	26	-
TOTAL	**1,784**	**544**
current	996	239
non-current	788	305

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

Commodity and currency forwards

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

Options

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

Coal swaps

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

Purchase and sale contracts with physical delivery of coal

PGE Paliwa Sp. z o.o. measures all of its sales and purchase contracts with physical delivery of coal at fair value using the trader-broker model.

Derivatives embedded in sales contracts

As described in note 1.4 of these consolidated financial statements, PGE Group purchased wind assets.

As part of the acquired wind farms, PGE Group also received derivatives embedded in sales contracts. The structure of these instruments requires obligatory delivery of contracted capacity every day throughout the contract term.

IRS transactions

PGE S.A. executed IRS transactions to hedge interest rates on credit facilities and outstanding bonds with a total nominal value of PLN 7,030 million (PLN 5,630 million for credit facilities and PLN 1,400 million for bonds). Due to the commencement of principal repayments on certain loans, the current nominal amount of loan-hedging IRS transactions is PLN 3,678 million. To recognise these IRS transactions, the Group uses hedge accounting.

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

CCIRS hedges

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

Investment fund participation units

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

20. Equity

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

20.1 Share capital

	As at June 30, 2022
1,470,576,500 Series A ordinary Shares with a nominal value of PLN 8.55 each	12,574
259,513,500 Series B ordinary Shares with a nominal value of PLN 8.55 each	2,219
73,228,888 Series C ordinary Shares with a nominal value of PLN 8.55 each	626
66,441,941 Series D ordinary Shares with a nominal value of PLN 8.55 each	568
373,952,165 Series E ordinary Shares with a nominal value of PLN 8.55 each	3,197
Total share capital	**19,184**

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

All of the Company's shares are paid up.

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

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

The changes in PGE S.A.'s share capital were registered with the National Court Register on May 18, 2022.

The Company's recapitalisation is also discussed in note 27.3 to these financial statements.

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

The Company is a part of PGE Group, where the State Treasury holds special rights as long as it remains a shareholder.

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

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

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

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

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

20.2 Hedging reserve

	Period ended June 30, 2022	Year ended 31 December 2021
AS AT JANUARY 1	**609**	**(13)**
Change in hedging reserve:	**704**	**768**
Measurement of hedging instruments, including:	**709**	**756**
Recognition of the effective part of change in fair value of hedging instruments in the part considered as effective hedge	*762*	*762*
Accrued interest on derivatives transferred from hedging reserve and recognised in interest expense	*(40)*	*(8)*
Currency revaluation of CCIRS transaction transferred from hedging reserve and recognised in the result on foreign exchange differences	*(12)*	*2*
Ineffective portion of changes in fair value of hedging derivatives recognised in profit or loss	*(1)*	*-*
Measurement of other financial assets	**(5)**	**12**
Deferred tax	**(134)**	**(146)**
HEDGING RESERVE AFTER DEFERRED TAX	**1,179**	**609**

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

20.3 Dividends paid and recommended for payment

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

21. Provisions

The carrying amount of provisions is as follows:

	At June 30, 2022		At 31 December 2021	
	Non-current	Current	Non-current	Current
Employee benefits	2,186	285	2,381	276
Rehabilitation provision	3,385	1	6,071	4
Provision for cost of CO_2 emissions	-	9,609	-	11,553
Provision for energy origin units held for redemption	-	624	-	276
Provision for non-contractual use of property	3	5	6	5
Other provisions	155	429	101	486
TOTAL PROVISIONS	**5,729**	**10,953**	**8,559**	**12,600**

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

The discount rate for the mine excavation rehabilitation provision as at June 30, 2022 is:

- for expenses expected to be incurred within 15 years from the balance sheet date - 6.9% (compared to 3.6% as at December 31, 2021);
- for expenses expected to be incurred 16-25 years from the balance sheet date - 7.52%, PGE's extrapolation in accordance with the adopted method (compared to 4.08% as at December 31, 2021);
- for expenses expected to be incurred more than 25 years from the balance sheet date - 7.79%, PGE's extrapolation in accordance with the adopted method (compared to 4.17% as at December 31, 2021).

The discount rate for employee benefit provisions and other provisions for land rehabilitation as at June 30, 2022 is 6.9% (vs. 3.6% as at December 31, 2021).

These changes in discount rate and inflation forecast caused:

- a decrease in the rehabilitation provision recognised correspondingly in other operating income of PLN 2,160 million;
- a decrease in the rehabilitation recognised correspondingly as a decrease in property, plant and equipment of PLN 722 million;
- a decrease in the post-employment benefit provisions recognised correspondingly as an increase in other comprehensive income of PLN 190 million;
- an increase in provisions for long service recognised correspondingly as an increase in operating costs of PLN 19 million.

Changes in provisions

	Employee benefits	Rehabilitation provision	Provision for cost of CO_2 emissions	Provisions for energy origin rights held for redemption	Provision for non-contractual use of property	Other	Total
JANUARY 1, 2022	**2,657**	**6,075**	**11,553**	**276**	**11**	**587**	**21,159**
Actuarial gains and losses	403	-	-	-	-	-	403
Current employment costs	40	-	-	-	-	-	40
Interest costs	47	120	-	-	-	-	167
Adjustment of discount rate and other assumptions	(574)	(2,882)	-	-	-	-	(3,456)
Benefits paid / Provisions used	(100)	-	(11,560)	(256)	-	(31)	(11,947)
Provisions reversed	-	-	-	(17)	(3)	(120)	(140)
Provisions recognised - costs	-	32	9,616	621	-	179	10,448
Provisions recognised - expenditures	-	12	-	-	-	-	12
Changes in Group composition	(2)	25	-	-	-	-	23
Other changes	-	4	-	-	-	(31)	(27)
JUNE 30, 2022	**2,471**	**3,386**	**9,609**	**624**	**8**	**584**	**16,682**

	Employee benefits	Rehabilitation provision	Provision for cost of CO_2 emissions	Provisions for energy origin rights held for redemption	Provision for non-contractual use of property	Other	Total
JANUARY 1, 2021	**3,283**	**8,111**	**6,318**	**589**	**63**	**154**	**18,518**
Actuarial gains and losses	209	-	-	-	-	-	209
Current employment costs	86	-	-	-	-	-	86
Past employment costs	(51)	-	-	-	-	-	(51)
Interest costs	42	177	-	-	-	-	219
Adjustment of discount rate and other assumptions	(678)	(2,323)	-	-	-	-	(3,001)
Benefits paid / Provisions used	(233)	(1)	(6,318)	(1,284)	(1)	(45)	(7,882)
Provisions reversed	-	(3)	(2)	(1)	(56)	(34)	(96)
Provisions recognised - costs	-	74	11,555	972	5	500	13,106
Provisions recognised - expenditures	-	40	-	-	-	-	40
Changes in Group composition	(1)	-	-	-	-	(2)	(3)
Other changes	-	-	-	-	-	14	14
DECEMBER 31, 2021	**2,657**	**6,075**	**11,553**	**276**	**11**	**587**	**21,159**

21.1 Provision for employee benefits

Provisions for employee benefits mainly include:

- post-employment benefits - PLN 1,680 million (PLN 1,885 million as at December 31, 2021),
- jubilee awards - PLN 791 million (PLN 772 million as at December 31, 2021),

21.2 Rehabilitation provision

Provision for rehabilitation of post-mining properties

PGE Group creates provisions for the rehabilitation of post-mining properties. The amount of the provision recognised in the financial statements includes the value of the Mine Liquidation Fund created in accordance with the Geological and Mining Law. The value of the provision as at June 30, 2022 was PLN 2,919 million and as at December 31, 2021, PLN 5,571 million.

Provision for rehabilitation of ash landfills

PGE Group's generating assets create provisions for the rehabilitation of ash landfills. As at June 30, 2022, this provision amounted to PLN 194 million (PLN 248 million at the end of the comparative period).

Provisions for wind farm decommissioning and restoration

Wind farm owners create provisions for decommissioning and restoration. As at June 30, 2022 and at the end of the comparative period, this provision amounted to PLN 26 million.

Liquidation of property, plant and equipment

As at the reporting date, the provision amounted to PLN 247 million (PLN 230 million as at the end of the comparative period) and referred to certain assets in the Conventional Generation and Renewables segments.

21.3 Provision for cost of CO_2 emissions

As described in note 16 to these financial statements, the Group no longer receives free emission allowances for electricity generation from 2020. The Group is only eligible to receive free allowances for heating generation. As at June 30, 2022, this provision amounted to PLN 9,609 million (PLN 11,553 million at the end of the comparative period). CO_2 emission allowances concerning 2021 were being redeemed until the end of April 2022.

21.4 Provision for energy origin rights held for redemption

PGE Group companies create a provision for energy origin rights concerning sales generated in the reporting period or previous periods, in the part yet to be redeemed as of the reporting date. The total value of provision as at June 30, 2022 was PLN 624 million (PLN 276 million in the comparative period) and was created mainly by PGE Obrót S.A.

21.5 Other provisions

Provision for settlements with prosumers

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

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

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

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

Provision for potential claims from counterparties

In 2021, ENESTA sp. z o.o. terminated unfavourable contracts for the supply of electricity and natural gas. In connection with this, as of December 31, 2021 a PLN 279 million provision for counterparty claims was created. Some counterparties took their claims to court in 2022. After unsuccessful attempts to reach an agreement with its counterparties, ENESTA filed for restructuring proceedings. On June 21, 2022, restructuring (sanitation) proceedings were opened - notice in the National Debtors Register. As at June 30, 2022, ENESTA recalculated the provisions and an additional provision of PLN 82 million was created. Additionally, receivables from counterparties who have taken legal action were written down by PLN 161 million. ENESTA recognised contingent liabilities of PLN 105 million due to claims from counterparties over and above the value of provisions and impairment losses recognised.

22. Financial liabilities

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

Bonds issued by PGE Sweden AB (publ) are based on a fixed interest rate. Their amortised cost presented in these financial statements as at June 30, 2022 was PLN 663 million and their fair value amounted to PLN 637 million.

22.1 Loans, borrowings, bonds and leases

	At June 30, 2022		At 31 December 2021	
	Non-current	Current	Non-current	Current
Loans and borrowings	4,756	2,083	5,757	2,099
Bonds issued	2,044	29	2,033	13
Leases	923	47	876	48
TOTAL CREDIT, LOANS, BONDS AND LEASES	**7,723**	**2,159**	**8,666**	**2,160**

Loans and borrowings

Among loans and borrowings presented above as at June 30, 2022, and December 31, 2021, PGE Group presents mainly the following facilities:

Lender	Security instrument	Maturity	Limit in currency	Currency	Interest rate	Liability as of 30-06-2022	Liability as of 31-12-2021
Bank consortium	IRS	2023-09-30	3,630	PLN	Variable	2.207	2.909
European Investment Bank	-	2034-08-25	1,500	PLN	Fixed	1.505	1.505
Bank Gospodarstwa Krajowego	IRS	2027-12-31	1,000	PLN	Variable	689	751
European Investment Bank	-	2034-08-25	490	PLN	Fixed	493	493
European Bank for Reconstruction and Development	IRS	2028-06-07	500	PLN	Variable	410	439
Bank Gospodarstwa Krajowego	IRS	2028-12-31	500	PLN	Variable	407	438
European Investment Bank	-	2038-10-16	273	PLN	Fixed	274	274
Nordic Investment Bank	-	2024-06-20	150	EUR	Variable	95	129
Bank Pekao S.A.	-	2022-09-21	40	USD	Variable	-	135
Revolving credit facility (bank consortium)	-	2022-12-16	4,100	PLN	Variable	-	-
Bank Gospodarstwa Krajowego	-	2023-05-31	1,000	PLN	Variable	-	-
Bank Pekao S.A.	-	2024-12-22	500	PLN	Variable	-	-
PKO BP S.A.	-	2023-12-31	300	PLN	Variable	-	-
NFOŚiGW	-	December 2028	215	PLN	Fixed	97	116
NFOŚiGW	-	June 2024 - March 2036	980	PLN	Variable	473	491
Voivodship Fund for Environmental Protecti and Water Management (WFOŚiGW)	-	September 2026	34	PLN	Fixed	28	25
Voivodship Fund for Environmental Protecti and Water Management (WFOŚiGW)	-	March 2026 - September 2028	187	PLN	Variable	161	151
TOTAL LOANS AND BORROWINGS						**6,839**	**7,856**

As at June 30, 2022, the value of the available overdrafts at significant PGE Group companies was PLN 1,979 million. The repayment dates for the available overdraft facilities of PGE Group's key companies are in 2022-2024.

In the period ended on June 30, 2022 and after the reporting period no failures to make payment or other breaches of credit agreement terms were recorded.

Bonds issued

Issuer	Security instrument	Date maturity date	Program limit in currency	Currency	Interest rate	Tranche issue date	Tranche buy-back date	Liability at 30-06-2022	Liability at 31-12-2021
PGE S.A.	IRS	indefinite	5.000	PLN	Variable	2019-05-21	2029-05-21	1,007	1,003
						2019-05-21	2026-05-21	403	401
PGE Sweden AB (publ)	CCIRS	indefinite	2.000	EUR	Fixed	2014-08-01	2029-08-01	663	642
TOTAL OUTSTANDING BONDS								**2.073**	**2,046**

22.2 Trade and other financial liabilities

	At June 30, 2022		At 31 December 2021	
	Non-current	Current	Non-current	Current
Trade liabilities	-	1,951	-	1,608
Settlements related to transactions on exchange	-	2,498	-	1,663
Purchase of property, plant and equipment and intangible assets	1	604	7	909
Security deposits received	26	145	30	106
Insurance	-	3	-	-
Liabilities related to LTC	430	17	430	17
Other	85	593	50	298
TRADE AND OTHER FINANCIAL LIABILITIES	**542**	**5,811**	**517**	**4,601**

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

23. Other non-financial liabilities

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

23.1 Other non-current non-financial liabilities

	As at June 30, 2022	As at 31 December 2021
OTHER NON-CURRENT LIABILITIES		
Liabilities related to a contract	130	132
Other	1	1
TOTAL OTHER NON-CURRENT LIABILITIES	**131**	**133**

23.2 Other current non-financial liabilities

	As at June 30, 2022	As at December 31, 2021 *restated data**
OTHER CURRENT LIABILITIES		
VAT liabilities	369	564
Excise tax liabilities	14	27
Liabilities related to a contract	385	344
Environmental fees	172	240
Payroll liabilities	216	257
Bonuses for employees	233	278
Unused holidays and other employee benefits	320	101
Bonuses for the Management Board	24	17
Personal income tax	60	99
Liabilities from social insurances	223	255
Other	90	76
TOTAL OTHER CURRENT LIABILITIES	**2,106**	**2,258**

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

Liabilities related to a contract

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

OTHER EXPLANATORY NOTES

24. Contingent liabilities and receivables. Legal claims

24.1 Contingent liabilities

	As at June 30, 2022	As at 31 December 2021
Contingent return of grants from environmental funds	530	476
Liabilities related to bank guarantees and sureties securing exchange transactions	508	262
Usufruct of land	66	67
Legal claims and other liabilities	197	109
Total contingent liabilities	**1,301**	**914**

Contingent return of grants from environmental funds

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

Bank guarantee liabilities

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

Usufruct of land

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

Legal claims and other liabilities

Liability concerning lawsuits brought by ENESTA counterparties

As described in note 21, in 2021, ENESTA sp. z o.o. terminated unfavourable contracts for the supply of electricity and natural gas. Some counterparties took their claims to court in the first half of 2022. In cases where the amount of claims is higher than the amount of the provision made, the value of the litigation is recognised as a contingent liability. At June 30, 2022, this liability amounts to PLN 105 million.

Worley Parsons liability

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

24.2 Other significant issues related to contingent liabilities

Non-contractual use of property

As described in note 21, PGE Group recognises a provision for disputes concerning non-contractual use of real estate for distribution activities, which have been reported in court proceedings. In addition, PGE Group is a party to disputes at an earlier stage of proceedings, and it cannot be ruled out that the volume and value of similar disputes will increase in the future.

Contractual liabilities related to purchase of fuels

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

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

Commitments to maintain fuel stocks

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

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

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

Until the date on which these financial statements were prepared, no penalty was imposed on PGE GiEK S.A. for failure to meet the obligation to maintain and restore coal reserves at an appropriate level at Elektrownia Opole by the deadline set by the President of the Energy Regulatory Office (i.e. February 28, 2022). Taking into account the above mentioned reasons, independent from the Group, for not complying and not building the required minimum coal stocks within the designated timeframe, as well as the fact that PGE GiEK S.A. did not have any previous penalties on this account, which should be a premise for appropriate mitigation of the penalty, the Group estimates that the amount of the potential penalty should not be significant for the Group, therefore no provisions on this account were recognised in these financial statements.

Due to the continuing situation on the commodity markets and a number of factors beyond the Group's control, there were breaches of the minimum required stock levels at the Group's generating units in the first half of the year.

24.3 Contingent receivables

As at the reporting date, the Group held PLN 120 million in contingent receivables (PLN 72 million in the comparative period) related to a potential refund of excess excise duty. The Group is waiting for a ruling by the Supreme Administrative Court on what excise duty rate should be applied in settling the excise duty relief related to the redemption of property rights created in renewable energy sources prior to January 1, 2019.

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

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

24.4 Other court cases and disputes

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

In connection with the termination by Enea S.A. in 2016 of long-term agreements for the sale of property rights arising from certificates of origin of energy from renewable sources, PGE Group companies are in dispute with Enea S.A.

Justifying the termination, Enea S.A. claimed that the companies significantly breached the provisions of these contracts, i.e. failed to re-negotiate contractual provisions in accordance with the adaptive clause, as requested by Enea S.A. in July 2015 in connection with an alleged change in legal regulations having impact on performance of these contracts.

According to PGE Group, the notices terminating the contracts sent by Enea S.A. were submitted in breach of contractual obligations. The companies have taken their claims to court.

As a result of the willingness between the parties to hold settlement talks in an alternative dispute resolution, the court proceedings were suspended in 2020. In 2021, the parties to the disputes submitted them for conciliation by the General Prosecutor's Office of the Republic of Poland. In February 2022, the conciliation was concluded and the parties took steps to resume the litigation. In the course of 2022, the parties resumed conciliation and, at the concerted request of the parties, suspended the proceedings before the Courts. On September 12, 2022, a meeting took place between representatives of ENEA S.A. and PGE Group at the headquarters of the Court of Arbitration at the General Prosecutor's Office of the Republic of Poland. The conciliators outlined the disposition of the case, indicating that, in principle, the claims raised by PGE Group companies are valid and the position presented is supported by the law. The parties undertook to hold discussions within a month to agree settlement arrangements. The first meeting is planned for September 22, 2022.

Compensation for conversion of shares

Regardless of the above, on November 12, 2014 Socrates Investment S.A. (an entity that purchased claims from former PGE Górnictwo i Energetyka S.A. shareholders) filed a lawsuit seeking more than PLN 493 million in compensation (plus interest) for damages incurred in respect of incorrect (in their opinion) determination of the exchange ratio of shares in the merger of PGE Górnictwo i Energetyka S.A. and PGE S.A. The Company filed a response to the lawsuit. On November 15, 2017 the Company received a procedural document from the claimant - change of demand sought, increasing the amount sought in court to PLN 636 million. A hearing to appoint a court expert was held on November 20, 2018. A first-instance court proceeding is currently underway. In a ruling dated April 19, 2019 the court appointed experts to draft an opinion on this matter. On April 8, 2022, a further hearing was held on the need and possibility of a supplementary opinion by an additional expert. No final opinion was issued by the court experts prior to the approval of these financial statements.

Furthermore, a similar claim was raised by Pozwy sp. z o.o., an entity that purchased claims from former PGE Elektrownia Opole S.A. shareholders. Pozwy sp. z o.o. filed a claim at the District Court in Warsaw against PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE S.A. and PwC Polska sp. z o.o. ("Defendants"), demanded from the Defendants, in solidum, or jointly damages for Pozwy sp. z o.o. totalling over PLN 260 million with interest for allegedly incorrect (in its opinion) determination of the exchange ratio for PGE Elektrownia Opole S.A. shares for PGE Górnictwo i Energetyka Konwencjonalna S.A. shares in a merger of these companies. This lawsuit was delivered to PGE S.A. on March 9, 2017, and the deadline for responding to it was set by the court as July 9, 2017. The following companies: PGE S.A. and PGE GiEK S.A. submitted a response to the claim on July 8, 2017. On September 28, 2018, the District Court in Warsaw ruled in the first instance - the lawsuit by Pozwy sp. z o.o. against PGE S.A., PGE GiEK S.A. and PWC Polska sp. z o.o. was rejected. On April 8, 2019 PGE S.A. received a copy of an appeal lodged by the claimant on December 7, 2018. A response from PGE S.A. and PGE GiEK S.A. to the appeal was drafted on April 23, 2019. A hearing was held on December 21, 2020. The Appeals Court ruled to repeal the District Court's ruling in its entirety and referred the case to the District Court for re-examination. On January 22, 2021 PGE S.A. and PGE GiEK S.A. appealed the ruling to the Supreme Court, requesting that the appealed ruling be repealed entirely and the case referred to the Appeals Court for re-examination. At a closed-door hearing on April 27, 2021 the Supreme Court reversed the judgement. The case was returned to be re-examined by the Appeals Court. As at the date of approval for publication of these consolidated financial statements, no further trial date had been set.

PGE Group companies do not accept the claims being raised by Socrates Investment S.A., Pozwy sp. z o.o. According to PGE S.A., these claims are groundless and the entire consolidation process was conducted fairly and correctly. The value of the shares, which were subject to the process of consolidation (merger), was established by an independent company PwC Polska sp. z o.o. Additionally, merger plans of the companies mentioned above, including the exchange ratios were examined for accuracy and reliability by an expert appointed by the registration court; no irregularities were found. Then, the court registered the mergers of the aforementioned companies.

PGE Group did not create a provision for this claim.

25. Tax settlements

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

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

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

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

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

Tax group

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

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

The Group intends to effectively use the funds received from counterparties in VAT accounts to pay its liabilities that contain VAT. The level of funds in these VAT accounts on any given day depends mainly on how many of PGE Group's counterparties decide to use this mechanism and the relation between the payment deadlines for receivables and liabilities. As of June 30, 2022 the cash balance in these VAT accounts totalled PLN 201 million.

Reporting of tax arrangements (MDR)

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

Excise tax

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

Examining the company's complaints with regard to the restitution claims against decisions issued by tax authorities refusing to confirm overpayment of excise tax, administrative courts ruled that the company did not bear the economic burden of the improperly calculated excise tax (which in the context of the resolution by the Supreme Administrative Court of June 22, 2011, file no. I GPS 1/11, precludes the return of overpaid amounts). According to the Supreme Administrative Court, the claims that the company sought, especially using economic analyses, are of an offsetting nature and therefore may be sought only in civil courts. Given the above, PGE GiEK S.A. decided to withdraw from the proceedings as regards restitution claims. Activities concerning the excess excise tax are currently being conducted in civil courts. On January 10, 2020 the District Court in Warsaw issued a ruling in a case brought by PGE GiEK against the State Treasury - Minister of Finance. The court dismissed the case. On February 3, 2020 the company filed an appeal with the Court of Appeals in Warsaw against the first-instance ruling. The session was held on December 2, 2020, after which the Court of Appeals in Warsaw rejected PGE GiEK's appeal in a ruling dated December 17, 2020. On April 23, 2021, PGE GiEK S.A. submitted a cassation complaint to the Supreme Court. On May 20, 2021 PGE GiEK received a response from the general prosecutor's office regarding the company's cassation complaint.

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

Real estate tax

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

Uncertainty concerning tax settlements

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

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

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

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

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

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

26. Information on related parties

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

26.1 Associates and jointly controlled entities

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

	Period ended June 30, 2022	Period ended June 30, 2021
Sales to associates and jointly controlled entities	13	94
Purchases from associates and jointly controlled entities	646	1,030

	As at June 30, 2022	As at 31 December 2021
Trade receivables from associates and jointly controlled entities	4	51
Trade liabilities to associates and jointly controlled entities	82	178

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

Advances paid to associates (mainly Polska Grupa Górnicza S.A. and Polimex-Mostostal S.A.) are included in the amounts presented in note 18.1 Other non-current assets and in note *18.2 Other current assets.*

26.2 State Treasury-controlled companies

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

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

	Period ended June 30, 2022	Period ended June 30, 2021
Sales to related parties	2,975	2,025
Purchases from related parties	4,513	3,028

	As at June 30, 2022	As at December 31, 2021*
Trade receivables from related parties	733	616
Trade liabilities to related parties	758	895

**Restated data*

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

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

26.3 Management Board and Supervisory Board remuneration

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

PLN 000s	Period ended June 30, 2022	Period ended June 30, 2021
Short-term employee benefits (salaries and salary related costs)	20,020	18,750
Post-employment benefits	225	(645)
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**20,245**	**18,105**
Remuneration of key management personnel of entities of non-core operations	10,585	12,561
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**30,830**	**30,666**

PLN 000s	Period ended June 30, 2022	Period ended June 30, 2021
Management Board of the parent company	4,977	2,901
including post-employment benefits	-	*(935)*
Supervisory Board of the parent company	419	422
Management Boards – subsidiaries	12,948	13,049
Supervisory Boards – subsidiaries	1,901	1,733
TOTAL	**20,245**	**18,105**
Remuneration of key management personnel of entities of non-core operations	10,585	12,561
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**30,830**	**30,666**

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

27. Significant events during and after the reporting period

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

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

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

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

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

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

The reality of cyber threats is confirmed by attacks carried out against the Group's ICT infrastructure and users of information systems. Targeted attacks aimed at phishing or attempting to install malware have attracted particular attention recently. DDoS (Distributed Denial of Service) attacks have also been identified, the aim of which is to seize all available and free resources in order to prevent the entire service from functioning.

The counter measures taken (monitoring, incident handling and system recovery) allow attacks to be successfully repelled. These actions, combined with adequate management, lead to the build-up of resilience.

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

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

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

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

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

Risks related to gas supplies:

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

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

Impact of fuel availability constraints on electricity and heat generation:

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

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

Impact of war on commodity and financial markets:

The energy crisis has spread across Poland, Europe and the world. The war in Ukraine is having a major impact on the heat and electricity market in Poland. It has a major impact on the prices and availability of energy raw materials, which has translated into higher energy and CO_2 emission allowance prices and the prices of goods and services, thereby affecting the levels of margins generated and capital raising opportunities. The disruption or complete shutdown of many production sites in Ukraine has disrupted the supply chain of components for key investments, or significantly increased their prices. The war in Ukraine has also highlighted the tremendous role of RES, the development of which is a response to the cut-off of energy supplies from Russia and high energy prices. There is also pressure mounting to accelerate the energy transition in line with the European Union's climate policy, using the phase-out of fossil fuels to modernise the Polish economy. And as the leader of Poland's national energy transition, PGE Group is integrating the need to achieve climate neutrality into its business strategy. At the same time, a change of the behavioural patterns of energy customers is also inevitable so that there are no problems with shortages of heat and electricity in the winter period. PGE Group mitigates these risks by continuing its policy of hedging electricity generation costs along with energy sales on the wholesale market, which is reflected both in hedging CO_2 emission allowances and foreign currencies for transaction purposes. Also, in line with the current decision to impose war sanctions on Russia and Belarus, PGE Group has introduced contractor compliance verification in its supply chains.

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

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

27.2 Planned disposal of coal assets to National Energy Security Agency

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

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

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

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

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

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

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

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

On July 23, 2021, PGE S.A., ENEA S.A., TAURON Polska Energia S.A. and ENERGA S.A. executed an agreement with the State Treasury regarding cooperation on the carve out of coal-based energy generation assets and their integration into NABE.

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

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

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

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

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

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

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

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

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

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

The changes in PGE S.A.'s share capital were registered with the National Court Register on May 18, 2022.

On May 20, 2022, the Company received a notification of a change in the total number of votes held by the State Treasury. As at the date of approval of this report for publication, the State Treasury holds 60.86% of the total number of votes. Taking into account the shares held by State Treasury subsidiary Towarzystwo Finansowe Silesia sp. z o.o., the State Treasury holds a total share of 61.70% in the total number of votes.

27.4 Implementation by PGE Paliwa sp. z o.o. of a decision by the President of the Council of Ministers concerning the purchase of 3 million tonnes of thermal coal to be sold to households

On July 13, 2022 PGE Paliwa sp. z o.o. received a decision from the Prime Minister recommending the purchase of 2.5 million tonnes of thermal coal with parameters similar to the quality parameters used by households by the end of August 2022 and its import into the country by the end of October 2022. On August 8, 2022, PGE Paliwa received a decision from the Prime Minister amending the previously issued decision and instructing the company to purchase the aforementioned coal in an amount of at least 3 million tonnes by the end of October 2022 and to import it into the country by the end of April 2023.

The Company is implementing the decision on market terms.

The implementation of the decision will result in a temporary increase in PGE Group's cash requirements and a potential temporary increase in debt in connection with the settlement of coal purchase and resale transactions. In the current conditions, the company does not expect the implemented actions to have a material impact on PGE Group's consolidated financial result.

II. PGE POLSKA GRUPA ENERGETYCZNA S.A. CONDENSED SEPARATE INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED JUNE 30, 2022, IN ACCORDANCE WITH IFRS EU

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended June 30, 2022 *(unaudited)*	Period ended June 30, 2021 *(unaudited)*
STATEMENT OF PROFIT OR LOSS			
REVENUE FROM SALES	6	**18,855**	**12,829**
Cost of sales	7	(18,034)	(12,353)
GROSS PROFIT ON SALES		**821**	**476**
Distribution and selling expenses	7	(6)	(9)
General and administrative expenses	7	(132)	(98)
Other operating income / (expenses)		(65)	(5)
OPERATING PROFIT		**618**	**364**
Finance income / (costs), including	8	1,807	1,264
Interest income calculated using the effective interest rate method		*204*	*74*
GROSS PROFIT		**2,425**	**1,628**
Income tax		(147)	(27)
NET PROFIT FOR THE REPORTING PERIOD		**2,278**	**1,601**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss:			
Measurement of hedging instruments		381	199
Actuarial gains and losses from valuation of provisions for employee benefits		2	1
Deferred tax		(72)	(38)
Items that may not be reclassified to profit or loss:			
Actuarial gains and losses from valuation of provisions for employee benefits		-	-
Deferred tax		-	-
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**311**	**162**
TOTAL COMPREHENSIVE INCOME		**2,589**	**1,763**
NET PROFIT AND DILUTED NET PROFIT PER SHARE (IN PLN)		**1.13**	**0.86**

The additional notes constitute an integral part of the separate financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION

	Note	As at June 30, 2022 *(unaudited)*	As at 31 December 2021 *(audited)*
NON-CURRENT ASSETS			
Property, plant and equipment		143	146
Right-of-use assets		23	20
Financial receivables	*10.1*	4,104	6,936
Derivatives and other assets measured at fair value through profit or loss	*11*	782	358
Shares in subsidiaries	*9*	29,397	29,370
Shares in subsidiaries, jointly controlled entities, associates and other		83	96
Other non-current assets		-	3
		34,532	**36,929**
CURRENT ASSETS			
Inventories		1	1
Income tax receivables		95	136
Trade and other receivables	*10.1*	15,690	19,637
Derivatives and other assets measured at fair value through profit or loss	*11*	3,507	2,254
Shares in subsidiaries	*9*	74	162
Other current assets	*12*	1,743	375
Cash and cash equivalents	*10.2*	8,903	5,316
		30,013	**27,881**
TOTAL ASSETS		**64,545**	**64,810**
EQUITY			
Share capital		19,184	19,165
Reserve capital		25,049	20,154
Hedging reserve		554	246
Retained earnings		2,284	1,737
		47,071	**41,302**
NON-CURRENT LIABILITIES			
Non-current provisions		10	13
Loans, borrowings, bonds and leases	*13*	6,166	7,084
Deferred income tax liability		163	34
Other liabilities		9	13
		6,348	**7,144**
CURRENT LIABILITIES			
Current provisions		40	40
Loans, borrowings, bonds, cash pooling, leases	*13*	3,744	3,164
Derivatives	*11*	3,261	2,278
Trade and other financial liabilities		3,099	10,238
Income tax liabilities		-	1
Other non-financial liabilities		982	643
		11,126	**16,364**
TOTAL LIABILITIES		**17,474**	**23,508**
TOTAL EQUITY AND LIABILITIES		**64,545**	**64,810**

The additional notes constitute an integral part of the separate financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserve capital	Hedging reserve	Retained earnings	Total equity
AS AT JANUARY 1, 2022	**19,165**	**20,154**	**246**	**1,737**	**41,302**
Net profit for the reporting period	-	-	-	2,278	**2,278**
Other comprehensive income	-	-	308	3	**311**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**308**	**2,281**	**2,589**
Allocation of profit from previous years	-	1,734	-	(1,734)	-
Reduction of nominal value of shares	(3,178)	3,178	-	-	-
Share capital increase	3,197	(17)	-	-	3,180
AS AT JUNE 30, 2022	**19,184**	**25,049**	**554**	**2,284**	**47,071**

	Share capital	Reserve capital	Hedging reserve	Retained earnings	Total equity
AS AT JANUARY 1, 2021	**19,165**	**18,410**	**(288)**	**1,742**	**39,029**
Net profit for the reporting period	-	-	-	1,601	**1,601**
Other comprehensive income	-	-	161	1	**162**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**161**	**1,602**	**1,763**
Allocation of profit from previous years	-	1,744	-	(1,744)	-
AS AT JUNE 30, 2021	**19,165**	**20,154**	**(127)**	**1,600**	**40,792**

The additional notes constitute an integral part of the separate financial statements.

SEPARATE STATEMENT OF CASH FLOWS

	Period ended June 30, 2022 *(unaudited)*	Period ended June 30, 2021 *(unaudited)*
CASH FLOWS FROM OPERATING ACTIVITIES		
Gross profit	**2,425**	**1,628**
Income tax paid	(28)	(499)
Adjustments for:		
Depreciation, amortisation and impairment losses	6	6
Interest and dividend, net	(1,793)	(1,325)
(Gain) / loss on investing activities	(260)	54
Change in receivables	5,176	(384)
Change in inventories	-	-
Change in liabilities, excluding loans and borrowings	(6,784)	994
Change in other non-financial assets	229	(47)
Change in provisions	-	(21)
Exchange differences	(21)	15
NET CASH FROM OPERATING ACTIVITIES	**(1,050)**	**421**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	(4)	(2)
Buyback of bonds issued by PGE Group companies	3,300	-
Sale of other financial assets	94	378
Expenditure on purchase of shares in subsidiaries	(17)	(93)
Origination / (repayment) of loans granted under cash pooling agreement	782	757
Loans granted	(10,471)	(6,469)
Interest received	287	232
Loans repaid	8,504	5,787
NET CASH FROM INVESTING ACTIVITIES	**2,475**	**590**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	3,197	-
Proceeds from loans, borrowings	2,200	-
Repayment of loans, borrowings, leases	(3,051)	(125)
Interest paid	(188)	(158)
Other	(17)	-
NET CASH FROM FINANCING ACTIVITIES	**2,141**	**(283)**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**3,566**	**728**
Net exchange differences	(21)	(14)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**5,317**	**3,493**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	**8,883**	**4,221**

1. General information

PGE Polska Grupa Energetyczna S.A. was founded on the basis of the 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 in June 2022. The Company's registered office is in Warsaw, ul. Mysia 2. On April 6, 2022, an Extraordinary General Meeting adopted a resolution to change the Company's registered office to Lublin. On July 1, 2022, the change was registered in the National Court Register maintained by the District Court for Lublin-Wschód in Lublin, based in Świdnik, VI Commercial Division of the National Court Register, and the registered office is now located in Lublin at Aleja Kraśnicka 27.

PGE S.A. is the parent company for PGE Group and prepares separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted 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. According to the concession the annual fees are paid depending on the level of trading.

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 does not report business or geographical segments.

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

Statement of compliance

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

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

Going concern

These condensed interim financial statements were prepared under the assumption that the Company will continue operating as a going concern for at least 12 months from the reporting date. As at the date of approval of these separate financial statements, there is no evidence indicating that the Company will not be able to continue its operations as a going concern.

These financial statements comprise financial data for the period from January 1, 2022 to June 30, 2022 ("separate financial statements") and include comparative data for the period from January 1, 2020 to June 30, 2021 and as at December 31, 2021.

The same accounting rules (policies) and calculation methods are applied in these financial statements as in the most recent annual financial statements and they should be read in conjunction with PGE S.A.'s audited separate financial statements prepared in accordance with EU IFRS for the year ended December 31, 2021.

Seasonality

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

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

PGE S.A.'s sales seasonality results from the fact that the Company sold 90% of its electricity to PGE Obrót S.A. and PGE Dystrybucja S.A., whose demand for electricity is subject to seasonality.

2. Professional judgement of management and estimates

In the period ended June 30, 2022, no other significant changes of estimates took place that would have an impact on the amounts presented in the financial statements. As described in note 3 to these financial statements, impairment tests on stakes held were performed in the current period. The tests did not provide grounds for recognising or releasing impairment losses.

3. Impact of new regulations on the Company's future financial statements

New standards and interpretations that were published but are not yet in force are described in note 2.3 to the consolidated financial statements.

4. Changes in accounting principles and data presentation

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

New standards and interpretations that went into force on January 1, 2022 and had no impact on the Company's separate financial statements are described in note 4 to the consolidated financial statements.

5. Fair value hierarchy

The principles for valuation of inventories, derivatives, shares and instruments not quoted on active markets, for which fair value may not be determined reliably, are the same as presented in the financial statements for the year ended December 31, 2021.

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

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

6. Revenue from sales

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

Type of goods or services	Period ended June 30, 2022	Period ended June 30, 2021
REVENUE FROM CONTRACTS WITH CUSTOMERS	**18,852**	**12,827**
Revenue from sale of goods, including:	**18,120**	**12,332**
Sale of electricity	*8,882*	*5,499*
Sale of gas	*416*	*177*
Sale of CO_2 emission allowances	*8,808*	*6,640*
Revenue from the Capacity Market	*14*	*16*
Revenue from sale of services	**732**	**495**
Revenue from leases	**3**	**2**
TOTAL REVENUE FROM SALE	**18,855**	**12,829**

The Company operates predominately in Poland.

The increase in revenue from the sale of electricity in the first half of 2022 in comparison with the same period last year resulted from higher electricity sales prices along with a lower supply volume. The decline in trade volume mainly concerns electricity sales to PGE Obrót S.A. in order to cover demand from retail customers, which is caused primarily by lower demand for electricity on the large of large professional customers.

The increase in revenue from the sale of CO_2 allowances in the current period is the result of an increase in the sale price of CO_2 allowances, at the same time as a lower volume of CO_2 allowances sold.

The increase in revenue from natural gas sales in H1 2022 is the result of an increase in the selling price of natural gas, with a lower volume of natural gas sold, mainly to PGE Group's CHP plants and on the exchange.

Revenue from the sale of services mainly concerns services performed for PGE Group subsidiaries and includes, inter alia, services related to electricity trade and supply, supply of fuel, licenses and the so-called support services. The increase in revenue is mainly the result of an increase in revenue from electricity trading services provided on behalf of PGE Group companies and an increase in revenue from license agreements. The increase in revenue from electricity trading services is due to an increase in the price of electricity, at the same time as the volume of electricity decreased and the weighted average margin for services provided decreased. The increase in revenue from license agreements is due to the increase in revenue of PGE Group companies, which are the basis for the accrual of revenue from license agreements.

Information on major customers

The Company's main counterparties are PGE Group subsidiaries. In the first half of 2022, sales to PGE GiEK S.A. accounted for 44% of sales revenue, and sales to PGE Obrót S.A. accounted for 40% of sales revenue, and in the first half of 2021, sales to these companies were 40% and 38% respectively.

7. Costs by nature and function

	Period ended June 30, 2022	Period ended June 30, 2021
COSTS BY NATURE		
Depreciation, amortisation	6	6
External services	39	31
Employee benefits expenses	94	71
Other costs by nature	49	29
TOTAL COSTS BY NATURE	**188**	**137**
Distribution and selling expenses	(6)	(9)
General and administrative expenses	(132)	(98)
Cost of goods and materials sold	17,984	12,323
COST OF SALES	**18,034**	**12,353**

The increase in the value of goods and materials sold in the first half of 2022, comparing to H1 2021, is largely the effect of higher revenue from sales, as described above, and higher commodity prices.

8. Finance income and finance costs

	Period ended June 30, 2022	Period ended June 30, 2021
NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS		
Dividends	1,639	1,252
Interest (Finance income / (costs)), including	204	70
Interest income calculated using the effective interest rate method	*405*	*230*
Revaluation of financial instruments	(4)	(27)
Reversal/(recognition) of impairment	(7)	-
Exchange differences	(26)	8
Profit/(loss) on disposal of investment	1	(39)
TOTAL NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS	**1,807**	**1,264**
NET OTHER FINANCE INCOME/(COSTS)	-	-
TOTAL NET FINANCE INCOME/(COSTS)	**1,807**	**1,264**

In the period ended June 30, 2022, the Company reported dividend income mainly from PGE Dystrybucja S.A. (PLN 1,138 million), PGE Energia Odnawialna S.A. (PLN 449 million) and PGE Energia Ciepła S.A. (PLN 25 million), and in the comparative period PLN 784 million from PGE Dystrybucja S.A., PLN 166 million from PGE Energia Odnawialna S.A., and PLN 277 million from PGE Energia Ciepła S.A.

In the comparative period, in the item release/(recognition) of impairment the Company presented the recognition of an impairment loss on the stake in PGE Nowa Energia sp. z o.o. w likwidacji.

The Company reports interest income mainly from financing granted to subsidiaries. Interest costs mainly relate to bonds issued and credit facilities and loans taken out, as described in note 13 to these financial statements.

Under the item 'impairment of financial instruments,' the Company presents mainly the measurement of hedging transactions in the part recognised as ineffective part of the hedge for instruments designated as hedging instruments in cash flow hedge accounting and in full for other instruments, as well as the valuation of the call option for the purchase of Polimex-Mostostal S.A. shares.

9. Shares in subsidiaries

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

In the current reporting period, the Company analysed the rationale and identified factors that could significantly contribute to a change in the value of its generation assets and consequently affect the value of PGE S.A.'s stakes in PGE GiEK S.A., PGE EC S.A. and PGE EO S.A.

External factors

- PGE's market capitalisation remaining below net asset book value.
- Global energy crisis, characterised by rising levels of fuel, electricity and CO_2 prices and levels of volatility hitherto unobserved. This crisis was exacerbated by Russia's invasion of Ukraine on 24 February 2022 and the emergence of the risk of coal and gas shortages in Europe:
  - The average electricity price for forward contracts for the year ahead (Y+1) in the first half of 2022 was 820 PLN/MWh, i.e. 165% higher than in the same period last year.
  - CO_2 emission allowance prices, after a sharp collapse triggered by the pandemic outbreak in mid-March 2020, began to recover until a sharp increase began in November 2021. In the first half of 2022, the average weighted price of the EUA DEC 22 instrument was 82.01 EUR/t and was significantly higher (+116%) than the average price of EUA DEC 21 in the same period of the previous year.
  - The average price of hard coal at ARA ports in monthly follow-on contracts in the first half of 2022 was USD 264/t, up 240% compared to the first half of 2021.

- The average price of natural gas in futures contracts in the first half of 2022 was EUR 100/MWh, an increase of 361% compared to H1 2021.

- Rising inflation and changes in financial markets, where tighter monetary policy is being pursued.

As a result of the analysis of the aforementioned rationale, asset impairment tests were carried out as at 30 June 2022 at PGE GiEK S.A, PGE EC S.A. and PGE EO S.A. Based on the tests performed, it was concluded that no impairment of generation assets and, consequently, of the value of shares held by PGE S.A. was necessary.

Macroeconomic assumptions

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

Electricity price forecasts assume a decline between 2024 and 2026 relative to 2023 prices, followed by an average annual increase of approx. 8% in 2025-2029.

Price projections for CO_2 emission allowances assume an increase in 2024 relative to 2022, followed by an average annual decline in 2025-2026 at approx. 17.2% relative to 2024, and an average annual increase between 2027 and 2029 of approx. 14.6%. A slight decrease is expected in 2030, in comparison with 2029, followed by stable growth at approx. 4% annually until 2040.

Hard coal price forecasts assume an average annual decline of about 25.3% between 2024 and 2026 relative to 2023 prices, followed by an average annual increase of approx. 2.4% until 2040.

The forecasts for natural gas prices expect an annual average decrease of approx. 29.3% in 2024-2026 relative to 2023, followed by an average annual growth of approx. 3.8% in subsequent years.

The price forecasts for certificates of origin for energy expect an average annual decrease of approx. 2.7% in 2024-2031 relative to 2023, which is related to the decreasing obligation to redeem these certificates.

The forecast for revenue from the capacity market for 2023-2026 is based on the results of completed main and additional auctions for these delivery periods, taking into account the joint balancing mechanism at PGE Group companies. From 2027, the forecast was developed by a team of experts at PGE S.A. on the basis of assumptions concerning estimated future flows for generating units, based on, inter alia, results of completed auctions and forecasts from an external expert. As of 1 July 2025, all Capacity Market Entities that have entered into capacity contracts after 31 December 2019 (i.e. for contracts entered into in the Main Auction for the delivery year 2025 onwards) will be subject to an emissions criterion of 550g CO_2/kWh (so-called EPS 550), which will effectively exclude all coal units from participating in subsequent Capacity Market auctions.

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

Weighted average cost of capital

The first half of 2022 in the energy and related products market remained under strong pressure from the post-Covid rebound in economies around the world as well as developments in financial markets, where tighter monetary policy is being pursued. In addition, there is a war in Ukraine, which has created additional risks to the availability of hydrocarbons from the east. These factors have caused major disruption and abruptly changed trends in financial and commodity markets. One important element of the market that has been affected is the discount rate (weighted average cost of capital) adopted for asset impairment testing. According to PGE Group, the determination of a fixed cost of capital for subsequent years on the basis of recent market characteristics is not justified, therefore it was decided that in the first years of the projection the situation is influenced by current events, while in subsequent years the weighted average cost of capital will approach the average of the last 11 years (covering the full business cycle since the last crisis in the financial and commodity markets).

Climate matters

In July 2021, the European Commission published the Fit for 55 legislative package, which intends to, inter alia, reduce GHG emissions in the EU by 55% (previously 40%) by 2030, in comparison with 1990. In line with the expectations of market participants, the EU ETS reform included in the package should result in a considerable increase in the prices of CO_2 emission allowances, which in practice already took place in 2021. The high price level of CO_2 allowances also continued in the first half of 2022.

Impairment tests on stake in PGE GiEK S.A.

In previous reporting periods, PGE S.A. recognised substantial impairment losses on its stake in PGE GiEK S.A.

In the present reporting period, the Company performed impairment tests in order to verify whether the value of its stake in PGE GiEK S.A. decreased or increased.

Determining fair value for very large groups of assets for which there is no active market and there are few comparable transactions is very difficult in practice. In the case of complete power plants and mines for which a value on the local market should be determined there are no observable fair values. Given the above, the recoverable value of the analysed assets was estimated on the basis of discounted net cash flow method which relied on financial projections prepared for the period from July 2022 to the end of the use period. According to the Company, financial projections longer than five years are justified due to significant and long-term effects of projected changes in the regulatory environment. Using longer projections, recoverable amounts may be determined more reliably.

Presented below are the key assumptions having impact on estimates of the useful value of PGE GiEK S.A.:

- classify the following as one CGU due to technological links:
  - Branch KWB Bełchatów and Branch Elektrownia Bełchatów,
  - Branch KWB Turów and Branch Elektrownia Turów,
- adopt the following assumptions about going concern:
  - until 2036 for the Bełchatów complex, based on a shut-down date for all units accepted by the trade unions and adopted for the purposes of the Just Transition Plan for Łódzkie Voivodship,
  - until 2044 for the Turów complex, based on a decision prolonging the mining concession to 2044, dated April 28, 2021,
- take into account work cost optimisation resulting from current work plans, among other things,
- maintain production capacities as a result of replacement-type investments,
- adopt varied levels of WACC after tax for the projection period, depending on the CGU, in accordance with an individually estimated level of risk:
  - for 2022-2025: average annual level for each CGU of 9.05% - 10.05%,
  - for 2026-2036: average annual level for each CGU of 6.73% - 7.64%,

The tests did not indicate the necessity to recognise an impairment loss on the shares of PGE GiEK S.A. The recoverable value of these stakes exceeds their book value indicated in these financial statements.

Impairment tests on shares of PGE EC S.A.

In the current reporting period, the Company analysed impairment indications and identified factors that could result in changes to the non-current asset values and in consequence have an impact on the stake held by PGE S.A.

Impairment tests on non-current assets were conducted as of June 30, 2022, on cash generating unit basis by establishing their recoverable amounts. Determining fair value for very large groups of assets for which there is no active market and there are few comparable transactions is very difficult in practice. In the case of complete power plants and mines for which a value on the local market should be determined there are no observable fair values. Given the above, the recoverable value of the analysed assets was estimated on the basis of discounted net cash flow method which relied on financial projections prepared for the period from July 2022 to the end of 2030. According to the Company, financial projections longer than five years are justified due to significant and long-term effects of projected changes in the regulatory environment. Using longer projections, recoverable amounts may be determined more reliably. For generating units with expected periods of economic useful lives in excess of 2030, a residual value was determined for the remaining service time.

The energy market, and especially the heat market, is a regulated market in Poland and as such is subject to numerous regulations and cannot be freely shaped on the basis of business decisions alone. The Energy Law's goals include taking effective regulatory action to ensure energy security. This means that the regulatory environment is intended to ensure a stable operation of heat suppliers in a given area to meet the long-term needs of consumers. According to the Energy Law, the Energy Regulatory Office President may, in extreme cases, even order an energy company to carry out activities covered by a concession (for a period not longer than 2 years), if the public interest so requires. If this is a loss-making activity, the energy company is entitled to loss coverage from the State Treasury.

As such, the Company does not use a finite CGU lifecycle due to the regulatory environment which limits the possibility of discontinuation. Due to the above, impairment tests assumed the continuation of operations (in the form of residual value), while maintaining expenditures at a replacement level, in the long-term due to, inter alia, social interest in the form of ensuring heat supply. With respect to the generation assets covered by the Decarbonisation Plan, replacement investments relate to the transition of generation capacity (to gas-fired assets) via the use of new low- or zero-carbon generation units, which means that the cash generated by these assets is taken into account in the impairment tests.

Climate matters

The 2050 Decarbonisation Plan for the District Heating segment was approved in October 2021, which aims to fulfil regulatory requirements in the energy industry and retain the existing generation potential in the long-term in order to meet customer needs. The Decarbonisation Plan operationalises objectives specified directly in PGE Group's strategy and in the District Heating segment strategy implementation plan. The plan identifies the locations where the transformation of manufacturing assets will take place, the timing of major activities, planned expenditures and effects. Generation capacity transition via new low- or zero-carbon generating units is planned for the 2030 horizon, and climate neutrality for the 2050 horizon.

Detailed segment assumptions

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

- specific units of PGE EC S.A. being considered as separate CGUs Branch no. 1 in Kraków (CHP Kraków), Branch Wybrzeże (CHP Gdańsk, CHP Gdynia), Branch in Rzeszów (CHP Rzeszów), Branch in Lublin (CHP in Lublin Wrotków), Branch in Bydgoszcz (CHP Bydgoszcz I, CHP Bydgoszcz II), Branch in Gorzów Wielkopolski (CHP in Gorzów Wielkopolski), Branch in Zgierz (CHP in Zgierz), Branch in Kielce (CHP in Kielce), Branch in Szczecin (CHP in Szczecin, CHP in Pomorzany, district heating network in Gryfino);
- three production facilities owned by KOGENERACJA S.A. being considered as one CGU: CHP Wrocław, CHP Czechnica, CHP Zawidawie;
- for the period from 2022 it is assumed that PGE Group producers do not receive free-of-charge allocations of CO_2 emission allowances for the production of electricity;
- taking account of the allocation of free CO_2 emission allowances in the period 2022-2030 for system district heating and high-efficiency cogeneration. Member States may apply for a 30% free allocation of emission allowances for heat in the period from 2022 to 2030, with the 30% value relating to the gas benchmark and district heating supply for municipal purposes,
- assumption for conventional plants that during the residual period there will be support from the capacity market or equivalent;
- take into account the support system for high-efficiency cogeneration in the forecast horizon and in the residual period: for existing units, support was assumed in the form of guaranteed bonus and, if the financing gap condition is met, individual guaranteed bonus; a cogeneration bonus is to be granted to new gas units;
- maintain production capacities as a result of replacement-type investments. For generating assets in respect of which actions have been taken to implement the Decarbonisation Plan, replacement expenditures represent the transition of generation assets to gas-fired assets. The decarbonisation plan encompasses the following locations: Kraków, Gdańsk, Gdynia, Wrocław, Bydgoszcz, Kielce, Zgierz;
- taking into account development investments, for projects with a high level of advancement, minimum inclusion in the Company's approved investment plan
- taking into account development investments, for projects with a high level of advancement, minimum inclusion in the Company's approved investment plan
- adopt WACC after tax for the projection period at different levels:
  - for 2022-2025: average annual level of 9.05%
  - for 2026-2030: average annual level of 6.73%

The tests did not indicate the necessity to recognise an impairment loss on the shares of PGE EC S.A. The recoverable value of these stakes exceeds their book value indicated in these financial statements.

Impairment tests on shares of PGE EO S.A.

In the current reporting period, the Company analysed impairment indications and identified factors that could result in changes to the non-current asset values and in consequence have an impact on the stake held by PGE S.A.

Impairment tests were conducted on June 30, 2022, on cash generating unit basis by establishing their recoverable amounts. Determining fair value for very large groups of assets for which there is no active market and there are few comparable transactions is very difficult in practice. In the case of complete power plants and mines for which a value on the local market should be determined there are no observable fair values. Given the above, the recoverable value of the analysed assets was estimated on the basis of discounted net cash flow method which relied on financial projections prepared for the period from July 2022 to the end of the use period. According to the Company, financial projections longer than five years are justified due to significant and long-term effects of projected changes in the regulatory environment. Using longer projections, recoverable amounts may be determined more reliably.

Detailed segment assumptions

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

- classification as a separate CGU of the following:
  - pumped-storage plants (one CGU for all plants due to their shared economic nature);
  - other hydropower plants (one CGU for all plants due to their shared economic nature);
  - individual wind farms (separate CGU for each wind farm due to different operational periods);
- production of electricity and property rights were estimated based on historic data, adjusted by the availability of units;
- unit availability was estimated based on repair plans, taking into account statistical failure rates;
- revenue from regulatory system services until mid-2023 were estimated based on the currently functioning system of remuneration for these services, from mid-2023 it is expected that the market mechanism for contracting regulatory services will start functioning, the revenues from which have been estimated based on PGE Group's internal analyses;
- maintain production capacities as a result of replacement-type investments;
- adopt WACC after tax for the projection period at different levels:
  - for 2022-2025: average annual level of 9.05%
  - for 2026-2030: average annual level of 6.73%

The tests did not indicate the necessity to recognise an impairment loss on the shares of PGE EO S.A. The recoverable value of these stakes exceeds their book value indicated in these financial statements.

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

In previous reporting periods, PGE S.A. recognised impairment losses on PGE Obrót S.A.'s shares. In the current reporting period, the Company analysed premises and identified factors that could result in a change in the value of its shares in PGE Obrót S.A. These premises include:

- The effects of the amendment to the Act on Renewable Energy Sources of October 29, 2021, introducing changes to the way prosumers are billed. The existing discount system will be replaced by a net-billing model,
- dynamic development of micro photovoltaic installations and the billing of prosumers, who will still be billed according to the net-metering system,
- lingering COVID-19 pandemic and its impact on electricity demand.

In view of the above the Company carried out an impairment test of the shares of PGE Obrót S.A. The test was performed in accordance with IAS 36 using the discounted cash flow method. The projections were based on a five-year financial flow model for PGE Obrót S.A. The key assumptions used in the valuation were as follows:

- key price assumptions concerning the price of 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 three years of the forecast,
- decrease in overall sales volume in 2027 by approx. 3.4% compared to 2021,
- lower projected realisation of electricity margins between 2023 and 2027 compared to 2022,
- correlation between electricity prices in 2022-2027 in sales to retail customers with wholesale prices and impact on their level resulting from a change in the obligation to redeem property rights as well as changes in the prices of property rights,
- inclusion of economic effects in the projection related to the dynamic development of prosumer micro-installations in the forecast horizon on the basis of the observed market trends in 2021 and in connection with the amendment of the Act on RES of October 29, 2021,
- adopt WACC after tax for the projection period in the range of 7.81%-12.30%.

Impairment test and sensitivity analysis for PGE Obrót S.A. shares

A merger of PGE Obrót S.A. (acquiring company) with PGE Centrum sp. z o.o. (acquired company) was registered at the National Court Register on June 30, 2022. Thus, the book value of PGE Obrót S.A. shares recognised in the Company's books amounted to PLN 622 million. As a result of the impairment test, the value of PGE Obrót S.A. shares was estimated at PLN 624 million. Due to the immaterial difference between the book value and the estimated market value, in the opinion of PGE S.A. there are no grounds to reverse the impairment loss on PGE Obrót S.A. shares recognised in previous reporting periods.

The results of the sensitivity analysis showed that the largest impact on the value of the shares being valued is mainly due to changes in the WACC assumptions and unit margins. Presented below is the estimated impact of changes in key assumptions on changes in impairment losses as regards the stake in PGE Obrót S.A. as at June 30, 2022.

Parameter	Change	Impact on impairment loss	
		Increase in impairment loss	Decrease in impairment loss
Change in unit margin	1%	-	113
	-1%	109	-

A 1% decline in unit margin would cause the impairment loss to grow by PLN 103 million.

Parameter	Change	Impact on impairment loss	
		Increase in impairment loss	Decrease in impairment loss
Change in WACC	+0.5pp	97	-
	-0.5pp	-	114

An increase in WACC by 0.5 percentage points would cause an increase in the impairment loss by PLN 97 million.

9.3 Analysis of impairment of other stakes

In the first half of 2022, PGE S.A. recognised an impairment loss on its stake in PGE Nowa Energia sp. z o.o. (PLN 7 million). The rationale for recognising this impairment loss was the difference between the value of this company's shares in PGE S.A.'s books and the value of this company estimated using the adjusted net assets methods.

10. Selected financial assets

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

10.1 Trade and other financial receivables

	At June 30, 2022		At 31 December 2021	
	Non-current	Current	Non-current	Current
Trade receivables	-	1,693	-	7,703
Bonds acquired	2,180	3,661	5,580	3,562
Cash pooling receivables	-	111	-	449
Loans granted	1,924	7,727	1,356	6,258
Other financial receivables	-	2,498	-	1,665
TOTAL FINANCIAL RECEIVABLES	**4,104**	**15,690**	**6,936**	**19,637**

Trade receivables

Trade receivables of PLN 1,693 million relate mainly to the sale of electricity and services to subsidiaries in PGE Group. At December 31, 2021, the receivable balance was mainly due to the sale of CO_2 allowances. As at June 30, 2022, balances of the three largest customers, i.e. PGE Obrót S.A., PGE GiEK S.A. and PGE Energia Ciepła S.A. constituted 87% of the balance of trade receivables.

Bonds acquired

	At June 30, 2022		At 31 December 2021	
	Non-current	Current	Non-current	Current
BONDS ACQUIRED - ISSUER				
PGE Górnictwo i Energetyka Konwencjonalna S.A.	2,180	3,661	5,580	3,562
TOTAL BONDS ACQUIRED	**2,180**	**3,661**	**5,580**	**3,562**

PGE S.A. acquires bonds issued by entities belonging to PGE Group. Proceeds obtained from the issue of bonds are used for financing investments, repayment of financial liabilities as well as for financing current operations.

Bonds with maturities not exceeding 12 months from the reporting date are classified as current assets, while bonds with maturities exceeding 12 months from the reporting date are classified as non-current assets, however this classification depends not only on maturity but also on the Company's intentions with regard to roll-over.

Cash pooling receivables

In order to centralise liquidity management at PGE Group, agreements concerning the real cash pooling service were in force between selected companies of PGE Group and each bank separately, i.e. Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Polska Kasa Opieki S.A.. PGE S.A. plays the role of coordinating the cash pooling service in PGE Group. This means that certain these entities settle with the Company and the Company settles with banks. In connection to the above, balances with related parties participating in cash pooling are reported in financial receivables and financial liabilities of PGE S.A.

Loans granted

	At June 30, 2022		At 31 December 2021	
	Non-current	Current	Non-current	Current
LOANS GRANTED - BORROWER				
PGE Gryfino 2050 sp. z o.o.	1,921	24	1,248	29
PGE GiEK S.A.	-	2,926	-	1,900
PGE Energia Ciepła S.A.	-	1,942	100	1,439
PGE Obrót	-	1,424	-	953
PGE Energia Odnawialna S.A.	-	1,237	-	992
PGE Dystrybucja S.A.	-	-	-	606
PGE Systemy S.A.	-	168	-	166
EW Baltica 2 sp. z o.o.	-	-	-	92
EW Baltica 3 sp. z o.o.	-	-	-	64
Elbest sp. z o.o.	-	-	-	13
Betrans sp. z o.o.	3	4	8	2
EW Baltica 4 sp z o.o.	-	1	-	1
EW Baltica 5 sp. z o.o.	-	1	-	1
TOTAL LOANS GRANTED	**1,924**	**7,727**	**1,356**	**6,258**

The loan repayment deadline is in 2022-2024.

Other financial receivables

In the item Other, the Company mainly shows settlements with exchanges, mainly related to the purchase of CO_2 emission allowances and made through PGE Dom Maklerski.

10.2 Cash and cash equivalents

Short-term deposits are made for different periods, from one day up to one month, depending on the Company's needs for cash, and are deposited at individually agreed interest rates.

Cash in bank accounts accrues interest based on variable interest rates the level of which depends on the interest on overnight bank deposits

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

	As at June 30, 2022	As at 31 December 2021
Cash at bank	3,649	3,858
Overnight deposits	10	-
Short-term deposits	2,203	1,100
Proceeds from share issue	2,963	-
Cash in VAT accounts	78	358
TOTAL	**8,903**	**5,316**
Exchange differences on cash in foreign currencies	(20)	1
Cash and cash equivalents presented in the statement of cash flows	**8,883**	**5,317**
Available borrowing facilities	5,900	5,900
including overdraft facilities	*1,800*	*1,800*

The recapitalisation of PGE S.A. is described in note 27.3 of these consolidated financial statements. A detailed description of credit agreements is presented in note 13 to these financial statements.

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

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

	At June 30, 2022		At 31 December 2021	
	Assets	Liabilities	Assets	Liabilities
Derivatives measured at fair value through profit or loss				
Commodity forwards	-	3,220	-	2,242
Futures	2,689	-	1,765	-
Currency forwards	817	41	488	36
Options	12	-	16	-
HEDGING DERIVATIVES				
CCIRS hedges	152	-	110	-
IRS hedges	593	-	203	-
OTHER assets carried at fair value through profit or loss				
Investment fund participation units	26	-	30	-
TOTAL	**4,289**	**3,261**	**2,612**	**2,278**
non-current	782	-	358	-
current	3,507	3,261	2,254	2,278

Commodity and currency forwards

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

IRS transactions

The Company executed IRS transactions to hedge interest rates on credit facilities and outstanding bonds. The initial nominal value of these transactions is PLN 7,030 (PLN 5,630 million for credit facilities and PLN 1,400 million for bonds). Due to the commencement of principal repayments on certain loans, the current nominal amount of loan-hedging IRS transactions is PLN 3,678 million. To recognise these IRS transactions, the Company uses hedge accounting.

CCIRS hedges

In connection with loans received from PGE Sweden AB (publ) disclosed in note 13 to these financial statements, in August 2014 PGE S.A. concluded CCIRS transactions, hedging both the exchange rate and interest rate. In these transactions, the counterparty banks 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 nominal value, payment of interest and repayment of nominal value in CCIRS transactions are correlated with the relevant conditions arising from loan agreements.

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

Options

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

Investment fund participation units

As of the reporting date, the Company holds participation units in three sub-funds of Towarzystwo Funduszy Inwestycyjnych Energia S.A., whose value as of the reporting date amounts to PLN 26 million.

12. Other current assets

	As at June 30, 2022	As at 31 December 2021
Dividend receivables	1,639	-
Receivables from tax group	-	42
Advance payments	99	313
VAT receivables	-	17
Other	5	3
TOTAL	**1,743**	**375**

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

Advance payments consist mainly of funds transferred to the subsidiary PGE Dom Maklerski S.A. for the purchase of electricity and gas of PLN 98 million in the current reporting period as compared to PLN 313 million in the comparative period.

13. Loans, borrowings, bonds, cash pooling, leases

	At June 30, 2022		At 31 December 2021	
	Non-current	Current	Non-current	Current
Credit liabilities	4,072	1,913	5,006	1,803
Loans received	672	8	660	9
Bonds issued	1,399	11	1,399	5
Cash pooling liabilities	-	1,811	-	1,346
Lease liabilities	23	1	19	1
TOTAL LOANS, BORROWINGS, BONDS AND CASH POOLING	**6,166**	**3,744**	**7,084**	**3,164**

Bank credit

Lender	Security instrument	Execution date	Maturity	Limit in currency	Currency	Interest rate	Liability as of 30-06-2022	Liability at 31-12-2021
Bank consortium	IRS	2015-09-07	2023-09-30	3,630	PLN	Variable	2.207	2.909
European Investment Bank	-	2015-10-27	2034-08-25	1,500	PLN	Fixed	1.505	1.505
Bank Gospodarstwa Krajowego	IRS	2014-12-17	2027-12-31	1,000	PLN	Variable	689	751
European Investment Bank	-	2015-10-27	2034-08-25	490	PLN	Fixed	493	493
European Bank for Reconstruction and Development	IRS	2017-06-07	2028-06-07	500	PLN	Variable	410	439
Bank Gospodarstwa Krajowego	IRS	2015-12-04	2028-12-31	500	PLN	Variable	407	438
European Investment Bank	-	2019-12-16	2038-10-16	273	PLN	Fixed	274	274
Bank Gospodarstwa Krajowego	-	2018-06-01	2023-05-31	1,000	PLN	Variable	-	-
Revolving credit facility	-	2018-09-17	2022-12-16	4,100	PLN	Variable	-	-
Bank Pekao S.A.	-	2018-07-05	2024-12-22	500	PLN	Variable	-	-
PKO BP S.A.	-	2018-04-30	2023-12-31	300	PLN	Variable	-	-
TOTAL BANK CREDIT							**5.985**	**6.809**

In the first half of 2022 and after the reporting period there were no cases of default of repayment or violation of other terms of credit agreements.

Loans received

Lender	Security instrument	Execution date	Maturity	Limit in currency	Currency	Interest rate	Liability at 30-06-2022	Liability at 31-12-2021
PGE Sweden AB	CCIRS	2014-08-27	2029-07-31	100	EUR	Fixed	474	466
PGE Sweden AB	CCIRS	2014-08-27	2029-07-31	43	EUR	Fixed	206	203
TOTAL LOANS RECEIVED							**680**	**669**

In 2014, PGE S.A. and PGE Sweden AB (publ) established a Euro Medium Term Note Program, in which PGE Sweden AB (publ) may issue Eurobonds up to 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. There is currently EUR 138 million outstanding. The subsidiary allocated the funds raised under this program to grant a loan to its parent company.

Domestic market bond issues

Execution date	Maturity	Tranche issue date	Tranche buy-back date	Security instrument	Limit in currency	Currency	Interest rate	Liability at 30-06-2022	Liability at 31-12-2021
2013-06-27	indefinite	2019-05-21	2029-05-21	IRS	5.000	PLN	Variable	1,007	1.003
		2019-05-21	2026-05-21					403	401
TOTAL OUTSTANDING BONDS								**1.410**	**1.404**

Cash pooling liabilities

The launch of real cash pooling is described in note 10.1 these financial statements.

14. Contingent liabilities

	As at June 30, 2022	As at 31 December 2021
Guarantee and surety liabilities	14,150	18,029
Surety	2,319	690
Bank guarantees securing exchange transactions	2,342	2,760
Other contingent liabilities	59	59
Total contingent liabilities	**18,870**	**21,538**

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 11,702 million) and will be valid until December 31, 2041. As at June 30, 2022, PGE Sweden AB (publ)'s liabilities due to bonds issued amounted to EUR 140 million (PLN 663 million), as at December 31, 2021 liabilities amounted to EUR 140 million (PLN 642 million).

Surety for PGE Dom Maklerski S.A.'s liabilities

The liability represents a guarantee granted by PGE S.A. for the liabilities of PGE Dom Maklerski S.A. in order to secure the settlement of exchange transactions on CO_2 emission allowances. As at June 30, 2022, the total amount of sureties issued by PGE S.A. was PLN 2,319 million.

Bank guarantees securing exchange transactions

These liabilities represent sureties issued by PGE S.A. for bank guarantees lodged as a deposit to secure exchange transactions resulting from membership in clearinghouse IRGiT. As at June 30, 2022, the total amount of bank guarantees was PLN 2,342 million, and as at December 31, 2021 it was PLN 2,760 million.

15. Information on related parties

Transactions with related entities are concluded based on market prices for provided goods, products and services or are based on the cost of manufacturing. Tax losses settlements within the tax group were an exception from this rule. Benefits resulting from on-going settlement of tax losses are attributable to PGE S.A.

16. PGE Group related parties

	Period ended June 30, 2022	Period ended June 30, 2021
Sales to related parties	17,483	11,111
Purchases from related parties	2,626	3,003
Net finance income / (costs)	1,923	1,471

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

	As at June 30, 2022	As at December 31, 2021
Receivables from related parties		
Bonds issued	5,841	9,142
Dividend receivables	1,638	-
Trade receivables	1,545	7,508
Loans granted	9,650	7,614
Cash pooling receivables	111	449
Tax group settlement receivables	-	42
Total receivables from related parties	**18,785**	**24,755**

	As at June 30, 2022	As at December 31, 2021
Liabilities to related parties		
Loans received	680	669
Trade liabilities	435	8,459
Cash pooling liabilities	1,811	1,346
Tax group settlement liabilities	179	197
TOTAL LIABILITIES TO RELATED PARTIES	**3,105**	**10,671**

Sureties granted to PGE S.A.'s subsidiaries are described in note 14 to these separate financial statements.

17. State Treasury-controlled companies

The State Treasury is the principal shareholder in PGE Group and as a result State Treasury companies are recognised 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 tables below.

	Period ended June 30, 2022	Period ended June 30, 2021
Sales to related parties	723	483
Purchases from related parties	595	127

	As at June 30, 2022	As at 31 December 2021
Trade receivables from related parties	131	134
Trade liabilities to related parties	76	56

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

18. Management Board and Supervisory Board remuneration

PLN 000s	Period ended June 30, 2022	Period ended June 30, 2021
Short-term employee benefits (salaries and salary related costs)	5,396	4,258
Post-employment and termination benefits	-	(935)
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**5,396**	**3,323**

PLN 000s	Period ended June 30, 2022	Period ended June 30, 2021
Management Board	4,977	2,901
Supervisory Board	419	422
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**5,396**	**3,323**

Members of the Company's Management Board are employed on the basis of civil law management contracts (so-called management contracts). In note 7. Costs by nature and type, this remuneration is presented in the item other costs by type.

The amount of post-employment and termination benefits took a negative value in the comparative period due to the release of unused provisions from previous years.

19. Significant events during and after the reporting period

Significant events in the period are presented in note 27 to the consolidated financial statements. No significant events took place between the end of the reporting period and the date on which these separate financial statements were approved.

III. Approval of half-yearly financial report

This half-yearly financial report was approved for publication by the Parent's Management Board on September 20, 2022.

Warsaw, September 20, 2022

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

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

GLOSSARY OF TERMS AND ABBREVIATIONS

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

Abbreviation	Full term
CCIRS	Cross Currency Interest Rate Swap
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
EWB2	Elektrownia Wiatrowa Baltica – 2 sp. z o.o o
EWB3	Elektrownia Wiatrowa Baltica – 3 sp. z o.o o
EUA	European Union Allowances
FID	Final Investment Decision
GAAR	General Anti-Abuse Rule
PGE Group, Group	PGE Polska Grupa Energetyczna S.A. Group
IRGiT	Izba Rozliczeniowa Giełd Towarowych S.A.
IRS	Interest Rate Swap
LTC	Long-term capacity and electricity sale contracts
KOGENERACJA S.A.	Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A.
IFRS	International Financial Reporting Standards
IFRS EU	International Financial Reporting Standards approved by the European Union
NABE	Narodowa Agencja Bezpieczeństwa Energetycznego S.A.
NFOŚiGW	National Fund for Environmental Protection and Water Management
Investment property	Investment property
RES	Renewable energy sources
BCP	Business Continuity Plan
Right-of-use assets	Right-of-use assets
PGE S.A., PGE, Company, parent	PGE Polska Grupa Energetyczna S.A.
PGE EC S.A.	PGE Energia Ciepła S.A.
PGE EO S.A.	PGE Energia Odnawialna S.A.
PGE GiEK S.A.	PGE Górnictwo i Energetyka Konwencjonalna S.A.
PGG	Polska Grupa Górnicza S.A.
PGE PGK	PGE's tax group
Property, plant and equipment	Property, plant and equipment
Financial statements, consolidated financial statements	PGE Group's consolidated financial statements
Act on electricity prices	Act on amendment of the excise tax act and certain other acts
Voivodship Fund for Environmental Protection and Water Management (WFOŚiGW)	Voivodship Fund for Environmental Protection and Water Management
Intangible assets	Intangible assets