HALF-YEARLY FINANCIAL REPORT

of PGE Polska Grupa Energetyczna S.A.
for the period of 6 months

ended 30 June 2023
in accordance with EU-IFRS (in PLN million)

Prowadzimy w zielonej zmianie

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for the period of 6 months ended 30 June 2023 in accordance with EU-IFRS (in PLN million)

I. CONDENSED HALF-YEARLY CONSOLIDATED FINANCIAL STATEMENTS OF THE PGE CAPITAL GROUP FOR THE PERIOD OF 6 MONTHS ENDED 30 JUNE 2023 IN ACCORDANCE WITH EU-IFRS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended 30 June 2023 *(unaudited)*	Period ended 30 June 2022 *(unaudited)*
STATEMENT OF PROFIT OR LOSS			
SALES REVENUE	*7.1*	**49,560**	**32,625**
Cost of goods sold	*7.2*	(40,208)	(28,857)
GROSS PROFIT ON SALES		**9,352**	**3,768**
Distribution and selling expenses	*7.2*	(4,418)	(805)
General and administrative expenses	*7.2*	(835)	(656)
Net other operating income/(expenses)	*7.4*	(550)	1,947
OPERATING PROFIT		**3,549**	**4,254**
Net finance income/(costs), including:	*7.5*	(472)	(265)
Interest income calculated using the effective interest rate method		*281*	*89*
Share of profit / (loss) of entities accounted for under the equity method	*7.6*	-	11
GROSS PROFIT / (LOSS)		**3,077**	**4,000**
Income tax expense	*9*	(906)	(695)
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD		**2,171**	**3,305**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss in the future:		**(1,361)**	**572**
Valuation of debt financial instruments	***Błąd! Nie można odnaleźć źródła odwołania.***	4	(5)
Valuations of hedging instruments	***Błąd! Nie można odnaleźć źródła odwołania.***	(1,681)	709
Foreign exchange differences from translation of foreign entities		(3)	2
Deferred tax	*9*	319	(134)
Items that may not be reclassified to profit or loss in the future:		**(133)**	**155**
Actuarial gains and losses from valuation of provisions for employee benefits		(164)	190
Deferred tax		31	(36)
Share in result of entities accounted for using the equity method		-	1
NET OTHER INCOME		**(1,494)**	**727**
TOTAL COMPREHENSIVE INCOME		**677**	**4,032**
NET PROFIT/(LOSS) ATTRIBUTABLE TO:			
shareholders of the parent company		2,076	3,288
non-controlling interests		95	17
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
shareholders of the parent company		583	4,014
non-controlling interests		94	18
NET PROFIT/(LOSS) AND DILUTED NET PROFIT/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY (IN PLN)		**0.93**	**1.63**

for the period of 6 months ended 30 June 2023 in accordance with EU-IFRS (in PLN million)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2023 *(unaudited)*	As at 31 December 2022 *(audited)*
NON-CURRENT ASSETS			
Property, plant and equipment	*3*	72,032	64,388
Investment property		31	32
Intangible assets		2,266	726
Rights to use assets		2,074	1,311
Financial receivables	*17.1*	245	223
Derivatives and other assets measured at fair value through profit or loss	*19*	349	608
Shares, interests and other capital instruments		121	117
Shares and interests accounted for using the equity method	*12*	229	180
Other non-current assets		1,145	850
CO_2 emission allowances for own needs	*16*	17	114
Deferred income tax assets	*14.2*	3,127	3,183
		81,636	**71,732**
CURRENT ASSETS			
Inventories	*15*	5,167	4,918
CO_2 emission allowances for own needs	*16*	662	4,754
Income tax receivables		1,112	239
Derivatives and other assets measured at fair value through profit or loss	*19*	159	927
Trade receivables and other financial receivables	*17.1*	10,397	9,083
Other current assets		1,526	2,219
Cash and cash equivalents	*17.2*	10,368	11,887
		29,391	**34,027**
ASSETS CLASSIFIED AS HELD FOR SALE		**22**	**19**
TOTAL ASSETS		**111,049**	**105,778**
EQUITY			
Share capital	*20.1*	19,184	19,184
Supplementary capital		28,146	25,049
Hedging reserve	*20.2*	(1,390)	(32)
Foreign exchange differences from translation		1	4
Retained earnings		8,362	9,333
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY		**54,303**	**53,538**
Equity attributable to non-controlling interests		928	845
TOTAL EQUITY		**55,231**	**54,383**
NON-CURRENT LIABILITIES			
Non-current provisions	*21*	8,047	6,363
Credits, loans, bonds, factoring and leases	*22.1*	12,865	6,799
Derivative instruments	*19*	420	305
Deferred income tax liabilities	*14.2*	876	1,002
Deferred income and government grants		1,031	1,011
Other financial liabilities	*22.2*	501	478
Other non-financial liabilities	*23.1*	139	141
		23,879	**16,099**
CURRENT LIABILITIES			
Current provisions	*21*	13,229	21,223
Credits, loans, bonds, factoring and leases	*22.1*	4,953	2,137
Derivative instruments	*19*	2,344	1,629
Trade payables and other financial liabilities	*22.2*	6,697	6,707
Income tax liabilities		268	198
Deferred income and government grants		106	97
Other non-financial liabilities	*23.2*	4,342	3,305
		31,939	**35,296**
TOTAL LIABILITIES		**55,818**	**51,395**
TOTAL EQUITY AND LIABILITIES		**111,049**	**105,778**

for the period of 6 months ended 30 June 2023 in accordance with EU-IFRS (in PLN million)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Supplementary capital	Hedging reserve	Foreign exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total equity
Note	*20.1*		***Błąd! Nie można odnaleźć źródła odwołania.***					
1 JANUARY 2023	**19,184**	**25,049**	**(32)**	**4**	**9,333**	**53,538**	**845**	**54,383**
Net profit for the reporting period	-	-	-	-	2,076	2,076	95	2,171
Other comprehensive income	-	-	(1,358)	(3)	(132)	(1,493)	(1)	(1,494)
COMPREHENSIVE INCOME	**-**	**-**	**(1,358)**	**(3)**	**1,944**	**583**	**94**	**677**
Retained earnings distribution	-	3,097	-	-	(3,097)	-	-	-
Dividend	-	-	-	-	-	-	(2)	(2)
Share of change in capital of jointl controlled entities	-	-	-	-	181	181	-	181
Settlement of purchase of additional shares in subsidiaries	-	-	-	-	-	-	(10)	(10)
Other changes	-	-	-	-	1	1	1	2
30 JUNE 2023	**19,184**	**28,146**	**(1,390)**	**1**	**8,362**	**54,303**	**928**	**55,231**

	Share capital	Supplementary capital	Hedging reserve	Foreign exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total equity
Note	*20.1*		***Błąd! Nie można odnaleźć źródła odwołania.***					
1 JANUARY 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**
Retained earnings distribution	-	1,734	-	-	(1,734)	-	-	-
Dividend	-	-	-	-	-	-	(3)	(3)
Share of change in capital of jointly controlled entities	-	-	-	-	33	33	-	33
Decrease in par value of shares	(3,178)	3,178	-	-	-	-	-	-
Increase in equity	3,197	(17)	-	-	-	3,180	-	3,180
Entities' exit from Capital Group	-	-	-	-	-	-	(10)	(10)
30 JUNE 2022	**19,184**	**25,049**	**1,179**	**4**	**9,305**	**54,721**	**802**	**55,523**

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CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Period ended 30 June 2023	Period ended 30 June 2022 *(data restated)**
CASH FLOWS FROM OPERATING ACTIVITIES			
Gross profit/loss		3,077	4,000
Income tax paid		(1,547)	(479)
Adjustments for:			
Share of (profit)/ loss of entities accounted for using the equity method		-	(11)
Depreciation, liquidation and write-downs		2,323	2,138
Interest and dividend, net		343	156
(Profit) / loss on investing activities		92	(9)
Change in receivables		(718)	(15)
Change in inventories		(132)	(1,278)
Change in balance of CO_2 allowances for captive use		4,189	3,095
Change in liabilities, excluding loans and credits		(81)	1,234
Change in other non-financial assets, prepayments		571	(177)
Change in provisions		(7,692)	(3,577)
Other		(86)	(62)
NET CASH FROM OPERATING ACTIVITIES		**339**	**5,015**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(3,981)	(2,054)
Disposal of property, plant and equipment and intangible assets		12	13
Opening of term deposits – over 3 months		(237)	(770)
Closing of term deposits – over 3 months		222	750
Acquisition of a fully consolidated entity, net of cash acquired		(1,485)	(773)
Acquisition of financial assets		(24)	(3)
Repayment of loans granted		-	15
Disposal of other financial assets, net of cash transferred		-	94
Other		2	8
NET CASH FROM INVESTING ACTIVITIES		**(5,491)**	**(2,720)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from share issue		-	3,197
Proceeds from share issue for non-controlling shareholders		181	-
Proceeds from acquired loans, credits		4,854	2,224
Repayment of loans, credits and leases		(1,119)	(3,306)
Interest paid		(311)	(179)
Other		28	(8)
NET CASH FROM FINANCING ACTIVITIES		**3,633**	**1,928**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(1,519)**	**4,223**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	*17.2*	**11,887**	**6,733**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	*17.2*	**10,368**	**10,956**

** The restatement of comparable data is described in note 4 to these consolidated financial statements*

for the period of 6 months ended 30 June 2023 in accordance with EU-IFRS (in PLN million)

GENERAL INFORMATION, BASIS FOR DRAWING UP THE FINANCIAL STATEMENTS AND OTHER EXPLANATORY INFORMATION

1. General information

1.1 Information on the parent company

PGE Polska Grupa Energetyczna S.A. was established on the basis of the Notary Deed of 2 August 1990 and registered in the District Court in Warsaw, the 16th Commercial Division, on 28 September 1990. The Company is entered in the National Court Register maintained by the District Court Lublin-Wschód in Lublin with its registered office in Świdnik, the 6th Commercial Division of the National Court Register, under number 0000059307. The Company's registered office is located in Lublin, at Aleja Kraśnicka 27.

As at 1 January 2023 the composition of the Management Board was as follows:

- Wojciech Dąbrowski – President of the Management Board,
- Wanda Buk – 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.

On 4 January 2023, the Supervisory Board adopted a resolution to appoint Mr Rafał Włodarski to the Management Board as of 9 January 2023.

On 28 March 2023, Mr Ryszard Wasiłek resigned from his position as Vice President of the Management Board as of 30 April 2023.

On 19 April 2023, the Supervisory Board adopted a resolution to appoint Mr Przemysław Kołodziejak to the Management Board as of 1 May 2023.

As at 30 June and the date of the publication of these financial statements, the composition of the Management Board was as follows:

- Wojciech Dąbrowski – President of the Management Board,
- Wanda Buk – Vice President of the Management Board,
- Przemysław Kołodziejak – Vice President of the Management Board,
- Lechosław Rojewski – Vice President of the Management Board,
- Paweł Śliwa – Vice President of the Management Board,
- Rafał Włodarski – Vice President of the Management Board.

Ownership structure

The shareholding structure of the parent company was as follows:

	As at 30 June 2023	As at 31 December 2022
State Treasury	60.86%	60.86%
Other shareholders	39.14%	39.14%
Total	**100.00%**	**100.00%**

The ownership structure as at the particular reporting dates is presented on the basis of the information available in the Company.

According to the information available in the Company, as at the date of the publication of these financial statements, the State Treasury was the sole shareholder holding at least 5% of the total number of votes at the General Meeting of PGE S.A.

1.2 Information on the PGE Capital Group

The Capital Group of PGE Polska Grupa Energetyczna S.A. consists of the parent company, i.e. PGE S.A., and 75 consolidated subsidiaries. Consolidation comprises also 2 entities constituting so-called joint operations and 6 entities consolidated under the equity method. For additional information about subordinated entities included in the consolidated financial statements please refer to note 1.3.

These consolidated financial statements of the PGE Capital Group cover the period from 1 January 2023 to 30 June 2023, and include comparative data for the period from 1 January 2022 to 30 June 2022, and as at 31 December 2022. The condensed half-yearly consolidated financial statements do not include all the information and disclosures required in yearly financial statements and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2022, as approved for publication on 20 March 2023.

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

The major object of the PGE Capital Group is conducting business activities in the following areas:

- generation of electricity,
- distribution of electricity, including in overhead contact lines,
- wholesale and retail trade in electricity, energy origin rights, CO_2 emission allowances and gas,
- generation and distribution of heat,
- provision of other services related to the aforementioned areas.

Business activities are conducted under appropriate concessions granted to the particular entities making up the composition of the PGE Capital Group.

Going concern

These consolidated financial statements have been prepared based on the assumption that the major companies of the Group will continue as a going concern for a period of at least 12 months from the reporting date.

As at 30 June 2023, PGE Obrót S.A. shows negative values of equity, which is mainly the result of regulatory changes applicable to the regulated retail electricity trading market. PGE Obrót S.A. has access to financing provided by PGE S.A., therefore the going concern assumption for this company is justified. The impact of regulatory changes on the operations of the PGE Capital Group is described in note 27.4 to these financial statements.

Due to the write-down of coal inventories, which was recognised in PGE Paliwa sp. z o.o. as at 30 June 2023, the equity of this company at the reporting date had a negative value. The Group's view is that the situation of PGE Paliwa sp.z.o.o. is temporary in nature and the write-down will be reversed once an agreement for the reimbursement of the cost of purchased coal has been signed. More information on this is provided in note 27.2 to these financial statements.

In 2021, ENESTA sp. z o.o. (now ENESTA sp. z o.o. under restructuring) terminated unfavourable agreements for the supply of electricity and natural gas. In 2022, some counterparties took their claims to court. After unsuccessful attempts to reach an agreement with the counterparties, ENESTA filed for restructuring proceedings. On 21 June 2022, the restructuring (recovery) proceedings were initiated. At the end of 2022 and in February 2023, verdicts unfavourable to ENESTA were given in the pending proceedings. The verdicts established the existence and validity of agreements for the sale of electricity and natural gas. At the end of 2022, a provision of PLN 37 million was created for onerous agreements in connection with the necessity to continue the performance of the aforementioned sales agreements. Furthermore, provisions were created for potential litigation in connection with reserve sales carried out by the seller under an official order in 2022, in the amount of PLN 56 million. In the first half of 2023, the provision for onerous agreements was partially reversed and now it amounts to PLN 22 million. Sales revenues are invoiced in accordance with final court verdicts. As at 30 June 2023, ENESTA's assets, capital and liabilities amount to PLN 140 million and its equity amounts to PLN (217) million.

Apart from the issue described above, as at the date of the approval of these financial statements for publication, no circumstances were identified that would indicate any threat to the major PGE Group companies continuing as going concerns.

PGE GiEK S.A. sales process

As described in note 27.3, PGE S.A. is in the process of selling PGE GiEK S.A.

Changes in the accounting policy

With the exception of the change described in note 4, the same accounting principles (policy) and methods of calculation have been followed in these financial statements as in the latest yearly financial statements. These financial statements should be read jointly with the audited consolidated financial statements of the PGE Group for the year ended 31 December 2022, as approved for publication on 20 March 2023.

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1.3 Companies consolidated in the PGE Capital Group

1.3.1 Direct and indirect subsidiaries under consolidation under the full method

	Company name	Shareholder	Shares held by PGE CG companies as at 30 June 2023	Shares held by PGE CG companies as at 31 December 2022
	SEGMENT: SUPPLY			
1.	PGE Polska Grupa Energetyczna S.A. Warsaw	Parent company		
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. under restructuring Stalowa Wola	PGE Obrót S.A.	87.33%	87.33%
5.	PGE Paliwa sp. z o.o. Kraków	PGE EC S.A.	100.00%	100.00%
	SEGMENT: CONVENTIONAL POWER 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 GiEK S.A.	100.00%	100.00%
9.	ELMEN sp. z o.o. Rogowiec	PGE GiEK S.A.	100.00%	100.00%
10.	ELTUR-SERWIS sp. z o.o. Bogatynia	PGE GiEK S.A.	100.00%	100.00%
11.	BETRANS sp. z o.o. Kalisko	PGE GiEK S.A.	100.00%	100.00%
12.	BESTGUM POLSKA sp. z o.o. Rogowiec	PGE GiEK S.A.	100.00%	100.00%
13.	RAMB sp. z o.o. Piaski	PGE GiEK S.A.	100.00%	100.00%
14.	„Energoserwis – Kleszczów" sp. z o.o. Rogowiec	PGE S.A.	51.00%	51.00%
	SEGMENT: HEAT GENERATION			
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.	Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. Wrocław	PGE EC S.A.	58.07%	58.07%
18.	Elektrociepłownia Zielona Góra S.A. Zielona Góra	KOGENERACJA S.A.	100.00%	98.40%
19.	MEGAZEC sp. z o.o. Bydgoszcz	PGE S.A.	100.00%	100.00%
	SEGMENT: CIRCULAR ECONOMY			
20.	PGE Ekoserwis S.A. Wrocław	PGE S.A.	100.00%	100.00%
21.	EPORE S.A. Bogatynia	PGE Ekoserwis S.A. PGE GiEK S.A.	100.00% -	- 100.00%
22.	ZOWER sp. z o.o. Rybnik	PGE Ekoserwis S.A.	100.00%	100.00%
	SEGMENT: RENEWABLE POWER GENERATION			
23.	PGE Energia Odnawialna S.A. Warsaw	PGE S.A.	100.00%	100.00%
24.	Elektrownia Wiatrowa Baltica-1 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
25.	Elektrownia Wiatrowa Baltica-4 sp. z o.o. Warsaw	PGE S.A.	66.19%	66.19%
26.	Elektrownia Wiatrowa Baltica-5 sp. z o.o. Warsaw	PGE S.A.	66.19%	66.19%
27.	Elektrownia Wiatrowa Baltica-6 sp. z o.o. Warsaw	PGE S.A.	66.24%	66.24%
28.	Elektrownia Wiatrowa Baltica-9 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
29.	Elektrownia Wiatrowa Baltica-10 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
30.	Elektrownia Wiatrowa Baltica-11 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
31.	Elektrownia Wiatrowa Baltica-12 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%

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	Company name	Shareholder	Shares held by PGE CG companies as at 30 June 2023	Shares held by PGE CG companies as at 31 December 2022
32.	Elektrownia Wiatrowa Baltica-8 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
33.	PGE Baltica 2 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
34.	PGE Baltica 3 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
35.	PGE Baltica 4 sp. z o.o. Warsaw	PGE S.A.	55.04%	55.04%
36.	PGE Baltica 5 sp. z o.o. Warsaw	PGE Baltica 3 sp. z o.o.	100.00%	100.00%
37.	PGE Baltica 6 sp. z o.o. Warsaw	PGE Baltica 2 sp. z o.o.	100.00%	100.00%
38.	PGE Baltica sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
	PGE Klaster sp. z o.o. Warsaw	PGE EO S.A.	-	100.00%
39.	PGE Soleo 2 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
	PGE Soleo 3 sp. z o.o. Warsaw	PGE EO S.A.	-	100.00%
	Mithra B sp. z o.o. Poznań	PGE EO S.A.	-	100.00%
40.	Mithra D sp. z o.o. Poznań	PGE EO S.A.	100.00%	100.00%
41.	Mithra F sp. z o.o. Poznań	PGE EO S.A.	100.00%	100.00%
42.	Mithra G sp. z o.o. Poznań	PGE EO S.A.	100.00%	100.00%
43.	Mithra H sp. z o.o. Poznań	PGE EO S.A.	100.00%	100.00%
44.	Mithra I sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
45.	Mithra K sp. z o.o. Poznań	PGE EO S.A.	100.00%	100.00%
46.	Mithra M sp. z o.o. Poznań	PGE EO S.A.	100.00%	100.00%
47.	Mithra N sp. z o.o. Poznań	PGE EO S.A.	100.00%	100.00%
48.	Mithra O sp. z o.o. Poznań	PGE EO S.A.	100.00%	100.00%
49.	Mithra P sp. z o.o. Poznań	PGE EO S.A.	100.00%	100.00%
	SEGMENT: DISTRIBUTION			
50.	PGE Dystrybucja S.A. Lublin	PGE S.A.	100.00%	100.00%
	SEGMENT: ENERGY RAILWAY SERVICES			
51.	PGE Energetyka Kolejowa Holding sp. z o.o. Warsaw	PGE S.A.	100.00%	-
52.	PGE Energetyka Kolejowa S.A. Warsaw	PGE Energetyka Kolejowa Holding sp. z o.o.	100.00%	-
53.	PKP Energetyka Obsługa sp. z o.o. Warsaw	PGE Energetyka Kolejowa Holding sp. z o.o.	100.00%	-
54.	PKP Energetyka Centrum Usług Wspólnych sp. z o.o. Łódź	PGE Energetyka Kolejowa Holding sp. z o.o.	100.00%	-
	SEGMENT: OTHER ACTIVITIES			
55.	PGE Systemy S.A. Warsaw	PGE S.A.	100.00%	100.00%
56.	PGE Sweden AB (publ) Stockholm	PGE S.A.	100.00%	100.00%
57.	PGE Synergia sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
58.	ELBIS sp. z o.o. Rogowiec	PGE S.A.	100.00%	100.00%
59.	PGE Inwest 2 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
60.	PGE Ventures sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
61.	PGE Gryfino 2050 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
62.	PGE Inwest 9 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
63.	PGE Inwest 10 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
64.	PGE Inwest 11 sp. z o.o.	PGE S.A.	100.00%	100.00%

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	Company name	Shareholder	Shares held by PGE CG companies as at 30 June 2023	Shares held by PGE CG companies as at 31 December 2022
	Warsaw			
65.	PGE Inwest 12 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
66.	PGE Asekuracja S.A. Warsaw	PGE S.A.	100.00%	100.00%
67.	PGE Inwest 14 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
68.	PGE Nowa Energia sp. z o.o. in liquidation Warsaw	PGE S.A.	100.00%	100.00%
69.	Rybnik 2050 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
70.	PGE Inwest 20 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
71.	PGE Inwest 21 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
72.	PGE Inwest 22 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
73.	PGE Inwest 23 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
74.	PGE Inwest 24 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
75.	PGE Inwest 25 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
76.	Energetyczne Systemy Pomiarowe sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%

The above table includes the following changes in the structure of the PGE Group companies subject to full consolidation that took place during the period ended 30 June 2023:

- On 1 March 2023, the Extraordinary General Meeting of Elektrociepłownia Zielona Góra S.A. adopted a resolution on the compulsory buyout of shares held by minority shareholders, representing a total of 1.6% of the share capital of Elektrociepłownia Zielona Góra S.A. On 25 April 2023, the aforementioned shares were transferred to ZEW KOGENERACJA S.A. by making an appropriate entry in the register of shareholders of Elektrociepłownia Zielona Góra S.A. As a result, ZEW KOGENERACJA S.A. became the sole shareholder of Elektrociepłownia Zielona Góra S.A. on 25 April 2023. The price paid for the shares was PLN 10 million.
- On 3 April 2023, the transaction in which PGE S.A. acquired 100% of shares in PKP Energetyka Holding sp. z o.o. was completed. As a result of the transaction, the following companies became direct or indirect subsidiaries of PGE S.A.:
  - PKP Energetyka Holding sp. z o.o. (now PGE Energetyka Kolejowa Holding sp. z o.o.)
  - PKP Energetyka S.A. (now PGE Energetyka Kolejowa S.A.)
  - PKP Energetyka Obsługa sp. z o.o.
  - PKP Energetyka Centrum Usług Wspólnych sp. z o.o.

- As at 3 April 2023, the share of the PGE Capital Group in the capital and voting rights of the aforementioned companies was the same as the percentage share of the PGE Capital Group presented in the table above as at 30 June 2023.
- On 30 June 2023, the National Court Register registered the merger of PGE EO S.A. (the acquiring company) with PGE Klaster sp. z o.o., PGE Soleo 3 sp. z o.o. and Mithra B sp. z .o.o. (the companies being acquired). The merger had no impact on these consolidated financial statements.

Transactions after the reporting date

On 20 September, PGE EO S.A. purchased 100% of shares in Longwing Polska sp. z o.o. The company will be consolidated using the full method.

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1.3.2 Joint operations subject to consolidation with respect to assets and liabilities, revenues and expenses attributable to the PGE Capital Group

	Company name	Shareholder	Shares held by PGE CG companies as at 30 June 2023	Shares held by PGE CG companies as at 31 December 2022
	SEGMENT: RENEWABLE POWER GENERATION			
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%
	PGE Soleo Kleszczów sp. z o.o. Kleszczów	PGE EO S.A.	-	50.00%

1.3.3 Associates and jointly-controlled companies consolidated under the equity method

	Company name	Shareholder	Shares held by PGE CG companies as at 30 June 2023	Shares held by PGE CG companies as at 31 December 2022
1.	Polimex Mostostal S.A. Warsaw	PGE S.A.	16.26%	16.26%
2.	PEC Bogatynia S.A. Bogatynia	PGE EC S.A.	34.93%	34.93%
3.	Energopomiar sp. z o.o. Gliwice	PGE GiEK S.A.	49.79%	-
		Spółki GK PGE	-	49.79%
4.	PGE Soleo Kleszczów sp. z o.o. Kleszczów	PGE EO S.A.	50.00%	-
5	PGE PAK Energia Jądrowa S.A. Konin	PGE S.A.	50.00%	-
6	Elester-PKP sp. z o.o. Łódź	PGE Energetyka Kolejowa Holding sp. z o.o.	39.96%	-
		PGE Energetyka Kolejowa S.A.	50.00%	

As part of the acquisition of PKP Energetyka Group described in note 1.3.1, shares in Elester-PKP sp. z. o.o. were purchased. The PGE Group companies hold a total 89.96% equity interest in Elester-PKP. Elester-PKP also has a shareholder not belonging to the PGE Group, whose share in the capital amounts to 10.04%. Pursuant to the shareholders' agreement, all decisions relevant to Elester-PKP's business, such as, for example, the appointment and removal of members of the management board and supervisory board, the approval of budgets, require the consent of all shareholders. Therefore, Elester-PKP is considered to be a jointly controlled entity and the company was consolidated under the equity method.

On 13 April 2023, a special purpose company, PGE PAK Energia Jądrowa S.A. with its registered office in Konin, was established. PGE S.A. holds a 50% stake in the company. The company was established to implement a nuclear power plant project with potential participation of a technology partner. More information on this is provided in note 27.6 to these financial statements.

1.4 Settlement of new acquisitions

As described in note 27.5 to these financial statements, on 3 April 2023, the transaction of PGE's direct acquisition of 100% of shares in PKP Energetyka Holding sp. z o.o., and consequently the indirect acquisition of 100% of shares in PKP Energetyka S.A. and shares in other subsidiaries of PKP Energetyka Holding sp. z o.o. by PGE S.A. was completed.

According to the provisions of IFRS 3, the PGE Capital Group should finalise the settlement of the acquisition within 12 months from the acquisition date. As the companies were brought under PGE's control in April this year, a preliminary settlement of the acquisition of assets and liabilities of the acquired entities has been presented in these financial statements. The most significant adjustments aimed at bringing the acquired assets and liabilities to fair value as at the acquisition date related to the following issues:

- Creation of additional write-downs of receivables, in accordance with the PGE Capital Group's accounting policy;
- Elimination of selected items of prepayments and accruals;
- Revaluation of certain provisions and prepayments and accruals to fair value as at the date of acquisition;
- A corresponding adjustments to deferred tax resulting from the recognition of the above adjustments.

As at the date of these financial statements, the fair value of acquired property, plant and equipment and intangible assets was measured. For the purpose of the initial accounting for the acquisition, the book values from the separate financial statements of the acquired companies were adopted.

The following table summarises the assets and liabilities recognised at the date of acquisition.

	Value as at 3 April 2023
Property, plant and equipment, intangible assets and rights to use assets	6,001
Other non-current assets	111
Loans and other financial receivables	1,665
Cash and cash equivalents	387
Other current assets	806
Total assets	**8,970**
Credits, loans and factoring	5,045
Provisions	379
Other liabilities	1,502
Total liabilities	**6,926**
NET ASSETS OF ACQUIRED ENTITIES	**2,044**

The table below shows the initial accounting for the acquisition and the determination of goodwill from consolidation.

	Value as at 3 April 2023
Net assets of acquired entities	**2,044**
Transferred cash and cash equivalents	1,873
Acquired liabilities under loans	1,543
Total acquisition price	**3,416**
Goodwill from consolidation - preliminary settlement	**1,372**

The goodwill recognised by the PGE Capital Group results from the fact that, according to the PGE Group's assumptions, the discounted cash flows from operating activities, which will be generated by the purchased assets, will be higher than the value of the net assets of the acquired companies, determined in accordance with IFRS 3. The final determined goodwill may be lower due to the planned valuation of property, plant and equipment and intangible assets.

The goodwill recognised does not constitute goodwill for tax purposes.

Performance of acquired entities

From 3 April 2023 to 30 June 2023, the share of the acquired companies in the results of the PGE Capital Group was as follows:

- The share in consolidated revenue amounted to PLN 1,479 million (after consolidation exclusions and adjustments).
- The share in net profit the amounted to PLN 108 million (after consolidation exclusions and adjustments).

During the first half of 2023, the acquired entities recorded sales revenue of PLN 3,489 million (net of consolidation exclusions and adjustments) and net profit of PLN 153 million (net of consolidation exclusions and adjustments).

2. Basis for preparation of the 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 accordance with the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities and the conditions for recognising as equivalent information required by the laws of a non-member state (Journal of Laws of 2018, items 512 and 685).

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

2.2 Presentation and functional currency

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

At the reporting date, for the purpose of translation of items denominated in currencies other than PLN, the following exchange rates were applied:

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	30 June 2023	31 December 2022	30 June 2022
USD	4.1066	4.4018	4.4825
EUR	4.4503	4.6899	4.6806

2.3 New standards and interpretations published, not yet effective

The following standards, changes in already effective standards and interpretations are not endorsed by the European Union or are not effective as at 1 January 2023:

Standard	Description of changes	Effective date
IFRS 14 Regulatory Deferral Accounts	The principles of accounting and disclosure for regulatory deferral accounts.	In accordance with the decision of the European Commission, the approval process of the standard in its preliminary version will not be initiated before the standard in its final version is published.
Changes to IFRS 10 and IAS 28	The guidelines concerning sales transactions or an investor's contribution of assets to an associate or a joint venture.	Work on the approval of the changes has been suspended indefinitely
Changes to IAS 1	Changes relate to the presentation of financial statements – classification of liabilities as current and non-current	1 January 2024
Changes to IFRS 16	Changes related to the manner of valuation of liabilities under sale and leaseback transactions.	1 January 2024
Changes to IAS 12	Changes relate to the international tax reform	1 January 2023 or after that date for yearly periods
Changes to IAS 7	Changes related to disclosures in cash flow statements	1 January 2024

The PGE Capital Groups intends to accept the aforementioned standards and changes to standards and interpretations as published by the International Accounting Standards Board, but not effective at the reporting date, after they have entered into force. The above regulations will not have a material impact on the future financial statements of the PGE Capital Group.

2.4 The Management Board's professional judgement and estimates

In the process of applying the accounting policy to the foregoing issues, the most important element, besides accounting estimates, was the management's professional opinion, which influences the values disclosed in the consolidated financial statements, including the additional explanatory notes. The assumptions for such estimates are based on the management's best knowledge concerning the Company's current and future activities and events in the particular areas. Detailed information on the adopted assumptions is presented below or in the relevant notes.

- During the reporting period, the Group carried out an analysis of the circumstances and subsequent impairment testing of non-current assets. The results of the tests are described in note 3 to these financial statements. The estimate of the recoverable amount of property, plant and equipment is based on a number of significant assumptions, the future realisation of which is uncertain and for a significant part beyond the control of the PGE Capital Group. The Group has adopted what it believes to be the most appropriate amounts and values; nevertheless, it cannot be ruled out that the realisation of particular assumptions will differ from those adopted by the Group.
- Provisions are liabilities whose amount or timing of payment is uncertain. During the reporting period, the Group changed its estimates of the reasonableness or amount of certain provisions.
- In particular, the provision for land rehabilitation costs and the provision for employee benefits were updated during the reporting period due to a decrease in the discount rate. Details are set out in note 21 to these financial statements.
- Uncertainties related to tax settlements are described in note 25 to these consolidated financial statements.
- The Group makes significant estimates in respect of recognised contingent liabilities. Relevant details are set out in note 24 to these financial statements.
- The valuation of financial instruments results from a number of assumptions and estimates based on data available at the time the financial statements were being prepared. Changes in these assumptions and estimates may affect the future financial statements of the PGE Capital Group.
- Due to the crisis situation on the electricity market, a number of legal regulations came into force in 2022, which made it necessary on the part of the PGE Capital Group to make estimates of revenue and costs in the field of compensation related to the purchase of coal, compensation and price adjustments resulting from the Act for households, the contribution to the Price Difference Payment Fund resulting from the Emergency Measures Act in 2023. A detailed description of these estimates can be found in notes 27.2 and 27.4 to these financial statements.
- Some of the sales revenue described in note 7.1 of these consolidated financial statements is invoiced based on cyclical readings of metering and billing systems. This results in the necessity to re-estimate sales revenue in respect of supplies for which the PGE Capital Group does not have meter readings at the reporting date. Revenue from sales on the electricity balancing market is subject to adjustments after the end of the reporting period. The final value of the sale or purchase cost of electricity is determined up to 14 months after the end of the relevant delivery period.

3. Impairment tests for property, plant and equipment, intangible assets, rights to use assets and goodwill

Property, plant and equipment constitute the most important part of the PGE Capital Group's assets. In view of its changing macroeconomic environment, the PGE Capital Group periodically reviews circumstances indicating a loss of the recoverable value of its assets. In its evaluation of the market situation, the PGE Capital Group uses both its own analytical tools and support provided by independent consulting entities. In previous reporting periods, the PGE Capital Group made significant impairment write-downs on property, plant and equipment in the Conventional Power Generation, Renewable Power Generation and Heat Generation segments. The impairment write-down relating to the Renewable Power Generation segment was also wholly reversed.

In the current reporting period, the Group analysed the circumstances and identified factors that could have significantly contributed to a change in the value of fixed assets held in the aforementioned segments and in PGE Gryfino 2050 sp. z o.o.

External circumstances

- The market capitalisation of PGE continues to be below the net book value of assets.
- Continued high levels of fuel, electricity and CO_2 emission allowance prices together with high levels of volatility. 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 futures contracts for the following year in the first half of 2023 was PLN 738/MWh, 141% higher than in the first half of 2021*.
  - The price of CO2 emission allowances, after a sharp collapse triggered by the outbreak of the pandemic in mid-March 2020, began to recover until a sharp increase began in November 2021. In the first half of 2023, the weighted average EUA DEC 23 quotation was €89/t, significantly higher (100%) than the average EUA DEC 21 price listed in the first half of 2021*.
  - The average price of hard coal at ARA ports in monthly follow-on contracts in the first half of 2023 was USD 131/t and increased by 70% compared to the first half of 2021*.
  - The average price of domestic coal (PSMCI-1 index) in the first half of 2023 was PLN 33/GJ and increased by 132% in comparison to the first half of 2022.
  - The average price of natural gas in monthly follow-on futures contracts in the first half of 2023 was EUR 45/MWh and increased by 106% compared to the first half of 2021*.

- The Act of 27 October 2022 on emergency measures to limit electricity price levels and support certain consumers in 2023 obliges generators and trading companies to make contributions to the Price Difference Payment Fund for each month from December 2022 to December 2023. These measures are intended to cover the difference between the maximum energy price adopted in the Act and the contractual or reference price to be paid to electricity sellers in the form of compensation.

As a result of the analysis of the aforementioned reasons, the Group carried out asset impairment tests as at 30 June 2023 for the segments of Conventional Power Generation, Renewable Power Generation, Heat Generation, to which goodwill related to the companies PGE Gryfino 2050 sp. z o.o. and EW Baltica 2 sp. z o.o. and EW Baltica 3 sp. z o.o. is allocated. On the basis of the performed tests, it was determined that no write-downs or reversals of write-downs were required for the said segments and companies.

** Comparison to the first half of 2021 due to the high base in 2022, in which the peak of the energy crisis occurred.*

Macroeconomic assumptions

The main price assumptions, i.e. those relating to the prices of electricity, CO_2 emission allowances, coal, natural gas and the assumptions relating to the majority of the Group's generating facilities are derived from an up-to-date study prepared by an external independent entity that is a recognised centre of expertise in the energy market (the "Advisor"). The said study takes into account the Group's own estimates for the first year of the forecast on the basis of the current market situation. In preparing the study, the Advisor used current scenarios for the economic and demographic development of the country and estimates of changes in key market parameters. The Advisor's forecasts take into account the legal conditions arising from the current energy policy, at both the EU and national levels.

The environment in which the PGE Capital Group operates is characterised by high volatility of macroeconomic, market and regulatory conditions. Changes in these conditions may have a significant impact on the financial position of the PGE Capital Group, therefore the assumptions used to estimate the value in use of assets are subject to periodic review with the knowledge of the independent Advisor.

Electricity price forecasts provide for the continuation of high prices in 2024, followed by an average annual decrease in the years 2025-2027 of approximately 3.3% and an average annual increase of approximately 3.2% in the years 2028-2030.

CO_2 allowance prices are projected to increase in 2024 compared to 2023, followed by a decrease of around 5.8% in 2025 relative to 2024 and an average annual increase of around 8.4% between 2026 and 2030. After 2030, the average annual growth is projected at around 5.8% until 2040.

Hard coal prices are forecast to fall in 2024 compared to 2023, followed by a slight increase of around 0.8% in 2025 compared to 2024. By 2035, hard coal prices are to decrease on average by 3.0% every year.

Natural gas price forecasts assume a price decrease in 2024 relative to 2023 prices, followed by a 3.9% increase in 2025 relative to 2024. By 2035, natural gas prices are to decrease on average by 2.3% every year.

The price forecasts for energy origin energy origin rights provide for an increase in prices in 2024 relative to 2023, followed by an average annual decrease of around 10.1% between 2025 and 2031 relative to 2023, due to the decreasing obligation to redeem them.

Forecasts of revenue from the capacity market in the years 2023-2027 are based on the results of completed major and additional auctions for these years of supply, taking into account the mechanisms of joint balancing among the companies belonging to the PGE Capital Group. The forecast for the period from the year 2028 was prepared by a team of experts from PGE S.A. on the basis of assumptions concerning future cash flows for power generation units based, among other things, on the results of already completed auctions and forecasts prepared by an external expert. From 1 July 2025, all Capacity Market Units that entered into capacity contracts after 31 December 2019 (i.e. for contracts entered into in the Main Auction for the delivery year 2025 and onwards) will be subject to an emissions criterion of 550 g CO_2/kWh (so-called EPS 550), which will effectively exclude all coal units from participating in subsequent Capacity Market auctions.

The availability of power generation units was estimated on the basis of overhaul plans and failure frequency statistics.

Weighted average cost of capital

In the first half of 2023, the global economy and financial markets were influenced by the repercussions of the post-pandemic economic rebound, the so-called energy crisis, changes in monetary policies and the hostilities in Ukraine. Increased inflationary trends forced central banks to carry out one of the fastest monetary tightening cycles in history, which, in turn, had a significant impact on the dynamics of the situation in financial markets. In these circumstances, in the PGE Group's view, determining a fixed cost of capital based solely on short-term market interest rates is not justified, and cyclical mechanisms will lead to a normalisation of the situation on financial and commodity markets. Accordingly, from 2022 onwards, for the purposes of asset impairment testing, a cost of capital path is used that reflects current market characteristics in the coming years (including elevated market interest rates) and in subsequent periods gradually approaches levels representing the long-term average, covering a full business cycle.

Climate issues

In July 2021, the European Commission published the Fit for 55 legislative package, aiming, among other things, to achieve a 55% (previously 40%) reduction in EU greenhouse gas emissions by 2030 compared to 1990. As expected by market participants, the reform of the EU ETS system included in the package should result in a significant increase in the level of CO_2 emission allowance prices, which in practice already occurred in 2021. The high level of CO_2 emission allowance prices was also maintained in the first half of 2023. The changes introduced may negatively affect the margins earned by carbon-intensive power generation units, particularly to the extent that the increase in the price of CO_2 allowances is not passed on in the price at which these units sell the electricity or heat they produce. In December 2022, the Council and the EU Parliament reached important agreements on the 'Fit for 55' package proposal, the EU's plan to increase the target of reducing greenhouse gas emissions below 55% by 2030 compared to 1990 levels.

On 15 December 2022, the Decarbonisation Plan 2050 was adopted for the Heat Generation segment within the PGE Capital Group, which aims to meet the regulatory requirements for the power industry and to maintain the current generation potential to meet customer needs in the long term. The Decarbonisation Plan constitutes an operationalisation of the objectives set out directly in the PGE Capital Group's strategy and in the strategy implementation plan for the Heat Generation segment. The plan defines the locations where the transformation of generation assets will be carried out, the timetable for the main activities, the planned expenditures and the expected effects. The transformation of generation capacities through the use of new low- or zero-carbon power generation units is planned for the period until 2030 and the achievement of climate neutrality by 2050. Accordingly, the Heat Generation segment is gradually replacing old coal-fired sources with new low-carbon sources fired by gas and oil fuels. New power generation units will be installed in larger urban centres. By 2030, most of the locations where the PGE Capital Group's coal-fired district heating assets are located will have commissioned new installations, which will result in a complete or significant shift away from the coal fuel. New and modernised district heating units will use gas, municipal waste, biomass, waste heat and renewable energy to generate heat. The decarbonisation plan has been taken into account when estimating the value in use of the Heat Generation segment's production assets.

The changes described above mean that a reduction in the volume of power generation from conventional sources is anticipated, with a consequent reduction in expenditure (CAPEX and OPEX) on maintenance tasks of coal assets, which further affects the anticipated decline in profitability through the gradual deterioration of the availability of these units. At the same time, the aforementioned legislative and market changes favour the development of zero- and low-carbon sources, which, when the Group invests in these particular technologies, positively translates into the value in use of the assets under test. It should also be borne in mind that fossil fuel-based generation facilities, in the face of the uncertainty of RES generation (driven by environmental factors: water, wind, solar), are still needed in the electricity system to balance it.

Significant changes in the regulatory environment, both domestic and foreign, that affect or will affect the PGE Capital Group's operations are described in note 3.4. The regulatory environment in the Management Board's Report on the activities of the PGE Group for the first half of 2023 ended 30 June 2023.

Climate issues are included in the assumptions used for impairment testing to the best of the Group's knowledge, with the support of an external independent expert. The PGE Group adopts assumptions developed by an independent think tank that take into account the current regulatory and market situation. Future developments in the electricity market may differ from the currently adopted assumptions, which may lead to significant changes in the financial position and results of the PGE Group. These will be included in future financial statements.

3.1 Description of assumptions for the Conventional Generation segment

The issue of potential sale of assets of PGE GiEK S.A. is described in note 27.3. As at the reporting date the segment's assets do not meet the definition of assets held for sale under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the PGE Group performed an impairment test in accordance with IAS 36 *Impairment of Assets*.

On 30 June 2023, impairment tests were carried out with respect to the cash generating units by determining their recoverable values. In practice, it is very difficult to determine a fair value of a very large group of assets which do not have an active market or comparable transactions. With respect to whole power plants or mines whose value in a local market should be determined, there are no observable fair values. Therefore, the recoverable value of the analysed assets was determined by way of estimating their value in use by means of the discounted net cash flows method based on the financial forecasts prepared for the period from June 2023 to the end of their operation. In the Group's opinion, the adoption of financial forecasts for periods longer than five years is justifiable in view of the significant and long-term impact of the estimated changes in the regulatory environment. Thanks to adopting longer-term forecasts, the estimates of recoverable values may be more reliable.

Specific assumptions relating to the segment

The key assumptions determining the assessed value in use of the tested CGUs include the following:

- recognising the following as individual CGUs, due to technology linkages:
  - the Bełchatów Lignite Mine Branch and the Bełchatów Power Plant Branch ("Bełchatów Complex"),
  - the Turów Lignite Mine Branch and the Turów Power Plant Branch ("Turów Complex").
- recognising the Opole Power Plant, the Rybnik Power Plant and the Dolna Odra Power Plant as three individual CGUs.
- adopting the assumption of continued operations:
  - until 2036 for the Bełchatów Complex, based on the date accepted by the Social Party for shutting down all units and adopted for the purposes of the Fair Transformation Plan for the Łódzkie province,
  - until 2044 for the Turów Complex based on the decision of 28 April 2021 to extend the term of the mining concession until 2044,
- taking into account labour cost optimisation resulting, among other things, from the currently implemented employment initiatives,
- maintaining the generation capacities thanks to asset replacement projects,
- adopting a weighted average after-tax cost of capital differentiated for individual CGUs, according to the individually assessed level of risk and varying over time:
  - for the years 2023-2025, at an annual average level for individual CGUs of between 7.90% and 9.98%,
  - for the years 2026-2036, at an annual average level for individual CGUs of between 6.40% and 7.98%.

As at 30 June 2023, the value of tested property, plant and equipment of PGE GiEK S.A. amounted to PLN 28,745 million. This value does not include the CGUs for which the value in use of tested assets is negative. As a result of the impairment test of assets, the Group concluded that there was no need to recognise or reverse the write-downs of those assets. The lack of necessity to reverse the write-downs is related to the fact that the future financial flows of PGE GiEK S.A. are subject to uncertainties and assumptions which, in significant part, are beyond the control of the PGE Capital Group. Therefore, in the Group's view, there is no reason to reverse the write-downs recognised in previous reporting periods. The project to set up NABE and the sale price of PGE GiEK S.A. shares proposed in the non-binding Term Sheet has no impact on the impairment assessment as of June 30, 2023. For a detailed description of NABE project and its potential impact on future financial statements, see Note 27.3 of this report.

Sensitivity analysis

In accordance with IAS 36 Impairment of Assets, the Group performed a sensitivity analysis for the power generation units of the Conventional Power Generation segment.

The impact of a change in the key assumptions using the ceteris paribus principle on the value in use of assets at 30 June 2023 for the Conventional Power Generation segment is shown below.

Parameter	Change	Impact on value in use in PLN million	
		Increase	Decrease
Change in electricity price in whole forecast period	1%	2,540	
	-1%		2,551

A 1% drop in the price of electricity would reduce the value in use of the assets by approximately PLN 2.6 billion.

Parameter	Change	Impact on value in use in PLN million	
		Increase	Decrease
Change in WACC	+ 0.5 p.p.	575	
	- 0.5 p.p.		630

A decrease in WACC by 0.5 p.p. would reduce the value in use of the assets by approximately PLN 0.6 billion.

Parameter	Change	Impact on value in use in PLN million	
		Increase	Decrease
Change in price of CO_2 emission allowances	1%		1,497
	- 1%	1,485	

A 1% increase in the price of CO_2 emission allowances would reduce the value in use of the assets by approximately PLN 1.5 billion.

Parameter	Change	Impact on value in use in PLN million	
		Increase	Decrease
Change in price of hard coal	1%		201
	- 1%	201	

A 1% increase in the price hard coal would reduce the value in use of the assets by approximately PLN 0.2 billion.

Climate issues

The future of the Polish energy market is determined by the European Union's climate policy, and developments in the electricity market in the run up to 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 acceptance by the European Council in December 2020 of a new binding target for the EU to reduce net greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels. A consequence of the higher CO_2 reduction target is the rising cost of CO_2 emission allowances, which may negatively affect the performance of the Conventional Power Generation segment and the PGE Capital Group. The macroeconomic assumptions used for impairment testing take into account the new higher CO_2 emission reduction target in 2030 and, as a result, the rising price level of CO_2 emission allowances in the long term. In December 2022, the Council and the EU Parliament reached important agreements on the 'Fit for 55' package proposal, the EU's plan to increase the target of reducing greenhouse gas emissions below 55% by 2030 compared to 1990 levels.

The environment in which the PGE Capital Group operates is characterised by high volatility and is dependent on macroeconomic, market and regulatory conditions, and any changes in this area may have a significant impact on the financial position and performance of the PGE Group. Therefore, the above and other assumptions used to estimate the value in use of assets are subject to periodic analysis and verification. Any changes will be recognised in future financial statements.

3.2 Description of the circumstances relating to the Heat Generation segment

Impairment testing of property, plant and equipment was carried out as at 30 June 2023 for cash generating units by determining their recoverable amount. In practice, it is very difficult to determine a fair value of a very large group of assets which do not have an active market or comparable transactions. With respect to whole power plants and CHP plants whose value in a local market should be determined, there are no observable fair values. Therefore, the recoverable value of the analysed assets was determined by way of estimating their value in use by means of the discounted net cash flows method based on the financial forecasts prepared for the period from July 2023 to the end of 2030. In the Group's opinion, the adoption of financial forecasts for periods longer than five years is justifiable in view of the significant and long-term impact of the estimated changes in the regulatory environment. Thanks to adopting longer-term forecasts, the estimates of recoverable values may be more reliable. In the case of the generation units whose useful economic life extends beyond 2030, the Group determined their residual value for the remaining period of operation.

The energy market, and in particular the district heating market, is a regulated market in Poland and as such it is subject to many regulations and cannot be freely shaped based on business decisions alone. The objectives of the Energy Law include taking effective regulatory measures to ensure energy security. This means that the regulatory environment is aimed at ensuring the stable functioning of heat suppliers in a given area so as to satisfy the needs of customers in the long term. According to the provisions of the Energy law, the ERO President may, even in extreme cases, order an energy company to carry out activities covered by the concession (for a period not longer than 2 years), if the public interest so requires. If such activity generates a loss, the energy company is entitled to receive compensation from the State Treasury.

In view of the above, the Group does not assume a finite CGU life due to the regulatory environment, which limits the possibility of discontinuing operations. Therefore, the impairment tests included the assumption of continuation of operations (in the form of residual value), with expenditures at a replacement level in the long term due to, among others, the public interest in the form of ensuring heat supply. With regard to the generation assets included in the Decarbonisation Plan, replacement investments relate to the transformation of generation capacities (to gas-fired assets) through the use of new low- or zero-carbon generation units, which means that the cash generated by these assets is included in impairment tests.

Climate issues

On 15 December 2022, the Decarbonisation Plan 2050 was adopted for the Heat Generation segment within the PGE Capital Group, which aims to meet the regulatory requirements for the power industry and to maintain the current generation potential to meet customer needs in the long term. The Decarbonisation Plan constitutes an operationalisation of the objectives set out directly in the PGE Capital Group's strategy and in the strategy implementation plan for the Heat Generation segment. The plan defines the locations where the transformation of generation assets will be carried out, the timetable for the main activities, the planned expenditures and the expected effects. The transformation of generation capacities through the use of new low- or zero-carbon power generation units is planned for the period until 2030 and the achievement of climate neutrality by 2050.

Specific assumptions relating to the segment

The key assumptions determining the assessed value in use of the tested CGUs include the following:

- recognising the particular branches of PGE EC S.A. as separate CGUs, i.e. Branch No. 1 in Kraków (Kraków CHP Plant), Wybrzeże Branch (Gdańsk CHP Plant, Gdynia CHP Plant), Rzeszów Branch (Rzeszów CHP Plant), Lublin Branch (Lublin Wrotków CHP Plant), Bydgoszcz Branch (Bydgoszcz I CHP Plant, Bydgoszcz II CHP Plant), Gorzów Wielkopolski Branch (CHP Plant in Gorzów Wielkopolski), Zgierz Branch (CHP Plant in Zgierz), Kielce Branch (CHP Plant in Kielce); Szczecin Branch (CHP Plant in Szczecin, CHP Plant in Pomorzany, district heating network in Gryfinio);
- recognising the three generation facilities belonging to KOGENERACJA, i.e. Wrocław CHP Plant, Czechnica CHP Plant and Zawidawie CHP Plant, as one CGU;
- for the period from 2023 onwards, it was assumed that generators from the PGE Capital Group did not obtain free CO_2 emission allowances for electricity generation;
- the allocation of free CO_2 emission allowances in the period 2023-2030 for district heating and high-efficiency cogeneration was taken into account. Member States may apply for an allocation of free CO_2 emission allowances for heat in the amount of 30% in the period from 2023 to 2030, with the 30% value relating to the gas benchmark and supply of heat for municipal purposes;
- adopting the assumption for CHP plants that there is support from the capacity market or its equivalent during the residual period;
- including a support scheme for high-efficiency cogeneration in the projection horizon and the residual period: for existing units, support is assumed in the form of a guaranteed bonus and, if the financing gap condition is met, an individual guaranteed bonus; for new gas units, a cogeneration bonus is assumed;
- maintaining generation capacities thanks to asset replacement projects; For the generation assets for which action has been taken to implement the Decarbonisation Plan, expenditures of a replacement nature represent

the transformation of generation assets to gas-fuelled assets. The Decarbonisation Plan covers the following locations: Kraków, Gdańsk, Gdynia, Wrocław, Bydgoszcz, Kielce, Zgierz;

- taking into account highly advanced development investment projects and including them in the Company's investment plan;
- adopting an adjusted weighted average cost of capital after tax and differentiated over time:
  - for the years 2024-2025 at an annual average of 8.44%,
  - for the years 2026-2030 at an annual average of 6.68%.

As at 30 June 2023, the value of the tested property, plant and equipment of the Heat Generation segment amounted to PLN 5,360 million and goodwill equalled PLN 192 million. As a result of the impairment test of assets, the Group concluded that there was no need to recognise or reverse the write-downs of those assets.

Sensitivity analysis

In accordance with IAS 36, the Group performed a sensitivity analysis for the power generation units of the Heat Generation segment.

The impact of a change in the key assumptions using the ceteris paribus principle on the value in use of assets at 30 June 2023 for the Heat Generation segment is shown below.

Parameter	Change	Impact on value in use in PLN million	
		Increase	Decrease
Change in electricity price in whole forecast period	1%	587	
	-1%		587

A 1% drop in the price of electricity would reduce the value in use of the assets by approximately PLN 0.6 billion.

Parameter	Change	Impact on value in use in PLN million	
		Increase	Decrease
Change in WACC	+ 0.5 p.p.		2,035
	- 0.5 p.p.	2,338	

A decrease in the WACC by 0.5 p.p. would reduce the value in use of the assets by PLN 2.0 billion.

Parameter	Change	Impact on value in use in PLN million	
		Increase	Decrease
Change in price of CO_2 emission allowances	1%		228
	- 1%	228	

A 1% increase in the price of CO_2 emission allowances would reduce the value in use of the assets by approximately PLN 0.2 billion.

Parameter	Change	Impact on value in use in PLN million	
		Increase	Decrease
Change in price of hard coal	+ 1.0 p.p.		80
	- 1.0 p.p.	80	

An increase in hard coal prices by 0.5 p.p. would reduce the value in use of the assets by PLN approximately 80 million.

The environment in which the PGE Capital Group operates is characterised by high volatility and is dependent on macroeconomic, market and regulatory conditions, and any changes in this area may have a significant impact on the financial position and performance of the PGE Group. Therefore, the above and other assumptions used to estimate the value in use of assets are subject to periodic analysis and verification. Any changes will be recognised in future financial statements.

3.3 Description of the circumstances relating to the Renewable Power Generation segment

On 30 June 2023, impairment tests were carried out with respect to the cash generating units by determining their recoverable values. The recoverable value of the analysed assets was determined based on an estimation of their value in use by means of the discounted net cash flow method, on the basis of financial projections prepared for the assumed useful economic life of a given CGU in the case of wind farms and the years 2023-2030 in the case of the other CGUs. For the CGUs whose useful economic life extends beyond 2030, the Group determined their residual value for the remaining period of operation. The Group is of the opinion that the adoption of financial projections longer than five years is reasonable due to the fact that the property, plant and equipment used by the Group has a materially longer economic life and due to the material and long-term impact of the estimated changes in the regulatory environment included in the detailed forecast.

Specific assumptions

The key assumptions determining the assessed value in use of the tested CGUs include the following:

- recognising the following facilities as separate CGUs:
  - pumped storage power plants (one CGU for individual plants due to their common economic nature);
  - other hydroelectric power plants (one CGU for individual plants due to their common economic nature);
  - individual wind power plants (separate CGUs for individual plants due to their different operating lifetimes);
- the production of electricity and energy origin rights was assumed on the basis of historical data, taking into account the availability of individual units;
- the availability of power generation units was estimated on the basis of overhaul plans and failure frequency statistics,
- for the ESPs, a market-based contracting mechanism for regulatory services is expected to start operating from mid-2024, their revenue was estimated on the basis of the PGE Capital Group's internal analyses (currently, revenue from regulatory system services is estimated on the basis of existing contracts in accordance with the applicable remuneration system);
- maintaining generation capacities thanks to asset replacement projects;
- adopting an adjusted weighted average cost of capital after tax and differentiated over time:
  - for the years 2023-2029 at an annual average of 7.67%,
  - from 2030 onwards at 6.40%,
- additionally, the WACC for wind farms takes into account the individually estimated level of risk associated with participation in the various support schemes during the period of its validity (green certificates, auctions);
- for wind farms acquired as part of the acquisition project in 2022, the WACC additionally takes into account the discounts for the volume guarantee, the premium for green certificates, the discount for the price guarantee and the discount for special strategic importance for individual wind farms.

As at 30 June 2023, the value of the Company's property, plant and equipment that had undergone the tests was PLN 3,523 million. As a result of the conducted asset impairment tests, the Group concluded that there was no need to recognise any write-downs of those assets.

Sensitivity analysis

The sensitivity analysis showed that the estimated value in use is significantly affected by factors such as the WACC and electricity prices. The results of the sensitivity analysis apply to all CGUs owned by PGE EO S.A.

The impact of changes in factors using the ceteris paribus principle having a significant impact throughout the projection period on the forecast cash flows and therefore also on the estimated value in use is presented below.

Parameter	Change	Impact on value in use in PLN million	
		Increase	Decrease
Change in electricity price in whole forecast period	1%	149	
	-1%		149

A 1% decrease in the price of electricity would reduce the value in use of the assets by approximately PLN 0.1 billion.

Parameter	Change	Impact on value in use in PLN million	
		Increase	Decrease
Change in WACC	+ 0.5 p.p.		1,674
	- 0.5 p.p.	2,103	

An increase in WACC by 0.5 p.p. in the whole period covered by the forecast would reduce the value in use of the assets by approximately PLN 1.7 billion.

3.4 Description of assumptions for the CCGT units construction project in Nowy Czarnów to be implemented by PGE Gryfino 2050 sp. z o.o.

On 30 June 2023, impairment tests were carried out with respect to the cash generating units by determining their recoverable values. In practice, it is very difficult to determine a fair value of a very large group of assets which do not have an active market or comparable transactions. With respect to whole power plants whose value in a local market should be determined, there are no observable fair values. Therefore, the recoverable value of the analysed assets was determined by way of estimating their value in use by means of the discounted net cash flows method based on the financial forecasts prepared for the relevant period of operation. In the Group's opinion, the adoption of financial forecasts for periods longer than five years is justifiable in view of the significant and long-term impact of the estimated changes in the regulatory environment. Thanks to adopting longer-term forecasts, the estimates of recoverable values may be more reliable.

The key assumptions determining the assessed value in use of the tested assets include the following:

- The nominal power and average efficiency of the units assumed in accordance with the parameters guaranteed in the Performance Contract and the assumed load profile.
- Operating lifetime: 25 years (the benchmark technical operating lifetime of CCGT systems).
- Capital expenditure: for 2023-2024, they were assumed in accordance with the PGE Capital Group's Investment Plan and concluded contracts for the construction of the unit.
- Adoption of a weighted average cost of capital after tax differentiated for the individual CGUs, according to the individually assessed level of risk and varying over time at an average annual level of 6.99%.

As at 30 June 2023, the value of the tested property, plant and equipment belonging to PGE Gryfino 2050 sp. z o.o. amounted to PLN 3,304 million. As a result of the impairment test, the Group concluded that there was no need to recognise any write-downs of those assets.

Sensitivity analysis

In accordance with IAS 36 *Impairment of Assets*, the Group performed a sensitivity analysis of PGE Gryfino 2050 sp. z o.o.

The impact of a change in the key assumptions using the ceteris paribus principle on the value in use of assets as at 30 June 2023 for assets owned by PGE Gryfino 2050 sp. z o.o. is presented below.

Parameter	Change	Impact on value in use in PLN million	
		Increase	Decrease
Change in electricity price in whole forecast period	1%	632	
	-1%		632

A 1% drop in the price of electricity would reduce the value in use of the assets by approximately PLN 0.6 billion.

Parameter	Change	Impact on value in use in PLN million	
		Increase	Decrease
Change in WACC	+ 0.5 p.p.		648
	- 0.5 p.p.	693	

An increase in the WACC by 0.5 p.p. would reduce the value in use of the assets by approximately PLN 0.6 billion.

The environment in which the PGE Capital Group operates is characterised by high volatility and is dependent on macroeconomic, market and regulatory conditions, and any changes in this area may have a significant impact on the financial position and performance of the PGE Group. Therefore, the above and other assumptions used to estimate the value in use of assets are subject to periodic analysis and verification. Any changes will be recognised in future financial statements.

3.5 Description of assumptions for the Offshore Wind Energy Project

In 2021, the Ørsted group entities acquired shares in the increased equity of the companies Elektrownia Wiatrowa Baltica - 2 sp. z o.o. and Elektrownia Wiatrowa Baltica - 3 sp. z o.o. Following this transaction, the Ørsted Group became a 50% shareholder in EWB2 and EWB3. As a result of the transaction, the PGE Capital Group lost control over these two companies. Based on the agreements between the PGE Capital Group and the Ørsted group companies, Elektrownia Wiatrowa Baltica - 2 sp. z o.o. and Elektrownia Wiatrowa Baltica - 3 sp. z o.o. are so-called joint operations within the meaning of IFRS 11 *Joint Arrangements*. As a result of the settlement of the loss of control at the level of the consolidated financial statements, goodwill in the amount of PLN 81 million was recognised.

This goodwill was tested for impairment as at 30 June 2023 based on the determination of the recoverable amount of the assets. The recoverable value of the analysed assets was determined based on an estimation of their value in use by means of the discounted net cash flow method, on the basis of financial projections prepared for the assumed useful economic life of a given CGU.

The EWB2 and EWB3 projects are at an advanced stage of development.

Specific assumptions

The key assumptions determining the assessed value in use of the tested CGUs include the following:

- Revenue: the EWB2 and EWB3 projects are entitled to public support in the form of a bilateral differential contract (the right to cover the negative balance) for a period of 25 years from the first day of electricity generation and evacuation into the grid under the granted concession:
  - The support price is expressed in 2021 values (as a result of amendments made to the Offshore Act by the Act of 15 December 2022 on the special protection of certain consumers of gaseous fuels in 2023) and is subject to annual indexation in accordance with average annual inflation rates published by the Central Statistical Office,
  - The European Commission issued a positive decision in the individual support notification process, and the price set by the EC was accepted in December 2022 by the Energy Regulatory Office, thus confirming the support level of 319.60 PLN/MWh.

- Capital expenditures and operating costs were estimated by the Joint Venture (JV) partners, i.e. PGE and Ørsted, based on their internal competences and experience in the implementation of similar investment projects, taking into account information obtained in the process of ongoing procurement proceedings.
- Development expenses include, among other costs, external costs and the cost of re-invoiced employee hours of Ørsted and PGE.
- Energy generation was estimated based on:

- Data collected during a measurement campaign in the immediate vicinity of the EWB2 and EWB3 Offshore Wind Farm area and data from long-term sources, which allowed the determination of the long-term average wind speed in the project area.
- Productivity characteristics for the selected turbine model and the planned distribution of turbines across the basins.
- Energy conversion and transformation losses as well as equipment availability.

As at 30 June 2023, the value of the tested property, plant and equipment of EW Baltica 2 Sp. z o.o. and EW Baltica 3 Sp. z o.o. amounted to PLN 445 million and goodwill to PLN 81 million. As a result of the performed asset impairment test, the Group identified a surplus of the value in use of the tested assets over their carrying amount and therefore concluded that there was no need to make an impairment write-down on these assets.

3.6 Property, plant and equipment in the Distribution segment

As at the reporting date the book value of property, plant and equipment related to distribution activities was approximately PLN 21 billion and represented approximately 29% of total consolidated property, plant and equipment. Their recoverable value depends mainly on the tariff approved by the President of the Energy Regulatory Office. Regulated (tariff) income determined annually ensures the coverage of reasonable operating costs, depreciation, taxes, purchase of energy to compensate for a balance difference, costs carried forward and the achievement of a return on capital employed in distribution activities at a reasonable level. The level of return on capital employed as well as depreciation depends on the so-called Regulatory Value of Assets.

As at the date of these consolidated financial statements, the PGE Capital Group did not identify any indications of impairment of the property, plant and equipment attributed to distribution activities.

4. Changes in accounting principles and data presentation

New standards and interpretations effective as of 1 January 2023

The accounting principles used in drawing up these financial statements are consistent with those followed in the preparation of the separate financial statements for the year 2022, with the exceptions presented below. The changes to the IFRSs referred to below were applied in these financial statements as of their respective effective dates. The changes listed below did not have any material impact on the presented and disclosed financial information or did not apply to transactions entered into by the Group:

- Amendments to IFRS 17 – amendments relate to insurance contracts – recognition of revenue and gains/losses over the period of service.
- Amendments to IFRS 17 – amendments relate to first-time adoption of IFRS 17 and IFRS 9 – comparative data.
- Amendments to IAS 1 – amendments relate to the presentation of disclosures about accounting policies applied.
- Amendments to IAS 8 – amendments relate to disclosures about accounting policies applied, including changes in accounting estimates and the correction of errors.
- Amendments to IAS 12 – amendments relate to the obligation to recognise deferred income tax, in relation to assets and liabilities arising from a single transaction.

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

Foreign exchange differences in the statement of cash flows

In order to ensure greater consistency in the financial data presented, the PGE Capital Group decided in the previous reporting period to change the presentation of accrued foreign exchange differences relating to cash and cash equivalents. From the 2022 financial statements onwards, accrued exchange differences are presented in operating activities and, due to the change applied, the cash balance in the statement of cash flows is consistent with the cash balance in the statement of financial position. The figures for the comparative period were restated accordingly.

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CONSOLIDATED STATEMENT OF CASH FLOWS

	Period ended 30 June 2022 *published data*	Change in the presentation of accrued foreign exchange differences	Period ended 30 June 2022 *data restated*
CASH FLOWS FROM OPERATING ACTIVITIES			
Other	(84)	22	(62)
NET CASH FROM OPERATING ACTIVITIES	**4,993**	**22**	**5,015**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**4,201**	**22**	**4,223**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**6,734**	**(1)**	**6,733**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**10,935**	**21**	**10,956**

5. Fair value hierarchy

Derivative instruments

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 whose prices are denominated in these currencies) obtained from information platforms and active markets. The fair value of derivative instruments is determined based on discounted future cash flows related from concluded transactions, calculated on the basis of the difference between the forward price and the transaction price. The valuation of IRS transactions is the difference in the discounted interest flows of a fixed rate stream and a floating rate stream. The valuation of CCIRS transactions is the difference in the discounted flows paid and received in two different currencies. Forward exchange rates are not modelled as a separate risk factor, but are derived from the spot rate and the corresponding forward interest rate for the foreign currency in relation to PLN.

Future developments in interest rates, exchange rates or EUA price levels other than those projected by the Group will have an impact on future financial statements.

In the category of financial assets and liabilities measured at fair value through profit or loss, the Group recognises financial instruments related to trade in CO_2 emission allowances – currency and commodity forwards, coal purchase and sales contracts, and commodity SWAPs (Level 2).

Additionally, the Group presents the CCIRS derivative hedging instrument for foreign exchange (EUR/PLN) and the CCIRS interest rate and the IRS transactions hedging a floating rate in PLN with a fixed rate in PLN (Level 2).

	Assets as at 30 June 2023		Liabilities as at 30 June 2023	
FAIR VALUE HIERARCHY	**Level 1**	**Level 2**	**Level 1**	**Level 2**
CO_2 emission allowances in trading activities	1	-	-	-
Hard coal in trading activities	972	-	-	-
INVENTORIES	**973**	**-**	**-**	**-**
Currency forwards	-	1	-	107
Commodity forwards	-	5	-	1
Commodity SWAP	-	64	-	4
Contracts for purchase/sale of coal	-	75	-	120
Derivatives embedded in commercial contracts	-	-		520
Options	-	14	-	-
DERIVATIVES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	**-**	**159**	**-**	**752**
CCIRS hedging transactions	-	18	-	-
IRS hedging transactions	-	288	-	-
Currency forward - USD	-	-	-	2
Currency forward - EUR	-	13	-	2,010
HEDGING DERIVATIVES	**-**	**319**	**-**	**2,012**
Investment fund participation units	-	30	-	-
OTHER ASSETS / LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	**-**	**30**	**-**	**-**

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	Assets as at 31 December 2022		Liabilities as at 31 December 2022	
FAIR VALUE HIERARCHY	**Level 1**	**Level 2**	**Level 1**	**Level 2**
CO_2 emission allowances in trading activities	1	-	-	-
Hard coal in trading activities	1,497	-	-	-
INVENTORIES	**1,498**	**-**	**-**	**-**
Currency forwards	-	3	-	111
Commodity forwards	-	5	-	1
Commodity SWAP	-	95	-	71
Contracts for purchase/sale of coal	-	650	-	650
Derivatives embedded in commercial contracts	-	-		397
Options	-	18	-	-
DERIVATIVES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	**-**	**771**		**1,230**
CCIRS hedging transactions	-	104	-	-
IRS hedging transactions	-	459	-	-
Currency forward - USD	-	-	-	13
Currency forward - EUR	-	173	-	691
HEDGING DERIVATIVES	**-**	**736**	**-**	**704**
Investment fund participation units	-	28	-	-
OTHER ASSETS / LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	**-**	**28**	**-**	**-**

Derivatives are presented in note 19 to these financial statements. During the current and comparative reporting periods, there were no transfers of financial instruments between level 1 and level 2 of the fair value hierarchy.

EXPLANATORY NOTES TO THE CONSOLIDTED FINANCIAL STATEMENTS

EXPLANATORY NOTES TO THE OPERATING SEGMENTS

6. Information on the business segments

The companies of the PGE Capital Group conduct their activities on the basis of relevant concessions, including in particular concessions for the generation, trading and distribution of electricity, generation, transmission and distribution of heat, granted by the President of the Energy Regulatory Office, as well as concessions for the mining of lignite from deposits granted by the Minister of the Environment. Concessions are generally granted for periods from 10 to 50 years.

The concessions for lignite mining, electricity and heat generation as well as electricity and heat distribution have corresponding assets allocated to them, as shown in the detailed information on the operating segments. In connection with the electricity and heat concessions, the PGE Group incurs annual fees dependent on revenue. In the case of the activities related to the mining of lignite, the Company incurs extraction fees dependent on applicable rates and mining volumes, as well as mining usage fees.

The PGE Capital Group presents information on its operating segments for the current and comparative reporting periods in accordance with IFRS 8 *Operating Segments*. The division of the reporting system of the PGE Capital Group is based on its operating segments:

- Conventional Power Generation comprises lignite exploration and extraction, electricity generation from conventional sources, as well as related ancillary activities.
- Heat Generation comprises the generation of heat and electricity in cogeneration sources as well as the transmission and distribution of heat.
- Renewable Power Generation includes electricity generation in pumped storage hydro power plants and from renewable sources.
- Distribution comprises the management of local distribution networks and the transmission of electricity through these networks.
- Energy Railway Services - primarily comprises the distribution and sale of electricity to railway operators and rail-focused customers, the sale of fuels and the maintenance and upgrading of the contact lines network, along with other electricity services.
- Supply comprises the sale and purchase of electricity and natural gas on the wholesale market, trade in CO_2 emission allowances and energy origin rights resulting from certificates of origin, the purchase and supply of fuels, the sale of electricity and the provision of services to end customers.
- Circular Economy comprises the management of combustion by-products.
- Other activities include the provision of services by subsidiaries for the benefit of the Group, e.g. organisation of financing acquisition, provision of IT, accounting and HR services, transport services and investments in start-ups. In addition, the segment structures include companies responsible for the construction of new, low-emission generation units.

The organisation and management of the PGE Capital Group is divided into segments based on the type of products and services offered. Each segment constitutes a strategic business unit offering different products and serving different markets. The allocation of particular entities to operating segments is presented in note 1.3 to these consolidated financial statements. The PGE Capital Group settles transactions between segments as if they concerned unrelated entities – on an arm's length basis. Analysing the results of particular operating segments, the management of the Group pays attention first of all to achieved EBITDA.

Seasonality of the business segments' activities

The main factors influencing demand for electricity and heat include atmospheric factors such as air temperature, wind power, precipitation, socio-economic factors such as the number of energy consumers, prices of energy carriers, economic development and GDP, as well as technological factors such as technological progress and product manufacturing technologies. Each of these factors influences the technical and economic conditions for generation and distribution of energy carriers, and thus affects the results achieved by the companies of the PGE Capital Group.

The level of electricity sales throughout the year is variable and depends primarily on the atmospheric factors such as air temperature and the length of day. Increased demand for electricity is particularly visible during the winter period, while lower demand is observed in the summer. Moreover, seasonal changes are visible among selected groups of end users. Seasonality effects are more significant for households than the industrial sector.

In the Renewable Power Generation segment, electricity is generated from environmental resources such as water, wind and sun. Meteorological conditions are an important factor affecting electricity production in this segment.

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

6.1 Information concerning the operating segments

Information concerning the operating segments for the period ended 30 June 2023

	Conventional Power Generation	Heat Generation	Renewable Power Generation	Distribution	Energy Railway Services	Supply	Circular economy	Other activities	Adjustments	Total
STATEMENT OF PROFIT OR LOSS										
Sales to external customers	19,550	4,580	974	5,117	1,479	17,771	76	10	3	49,560
Sales among segments	5,068	2,527	562	136	-	23,184	106	147	(31,730)	-
TOTAL SEGMENT REVENUE	**24,618**	**7,107**	**1,536**	**5,253**	**1,479**	**40,955**	**182**	**157**	**(31,727)**	**49,560**
Cost of goods sold	(20,062)	(5,652)	(778)	(3,464)	(1,174)	(39,997)	(115)	(133)	31,167	(40,208)
EBIT	**18**	**846**	**499**	**1,616**	**172**	**100**	**32**	**2**	**264**	**3,549**
Depreciation, liquidation and write-downs recognised in profit or loss	995	382	180	635	97	17	5	25	(13)	2,323
EBITDA	**1,013**	**1,228**	**679**	**2,251**	**269**	**117**	**37**	**27**	**251**	**5,872**
GROSS PROFIT	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,077**
Income tax expense	-	-	-	-	-	-	-	-	-	(906)
NET PROFIT FOR REPORTING PERIOD	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,171**
ASSETS AND LIABILITIES										
Segment assets without PPE, IA, IP, RTUA trade receivables	4,245	1,174	408	88	338	2,649	40	652	(1,077)	8,517
PPE, IA, IP, RTUA	29,488	7,847	5,778	22,575	7,568	311	65	3,578	(807)	76,403
Trade receivables	1,858	383	231	1,846	647	6,979	99	56	(5,304)	6,795
Shares and interests accounted for using the equity method	-	-	-	-	-	-	-	-	-	229
Unallocated assets	-	-	-	-	-	-	-	-	-	19,105
TOTAL ASSETS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**111,049**
Segment liabilities, excluding trade payables	19,071	3,210	1,830	3,043	1,254	5,938	74	71	(2,656)	31,835
Trade payables	1,241	478	99	518	598	4,692	37	35	(5,441)	2,257
Unallocated liabilities	-	-	-	-	-	-	-	-	-	21,726
TOTAL LIABILITIES	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**55,818**
OTHER INFORMATION ON SEGMENT										
Capital expenditures	429	576	437	1,848	351	7	6	392	(114)	3,932
Increases in RTUA	2	18	-	1	-	-	-	-	-	21
TOTAL CAPITAL EXPENDITURES	**431**	**594**	**437**	**1,849**	**351**	**7**	**6**	**392**	**(114)**	**3,953**
Acquisition of PPE, IA, IP and RTUA as part of acquisition of new companies	-	-	-	6,001	-	-	-	-	1,372	7,373
Write-downs on financial and non-financial assets	59	21	-	9	2	651	-	-	-	742
Other non-monetary expenses *)	11,126	1,822	17	193	47	438	14	4	351	14,012

** Changes of a non-monetary nature relate to provisions for, among others, land rehabilitation, CO_2 emission rights, jubilee awards, employee tariffs and non-financial liabilities for employee benefits recognised in profit or loss and other comprehensive income.*

for the period of 6 months ended 30 June 2023 in accordance with EU-IFRS (in PLN million)

Information concerning the operating segments for the period ended 30 June 2022

data restated	Conventional Power Generation	Heat Generation	Renewable Power Generation	Distribution	Supply	Circular economy	Other activities	Adjustments	Total
STATEMENT OF PROFIT OR LOSS									
Sales to external customers	14,521	2,714	844	3,352	11,085	73	33	3	32,625
Sales among segments	1,060	1,082	587	40	10,961	87	128	(13,945)	-
TOTAL SEGMENT REVENUE	**15,581**	**3,796**	**1,431**	**3,392**	**22,046**	**160**	**161**	**(13,942)**	**32,625**
Cost of goods sold	(15,366)	(3,866)	(699)	(2,352)	(19,719)	(109)	(130)	13,384	(28,857)
EBIT	**1,548**	**(293)**	**672**	**870**	**1,160**	**25**	**5**	**267**	**4,254**
Depreciation, liquidation and write-downs recognised in profit or loss	982	352	169	602	16	5	25	(13)	2,138
EBITDA	**2,530**	**59**	**841**	**1,472**	**1,176**	**30**	**30**	**254**	**6,392**
GROSS PROFIT	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,000**
Income tax expense	-	-	-	-	-	-	-	-	(695)
NET PROFIT FOR REPORTING PERIOD	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,305**
ASSETS AND LIABILITIES									
Segment assets without PPE, IA, RTUA and trade receivables	3,597	1,022	73	59	3,942	12	608	(1,786)	7,527
PPE, IA, IP, RTUA	29,606	7,157	4,425	19,598	324	59	1,651	26	62,846
Trade receivables	625	275	323	970	5,643	103	51	(3,160)	4,830
Shares and interests accounted for under the equity method	-	-	-	-	-	-	-	-	172
Unallocated assets	-	-	-	-	-	-	-	-	17,917
TOTAL ASSETS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**93,292**
Segment liabilities, excluding trade payables	14,267	2,469	1,183	3,037	7,673	46	64	(4,755)	23,984
Trade payables	1,188	441	123	360	3,674	51	36	(3,922)	1,951
Unallocated liabilities	-	-	-	-	-	-	-	-	11,834
TOTAL LIABILITIES	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**37,769**
OTHER INFORMATION ON SEGMENT									
Capital expenditures	256	265	112	636	7	1	599	(34)	1,842
Increases in RTUA	1	-	-	1	-	-	-	-	2
TOTAL CAPITAL EXPENDITURES	**257**	**265**	**112**	**637**	**7**	**1**	**599**	**(34)**	**1,844**
Acquisition of PPE, IA, IP and RTUA as part of acquisition of new companies	-	-	371	-	-	-	-	723	1,094
Write-downs on financial and non-financial assets	578	17	-	5	228	(1)	-	-	827
Other non-monetary expenses *)	6,700	1,189	7	9	680	3	16	(113)	8,491

** Changes of a non-monetary nature relate to provisions for, among others, land rehabilitation, CO_2 emission rights, jubilee awards, employee tariffs and non-financial liabilities for employee benefits recognised in profit or loss and other comprehensive income*

for the period of 6 months ended 30 June 2023 in accordance with EU-IFRS (in PLN million)

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

7. Revenue and expenses

7.1 Sales revenue

Sales revenue for the period ended 30 June 2023 broken down by category

The table below presents a reconciliation between the disclosure of revenue broken down by category and information on revenue that the Group discloses for each reportable segment.

	Conventional Power Generation	Heat Generation	Renewable Power Generation	Distribution	Energy Railway Services	Supply	Circular Economy	Other Activities	Adjustments	Total
Revenue from contracts with customers	24,611	6,679	1,534	4,577	1,437	37,799	182	156	(31,717)	**45,258**
Revenue from recognised compensation based on: the Act on prices of electricity and gaseous fuels / the Act on special arrangements for certain heat sources	1	37	-	643	42	3,037	-	-	-	**3,760**
Revenue from recognised compensation pursuant to the Act on preferential purchase of solid fuel for households	-	-	-	-	-	115	-	-	-	**115**
Revenue from support for high-efficiency cogeneration	-	408	-	-	-	-	-	-	-	**408**
Revenue from PPA compensation	-	(31)	-	-	-	-	-	-	-	**(31)**
Lease income	6	14	2	33	-	4	-	1	(10)	**50**
TOTAL SALES REVENUE	**24,618**	**7,107**	**1,536**	**5,253**	**1,479**	**40,955**	**182**	**157**	**(31,727)**	**49,560**

The table below presents revenue from contracts with customers broken down by category reflecting how economic factors affect the nature, amount and timing of payments as well as the uncertainty of revenue and cash flows.

Type of good or service	Conventional Power Generation	Heat Generation	Renewable Power Generation	Distribution	Energy Railway Services	Supply	Circular Economy	Other Activities	Adjustments	Total
Revenue from sales of goods and products, without excluding taxes and fees	24,585	6,650	1,513	5,292	1,338	36,898	69	-	(30,483)	**45,862**
Taxes and fees collected on behalf of third parties	*(5)*	*(2)*	-	*(743)*	*(46)*	*(68)*	-	-	-	***(864)***
Revenue from sales of goods and products, including:	**24,580**	**6,648**	**1,513**	**4,549**	**1,292**	**36,830**	**69**	**-**	**(30,483)**	**44,998**
Sales of electricity	22,126	3,974	1,224	7	653	14,697	-	-	(10,804)	**31,877**
The capacity market,	1,098	112	126	-	-	14	-	-	-	**1,350**
Sales of distribution services	7	11	-	4,363	498	36	-	-	(135)	**4,780**
Sales of heat	65	2,481	-	-	-	8	-	-	(8)	**2,546**
Sales of energy origin rights	-	54	167	-	-	-	-	-	(24)	**197**
Regulatory system services	1,211	1	9	-	-	-	-	-	-	**1,221**
Sales of natural gas	-	-	-	-	-	746	-	-	(600)	**146**
Sales of fuels	-	-	-	-	51	4,885	-	-	(2,499)	**2,437**
Sales of CO_2 emission allowances	-	11	-	-	-	16,444	-	-	(16,373)	**82**
Other sales of goods and materials	73	4	(13)	179	90	-	69	-	(40)	**362**
Revenue from sales of services	**31**	**31**	**21**	**28**	**145**	**969**	**113**	**156**	**(1,234)**	**260**
REVENUE FROM CONTRACTS WITH CUSTOMERS	**24,611**	**6,679**	**1,534**	**4,577**	**1,437**	**37,799**	**182**	**156**	**(31,717)**	**45,258**

Sales revenue for the period ended 30 June 2022 broken down by category

The table below presents a reconciliation between the disclosure of revenue broken down by category and information on revenue that the Group discloses for each reportable segment.

	Conventional Power Generation	Heat Generation	Renewable Power Generation	Distribution	Supply	Circular Economy	Other Activities	Adjustments	Total
Revenue from contracts with customers	15,575	3,628	1,428	3,363	22,044	160	160	(13,934)	**32,424**
Revenue from PPA compensation	-	2	-	-	-	-	-	-	**2**
Revenue from support for high-efficiency cogeneration	-	155	-	-	-	-	-	-	**155**
Lease income	6	11	3	29	2	-	1	(8)	**44**
TOTAL SALES REVENUE	**15,581**	**3,796**	**1,431**	**3,392**	**22,046**	**160**	**161**	**(13,942)**	**32,625**

for the period of 6 months ended 30 June 2023 in accordance with EU-IFRS (in PLN million)

The table below presents revenue from contracts with customers broken down by category reflecting how economic factors affect the nature, amount and timing of payments as well as the uncertainty of revenue and cash flows.

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

7.2 Expenses by kind and function

	Period ended 30 June 2023	Period ended 30 June 2022
EXPENSES BY KIND		
Depreciation and write-downs	2,336	2,142
Consumption of materials and energy	7,267	3,888
Third party services	2,166	1,222
Taxes and charges	16,896	10,918
Employee benefits expenses	3,471	2,865
Other expenses by kind	227	187
TOTAL EXPENSES BY TYPE	**32,363**	**21,222**
Change in products	(33)	(2)
Cost of services for entity's own needs	(500)	(252)
Distribution and selling expenses	(4,418)	(805)
General and administrative expenses	(835)	(656)
Value of goods and materials sold	13,631	9,350
COST OF GOODS SOLD	**40,208**	**28,857**

7.3 Depreciation, liquidation and write-downs

The recognition of depreciation, liquidation and write-downs of property, plant and equipment, intangible assets, rights to use assets and investment properties in the statement of comprehensive income is set out below.

Period ended 30 June 2023	Depreciation and liquidation					Write-downs			
	PPE	IA	RTUA	IP	TOTAL	PPE	IA	RTUA	TOTAL
Cost of goods sold	2,096	21	56	1	**2,174**	78	-	-	**78**
Distribution and selling expenses	5	1	2	-	**8**	-	-	-	**-**
General and administrative expenses	38	7	16	-	**61**	2	-	-	**2**
RECOGNISED IN PROFIT OR LOSS	**2,139**	**29**	**74**	**1**	**2,243**	**80**	**-**	**-**	**80**
Change in products	-	-	-	-	**-**	-	-	-	**-**
Cost of services for entity's own needs	11	2	-	-	**13**	-	-	-	**-**
TOTAL	**2,150**	**31**	**74**	**1**	**2,256**	**80**	**-**	**-**	**80**
Other operating expenses	-	-	2	-	**2**	**-**	**-**	**-**	**-**

for the period of 6 months ended 30 June 2023 in accordance with EU-IFRS (in PLN million)

Period ended 30 June 2022	Depreciation and liquidation					Write-downs			
	PPE	IA	RTUA	IP	TOTAL	PPE	IA	RTUA	TOTAL
Cost of goods sold	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 products	(1)	-	-	-	**(1)**	-	-	-	**-**
Cost of services for entity's own needs	5	-	-	-	**5**	-	-	-	**-**
TOTAL	**2,071**	**26**	**31**	**1**	**2,129**	**15**	**-**	**(2)**	**13**

Write-downs made during the reporting period mainly relate to capital expenditures incurred in the entities for which impairment was recognised in previous periods.

Under the item Depreciation and liquidation, the Group recognised in the current period an amount of PLN 15 million and PLN 18 million in the comparative period for the net value of the liquidation of PPE and IA.

7.4 Other operating income and expenses

	Period ended 30 June 2023	Period ended 30 June 2022
NET OTHER OPERATING INCOME/(EXPENSES)		
Effect of revaluation of provisions for costs of land rehabilitation	(331)	2,160
Valuation and exercise of derivatives, including:	(160)	110
CO_2	*(1)*	*34*
Lignite	*(159)*	*76*
Creation of write-downs of receivables	(41)	(831)
Donations given	(29)	(66)
Repair of damage and failure	(21)	(5)
Reversal/(creation) of other provisions	17	(51)
(Settlement of inventory shortages) / Asset surpluses, disclosures	(17)	8
Grants	16	15
PPE/IA and other infrastructure received free of charge	16	10
Penalties, fines, damages	16	578
Gain on disposal of PPE/IA	6	12
Other	(22)	7
TOTAL OTHER NET OPERATING INCOME/(EXPENSES)	**(550)**	**1,947**

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

7.5 Finance income and expenses

	Period ended 30 June 2023	Period ended 30 June 2022
NET FINANCE INCOME/(EXPENSES) FROM FINANCIAL INSTRUMENTS		
Dividends	-	4
Interest, including:	(85)	(82)
Interest income calculated using the effective interest rate method	*281*	*89*
Revaluation	(134)	(4)
Creation of write-downs	(7)	(2)
Foreign exchange differences	(18)	(24)
Gain on disposal of investment	1	15
TOTAL NET FINANCE INCOME/(EXPENSES) FROM FINANCIAL INSTRUMENTS	**(243)**	**(93)**
OTHER NET FINANCE INCOME/(EXPENSES)		
Interest expense on non-financial items	(217)	(167)
Interest on liabilities to state budget	(5)	-
Provisions created	-	(1)
Other	(7)	(4)
TOTAL OTHER NET FINANCE INCOME/(EXPENSES)	**(229)**	**(172)**
TOTAL NET FINANCE INCOME/(EXPENSES)	**(472)**	**(265)**

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The Group reports interest income mainly on cash held in bank accounts and deposits. Interest costs mainly relate to issued bonds, taken credits and loans, settled IRS transactions as well as leases. The costs of interest on lease liabilities in the current period amounted to PLN 30 million (PLN 20 million in the comparative period). Interest expense on non-financial items relates to provisions for land rehabilitation and provisions for employee benefits. Revaluation costs are mainly due to the valuation of embedded derivatives included in electricity sales contracts in the Renewable Power Generation segment.

7.6 Share in result of entities accounted for using the equity method

Period ended 30 June 2023	Polimex Mostostal	PEC Bogatynia	Energopo-miar	PGE Soleo Kleszczów	PGE PAK Energia Jądrowa	Elester-PKP*
PERCENTAGE OF VOTES	**16.26%**	**34.93%**	**49.79%**	**50.00%**	**50.00%**	**89.96%**
Revenue	1,659	12	32	-	-	20
Result from continuing operations	32	-	1	-	-	1
Share in result of entities accounted for using the equity method	**5**	**-**	**-**	**-**	**-**	**1**
Elimination of unrealised gains and losses	(6)	-	-	-	-	-
SHARE IN RESULT OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	**(1)**	**-**	**-**	**-**	**-**	**1**
Other comprehensive income	1	-	-	-	-	-
SHARE IN OTHER COMPREHENSIVE INCOME OF ENTITIES ACCOUNTED FOR UNDER THE EQUITY METHOD	**0**	**-**	**-**	**-**	**-**	-

**the share in Elester-PKP sp. z o.o. was presented for the period of joint control over this company, i.e. from 3 April 2023*

Period ended 30 June 2022	Polska Grupa Górnicza	Polimex Mostostal	PEC Bogatynia	Energopomiar
PERCENTAGE OF VOTES	**15.32%**	**16.48%**	**34.93%**	**49.79%**
Revenue	4,627	1,880	10	30
Result from continuing operations	739	47	-	4
Share in result of entities accounted for using the equity method	**113**	**8**	**-**	**2**
Elimination of unrealised gains and losses	6	(5)	-	-
Impairment write-down	(113)	-	-	-
SHARE IN RESULT OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	**6**	**3**	**-**	**2**
Other comprehensive income	76	12	-	-
Share in other comprehensive income	12	1	-	-
Impairment write-down	(12)	-	-	-
SHARE IN OTHER COMPREHENSIVE INCOME OF ENTITIES ACCOUNTED FOR UNDER THE EQUITY METHOD AFTER WRITE-DOWN	**-**	**1**	**-**	**-**

The Group makes a consolidation adjustment for the margin on the sales of coal between Polska Grupa Górnicza and the Group (until the sale of shares in this company, i.e. until 25 October 2022) as well as a margin adjustment on contracts performed by Polimex - Mostostal for the benefit of the Group.

8. Write-downs of assets

In the current reporting period, the Group recognised a write-down of PLN 613 million on coal inventories in connection with the situation in PGE Paliwa sp. z o.o. as described in note 27.2 to these financial statements. Other than that, in the current and comparative reporting periods, the Group did not make or reverse any significant write-downs.

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9. Income tax

9.1 Tax in the statement of comprehensive income

The major items of the income tax expense for the periods ended 30 June 2023 and 30 June 2022 are as follows:

	Period ended 30 June 2023	Period ended 30 June 2022
INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS		
Current income tax expense	728	570
Adjustments concerning current income tax expense from previous years	19	16
Deferred income tax	195	128
Adjustments to deferred income tax	(36)	(19)
INCOME TAX EXPENSE RECOGNISED IN STATEMENT OF PROFIT OR LOSS	**906**	**695**
INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME		
On actuarial gains (losses) on valuation of employee benefit provisions	(31)	36
On valuation of hedging instruments	(319)	134
(Tax benefit)/tax charge recognised in other comprehensive income (equity)	**(350)**	**170**

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EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

10. Significant acquisitions and disposals of property, plant and equipment, intangible assets and rights to use assets

In the current reporting period, the Group purchased property, plant and equipment and intangible assets worth PLN 3,932 million and obtained rights to use underlying assets worth PLN 22 million. The largest expenditure was incurred by the Distribution segment (PLN 1,849 million), the Heat Generation segment (PLN 570 million), and the Conventional Power Generation segment (PLN 434 million).

The main expenditure items in the Distribution segment were connections of new customers to the distribution network (PLN 737 million) and the Cabling Programme (PLN 380 million). In the Heat Generation segment, the largest part of expenditure was incurred on the construction of the new Czechnica CHP plant (PLN 261 million). In the Conventional Power Generation segment, the main expenditures were incurred at the Bełchatów Power Plant for the overhaul of unit 7 (PLN 44 million), at the Opole Power Plant for the intermediate overhaul of unit 4 (PLN 22 million), at the Turów Power Plant for the adjustment of the power plant to BAT conclusions (PLN 34 million). Expenditure in the Other Activities segment was incurred primarily on the construction of CCGT units in PGE Gryfino 2050 sp. z o.o. (PLN 344 million).

In the current period, the Group acquired shares in PKPE Holding. The acquisition is described in note 1.4 to these consolidated financial statements. As a result of this transaction, the net value of property, plant and equipment, intangible assets and rights to use assets increased by PLN 6,001 million. As a result of the initial settlement of the acquisition, goodwill was determined at PLN 1,372 million.

11. Future investment commitments

As at 30 June 2023 the Company had undertaken to incur expenditure on property, plant and equipment in the amount of approximately PLN 17,371 million. These amounts will be allocated mainly for the construction of offshore wind farms, new power generation units, modernisation of assets of the Group's entities and purchase of machinery and equipment.

	As at 30 June 2023	As at 31 December 2022
Renewable Power Generation	7,292	2,092
Other Activities	4,603	2,067
Distribution	3,210	2,824
Heat Generation	1,573	1,928
Conventional Power Generation	517	512
Energy Railway Services	175	-
Supply	1	3
TOTAL FUTURE INVESTMENT COMMITMENTS *	**17,371**	**9,426**

** The presented amounts include the PGE Capital Group's 50% share of joint operations as defined in IFRS 11 Joint Arrangements*

The most important future capital expenditures concern the following projects:

- Renewable Power Generation – construction of the Baltica 2 wind farm in the Baltic Sea (including an agreement for the supply and installation of offshore wind turbines, a service and warranty agreement, an agreement for the design, manufacture and commissioning of offshore substations, an agreement for the supply of foundations, internal cables for the turbines) – an amount of approximately PLN 5,553 million; modernisation of the upper reservoir of the Porąbka-Żar pumped storage power plant – an amount of approximately PLN 804 million; design and construction of new photovoltaic installations in more than 40 different locations – an amount of approximately PLN 432 million; environmental studies together with an environmental impact report and acquisition of a decision on environmental conditions for the project covering the construction of the Baltica 1 wind farm in the Baltic Sea together with offshore and onshore connection infrastructure – an amount of approximately PLN 345 million;
- Other Activities – construction of a CCGT power generation unit (Rybnik 2050 sp. z o.o.) – an amount of approximately PLN 3,044 million; construction of two CCGT power generation units and a service contract for two gas turbines (PGE Gryfino 2050 sp. z o.o.) – an amount of approximately PLN 1,333 million;
- Distribution – investment commitments related mainly to network distribution assets in the amount of approximately PLN 3,210 million,
- Heat Generation – construction of a CCGT power plant called Nowa Czechnica in Siechnice – an amount of approximately PLN 508 million; construction of a gas-fuelled cogeneration source based on gas engines and a reserve and peak heat generation source in Bydgoszcz – an amount of approximately PLN 294 million;

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construction of Line II of the Thermal Processing Plant with Energy Recovery in Rzeszów – an amount of approximately PLN 323 million;

12. Shares and interests accounted for using the equity method

	As at 30 June 2023	As at 31 December 2022
Polimex - Mostostal S.A., Warszawa	175	169
Energopomiar sp. z o.o., Gliwice	11	11
PGE Soleo Kleszczów sp. z o.o., Kleszczów	3	-
PGE PAK Energia Jądrowa S.A., Konin	5	-
Elester-PKP sp. z o.o., Łódź	35	-
SHARES ACCOUNTED FOR USING THE EQUITY METHOD	**229**	**180**

	Polimex Mostostal	PEC Bogatynia	Energopo-miar	PGE Soleo Kleszczów	PGE PAK Energia Jądrowa	Elester-PKP
PERCENTAGE OF VOTES	**16.26%**	**34.93%**	**49.79%**	**50.00%**	**50.00%**	**89.96%**
AS AT 30 JUNE 2023						
Current assets	1,745	4	23	4	10	89
Non-current assets	681	20	21	1	-	12
Current liabilities	1,183	2	18	-	-	20
Non-current liabilities	265	1	4	-	-	13
NET ASSETS	**978**	**21**	**22**	**5**	**10**	**68**
Share in net assets	**159**	**7**	**11**	**3**	**5**	**61**
Goodwill	16	-	-	-	-	(26)
Impairment write-down	-	(7)	-	-	-	-
SHARES ACCOUNTED FOR USING THE EQUITY METHOD	**175**	**-**	**11**	**3**	**5**	**35**

	Polimex Mostostal	PEC Bogatynia	Energopomiar
PERCENTAGE OF VOTES	**16.26%**	**34.93%**	**49.79%**
AS AT 31 DECEMBER 2022			
Current assets	2,149	5	25
Non-current assets	676	20	22
Current liabilities	1,621	4	23
Non-current liabilities	262	-	3
NET ASSETS	**942**	**21**	**21**
Share in net assets	**153**	**7**	**11**
Goodwill	16	-	-
Impairment write-down	-	(7)	-
SHARES ACCOUNTED FOR USING THE EQUITY METHOD	**169**	**-**	**11**

13. Joint activities

Based on an analysis of the agreements between the PGE Capital Group and the Ørsted companies holding 50% of shares, the PGE Capital Group assessed that EWB2 and EWB3 constitute a so-called joint operation within the meaning of IFRS 11 *Joint Arrangements*.

PGE Soleo Kleszczów sp. z o.o., which in the previous period was treated as a joint operation and was consolidated with respect to the assets and liabilities as well as revenue and costs attributable to the PGE Capital Group, was reclassified and from 1 January 2023 constitutes a joint venture and is consolidated under the equity method. As PGE Soleo Kleszczów sp. z o.o. is just commencing operations, the change had no material impact on these consolidated financial statements.

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14. Deferred tax in the statement of financial position

14.1 Deferred income tax assets

	As at 30 June 2023	As at 31 December 2022
Difference between tax and current book values of property, plant and equipment	2,273	2,214
Provision for land rehabilitation	844	637
Provision for employee benefits	678	608
Provision for purchase of CO_2 emission allowances	2,214	3,852
Difference between tax and current book values of liabilities	1,022	712
Difference between carrying amount and tax value of right-of-use assets	337	187
Tax losses	892	145
Other provisions	155	243
Difference between tax and current book values of financial assets	389	367
Compensations for PPA	88	81
Liabilities from recognised compensation under the Electricity Pricing Act	154	4
Difference between tax and current book values of financial assets	199	103
Infrastructure acquired free of charge and received grid connection fees	99	96
Other	25	19
TOTAL DEFERRED INCOME TAX ASSETS	**9,369**	**9,268**

14.2 Deferred income tax liabilities

	As at 30 June 2023	As at 31 December 2022
Difference between tax and current book values of property, plant and equipment	5,335	4,807
CO_2 emission allowances	127	795
Difference between tax and current book values of financial assets	771	951
Difference between balance sheet and tax value of lease liabilities	384	235
Receivables from recognised compensation under the Electricity Pricing Act	379	103
Receivables from recognised compensation pursuant to the Act on preferential purchase of solid fuel	2	25
Difference between tax and current book values of energy origin rights	16	20
Difference between tax and current book values of financial liabilities	50	73
Other	54	78
TOTAL DEFERRED INCOME TAX LIABILITIES	**7,118**	**7,087**

The Group's deferred income tax after offsetting assets and liabilities in the particular companies

Deferred income tax assets	3.127	3.183
Deferred income tax liabilities	(876)	(1.002)

15. Inventories

	As at 30 June 2023	As at 31 December 2022
Coal	2,476	1,958
Repair and maintenance materials	790	746
Heavy oil	42	64
Ekoterm	45	59
Other materials	132	84
TOTAL MATERIALS	**3,485**	**2,911**
Green energy origin rights	592	428
Other energy origin rights	9	3
TOTAL ENERGY ORIGIN RIGHTS	**601**	**431**
CO_2 emission allowances held for sale	1	1
Hard coal held for sale	972	1,497
Other goods	18	7
TOTAL GOODS	**991**	**1,505**
OTHER INVENTORIES	**90**	**71**
TOTAL INVENTORIES	**5,167**	**4,918**

16. CO_2 emission allowances for captive use

EUA	As at 30 June 2023		As at 31 December 2022	
	Long-term	Short-term	Long-term	Short-term
Quantity (Mg million)	**0**	**3**	**0**	**20**
Value (PLN million)	**17**	**662**	**114**	**4,754**

EUA	Quantity (Mg million)	Value (PLN million)
AS AT 1 JANUARY 2022	**43**	**4,903**
Purchase/Sale	47	11,525
Granted free of charge *	1	-
Redemption	(71)	(11,560)
AS AT 31 DECEMBER 2022	**20**	**4,868**
Purchase/Sale	52	16,132
Granted free of charge	1	-
Redemption	(70)	(20,321)
AS AT 30 JUNE 2023	**3**	**679**

** CO2 emission allowances related to heat generation*

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17. Selected financial assets

The value of financial receivables measured at depreciated cost constitutes a reasonable approximation of their fair values.

17.1 Trade receivables and other financial receivables

	As at 30 June 2023		As at 31 December 2022	
	Long-term	Short-term	Long-term	Short-term
Trade receivables	-	6,795	-	6,517
Deposits and loans	233	-	214	-
Receivables from due recognised compensation	-	2,050	-	671
Deposits, securities and collaterals	9	1,383	7	1,579
High efficiency cogeneration support system	-	136	-	41
Damages and penalties	-	9	-	192
Other financial receivables	3	24	2	83
FINANCIAL RECEIVABLES	**245**	**10,397**	**223**	**9,083**

Deposits, securities and collateral mainly relate to transaction and hedging deposits in the electricity and emission allowances markets.

17.2 Cash and cash equivalents

Short-term deposits are placed for various maturities, ranging from one day to one month, depending on the Group's current cash requirement.

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

	As at 30 June 2023	As at 31 December 2022*
Cash at bank and in hand	3,796	1,428
Overnight deposits	48	791
Short-term deposits	2,883	6,147
Proceeds from share issue	2,011	2,727
Funds in VAT accounts	1,630	794
TOTAL	**10,368**	**11,887**
Undrawn credit facilities as at reporting date	12,017	11,783
including overdraft facilities	*6,844*	*3,817*

** this change results from reclassification of particular items*

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

The value of cash includes restricted cash in the amount of PLN 177 million (PLN 295 million in the comparative period), held in customer accounts of PGE Dom Maklerski S.A. as collateral for settlements with the Warsaw Commodity Clearing House.

18. Other current and non-current assets

18.1 Other non-current assets

	As at 30 June 2023	As at 31 December 2022
Prepayments for property, plant and equipment under construction	1,009	615
Customer acquisition costs	106	102
Prepayments for deliveries	4	-
Other non-current assets	26	133
TOTAL OTHER ASSETS	**1,145**	**850**

Prepayments for property, plant and equipment under construction mainly relate to the construction of a CCGT unit by Rybnik 2050 sp. z o.o., the modernisation of the Porąbka-Żar pumped storage power plant by PGE EO S.A., the construction of two CCGT units by PGE Gryfino 2050 sp. z o.o. and investments made in the Heat Generation segment.

Customer acquisition costs relate to co-financing by PGE Energia Ciepła S.A. of investments in the development of district heating networks and agency commissions in PGE Obrót S.A.

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18.2 Other current assets

	As at 30 June 2023	As at 31 December 2022
PREPAYMENTS AND DEFERRED EXPENSES		
CSBF	71	5
Customer acquisition costs	63	60
Long-term contracts	54	35
Property and tort insurance	44	17
Fees for excluding land from agricultural and forestry production	33	-
Logistic costs related to purchase of coal	32	55
IT services	25	19
Mining usage fees	20	-
Property tax	19	-
Fees for road lane usage and machinery deployment	19	-
Other prepayments and deferred expenses	49	30
OTHER CURRENT ASSETS		
Prepayments for deliveries	669	404
Input VAT receivables	386	1,570
Excise tax receivables	9	12
Other current assets	33	12
TOTAL OTHER ASSETS	**1,526**	**2,219**

The amount of the prepayment for deliveries is primarily related to future coal deliveries for the Conventional Power Generation segment.

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

	As at 30 June 2023	
	Assets	Liabilities
DERIVATIVES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		
Currency forwards	1	107
Commodity forwards	5	1
Commodity SWAP	64	4
Contracts for purchase/sale of coal	75	120
Derivatives embedded in commercial contracts	-	520
Options	14	-
HEDGING DERIVATIVES		
CCIRS hedging transactions	18	-
IRS hedging transactions	288	-
Currency forward - USD	-	2
Currency forward - EUR	13	2,010
OTHER ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		
Investment fund participation units	30	-
TOTAL	**508**	**2,764**
short-term part	159	2,344
long-term part	349	420

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	As at 31 December 2022	
	Assets	Liabilities
DERIVATIVES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		
Currency forwards	3	111
Commodity forwards	5	1
Commodity SWAP	95	71
Contracts for purchase/sale of coal	650	650
Derivatives embedded in commercial contracts	-	397
Options	18	-
HEDGING DERIVATIVES		
CCIRS hedging transactions	104	-
IRS hedging transactions	459	-
Currency forward - USD	-	13
Currency forward - EUR	173	691
OTHER ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		
Investment fund participation units	28	-
TOTAL	**1,535**	**1,934**
short-term part	927	1,629
long-term part	608	305

Commodity and currency forwards

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

Options

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

Coal swaps

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

Purchase and sales 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 commercial contracts

As part of the purchased wind farms, the PGE Capital Group also acquired derivatives embedded in commercial contracts. The design of the instruments involves the delivery of the contracted capacity each day, for the duration of the contracts.

IRS transactions

PGE S.A. entered into IRS transactions to hedge interest rates on obtained credits and issued bonds with a total nominal value of PLN 7,030 million (PLN 5,630 million for credits and PLN 1,400 million for bonds). In connection with the commencement of the repayment of the principal amount of certain credits, the current nominal amount of IRS transactions hedging the credits is PLN 1,976 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 hedging transactions

In connection with loan agreements entered into with PGE Sweden AB (publ), PGE S.A. concluded CCIRS transactions hedging the exchange rate for both the principal amount 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 CCIRS transactions is treated as a hedge of bonds issued by PGE Sweden AB (publ). To recognise these CCIRS transactions, the Company uses hedge accounting.

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Investment fund participation units

At the reporting date, the Company holds units in three TFI Energia S.A. sub-funds.

20. Equity

The basic guideline in the Group's capital management policy is to maintain the optimum structure of capital in the long perspective, to ensure the PGE Capital Group's good financial standing and safe capital structure measures supporting its operations. It is also very important to maintain a strong capital base constituting a foundation for the building of trust on the part of future investors, creditors and the market with a view to ensuring the PGE Capital Group's future growth.

20.1 Share capital

	As at 30 June 2023	As at 31 December 2022
1,470,576,500 A series ordinary shares with a par value of PLN 8.55 each	12,574	12,574
259,513,500 Series B ordinary shares with a par value of PLN 8.55 each	2,219	2,219
73,228,888 Series C ordinary shares with a par value of PLN 8.55 each	626	626
66,441,941 Series D ordinary shares with a par value of PLN 8.55 each	568	568
373,952,165 Series E ordinary shares with a par value of PLN 8.55 each	3,197	3,197
TOTAL SHARE CAPITAL	**19,184**	**19,184**

All of the Company's shares are paid up.

Shareholder rights – the State Treasury's rights related to the Company's operations

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

The State Treasury's special rights which may be exercised with respect to the companies belonging to the PGE Capital Group are specified in the Act of 18 March 2010 on special rights of a minister competent for energy affairs and their exercise with respect to certain capital companies or capital groups conducting business activities in the electricity, petrol, and gaseous fuels sectors (the consolidated text: Journal of Laws of 2020, item 2173). The Act specifies special rights held by the minister competent for energy affairs with respect to capital companies or capital groups conducting business activities in the electricity, petrol, and gaseous fuels sectors whose assets are disclosed in the standardised specification of facilities, installations, equipment and services included in the composition of the critical infrastructure.

On the basis of the provisions in question, the minister responsible for state assets may object to a resolution adopted by the Management Board or any other legal action carried out by the Management Board, the object of which is the disposal of an asset posing a threat to the functioning, continuity of operation and integrity of the critical infrastructure. An objection could also be filed against the Company governing bodies' resolutions concerning the following issues:

- the dissolution of the Company,
- changes in the use of, or refusal to use, an asset constituting a component of the critical infrastructure,
- changes in the objects of the Company,
- the disposal or lease of an enterprise or its organised part, or the establishment of a limited property right on it,
- the adoption of a material and financial plan, a capital expenditures plan, or a long-term strategic plan,
- the transfer of the Company's registered office abroad,

if the implementation of such a resolution could constitute a real threat to the functioning, operational continuity, and integrity of the critical infrastructure.

Such an objection is stated in the form of an administrative decision.

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20.2 Capital from valuation of financial instruments

	Period ended 30 June 2023	Year ended 31 December 2022
AS AT JANUARY 1	**(32)**	**609**
Change in capital from valuation of financial instruments:	**(1,677)**	**(791)**
Valuation of hedging instruments, including:	**(1,681)**	**(788)**
Recognition of the effective portion of change in fair value of hedging financial instruments in the part considered as effective hedge	*(1,726)*	*(728)*
Accrued interest on derivatives transferred from capital from valuation and recognised in interest expense	*13*	*(45)*
Currency revaluation of CCIRS transaction transferred from capital from valuation and recognised in foreign exchange gains/losses	*34*	*(13)*
Ineffective portion of change in fair value of hedging derivatives recognised in profit or loss	*(2)*	*(2)*
Valuation of other financial instruments	**4**	**(3)**
Deferred tax	**319**	**150**
CAPITAL FROM VALUATION OF FINANCIAL INSTRUMENTS AFTER DEFERRED TAX	**(1,390)**	**(32)**

The capital from valuation of financial instruments includes mainly valuation resulting from the implementation of cash flow hedge accounting.

20.3 Dividends paid and proposed

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

21. Provisions

The current book value of the provisions is as follows:

	As at 30 June 2023		As at 31 December 2022	
	Long-term	Short-term	Long-term	Short-term
Employee benefits	2,537	323	2,188	298
Provision for land rehabilitation	5,463	4	4,139	3
Provision for costs of CO_2 emissions	-	11,960	-	20,318
Provision for value of energy origin rights held for redemption	-	573	-	271
Other provisions	47	369	36	333
TOTAL PROVISIONS	**8,047**	**13,229**	**6,363**	**21,223**

The discount rate for the provision for land rehabilitation costs as at 30 June 2023 and in the comparative period is as follows:

- for expenses expected to be incurred within 15 years of the balance sheet date – 5.8% (7.0% in the comparative period),
- for expenses expected to be incurred within 16 to 25 years from the balance sheet date – 6.08% (7.03% in the comparative period), PGE's extrapolation according to the adopted method,
- for expenses expected to be incurred more than 25 years from the balance sheet date – 6.22% (7.08% in the comparative period), PGE's extrapolation according to the adopted method.

The discount rate for the provision for employee benefits and other provisions for land rehabilitation costs at 30 June 2023 is 5.8% (7% at 31 December 2022).

The change in the discount rate and other assumptions resulted in the following:

- an increase in the provision for land rehabilitation costs recognised correspondingly in other operating expenses of PLN 331 million;
- an increase in the provision for land rehabilitation costs recognised correspondingly as an increase in property, plant and equipment of PLN 812 million,
- an increase in the provisions for post-employment benefits recognised correspondingly as a decrease in other comprehensive income in the amount of PLN 164 million,
- an increase in the provisions for jubilee awards recognised correspondingly as an increase in operating expenses of PLN 52 million.

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Change in provisions

	Employee benefits	Provision for land rehabilitation costs	Provision for costs of CO_2 emissions	Provision for energy origin rights to be redeemed	Other	Total
1 January 2023	**2,486**	**4,142**	**20,318**	**271**	**369**	**27,586**
Current employment costs	41	-	-	-	-	41
Past employment costs	14	-	-	-	-	14
Interest costs	84	133	-	-	-	217
Adjustment to discount rate and other assumptions	216	1,143	-	-	-	1,359
Benefits paid / Provisions used	(123)	-	(20,321)	(280)	(46)	(20,770)
Provisions reversed	-	-	(2)	-	(95)	(97)
Established reserves - costs	-	18	11,965	454	83	12,520
Provisions recognized – expenditure	-	23	-	-	-	23
Change in composition of CG	141	-	-	128	111	380
Other changes	1	8	-	-	(6)	3
30 JUNE 2023	**2,860**	**5,467**	**11,960**	**573**	**416**	**21,276**

	Employee benefits	Provision for land rehabilitation costs	Costs of CO_2 emissions	Provision for energy origin rights to be redeemed	Other	Total
1 January 2022	**2,657**	**6,075**	**11,553**	**276**	**598**	**21,159**
Actuarial gains and losses	605	-	-	-	-	605
Current employment costs	80	-	-	-	-	80
Past employment costs	(1)	-	-	-	-	(1)
Interest costs	95	243	-	-	-	338
Adjustment to discount rate and other assumptions	(711)	(2,285)	-	-	-	(2,996)
Benefits paid / Provisions used	(234)	(1)	(11,559)	(1,140)	(55)	(12,989)
Provisions reversed	-	-	(1)	(17)	(387)	(405)
Established reserves - costs	-	53	20,325	1,152	237	21,767
Provisions recognized – expenditure	-	24	-	-	-	24
Change in composition of CG	(3)	25	-	-	-	22
Other changes	(2)	8	-	-	(24)	(18)
31 December 2022	**2,486**	**4,142**	**20,318**	**271**	**369**	**27,586**

21.1 Provision for employee benefits

The provisions for employee benefits mainly comprise:

- post-employment benefits – PLN 1,927 million (PLN 1,689 million as at 31 December 2022),
- jubilee awards – PLN 933 million (PLN 797 million as at 31 December 2022).

21.2 Provision for land rehabilitation

Provision for the rehabilitation of mine workings

The PGE Capital Group creates provisions for the rehabilitation of final workings. The amount of the provision presented in the financial statements includes also the value of the Mining Plant Liquidation Fund established in accordance with the Geology and Mining Law Act. As at 30 June 2023, the value of the provision was PLN 4,845 million and PLN 3,606 million as at 31 December 2022.

Provision for the rehabilitation of the ash disposal sites

The power plants create a provision for the rehabilitation of the furnace waste disposal sites. As at 30 June 2023, the provision amounted to PLN 250 million (PLN 205 million as at the end of the comparative period).

Provision for the rehabilitation of the wind farm sites

The companies that own wind farms create a provision for the rehabilitation of wind farm sites. The value of the provision as at 30 June 2023 was PLN 2 million (PLN 22 million at the end of the comparative period) – the decrease in value is related to the reclassification of the provision from wind farm site rehabilitation to decommissioning costs of property, plant and equipment.

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Property, plant and equipment liquidation costs

As at the reporting date, the provision amounted to PLN 370 million (PLN 309 million as at the end of the comparative period) and refers to some assets of the Conventional Power Generation and Renewable Power Generation segments.

21.3 Provision for costs of CO_2 emissions

The provision is created on the basis of the value of allowances obtainable for a fee or free of charge. Since 2020 the Group has been entitled to free allowances for heat generation only. As at 30 June 2023, the provision amounted to PLN 11.960 million (PLN 20.318 million as at the end of the comparative period).

21.4 Provision for energy origin rights to be redeemed

The PGE Group companies create a provision for the value of energy origin rights relating to sales carried out during the reporting period or in the prior reporting periods, for the part unredeemed before the reporting date. As at 30 June 2023, the provision amounted to PLN 573 million (PLN 271 million in the comparative period) and was recognised mainly by PGE Obrót S.A.

21.5 Other provisions

Provisions for penalties and damages

The value of the provisions comprises mainly the provisions created by the following companies:

- ENESTA sp. z o.o. in restructuring in the amount of PLN 56 million (PLN 56 million in the comparative period),
- PGE Energetyka Kolejowa S.A. in the amount of PLN 43 million,
- PGE Energia Ciepła S.A. in the amount of PLN 31 million,
- PGE Paliwa sp. z o.o. in the amount of PLN 20 million (PLN 41 million in the comparative period).

Provisions for onerous agreements

- PKP Energetyka Obsługa sp z o.o. in the amount of PLN 28 million,
- ENESTA sp. z o.o. in restructuring in the amount of PLN 22 million (PLN 37 million in the comparative period),
- PGE Energetyka Kolejowa S.A. in the amount of PLN 19 million.

In addition, in 2021, the Group recognised a provision in the amount of PLN 39 million in connection with the sale of shares in PGE EJ1 sp. z o.o. to the State Treasury. Pursuant to the concluded Agreement regulating the liability of the existing Shareholders for the costs of the dispute with Worley Parsons, PGE S.A. may be obliged to cover the costs of the dispute in the maximum amount of PLN 98 million if it loses. The amount of PLN 59 million is disclosed in contingent liabilities, in note 24.1.

22. Financial liabilities

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

Bonds issued by PGE Sweden AB (publ) are based on a fixed interest rate. As at 30 June 2023, their value at amortised cost, as disclosed in these financial statements, amounted to PLN 631 million and their fair value was PLN 569 million.

22.1 Credits, loans, bonds, factoring and leases

	As at 30 June 2023		As at 31 December 2022	
	Long-term	Short-term	Long-term	Short-term
Credits and loans	9,520	2,826	3,808	2,062
Bonds issued	2,013	29	2,046	21
Factoring	-	2,000	-	-
Lease	1,332	98	945	54
TOTAL CREDITS, LOANS, BONDS FACTORING AND LEASES	**12,865**	**4,953**	**6,799**	**2,137**

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Credits and loans

As at 30 June 2023 and 31 December 2022, the PGE Capital Group reports the following loans and credits:

Creditor	Hedging instrument	Date of maturity	Limit in currency	Currency	Interest rate	Liability as at 30 June 2023	Liability as at 31 December 2022
European Investment Bank	-	2041-03-15	2,000	PLN	Fixed	2,040	-
Bank consortium	-	2027-06-04	1,450	PLN	Variable	1,443	-
European Investment Bank	-	2034-08-25	1,500	PLN	Fixed	1,379	1,442
Bank consortium	-	2027-06-04	1,450	PLN	Variable	1,344	-
PKO BP S.A.	-	2023-10-31	1,500	PLN	Variable	1,238	-
European Investment Bank	-	2041-03-15	850	PLN	Variable	870	-
Bank consortium	IRS	2023-09-30	3,630	PLN	Variable	740	1,481
Bank Gospodarstwa Krajowego	IRS	2027-12-31	1,000	PLN	Variable	564	627
European Investment Bank	-	2041-03-15	550	PLN	Fixed	562	-
European Investment Bank	-	2034-08-25	490	PLN	Fixed	452	472
European Bank for Reconstruction and Development	IRS	2028-06-06	500	PLN	Variable	347	378
Bank Gospodarstwa Krajowego	IRS	2028-12-31	500	PLN	Variable	344	376
European Investment Bank	-	2038-10-16	273	PLN	Fixed	274	274
Bank Pekao S.A.	-	2023-10-31	40	USD	Variable	11	40
Bank Pekao S.A.	-	2023-10-31	100	USD	Variable	1	-
Bank consortium	-	2027-03-01	2,330	PLN	Variable	-	-
Bank Gospodarstwa Krajowego	-	2023-12-31	1,600	PLN	Variable	-	-
Bank Gospodarstwa Krajowego	-	2023-12-31	1,600	PLN	Variable	-	-
Bank Gospodarstwa Krajowego	-	2024-06-12	4,300	PLN	Variable	-	-
Bank Pekao S.A.	-	2024-12-22	1,000	PLN	Variable	-	-
PKO BP S.A.	-	2023-12-31	800	PLN	Variable	-	-
ING	-	2024-06-30	57	PLN	Variable	-	-
PKO BP S.A.	-	2024-06-30	35	PLN	Variable	-	-
NEPWMF	-	December 2028 – June 2043	240	PLN	Fixed	94	90
NEPWMF	-	June 2024 – June 203[illegible]	1,057	PLN	Variable	486	515
PEPWMF	-	September 2026	9	PLN	Fixed	5	5
PEPWMF	-	March 2026 – December 2029	213	PLN	Variable	152	170
TOTAL BANK CREDITS AND LOANS						**12,346**	**5,870**

As at 30 June 2023, the value of available overdraft facilities in the major companies of the PGE Capital Group amounted to PLN 6,844 million. The repayment dates of granted overdraft facilities in the current accounts of the major PGE Group companies fall in the years 2023 – 2024.

In the period ended 30 June 2023 and after the reporting date there were no defaults or breaches of other terms and conditions of the credit agreements.

Bonds issued

Issuer	Hedging instrument	Date maturity of programme	Limit in programme currency	Currency	Interest rate	Tranche issue date	Tranche maturity date	Liability as at 30 June 2023	Liability as at 31 December 2022
PGE S.A.	IRS	indefinite	5,000	PLN	Variable	2019-05-21	2029-05-21	1,008	1,009
						2019-05-21	2026-05-21	403	403
PGE Sweden AB (publ)	CCIRS	indefinite	2,000	EUR	Fixed	2014-08-01	2029-08-01	631	655
TOTAL BONDS ISSUED								**2,042**	**2,067**

Factoring

As described in note 1.3.1, on 3 April 2023 PGE S.A. acquired 100% of shares in PGE Energetyka Kolejowa Holding sp. z o.o. As a result of this transaction, the PGE Capital Group presents a new item in these financial statements, i.e. factoring.

The Group is a party to agreements with banks, under which it has available limits totalling PLN 2,016 million (reverse factoring) and PLN 770 million (full factoring). As at 30 June 2023, the balance of settlements under full and reverse factoring amounted to PLN 2,000 million.

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22.2 Trade payables and other financial liabilities

	As at 30 June 2023		As at 31 December 2022	
	Long-term	Short-term	Long-term	Short-term
Trade payables	-	2,257	-	3,104
Compensation	-	2,131	-	357
Purchase of PPE and IA	1	1,405	1	1,078
Settlements related with stock market transactions	-	338	-	1,423
Security deposits received	29	167	31	169
Liabilities on account of LTC	375	90	375	55
Insurance	-	4	-	4
Other	96	305	71	517
TRADE PAYABLES AND OTHER FINANCIAL LIABILITIES	**501**	**6,697**	**478**	**6,707**

The item "Other" includes, among others, liabilities of PGE Dom Maklerski S.A. to customers for cash received from them.

23. Other non-financial liabilities

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

23.1 Other non-current non-financial liabilities

	As at 30 June 2023	As at 31 December 2022
TOTAL OTHER NON-CURRENT LIABILITIES		
Contract liabilities	139	139
Other	-	2
TOTAL OTHER NON-CURRENT LIABILITIES	**139**	**141**

23.2 Other current non-financial liabilities

	As at 30 June 2023	As at 31 December 2022
OTHER CURRENT LIABILITIES		
Liabilities related to output VAT	819	840
Excise tax liabilities	29	12
Contract liabilities	1,215	446
Liabilities related to payments to WRC Fund	608	351
Environmental fees	144	266
Payroll liabilities	272	299
Bonuses for employees	278	297
Accrued annual leave and other employee benefits	504	313
Awards for Management Boards	14	19
Personal income tax	75	95
Social insurance liabilities	289	291
Other	95	76
TOTAL OTHER CURRENT LIABILITIES	**4,342**	**3,305**

The item 'Other' mainly comprises liabilities relating to payments to the Employees' Pension Scheme, deductions from employees' wages and salaries, as well as payments to the State Fund for the Rehabilitation of Disabled Persons.

Contract liabilities

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

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OTHER EXPLANATORY NOTES

24. Contingent liabilities and receivables. Litigation

24.1 Contingent liabilities

	As at 30 June 2023	As at 31 December 2022
Security for return of grants from environmental funds	540	616
Liabilities related to legal actions	104	86
Liabilities related to bank guarantees securing currency exchange transactions	400	601
Perpetual usufruct of land	60	61
Other contingent liabilities	59	31
TOTAL CONTINGENT LIABILITIES	**1,163**	**1,395**

Security for return of grants from environmental funds

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

Liabilities related to legal actions

Liability to Worley Parsons

In connection with the sale of shares in PGE EJ1 sp. z o.o. to the State Treasury in 2021 and in accordance with the concluded Agreement regulating the liability of the existing Shareholders for the costs of the dispute with Worley Parsons, PGE S.A. may be obliged to cover the costs of the dispute in the maximum amount of PLN 98 million if the dispute is lost. Therefore, for the purpose of determining the fair value of the payment received, the probability of losing the dispute was estimated. As a result, an amount of PLN 59 million was recognised in contingent liabilities and an amount of PLN 39 million in long-term provisions.

Bank guarantee liabilities

These liabilities represent sureties issued by the PGE Capital Group companies for bank guarantees provided as a deposit to secure exchange transactions resulting from the membership in the Warsaw Commodity Clearing House.

Perpetual usufruct of land

Contingent liabilities for perpetual usufruct of land are related to the updated annual fees for perpetual usufruct of land. PGE GiEK S.A. Opole Branch filed appeals against received decisions to the Local Government Appeal Boards. The value of the contingent liability was measured as the difference between the discounted sum of the updated fees for perpetual usufruct for the whole period for which the perpetual usufruct was established and the liability for perpetual usufruct of land, which was recognised in the books on the basis of previously paid fees.

Other contingent liabilities

In August 2022, a 'Cost Reimbursement Agreement' was signed between EWB1, EWB2 and EWB3 and the company carrying out the construction of the installation port. The agreement provides the works contractor with reimbursement of the costs incurred in connection with the construction of the installation port in the event that the companies do not continue with the investment project in question. The value of the contingent liability is estimated at EUR 6.5 million and, on a company-by-company basis, the reimbursement payment will be made on a 33.33% basis to each company. Therefore, the potential value of the liability on the part of the PGE Capital Group was estimated at PLN 19 million.

24.2 Other significant issues related to contingent liabilities

Non-contractual use of property

The PGE Capital Group established a provision for legal disputes concerning non-contractual use of real property for distribution purposes. Furthermore, the PGE Capital Group is involved in disputes that are at early stages of proceedings and it cannot be ruled out that the number and value of similar disputes will increase in the future.

Contractual liabilities related to fuel purchases

According to the concluded agreements for the purchase of fuels (mainly coal and gas), the PGE Capital Group is obliged to receive a specified minimum volume of fuels and not to exceed a specified maximum level of gas consumption in particular periods. A failure to receive the minimum volumes of fuels or collection of more than the maximum volumes of fuels specified in the agreements may result in the necessity to pay relevant fees (in the case of one agreement for the purchase of the gaseous fuel, the volumes paid for, but not received, may be received within the next three contractual years).

In the opinion of the PGE Capital Group, the terms and conditions of fuel supplies to its generation facilities as described above do not differ from the terms and conditions of fuel supplies to other generators in the Polish market.

Obligations to maintain fuel stocks

Pursuant to the applicable regulations, a power company generating electricity or heat is obliged to maintain stocks of fuel in quantities sufficient to ensure continuity of supply of electricity or heat to consumers.

In previous reporting periods and also in January and February 2023, there were several breaches of the requirements to maintain minimum coal stocks in PGE GiEK S.A.'s hard coal-fired power generation units (Opole Power Plant, Dolna Odra Power Plant, Rybnik Power Plant). The failure to maintain minimum levels of hard coal stocks and the problems with restoration of these stocks in the power plants were influenced by a number of factors beyond the Group's control.

Pursuant to the provisions of Article 56(1)(2) of the Energy Act, a financial penalty is imposed on anyone who does not comply with the obligation to maintain fuel stocks, (...), or does not replenish them in time, (...). It should be pointed out that the very fact of not complying with a prohibition or obligation provided for in the Energy Act results in the imposition of a penalty by the ERO President. Pursuant to Article 56(3) of the Energy Law, the amount of the penalty may not be less than PLN 10,000 and more than 15% of the penalised entrepreneur's revenue earned in the preceding fiscal year, and if the penalty is connected with activity conducted on the basis of a licence, the amount of the penalty may not be less than PLN 10,000 and may not be higher than 15% of the penalised entrepreneur's revenue from the licensed activity in the previous fiscal year.

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

Taking into account the above circumstances (that were beyond the Capital Group's control) of not maintaining and rebuilding the required minimum coal stocks by the set deadline, as well as the fact that PGE GiEK S.A. had not received any previous penalties on this account, which should constitute a circumstance for adequately moderating the penalty, the Group estimates that the value of a potential penalty should not be significant for the Capital Group. Consequently, no provision was established for this particular purpose.

Funds from an increase in the Company's share capital

On 5 April 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. According to the provisions of the agreement, funds raised from the share issue in the amount of PLN 3.2 billion are used exclusively for investments in the area of renewable energy, decarbonisation and distribution. The manner in which funds from the issue are spent will be subject to detailed reporting and auditing. Disbursement of funds contrary to the provisions of the investment agreement may result in financial penalties or even the necessity to return the funds. The PGE Group uses the funds in accordance with the investment agreement.

24.3 Contingent receivables

As at the reporting date, the Group has contingent receivables of PLN 120 million (PLN 120 million in the comparative period) for the potential refund of an excise tax overpayment. The Group awaits the Supreme Administrative Court's decision on what excise duty rate should be applied to settle the excise duty relief for the redemption of energy origin rights arising from renewable energy sources before 1 January 2019.

In the opinion of the PGE Capital Group, the rate in force at the time of the sales of electricity generated from renewable energy sources to the end user, i.e. PLN 20/MWh, should be applied to settle the said relief. This position was sustained by the verdict of the Provincial Administrative Court in Rzeszów of 8 October 2019.

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

24.4 Other court cases and disputes

Termination of agreements for the sale of energy origin rights by Enea S.A.

Due to the termination by Enea S.A. of long-term agreements for the sale of energy origin rights arising from certificates of origin of energy from renewable sources, the companies of the PGE Capital Group had been in litigation with Enea S.A. since 2016.

On 20 December 2022, an agreement was signed to settle all pending disputes amicably.

According to the agreement, the companies of the PGE Capital Group were to receive approximately PLN 287 million by the end of April 2023. The impact of the concluded agreement increased the PGE Capital Group's pre-tax financial result for 2022 by approximately PLN 163 million.

By the end of April 2023, Enea S.A. had settled all liabilities under the concluded agreement.

Matter of compensation for share conversion

On 12 November 2014, Socrates Investment S.A. (an entity that purchased claims from the former shareholders of PGE Górnictwo i Energetyka S.A.) filed a lawsuit requesting that the court award it compensation in the total amount of over PLN 493 million (plus interest) for damage incurred in respect of the incorrect (in its opinion) determination of the share exchange ratio applied in the merger of PGE Górnictwo i Energetyka S.A. and PGE S.A. The Company submitted a response to the claim. On 15 November 2017, the Company received the plaintiff's statement – an amendment to the claim – increasing the amount claimed in the lawsuit to PLN 636 million. On 20 November 2018, a hearing was held on the subject of the appointment of an expert witness. At present the first instance court proceedings are underway. In its decision dated 19 April 2019, the court appointed expert witnesses responsible for the preparation of an opinion in the matter. A further hearing was held on 8 April 2022 regarding the need and possibility of a supplementary opinion by an additional expert witness. To date, a final expert opinion has not been produced.

Furthermore, a similar claim was submitted by Pozwy Sp. z o.o., which had bought claims from the former shareholders of PGE Elektrownia Opole S.A. Pozwy sp. z o.o. filed a lawsuit with the Regional Court in Warsaw against PGE GiEK S.A., PGE S.A. and PwC Polska sp. z o.o. (hereinafter referred to as the Respondents) requesting that the Respondents be ordered, in solidum, or jointly and severally, to pay for the benefit of Pozwy sp. z o.o. compensation in the total amount of over PLN 260 million with interest for the allegedly incorrect (in its opinion) determination of the exchange ratio of PGE Elektrownia Opole S.A. shares for PGE GiEK S.A. shares in the process of the merger of these companies. This lawsuit was served on PGE S.A. on 9 March 2017 and the deadline for filing a response to the lawsuit was set by the court at 9 July 2017. The companies PGE S.A. and PGE GiEK S.A. submitted a response to the claim on 8 July 2017. On 28 September 2018, the District Court in Warsaw ruled in the first instance and the lawsuit by Pozwy sp. z o.o. against PGE S.A., PGE GiEK S.A. and PWC Polska sp. z o.o. was dismissed. On 8 April 2019, PGE S.A. received a copy of the appeal filed by the claimant on 7 December 2018. PGE S.A. and PGE GiEK S.A.'s response to the appeal was prepared on 23 April 2019. The hearing was held on 21 December 2020. The Court of Appeal issued a verdict in which it overturned the appealed verdict of the District Court in its entirety and returned the case for re-examination to the District Court. On 22 January 2021 PGE S.A. together with PGE GiEK S.A. filed a complaint against the verdict to the Supreme Court, requesting that the verdict of the Court of Appeal be reversed in its entirety and the case be returned to the Court of Appeal for re-examination. At a closed session on 27 April 2021, the Supreme Court overturned the appealed verdict. Thus, the case was returned for re-examination by the Court of Appeal. The case is currently pending before the Court of Appeal in Warsaw, with witnesses being heard at subsequent hearings set by the Court.

The PGE Group companies do not recognise the claims of Socrates Investment S.A. and Pozwy sp. z o.o. According to PGE S.A., these claims are groundless and the entire consolidation process was conducted in a fair and correct manner. The value of shares in the companies subject to consolidation had been determined by an independent company, i.e. PwC Polska sp. z o.o. Furthermore, the consolidation plan, including the ratio of converting shares in the acquired company into shares in the acquiring company was audited with respect to its correctness and reliability by an expert appointed by the court of registration, and no irregularities were identified. The court subsequently registered the merger of the aforementioned companies.

The PGE Group did not establish any provision for the filed lawsuit.

25. Tax settlements

Tax-related obligations and rights are specified in the Constitution, tax acts and ratified international agreements. According to the Tax Code, tax is defined as a public law, gratuitous, compulsory and non-refundable cash benefit for the State Treasury, province, district or commune as provided for in the Tax Act. Taking into consideration the subjective criterion, the taxes in force in Poland can be divided into the following five groups: taxes on income, taxes on turnover, taxes on property, taxes on actions, and other fees not elsewhere classified.

From the point of view of business entities, the most important aspect is taxation of income (corporate income tax), taxation of turnover (goods and services tax, excise tax) and taxation of property (property tax, tax on means of transport). One should not forget about other fees and charges which can be classified as quasi taxes. They include, among others, social insurance contributions.

The basic tax rates are as follows: the corporate income tax rate – 19%, for small entrepreneurs the rate of 9% is possible, the basic VAT rate – 23%, reduced VAT rates: 8%, 5%, 0%; in addition, some goods and services are exempt from VAT.

The tax system in Poland is characterised by a high level of changeability and complexity of tax regulations, and high potential penalties for tax crimes or violations. Tax settlements and other activity areas subject to regulations (customs or currency inspections) can undergo inspections conducted by competent authorities entitled to impose fines and penalties together with penalty interest. Competent tax authorities may inspect tax settlements for five years from the end of the calendar year in which the deadline for the payment of tax expires.

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

The Group uses funds received from counterparties in VAT accounts to pay its liabilities that contain VAT. The amount of funds held in these VAT accounts at a given date depends mainly on the number of the Group's counterparties that decide to use this mechanism and on the relation between the payment dates of receivables and payables. As at 30 June 2023, the balance of cash on the VAT accounts was PLN 1,630 million.

Reporting of tax schemes (MDR)

In 2019, new legal regulations that introduced mandatory reporting of so-called tax schemes (Mandatory Disclosure Rules, MDR) came into force. As a general rule, a tax scheme should be understood as an activity where the achievement of a tax benefit is the main or one of the main benefits. In addition, events with so-called special or other special identifying characteristics defined in the rules are designated as a tax scheme. The reporting obligation is extended to three types of entities: promoters, facilitators and beneficiaries. MDR regulations are complex and imprecise in many areas, which causes doubts with respect to their interpretation and practical application.

Excise tax

As a result of the incorrect implementation of EU regulations into the Polish legal system, in 2009 PGE GiEK S.A. initiated proceedings regarding reimbursement of the improperly paid excise tax for the period from January 2006 to February 2009. The irregularity consisted in the taxation of electricity at the first stage of its sale, i.e. by producers, while it should have been taxed at the time of sales to so-called end users.

Considering the company's complaints concerning the tax authorities' negative decisions in response to the company's claims for restitution, the administrative courts ruled that the company had not borne the economic burden of the incorrectly paid excise tax (which, according to the resolution adopted by the Supreme Administrative Court on June 22, 2011, reference symbol of files I GPS 1/11, excludes the possibility of the recovery of any overpaid excise tax). According to the Supreme Administrative Court, the company's claims, especially those based on economic analyses, were of a compensatory character, and consequently, such claims could be asserted before civil courts only. In view of the above, PGE GiEK S.A. decided to withdraw from the proceedings with respect to the restitution claims. Currently, actions regarding the excise tax overpayment are conducted in civil courts. On 10 January 2020, the Regional Court in Warsaw issued a verdict in the case filed by PGE GiEK against the State Treasury – Minister of Finance. The court dismissed the company's claim. On 3 February 2020 the company filed a complaint against the first instance verdict to the Court of Appeal in Warsaw. A hearing was held on 2 December 2020 and a verdict was announced on 17 December 2020. The Court of Appeal in Warsaw dismissed the appeal of PGE GiEK S.A. On 23 April 2021, PGE GiEK S.A. filed a cassation appeal with the Supreme Court. On 20 May 2021, PGE GiEK S.A. received the response of the General Prosecutor's Office to the cassation appeal filed by the company.

In view of considerable uncertainty concerning the final decision in the above matter, in these financial statements, the Group does not indicate any consequences of a possible return of the excise tax overpayments to be determined in civil law proceedings.

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Property tax

Tax on property constitutes a significant burden on certain PGE Group companies. Regulations concerning property tax are unclear in certain areas and give rise to a variety of interpretations and doubts. Tax authorities, i.e. commune leaders, mayors or city presidents, have often issued inconsistent tax interpretations in similar cases. In such circumstances, the PGE Capital Group companies were and may be parties to court proceedings concerning property tax. If the Group considers that an adjustment of settlements is likely due to such proceedings, it establishes an appropriate provision.

Uncertainty related to tax settlements

Regulations on value added tax, corporate income tax and social security contributions are subject to frequent changes. These frequent changes result in a lack of appropriate points of reference, inconsistent interpretations and few established precedents that could be applied. The legislation in force also contains ambiguities that give rise to differences of opinion as to the legal interpretation of tax provisions, between state authorities as well as between state authorities and business enterprises.

Tax settlements and other areas of activity (e.g. customs or foreign exchange issues) may be the subject of inspections by the authorities, which are entitled to impose high penalties and fines, and any additional tax liabilities resulting from an inspection must be paid together with high interest. Consequently, tax risk in Poland is higher than in countries with more stable tax systems.

Amounts presented and disclosed in financial statements may change in the future as a result of a final decision of a tax audit authority.

The Tax Code includes the provisions of the General Anti-Abuse Rule (GAAR). The GAAR is designed to prevent the use of artificial legal structures created for the purpose of avoiding the payment of tax in Poland. The GAAR defines tax avoidance as an act done primarily for the purpose of obtaining a tax advantage which, under given circumstances, is contrary to the object and purpose of the provisions of the Tax Act. Under the GAAR, such an act does not result in achieving a tax benefit if the manner of acting was artificial. Any occurrence of unjustified splitting of operations, involvement of intermediary entities despite the lack of economic or business justification, elements that cancel or compensate each other and other actions with effects similar to those previously mentioned, can be treated as an indication of the existence of artificial acts subject to the GAARs. The new regulations will require much more judgement in assessing tax consequences of individual transactions.

The GAAR clause should be applied to transactions carried out after its entry into force and to transactions which were carried out before the effective date of the GAAR clause, but for which benefits were or continue to be obtained after this effective date. The implementation of the aforementioned rules will enable the Polish tax audit authorities to challenge legal arrangements and agreements entered into by taxpayers, such as group restructuring and reorganisation.

The Group recognises and measures current and deferred tax assets or liabilities using the requirements of IAS 12 *Income Taxes* based on tax profit (loss), tax base, unused tax losses, unused tax credits and tax rates, taking into account an assessment of uncertainties related to tax settlements. When there is uncertainty about whether and to what extent the authority will accept particular tax settlements of a transaction, the Group recognises these settlements, taking into account an assessment of uncertainty.

26. Information on related entities

Transactions of the PGE Capital Group with related entities are based on market prices of delivered goods, products or services or on their production costs.

26.1 Associates and jointly controlled entities

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

	Period ended 30 June 2023	Period ended 30 June 2022
Sales to associates and jointly controlled entities	14	13
Purchases from associates and jointly controlled entities	4	646

	As at 30 June 2023	As at 31 December 2022
Trade receivables from associates and jointly controlled entities	2	6
Trade payables to associates and jointly controlled entities	1	17

The turnover and settlement balances in the current reporting period result from transactions with PEC in Bogatynia S.A. and Polimex-Mostostal S.A.

26.2 Companies controlled by the State Treasury

The State Treasury is the dominant shareholder in PGE and as a result, in accordance with IAS 24 *Related Party Disclosures*, State Treasury companies are regarded as related entities. The PGE Group companies identify in detail transactions with approximately 40 most important companies controlled by the State Treasury.

The total value of transactions and balances with the above entities is shown in the table below.

	Period ended 30 June 2023	Period ended 30 June 2022
Sales to related entities	7,045	2,975
Purchases from related entities	8,006	4,513

	As at 30 June 2023	As at 31 December 2022
Trade receivables from related parties	931	1,260
Trade payables to related parties	1,071	1,089

The largest transactions involving companies controlled by the State Treasury concerned the following entities: Polskie Sieci Elektroenergetyczne S.A., Polska Grupa Górniczą S.A., Enea Wytwarzanie S.A., PKN Orlen S.A., PKO Bank Polski S.A., Jastrzębska Spółka Węglowa S.A., Węglokoks Kraj Sp. z o.o., Grupa Azoty Zakłady Azotowe PUŁAWY S.A., PKP Cargo S.A.

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

The data presented above do not include significant transactions with Zarządca Rozliczeń S.A., which include contributions to the Price Difference Payment Fund and compensation settled and paid to eligible entities for the introduction of the maximum price, as defined by the Act of 27 October 2022 on emergency measures to limit the level of electricity prices and support for certain consumers in 2023. The information in question is described in note 27.4.

26.3 Management remuneration

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

PLN '000	Period ended 30 June 2023	Period ended 30 June 2022
Short-term employee benefits (remuneration and surcharges)	20,604	20,020
Post-employment benefits	8	225
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**20,612**	**20,245**
Remuneration of key management personnel in companies conducting non-core activities	13,564	10,585
TOTAL MANAGEMENT PERSONNEL REMUNERATION	**34,176**	**30,830**

PLN '000	Period ended 30 June 2023	Period ended 30 June 2022
Management Board of the parent company	3,569	4,977
including post-employment benefits	*62*	-
Supervisory Board of the parent company	356	419
Management Boards – subsidiaries	14,726	12,948
Supervisory Boards – subsidiaries	1,961	1,901
TOTAL	**20,612**	**20,245**
Remuneration of key management personnel in companies conducting non-core activities	13,564	10,585
TOTAL MANAGEMENT PERSONNEL REMUNERATION	**34,176**	**30,830**

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

27. Significant events during and after the reporting period

27.1 Impact of the war on the territory of Ukraine on the activity of the PGE Group

In connection with the situation in Ukraine, the Crisis Team has been established at the central level of the PGE Group to continuously monitor threats and identify potential risks. As part of the Team's work, monitoring is carried out which covers the security of electricity and heat generation and supply, as well as the protection of the critical and IT infrastructure. The Team is also responsible for taking actions to minimise the risk of an emergency situation, preparing the companies belonging to the Group for an emergency situation and planning, organising and coordinating works to ensure the continuity of operation of the Company and the PGE Group.

In the current geopolitical situation, also the importance of cyber security has increased significantly. The PGE Group has implemented special procedures for monitoring ICT networks due to the increased activity of criminal groups aiming to attack ICT (Information and Communication Technologies) and OT (Operational Technology) systems. The following incidents are regularly identified: phishing, attempts to install malware and DDoS (Distributed Denial of Service) attacks.

The physical protection of the Group's facilities has also been strengthened.

Key areas within the PGE Capital Group affected by the war in Ukraine

- the level of margin generated,
- fuel availability and prices,
- the prices of CO2 emission allowances,
- disruption to the supply chain of components or a significant increase in their prices,
- an increase in inflation and interest rates and a weakening of the national currency,
- capital raising opportunities,
- improving energy efficiency,
- increased pressure on the energy transition through the development of RES,
- hard coal imports,
- cyber security and physical security,
- geopolitics,
- new legal regulations
- business partners (sanction lists).

Key risks of the PGE Capital Group's operations related to the war in Ukraine

- reduced availability of hard coal on the Polish market due to the embargo on supplies of this raw material from Russia,
- volatility of coal and gas prices on international markets.

Risks associated with gas supply

- The Gorzów CHP plant and the Zielona Góra CHP plant are supplied with field gas (so-called Ln gas). Due to the use of a dedicated transmission infrastructure between the mine and the CHP plant, the indicated generation assets are neutral to disruptions in supply to the National Gas Transmission System.
- The Toruń, Zawidawie, Czechnica, Lublin Wrotków, Rzeszów, Zgierz, Bydgoszcz and Kielce CHP plants are supplied with high-methane gas (so-called E gas). E gas taken from the National Transmission System is secured in the form of adequate storage volumes and is at a relatively high level in Poland.

The PGE Group has no influence on the directions of supply and management of the transmission of the gaseous fuel, therefore the risk of possible disruptions lies with PKN Orlen (formerly PGNiG) and the Transmission System Operator Gaz-System S.A. The PGE Group has established communication channels with PKN Orlen and Gaz-System in commercial and operational management in cooperation with particular PGE Group sites. In accordance with national gas supply constraint management programmes, security of supply for electricity and heat generation is privileged over other corporate customers.

Impact of fuel availability constraints on electricity and heat generation

- In the case of the gaseous fuel, due to the inability to hold stocks of this fuel, the reduction in availability translates into an immediate interruption in the generation of electricity and heat. However, if there are reserve coal-fired water boilers at a CHP plant, heat generation is possible until stocks are exhausted (this applies to the Lublin Wrotków and Rzeszów CPH plants). In the case of the Gorzów CHP plant, the stand-by generation capacity is provided by the OP-140 coal-fired steam boiler. At the Zielona Góra CPH plant, the stand-by heat generation capacity is provided by oil-fired boilers.
- The main suppliers of hard coal for electricity and heat generation are Polish mining companies and coal importing companies. At present, CHP plants and CMGUs (Central Management Generating Units) have reserves of hard coal that allow for uninterrupted generation of electricity and heat. The supply of electricity to PGE Dystrybucja S.A. and PGE Obrót S.A. is guaranteed in the form of commercial security. Physical supplies of energy are determined by the current balancing and functioning situation of the National Power System. Disturbances in the generation of electricity will affect energy supplies depending on a location in the National Power System. At present, the PGE Group has not identified any threats to electricity or heat supply to residents, institutions and enterprises.

Risk of the impact of the war on future financial results

The risks described above may have a significant impact on the PGE Capital Group's individual areas of operations and future financial performance. In particular, the recoverable amount of selected asset items, the level of expected credit losses and the valuation of financial instruments may change.

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

27.2 Implementation of decisions related to the purchase and sale of coal by PGE Paliwa sp. z o.o.

In mid-2022, PGE Paliwa sp. z o.o. received decisions from the Prime Minister instructing the company to purchase at least 3 million tonnes of thermal coal with parameters close to the quality parameters used by households and to import it into the country by the end of April 2023.

PGE Paliwa sp. z o.o. was indicated in the Regulation of the Minister of State Assets of 2 November 2022 on the list of entities authorised to conduct sales of the solid fuel to municipalities, as one of the six entities authorised to conduct sales of the solid fuel to municipalities, with a view to conducting sales under preferential purchase conditions. According to the provisions of the Act on preferential purchase of the solid fuel for households, the gross sale price of the solid fuel could not be higher than PLN 1,500. At the same time, the entity responsible for such sale was entitled to compensation in the amount of the product of the quantity of the solid fuel and the difference between the justified average unit cost of the solid fuel in that period and the average net selling price of the solid fuel in that period, plus value added tax.

The implementation of the decision resulted in a temporary increase in the PGE Capital Group's cash requirements and a periodic increase in debt in connection with the settlement of coal purchase and resale transactions. As at the date of these consolidated financial statements, no agreement has been concluded with the Ministry of Climate and Environment for financing the implementation of the Prime Minister's decision. In connection with a significant decrease in market prices of coal in the first half of 2023 and taking into account the prudence principle, a write-down of the value of coal inventories purchased by the Group and not sold by 30 June 2023 was recognised in the financial results of the PGE Capital Group to the estimated coal prices obtainable on the market. As at 30 June 2023, the amount of the inventory write-down amounted to PLN 634 million, including amount of PLN 563 million in the current period's results due. The Group expects the signing of an agreement and reimbursement of the costs related to the implementation of the decision, which will result in the recognition of revenues in future financial statements.

The Group recognised PLN 115 million in the current period results as revenue from compensation for coal deliveries made from January to April 2023. On the other hand, PLN 131 million was recognised in the 2022 results for deliveries made in 2022. Applications for compensation payments for the respective periods were submitted in accordance with the deadlines set out in the Act on preferential purchase of solid fuel for households of 27 October 2022. By the date of these financial statements, PGE Paliwa received all requested compensation. PGE Paliwa sp. z o.o. carried out sales based on the aforementioned Act until 30 April 2023.

27.3 Project of establishment of the National Energy Security Agency

On 1 March 2022, the Council of Ministers adopted a resolution on the approval of the document entitled "The Transformation of the electricity sector in Poland. The separation of coal-fired generation assets from the companies with State Treasury shareholding". According to the document, the process of separation of assets will have 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 with generation of electricity in power plants fired with hard coal and lignite, including maintenance companies providing services to them. Due to the inseparability of power complexes fired with lignite, lignite mines will also be among the aforementioned assets. Hard coal mining assets will not be transferred to the entity generating electricity in coal-fired power generation units. District heating assets, due to their planned upgrades towards low- and zero-carbon sources, will not be subject to this transaction. It is planned that the separation of assets from the energy groups will take place through the acquisition of shares of individual companies directly by the State Treasury, and then their consolidation within the NABE through the contribution of shares of individual companies to the capital increase of PGE GiEK S.A.

The NABE will operate in the form of a holding in which PGE GiEK S.A. will be the parent company, and companies acquired from ENEA S.A., TAURON Polska Energia S.A. and ENERGA S.A. will be subsidiaries included in its capital group.

The 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 contracts concluded with external entities, including the companies from which the assets are to be separated – all the internal and external functions, i.e. HR, IT, purchasing, trading, that are necessary for its smooth operation.

According to the document, following the separation of coal-fired generation assets, the energy companies will focus on developing their activities on the basis of their assets in the area of distribution, heating, trade and generation of energy in low- and zero-emission sources.

The role of the NABE will be to ensure the necessary balance in the power system. The NABE will focus on maintenance and modernisation investments necessary to keep up the efficiency of the coal units in operation including those aimed at reducing the carbon intensity of the units in operation.

On 23 July 2021, PGE S.A, ENEA S.A., TAURON Polska Energia S.A. and ENERGA S.A. entered into an agreement with the State Treasury concerning cooperation in the process of separation of coal assets and their integration into the NABE.

Transaction conditions

On 14 July 2023, PGE S.A. received, from the State Treasury, represented by the Minister of State Assets, a proposal for a non-binding document summarising the terms of the transaction for the acquisition by the State Treasury of all shares in PGE GiEK S.A. On 10 August 2023, PGE S.A. and the Minister of State Assets signed a document summarising the key terms of a transaction for the acquisition by the State Treasury of shares in PGE GiEK S.A. for the purpose of establishing the National Energy Security Agency ("Term Sheet").

In particular, the Term Sheet contains the key economic and legal conditions for carrying out the transaction, including the key provisions of a preliminary sale agreement and a promised sale agreement, as well as the proposed mechanism for settling the intra-group debt of PGE GiEK S.A. to the Company. According to the document, the amount of the sale price for the shares of PGE GiEK S.A. (Equity Value) is PLN 849 million based on the Enterprise Value determined as at 30 September 2022 (settlement according to the locked-box mechanism) adjusted for the value of the net debt.

The Term Sheet stipulates that PGE GiEK S.A.'s debt to PGE S.A. in the amount of PLN 5.4 billion will be repaid over a period of 8 years from the date of the transaction, and the repayment of 70% of the debt will be guaranteed by the State Treasury. The remaining debt, if any, existing at the date of the acquisition by the State Treasury of shares in PGE GiEK S.A. (if any) will be repaid by the NABE from the credit granted to the NABE by banks as part of the transaction, immediately after the closing of the transaction.

Other intra-group settlements, with particular regard to the settlements of CO_2 emission allowances, are carried out on an ongoing basis and will not affect the Sale Price.

The provisions of the Term Sheet are only binding for: the prohibition of employment and advertising, confidentiality and the validity period, costs of the Transaction, as well as the applicable law and dispute resolution proceedings.

With respect to other issues, the Term Sheet is non-binding.

The implementation of the transaction for the sale of PGE GiEK S.A. to the State Treasury is subject to the fulfilment of a number of conditions precedent. The most important of them are as follows:

- reaching an agreement on the content of the documentation related to the transaction, including the future financing of the NABE and obtaining preliminary bank credit decisions for the financing of the NABE,

- obtaining the Prime Minister's positive opinion on the application for the acquisition of shares by the Treasury from the Reprivatisation Fund,
- obtaining all internal approvals and permits required to enter into or perform the transaction,
- entering into agreements (or relevant annexes) ensuring the operation of the companies forming the NABE after the closing of the Transaction.

Recognition of assets related to PGE GiEK S.A. in the financial statements

In the opinion of the PGE Capital Group, as at the reporting date, the conditions of IFRS 5 concerning operations held for sale regarding assets and liabilities as well as revenue and expenses for the described coal-fired units are not met. In particular, as at the reporting date:

- the terms of the planned transaction were not known;
- the assets of PGE GiEK S.A. are not available for immediate sale in their present condition, taking into account only normal and customary conditions for the sale of such assets.

Consequently, as at 30 June 2023, assets related to PGE GiEK S.A. are not reclassified to discontinued operations. PGE S.A. also did not make adjustments bringing the value of assets related to PGE GiEK S.A. to the values required by IFRS 5. The values of assets, liabilities, revenue, costs and results of the Conventional Power Generation segment, showing the data for PGE GiEK S.A. and its subsidiaries, are presented in note 6.1 to these financial statements.

The book value of PGE GiEK S.A. shares in the separate financial statements is PLN 11,723 million as at 30 June 2023. In turn, the book value of consolidated net assets of PGE GiEK S.A. and its subsidiaries as at 30 June 2023 is PLN 10,692 million. If the conditions under IFRS 5 are met in the future, the difference between the indicated values and the future transaction price will be recognised in the financial statements of future periods, adjusting the financial result accordingly. Assuming the value of the transaction indicated in the Term Sheet and the values of the assets as at 30 June 2023, PGE S.A.'s separate gross profit would be reduced by PLN 10,874 million and the PGE Capital Group's consolidated gross profit would be reduced by PLN 9,843 million.

As at the date of the approval for publication of these financial statements, neither the Management Board nor the Supervisory Board of the Company has made a decision to sell shares of PGE GiEK S.A.

In order to conclude financing agreements and establish NABE, it is necessary for the Parliament to adopt an act on the principles of granting guarantees by the State Treasury for the obligations of the NABE. On 7 September 2023, the act was rejected by the Senate in its entirety and submitted to the Sejm on 8 September 2023.

As of the date of publication of these financial statements, the law has not been adopted and the next session of the Parliament has not been scheduled before the parliamentary elections on 15 October 2023. Therefore, in the Company's opinion, it is more than less likely that sale transaction of the PGE GiEK S.A. will not be completed within the timeframe and on the terms and conditions included in the Term Sheet.

Benefits of coal asset sales

The discontinuation of conventional power generation's operations based on coal combustion results from the strategy of the PGE Capital Group, published on 19 October 2020, which assumes climate neutrality by 2050. The spin-off coal assets will bring measurable benefits for the Group, among others, in the following areas:

- greater and more favorable access to sources of debt and equity financing, lower financing costs;
- greater and more favorable access to the insurance market;
- lower cash requirements for hedging CO_2 emission costs and stocks of production raw materials;
- release of credit limits in financing institutions as a result of reducing the demand for EUA allowances;
- increasing the possibility of using financial resources for investments in distribution networks and green technologies, with a higher rate of return
- reducing the risk of exposure to the price of CO_2 emission allowances.

All the above actions, in the opinion of the Management Board, will increase the attractiveness of the Company for shareholders.

27.4 Regulatory changes

Due to the crisis situation in the electricity market, the legislator has decided to introduce regulations that temporarily introduce exceptional solutions for electricity prices and electricity tariffs in 2023. On 18 October 2022, the Act on special solutions to protect electricity consumers in 2023 in connection with the situation on the electricity market of 7 October 2022 (hereinafter the "Households Act") entered into force and on 4 November 2022, the Act on emergency measures to reduce electricity prices and support certain consumers in 2023 of 27 October 2022 (hereinafter the "Extraordinary Measures Act 2023") entered into force. On 4 September 2023, the Law of 16 August 2023, amending the law on special solutions for the protection of electricity consumers in 2023 due to the situation in the electricity market and certain other Laws was published and entered into force on 19 September 2023. Also pending, at the parliamentary stage, is the Law of 17 August 2023 on the principles of guaranteeing the National Energy Security Agency's obligations by the Treasury, which in Article 27 amends the provisions of the Households Act. On September 7, 2023, the Senate passed a resolution rejecting the Law and it was sent to the Sejm.

According to the Households Act, in 2023, a power company carrying out the business of electricity trading is obliged to apply, with respect to household customers, prices equal to those contained in the tariff in force on 1 January 2022 for individual tariff groups up to specified consumption limits. Once the Law from 16 August, amending the Households Act takes effect, the consumption limits for each category of customers will be increased by an additional 1 MWh. Once the consumption limits dedicated to household customers have been exceeded, a maximum price of PLN 693/MWh (exclusive of VAT and excise duty) will be used for settlements with household customers in accordance with the Extraordinary Measures Act in 2023. This means that electricity prices have been established in legal regulations and, therefore, in 2023, tariffs approved by the President of the ERO will not directly affect electricity prices for households.

In addition, under the Extraordinary Measures Act, in 2023, the maximum electricity price for other eligible customers has been set at PLN 785/MWh (exclusive of VAT and excise duty). After the entry into force of the Act of 16 August 2023 amending the Act for Households and certain other acts, the maximum price will be PL 693/MWh, similarly to that for households. This price, in principle, applies from 1 December 2022 and will remain in force until 31 December 2023, however, in the changed amount, it will apply from 1 October 2023 to 31 December 2023. The indicated limit of the maximum price for eligible customers also applies to electricity sales agreements that were concluded or amended after 23 February 2022 and where the maximum price also applied to settlements for the period from the date of conclusion or amendment of such agreements until 30 November 2022. Power companies have been obliged to successively reimburse the amounts resulting from the application of the maximum prices until the end of 2023.

Power companies engaged in the business of electricity trading, in accordance with the implemented regulations, are entitled to compensation for the application of electricity prices in settlements with household customers in the same amount as at 1 January 2022. Such compensation is the product of electricity consumed at the electricity connection point, up to the maximum consumption limits entitling consumers to pay the 2022 prices, and the difference between the electricity price resulting from the electricity tariff approved by the President of URE for 2023 and the electricity prices approved in the 2022 tariff. In turn, for the application of the maximum price of PLN 693/MWh in settlements with household customers, trading companies are entitled to compensation in the amount of the product of the amount of electricity consumed in a given month and the difference between the reference price and the maximum price, for each electricity connection point. The reference price is the price of electricity resulting from the electricity tariff approved by the President of URE for 2023. Compensation is also due for the use of maximum prices in settlements with other eligible entities. In this case, as a rule, the reference price for the payment of compensation is calculated on the basis of the prices of electricity in power exchange contracts and the prices of electricity purchased for sale to eligible customers, plus the cost of redemption of certificates of origin and a margin.

The mechanisms introduced in the Household Act and the Extraordinary Measures Act in 2023 should, in principle, compensate trading companies for the price reduction.

Since 1 December 2022, the financial position of the PGE Group has also been affected by the provisions of the Extraordinary Measures Act 2023, which introduced the obligation for electricity generators and electricity trading companies to make monthly contributions to the account of the Price Difference Payment Fund (the "Fund"). The contribution to the Fund is the product of the volume of electricity sold and the positive difference of the volume-weighted average market price of electricity sold and the volume-weighted average price limit of electricity sold, as set out in the Regulation of the Council of Ministers of 8 November 2022 on the method of calculating the price limit.

A different method of calculating the price limit has been defined for individual generation sources:

- in the case of lignite-fired power generation units, the price limit takes into account, among other things, the unit cost of fuel consumed, the cost of CO_2 emission allowances, the efficiency of power generation units, the margin and a certain level of investment and fixed cost allowance of PLN 50/MWh,
- for units producing energy from renewable sources, the price limit is determined by reference to the reference price indicated in Article 77(3)(1) of the Renewable Energy Sources Act, whereby for hydroelectric power plants the price limit will be 40% of this reference price.

For electricity trading companies, on the other hand:

- for energy sold to end-users, the price limit is the product of the volume-weighted average price of electricity purchased on a given day and a margin defined as 1.035 or 1.03 (plus the unit cost of redemption of certificates of origin),
- for energy sold to customers other than final consumers, the price limit is the product of the volume-weighted average price of energy purchased on a given day and the margin defined as 1.015 or 1.01.

From 1 January 2023 onwards, trading companies calculate the amount of the contribution to the Fund for a given calendar month to which the settlement relates, taking into account the volume of electricity sales, the market price and the price limit for the 3 decades of that month, i.e. from the 1st to the 10th, from the 11th to the 20th and from the 21st to the last day of a month. Until 31 December 2022, the contribution to the Fund was calculated separately for each day of the month. The above regulations had the following impact on the values reported in these financial statements for the PGE Group companies:

- the contribution due to the Price Difference Payment Fund for the first half of 2023 amounted to PLN 3,646 million (a decrease in the financial result),
- revenue from compensation for the first half of 2023 amounted to PLN 3,760 million.

The above values concerning due compensation are estimates determined in accordance with the best knowledge available to the PGE Capital Group as at the date of the preparation of these financial statements.

On 1 September 2023, an amendment to the Extraordinary Measures 2023 Act came into force. It will regulate the rules for paying contributions to the Fund introduced by the Act amending the Energy Law and certain other Acts of 28 July 2023.

The amendment concerns, among other things, the extension of the catalogue of revenue items that constitute the basis for calculating the contribution to the Fund. As a result, the amount of contributions transferred by the PGE Capital Group will increase.

In addition, according to the introduced regulations, the system of contributions to the Fund will not be closed before 31 December 2023. Contributions to the Fund will also have to be transferred in 2024 for sales made in the last weeks of 2023.

Decree of the Minister of Climate and Environment of 9 September 2023

On 11 September 2023, the Decree of the Minister of Climate and Environment dated 9 September 2023, amending the Decree on the method of shaping and calculating tariffs and the method of settlements in electricity trading, was published and came into force on 18 September 2023. The regulation reduces electricity bills for household consumers by an average of more than PLN 120 in 2023, provided that one of the enumerated conditions is met.

As of the date of publication of this report, the impact of the above regulation on the PGE Group's results is difficult to estimate precisely, as it will depend on the number of customers meeting the terms of the regulation.

27.5 Closing the transaction for the acquisition of 100% of shares in PKP Energetyka Holding

On 3 April 2023, the transaction of PGE's direct acquisition of 100% of shares in PKP Energetyka Holding sp. z o.o., and consequently the indirect acquisition of 100% of shares in PKP Energetyka S.A. and shares in other subsidiaries of PKP Energetyka Holding sp. z o.o. by PGE S.A. was completed. PKP Energetyka Holding sp. z o.o. is a holding company controlling a number of entities whose activities are focused around PKP Energetyka S.A. The group of PKP Energetyka is a distributor and seller of energy to overhead contact line networks and additionally provides maintenance services for such networks.

The price payable at the closing for 100% of shares was determined based on the value of the enterprise as at 31 March 2022, as an amount of PLN 1,913 million, and settled based on the locked-box mechanism provided for in the preliminary share purchase agreement of 28 December 2022, and subsequently adjusted, in accordance with the locked-box mechanism.

The final price paid by PGE S.A. to the seller on 3 April 2023 amounted to PLN 1,873 million.

27.6 Concluding an agreement and establishing a special purpose vehicle for the nuclear power plant project

On 7 March 2023, PGE S.A. entered into a preliminary agreement with ZE PAK S.A. regarding the establishment of a joint special purpose vehicle. In order to undertake direct cooperation on the nuclear power plant construction project, on 13 April 2023, PGE S.A. and ZE PAK S.A. jointly established a special purpose vehicle PGE PAK Energia Jądrowa S.A. with its registered office in Konin, which will acquire or take up shares in a company responsible for the implementation of the nuclear power plant construction project with the potential participation of a technology partner.

The agreement contains a summary of the basic terms and conditions of the Parties' cooperation in respect of the joint venture to participate in the implementation of the nuclear power plant construction project, including the definition of the principles of corporate governance and operations of the SPV and restrictions on the disposal of shares in the SPV. PGE S.A. and ZE PAK S.A. will hold an equal number of shares in the SPV and corporate rules will be based on the principle of joint control.

At the same time, it is planned that the SPV, as part of the next stage of cooperation, will carry out:

- a feasibility study,
- location and environmental studies.

On 16 August 2023, PGE PAK Energia Jądrowa S.A. filed an application with the Ministry of the Economy for the issuance of a fundamental decision for the construction of a nuclear power plant in the Konin region. Obtaining a fundamental decision is necessary to obtain further decisions in the investment process, such as a decision on environmental conditions, a building permit, a construction permit.

The application includes key elements of the proposed power plant: location, planned total installed capacity – two reactors with a total capacity of 2.800 MW, technology, a planned ownership structure and a description of the planned financing of the investment project.

for the period of 6 months ended 30 June 2023 in accordance with EU-IFRS (in PLN million)

II. CONDENSED HALF-YEARLY SEPARATE FINANCIAL STATEMENTS OF PGE POLSKA GRUPA ENERGETYCZNA S.A. FOR THE PERIOD OF 6 MONTHS ENDED 30 JUNE 2023 IN ACCORDANCE WITH EU-IFRS

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended 30 June 2023 *(unaudited)*	Period ended 30 June 2022 *(unaudited)*
STATEMENT OF PROFIT OR LOSS			
SALES REVENUE	*6*	**35,548**	**18,855**
Cost of goods sold	*7*	(34,341)	(18,034)
GROSS PROFIT ON SALES		**1,207**	**821**
Distribution and selling expenses	*7*	(6)	(6)
General and administrative expenses	*7*	(175)	(132)
Other operating income/(expenses)		9	(65)
OPERATING PROFIT		**1,035**	**618**
Finance income/(costs), including:	*8*	1,218	1,807
*Interest income calculated using the effective interest rate method**		*959*	*405*
GROSS PROFIT		**2,253**	**2,425**
Income tax expense		(303)	(147)
NET PROFIT FOR REPORTING PERIOD		**1,950**	**2,278**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss in the future:			
Valuations of hedging instruments		(211)	381
Deferred tax		40	(72)
Items that may not be reclassified to profit or loss in the future:			
Actuarial gains and losses from valuation of provisions for employee benefits		(3)	2
Deferred tax		1	-
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**(173)**	**311**
TOTAL COMPREHENSIVE INCOME		**1,777**	**2,589**
NET PROFIT AND DILUTED NET PROFIT PER SHARE (IN PLN)		**0.87**	**1.13**

** In the comparative period, the net amount is presented, i.e. revenue less expenses. In the current period, in order to standardise the data presented, the figure shown relates to interest income.*

for the period of 6 months ended 30 June 2023 in accordance with EU-IFRS (in PLN million)

SEPARATE STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2023 *(unaudited)*	As at 31 December 2022 *(audited)*
NON-CURRENT ASSETS			
Property, plant and equipment		136	139
Right to use assets		22	24
Financial receivables	*10.1*	3,640	5,468
Derivatives and other assets measured at fair value through profit or loss	*11*	349	608
Shares and interests in subsidiaries	*9*	33,036	29,441
Shares and interests in associates and jointly controlled and other entities		81	96
Other non-current assets		3	104
		37,267	**35,880**
CURRENT ASSETS			
Inventories		1	1
Trade and other receivables	*10.1*	21,708	17,528
Derivative instruments	*11*	2,360	1,669
Shares and interests in subsidiaries	*9*	-	4
Other current assets	*12*	863	102
Cash and cash equivalents	*10.2*	6,942	10,593
		31,874	**29,897**
TOTAL ASSETS		**69,141**	**65,777**
EQUITY			
Share capital		19,184	19,184
Supplementary capital		28,146	25,049
Hedging reserve		231	402
Retained earnings		1,952	3,101
		49,513	**47,736**
NON-CURRENT LIABILITIES			
Non-current provisions		28	12
Credits, loans, bonds and leases	*13*	8,391	5,233
Deferred income tax liability		93	143
Other liabilities		6	9
		8,518	**5,397**
CURRENT LIABILITIES			
Current provisions		42	40
Credits, loans, bonds, cash pooling and leases	*13*	6,705	7,549
Derivative instruments	*11*	2,020	1,268
Trade payables and other financial liabilities		1,533	3,156
Income tax liabilities		62	40
Other non-financial liabilities		748	591
		11,110	**12,644**
TOTAL LIABILITIES		**19,628**	**18,041**
TOTAL EQUITY AND LIABILITIES		**69,141**	**65,777**

for the period of 6 months ended 30 June 2023 in accordance with EU-IFRS (in PLN million)

SEPARATE STATEMENT OF CHANGES IN EQUITY

	Share capital	Supplementary capital	Hedging reserve	Retained earnings	Total equity
AS AT 1 JANUARY 2023	**19,184**	**25,049**	**402**	**3,101**	**47,736**
Net profit for the reporting period	-	-	-	1,950	**1,950**
Other comprehensive income	-	-	(171)	(2)	**(173)**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**(171)**	**1,948**	**1,777**
Retained earnings distribution	**-**	**3,097**	**-**	**(3,097)**	**-**
AS AT 30 JUNE 2023	**19,184**	**28,146**	**231**	**1,952**	**49,513**

	Share capital	Supplementary capital	Hedging reserve	Retained earnings	Total equity
AS AT 1 JANUARY 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**
Retained earnings distribution	-	1,734	-	(1,734)	-
Decrease in par value of shares	(3,178)	3,178	-	-	-
Increase in equity	3,197	(17)	-	-	3,180
AS AT 30 JUNE 2022	**19,184**	**25,049**	**554**	**2,284**	**47,071**

for the period of 6 months ended 30 June 2023 in accordance with EU-IFRS (in PLN million)

SEPARATE STATEMENT OF CASH FLOWS

	Period ended 30 June 2023 *(unaudited)*	Period ended 30 June 2022 *(unaudited)*
CASH FLOWS FROM OPERATING ACTIVITIES		
Gross profit	**2,253**	**2,425**
Income tax paid	(292)	(28)
Adjustments for:		
Depreciation and write-downs	7	6
Interest and dividend, net	(991)	(1,793)
(Profit) / loss on investing activities	60	(260)
Change in receivables	(8,653)	5,176
Change in liabilities, excluding loans and credits	(1,466)	(6,784)
Change in other non-financial assets	(56)	229
Change in provisions	15	-
Foreign exchange differences*	-	-
NET CASH FROM OPERATING ACTIVITIES	**(9,123)**	**(1,029)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets	(3)	(4)
Redemption of bonds issued by PGE Group companies	3,400	3,300
Disposal of other financial assets	6	94
Acquisition of shares and interests in subsidiaries	(2,036)	(17)
Granting/(repayment) of loans under cash pooling service	(2,941)	782
Loans granted	(8,331)	(10,471)
Interest received	706	287
Repayment of loans granted	11,212	8,504
NET CASH FROM INVESTING ACTIVITIES	**2,013**	**2,475**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from share issue	-	3,197
Proceeds from acquired loans, credits	4,741	2,200
Repayment of credits, loans and leases	(934)	(3,051)
Interest paid	(348)	(188)
Other	**-**	(17)
NET CASH FROM FINANCING ACTIVITIES	**3,459**	**2,141**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(3,651)**	**3,587**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**10,593**	**5,316**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**6,942**	**8,903**

** In order to provide greater consistency in the presented financial data, accrued exchange differences are presented in operating activities.*

1. General information

PGE Polska Grupa Energetyczna S.A. was established on the basis of the Notary Deed of 2 August 1990 and registered in the District Court in Warsaw, the 16th Commercial Division, on 28 September 1990. The Company is entered in the National Court Register maintained by the District Court Lublin-Wschód in Lublin with its registered office in Świdnik, the 6th Commercial Division of the National Court Register under number 0000059307. The Company's registered office is located in Lublin, at Aleja Kraśnicka 27.

PGE S.A. is the parent company of the PGE Capital Group and prepares its separate and consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union.

The State Treasury is the Company's principal shareholder.

The Company's major object is conducting business activities in the following areas:

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

PGE S.A.'s business activities are conducted under appropriate concessions, including a concession for electricity trading granted by the Energy Regulatory Office. The concession is valid until 2025. No material assets or liabilities are attributed to the concession. In connection with the concession, annual fees depending on the level of turnover are incurred.

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. Accordingly, the Company does not separate operating or geographical segments in its activities.

During the reporting period, PGE S.A.'s account books were maintained by its subsidiary PGE Synergia sp. z o.o.

Statement of compliance

These separate financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting and in accordance with the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities and the conditions for recognising as equivalent information required by the laws of a non-member state (Journal of Laws of 2018, items 512 and 685).

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

Going concern

These condensed half-yearly financial statements have been prepared on the assumption that the Company will continue as a going concern for a period of at least 12 months from the reporting date. As at the date of the approval of these financial statements for publication, no circumstances were identified that would indicate any threat to the Company's continuing as a going concern.

These financial statements cover the period from 1 January 2023 to 30 June 2023 (the "separate financial statements") and include comparative data for the period from 1 January 2022 to 30 June 2022, and as at 31 December 2022.

These financial statements follow the same accounting policies and methods of calculation as in the latest yearly financial statements and should be read in conjunction with the audited separate financial statements of PGE S.A. prepared in accordance with EU-IFRS for the year ended 31 December 2022.

Seasonality of activities

The main factors influencing demand for electricity and heat include atmospheric factors such as air temperature, wind power, precipitation, socio-economic factors such as the number of energy consumers, prices of energy carriers, economic development and GDP, as well as technological factors such as technological progress and product manufacturing technologies. Each of these factors influences the technical and economic conditions for generation and distribution of energy carriers, and thus affects the results achieved by the Company.

The level of electricity sales throughout the year is variable and depends primarily on the atmospheric factors such as air temperature and the length of day. Increased demand for electricity is particularly visible during the winter period, while lower demand is observed in the summer. Moreover, seasonal changes are visible among selected groups of end users. Seasonality effects are more significant for households than the industrial sector.

for the period of 6 months ended 30 June 2023 in accordance with EU-IFRS (in PLN million)

The seasonality of PGE S.A.'s sales results from the fact that the Company realised 86% of the volume of electricity sales to PGE Obrót S.A. and PGE Dystrybucja S.A., whose demand for electricity is subject to seasonality.

2. The Management Board's professional judgement and estimates

During the period ended 30 June 2023, there were no significant changes in estimates affecting the values reported in the financial statements. As described in note 3 to the consolidated financial statements, in the current period, impairment tests were carried out with respect to held shares and interests. As a result of the tests, no grounds for recognising or reversing any write-downs were identified.

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

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

4. Changes in accounting principles and data presentation

The Company did not make any changes to its accounting policies or data presentation in the current period.

New standards and interpretations that became effective on 1 January 2023, which 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 valuation principles for inventories, shares, interests and instruments not listed on active markets for which a reliable determination of fair value is not possible are the same as in the financial statements for the year ended 31 December 2022.

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

During the current and comparative reporting periods, there were no transfers of financial instruments between level 1 and level 2 of the fair value hierarchy.

6. Sales revenue

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

Type of good or service	Period ended 30 June 2023	Period ended 30 June 2022
REVENUE FROM CONTRACTS WITH CUSTOMERS	**35,545**	**18,852**
Revenue from sales of goods, including:	**34,441**	**18,120**
Sales of electricity	*17,240*	*8,882*
Sales of gas	*743*	*416*
Sale of CO_2 emission allowances	*16,443*	*8,808*
Revenue from the capacity market	*15*	*14*
Revenue from sales of services	**1,104**	**732**
LEASE INCOME	**3**	**3**
TOTAL SALES REVENUE	**35,548**	**18,855**

The Company's operations are predominantly conducted in Poland.

The increase in revenue from electricity sales in the first half of 2023 compared to the same period of the previous year is mainly the result of an increase in the selling price of electricity.

The increase in revenue from the sale of CO_2 emission allowances in the current period is a result of an increase in the volume of CO_2 emission allowances sold and an increase in the sale price of CO_2 emission allowances.

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The increase in revenue from the sale of natural gas in the first half of 2023 is a result of an increase in the selling price of natural gas and a higher volume of natural gas sold mainly to CHP plants operated by the PGE Capital Group.

Revenue from the sale of services mainly relates to services provided to the subsidiaries in the PGE Capital Group, such as electricity trade and supply, supply of fuels, licences and so-called support services. The increase in revenue is predominantly attributable to an increase in revenue from electricity trading services provided on behalf of the PGE Group companies (an increase of PLN 321 million) and results from an increase in the price of electricity, a simultaneous decrease in the volume of electricity and a decrease in the weighted average margin for provided services.

Information on the key customers

The Company’s main customers are its subsidiaries within the PGE Capital Group. In the first half of 2023, sales to PGE GiEK S.A. accounted for 47% of sales revenue and sales to PGE Obrót S.A. accounted for 39% of sales revenue, and in the first half of 2022, sales to these companies constituted 44% and 40%, respectively.

7. Expenses by kind and function

	Period ended 30 June 2023	Period ended 30 June 2022
EXPENSES BY KIND		
Depreciation	7	6
Third party services	41	39
Employee benefits expenses	139	94
Other expenses by kind	77	49
TOTAL EXPENSES BY KIND	**264**	**188**
Distribution and selling expenses	(6)	(6)
General and administrative expenses	(175)	(132)
Value of goods and materials sold	34,258	17,984
COST OF GOODS SOLD	**34,341**	**18,034**

The increase in the value of goods and materials sold in the first half of 2023 compared to the first half of 2022 is mainly the result of an increase in sales revenue described above and is related to an increase in prices of purchased goods and higher volumes of purchased goods.

8. Finance income and expenses

	Period ended 30 June 2023	Period ended 30 June 2022
NET FINANCE INCOME/(EXPENSES) FROM FINANCIAL INSTRUMENTS		
Dividends	703	1,639
Interest (income/(expenses)); including	526	204
Interest income calculated using the effective interest rate method	*959*	*405*
Revaluation of financial instruments	(1)	(4)
Reversal / (Establishment) of write-downs	-	(7)
Foreign exchange differences	(11)	(26)
Gain/(Loss) on disposal of investments	2	1
TOTAL NET FINANCE INCOME/(EXPENSES) FROM FINANCIAL INSTRUMENTS	**1,219**	**1,807**
OTHER NET FINANCE INCOME/(EXPENSES)	(1)	-
TOTAL NET FINANCE INCOME/(EXPENSES)	**1,218**	**1,807**

For the period ended 30 June 2023, the Company reports dividend income mainly from PGE Energia Odnawialna S.A. (PLN 668 million) and PGE Baltica sp. z o.o. (PLN 18 million), and in the comparative period 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).

In the item Write-down reversal/(creation), in the comparative period the Company presents the creation of write-downs of shares of PGE Nowa Energia sp z o.o. in liquidation.

The Company reports interest income mainly from financing provided to its subsidiaries. Interest expense mainly relates to credits and loans described in note 13 to these financial statements and issued bonds.

In the item “Revaluation of financial instruments”, the Company presents mainly the valuation of hedging transactions in the part recognised as an 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 call options for the purchase of shares in Polimex-Mostostal S.A.

9. Shares and interests in subsidiaries

In the current reporting period, the Company analysed the circumstances and identified factors that could significantly contribute to a change in the value of its power generation assets and consequently affect the value of the shares held by PGE S.A. in PGE GiEK S.A., PGE EC S.A., PGE EO S.A., as well as PGE Gryfino 2050 sp. z o.o., EW Baltica 2 sp. z o.o. and EW Baltica 3 sp. z o.o.

External circumstances

- The market capitalisation of PGE continues to be below the net book value of assets.
- Continued high levels of fuel, electricity and CO_2 emission allowance prices together with high levels of volatility. 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 futures contracts for the following year in the first half of 2023 was PLN 738/MWh, 141% higher than in the first half of 2021*,
  - the prices of CO2 emission allowances, after a sharp collapse triggered by the outbreak of the pandemic in mid-March 2020, began to recover until a sharp increase began in November 2021. In the first half of 2023, the weighted average EUA DEC 23 quotation was €89/t, significantly higher (100%) than the average EUA DEC 21 price listed in the first half of 2021*,
  - the average price of hard coal at ARA ports in monthly follow-on contracts in the first half of 2023 was USD 131/t and increased by 70% compared to the first half of 2021*,
  - the average price of domestic coal (PSMCI-1 index) in the first half of 2023 was PLN 33/GJ and increased by 132% in comparison to the first half of 2022,
  - the average price of natural gas in monthly follow-on futures contracts in the first half of 2023 was EUR 45/MWh and increased by 106% compared to the first half of 2021*.
- The Act of 27 October 2022 on emergency measures to limit electricity price levels and support certain consumers in 2023 obliges generators and trading companies to make payments to the Price Difference Payment Fund for each month from December 2022 to December 2023. These measures are intended to cover the difference between the maximum energy price adopted in the act and the contractual or reference price to be paid to electricity sellers in the form of compensation.
- As a result of the analysis of the aforementioned circumstances, asset impairment tests were carried out as at 30 June 2023 in the companies PGE GiEK S.A, PGE EC S.A., PGE EO S.A. and PGE Gryfino 2050 sp. z o.o. On the basis of the tests carried out, it was found that no write-downs were necessary on generation assets and consequently on the value of shares held by PGE S.A.

* Comparison to the first half of 2021 due to the high base in 2022, in which the peak of the energy crisis occurred.

Macroeconomic assumptions

The main price assumptions, i.e. the prices of electricity, CO_2 emission allowances, coal, natural gas and the assumptions relating to the majority of the Group's generating facilities are derived from an up-to-date study prepared by an external, independent entity that is a recognised centre of expertise in the energy market (the "Advisor"). The said study takes into account the Group's own estimates for the first year of the forecast on the basis of the current market situation. In preparing the study, the Advisor used current scenarios for the economic and demographic development of the country and estimates of changes in key market parameters. The Advisor's forecasts take into account the legal conditions arising from the current energy policy, at both the EU and national levels.

The environment in which the PGE Capital Group operates is characterised by high volatility of macroeconomic, market and regulatory conditions. Changes in these conditions may have a significant impact on the financial position of the PGE Capital Group, therefore the assumptions used to estimate the value in use of assets are subject to periodic review with the knowledge of the independent Advisor.

Electricity price forecasts provide for the continuation of high prices in 2024, followed by an average annual decrease in the years 2025-2027 of approximately 3.3% and an average annual increase of approximately 3.2% in the years 2028-2030.

CO_2 allowance prices are projected to increase in 2024 compared to 2023, followed by a decrease in 2025 of around 5.8% relative to 2024 and an average annual increase between 2026 and 2030 of around 8.4%. After 2030, the average annual growth is projected at around 5.8% until 2040.

Hard coal prices are forecast to fall in 2024 compared to 2023, followed by a slight increase of around 0.8% in 2025 compared to 2024. By 2035, hard coal prices are to decrease on average by 3.0% every year.

Natural gas price forecasts assume a price decrease in 2024 relative to 2023 prices, followed by a 3.9% increase in 2025 relative to 2024. By 2035, natural gas prices are to decrease on average by 2.3% every year.

The price forecasts for energy origin rights provide for an increase in prices in 2024 relative to 2023, followed by an average annual decrease between 2025 and 2031 of around 10.1% relative to 2023, due to the decreasing obligation to redeem them.

Forecasts of revenue from the capacity market in the years 2023-2027 are based on the results of completed major and additional auctions for these years of supply, taking into account the mechanisms of joint balancing among the companies belonging to the PGE Capital Group. The forecast for the period from the year 2028 was prepared by a team of experts from PGE S.A. on the basis of assumptions concerning future cash flows for power generation units based, among other things, on the results of already completed auctions and forecasts prepared by an external expert. From 1 July 2025, all Power Market Units that entered into power contracts after 31 December 2019 (i.e. for contracts entered into in the Main Auction for the delivery year 2025 and onwards) will be subject to an emissions criterion of 550 g CO2/kWh (so-called EPS 550), which will effectively exclude all coal units from participating in subsequent Power Market auctions.

The availability of power generation units was estimated on the basis of overhaul plans and failure frequency statistics.

Weighted average cost of capital

In the first half of 2023, the global economy and financial markets were influenced by the repercussions of the post-pandemic economic rebound, the so-called energy crisis, changes in monetary policies and the hostilities in Ukraine. Increased inflationary trends forced central banks to carry out one of the fastest monetary tightening cycles in history, which, in turn, had a significant impact on the dynamics of the situation in financial markets. In these circumstances, in the PGE Group's view, determining a fixed cost of capital based solely on short-term market interest rates is not justified, and cyclical mechanisms will lead to a normalisation of the situation on financial and commodity markets. Accordingly, from 2022 onwards, for the purposes of asset impairment testing, a cost of capital path is used that reflects current market characteristics in the coming years (including elevated market interest rates) and in subsequent periods gradually approaches levels representing the long-term average, covering a full business cycle.

Climate issues

In July 2021, the European Commission published the Fit for 55 legislative package, aiming, among other things, to achieve a 55% (previously 40%) reduction in EU greenhouse gas emissions by 2030 compared to 1990. As expected by market participants, the reform of the EU ETS system included in the package should result in a significant increase in the level of CO_2 emission allowance prices, which in practice already occurred in 2021. The high level of CO_2 emission allowance prices was also maintained in the first half of 2023. The changes introduced may negatively affect the margins earned by carbon-intensive power generation units, particularly to the extent that the increase in the price of CO_2 allowances is not passed on in the price at which these units sell the electricity or heat they produce. In December 2022, the Council and the EU Parliament reached important agreements on the 'Fit for 55' package proposal, the EU's plan to increase the target of reducing greenhouse gas emissions below 55% by 2030 compared to 1990 levels.

On 15 December 2022, the Decarbonisation Plan 2050 was adopted for the Heat Generation segment within the PGE Capital Group, which aims to meet the regulatory requirements for the power industry and to maintain the current generation potential to meet customer needs in the long term. The Decarbonisation Plan constitutes an operationalisation of the objectives set out directly in the PGE Capital Group's strategy and in the strategy implementation plan for the Heat Generation segment. The plan defines the locations where the transformation of generation assets will be carried out, the timetable for the main activities, the planned expenditures and the expected effects. The transformation of generation capacities through the use of new low- or zero-carbon power generation units is planned for the period until 2030 and the achievement of climate neutrality by 2050. Accordingly, the Heat Generation segment is gradually replacing old coal-fired sources with new low-carbon sources fired by gas and oil fuels. New generation units will be characterised by greater operational flexibility and reliability. They will also contribute to reducing emissions in the cities where they will be built. By 2030, most of the locations where PGE Capital Group's coal-fired district heating assets are located will have commissioned new installations, which will result in a complete or significant shift away from the coal fuel. New and modernised district heating units will use gas, municipal waste, biomass, waste heat and renewable energy to produce heat. The decarbonisation plan has been taken into account when estimating the value in use of the Heat Generation segment's production assets.

The changes described above mean that a reduction in the volume of production from conventional sources is anticipated, with a consequent reduction in expenditure (CAPEX and OPEX) on maintenance tasks of coal assets, which further affects the anticipated decline in profitability through the gradual deterioration of the availability of these units. At the same time, the aforementioned legislative and market changes favour the development of zero- and low-carbon sources, which, when the Group invests in these particular technologies, positively translates into the value in use of the assets under test. It should also be borne in mind that fossil fuel-based generation facilities, in the face of the uncertainty of RES generation (driven by environmental factors: water, wind, solar), are still needed in the electricity system to balance it.

Significant changes in the regulatory environment, both domestic and foreign, that affect or will affect PGE Capital Group's operations are described in note 3.4. The regulatory environment in the Management Board's Report on the activities of the PGE Group for the first half of 2023 ended 30 June 2023.

Climate issues are included in the assumptions used for impairment testing to the best of the Company's knowledge, with the support of an external independent expert. The PGE Group adopts assumptions developed by an independent think tank that take into account the current regulatory and market situation. Future developments in the electricity market may differ from the currently adopted assumptions, which may lead to significant changes in the financial position and results of the PGE Group. These will be included in future financial statements.

9.1 Share impairment tests for PGE GiEK S.A.

The issue of the disposal of PGE GiEK S.A. is described in note 27.3 to consolidated financial statements. As at the reporting date the assets do not meet the definition of assets held for sale under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, PGE performed an impairment test in accordance with IAS 36 *Impairment of Assets*.

In previous reporting periods, PGE S.A. recognised significant impairment write-downs of its shares held in PGE GiEK S.A.

In the current reporting period, the Company carried out share impairment tests to verify whether the value of PGE GiEK S.A. shares decreased or increased.

On 30 June 2023, impairment tests were carried out with respect to the cash generating units by determining their recoverable values. In practice, it is very difficult to determine a fair value of a very large group of assets which do not have an active market or comparable transactions. With respect to whole power plants or mines whose value in a local market should be determined, there are no observable fair values. Therefore, the recoverable value of the analysed assets was determined by way of estimating their value in use by means of the discounted net cash flows method based on the financial forecasts prepared for the period from January 2023 to the end of their operation. In the Company's opinion, the adoption of financial forecasts for periods longer than five years is justifiable in view of the significant and long-term impact of the estimated changes in the regulatory environment. Thanks to adopting longer-term forecasts, the estimates of recoverable values may be more reliable.

Climate issues

The future of the Polish energy market is determined by the European Union's climate policy, and developments in the electricity market in the run up to 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 acceptance by the European Council in December 2020 of a new binding target for the EU to reduce net greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels. A consequence of the higher CO_2 reduction target is the rising cost of CO_2 emission allowances, which may negatively affect the performance of the Conventional Power Generation segment and the PGE Capital Group. The macroeconomic assumptions used for impairment testing take into account the new higher CO_2 emission reduction target in 2030 and, as a result, the rising price level of CO_2 emission allowances in the long term. In December 2022, the Council and the EU Parliament reached important agreements on the 'Fit for 55' package proposal, the EU's plan to increase the target of reducing greenhouse gas emissions below 55% by 2030 compared to 1990 levels.

The key assumptions determining the assessed value in use of the tested CGUs include the following:

- recognising the following as individual CGUs, due to technology linkages:
  - the Bełchatów Lignite Mine Branch and the Bełchatów Power Plant Branch,
  - the Turów Lignite Mine Branch and the Turów Power Plant Branch,
- recognising the Opole Power Plant, the Rybnik Power Plant and the Dolna Odra Power Plant as three individual CGUs.
- adopting the assumption of continued operations:
  - until 2036 for the Bełchatów Complex, based on the date accepted by the Social Party for shutting down all units and adopted for the purposes of the Fair Transformation Plan for the Łódzkie province,
  - until 2044 for the Turów Complex based on the decision of 28 April 2021 to extend the term of the mining concession until 2044,
- taking into account labour cost optimisation resulting, among other things, from the currently implemented employment initiatives,
- maintaining the generation capacities thanks to asset replacement projects,
- adopting a weighted average after-tax cost of capital differentiated for individual CGUs, according to the individually assessed level of risk and varying over time:
  - for the years, 2023-2025, at an annual average level for individual CGUs of between 7.90% and 9.98%,
  - for the years 2026-2036, at an annual average level for individual CGUs of between 6.40% and 7.98%.

The conducted tests did not show any necessity to make an impairment write-down of the shares held in PGE GiEK S.A. The value of these shares exceeds their carrying amount indicated in these financial statements. At the same time, as the future cash flows of the analysed company are subject to uncertainties and the fulfilment of assumptions which, in a significant part, is beyond the control of the PGE Capital Group, in the opinion of PGE S.A. there are no reasons for the reversal of the impairment write-downs of PGE GiEK S.A. shares recognised in previous reporting periods. The NABE project and the sale price of PGE GiEK S.A. shares proposed in the non-binding Term Sheet document have no impact on the impairment assessment as at 30 June 2023. A detailed description of the NABE project and its potential impact on future financial statements can be found in note 27.3 of the consolidated financial statements.

9.2 Share impairment tests for PGE EC S.A.

In the current reporting period, the Company analysed the circumstances and identified factors that could significantly contribute to a change in the value of its property, plant and equipment and consequently affect the value of the shares held by PGE S.A.

Impairment tests of fixed assets were performed as at 30 June 2023 for cash generating units by determining their recoverable values. In practice, it is very difficult to determine a fair value of a very large group of assets which do not have an active market or comparable transactions. With respect to whole power plants and CHP plants whose value in a local market should be determined, there are no observable fair values. Therefore, the recoverable value of the analysed assets was determined by way of estimating their value in use by means of the discounted net cash flows method based on the financial forecasts prepared for the period from July 2023 to the end of 2030. In the Company's opinion, the adoption of financial forecasts for periods longer than five years is justifiable in view of the significant and long-term impact of the estimated changes in the regulatory environment. Thanks to adopting longer-term forecasts, the estimates of recoverable values may be more reliable. In the case of the generation units whose useful economic life extends beyond 2030, the Group determined their residual value for the remaining period of operation.

The energy market, and in particular the district heating market, is a regulated market in Poland and as such it is subject to many regulations and cannot be freely shaped based on business decisions alone. The objectives of the Energy Law include taking effective regulatory measures to ensure energy security. This means that the regulatory environment is aimed at ensuring the stable functioning of heat suppliers in a given area so as to satisfy the needs of customers in the long term. According to the provisions of the Energy law, the ERO President may, even in extreme cases, order an energy company to carry out activities covered by the concession (for a period not longer than 2 years), if the public interest so requires. If such activity generates a loss, the energy company is entitled to receive compensation from the State Treasury.

In view of the above, the Company does not assume a finite CGU useful economic life due to the regulatory environment, which limits the possibility of discontinuing operations. Therefore, the impairment tests included the assumption of continuation of operations (in the form of residual value), with expenditures at a replacement level in the long term due to, among others, the public interest in the form of ensuring heat supply. With regard to the generation assets included in the Decarbonisation Plan, replacement investments relate to the transformation of generation capacities (to gas-fired assets) through the use of new low- or zero-carbon generation units, which means that the cash generated by these assets is included in impairment tests.

Climate issues

On 15 December 2022, the Decarbonisation Plan 2050 was adopted for the Heat Generation segment within the PGE Capital Group, which aims to meet the regulatory requirements for the power industry and to maintain the current generation potential to meet customer needs in the long term. The Decarbonisation Plan constitutes an operationalisation of the objectives set out directly in the PGE Capital Group's strategy and in the strategy implementation plan for the Heat Generation segment. The plan defines the locations where the transformation of generation assets will be carried out, the timetable for the main activities, the planned expenditures and the expected effects. The transformation of generation capacities through the use of new low- or zero-carbon power generation units is planned for the period until 2030 and the achievement of climate neutrality by 2050.

Specific assumptions relating to the segment

The key assumptions determining the assessed value in use of the tested CGUs include the following:

- recognising the particular branches of PGE EC S.A. as separate CGUs, i.e. Branch No. 1 in Kraków (Kraków CHP Plant), Wybrzeże Branch (Gdańsk CHP Plant, Gdynia CHP Plant), Rzeszów Branch (Rzeszów CHP Plant), Lublin Branch (Lublin Wrotków CHP Plant), Bydgoszcz Branch (Bydgoszcz I CHP Plant, Bydgoszcz II CHP Plant), Gorzów Wielkopolski Branch (CHP Plant in Gorzów Wielkopolski), Zgierz Branch (CHP Plant in Zgierz), Kielce Branch (CHP Plant in Kielce); Szczecin Branch (CHP Plant in Szczecin, CHP Plant in Pomorzany, district heating network in Gryfinio);
- recognising the three generation facilities belonging to KOGENERACJA, i.e. Wrocław CHP Plant, Czechnica CHP Plant and Zawidawie CHP Plant as one CGU,
- for the period from 2023 onwards, it was assumed that generators from the PGE Capital Group did not obtain free CO_2 emission allowances for electricity generation,
- the allocation of free CO_2 emission allowances in the period 2023-2030 for district heating and high-efficiency cogeneration was taken into account. Member States may apply for an allocation of free CO_2 emission allowances for heat in the amount of 30% in the period from 2023 to 2030, with the 30% value relating to the gas benchmark and supply of heat for municipal purposes,
- adopting the assumption for CHP plants that there is support from the capacity market or its equivalent during the residual period,
- including a support scheme for high-efficiency cogeneration in the projection horizon and the residual period: for existing units, support is assumed in the form of a guaranteed bonus and, if the financing gap condition is met, an individual guaranteed bonus; for new gas units, a cogeneration bonus is assumed;
- maintaining generation capacities thanks to asset replacement projects; For the generation assets for which action has been taken to implement the Decarbonisation Plan, expenditures of a replacement nature represent the transformation of generation assets to gas-fuelled assets. The Decarbonisation Plan covers the following locations: Kraków, Gdańsk, Gdynia, Wrocław, Bydgoszcz, Kielce, Zgierz,
- taking into account highly advanced development investment projects and including them in the Company's investment plan,
- adopting an adjusted weighted average cost of capital after tax and differentiated over time:
  - for the years 2024-2025 at an annual average of 8.44%,
  - for the years 2026-2030 at an annual average of 6.68%.

The conducted tests did not show any necessity to make an impairment write-down of the shares held by PGE S.A. in PGE EC S.A. The recoverable value of these shares exceeds their carrying amount indicated in these financial statements.

9.3 Analysis of the circumstances of PGE EO S.A.

In the current reporting period, the Company analysed the circumstances and identified factors that could significantly contribute to a change in the value of its fixed assets and consequently affect the value of the shares held by PGE S.A.

On 30 June 2023, impairment tests were carried out with respect to the cash generating units by determining their recoverable values. The recoverable value of the analysed assets was determined based on an estimation of their value in use by means of the discounted net cash flow method, on the basis of financial projections prepared for the assumed useful economic life of a given CGU in the case of wind farms and the years 2023-2030 in the case of the other CGUs. For the CGUs whose useful economic life extends beyond 2030, the Group determined their residual value for the remaining period of operation. The Company is of the opinion that the adoption of financial projections longer than five years is reasonable due to the fact that the property, plant and equipment used by the Group has a materially longer economic life and due to the material and long-term impact of the estimated changes in the regulatory environment included in the detailed forecast.

Specific assumptions relating to the segment

The key assumptions determining the assessed value in use of the tested CGUs include the following:

- recognising the following facilities as separate CGUs:
    - pumped storage power plants (one CGU for individual plants due to their common economic nature),
    - other hydroelectric power plants (one CGU for individual plants due to their common economic nature),
    - individual wind power plants (separate CGUs for individual plants due to their different operating lifetimes),
- the production of electricity and energy origin rights was assumed on the basis of historical data, taking into account the availability of individual units;
- the availability of power generation units was estimated on the basis of overhaul plans and failure frequency statistics.
- for the ESP, a market-based contracting mechanism for regulatory services is expected to start operating from mid-2024, its revenue was estimated on the basis of the PGE Capital Group's internal analyses (currently, revenue from regulatory system services is estimated on the basis of existing contracts in accordance with the applicable remuneration system),
- maintaining the generation capacities thanks to asset replacement projects,
- adopting an adjusted weighted average cost of capital after tax and differentiated over time:
    - for the years 2023-2029 at an annual average of 7.67%,
    - from 2030 onwards at 6.40%,
- additionally, the WACC for wind farms takes into account the individually estimated level of risk associated with participation in the various support schemes during the period of its validity (green certificates, auctions),
- for wind farms acquired as part of the acquisition project in 2022, the WACC additionally takes into account the discounts for the volume guarantee, the premium for green certificates, the discount for the price guarantee and the discount for special strategic importance for individual wind farms.

The conducted tests did not show any necessity to make an impairment write-down of the shares held by PGE S.A. in PGE EO S.A. The recoverable value of these shares exceeds their carrying amount indicated in these financial statements.

9.4 Share impairment tests for PGE Gryfino 2050 sp. z o.o.

In the current reporting period, the Company analysed the circumstances and identified factors that could significantly contribute to a change in the value of its fixed assets and consequently affect the value of the shares held by PGE S.A.

On 30 June 2023, impairment tests were carried out with respect to the cash generating units by determining their recoverable values. In practice, it is very difficult to determine a fair value of a very large group of assets which do not have an active market or comparable transactions. With respect to whole power plants whose value in a local market should be determined, there are no observable fair values. Therefore, the recoverable value of the analysed assets was determined by way of estimating their value in use by means of the discounted net cash flows method based on the financial forecasts prepared for the relevant period of operation. In the Company's opinion, the adoption of financial forecasts for periods longer than five years is justifiable in view of the significant and long-term impact of the estimated changes in the regulatory environment. Thanks to adopting longer-term forecasts, the estimates of recoverable values may be more reliable.

The key assumptions determining the assessed value in use of the tested assets include the following:

- The nominal power and average efficiency of the units assumed in accordance with the parameters guaranteed in the Performance Contract and the assumed load profile,
- Operating lifetime: 25 years (the benchmark technical operating lifetime of CCGT systems),
- Capital expenditure: for 2023-2024, they were assumed in accordance with the PGE Capital Group's Investment Plan and concluded contracts for the construction of the unit.

Adoption of a weighted average cost of capital after tax differentiated for the individual CGUs, according to the individually assessed level of risk and varying over time at an average annual level of 6.99%.

The conducted tests did not show any necessity to make an impairment write-down of the shares held by PGE S.A. in PGE Gryfino 2050 sp. z o.o. The recoverable value of these shares exceeds their carrying amount indicated in these financial statements.

9.5 Share impairment tests for EW Baltica 2 sp z o.o. and EW Baltica 3 sp. z o.o.

In the current reporting period, the Company analysed the circumstances and identified factors that could significantly contribute to a change in the value of its fixed assets and consequently affect the value of the shares held by PGE S.A.

In 2021, the Ørsted group entities acquired shares in the increased capital of the companies Elektrownia Wiatrowa Baltica - 2 sp. z o.o. and Elektrownia Wiatrowa Baltica - 3 sp. z o.o. Following this transaction, the Ørsted Group became a 50% shareholder in EWB2 and EWB3. As a result of the transaction, the PGE Capital Group lost control over these two companies. Based on the agreements between the PGE Capital Group and the Ørsted group companies, Elektrownia Wiatrowa Baltica - 2 sp. z o.o. and Elektrownia Wiatrowa Baltica - 3 sp. z o.o. are so-called joint operations within the meaning of IFRS 11 *Joint Arrangements*. As a result of the settlement of the loss of control at the level of the consolidated financial statements, goodwill in the amount of PLN 81 million was recognised.

Goodwill was tested for impairment as at 30 June 2023 based on the determination of the recoverable amount of the assets. The recoverable value of the analysed assets was determined based on an estimation of their value in use by means of the discounted net cash flow method, on the basis of financial projections prepared for the assumed useful economic life of a given CGU.

The EWB2 and EWB3 projects are at an advanced stage of development.

Specific assumptions

The key assumptions determining the assessed value in use of the tested CGUs include the following:

- Revenue: the EWB2 and EWB3 projects are entitled to public support in the form of a bilateral differential contract (the right to cover the negative balance) for a period of 25 years from the first day of electricity generation and evacuation into the grid under the granted concession:
  - The support price is expressed in 2021 values (as a result of amendments made to the Offshore Act by the Act of 15 December 2022 on the special protection of certain consumers of gaseous fuels in 2023) and is subject to annual indexation in accordance with average annual inflation rates published by the Central Statistical Office,
  - The European Commission issued a positive decision in the individual support notification process, and the price set by the EC was accepted in December 2022 by the Energy Regulatory Office, thus confirming the support level of 319.60 PLN/MWh.
- Capital expenditures and operating costs were estimated by the Joint Venture (JV) partners, i.e. PGE and Ørsted, - based on their internal competences and experience in the implementation of analogous investments, taking into account information obtained in the process of ongoing procurement proceedings.
- Development expenses include, among other costs, external costs and the cost of re-invoiced employee hours of Ørsted and PGE.
- Energy generation was estimated based on:
  - Data collected during a measurement campaign in the immediate vicinity of the EWB2 and EWB3 Offshore Wind Farm area and data from long-term sources, which allowed the determination of the long-term average wind speed in the project area.
  - Productivity characteristics for the selected turbine model and the planned distribution of turbines across the basins.
  - Energy conversion and transformation losses as well as equipment availability.

The conducted tests did not show any necessity to make an impairment write-down of shares held by PGE S.A. in EW PGE Baltica 2 sp. z o.o. and EW PGE Baltica 3 sp. z o.o. The recoverable value of these shares exceeds their carrying amount indicated in these financial statements.

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9.6 Share value analysis for PGE Obrót S.A.

In previous reporting periods, PGE S.A. effected impairment write-downs of shares held in PGE Obrót S.A. In the current reporting period, the Company analysed the circumstances and identified factors that could affect the change in the value of such shares held in PGE Obrót S.A. Such circumstances include the following:

- the effects of the Act on special solutions to protect electricity consumers in 2023 in connection with the situation on the electricity market of 7 October 2022,
- the effects of the Act on extraordinary measures to reduce electricity prices and support certain consumers in 2023 of 27 October 2022,
- the effects of the amendment to the Act on renewable energy sources of 29 October 2021, introducing changes to the way prosumers are billed. The previous system of discounts has been replaced by a so-called "net-billing" model,
- the dynamic development of photovoltaic micro-installations and the billing of prosumers who will still be billed according to the net-metering system.

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

- the assumptions for electricity prices were derived from an independent expert's study, taking into account the Company's own estimates, based on the current market situation,
- an increase of approximately 4.2% in total sales volumes in 2028 compared to 2023,
- a higher realisation of electricity margins between 2024 and 2028 compared to 2023,
- correlation of electricity prices in the period 2023-2028 when selling energy to retail customers with electricity prices on the wholesale market and the impact on their level resulting from the change in the obligation to redeem energy origin rights as well as changes in the price of energy origin rights,
- economic effects related to the dynamic development of prosumer micro-installations in the forecast horizon on the basis of the market trends observed in 2021 and in connection with the amendment of the RES Act of 29 October 2021,
- adoption of a weighted average cost of capital after tax at an annual average level in the range of 7.68%-10.81%.

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

The value of PGE Obrót S.A. shares recognised in the Company's books is PLN 622 million. As a result of the impairment test, the value of PGE Obrót S.A. shares was estimated at PLN 627 million. Due to the insignificant 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 write-down of PGE Obrót S.A. shares recognised in previous reporting periods.

The results of the sensitivity analysis showed that the most significant impact on the value of the shares was mainly due to changes in assumptions regarding the weighted average cost of capital and unit margins. The estimated impact of changes in the key assumptions on changes in the write-down of PGE Obrót S.A. shares as at 30 June 2023 is presented below.

Parameter	Change	Impact on write-down	
		Increase in write-down	Decrease in write-down
Change in unit margin	1%	-	116
	-1%	116	-

A 1% decrease in the unit margin would result in a PLN 116m increase in the write-down.

Parameter	Change	Impact on write-down	
		Increase in write-down	Decrease in write-down
Change in WACC	+0.25 p.p.	322	-
	-0.25 p.p.	-	356

An increase in the WACC by 0.25 p.p. would increase the write-down by PLN 322 million.

9.7 Impairment tests for other shares

In the first half of 2023, PGE S.A. did not create any impairment write-down or reverse any impairment write-down with respect to any of its subsidiaries.

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10. Selected financial assets

The book value of financial assets measured at amortised cost does not differ materially from their fair value.

10.1 Trade receivables and other financial receivables

	As at 30 June 2023		As at 31 December 2022	
	Long-term	Short-term	Long-term	Short-term
Trade receivables	-	2,434	-	2,962
Bonds acquired	200	1,983	2,180	3,408
Cash pooling receivables	-	315	-	348
Loans granted	3,440	15,394	3,288	9,339
Other financial receivables	-	1,582	-	1,471
TOTAL FINANCIAL RECEIVABLES	**3,640**	**21,708**	**5,468**	**17,528**

Trade receivables

Trade receivables in the amount of PLN 2,434 million relate mainly to the sales of electricity and services to the subsidiaries in the PGE Capital Group. As at 30 June 2023, the balance of the three largest customers, i.e. PGE Obrót S.A., PGE GiEK S.A. and PGE EC S.A., accounted for 90% of the total balance of trade receivables.

Bonds acquired

	As at 30 June 2023		As at 31 December 2022	
	Long-term	Short-term	Long-term	Short-term
BONDS ACQUIRED – ISSUER				
PGE Górnictwo i Energetyka Konwencjonalna S.A.	200	1,983	2,180	3,408
TOTAL BONDS ACQUIRED	**200**	**1,983**	**2,180**	**3,408**

PGE S.A. acquires bonds issued by the companies of the PGE Capital Group. Funds acquired from bond issues are used to finance investment projects, refinance financial liabilities, and finance current operations.

Bonds with a maturity of 12 months or less from the reporting date are classified as current assets and bonds with a maturity of more than 12 months from the reporting date as non-current assets, with the classification determined not only by the maturity date but also by the Company's intention to roll over.

Cash pooling receivables

In order to centralise liquidity management in the PGE Capital Group, agreements relating to the real cash pooling service were in force among between selected companies of the PGE Capital Group and each bank separately, i.e. Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Polska Kasa Opieki S.A. PGE S.A. acts as a coordinator of the cash pooling service in the PGE Capital Group. This means, among other things, that individual subsidiaries settle their accounts with the Company, and the Company settles its accounts with the banks. Therefore, financial receivables and financial liabilities of PGE S.A. include the balance of settlements between PGE S.A. and its subsidiaries participating in the cash pooling.

Loans granted

	As at 30 June 2023		As at 31 December 2022	
	Long-term	Short-term	Long-term	Short-term
LOANS GRANTED – BORROWER				
PGE Gryfino 2050 sp. z o.o.	3,439	-	3,286	-
PGE GiEK S.A.	-	6,827	-	-
PGE Energia Ciepła S.A.	-	2,001	-	2,738
PGE Dystrybucja S.A.	-	1,807	-	1,504
PGE Obrót S.A.	-	1,510	-	1,464
PGE Paliwa sp. z o.o.	-	1,239	-	2,067
PGE Energia Odnawialna S.A.	-	1,180	-	1,353
Rybnik 2050 sp. z o.o.	-	398	-	-
PGE Systemy S.A.	-	216	-	196
PGE Baltica 6 sp. z o.o.	-	171	-	-
Ekoserwis S.A.	-	41	-	-
Betrans sp. z o.o.	1	2	2	8
PUP ELTUR-SERWIS sp. z o.o.	-	-	-	7
EW Baltica 4 sp z o.o.	-	1	-	1
EW Baltica 5 sp. z o.o.	-	1	-	1
TOTAL LOANS GRANTED	**3,440**	**15,394**	**3,288**	**9,339**

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The repayment deadlines for the loans were set for the years 2023-2028.

Other financial receivables

Under Other, the Company mainly reports settlements with exchanges, primarily related to the purchase of CO_2 emission allowances and effected through the agency of PGE Dom Maklerski S.A.

10.2 Cash and cash equivalents

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

Cash at banks earns interest at variable rates linked to overnight deposit rates.

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

	As at 30 June 2023	As at 31 December 2022
Cash at bank	2,182	559
Overnight deposits	-	764
Short-term deposits	4,646	8,574
Funds in VAT accounts	114	696
TOTAL	**6,942**	**10,593**
Available credit limits	10,666	10,900
including overdraft facilities	*6,100*	*3,300*

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

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

The Company recognises all derivative financial instruments in its financial statements measured at fair value.

	As at 30 June 2023		As at 31 December 2022	
	Assets	Liabilities	Assets	Liabilities
DERIVATIVES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Commodity forwards	2,004	-	-	538
Futures	332	-	1,456	-
Currency forwards	23	2,020	212	730
Options	14	-	18	-
HEDGING DERIVATIVES				
CCIRS hedging transactions	18	-	104	-
IRS hedging transactions	288	-	459	-
OTHER ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Investment fund participation units	30	-	28	-
TOTAL	**2,709**	**2,020**	**2,277**	**1,268**
long-term part	349	-	608	-
short-term part	2,360	2,020	1,669	1,268

Commodity and currency forwards

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

IRS transactions

The company entered into IRS transactions to hedge the interest rate on taken credits and issued bonds. The original nominal value of these transactions was PLN 7,030 million (PLN 5,630 million for credits and PLN 1,400 million for bonds). In connection with the commencement of the repayment of the principal amount of certain credits, the current nominal amount of IRS transactions hedging the credits is PLN 1,914 million. To recognise these IRS transactions, the Company uses hedge accounting.

CCIRS hedging transactions

In connection with entering into loan agreements with the subsidiary PGE Sweden AB (publ) described in note 13. to these financial statements, in August 2014, PGE S.A. entered into a CCIRS transaction to hedge the foreign currency exchange rate. In these transactions, the banks-counterparties pay PGE S.A. interest based on a fixed rate in EUR and PGE S.A. pays interest based on a fixed rate in PLN. The nominal amount, payment of interest and repayment of the nominal amount in the CCIRS transactions are correlated with the relevant conditions arising from the loan agreements.

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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 in Polimex-Mostostal S.A. The option was measured using the Black-Scholes method.

Investment fund participation units

As at the reporting date, the Company held participation units in three sub-funds of Towarzystwo Funduszy Inwestycyjnych Energia S.A., whose value as at the reporting date was PLN 30 million.

12. Other current assets

	As at 30 June 2023	As at 31 December 2022
Dividend receivables	703	-
Advance payments	147	98
Other	13	4
TOTAL	**863**	**102**

Receivables from dividends relate mainly to amounts due from PGE Energia Odnawialna S.A. and PGE Baltica sp. z o.o.

In the current period, the value of prepayments consists of funds transferred to the clearing bank of PGE Dom Maklerski S.A., i.e. Macquarie Bank Europe Designated in the amount of PLN 146 million (EUR 31 million) as collateral for concluded transactions for the purchase of CO_2 emission allowances. The amount of the paid prepayments will be settled upon delivery, which will take place in the first quarter of 2024.

In the comparative period, the value of prepayments consisted of funds transferred to PGE Dom Maklerski S.A. for the purchase of electricity and gas in the amount of PLN 98 million.

13. Credits, loans, bonds, cash pooling and leases

	As at 30 June 2023		As at 31 December 2022	
	Long-term	Short-term	Long-term	Short-term
Credit liabilities	6,331	2,479	3,139	1,911
Loans received	639	1,598	673	9
Bonds issued	1,399	12	1,399	13
Cash pooling liabilities	-	2,615	-	5,614
Lease liabilities	22	1	22	2
TOTAL CREDITS, LOANS, BONDS AND CASH POOLING	**8,391**	**6,705**	**5,233**	**7,549**

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Bank credits

Creditor	Hedging instrument	Date of execution	Date of maturity	Limit in currency	Currency	Interest rate	Liability as at 30 June 2023	Liability as at 31 December 2022
European Investment Bank	-	2022-12-09	2041-03-15	2,000	PLN	Fixed	2,040	-
European Investment Bank	-	2015-10-27	2034-08-25	1,500	PLN	Fixed	1,379	1,442
PKO BP S.A.	-	2022-12-20	2023-10-31	1,500	PLN	Variable	1,238	-
European Investment Bank	-	2023-02-03	2041-03-15	850	PLN	Variable	870	-
Bank consortium	IRS	2015-09-07	2023-09-30	3,630	PLN	Variable	740	1,481
Bank Gospodarstwa Krajowego	IRS	2014-12-17	2027-12-31	1,000	PLN	Variable	564	627
European Investment Bank	-	2023-02-03	2041-03-15	550	PLN	Fixed	562	-
European Investment Bank	-	2015-10-27	2034-08-25	490	PLN	Fixed	452	472
European Bank for Reconstruction and Development	IRS	2017-06-06	2028-06-06	500	PLN	Variable	347	378
Bank Gospodarstwa Krajowego	IRS	2015-12-04	2028-12-31	500	PLN	Variable	344	376
European Investment Bank	-	2019-12-16	2038-10-16	273	PLN	Fixed	274	274
Bank Gospodarstwa Krajowego	-	2023-03-01	2023-12-31	1,600	PLN	Variable	-	-
Bank Gospodarstwa Krajowego	-	2022-12-20	2023-12-31	1,600	PLN	Variable	-	-
Bank consortium	-	2023-03-01	2027-03-01	2,330	PLN	Variable	-	-
Bank Pekao S.A.	-	2018-07-05	2024-12-22	1,000	PLN	Variable	-	-
PKO BP S.A.	-	2018-04-30	2023-12-31	800	PLN	Variable	-	-
Bank Gospodarstwa Krajowego	-	2018-06-01	2024-06-12	4,300	PLN	Variable	-	-
TOTAL BANK CREDITS							**8,810**	**5,050**

In the first half of 2023 and after the reporting date there were no defaults or breaches of other terms and conditions of the credit agreements.

Loans received

Creditor	Hedging instrument	Date of execution	Date of maturity	Limit in currency	Currency	Interest rate	Liability as at 30 June 2023	Liability as at 31 December 2022
PGE Sweden AB	CCIRS	2014-08-27	2029-07-31	143	EUR	Fixed	647	682
PGE Energetyka Kolejowa Holding sp. z o.o.	-	2023-04-03	2023-10-27	700	PLN	Variable	917	-
PGE Energetyka Kolejowa Holding sp. z o.o.	-	2023-04-03	2023-11-30	499	PLN	Variable	673	-
TOTAL LOANS RECEIVED							**2,237**	**682**

In 2014, PGE S.A. and PGE Sweden AB (publ) established the Medium Term Eurobonds Issue Programme under which PGE Sweden AB (publ) may issue Eurobonds up to the amount of EUR 2 billion with a minimum maturity of 1 year. In 2014, PGE Sweden AB (publ) issued Eurobonds in the total amount of EUR 638 million. The outstanding Eurobonds amount to EUR 138 million. The subsidiary used the proceeds from the Eurobond issue for loans granted to the parent company.

On 3 April 2023, PGE S.A. acquired 100% of shares in PGE Energetyka Kolejowa Holding sp. z o.o., as described in note 1.3.1 to these financial statements. As a result of this transaction, PGE S.A. acquired the rights and obligations under two loan agreements, which PGE EK Holding granted to the previous shareholder, i.e. Edison Holdings s.a.r.l. The balance of liabilities under these loans was PLN 1,590 million as at 30 June 2023.

On 25 August 2023, PGE EK Holding and PGE S.A. signed a Receivables Offset Statement. PGE EK Holding's receivables in the amount of PLN 1,621 million under the said loan agreements were set off against PGE S.A.'s dividend receivables in the amount of PLN 1,412 million, and the remaining amount of the loan, i.e. PLN 209 million, was paid by the Company on 25 August 2023, thus settling the final liability under the said loans.

Domestic market bond issues

Date of granting	Date of maturity	Tranche issue date	Tranche maturity date	Hedging instrument	Limit in currency	Currency	Interest rate	Liability as at 30 June 2023	Liability as at 31 December 2022
2013-06-27	indefinite	2019-05-21	2029-05-21	IRS	5.000	PLN	Variable	1,008	1,009
		2019-05-21	2026-05-21					403	403
TOTAL BONDS ISSUED								**1,411**	**1,412**

Cash pooling liabilities

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

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14. Contingent liabilities

	As at 30 June 2023	As at 31 December 2022*
Liabilities under guarantees and sureties	24,126	20,686
Bank guarantees to hedge exchange transactions	1,808	3,504
Other contingent liabilities	148	59
TOTAL CONTINGENT LIABILITIES	**26,082**	**24,249**

*In the current reporting period, the item *Liabilities from guarantees and sureties* includes the value of the guarantee surety for PGE Sweden, which is shown in the descriptive section in the comparative period.

Guarantee for liabilities of PGE Sweden AB (publ)

In connection with the establishment of the Eurobond programme in 2014, an agreement was concluded under which PGE S.A. provided a guarantee for the liabilities of PGE Sweden AB (publ). The guarantee was granted for the amount of up to EUR 2,500 million (PLN 11,126 million) and is valid until 31 December 2041. As at 31 December 2023, the amount of liabilities of PGE Sweden AB (publ) under issued bonds is EUR 142 million (PLN 631 million) and as at 31 December 2022 – EUR 140 million (PLN 655 million).

Sureties for PGE EC S.A., ZEW KOGENERACJA S.A., PGE Toruń S.A. and PGE Gryfino 2050 sp. z o.o.

In the fourth quarter of 2022, the Company granted a surety for the liabilities of PGE Energia Ciepła S.A., ZEW Kogeneracja S.A., PGE Toruń S.A. and PGE Gryfino 2050 sp. z o.o. to PKN ORLEN S.A. as security for gas fuel supplies. The surety is valid until 31 March 2026. The surety was granted up to the amount of PLN 5,369 million.

Surety for Rybnik 2050 sp. z o.o.

On 20 April 2023, PGE S.A. granted a surety to PGE Rybnik 2050 sp. z o.o. in the amount of PLN 3,752 million to secure the payment of liabilities under the agreement for the construction of a CCGT unit in Rybnik. The surety was granted until 30 April 2027.

Sureties for bank guarantees to secure exchange transactions

These liabilities represent sureties issued by PGE S.A. for bank guarantees provided as a deposit to secure exchange transactions resulting from the membership in the Warsaw Commodity Clearing House. As at 30 June 2023, the total amount of sureties issued by banks was PLN 1.758 million and as at 31 December 2022 – PLN 3,253 million. Additionally, the amount of the liability represents the surety issued by PGE S.A. for the liabilities of PGE Dom Maklerski S.A. to secure the settlement of exchange transactions relating to CO_2 emission allowances. As at 30 June 2023, the amount of the surety issued by PGE S.A. was equivalent to PLN 50 million, and as at 31 December 2022 – PLN 251 million.

Other contingent liabilities

On 21 February 2023, PGE S.A. issued, for the benefit of its subsidiary PGE Sweden a Loan Note and an Unconditional shareholders' contribution for the amount of EUR 20 million (PLN 89 million) in order to restore the company's equity to the amount of 50% of the registered share capital, as required by Swedish law. PGE S.A. obliged itself to contribute up to EUR 20 million to PGE Sweden in case PGE Sweden had to pay tax liabilities. At the reporting date, PGE S.A. assesses the fulfilment of the obligation as unlikely.

The contingent liability in the amount of PLN 59 million relates to the dispute with Worley Parsons, which is described in note 21.5 to these financial statements.

15. Information on related entities

Transactions with related entities are based on market prices of delivered goods, products or services or on their production costs.

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16. Related entities within the PGE Capital Group

	Period ended 30 June 2023	Period ended 30 June 2022
Sales to related entities	34,533	17,483
Purchases from related entities	8,236	2,626
Net finance income/(expenses)	1,255	1,923

The Company recognises revenue from sales to its subsidiaries in the PGE Capital Group, related mainly to sales of electricity and CO_2 emission allowances.

	As at 30 June 2023	As at 31 December 2022
RECEIVABLES FROM RELATED ENTITIES		
Acquired bonds	2,183	5,588
Dividend receivables	703	-
Trade receivables	2,291	2,737
Loans granted	18,834	12,627
Cash pooling receivables	315	348
TOTAL RECEIVABLES FROM RELATED ENTITIES	**24,326**	**21,300**

	As at 30 June 2023	As at 31 December 2022
LIABILITIES TO RELATED ENTITIES		
Loans received	2,237	682
Trade payables	1,126	1,317
Cash pooling liabilities	2,615	5,614
Settlement liabilities in PGK	-	3
TOTAL LIABILITIES TO RELATED ENTITIES	**5,978**	**7,616**

The issues related to sureties granted to the subsidiaries of PGE S.A. are described in note 14 to these financial statements.

17. Companies controlled by the State Treasury

The State Treasury is the dominant shareholder of the PGE Capital Group. Therefore, companies owned by the State Treasury are regarded as related entities. The Company identifies in detail transactions with the largest companies controlled by the State Treasury. The total value of transactions with the above entities is shown in the tables below.

	Period ended 30 June 2023	Period ended 30 June 2022
Sales to related entities	857	723
Purchases from related entities	879	595

	As at 30 June 2023	As at 31 December 2022
Trade receivables from related parties	138	209
Trade payables to related parties	38	27

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

18. Management remuneration

PLN '000	Period ended 30 June 2023	Period ended 30 June 2022
Short-term employee benefits (remuneration and surcharges)	3,863	5,396
Post-employment and termination benefits	62	-
TOTAL MANAGEMENT REMUNERATION	**3,925**	**5,396**

PLN '000	Period ended 30 June 2023	Period ended 30 June 2022
Management Board	3,569	4,977
Supervisory Board	356	419
TOTAL MANAGEMENT REMUNERATION	**3,925**	**5,396**

The members of the Company's Management Board are employed on the basis of civil law agreements for the provision of management services (so-called managerial contracts). In note 7 Expenses by type and by function, remunerations are presented under other costs by type.

19. Significant events during and after the reporting period

Significant events of the period and the events occurred after the end of the period are described in note 27 to the consolidated financial statements.

III. APPROVAL OF THE HALF-YEARLY FINANCIAL STATEMENTS

This half-yearly financial report was approved for release by the parent company's Management Board on 26 September 2023.

Warsaw, 26 September 2023

Signatures of the 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	**Przemysław Kołodziejak**	
Vice President of the Management Board	**Lechosław Rojewski**	
Vice President of the Management Board	**Paweł Śliwa**	
Vice President of the Management Board	**Rafał Włodarski**	
Signature of the person responsible for the preparation of the financial statements	Michał Skiba Director of the Reporting and Tax Department	

ended 30 June 2023 in accordance with EU-IFRS (in PLN million)

GLOSSARY OF TERMS AND ABBREVIATIONS

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

Abbreviation	Full name
CCIRS	Cross Currency Interest Rate Swaps
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
ENESTA	ENESTA sp. z o.o under restructuring
EUA	European Union Allowances
EWB2, EW Baltica 2 sp. z o.o.	Elektrownia Wiatrowa Baltica – 2 sp. z o.o o
EWB3, EW Baltica 3 sp. z o.o.	Elektrownia Wiatrowa Baltica – 3 sp. z o.o o
PDP Fund	Price Difference Payment Fund
PGE Capital Group, PGE Group, Group, PGE CG	The Capital Group of PGE Polska Grupa Energetyczna S.A.
WCCH	Warsaw Commodity Clearing House
IRS	Interest Rate Swaps
PPA	Power Purchase Agreements
NPS	National Power System
IFRS	International Financial Reporting Standards
EU IFRS	International Financial Reporting Standards as adopted by the European Union
NABE	National Energy Security Agency
NEPWMF	National Environmental Protection and Water Management Fund
IP	Investment property
RTUA	Rights to use assets
PGE S.A., PGE; Company, parent company	PGE Polska Grupa Energetyczna S.A.
PGE EC S.A.	PGE Energia Ciepła S.A.
PGE EKH sp. z o.o.	PGE Energetyka Kolejowa Holding sp. z o.o.
PGE EK S.A.	PGE Energetyka Kolejowa S.A.
PGE EO S.A.	PGE Energia Odnawialna S.A.
PGE GiEK S.A.	PGE Górnictwo i Energetyka Konwencjonalna S.A.
PGNiG	Polskie Górnictwo Naftowe i Gazownictwo S.A.
PGG	Polska Grupa Górnicza S.A.
PKN ORLEN	Polski Koncern Naftowy ORLEN S.A.
PPE	Property, plant and equipment
Financial statements, consolidated financial statements	Consolidated financial statements of the PGE Capital Group
ERO	Energy Regulatory Office
The Households Act	The Act on special solutions to protect electricity consumers in 2023 in connection with the situation on the electricity market of 7 October 2022 (Journal of Laws 2023.269 of 9 February 2023)
The Extraordinary Measures in 2023 Act	The Act on extraordinary measures to reduce electricity prices and support certain consumers in 2023 of 27 October 2022 (Journal of Laws 2022.2243 of 3 November 2022)
Electricity Pricing Act	The Act amending the Act on excise tax and certain other acts
PEPWMF	Provincial Environmental Protection and Water Management Fund
IA	Intangible assets
CSBF	Company Social Benefits Fund

ZEW Kogeneracja S.A., KOGENERACJA S.A., KOGENERACJA	Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A.