

QUARTERLY FINANCIAL REPORT

of PGE Polska Grupa Energetyczna S.A.
for the period of 3 and 9 months
ended 30 September 2023
in accordance with EU-IFRS (in PLN million)



Prowadzimy w zielonej zmianie

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I. CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PGE CAPITAL GROUP FOR THE PERIOD OF 3 AND 9 MONTHS ENDED 30 SEPTEMBER 2023 IN ACCORDANCE WITH EU-IFRS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	3 months ended 30 September 2023 <i>(unaudited)</i>	9 months ended 30 September 2023 <i>(unaudited)</i>	3 months ended 30 September 2022 <i>(unaudited)</i>	9 months ended 30 September 2022 <i>(unaudited)</i>
STATEMENT OF PROFIT OR LOSS					
SALES REVENUE	7.1	21,515	71,075	19,355	51,980
Cost of goods sold	7.2	(18,014)	(58,222)	(17,237)	(46,094)
GROSS PROFIT ON SALES		3,501	12,853	2,118	5,886
Distribution and selling expenses	7.2	(1,438)	(5,856)	(405)	(1,210)
General and administrative expenses	7.2	(488)	(1,323)	(208)	(864)
Net other operating income/(costs)	7.4	(369)	(919)	(700)	1,247
OPERATING PROFIT		1,206	4,755	805	5,059
Net finance income/(costs), including:	7.5	(30)	(502)	72	(193)
<i>Interest income calculated using the effective interest rate method</i>		198	479	156	245
Share of profit / (loss) of entities accounted for under the equity method	7.6	-	-	11	22
GROSS PROFIT / (LOSS)		1,176	4,253	888	4,888
Income tax expense	9	(226)	(1,132)	(267)	(962)
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD		950	3,121	621	3,926
OTHER COMPREHENSIVE INCOME					
Items that may be reclassified to profit or loss in the future:		527	(834)	477	1,049
Valuation of debt financial instruments	20.2	(5)	(1)	(5)	(10)
Valuations of hedging instruments	20.2	653	(1,028)	592	1,301
Foreign exchange differences from translation of foreign entities		2	(1)	1	3
Deferred tax	9	(123)	196	(111)	(245)
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		527	(967)	477	1,204
TOTAL COMPREHENSIVE INCOME		1,477	2,154	1,098	5,130
NET PROFIT/(LOSS) ATTRIBUTABLE TO:					
shareholders of the parent company		953	3,029	654	3,942
non-controlling interests		(3)	92	(33)	(16)
COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
shareholders of the parent company		1,479	2,062	1,130	5,144
non-controlling interests		(2)	92	(32)	(14)
NET PROFIT/(LOSS) AND DILUTED NET PROFIT/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY (IN PLN)		0.42	1.35	0.29	1.88

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 September 2023 (unaudited)	As at 31 December 2022 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	3	73,842	64,388
Investment property		30	32
Intangible assets		2,284	726
Rights to use assets		2,055	1,311
Financial receivables	17.1	251	223
Derivatives and other assets measured at fair value through profit or loss	19	327	608
Shares, interests and other capital instruments		117	117
Shares and interests accounted for using the equity method	12	231	180
Other non-current assets		1,124	850
CO ₂ emission allowances for captive use	16	17	114
Deferred income tax assets	14.2	3,231	3,183
		83,509	71,732
CURRENT ASSETS			
Inventories	15	4,456	4,918
CO ₂ emission allowances for captive use	16	662	4,754
Income tax receivables		938	239
Derivatives and other assets measured at fair value through profit or loss	19	307	927
Trade receivables and other financial receivables	17.1	9,114	9,083
Other current assets		1,774	2,219
Cash and cash equivalents	17.2	12,963	11,887
		30,214	34,027
ASSETS CLASSIFIED AS HELD FOR SALE			
		11	19
TOTAL ASSETS		113,734	105,778
EQUITY			
Share capital	20.1	19,184	19,184
Supplementary capital		28,146	25,049
Hedging reserve	20.2	(865)	(32)
Foreign exchange differences from translation		3	4
Retained earnings		9,257	9,333
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY		55,725	53,538
Equity attributable to non-controlling interests		933	845
TOTAL EQUITY		56,658	54,383
NON-CURRENT LIABILITIES			
Non-current provisions	21	8,160	6,363
Credits, loans, bonds, factoring and leases	22.1	10,323	6,799
Derivative instruments	19	396	305
Deferred income tax liabilities	14.2	1,040	1,002
Deferred income and government grants		1,042	1,011
Other financial liabilities	22.2	494	478
Other non-financial liabilities	23.1	132	141
		21,587	16,099
CURRENT LIABILITIES			
Current provisions	21	18,508	21,223
Credits, loans, bonds, factoring and leases	22.1	4,061	2,137
Derivative instruments	19	1,615	1,629
Trade payables and other financial liabilities	22.2	6,745	6,707
Income tax liabilities		206	198
Deferred income and government grants		108	97
Other non-financial liabilities	23.2	4,246	3,305
		35,489	35,296
TOTAL LIABILITIES		57,076	51,395
TOTAL EQUITY AND LIABILITIES		113,734	105,778

The additional information and notes to the condensed interim consolidated financial statements constitute their integral part

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		20.2					
1 JANUARY 2023	19,184	25,049	(32)	4	9,333	53,538	845	54,383
Net profit for the reporting period	-	-	-	-	3,029	3,029	92	3,121
Other comprehensive income	-	-	(833)	(1)	(133)	(967)	-	(967)
COMPREHENSIVE INCOME	-	-	(833)	(1)	2,896	2,062	92	2,154
Retained earnings distribution	-	3,097	-	-	(3,097)	-	-	-
Dividend	-	-	-	-	-	-	(2)	(2)
Share of change in capital of jointly controlled entities	-	-	-	-	124	124	-	124
Settlement of purchase of additional shares in subsidiaries	-	-	-	-	-	-	(10)	(10)
Capital increase by other shareholders	-	-	-	-	-	-	8	8
Other changes	-	-	-	-	1	1	-	1
30 September 2023	19,184	28,146	(865)	3	9,257	55,725	933	56,658

	Share capital	Supplementary capital	Hedging reserve	Foreign exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total equity
Note	20.1		20.2					
1 January 2022	19,165	20,154	609	2	7,564	47,494	797	48,291
Net profit for the reporting period	-	-	-	-	3,942	3,942	(16)	3,926
Other comprehensive income	-	-	1,044	3	155	1,202	2	1,204
COMPREHENSIVE INCOME	-	-	1,044	3	4,097	5,144	(14)	5,130
Retained earnings distribution	-	1,734	-	-	(1,734)	-	-	-
Dividend	-	-	-	-	-	-	(3)	(3)
Share of change in capital of jointly controlled entities	-	-	-	-	34	34	-	34
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)
Other changes	-	-	-	-	(6)	(6)	-	(6)
30 September 2022	19,184	25,049	1,653	5	9,955	55,846	770	56,616

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Period ended 30 September 2023	Period ended 30 September 2022 (data restated)*
CASH FLOWS FROM OPERATING ACTIVITIES			
Gross profit		4,253	4,888
Income tax paid		(1,725)	(1,329)
Adjustments for:			
Share of (profit)/ loss of entities accounted for using the equity method		-	(22)
Depreciation, liquidation and write-downs		3,575	3,259
Interest and dividend, net		533	227
(Profit) / loss on investing activities		(6)	(36)
Change in receivables		567	312
Change in inventories		568	(2,235)
Change in balance of CO ₂ allowances for captive use		4,189	2,763
Change in liabilities, excluding loans and credits		(376)	(567)
Change in other non-financial assets, prepayments		356	(500)
Change in provisions		(2,309)	1,881
Other		(94)	(102)
NET CASH FROM OPERATING ACTIVITIES		9,531	8,539
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(6,407)	(4,006)
Disposal of property, plant and equipment and intangible assets		28	18
Opening of term deposits – over 3 months		(237)	(1,220)
Closing of term deposits – over 3 months		256	1,197
Acquisition of a fully consolidated entity, net of cash acquired		(1,819)	(773)
Acquisition of financial assets		(28)	(4)
Repayment of loans granted		-	16
Disposal of other financial assets, net of cash transferred		1	117
Loss of control		-	(2)
Other		11	15
NET CASH FROM INVESTING ACTIVITIES		(8,195)	(4,642)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from share issue		-	3,197
Proceeds from share issue for non-controlling shareholders		132	33
Proceeds from acquired loans, credits		5,061	2,260
Repayment of loans, credits and leases		(4,872)	(4,049)
Interest paid		(572)	(254)
Other		(9)	(10)
NET CASH FROM FINANCING ACTIVITIES		(260)	1,177
NET CHANGE IN CASH AND CASH EQUIVALENTS		1,076	5,074
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	17.2	11,887	6,733
CASH AND CASH EQUIVALENTS AT END OF PERIOD	17.2	12,963	11,807

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

GENERAL INFORMATION, BASIS FOR PREPARATION OF 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 Wasilek – 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 Wasilek 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 September 2023 and as at the date of 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 September 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 information available to the Company, as at the date of publication of these financial statements, the State Treasury was the only 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 76 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 September 2023, and include comparative data for the period from 1 January 2022 to 30 September 2022, and as at 31 December 2022. The condensed interim 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 as of 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, CO₂ 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 September 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 September 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. In addition, 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. During the three quarters of 2023, the provision for onerous agreements was partially reversed and now it amounts to PLN 11 million. Sales revenues are invoiced in accordance with final court verdicts. As at 30 September 2023, ENESTA's assets, capital and liabilities amount to PLN 137 million and its equity amounts to PLN (178) 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

Note 27.3 describes the process of establishing the National Energy Security Agency and the disposal of 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.

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 September 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 7 sp. z o.o. (previously PGE Baltica 4 sp. z o.o.) Warsaw	PGE S.A.	55.04%	55.04%
29.	Elektrownia Wiatrowa Baltica-8 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%

The additional information and notes to the condensed interim consolidated financial statements constitute their integral part

	Company name	Shareholder	Shares held by PGE CG companies as at 30 September 2023	Shares held by PGE CG companies as at 31 December 2022
30.	Elektrownia Wiatrowa Baltica-9 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
31.	Elektrownia Wiatrowa Baltica-10 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
32.	Elektrownia Wiatrowa Baltica-11 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
33.	Elektrownia Wiatrowa Baltica-12 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
34.	PGE Baltica 2 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
35.	PGE Baltica 3 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
36.	PGE Baltica 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%
50.	LongWing Polska sp. z o.o. Warsaw	PGE EO S.A.	100.00%	-
	SEGMENT: DISTRIBUTION			
51.	PGE Dystrybucja S.A. Lublin	PGE S.A.	100.00%	100.00%
	SEGMENT: ENERGY RAILWAY SERVICES			
52.	PGE Energetyka Kolejowa Holding sp. z o.o. Warsaw	PGE S.A.	100.00%	-
53.	PGE Energetyka Kolejowa S.A. Warsaw	PGE Energetyka Kolejowa Holding sp. z o.o.	100.00%	-
54.	PGE Energetyka Kolejowa Obsługa sp. z o.o. Warsaw	PGE Energetyka Kolejowa Holding sp. z o.o.	100.00%	-
55.	PGE Energetyka Kolejowa CUW sp. z o.o. Łódź	PGE Energetyka Kolejowa Holding sp. z o.o.	100.00%	-
	SEGMENT: OTHER ACTIVITIES			
56.	PGE Systemy S.A. Warsaw	PGE S.A.	100.00%	100.00%
57.	PGE Sweden AB (publ) Stockholm	PGE S.A.	100.00%	100.00%
58.	PGE Synergia sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
59.	ELBIS sp. z o.o. Rogowiec	PGE S.A.	100.00%	100.00%
60.	PGE Inwest 2 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
61.	PGE Ventures sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%

	Company name	Shareholder	Shares held by PGE CG companies as at 30 September 2023	Shares held by PGE CG companies as at 31 December 2022
62.	PGE Gryfino 2050 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
63.	PGE Inwest 9 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
64.	PGE Inwest 10 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
65.	PGE Inwest 11 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
66.	PGE Inwest 12 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
67.	PGE Asekuracja S.A. Warsaw	PGE S.A.	100.00%	100.00%
68.	PGE Inwest 14 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
69.	PGE Nowa Energia sp. z o.o. in liquidation Warsaw	PGE S.A.	100.00%	100.00%
70.	Rybnik 2050 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
71.	PGE Inwest 20 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
72.	PGE Inwest 21 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
73.	PGE Inwest 22 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
74.	PGE Inwest 23 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
75.	PGE Inwest 24 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
76.	PGE Inwest 25 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
77.	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 September 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 April 3, 2023, the transaction of direct acquisition by PGE S.A. was completed. 100% of shares in PKP Energetyka Holding sp. z o.o. 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. (now PGE Energetyka Kolejowa Obsługa sp. z o.o.),
 - PKP Energetyka Centrum Usług Wspólnych sp. z o.o. (now PGE Energetyka Kolejowa 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 September 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.
- On 20 September 2023 PGE EO S.A. acquired 100% shares in LongWing Polska sp. z o.o.

Transactions after the reporting date

- On 2 October 2023, the National Court Register registered the merger of PGE Ekoserwis S.A. (the acquiring company) and EPORE S.A. (the company being acquired). The merger will have no impact on the future consolidated financial statements of the PGE Capital Group.

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 September 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 September 2023	Shares held by PGE CG companies as at 31 December 2022
1.	Polimex Mostostal S.A. Warsaw	PGE S.A.	16.19%	16.26%
2.	PEC Bogatynia S.A. Bogatynia	PGE EC S.A.	34.93%	34.93%
3.	ZPBE Energopomiar sp. z o.o. Gliwice	PGE GiEK S.A. Spółki GK PGE	49.79% -	- 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 sp. z o.o. Łódź	PGE Energetyka Kolejowa Holding sp. z o.o. PGE Energetyka Kolejowa S.A.	39.96% 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. (now Elester sp. z o.o.) The PGE Group companies hold a total 89.96% equity interest in Elester sp. z o.o. Elester sp. z o.o. also has a shareholder not belonging to the PGE Capital Group, whose share in the capital amounts to 10.04%. Pursuant to the shareholders' agreement, all decisions relevant to the business of Elester sp. z o.o., 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 sp. z o.o. 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

Acquisition of the PKP Energetyka Capital Group

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 September 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 2.966 million (after consolidation exclusions and adjustments).
- The share in net profit the amounted to PLN 317 million (after consolidation exclusions and adjustments).

During the three quarters of 2023, the acquired entities recorded sales revenue of PLN 5.013 million (net of consolidation exclusions and adjustments) and net profit of PLN 197 million (net of consolidation exclusions and adjustments).

Acquisition of LongWing Polska sp. z o.o.

On 20 September 2023, PGE Energia Odnawialna S.A. acquired 100% of shares in LongWing Polska sp. z o.o. with a value of EUR 17.5 million from Solar Energy Resources S.A. R.L. and Ser WindPark Zalesie GmbH. The newly acquired company owns the Zalesie wind farm with a capacity of 24.85 MW, located in the Warmińsko-Mazurskie Province.

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

In these financial statements, the transaction is tentatively shown as an asset acquisition. However, the analyses have not yet been completed.

The total value of cash transferred under the transaction amounted to PLN 337 million. The amount of PLN 81 million represented the consideration for the shares, while the amount of PLN 256 million related to the subrogation of liabilities.

According to the requirements of IFRS 3, the PGE Capital Group should complete the accounting for the acquisition within one year from the acquisition date.

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:

	30 September 2023	31 December 2022	30 September 2022
USD	4.3697	4.4018	4.9533
EUR	4.6356	4.6899	4.8698

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	01 January 2024
Changes to IFRS 16	Changes related to the manner of valuation of liabilities under sale and leaseback transactions.	01 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	01 January 2024
Changes to IAS 21	The changes relate to the effects of changes in foreign currency exchange rates – lack of convertibility	01 January 2025

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 as 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 of these estimates are based on the Management Board's best knowledge of current and future activities and events in the respective areas. Detailed information on the adopted assumptions is presented below or in the relevant notes.

- In the first half of 2023, the Group carried out an analysis of the rationale 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. The rationale analysis and impairment tests performed as at 30 June 2023 are valid for the financial statements for the period ended 30 September 2023.
- 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 current 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 write-down for 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 to these consolidated financial statements are 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 first half of 2023, the Group analysed the rationale 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 CO₂ 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 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 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 tests carried out, 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. the prices of electricity, CO₂ 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.

CO₂ 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, 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 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 CO₂/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 CO₂ emission allowance prices, which in practice already occurred in 2021. The high level of CO₂ 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 CO₂ 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 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 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 Partner for switching off all units, adopted for 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 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 establish the NESAs 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 at 30 June 2023. A detailed description of the NESAs project and its potential impact on future financial statements can be found in note 27.3 to these financial statements.

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 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 CO₂ 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 CO₂ reduction target is the rising cost of CO₂ 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 CO₂ emission reduction target in 2030 and, as a result, the rising price level of CO₂ 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 CO₂ emission allowances for electricity generation;
- the allocation of free CO₂ 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 CO₂ 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 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 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 CO₂ 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 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 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 PGE CG'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 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 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 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 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, Wind Power Baltica - 2 sp. z o.o. and Wind Power 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 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.

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 30 September 2023, the book value of property, plant and equipment related to distribution activities was approximately PLN 23 billion and represented approximately 31% 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.

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 early adopt 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 on cash. 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Period ended 30 September 2022 <i>published data</i>	Change in the presentation of accrued foreign exchange differences	Period ended 30 September 2022 <i>data restated</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Other	(112)	10	(102)
NET CASH FROM OPERATING ACTIVITIES	8,529	10	8,539
NET CHANGE IN CASH AND CASH EQUIVALENTS	5,064	10	5,074
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6,734	(1)	6,733
CASH AND CASH EQUIVALENTS AT END OF PERIOD	11,798	9	11,807

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 CO₂ 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).

FAIR VALUE HIERARCHY	Assets as at 30 September 2023		Liabilities as at 30 September 2023	
	Level 1	Level 2	Level 1	Level 2
CO ₂ emission allowances in trading activities	1	-	-	-
Hard coal in trading activities	828	-	-	-
INVENTORIES	829	-	-	-
Currency forwards	-	32	-	23
Commodity forwards	-	5	-	1
Commodity SWAP	-	27	-	6
Contracts for purchase/sale of coal	-	55	-	60
Derivatives embedded in commercial contracts	-	-	-	463
Options	-	15	-	-
DERIVATIVES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	-	134	-	553
CCIRS hedging transactions	-	40	-	-
IRS hedging transactions	-	242	-	-
Currency forward - USD	-	3	-	-
Currency forward - EUR	-	184	-	1,458
HEDGING DERIVATIVES	-	469	-	1,458
Investment fund participation units	-	31	-	-
OTHER ASSETS / LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	-	31	-	-

FAIR VALUE HIERARCHY	Assets as at 31 December 2022		Liabilities as at 31 December 2022	
	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 CONSOLIDATED 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 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 CO₂ 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, 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 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.

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 September 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	28,890	5,593	1,374	7,520	2,966	24,586	131	9	6	71,075
Sales among segments	7,477	2,965	720	238	1	25,467	138	229	(37,235)	-
TOTAL SEGMENT REVENUE	36,367	8,558	2,094	7,758	2,967	50,053	269	238	(37,229)	71,075
Cost of goods sold	(30,530)	(7,044)	(1,177)	(5,219)	(2,269)	(48,313)	(167)	(196)	36,693	(58,222)
EBIT	(195)	744	575	2,288	426	479	50	21	367	4,755
Depreciation, liquidation and write-downs recognised in profit or loss	1,518	573	271	964	199	25	8	37	(20)	3,575
EBITDA	1,323	1,317	846	3,252	625	504	58	58	347	8,330
GROSS PROFIT	-	-	-	-	-	-	-	-	-	4,253
Income tax expense	-	-	-	-	-	-	-	-	-	(1,132)
NET PROFIT FOR REPORTING PERIOD	-	-	-	-	-	-	-	-	-	3,121
ASSETS AND LIABILITIES										
Segment assets without PPE, IA, IP, RTUA trade receivables	3,966	1,250	400	76	225	2,938	32	638	(1,492)	8,033
PPE, IA, IP, RTUA	29,367	8,053	6,268	23,345	7,732	308	65	3,792	(719)	78,211
Trade receivables	1,156	441	234	1,914	805	6,701	55	49	(5,117)	6,238
Shares and interests accounted for using the equity method	-	-	-	-	-	-	-	-	-	231
Unallocated assets	-	-	-	-	-	-	-	-	-	21,021
TOTAL ASSETS	-	-	-	-	-	-	-	-	-	113,734
Segment liabilities, excluding trade payables	24,242	3,571	940	4,178	1,270	5,337	62	100	(2,739)	36,961
Trade payables	1,396	437	95	546	384	4,699	25	33	(5,141)	2,474
Unallocated liabilities	-	-	-	-	-	-	-	-	-	17,641
TOTAL LIABILITIES	-	-	-	-	-	-	-	-	-	57,076
OTHER INFORMATION ON SEGMENT										
Capital expenditures	807	972	812	2,933	625	11	7	618	(177)	6,608
Increases in RTUA	5	18	-	2	-	-	-	2	-	27
TOTAL CAPITAL EXPENDITURES	812	990	812	2,935	625	11	7	620	(177)	6,635
Acquisition of PPE, IA, IP and RTUA as part of acquisition of new companies	-	-	235	-	6,001	-	-	-	1,468	7,704
Write-downs on financial and non-financial assets	94	32	-	11	21	702	-	4	-	864
Other non-monetary expenses *)	16,473	2,166	20	200	55	640	8	13	(237)	19,338

* Changes of a non-monetary nature relate to provisions for, among others, land rehabilitation, CO₂ emission rights, jubilee awards, employee tariffs and non-financial liabilities for employee benefits recognised in profit or loss and other comprehensive income.

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

<i>data restated</i>	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	23,652	3,517	1,579	4,948	18,138	116	27	3	51,980
Sales among segments	2,265	1,377	922	59	14,028	129	194	(18,974)	-
TOTAL SEGMENT REVENUE	25,917	4,894	2,501	5,007	32,166	245	221	(18,971)	51,980
Cost of goods sold	(25,237)	(5,093)	(1,290)	(3,537)	(28,549)	(161)	(187)	17,960	(46,094)
EBIT	1,222	(510)	1,135	1,233	1,660	40	(2)	281	5,059
Depreciation, liquidation and write-downs recognised in profit or loss	1,465	559	267	907	25	7	36	(7)	3,259
EBITDA	2,687	49	1,402	2,140	1,685	47	34	274	8,318
GROSS PROFIT	-	-	-	-	-	-	-	-	4,888
Income tax expense	-	-	-	-	-	-	-	-	(962)
NET PROFIT FOR REPORTING PERIOD	-	-	-	-	-	-	-	-	3,926
ASSETS AND LIABILITIES									
Segment assets without PPE, IA, RTUA and trade receivables	4,330	1,320	332	64	3,763	12	646	(1,255)	9,212
PPE, IA, IP, RTUA	29,360	7,205	4,355	19,874	320	58	2,568	57	63,797
Trade receivables	724	367	338	951	6,778	105	29	(3,636)	5,656
Shares and interests accounted for under the equity method	-	-	-	-	-	-	-	-	179
Unallocated assets	-	-	-	-	-	-	-	-	19,320
TOTAL ASSETS	-	-	-	-	-	-	-	-	98,164
Segment liabilities, excluding trade payables	19,828	2,742	731	3,145	6,106	54	67	(4,850)	27,823
Trade payables	1,462	600	138	399	3,175	25	28	(3,767)	2,060
Unallocated liabilities	-	-	-	-	-	-	-	-	11,665
TOTAL LIABILITIES	-	-	-	-	-	-	-	-	41,548
OTHER INFORMATION ON SEGMENT									
Capital expenditures	399	522	200	1,213	11	2	1,538	(54)	3,831
Increases in RTUA	1	-	-	2	-	-	-	-	3
TOTAL CAPITAL EXPENDITURES	400	522	200	1,215	11	2	1,538	(54)	3,834
Acquisition of PPE, IA, IP and RTUA as part of acquisition of new companies	-	-	365	-	-	-	-	728	1,093
Write-downs on financial and non-financial assets	589	48	-	13	392	(1)	1	5	1,047
Other non-monetary expenses *)	12,160	1,467	(36)	19	1,125	3	19	(175)	14,582

* Changes of a non-monetary nature relate to provisions for, among others, land rehabilitation, CO₂ emission rights, jubilee awards, employee tariffs and non-financial liabilities for employee benefits recognised in profit or loss and other comprehensive income

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

7. Revenue and expenses

7.1 Sales revenue

Sales revenue for the period ended 30 September 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	36,358	8,066	2,090	6,792	2,883	45,480	268	237	(37,216)	64,958
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	51	-	918	84	4,460	-	-	-	5,514
Revenue from recognised compensation pursuant to the Act on preferential purchase of solid fuel for households	-	-	-	-	-	109	-	-	-	109
Revenue from support for high-efficiency cogeneration	-	449	-	-	-	-	-	-	-	449
Revenue from PPA compensation	-	(28)	-	-	-	-	-	-	-	(28)
Lease income	8	20	4	48	-	4	1	1	(13)	73
TOTAL SALES REVENUE	36,367	8,558	2,094	7,758	2,967	50,053	269	238	(37,229)	71,075

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	36,322	8,024	2,060	7,865	2,733	44,179	118	-	(35,441)	65,860
<i>Taxes and fees collected on behalf of third parties</i>	(8)	(3)	-	(1,115)	(94)	(103)	-	-	-	(1,323)
Revenue from sales of goods and products, including:	36,314	8,021	2,060	6,750	2,639	44,076	118	-	(35,441)	64,537
Sales of electricity	32,894	4,808	1,704	8	1,245	21,209	-	-	(15,319)	46,549
The capacity market,	1,651	157	192	-	-	22	-	-	-	2,022
Sales of distribution services	11	17	-	6,444	996	54	-	-	(239)	7,283
Sales of heat	86	2,973	-	-	-	8	-	-	(9)	3,058
Sales of energy origin rights	-	46	171	-	-	-	-	-	(23)	194
Regulatory system services	1,571	2	11	-	-	-	-	-	-	1,584
Sales of natural gas	-	-	-	-	-	797	-	-	(617)	180
Sales of fuels	-	-	-	-	107	5,534	-	-	(2,803)	2,838
Sales of CO ₂ emission allowances	-	11	-	-	-	16,444	-	-	(16,373)	82
Other sales of goods and materials	101	7	(18)	298	291	8	118	-	(58)	747
Revenue from sales of services	44	45	30	42	244	1,404	150	237	(1,775)	421
REVENUE FROM CONTRACTS WITH CUSTOMERS	36,358	8,066	2,090	6,792	2,883	45,480	268	237	(37,216)	64,958

Sales revenue for the period ended 30 September 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	25,908	4,708	2,497	4,963	32,161	245	220	(18,956)	51,746
Revenue from PPA compensation	-	3	-	-	-	-	-	-	3
Revenue from support for high-efficiency cogeneration	-	166	-	-	-	-	-	-	166
Lease income	9	17	4	44	5	-	1	(15)	65
TOTAL SALES REVENUE	25,917	4,894	2,501	5,007	32,166	245	221	(18,971)	51,980

The additional information and notes to the condensed interim consolidated financial statements constitute their integral part

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	25,847	4,665	2,474	6,057	31,152	127	20	(17,584)	52,758
Taxes and fees collected on behalf of third parties	(6)	(3)	-	(1,133)	(55)	-	-	-	(1,197)
Revenue from sales of goods and products, including:	25,841	4,662	2,474	4,924	31,097	127	20	(17,584)	51,561
Sales of electricity	23,818	2,641	2,159	10	16,728	-	-	(5,485)	39,871
The capacity market,	1,611	157	210	-	22	-	-	-	2,000
Sales of distribution services	11	11	-	4,696	57	-	-	(58)	4,717
Sales of heat	62	1,781	-	-	8	-	-	(9)	1,842
Sales of energy origin rights	1	61	162	-	-	-	-	20	244
Regulatory system services	112	2	11	-	-	-	-	-	125
Sales of natural gas	-	-	-	-	817	-	-	(216)	601
Sales of fuels	-	-	-	-	4,325	-	-	(2,639)	1,686
Sales of CO ₂ emission allowances	147	1	-	-	9,144	-	-	(9,139)	153
Other sales of goods and materials	79	8	(68)	218	(4)	127	20	(58)	322
Revenue from sales of services	67	46	23	39	1,064	118	200	(1,372)	185
REVENUE FROM CONTRACTS WITH CUSTOMERS	25,908	4,708	2,497	4,963	32,161	245	220	(18,956)	51,746

7.2 Expenses by kind and function

	3 months ended 30 September 2023	Period ended 30 September 2023	3 months ended 30 September 2022	Period ended 30 September 2022
EXPENSES BY KIND				
Depreciation and write-downs	1,263	3,599	1,123	3,265
Consumption of materials and energy	2,669	9,937	2,876	6,764
Third party services	1,209	3,374	672	1,894
Taxes and charges	7,286	24,182	5,783	16,701
Employee benefits expenses	1,856	5,327	1,397	4,262
Other expenses by kind	124	351	108	295
TOTAL COSTS BY TYPE	14,407	46,770	11,959	33,181
Change in products	(20)	(53)	(19)	(21)
Cost of services for entity's own needs	(338)	(838)	(161)	(413)
Distribution and selling expenses	(1,438)	(5,856)	(405)	(1,210)
General and administrative expenses	(488)	(1,323)	(208)	(864)
Value of goods and materials sold	5,891	19,522	6,071	15,421
COST OF GOODS SOLD	18,014	58,222	17,237	46,094

7.3 Depreciation, liquidation and write-downs

The recognition of depreciation, liquidation and impairment losses on 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 September 2023	Depreciation and liquidation					Write-downs			
	PPE	IA	RTUA	IP	TOTAL	PPE	IA	RTUA	TOTAL
Cost of goods sold	3,199	31	99	2	3,331	123	-	-	123
Distribution and selling expenses	8	2	3	-	13	-	-	-	-
General and administrative expenses	67	11	28	-	106	2	-	-	2
RECOGNISED IN PROFIT OR LOSS	3,274	44	130	2	3,450	125	-	-	125
Change in products	1	-	-	-	1	-	-	-	-
Cost of services for entity's own needs	21	1	1	-	23	-	-	-	-
TOTAL	3,296	45	131	2	3,474	125	-	-	125
Other operating costs	-	-	2	-	2	-	-	-	-

Period ended 30 September 2022	Depreciation and liquidation					Write-downs			
	PPE	IA	RTUA	IP	TOTAL	PPE	IA	RTUA	TOTAL
Cost of goods sold	3,066	32	37	2	3,137	57	9	(1)	65
Distribution and selling expenses	7	1	2	-	10	-	-	-	-
General and administrative expenses	30	6	8	-	44	2	1	-	3
RECOGNISED IN PROFIT OR LOSS	3,103	39	47	2	3,191	59	10	(1)	68
Change in products	(3)	-	-	-	(3)	-	-	-	-
Cost of services for entity's own needs	9	-	-	-	9	-	-	-	-
TOTAL	3,109	39	47	2	3,197	59	10	(1)	68

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 Depreciation and liquidation, the Group recognised in the current and comparative periods an amount of PLN 23 million for the net value of the liquidation of PPE and IA.

7.4 Other operating income and costs

	Period ended 30 September 2023	Period ended 30 September 2022
NET OTHER OPERATING INCOME/(COSTS)		
Valuation and exercise of derivatives, including:	(494)	155
CO ₂	-	34
Lignite	(494)	121
Effect of revaluation of provisions for costs of land rehabilitation	(331)	1,738
Creation of write-downs of receivables	(97)	(1,001)
Penalties, fines, damages	46	592
Donations given	(34)	(67)
(Settlement of inventory shortages) / Asset surpluses, disclosures	(34)	(10)
Reversal/(creation) of other provisions	31	(223)
Repair of damage and failure	(30)	(13)
Grants	25	23
PPE/IA and other infrastructure received free of charge	22	15
Gain/(Loss) on disposal of PPE/IA	(2)	16
Other	(21)	22
TOTAL OTHER NET OPERATING INCOME/(COSTS)	(919)	1,247

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 costs

	Period ended 30 September 2023	Period ended 30 September 2022
NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS		
Dividends	1	4
Interest, including:	(92)	(5)
Interest income calculated using the effective interest rate method	479	245
Revaluation	(69)	(14)
Creation of write-downs	(9)	(4)
Foreign exchange differences	23	44
Gain on disposal of investment	1	27
TOTAL NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS	(145)	52
OTHER NET FINANCE INCOME/(COSTS)		
Interest expense on non-financial items	(339)	(236)
Interest on liabilities to state budget	(7)	(1)
Provisions created	-	(1)
Other	(11)	(7)
TOTAL OTHER NET FINANCE INCOME/(COSTS)	(357)	(245)
TOTAL NET FINANCE INCOME/(COSTS)	(502)	(193)

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 48 million (PLN 30 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 September 2023	Polimex Mostostal	PEC Bogatynia	Energopomiar	PGE Soleo Kleszczów	PGE PAK Energia Jądrowa	Elester-PKP*
SHARE OF VOTES	16.19%	34.93%	49.79%	50.00%	50.00%	89.96%
Revenue	2,462	16	48	-	-	41
Result from continuing operations	40	(2)	2	-	-	2
Share in result of entities accounted for using the equity method	6	-	1	-	-	2
Elimination of unrealised gains and losses	(9)	-	-	-	-	-
SHARE IN RESULT OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	(3)	-	1	-	-	2
Other comprehensive income	1	-	-	-	-	-
SHARE IN OTHER COMPREHENSIVE INCOME OF ENTITIES ACCOUNTED FOR UNDER THE EQUITY METHOD	-	-	-	-	-	-

*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 September 2022	Polska Grupa Górnicza	Polimex Mostostal	PEC Bogatynia	Energopomiar
SHARE OF VOTES	15.32%	16.48%	34.93%	49.79%
Revenue	8,287	2,845	13	44
Result from continuing operations	1,664	117	-	6
Share in result of entities accounted for using the equity method	255	19	-	3
Elimination of unrealised gains and losses	10	(10)	-	-
Impairment write-down	(255)	-	-	-
SHARE IN RESULT OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	10	9	-	3
Other comprehensive income	76	9	-	-
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 625 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. The issue of impairment losses on property, plant and equipment is presented in note 7.3 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.

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 September 2023 and 30 September 2022 are as follows:

	Period ended 30 September 2023	Period ended 30 September 2022
INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS		
Current income tax expense	1,012	1,640
Adjustments concerning current income tax expense from previous years	24	14
Deferred income tax	133	(671)
Adjustments to deferred income tax	(37)	(21)
INCOME TAX EXPENSE RECOGNISED IN STATEMENT OF PROFIT OR LOSS	1,132	962
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	(196)	245
(Tax benefit)/tax charge recognised in other comprehensive income (equity)	(227)	281

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 6.608 million and obtained rights to use underlying assets worth PLN 27 million. The largest expenditure was incurred by the Distribution segment (PLN 2.935 million), the Heat Generation segment (PLN 990 million), the Renewable Power Generation segment (PLN 812 million) and the Conventional Power Generation segment (PLN 812 million).

The main expenditure items in the Distribution segment were connections of new customers to the distribution network (PLN 1,131 million) and the Cabling Programme (PLN 626 million). In the Conventional Power Generation segment, the main expenditures were incurred at the Bełchatów Power Plant for the overhaul of unit 7 (PLN 43 million) and unit 14 (PLN 113 million), at the Turów Power Plant for the adjustment of the power plant to BAT conclusions (PLN 43 million) and at the Opole Power Plant for the mid-term overhaul of unit 4 (PLN 22 million). In the Heat Generation segment, the largest expenditures were incurred on the construction of the new Czechnica CHP plant (PLN 387 million), the construction of a cogeneration source at the Bydgoszcz CHP plant (PLN 52 million) and the construction of line 2 of the thermal waste processing with energy recovery (TWPER) installation at the Rzeszów CHP plant (PLN 51 million).

As is described in note 1.4 to these consolidated financial statements:

- On 3 April 2023, the Group acquired shares in PKPE Holding. This transaction increased the net value of property, plant and equipment, intangible assets and rights to use assets by PLN 6,001 million. As a result of the initial settlement of the acquisition, goodwill was determined at PLN 1,372 million.
- On 20 September 2023 PGE Energia Odnawialna S.A. purchased shares in LongWing Polska sp. z o.o. This transaction increased the net value of property, plant and equipment and rights to use assets by PLN 338 million.

11. Future investment commitments

As at 30 September 2023 the Company had undertaken to incur expenditure on property, plant and equipment in the amount of approximately PLN 18.390 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 September 2023	As at 31 December 2022
Renewable Power Generation	8,646	2,092
Other activities	4,793	2,067
Distribution	3,116	2,824
Heat Generation	1,333	1,928
Conventional Power Generation	487	512
Railway Power Engineering	14	-
Trade	1	3
TOTAL FUTURE INVESTMENT COMMITMENTS *	18,390	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 6.996 million; modernisation of the upper reservoir of the Porąbka-Zar pumped storage power plant – an amount of approximately PLN 900 million; design and construction of new photovoltaic installations in more than 40 different locations – an amount of approximately PLN 269 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 333 million.
- Other Activities – construction of a CCGT power generation unit (Rybnik 2050 sp. z o.o.) – an amount of approximately PLN 2.983 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 1.670 million.

- Distribution – investment commitments related mainly to network distribution assets in the amount of approximately PLN 3.116 million.
- Heat Generation – construction of a CCGT power plant called Nowa Czechnica in Siechnice – an amount of approximately PLN 417 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 275 million; construction of Line II of the Thermal Processing Plant with Energy Recovery in Rzeszów – an amount of approximately PLN 306 million.

12. Shares and interests accounted for using the equity method

	As at 30 September 2023	As at 31 December 2022
Polimex - Mostostal S.A., Warszawa	176	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	36	-
SHARES ACCOUNTED FOR USING THE EQUITY METHOD	231	180

	Polimex Mostostal	PEC Bogatynia	Energopo- miar	PGE Soleo Kleszczów	PGE PAK Energia Jądrowa	Elester-PKP
SHARE OF VOTES	16.19%	34.93%	49.79%	50.00%	50.00%	89.96%
AS AT 30 September 2023						
Current assets	1,600	4	23	4	10	89
Non-current assets	723	20	21	1	-	12
Current liabilities	1,074	4	16	-	-	20
Non-current liabilities	263	1	5	-	-	12
NET ASSETS	986	19	23	5	10	69
Share in net assets	160	7	11	3	5	62
Goodwill	16	-	-	-	-	(26)
Impairment write-down	-	(7)	-	-	-	-
SHARES ACCOUNTED FOR USING THE EQUITY METHOD	176	-	11	3	5	36

	Polimex Mostostal	PEC Bogatynia	Energopomiar
SHARE 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.

14. Deferred tax in the statement of financial position

14.1 Deferred income tax assets

	As at 30 September 2023	As at 31 December 2022
Difference between tax and current book values of property, plant and equipment	2,259	2,214
Provision for land rehabilitation	861	637
Provision for employee benefits	693	608
Provision for purchase of CO ₂ emission allowances	3,276	3,852
Difference between tax and current book values of liabilities	866	712
Difference between carrying amount and tax value of right-of-use assets	336	187
Tax losses	83	145
Other provisions	148	243
Difference between tax and current book values of financial assets	286	367
Compensations for PPA	77	81
Liabilities from recognised compensation under the Electricity Pricing Act	100	4
Difference between tax and current book values of financial assets	166	103
Infrastructure acquired free of charge and received grid connection fees	100	96
Other	30	19
TOTAL DEFERRED INCOME TAX ASSETS	9,281	9,268

14.2 Deferred tax liabilities

	As at 30 September 2023	As at 31 December 2022
Difference between tax and current book values of property, plant and equipment	5,391	4,807
CO ₂ emission allowances	127	795
Difference between tax and current book values of financial assets	733	951
Difference between balance sheet and tax value of lease liabilities	376	235
Receivables from recognised compensation under the Electricity Pricing Act	342	103
Receivables from recognised compensation pursuant to the Act on preferential purchase of solid fuel	-	25
Difference between tax and current book values of energy origin rights	2	20
Difference between tax and current book values of financial liabilities	25	73
Other	94	78
TOTAL DEFERRED INCOME TAX LIABILITIES	7,090	7,087

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

Deferred income tax assets	3,231	3,183
Deferred income tax liabilities	(1,040)	(1,002)

15. Inventories

	As at 30 September 2023	As at 31 December 2022
Coal	2,308	1,958
Repair and maintenance materials	800	746
Hard oil	47	64
Ekoterm	43	59
Other materials	128	84
TOTAL MATERIALS	3,326	2,911
Green energy origin rights	166	428
Other energy origin rights	13	3
TOTAL ENERGY ORIGIN RIGHTS	179	431
CO ₂ emission allowances held for sale	1	1
Hard coal held for sale	828	1,497
Other goods	17	7
TOTAL GOODS	846	1,505
OTHER INVENTORIES	105	71
TOTAL INVENTORIES	4,456	4,918

16. CO₂ emission allowances for captive use

EUA	As at 30 September 2023		As at 31 December 2022	
	Long-term	Short-term	Long-term	Short-term
Quantity (Mg million)	<1	3	<1	20
Value (PLN million)	17	662	114	4,754

EUA	Quantity (Mg million)	Value (PLN million)
AS AT 01 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 September 2023	3	679

* CO₂ emission allowances related to heat generation

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 September 2023		As at 31 December 2022	
	Long-term	Short-term	Long-term	Short-term
Trade receivables	-	6,238	-	6,517
Deposits and loans	237	-	214	-
Receivables from due recognised compensation	-	1,722	-	671
Deposits, securities and collaterals	12	980	7	1,579
High efficiency cogeneration support system	-	141	-	41
Damages and penalties	-	10	-	192
Other financial receivables	2	23	2	83
FINANCIAL RECEIVABLES	251	9,114	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 September 2023	As at 31 December 2022*
Cash at bank and in hand	9,074	1,428
Overnight deposits	220	791
Short-term deposits	1,806	6,147
Proceeds from share issue	1,626	2,727
Funds in VAT accounts	237	794
TOTAL	12,963	11,887
Undrawn credit facilities as at reporting date	10,032	11,783
<i>including overdraft facilities</i>	<i>5,514</i>	<i>3,817</i>

* 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 169 million (PLN 295 million in the comparative period), held in customer accounts of PGE Dom Maklerski S.A. as collateral for settlements with the the Warsaw Commodity Clearing House.

18. Other current and non-current assets

18.1 Other non-current assets

	As at 30 September 2023	As at 31 December 2022
Prepayments for property, plant and equipment under construction	994	615
Customer acquisition costs	101	102
Other non-current assets	29	133
TOTAL OTHER ASSETS	1,124	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.

18.2 Other current assets

	As at 30 September 2023	As at 31 December 2022
PREPAYMENTS AND DEFERRED EXPENSES		
CSBF	70	5
Customer acquisition costs	68	60
Long-term contracts	64	35
Logistic costs related to purchase of coal	41	55
Property and tort insurance	26	17
IT services	24	19
Fees for excluding land from agricultural and forestry production	17	-
Mining usage fees	14	-
Property tax	10	-
Fees for road lane usage and machinery deployment	9	-
Other prepayments and deferred expenses	44	30
OTHER CURRENT ASSETS		
Input VAT receivables	679	1,570
Prepayments for deliveries	661	404
Excise tax receivables	13	12
Other current assets	34	12
TOTAL OTHER ASSETS	1,774	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 September 2023	
	Assets	Liabilities
DERIVATIVES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		
Currency forwards	32	23
Commodity forwards	5	1
Commodity SWAP	27	6
Contracts for purchase/sale of coal	55	60
Derivatives embedded in commercial contracts	-	463
Options	15	-
HEDGING DERIVATIVES		
CCIRS hedging transactions	40	-
IRS hedging transactions	242	-
Currency forward - USD	3	-
Currency forward - EUR	184	1,458
OTHER ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		
Investment fund participation units	31	-
TOTAL	634	2,011
short-term part	307	1,615
long-term part	327	396

	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 CO₂ emission allowances and lignite sales. To recognise forward currency transactions related to the purchase of CO₂ 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 1.250 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.

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 in 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 September 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 March 18, 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 standardized 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 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 thereon,
- 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.

20.2 Hedging reserve

	Period ended 30 September 2023	Year ended 31 December 2022
AS AT JANUARY 1	(32)	609
Change in hedging reserve, including:	(1,029)	(791)
Measurement of hedging instruments, including:	(1,028)	(788)
<i>Recognition of the effective portion of change in fair value of hedging financial instruments in the part considered as effective hedge</i>	<i>(1,019)</i>	<i>(728)</i>
<i>Accrued interest on derivatives transferred from hedging reserve and recognised in interest expense</i>	<i>(13)</i>	<i>(45)</i>
<i>Currency revaluation of CCIRS transaction transferred from hedging reserve and recognised in foreign exchange gains/losses</i>	<i>8</i>	<i>(13)</i>
<i>Ineffective portion of change in fair value of hedging derivatives recognised in profit or loss</i>	<i>(4)</i>	<i>(2)</i>
Measurement of other financial instruments	(1)	(3)
Deferred tax	196	150
HEDGING RESERVE AFTER DEFERRED TAX	(865)	(32)

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

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 September 2023		As at 31 December 2022	
	Long-term	Short-term	Long-term	Short-term
Employee benefits	2,546	315	2,188	298
Provision for land rehabilitation	5,568	5	4,139	3
Provision for costs of CO ₂ emissions	-	17,552	-	20,318
Provision for value of energy origin rights held for redemption	-	309	-	271
Other provisions	46	327	36	333
TOTAL PROVISIONS	8,160	18,508	6,363	21,223

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

- for expenditure 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 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 extrapolation, according to the adopted method.

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

The discount rate and other assumptions have not changed significantly from the first half of 2023. In the current period, the Group adopted the values in force at 30 June 2023, which 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 provisions for post-employment benefits recognised correspondingly as a decrease in other comprehensive income in the amount of PLN 164 million,
- an increase in provisions for jubilee awards recognised correspondingly as an increase in operating expenses of PLN 52 million.

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
01 January 2023	2,486	4,142	20,318	271	369	27,586
Current employment costs	63	-	-	-	-	63
Past employment costs	33	-	-	-	-	33
Interest costs	128	211	-	-	-	339
Adjustment to discount rate and other assumptions	216	1,142	-	-	-	1,358
Benefits paid / Provisions used	(206)	-	(20,321)	(749)	(79)	(21,355)
Provisions reversed	-	-	(2)	(1)	(95)	(98)
Established reserves - costs	-	28	17,557	660	72	18,317
Provisions recognised - expenditure	-	35	-	-	-	35
Change in composition of CG	141	5	-	128	112	386
Other changes	-	10	-	-	(6)	4
30 September 2023	2,861	5,573	17,552	309	373	26,668

	Employee benefits	Provision for land rehabilitation costs	Provision for costs of CO ₂ emissions	Provision for energy origin rights to be redeemed	Other	Total
01 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 recognised - 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

Provisions for employee benefits mainly comprise:

- post-employment benefits – PLN 1.943 million (PLN 1,689 million as at 31 December 2022),
- jubilee awards – PLN 918 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 September 2023 the value of the provision was PLN 4.938 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 September 2023, the provision amounted to PLN 254 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 September 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.

Property, plant and equipment liquidation costs

As at the reporting date, the provision amounted to PLN 379 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 CO₂ 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 September 2023, the provision amounted to PLN 17.552 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 September 2023, the provision amounted to PLN 309 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 37 million,
- PGE Energia Ciepła S.A. in the amount of PLN 31 million,
- PGE Paliwa sp. z o.o. in the amount of PLN 9 million (PLN 41 million in the comparative period).

Provisions for onerous agreements

- PGE Energetyka Kolejowa Obsługa sp. z o.o. in the amount of PLN 29 million,
- ENESTA sp. z o.o. in restructuring in the amount of PLN 11 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 September 2023, their value at amortised cost, as disclosed in these financial statements, amounted to PLN 643 million and their fair value was PLN 570 million.

22.1 Credits, loans, bonds, factoring and leases

	As at 30 September 2023		As at 31 December 2022	
	Long-term	Short-term	Long-term	Short-term
Credits and loans	6,941	1,903	3,808	2,062
Bonds issued	2,038	45	2,046	21
Factoring	-	2,002	-	-
Lease	1,344	111	945	54
TOTAL CREDITS, LOANS, BONDS FACTORING AND LEASES	10,323	4,061	6,799	2,137

Credits and loans

As at 30 September 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 September 2023	Liability as at 31 December 2022
European Investment Bank	-	2041-03-15	2,000	PLN	Fixed	2,007	-
European Investment Bank	-	2034-08-25	1,500	PLN	Fixed	1,389	1,442
PKO BP S.A.	-	2023-10-31	1,500	PLN	Variable	1,318	-
European Investment Bank	-	2041-03-15	850	PLN	Variable	852	-
Bank Gospodarstwa Krajowego	IRS	2027-12-31	1,000	PLN	Variable	575	627
European Investment Bank	-	2041-03-15	550	PLN	Fixed	552	-
European Investment Bank	-	2034-08-25	490	PLN	Fixed	455	472
European Bank for Reconstruction and Development	IRS	2028-06-06	500	PLN	Variable	353	378
Bank Gospodarstwa Krajowego	IRS	2028-12-31	500	PLN	Variable	351	376
European Investment Bank	-	2038-10-16	273	PLN	Fixed	275	274
Bank consortium	IRS	2023-09-30	3,630	PLN	Variable	-	1,481
Bank Pekao S.A.	-	2023-10-31	40	USD	Variable	-	40
Bank Pekao S.A.	-	2023-10-31	100	USD	Variable	-	-
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	3,800	PLN	Variable	-	-
Bank Pekao S.A.	-	2024-12-22	500	PLN	Variable	-	-
PKO BP S.A.	-	2023-12-31	300	PLN	Variable	-	-
ING	-	2024-06-30	57	PLN	Variable	-	-
PKO BP S.A.	-	2024-06-30	183	PLN	Variable	-	-
NEPWMF	-	December 2028 – June 2043	240	PLN	Fixed	91	90
NEPWMF	-	June 2024 – June 2031	1,057	PLN	Variable	478	515
PEPWMF	-	September 2026	9	PLN	Fixed	4	5
PEPWMF	-	March 2026 – December 2029	213	PLN	Variable	144	170
TOTAL BANK CREDITS AND LOANS						8.844	5.870

As at 30 September 2023, the value of available overdraft facilities in the major companies of the PGE Capital Group amounted to PLN 10.032 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 September 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 September 2023	Liability as at 31 December 2022
PGE S.A.	IRS	indefinite	5,000	PLN	Variable	2019-05-21	2029-05-21	1,029	1,009
						2019-05-21	2026-05-21	411	403
PGE Sweden AB (publ)	CCIRS	indefinite	2,000	EUR	Fixed	2014-08-01	2029-08-01	643	655
TOTAL BONDS ISSUED								2.083	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 840 million (full factoring). As at 30 September 2023, the balance of settlements under full and reverse factoring amounted to PLN 2.002 million.

22.2 Trade payables and other financial liabilities

	As at 30 September 2023		As at 31 December 2022	
	Long-term	Short-term	Long-term	Short-term
Trade payables	-	2,474	-	3,104
Compensation	-	1,857	-	357
Purchase of PPE and IA	1	1,547	1	1,078
Settlements related with stock market transactions	-	48	-	1,423
Security deposits received	41	212	31	169
Liabilities on account of LTC	348	63	375	55
Insurance	-	-	-	4
Other	104	544	71	517
TRADE PAYABLES AND OTHER FINANCIAL LIABILITIES	494	6,745	478	6,707

The item "Other" includes, among other elements, the estimated liabilities of PGE Obrót resulting from the tariff regulation described in more detail in note 27.4 to these financial statements; liabilities of PGE Dom Maklerski S.A. to its customers for cash payments.

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 September 2023	As at 31 December 2022
TOTAL OTHER NON-CURRENT LIABILITIES		
Contract liabilities	131	139
Other	1	2
TOTAL OTHER NON-CURRENT LIABILITIES	132	141

23.2 Other current non-financial liabilities

	As at 30 September 2023	As at 31 December 2022
OTHER CURRENT LIABILITIES		
Liabilities related to output VAT	672	840
Excise tax liabilities	31	12
Contract liabilities	1,422	446
Liabilities related to payments to WRC Fund	367	351
Environmental fees	146	266
Payroll liabilities	277	299
Bonuses for employees	396	297
Accrued annual leave and other employee benefits	441	313
Awards for Management Boards	16	19
Personal income tax	97	95
Social insurance liabilities	298	291
Other	83	76
TOTAL OTHER CURRENT LIABILITIES	4,246	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.

OTHER EXPLANATORY NOTES

24. Contingent receivables and payables. Litigation

24.1 Contingent liabilities

	As at 30 September 2023	As at 31 December 2022
Contingent return of grants from environmental and developmental funds	540	616
Liabilities related to legal actions	105	86
Liabilities related to bank guarantees securing currency exchange transactions	400	601
Perpetual usufruct of land	60	61
Other contingent liabilities	97	31
TOTAL CONTINGENT LIABILITIES	1,202	1,395

Contingent 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 and developmental 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 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 PLN 10 million, and with respect to the individual companies, the reimbursement payment will be made on a 33.33% basis to each company. Accordingly, the potential value of the liability on the part of the PGE Capital Group, taking into account the shares referred to in note 1.3.2, was estimated at PLN 26.8 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 excluded 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.

According 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 preparation of these financial statements, the level of coal stocks was maintained at the required level.

Taking into account the above reasons (that were beyond the Capital Group's control) for not meeting 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 is 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. 20 PLN/MWh, should be applied to settle the said relief. This position was sustained by the judgement of the Provincial Administrative Court in Rzeszów of October 8, 2019.

On November 20, 2019, the tax authority filed a cassation appeal against the above-mentioned judgement of the Provincial Administrative Court. The Supreme Administrative Court set a hearing for 22 November 2023.

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 agreements, 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 agreements 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 agreements.

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 filed 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. To date, a final expert opinion on transfer prices has not been produced.

In addition, 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 to the Regional Court in Warsaw against PGE GiEK S.A., PGE S.A. and PwC Polska sp. z o.o. (hereinafter referred to as Respondents) requesting that the Respondents be ordered, in solidum, or jointly and severally, to pay for the benefit of Pozwa 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 March 9, 2017 and the deadline for filing a response to the lawsuit was set by the court at July 9, 2017. The companies PGE S.A. and PGE GiEK S.A. submitted a response to the claim on 8 July 2017. On September 28, 2018, the District Court in Warsaw ruled in the first instance and the lawsuit by Pozwy sp. z o.o. against PGE S.A., PGE GiEK S.A. and PwC Polska sp. z o.o. was dismissed. On 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. No court dates have been set.

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.

Issues related to the Polimex-Mostostal consortium's request for an increase in remuneration for the construction of a CHP plant in Siechnice

On June 23, 2021, a contract for the construction of a gas-steam CHP plant for Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. in Siechnice was concluded with a consortium consisting of Polimex Mostostal S.A. and Polimex Energetyka sp. z o.o. The current value of the contractual remuneration is PLN 1,159 million net.

Due to the occurrence - in the opinion of the Consortium – of the impact of an extraordinary change in economic relations, resulting in an increase in the prices of goods and materials as a consequence of the accumulation of the COVID 19 pandemic and the new phase of the armed aggression of the Russian Federation against Ukraine, the company received requests from the Consortium to increase the amount of contractual remuneration for the

above contract. The company commissioned the preparation - by external experts - of a legal opinion and technical expertise, the results of which will form the basis for mediation aimed at resolving the disputes that have arisen regarding the existence of factual and legal grounds and the potential scope of a possible change in the amount of remuneration. On September 15, 2023, the Parties concluded an agreement on mediation before a permanent mediator at the Court of Arbitration at the General Prosecutor's Office of the Republic of Poland. In November 2023, the first mediation sessions were held. As of the date of publication of these financial statements, the mediation has not been completed. The Consortium estimated the indexation claim at a net amount of PLN 344 million. In the company's opinion, the Consortium - as of now - has not demonstrated, in accordance with the distribution of the burden of proof, the factual and legal basis for the claim.

On September 20 and 26, 2023 - at the request of the Consortium - the Regional Court in Wrocław issued a decision on granting the security of the Consortium's claim for forming the legal relationship and amendment to the Agreement. The value of the subject of the security was determined by the Court at PLN 344 million.

According to the wording of the Court's decision on the collateral, until the court proceedings - on the subject of changing the amount of the contractual remuneration - become final and legally binding, half of the net value of the subject of the collateral, i.e. the amount of PLN 172 million, will increase the existing value of the payments under investment obligations indicated in the application and will be invoiced successively to the works carried out by the Consortium. The establishment of the security is not legally binding. The decision has been given an immediate enforceability clause.

On November 2, 2023, the company launched a formal appeal procedure against the Court's non-final order on granting of security, aimed at challenging the legitimacy of the granting of security in principle and amount. On November 9, 2023, the company sent a request to suspend enforcement of the aforementioned security order.

In these financial statements, the PGE Group has not created a provision for the reported claim.

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 were 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 issue fines and penalties together with penalty interest. A 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 September 2023, the balance of cash on the VAT accounts was PLN 237 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 the 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.

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 charges 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 a 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 September 2023	Period ended 30 September 2022
Sales to associates and jointly controlled entities	21	22
Purchases from associates and jointly controlled entities	80	1,247

	As at 30 September 2023	As at 31 December 2022
Trade receivables from associates and jointly controlled entities	6	6
Trade payables to associates and jointly controlled entities	22	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 September 2023	Period ended 30 September 2022
Sales to related entities	9,495	5,202
Purchases from related entities	11,030	6,770

	As at 30 September 2023	As at 31 December 2022
Trade receivables from related parties	1,079	1,260
Trade payables to related parties	1,348	1,089

The largest transactions involving companies controlled by the Treasury concerned the following entities: Polskie Sieci Elektroenergetyczne S.A., Polska Grupa Górnicza S.A., Enea Wytwarzanie S.A., Orlen S.A., PKO Bank Polski S.A., Jastrzębska Spółka Węglowa S.A., Węglkokoks Kraj Sp. z o.o., PKP Cargo S.A., Grupa Azoty Zakłady Azotowe PUŁAWY 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 transfers 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 comprises the Management Board and the Supervisory Board of the parent company and significant subsidiaries.

PLN '000	Period ended 30 September 2023	Period ended 30 September 2022
Short-term employee benefits (remuneration and surcharges)	33,559	28,440
Post-employment benefits	1,801	940
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	35,360	29,380
Remuneration of key management personnel in companies conducting non-core activities	15,467	16,268
TOTAL MANAGEMENT REMUNERATION	50,827	45,648

PLN '000	Period ended 30 September 2023	Period ended 30 September 2022
Management Board of the parent company	6,176	6,506
<i>including post-employment benefits</i>	247	-
Supervisory Board of the parent company	537	596
Management Boards – subsidiaries	25,336	19,492
Supervisory Boards – subsidiaries	3,311	2,786
TOTAL	35,360	29,380
Remuneration of key management personnel in companies conducting non-core activities	15,467	16,268
TOTAL MANAGEMENT REMUNERATION	50,827	45,648

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 systems. The following incidents are regularly identified: phishing, attempts to install malware and DDoS (Distributed Denial of Service) attacks. Safeguards adequate to the changing risks are being implemented.

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 (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 course of the war in the territory of Ukraine and its macroeconomic and market consequences, the PGE Group monitors 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 by PGE Paliwa sp. z o.o. of decisions related to the purchase and sale of coal

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 sale 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 per Mg. 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. In connection with a significant decrease in market prices of coal in 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 September

2023 was recognised in the financial results of the PGE Capital Group to the estimated coal prices obtainable on the market. As at 30 September 2023, the amount of the inventory write-down was PLN 645 million, and the amount of PLN 574 million was recognised in the results of the current period.

On 10 October 2023, an agreement was entered into with the Ministry of Climate and Environment for the financing of the implementation of the Prime Minister's decision. The agreement provides for the reimbursement of costs incurred in connection with the implementation of the decision. A report on the implementation of the decision as at 30 April 2023, as required by the provisions of the agreement, was submitted on time by PGE Paliwa sp. z o.o. to the Ministry of Climate and Environment. The financial effect of the agreement will be reflected in the financial results of the PGE Capital Group in Q4 2023. At the time of preparation of these consolidated financial statements, it is estimated that revenue from the agreement in the amount of PLN 672 million will be recognised in the results of Q4 2023.

The Group recognised PLN 109 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, based on the submitted compensation settlement request, it is obliged to repay the net amount of PLN 6 million, within 14 days of receiving a demand for payment from Zarządca Rozliczeń S.A.

PGE Paliwa sp. z o.o. carried out sales based on the aforementioned Act until 30 April 2023.

27.3 Project providing for the 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. Coal mining assets will not be included in a coal-fired generation entity. 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 NESAs through the contribution of shares of individual companies to the capital increase of PGE GiEK S.A.

The NESAs 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 NESAs 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 NESAs will be to ensure the necessary power balance in the power system. The NESAs 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 power assets and their integration into the NESAs.

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 as at the date of the acquisition by the State Treasury of shares in PGE GiEK S.A. (if any) will be repaid by the NESAs from the credit granted to the NESAs 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 CO₂ 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 NESAs and obtaining preliminary bank credit decisions for the financing of the NESAs,
- 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 NESAs after the closing of the Transaction.

As at the date of these financial statements, the above conditions precedent have not been met.

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, there is significant uncertainty about the project's ability to continue in its current form (including uncertainty regarding the maintenance of the financial conditions).

Consequently, as at 30 September 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 September 2023. In turn, the book value of consolidated net assets of PGE GiEK S.A. and its subsidiaries as at 30 September 2023 is PLN 10,423 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 September 2023, the separate gross profit of PGE S.A. would be reduced by PLN 10,874 million and the consolidated gross profit of the PGE Capital Group would be reduced by PLN 9,574 million.

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

In order for financing agreements to be entered into and for the NESAs to be established under the terms of the Term Sheet, it is necessary for the Parliament to pass an Act on the principles of the State Treasury's granting security for the liabilities of the National Energy Security. As at the date of publication of these financial statements, such an Act has not been passed and the Company is not aware of any day of such enactment. In view of the above, in the Company's opinion, it is probable that the transaction of selling PGE GiEK S.A. will not be completed by the dates included in the Term Sheet.

Benefits from the sale of coal assets

The divestment of conventional power generation activities based on coal combustion results from the PGE Capital Group's strategy published on 19 October 2020, which provides for the achievement of climate neutrality by 2050. The separation of coal assets will bring tangible benefits to the Group in the following areas, among others:

- greater and more favourable access to debt and equity financing sources, lower financing costs;
- greater and more favourable access to the insurance market;
- lower cash requirements for hedging the costs of CO₂ emissions and inventories of production raw materials;
- release of credit limits at financing institutions as a result of reduced demand for EUA allowances;
- increased opportunities to use financial resources for investments in distribution networks and green technologies, with higher rates of return;
- reduced risk of changes in prices of CO₂ emission allowances.

All of the above measures will, in the opinion of the Management Board, make the Company more attractive to 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 Act Amending the Household Amendment Act of 16 August 2023 was published.

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. On the other hand, once the Act Amending the Household Act of 16 August 2023 entered into force, the consumption limits for each category of customers were increased by an additional 1MWh. Once the consumption limits dedicated to household customers have been exceeded, a maximum price of 693 PLN/MWh (price excluding 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 (price excluding VAT and excise duty). After the Act Amending the Household Act of 16 August 2023 entered into force, the maximum price will be, as for households, PLN 693 per MWh. This price, in principle, applies from 1 December 2022, but it will apply in a different amount 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 on 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"). A contribution to the Fund is the product of the volume of electricity sold and the positive difference between the volume-weighted average market price of electricity sold and the volume-weighted average price cap of electricity sold, as specified in the Regulation of the Council of Ministers of 8 November 2022 on the manner 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- and coal-fired power generation units, the price limit takes into account, among other things, the unit cost of fuel consumed, the cost of CO₂ 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 three quarters of 2023 amounted to PLN 4.851 million (a decrease in the financial result),
- revenue from compensation for the three quarters of 2023 amounted to PLN 5.514 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 determines 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 effected in the last weeks of 2023.

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

On 11 September 2023, the Regulation of the Minister of Climate and Environment of 9 September 2023, amending the Regulation on the manner of shaping and calculating tariffs and the manner of settlements in electricity trading, was published and came into force on 19 September 2023. This regulation reduces electricity bills for household consumers by an average of PLN 125 in 2023, provided that one of the listed conditions is met. Power utilities conducting business activities related to electricity trading are obliged to make the reduction at the latest in the last electricity invoice in 2023.

The Group estimated the impact of the regulation on its financial results and made a reduction in revenue of PLN 291 million as at 30 September 2023. The estimate was based on the number of customers who, as at 30 September 2023, met at least one of the conditions listed in the regulation. As at 31 December 2023, the estimate is subject to change.

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 31 October 2022 PGE Polska Grupa Energetyczna S.A. and Korea Hydro & Nuclear Power Co. Ltd. and ZE PAK S.A. letter of intent to start cooperation within the framework of the strategic Polish-Korean project to build a nuclear power plant at the Pałnów-Konin site. The planned capacity of the plant is 2,800 MW, based on the use of two PWR (Pressurised Water Reactor) nuclear reactors with the Korean APR 1400 technology. The cooperation also includes field and environmental studies, the implementation of a feasibility study and the obtainment of all necessary administrative decisions.

In the Polish Nuclear Power Programme, the Pątnów-Konin area is recommended as one of the possible locations for the construction of a nuclear power plant in Poland. The investment project is also in line with the principles of the development of nuclear technologies contained in Poland's Energy Policy until 2040.

On 22 May 2023, PGE PAK Energia Jądrowa S.A. was registered in the National Court Register. PGE Polska Grupa Energetyczna S.A. and ZE PAK S.A. each hold 50% of the shares in PGE PAK Energia Jądrowa S.A.

On 11 August 2023, PGE Polska Grupa Energetyczna S.A., ZE PAK S.A. and PGE PAK Energia Jądrowa S.A. entered into a shareholders' agreement setting out the rules of the company's corporate governance and business activity.

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.

II. QUARTERLY FINANCIAL INFORMATION OF PGE POLSKA GRUPA ENERGETYCZNA S.A. FOR THE PERIOD OF 3 AND 9 MONTHS ENDED 30 SEPTEMBER 2023 IN ACCORDANCE WITH EU-IFRS

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	3 months ended 30 September 2023 <i>(unaudited)</i>	9 months ended 30 September 2023 <i>(unaudited)</i>	3 months ended 30 September 2022 <i>(unaudited)</i>	9 months ended 30 September 2022 <i>(unaudited)</i>
STATEMENT OF PROFIT OR LOSS				
SALES REVENUE	8,140	43,688	6,957	25,812
Cost of goods sold	(7,584)	(41,925)	(6,574)	(24,608)
GROSS PROFIT ON SALES	556	1,763	383	1,204
Distribution and selling expenses	(3)	(9)	(2)	(8)
General and administrative expenses	(91)	(266)	(76)	(208)
Other operating income/(expenses)	30	39	7	(58)
OPERATING PROFIT	492	1,527	312	930
Finance income/(costs), including:	2,905	4,123	309	2,116
<i>Interest income calculated using the effective interest rate method*</i>	524	1,483	328	733
GROSS PROFIT	3,397	5,650	621	3,046
Income tax expense	(166)	(469)	(109)	(256)
NET PROFIT FOR REPORTING PERIOD	3,231	5,181	512	2,790
OTHER COMPREHENSIVE INCOME				
Items that may be reclassified to profit or loss in the future:				
Valuations of hedging instruments	(75)	(286)	(40)	341
Actuarial gains and losses from valuation of provisions for employee benefits	(42)	(2)	1	3
Deferred tax	55	55	7	(65)
Items that may not be reclassified to profit or loss in the future:				
Actuarial gains and losses from valuation of provisions for employee benefits	-	-	-	-
Deferred tax	-	-	-	-
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET	(62)	(233)	(32)	279
TOTAL COMPREHENSIVE INCOME	3,169	4,948	480	3,069
NET PROFIT AND DILUTED NET PROFIT PER SHARE (IN PLN)	1.44	2.31	0.23	1.33

*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 stated value refers to interest income.

The additional information and notes

to the condensed interim consolidated financial statements

constitute their integral part

SEPARATE STATEMENT OF FINANCIAL POSITION

	As at 30 September 2023 <i>(unaudited)</i>	As at 31 December 2022 <i>(audited)*</i>
NON-CURRENT ASSETS		
Property, plant and equipment	136	139
Right to use assets	22	24
Financial receivables	3,439	5,468
Derivatives and other assets measured at fair value through profit or loss	325	608
Shares and interests in subsidiaries	33,140	29,441
Shares and interests in associates and jointly controlled and other entities	-	96
Other non-current assets	3	104
	37,065	35,880
CURRENT ASSETS		
Inventories	1	1
Trade and other receivables	18,532	17,626
Derivative instruments	1,880	1,669
Shares and interests in subsidiaries	-	4
Other current assets	1,314	4
Cash and cash equivalents	11,009	10,593
	32,736	29,897
TOTAL ASSETS	69,801	65,777
EQUITY		
Share capital	19,184	19,184
Supplementary capital	28,146	25,049
Hedging reserve	171	402
Retained earnings	5,162	3,101
	52,663	47,736
NON-CURRENT LIABILITIES		
Non-current provisions	31	12
Credits, loans, bonds and leases	8,418	5,233
Deferred income tax liability	107	143
Other liabilities	6	9
	8,562	5,397
CURRENT LIABILITIES		
Current provisions	41	40
Credits, loans, bonds, cash pooling and leases	5,281	7,549
Derivative instruments	1,466	1,268
Trade payables and other financial liabilities	1,034	3,156
Income tax liabilities	40	40
Other non-financial liabilities	714	591
	8,576	12,644
TOTAL LIABILITIES	17,138	18,041
TOTAL EQUITY AND LIABILITIES	69,801	65,777

*change in the presentation in the current period of advances received and transferred to PGE Dom Maklerski S.A. as collateral for settlements with IRGIT, consisting of the reclassification of advances from non-financial receivables and payables to financial receivables and liabilities respectively.

The additional information and notes
to the condensed interim consolidated financial statements
constitute their integral part

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	-	-	-	5,181	5,181
Other comprehensive income	-	-	(231)	(2)	(233)
COMPREHENSIVE INCOME FOR THE PERIOD	-	-	(231)	5,179	4,948
Retained earnings distribution	-	3,097	-	(3,097)	-
Capital from the merger of ZCP	-	-	-	(21)	(21)
AS AT 30 September 2023	19,184	28,146	171	5,162	52,663

	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	-	-	-	2,790	2,790
Other comprehensive income	-	-	276	3	279
COMPREHENSIVE INCOME FOR THE PERIOD	-	-	276	2,793	3,069
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 September 2022	19,184	25,049	522	2,796	47,551

The additional information and notes

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SEPARATE STATEMENT OF CASH FLOWS

	Period ended 30 September 2023 <i>(unaudited)</i>	Period ended 30 September 2022 <i>(unaudited)*</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Gross profit	5,650	3,046
Income tax paid	(444)	(140)
Adjustments for:		
Depreciation and write-downs	11	9
Interest and dividend, net	(3,690)	(1,891)
(Profit) / loss on investing activities	(14)	(324)
Change in receivables	(8,243)	6,826
Change in liabilities, excluding loans and credits	(2,001)	(9,494)
Change in other non-financial assets	(55)	(1,224)
Change in provisions	15	-
Other	-	-
NET CASH FROM OPERATING ACTIVITIES	(8,771)	(3,192)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets	(4)	(5)
Redemption of bonds issued by PGE Group companies	3,400	3,550
Dividends received	702	473
Disposal of other financial assets	6	117
Acquisition of shares and interests in subsidiaries	(2,059)	(87)
Granting/(repayment) of loans under cash pooling service	(2,285)	2,697
Loans granted	(12,925)	(13,798)
Interest received	1,131	402
Repayment of loans granted	18,954	12,704
Other	(26)	-
NET CASH FROM INVESTING ACTIVITIES	6,894	6,053
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from share issue	-	3,197
Proceeds from acquired loans, credits	4,741	2,234
Repayment of credits, loans and leases	(1,869)	(3,777)
Interest paid	(579)	(283)
Other	-	(17)
NET CASH FROM FINANCING ACTIVITIES	2,293	1,354
NET CHANGE IN CASH AND CASH EQUIVALENTS	416	4,215
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	10,593	5,316
CASH AND CASH EQUIVALENTS AT END OF PERIOD	11,009	9,531

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

The additional information and notes
to the condensed interim consolidated financial statements
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1. Changes in accounting principles and data presentation

During the current period, the Company has not changed its accounting policies or data presentation.

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.

The acquisition of ZCP PGE Synergia sp. z o.o. and ZCP PGE Energia Ciepła S.A.

On 28 June 2023, the Company acquired, in the form of an *Organised Enterprise Part Sale Agreement*, with effect from 1 July 2023:

- an organised part of the enterprise of PGE Synergia sp. o.o. and
- an organised part of the enterprise of PGE Energia Ciepła S.A,

together with all rights and obligations pertaining thereto, including obligations to carry out business tasks consisting in the provision of financial, accounting, HR and payroll services to the companies belonging to the PGE Capital Group and other customers.

The merger described above constituted a reorganisation of entities under common control, as the sole shareholder of both entities participating in the reorganisation, i.e. PGE Synergia sp. z o.o. and PGE Energia Ciepła S.A., is PGE S.A., which held control over these companies and which did not lose this control as a result of the reorganisation.

Reorganisations of entities under common control are excluded from the scope of IFRS 3 *Business Combinations*. In accordance with the accounting policy adopted in accordance with IFRS for the PGE Capital Group companies, the accounting for a business combination of related entities involves the addition of the reporting items of the combining entities and appropriate eliminations. Due to the principle of materiality, the comparative data for 2022 have not been restated.

III. APPROVAL OF THE QUARTERLY FINANCIAL STATEMENTS

This financial report containing the interim consolidated financial statements of the PGE Group and quarterly financial information of PGE S.A. for the 3 and 9 months ended 30 September 2023 was approved for release by the Management Board of the parent company on 21 November 2023.

Warsaw, 21 November 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 Taxation Department

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
NESA	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 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.
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
ZCP	Organised part of the enterprise
CSBF	Company Social Benefits Fund
ZEW Kogeneracja S.A., KOGENERACJA S.A., KOGENERACJA	Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A.