SEPARATE FINANCIAL STATEMENTS

PGE Polska Grupa Energetyczna S.A.
for the year 2023

ended 31 December 2023
in accordance with EU IFRS (in PLN million)

Prowadzimy w zielonej zmianie

FINANCIAL HIGHLIGHTS

	Year ended 31 December		Year ended 31 December	
	2023	2022	2023	2022
	PLN million	**PLN million**	**EUR million**	**EUR million**
Sales revenue	65,842	35,922	14,540	7,662
Operating profits (loss)	1,988	1,139	439	243
Gross profit / (loss) (before tax)	(5,285)	3,430	(1,167)	732
Net profit/(loss) for the reporting period	(5,894)	3,097	(1,302)	661
Comprehensive income	(6,154)	3,254	(1,359)	694
Net cash from operating activities	(19,272)	(1,105)	(4,256)	(236)
Net cash from investing activities	6,120	5,428	1,351	1,158
Net cash from financing activities	4,301	954	950	203
Net change in cash and cash equivalents	(8,851)	5,277	(1,955)	1,125
Net profit /(loss) per share (in PLN/EUR per share)	(2.63)	1.45	(0.58)	0.31
Diluted profit /(loss) per share (in PLN/EUR per share)	(2.63)	1.45	(0.58)	0.31
Weighted average number of issued ordinary shares used to calculate profit per share	2,243,712,994	2,129,990,555	2,243,712,994	2,129,990,555

	As at		As at	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
	PLN million	**PLN million**	**EUR million**	**EUR million**
Non-current assets	25,783	35,880	5,930	7,650
Current assets	34,294	29,897	7,887	6,375
Total assets	**60,077**	**65,777**	**13,817**	**14,025**
Equity	41,561	47,736	9,559	10,178
Share capital	**19,184**	**19,184**	**4,412**	**4,090**
Non-current liabilities	8,296	5,397	1,908	1,151
Current liabilities	10,220	12,644	2,351	2,696

The above financial data have been converted into EUR in accordance with the following rules:
▪ the particular items of assets equity and liabilities – at the average exchange rate specified by the National Bank of Poland as at 31 December 2023 –EUR/PLN 4.3480 and as at 31 December 2021 – EUR/PLN 4.6899.
▪ the particular items in the statement of comprehensive income and the statement of cash flows – at an exchange rate constituting the arithmetic mean of the average exchange rates specified by the National Bank of Poland for the last day of each month in the financial year from 1 January 2023 to 31 December 2023 – EUR/PLN 4.5284; for the period from 1 January 2022 to 31 December 2022 – EUR/PLN 4.6883.

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in accordance with EU IFRS (in PLN million)

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2023	Year ended 31 December 2022
SALES REVENUE	*4.1*	**65,842**	**35,922**
Cost of goods sold	*4.2*	(63,413)	(34,213)
GROSS PROFIT ON SALES		**2,429**	**1,709**
Distribution and selling expenses	*4.2*	(107)	(99)
General and administrative expenses	*4.2*	(374)	(300)
Other operating income/(expenses)	*4.3*	40	(171)
OPERATING PROFIT		**1,988**	**1,139**
Finance income/(costs), including:	*4.4*	(7,273)	2,291
Interest income calculated using the effective interest rate method		*2,563*	*1,129*
GROSS PROFIT / (LOSS)		**(5,285)**	**3,430**
Income tax expense	*5.1*	(609)	(333)
NET PROFIT/(LOSS)		**(5,894)**	**3,097**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss in the future:			
Valuations of hedging instruments	*12.3*	(293)	193
Deferred tax	*5.1*	56	(37)
Items that may not be reclassified to profit or loss in the future:			
Actuarial gains and losses from valuation of provisions for employee benefits		(29)	1
Deferred tax		6	-
NET OTHER INCOME		**(260)**	**157**
TOTAL COMPREHENSIVE INCOME		**(6,154)**	**3,254**
NET PROFIT/(LOSS) AND DILUTED NET PROFIT/(LOSS) PER SHARE (in PLN)	*12.5*	**(2.63)**	**1.45**

in accordance with EU IFRS (in PLN million)

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2023	As at 31 December 2022
NON-CURRENT ASSETS			
Property, plant and equipment	*6.*	147	139
Intangible assets		2	1
Right to use assets	*7.*	22	23
Financial receivables	*16.1.1*	3,562	5,468
Derivatives and other assets measured at fair value through profit or loss	*16.1.2*	236	608
Shares and interests in subsidiaries	*8.*	21,711	29,441
Shares and interests in associates, as well as jointly controlled and other entities	*8.2*	99	96
Other non-current assets		4	104
		25,783	**35,880**
CURRENT ASSETS			
Inventories		1	1
Trade and other receivables	*16.1.1*	30,276	17,626
Derivative instruments	*16.1.2*	2,120	1,669
Shares and interests in subsidiaries	*8.*	-	4
Other current assets	*10.*	155	4
Cash and cash equivalents	*11.*	1,742	10,593
		34,294	**29,897**
TOTAL ASSETS		**60,077**	**65,777**
EQUITY			
Share capital	*12.1*	19,184	19,184
Supplementary capital	*12.2*	28,146	25,049
Hedging reserve	*12.3*	165	402
Retained earnings	*12.4*	(5,934)	3,101
		41,561	**47,736**
NON-CURRENT LIABILITIES			
Non-current provisions	*13.14*	62	12
Credits, loans, bonds and leases	*16.1.3*	8,168	5,233
Deferred income tax liability	*5.3.2*	59	143
Other liabilities	*16.1.4*	7	9
		8,296	**5,397**
CURRENT LIABILITIES			
Current provisions	*13.14*	43	40
Credits, loans, bonds, cash pooling and leases	*16.1.3*	5,513	7,549
Derivative instruments	*16.1.2*	1,739	1,268
Trade and other payables	*16.1.4*	1,793	3,156
Income tax liabilities		92	40
Other non-financial liabilities	*15.*	1,040	591
		10,220	**12,644**
TOTAL LIABILITIES		**18,516**	**18,041**
TOTAL EQUITY AND LIABILITIES		**60,077**	**65,777**

*'*a change in the current period's presentation of deposits received and transferred to PGE Dom Maklerski S.A. as collateral for settlements with the Warsaw Commodity Clearing House, consisting in the reclassification of deposits from non-financial receivables and payables to financial receivables and payables, respectively.*

in accordance with EU IFRS (in PLN million)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Supplementary capital	Hedging reserve	Retained earnings	Total equity
Note	*12.1*	*12.2*	*12.3*	*12.4*	
AS AT 1 JANUARY 2022	**19,165**	**20,154**	**246**	**1,737**	**41,302**
Net profit for the reporting period	-	-	-	3,097	**3,097**
Other comprehensive income	-	-	156	1	**157**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**156**	**3,098**	**3,254**
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 31 DECEMBER 2022	**19,184**	**25,049**	**402**	**3,101**	**47,736**
Net (loss) for the reporting period	-	-	-	(5,894)	**(5,894)**
Other comprehensive income	-	-	(237)	(23)	**(260)**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**(237)**	**(5,917)**	**(6,154)**
Retained earnings distribution	-	3,097	-	(3,097)	**-**
Capital from ZPC merger	-	-	-	(21)	**(21)**
AS AT 31 DECEMBER 2023	**19,184**	**28,146**	**165**	**(5,934)**	**41,561**

in accordance with EU IFRS (in PLN million)

STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2023	Year ended 31 December 2022*
CASH FLOWS FROM OPERATING ACTIVITIES			
Gross profit/(loss)		**(5,285)**	**3,430**
Income tax paid		(575)	(239)
Adjustments for:			
Depreciation and write-downs		14	12
Interest and dividend, net	*18.1*	(4,480)	(1,986)
Profit / loss on investing activities	*18.1*	12,259	(446)
Change in receivables	*18.1*	(20,254)	5,149
Change in inventories		-	-
Change in liabilities, excluding loans and credits	*18.1*	(929)	(6,942)
Change in other non-financial assets	*18.1*	(50)	(83)
Change in provisions		21	1
Foreign exchange differences		-	(1)
Other		7	-
NET CASH FROM OPERATING ACTIVITIES		**(19,272)**	**(1,105)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(12)	(7)
(Purchase)/redemption of bonds issued by PGE Group companies	*18.2*	3,400	3,550
Disposal of other financial assets	*18.2*	6	217
Acquisition of subsidiaries and other financial assets	*18.2*	(2,507)	(117)
Dividends received	*18.2*	1,857	1,639
Cash received/(provided) under cash pooling service	*18.2*	(4,563)	4,332
Loans granted		(20,344)	(19,228)
Interest received		1,603	591
Repayment of loans granted		26,663	14,441
Other		17	10
NET CASH FROM INVESTING ACTIVITIES		**6,120**	**5,428**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from share issue		-	3,197
Proceeds from acquired loans, credits	*18.3*	8,365	2,200
Repayment of credits, loans and leases	*18.3*	(3,342)	(3,985)
Interest paid		(722)	(444)
Other		-	(14)
NET CASH FROM FINANCING ACTIVITIES		**4,301**	**954**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(8,851)**	**5,277**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	*11*	**10,593**	**5,316**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	*11*	**1,742**	**10,593**

*'*a change in the current period's presentation of deposits received and transferred to PGE Dom Maklerski S.A. as collateral for settlements with the Warsaw Commodity Clearing House, consisting in the reclassification of deposits from non-financial receivables and payables to financial receivables and payables, respectively.*

in accordance with EU IFRS (in PLN million)

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

1. General information

1.1 Company's business activities

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

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

The State Treasury is the Company's principal shareholder.

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

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

PGE S.A.'s business activities are conducted under appropriate concessions, including a concession for electricity trading granted by the Energy Regulatory Office. The concession is valid until 2025. No material assets or liabilities are attributed to the concession. In connection with the concession, annual fees depending on the level of turnover are incurred. In 2023, the Company's costs related to the concession amounted to PLN 3.1 million in comparison to PLN 2.5 million in 2022.

Revenue from the sale of electricity and other energy market products is the only significant items in operating revenue. This revenue is generated on the domestic market. The Company's Management Board does not analyse the Company's operations by segments and therefore the Company does not distinguish operating or geographical segments in its operations.

Going concern

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

These financial statements cover the period from 1 January 2023 to 31 December 2023 and contain comparative data for the period from 1 January 2022 to 31 December 2022.

1.2 The Company's ownership structure

	As at 31 December 2023	As at 01 January 2023
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.

1.3 Composition of the Company's Management Board

On 1 January 2023, the composition of the Management Board was as follows:

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

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

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

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

On 23 November 2023, the Supervisory Board adopted a resolution to dismiss Mr Paweł Śliwa, Vice President of the Management Board, from the Management Board as of 23 November 2023.

On 31 December 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,
- Przemysław Kołodziejak – Vice President of the Management Board,
- Lechosław Rojewski – Vice President of the Management Board,
- Rafał Włodarski – Vice President of the Management Board.

On 7 February 2024, the Supervisory Board adopted a resolution to dismiss Mr Wojciech Dąbrowski, Ms Wanda Buk and Mr Rafał Włodarski from the Management Board. Furthermore, on 7 February 2024, the Supervisory Board adopted resolutions on delegating the following Members of the Supervisory Board:

- Mr Eryk Kosiński to temporarily perform the duties of a Member of the Management Board of the Company for a period of 3 months and to entrust him with the duties of the President of the Management Board,
- Ms Małgorzata Banasik to temporarily perform the duties of a Member of the Management Board for a period of 3 months.

On 28 February 2024, the Supervisory Board adopted a resolution to dismiss Mr Lechosław Rojewski from the Management Board.

On 6 March 2024, the Supervisory Board adopted a resolution to appoint to the Management Board as of 18 March 2024:

- Mr Dariusz Marzec and to entrust him with the duties of the President of the Management Board,
- Mr Marcin Laskowski and entrust him with the function of Vice President of the Management Board for Regulation.

At the same time, the Supervisory Board adopted resolutions on:

- Termination as of 17 March 2024 of the delegation of Mr Eryk Kosiński, Member of the Supervisory Board, to temporarily perform the duties of a Member of the Management Board acting as President of the Management Board and
- Termination as of March 8, 2024 of the delegation of Ms Małgorzata Banasik, Member of the Supervisory Board, to temporarily perform the duties of a Member of the Company's Management Board.

On March 21, 2024, the Supervisory Board adopted a resolution to appoint Mr Robert Piotr Kowalski to the Management Board as of May 15, 2024 and entrust him with the function of Vice President of the Management Board for Support and Development.

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

- Dariusz Marzec – President of the Management Board,
- Przemysław Kołodziejak – Vice President of the Management Board,
- Marcin Laskowski – Vice President of the Management Board.

2. Basis for preparation of the financial statements

2.1 Statement of compliance

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

These financial statements in note no. 23 include financial information referred to in Article 44(2) of the Energy Law Act of 10 April 1997 (i.e. Journal of Laws of 2012, item 1059, as amended).

The financial statements have been drawn up in accordance with the historical cost convention, which has been modified with respect to the following:

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

Significant accounting principles used in drawing up these financial statements are described in the particular notes. They were used by the Company on a continuous basis for all presented periods, unless it is indicated otherwise.

2.2 Presentation and functional currency

The Company's functional currency and the presentation currency of these 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:

	31 December 2023	31 December 2022
USD	3.9350	4.4018
EUR	4.3480	4.6899

2.3 New standards and interpretations published, not yet effective

The following standards, changes in the already effective standards and interpretations are not endorsed by the European Union or are not effective on 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 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 Company 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 PGE SA.

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 separate 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.

- During the reporting period, the Company carried out an analysis of the circumstances and subsequent impairment testing of financial non-current assets. The results of the tests are described in note 8.1 to these financial statements.
- Provisions are liabilities whose amount or timing of payment is uncertain. During the course of the reporting period the Company updated the provision for employee benefits due to increases in the discount rate and inflation, as well as the entry into force of the new Company Collective Labour Agreement. Details are set out in note 13 to these financial statements.
- Uncertainties related to tax settlements are described in note 20 to these separate financial statements.
- The Company makes significant estimates in respect of recognised contingent liabilities. Relevant details are set out in note 19 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 Company. Note 16.1.2 provides information on the impact of the valuation of financial instruments on profit or loss and other comprehensive income.
- Due to the crisis situation in the electricity market in 2022 and 2023, a number of legal regulations came into force, which, among other things, made it necessary for the Company to estimate costs with respect to the contribution to the Price Difference Payment Fund resulting from the Extraordinary Measures in 2023 Act. The Company interprets the regulations to the best of its knowledge and with the support of external advisors. Nevertheless, a different interpretation of the regulations cannot be ruled out, which may result in adjustments to the accounts in future reporting periods. A detailed description of these estimates can be found in notes 24.1.5 to these financial statements.

3. 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 connected with the entry into force of IFRS 17 Insurance Contracts are described below. The other changes did not have any material impact on the presented and disclosed financial information or did not apply to transactions entered into by the Company:

- 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.
- Amendments ti IAS 12 – amendments related to the International Tax Reform (Pillar Two).

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.

IFRS 17 Insurance Contracts

IFRS 17 introduces a new approach to the valuation of insurance liabilities, the recognition of revenue and profit/loss in a period of providing insurance services.

The Company analysed its contracts against the criteria of insurance contracts, in accordance with IFRS 17 Insurance Contracts. No contracts meeting these criteria were identified.

Changes in accounting principles and data presentation

The Company did not make any significant changes to its accounting policies or the presentation of data requiring restatement for comparison purposes.

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 impact of the transaction on the Company's equity amounted to PLN (21) million, of which PLN (7) million was recognised in the result of the current period, and PLN (28) million in retained earnings from the merger. The amount of PLN (28) million represents the difference between the purchase price of PLN (32) million and the value of the acquired net assets, i.e. PLN 2 million, after taking into account the recognised deferred tax asset of PLN 6 million.

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. With regard to the materiality principle, the comparative data for 2022 have not been restated.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

4. Revenue and expenses

4.1 Sales revenue

SIGNIFICANT ACCOUNTING PRINCIPLES

Revenue from contracts with customers

Revenue is recognised in the manner reflecting the transfer of promised goods or services to a customer in the amount reflecting consideration to which the Company expects to be entitled in exchange for the specified good or service transferred.

The Company recognises revenue at the time of satisfying a performance obligation by transferring a promised good or service to a customer. A good is transferred at the time when the customer obtains control of that good.

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

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

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

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

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

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

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

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

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

in accordance with EU IFRS (in PLN million)

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

Lease income

The Company, as a lessor, classified the lease contracts concluded as operating leases. Operating lease income is recognised in profit of the current period under the straight-line method. The subject matter of the contracts is mainly office and utility space.

Revenue from wholesale of electricity

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

The settlement of deviations of the actually delivered electricity volumes from the previously notified supply schedules (ESC: Energy Sale Contracts) takes place on the Balancing Market operated by the Transmission System Operator at balancing energy prices determined in accordance with its operating rules. Settlements of the Balancing Market are executed with the Transmission System Operator every decade, whereas settlements of the wholesale sale on the Polish Power Exchange are carried out with the Warsaw Commodity Clearing House that is the guarantor of settlements of transactions entered into on the Polish Power Exchange; they are executed on a daily basis in accordance with the Warsaw Commodity Clearing House's clearing regulations. For OTC Contracts, settlements are performed in accordance with the provisions of such Contracts, i.e. on a decade or monthly basis.

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

Type of good or service	Year ended 31 December 2023	Year ended 31 December 2022
REVENUE FROM CONTRACTS WITH CUSTOMERS	**65,837**	**35,917**
Revenue from sales of goods, including:	**63,614**	**34,177**
Sales of electricity	*33,575*	*20,730*
Sales of gas	*939*	*1,219*
Sales of CO_2 emission allowances	*29,070*	*12,199*
Revenue from the capacity market	*30*	*29*
Revenue from sales of services	**2,223**	**1,740**
LEASE INCOME	**5**	**5**
TOTAL SALE REVENUE	**65,842**	**35,922**

The total revenue amount includes approx. PLN 9 million in sales transactions for which the value was not ultimately established as at the end of the reporting period.

In 2023 the Company recognised revenue from the performance of obligations in the previous periods resulting from adjustments of the value of electricity sold in the balancing market in the previous years. The total amount of these adjustments was approximately PLN 39 million (approximately PLN 26 million in 2022).

Date of transfer of goods or services	Year ended 31 December 2023	Year ended 31 December 2022
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS		
Revenue from sales of goods and services transferred to the customer over time:	*36,767*	*23,718*
Revenue from sales of goods and services transferred to the customer at a particular point in time	*29,070*	*12,199*
TOTAL SALE REVENUE	**65,837**	**35,917**

The Company's operations are predominantly conducted in Poland. Sales to foreign customers in 2023 did not occur, while in 2022 they amounted to PLN 11 million and mainly concerned the sale of CO_2 emission allowances.

The increase in revenue from electricity sales in 2023 compared with the same period of the previous year was the result of an average electricity sales price higher by (+) PLN 318/MWh.

in accordance with EU IFRS (in PLN million)

The decrease in revenue from natural gas sales in 2023 compared with the previous year was the result of a decrease in the volume of gas sold and a lower average price of gas sold. The decrease in volume was mainly due to lower sales on the exchange and to entities outside the PGE Capital Group.

The increase in revenue from the sale of CO_2 emission allowances resulted from a volume of CO_2 emission allowances sold higher by (+)32.3 million tonnes and an average sale price higher by (+)109 PLN/tonne. The higher volume was mainly due to a different timing of purchases of CO_2 emission allowances in 2023 for the purpose of their redemption for the years 2022 and 2023 compared to the purchases in 2022 for the purpose of their redemption for the years 2021 and 2022.

Revenue from the sale of services mainly relates to services provided to the subsidiaries in the PGE Capital Group, such as electricity trade and supply, supply of fuels, licences and so-called support services. The increase in revenue for the sales of services in 2023 compared to the previous year resulted from an increase in trading and electricity supply services mainly due to higher electricity prices, with lower electricity volumes and lower weighted average margins. Revenue from support services and licensing services was also higher.

Information on the key customers

The Company's main customers are its subsidiaries within the PGE Capital Group. In 2023, sales to PGE Obrót S.A. accounted for 44% of sales revenue and sales to PGE GiEK S.A. accounted for 40% of sales revenue. In 2022, sales to these companies accounted for 36% and 47% of sales revenue, respectively.

4.2 Expenses by kind and function

SIGNIFICANT ACCOUNTING PRINCIPLES

Cost of goods sold

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

The costs which can be allocated directly to the Company's revenue influence its financial result for the reporting period in which such revenue occurs.

The costs which can be allocated only indirectly to revenue or other benefits achieved by the Company influence its financial result in the part in which they concern a given reporting period, ensuring compliance with the principle of accrual accounting as well as taking into consideration the principles of measurement of fixed assets and inventories.

	Year ended 31 December 2023	Year ended 31 December 2022
EXPENSES BY KIND		
Depreciation	14	12
Third party services	89	85
Employee benefits expenses	336	200
Contribution to Price Difference Payment Fund	94	88
Other expenses by kind	163	121
TOTAL EXPENSES BY KIND	**696**	**506**
Distribution and selling expenses	(107)	(99)
General and administrative expenses	(374)	(300)
Value of goods and materials sold	63,198	34,106
COST OF GOODS SOLD	**63,413**	**34,213**

The increase in the value of goods and materials sold compared to 2022 was mainly influenced by changes in the value of sales of CO_2 emission allowances and electricity, as described above, in note 4.1.

The increase in selling and distribution costs in 2023 compared to 2022 was mainly influenced by the contribution to the Price Difference Payment Fund higher by PLN 6 million. A detailed description of the requirements related to the provisions of the Extraordinary Measures Act is included in note 24.1.5 to these financial statements.

in accordance with EU IFRS (in PLN million)

The increase in general and administrative expenses in 2023 compared to 2022 was mainly due to:

- costs of salaries and employee benefits higher by PLN 47 million as a result of an increase in employment following the centralisation of the finance and accounting, communications and marketing areas and an increase in the costs of provisions for employee benefits as a result of the Company Collective Labour Agreement concluded in 2023,
- costs of marketing activities higher by PLN 30 million.

4.2.1 Depreciation and write-downs

	Depreciation					
	Year ended 31 December 2023			Year ended 31 December 2022		
	Property, plant and equipment	RTUA	TOTAL	Property, plant and equipment	RTUA	TOTAL
Cost of goods sold	4	1	**5**	4	-	**4**
General and administrative expenses	8	1	**9**	7	1	**8**
TOTAL	**12**	**2**	**14**	**11**	**1**	**12**

4.2.2 Third party services

	Year ended 31 December 2023	Year ended 31 December 2022
Trade commissions	22	21
IT services	33	25
Consulting services	9	26
Overhaul and operational services	9	5
Third party services - lease	5	2
Other	11	6
TOTAL COSTS OF THIRD PARTY SERVICES	**89**	**85**

4.2.3 Costs of employee benefits and structure of employment

	Year ended 31 December 2023	Year ended 31 December 2022
Payroll	234	154
Cost of social insurance	38	24
Other employee benefits expenses	64	22
TOTAL EMPLOYEE BENEFITS EXPENSES, INCLUDING:	**336**	**200**
Items recognised in cost of goods sold	154	66
Items recognised in distribution and selling expenses	4	2
Items recognised in general and administrative expenses	178	132

On 31 December 2023 the Company had 1122 employees (full-time positions) in comparison to 807 employees on 31 December 2022.

The increase in employment was mainly due to the acquisition of employees as part of the centralisation of the accounting, human resources, as well as communications and marketing areas.

The Company also recorded an increase in the costs of provisions for employee benefits as a result of the concluded Company Collective Labour Agreement, which is further described in note 14 to these financial statements.

4.2.4 Other expenses by kind

	Year ended 31 December 2023	Year ended 31 December 2022
Sponsorship and advertising	117	83
Fees for membership in sectoral organisations	14	10
Management remuneration	8	9
Taxes and charges	6	6
Other	18	13
TOTAL	**163**	**121**

in accordance with EU IFRS (in PLN million)

4.3 Other operating income and expenses

In the current reporting period, other operating expenses amounted to PLN 42 million and other operating income to PLN 82 million.

Other operating expenses mainly comprised donations of PLN 21 million, while other operating income consisted mainly of reversed write-downs of receivables from the subsidiary ENESTA sp. z o.o. in restructuring in the amount of PLN 60 million.

4.4 Finance income and expenses

SIGNIFICANT ACCOUNTING PRINCIPLES

Finance income and expenses

Interest income and costs are recognised successively, on an accrual basis, taking into consideration the effective interest rate method with respect to the net book value of a given financial instrument as at the reporting date.

Dividends are recognised at the time when shareholders' rights to receive them are established.

	Year ended 31 December 2023	Year ended 31 December 2022
NET FINANCE INCOME/(EXPENSES) FROM FINANCIAL INSTRUMENTS		
Dividends	3,269	1,639
Interests, including	1,729	663
Interest income calculated using the effective interest rate method	*2,563*	*1,129*
Revaluation of financial instruments	(6)	3
Reversal / (Establishment) of write-downs	(12,250)	(17)
Foreign exchange differences	(32)	(31)
Gain/(Loss) on disposal of investments	21	35
TOTAL NET FINANCE INCOME/(EXPENSES) FROM FINANCIAL INSTRUMENTS	**(7,269)**	**2,292**
OTHER NET FINANCE INCOME/(EXPENSES)		
Other	(4)	(1)
TOTAL OTHER NET FINANCE INCOME/(EXPENSES)	**(4)**	**(1)**
TOTAL NET FINANCE INCOME/(EXPENSES)	**(7,273)**	**2,291**

In 2023, the Company reported dividend income mainly from PGE Energetyka Kolejowa Holding sp. z o.o. in the amount of PLN 1,412 million, PGE Dystrybucja S.A. in the amount of PLN 1,154 million, PGE EO S.A. in the amount of PLN 668 million and PGE Baltica sp. z o.o. in the amount of PLN 18 million, and in the comparative period mainly from PGE Dystrybucja S.A. in the amount of PLN 1,138 million, PGE EO S.A. in the amount of PLN 449 million and PGE EC S.A. in the amount of PLN 25 million.

The Company reports interest income mainly from financing provided to its subsidiaries in the amount of PLN 1,319 million, from cash held in bank accounts and deposits in the amount of PLN 467 million, from bonds issued by its subsidiaries in the amount of PLN 127 million and from bonds issued by Autostrada Wielkopolska S.A. in the amount of PLN 547 million. Interest expenses mainly relate to incurred credits and loans (PLN 609 million), cash pooling liabilities (PLN 242 million) and issued bonds (PLN 118 million), as described in note 16.1.3 to these financial statements.

In the current reporting period, in the item "Write-down reversal/(creation)", the Company presents the creation of a write-down for:

- impairment of shares and interests in: PGE GiEK S.A. in the amount of PLN 11,723 million and PGE Trading GmbH in the amount of PLN 23 million, as described in note 8.3 to these financial statements,
- expected credit losses on loans and bonds of PGE GIEK S.A. in the amount of PLN 27 million and PGE Obrót S.A. in the amount of PLN 1 million,
- accrued interest on Autostrada Wielkopolska S.A. bonds in the amount of PLN 475 million.

In the item "Revaluation of financial assets", the Company presents measurements of hedging transactions in their ineffective part for instruments designated as cash flow hedges and in full as regards other instruments. In addition, the presented item includes a write-down related to the risk attached to guarantees granted to PGE GIEK S.A. in the amount of PLN 5 million.

in accordance with EU IFRS (in PLN million)

The item "Profit/(loss) on disposal of investments" mainly includes:

- gain on the sale of 100% of shares in Zakłady Pomiarowo-Badawcze Energetyki "Energopomiar" sp. z o.o. to PGE Górnictwo i Energetyka Konwencjonalna S.A. in the amount of PLN 2 million;
- an advance payment to settle the liquidation of PGE Trading GmbH in the amount of EUR 4 million (PLN 18 million).

In the comparative period, the presented amount of gain on disposal of investments concerned the sale of 100% of shares in the following companies: Ramb sp. z o.o., MegaSerwis sp. z o.o., ELTUR - SERWIS sp. z o.o., ELMEN sp. z o.o., Betrans sp. z o.o., Bestgum Polska sp. z o.o. to PGE Górnictwo i Energetyka Konwencjonalna S.A. The gain on the sale of these shares totalled PLN 30 million. Additionally, in 2022 the agreement for the sale of all shares held by PGE S.A. in TFI Energia S.A. to PZU S.A. was performed. The gain on the sale of shares in TFI Energia S.A. amounted to approximately PLN 4 million.

5. Income tax expense

SIGNIFICANT ACCOUNTING PRINCIPLES

Taxes

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

In connection with temporary differences between the value of assets and liabilities disclosed in the account books and their tax value and tax loss recoverable in the future, the Company establishes the amounts of deferred income tax liabilities and assets.

The carrying amount of deferred income tax assets and liabilities in the statement of financial position is reviewed at the end of each reporting period. Deferred income tax assets and liabilities are regarded as non-current items. The Company compensates deferred income tax assets with deferred income tax liabilities.

The Company recognises the carrying amount of deferred income tax assets to the extent that it is not probable that it will achieve taxable income sufficient for a partial or complete realisation of deferred income tax assets.

5.1 Tax in the statement of comprehensive income

The major items of the income tax expense for the periods ended 31 December 2023 and 31 December 2022 are as follows:

	Year ended 31 December 2023	Year ended 31 December 2022
Current income tax of PGE S.A.	626	262
Adjustments related to settlement of current income tax for previous years	(2)	-
Accruals of deferred income tax from previous years	3	(2)
Deferred income tax	(18)	73
INCOME TAX EXPENSE RECOGNISED IN THE FINANCIAL RESULT	**609**	**333**
INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME		
On valuation of hedging instruments	(56)	37
On actuarial gains (losses) on valuation of employee benefit provisions	(6)	-
INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME (EQUITY)	**(62)**	**37**

in accordance with EU IFRS (in PLN million)

5.2 Effective tax rate

The reconciliation of income tax on the gross financial result before tax at the statutory interest rate with income tax calculated according to the effective tax rate is as follows:

	Year ended 31 December 2023	Year ended 31 December 2022
TAX LOSS	**(5,285)**	**3,430**
Tax at statutory rate effective in Poland – 19%	(1,004)	652
ITEMS ADJUSTING INCOME TAX		
Adjustments related to settlement of current income tax for previous years	(2)	-
Accruals of deferred income tax from previous years	3	(2)
Non-taxable income	(654)	(311)
Non-deductible costs	2,266	(6)
INCOME TAX EXPENSE AT EFFECTIVE TAX RATE (Income tax (charge) in the financial statements)	**609**	**333**
EFFECTIVE TAX RATE	**(11.5%)**	**9.7%**

Non-taxable income refers mainly to dividend income which is not included in the calculation of the current income tax base (the tax amount: PLN 621 million in 2023 and PLN 311 million in 2022).

In the current and comparative reporting periods, the Company's non-deductible expenses mainly included write-downs of shares in subsidiaries, as described in note 4.4 to these financial statements.

5.3 Deferred tax in the statement of financial position

5.3.1 Deferred income tax assets

	As at 31 December 2023	As at 31 December 2022
Difference between tax and current book values of financial liabilities	25	32
Difference between tax and current book values of financial assets	351	207
Difference between tax and current book values of property, plant and equipment	6	-
Provision for employee benefits	25	11
Costs in period outside of taxation impact	11	19
Other	4	5
DEFERRED INCOME TAX ASSETS	**422**	**274**

Change in deferred income tax - assets

	Year ended 31 December 2023	Year ended 31 December 2022
AS AT 1 JANUARY	**274**	**451**
Changes in correspondence with profit or loss	141	(177)
Changes in correspondence with other comprehensive income	7	**-**
AS AT 31 DECEMBER	**422**	**274**

5.3.2 Deferred tax liabilities

	As at 31 December 2023	As at 31 December 2022
Difference between tax and current book values of property, plant and equipment	13	15
Difference between tax and current book values of other financial assets	468	402
DEFERRED TAX LIABILITIES	**481**	**417**

in accordance with EU IFRS (in PLN million)

Change in deferred income tax – liabilities

	Year ended 31 December 2023	Year ended 31 December 2022
AS AT 1 JANUARY	**417**	**485**
Changes in correspondence with profit or loss	126	(105)
Changes in correspondence with other comprehensive income	(62)	37
AS AT 31 DECEMBER	**481**	**417**

The changes in the correspondence with other comprehensive income concern changes in deferred tax on the measurement of hedging instruments and on actuarial gains and losses on the measurement of provisions for employee benefits. The other changes in each item were recognised in profit or loss.

	Year ended 31 December 2023	Year ended 31 December 2022
Deferred tax assets	-	-
Income tax liabilities	59	143

The Company does not recognise a deferred tax liability on positive temporary differences related to investments in subsidiaries and associates as it is not probable that such differences will be reversed in the foreseeable future and the Company is able to control the dates of reversals of temporary differences.

in accordance with EU IFRS (in PLN million)

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

6. Property, plant and equipment

SIGNIFICANT ACCOUNTING PRINCIPLES

Property, plant and equipment

Property, plant and equipment comprise the following assets:

- maintained for the purpose of their utilisation in production processes or in the delivery of goods or the provision of services, for the purpose of making them available for use to other entities under rental agreements, or for administrative purposes, and
- expected to be used for periods longer than one year.

Property, plant and equipment are valued at the net value, i.e. the initial value (or at the cost assumed for non-current assets used before the date of transition to IFRSs) less depreciation and impairment write-downs. The initial value of property, plant and equipment includes their purchase price plus all costs related directly to their purchase and adjustment to the condition making them available for use. Such costs include also the expected costs of the decommissioning of tangible fixed assets, their disposal, and the restoration of a particular location of a given asset to its original condition. The obligation to incur such costs occurs at the time of the installation of an asset or its usage for purposes other than the manufacture of inventories.

The basis for calculating depreciation charges is a purchase price/manufacturing cost of a component of tangible fixed assets less its residual value. Depreciation starts when an asset is available for use. Depreciation of tangible fixed assets takes place on the basis of a depreciation plan specifying the expected economic lifetime of a component of tangible fixed assets. The applied depreciation method reflects the process of the entity's consuming the economic benefits related to a given asset.

For the particular groups of tangible fixed assets, the following ranges of economic lifetimes are used:

Asset group	Average remaining depreciation period in years	Total depreciation periods applied, in years
Buildings, premises and civil engineering structures	13	2-31
Machinery and technical equipment	5	1-39
Means of transport	3	1-10
Other property, plant and equipment	3	1-15

	As at 31 December 2023	As at 31 December 2022
Buildings	118	127
Other non-current assets	29	12
NET VALUE OF PROPERTY, PLANT AND EQUIPMENT	**147**	**139**

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

Part of the area of the building owned by the Company was leased out under an operating lease. The net value of property, plant and equipment under operating lease amounted to PLN 13 million on 31 December 2023. Depreciation of these assets recognised in the costs of the current period amounted to PLN 1 million.

7. Right to use assets

SIGNIFICANT ACCOUNTING PRINCIPLES

Right to use assets

Under IFRS 16, an agreement is a lease agreement or contains a lease component if it transfers the right to control the use of an identified asset for a given period in return for consideration.

The Company defines a lease term as an irrevocable period during which the lessee has the right to use the underlying asset, together with the following:

- periods for which the lease may be extended if it can be assumed with reasonable certainty that the lessee will exercise this right; and
- periods during which the lease may be terminated if it can be assumed with reasonable certainty that the lessee will not exercise this right.

In determining the lease term and estimating the length of the irrevocable lease term, the Company applies the definition of an agreement and determines the term of an agreement's enforceability. A lease ceases to be enforceable when both the lessee and the lessor have the right to terminate the lease agreement without the other party's consent, with the consequence that a penalty is at most minor. The concept of a penalty includes all kinds of economic "disadvantages" that create barriers to terminating an agreement.

If only the lessee has the right to terminate the lease agreement, this right is regarded as an option for the lessee to terminate the lease agreement that the entity takes into account in determining the lease term. If only the lessor has the right to terminate the lease agreement, the irrevocable lease term covers the period covered by the option to terminate the lease agreement.

The lease term begins at the commencement date, i.e. when the underlying asset is made available for use by the lessee, and includes any rent-free periods granted by the lessor to the lessee.

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

The lessee recognises an asset constituting the right to use an asset at the commencement date.

At the commencement date, the lessee measures an asset constituting the right to use an asset at cost.

After the commencement date, the lessee measures an asset constituting the right to use an asset, applying a cost model. The lessee measures an asset constituting the right to use an asset at cost:

- less total depreciation (amortisation) and total impairment write-downs. Depreciation is charged throughout the lease term, from the moment an asset has been made available for use. No depreciation is made on the right to use an asset classified as fixed assets held for sale.
- adjusted for the revaluation of the liability (e.g. due to a change in lease payments).

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

- short-term leases, i.e. leases whose term is not longer than 12 months and which do not include a purchase option. The exemption applies mainly to the lease of office premises;
- leases for which the underlying asset is of low value and is not sub-leased. The Company recognises that the base asset has a low value (the value of a new asset regardless of the age of the leased asset) if it does not exceed the amount of PLN 18,000. The exemption applies to small office equipment (printing equipment, photocopiers, computers, etc.).

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

On 31 December 2023, the right to use assets amounted to PLN 22 million.

in accordance with EU IFRS (in PLN million)

The depreciation periods for the right to use assets are as follows:

Asset group	Remaining depreciation of amortisation in years	Total depreciation of amortisation in years
RPUL	66	99
Means of transport	1	1.5-3

On 31 December 2023, no risk of impairment of these assets was identified.

8. Shares and interests in subsidiaries

SIGNIFICANT ACCOUNTING PRINCIPLES

Shares and interests in subsidiaries, associates and jointly controlled entities

Subsidiaries are entities which the Company has control over as a result of an investment if the Company is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over an entity. This is connected with possessing the majority of the total number of votes in such entities' governing bodies. Deciding whether the Company controls a particular entity, it is necessary to take into consideration the existence and impact of potential voting rights which at a given time can be exercised or exchanged.

A jointly controlled entity is an entity in which the division of control over its business activities as specified in an agreement requires the unanimity of the parties exercising control over strategic financial and operational decisions.

An associated entity is an business entity, including such entities as private partnerships of natural persons, on which the investor exerts considerable impact and which is not a subsidiary or a jointly controlled entity. IAS 28 defines "significant impact" as the right to participate in decision making processes related to operational and financial policies of a unit in which another entity has invested, not consisting, however, in exercising control or joint control over such an entity.

The Company's shares and interests held in subsidiaries, associates and jointly controlled entities are measured, in accordance with IAS 27, at historical acquisition cost. If there exists objective evidence of the impairment of such assets, the amount of impairment is measured as the difference between the current book value of an asset and its estimated recoverable value.

Interests and shares in subsidiaries are recognised at purchase price less impairment write-downs.

	Registered office	Shareholding as at 31 December 2023	As at 31 December 2023	Shareholding as at 31 December 2022	As at 31 December 2022
PGE Dystrybucja S.A.	Lublin	100.00%	10,595	100.00%	10,595
PGE Energia Ciepła S.A.	Warsaw	100.00%	4,341	100.00%	4,341
PGE Energetyka Kolejowa Holding sp. z o.o.	Warsaw	100.00%	3,450	-	-
PGE Energia Odnawialna S.A.	Warsaw	100.00%	1,349	100.00%	1,349
PGE Obrót S.A.	Rzeszów	100.00%	622	100.00%	622
PGE Baltica 2 sp. z o.o.	Warsaw	100.00%	508	100.00%	104
Elektrownia Wiatrowa Baltica 1 sp. z o.o.	Warsaw	100.00%	200	100.00%	99
PGE Baltica 3 sp. z o.o.	Warsaw	100.00%	151	100.00%	138
PGE Dom Maklerski S.A.	Warsaw	100.00%	97	100.00%	97
PGE Ekoserwis sp. z o.o.	Wrocław	100.00%	70	100.00%	70
PGE Ventures sp. z o.o	Warsaw	100.00%	68	100.00%	68
PGE Sweden AB (publ)	Stockholm	100.00%	52	100.00%	52
PGE Gryfino 2050 sp. z o.o.	Warsaw	100.00%	35	100.00%	35
Rybnik 2050 sp. z o.o.	Rybnik	100.00%	23	100.00%	23
PGE Inwest 12 sp. z o.o.	Warsaw	100.00%*	21	100.00%	6
Elektrownia Wiatrowa Baltica 9 sp. z o.o.	Warsaw	100.00%	14	100.00%	1
PGE Inwest 14 sp. z o.o.	Warsaw	100.00%	12	100.00%	7
PGE Nowa Energia sp. z o.o. in liquidation	Warsaw	100.00%	11	100.00%	11
PGE Systemy S.A.	Warsaw	100.00%	10	100.00%	10
MEGAZEC sp. z o.o.	Bydgoszcz	100.00%	10	100.00%	10
Elektrownia Wiatrowa Baltica 7 sp. z o.o. (PGE Baltica 4 sp. z o.o.)	Warsaw	55.04%	10	100.00%	1
PGE Baltica sp. z o.o.	Warsaw	100.00%	9	100.00%	9
PGE Inwest 21 sp. z o.o.	Warsaw	51.00%	9	100.00%	9
ELBIS sp. z o.o.	Rogowiec	100.00%	8	100.00%	8
PGE Synergia sp. z o.o.	Warsaw	100.00%	6	100.00%	6

in accordance with EU IFRS (in PLN million)

	Registered office	Shareholding as at 31 December 2023	As at 31 December 2023	Shareholding as at 31 December 2022	As at 31 December 2022
PGE Inwest 22 sp. z o.o.	Warsaw	100.00%	5	100.00%	5
Energoserwis Kleszczów sp. z o.o.	Rogowiec	51.00%	5	51.00%	5
PGE Inwest 24 sp. z o.o.	Warsaw	100.00%	4	100.00%	4
PGE Inwest 23 sp. z o.o.	Warsaw	100.00%	4	100.00%	4
ELBEST Security sp. z o.o.	Warsaw	100.00%	4	100.00%	4
PGE Inwest 25 sp. z o.o.	Warsaw	100.00%	3	100.00%	3
Elektrownia Wiatrowa Baltica 8 sp. z o.o. (PGE Baltica 1 sp. z o.o.)	Warsaw	100.00%	1	100.00%	1
Elektrownia Wiatrowa Baltica 6 sp. z o.o.	Warsaw	66.24%	1	66.24%	1
PGE Asekuracja S.A.	Warsaw	100.00%	1	100.00%	1
Elektrownia Wiatrowa Baltica 10 sp. z o.o.	Warsaw	100.00%		100.00%	<1
Elektrownia Wiatrowa Baltica 11 sp. z o.o.	Warsaw	100.00%	1	100.00%	<1
Elektrownia Wiatrowa Baltica 12 sp. z o.o.	Warsaw	100.00%		100.00%	<1
5 limited liability companies with names PGE Inwest 2; 9-11; 20	Warsaw	100.00%	1	100.00%	<1
Elektrownia Wiatrowa Baltica 4 sp. z o.o.	Warsaw	66.19%	<1	66.19%	<1
Elektrownia Wiatrowa Baltica 5 sp. z o.o.	Warsaw	66.19%	<1	66.19%	<1
PGE Górnictwo i Energetyka Konwencjonalna S.A.	Bełchatów	100.00%	-	100.00%	11,723
PGE Trading GmbH	Berlin	100.00%	-	100.00%	23
TOTAL			**21,711**		**29,445**

In 2023, the following significant changes in the structure of subsidiaries took place:

- On 3 April 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.).

  The total purchase price of the shares, including the PCC tax paid, amounted to PLN 3,450 million. A part of the liability from the acquisition of the shares was settled by way of assumption of loan liabilities in the amount of PLN 1,543 million.

- On 3 March 2023, the Extraordinary General Meeting of PGE Baltica 3 sp. z o.o. adopted a resolution on increasing the company's share capital by PLN 12.3 million. The increase in the company's share capital was acquired by PGE S.A., in exchange for a cash contribution. On 16 May 2023, the increase in the company's share capital was entered in the National Court Register.
- On 3 March 2023, the Extraordinary General Meeting of PGE Baltica 2 sp. z o.o. adopted a resolution on increasing the company's share capital by PLN 9.5 million. The increase in the company's share capital was acquired by PGE S.A., in exchange for a cash contribution. On 16 May 2023, the increase in the company's share capital was entered in the National Court Register.
- On 3 March 2023, the Extraordinary General Meeting of the company Elektrownia Wiatrowa Baltica 1 sp. z o.o. adopted a resolution on increasing the company's share capital by PLN 101 million. The increase in the company's share capital was acquired by PGE S.A., in exchange for a cash contribution. On 17 May 2023, the increase in the company's share capital was entered in the National Court Register.
- On 12 June 2023, the Extraordinary General Meeting of the company Elektrownia Wiatrowa Baltica 7 sp. z o.o. (PGE Baltica 4 sp. z o.o.) adopted a resolution on increasing the company's share capital by PLN 9.1 million. The increase in the company's share capital was acquired by PGE S.A., in exchange for a cash contribution. On 26 September 2023, the increase in the company's share capital was entered in the National Court Register.
- On 19 June 2023, the Extraordinary General Meeting of the company Elektrownia Wiatrowa Baltica 9 sp. z o.o. adopted a resolution on increasing the company's share capital by PLN 12.7 million. The increase in the company's share capital was acquired by PGE S.A., in exchange for a cash contribution. On 30 August 2023, the increase in the company's share capital was entered in the National Court Register.

- (*) On 17 October 2023, the Extraordinary General Meeting of the company PGE Inwest 12 sp. z o.o. adopted a resolution on increasing the company's share capital by PLN 35 million. The increase in the company's share capital was acquired by PGE S.A. and the National Environmental Protection and Water Management Fund, in exchange for a cash contribution. The National Environmental Protection and Water Management Fund acquired 20,200 shares with a value of PLN 20.2 million, and PGE S.A. acquired 14,830 shares with a value of PLN 14.8 million. Consequently, the shareholding of PGE S.A. fell to 51%. On 4 March 2024, the increase in the company's share capital was entered in the National Court Register.
- On 7 November 2023, the Extraordinary General Meeting of the company PGE Inwest 14 sp. z o.o. adopted a resolution on increasing the company's share capital by PLN 4.5 million. The increase in the company's share capital was acquired by PGE S.A., in exchange for a cash contribution. On 28 December 2023, the increase in the company's share capital was entered in the National Court Register.

8.1 Analysis of the value of non-current financial assets

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

External circumstances

- The market capitalisation of PGE S.A. continues to be below the net book value of assets.
- The average electricity price for futures contracts for the following year in 2023 was PLN 642/MWh, 42% lower than in 2022.
- The prices of CO_2 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. CO_2 prices remained high in 2023, with a weighted average EUA DEC 23 quotation of EUR 83/t, slightly higher (3%) than the average EUA DEC 22 price observed in 2022.
- A 55% reduction in the price of hard coal at ARA ports for monthly follow-on contracts (USD 124/t) compared to 2022 and a 68% reduction in the price of gas (EUR 42/MWh) on European markets and a consequent reduction in the competitiveness of lignite and hard coal generation from domestic extraction.
- In the first half of 2023, the average price of domestic coal (PSMCI-1 index) was PLN 33/GJ and increased by 65% in comparison to the first half of 2022.
- Lignite-based electricity generation in 2023 was 30 TWh, down 25% compared to 2022.
- In 2023, domestic electricity consumption fell by 6 TWh (3%) compared to 2022.

As a result of the analysis of the current circumstances, the Company carried out impairment tests for financial fixed assets in relation to the shares of PGE GiEK S.A. and PGE Obrót S.A..

In the current reporting period, an analysis was also carried out to determine whether there were any indications of impairment of assets and, consequently, of the shares held by PGE S.A. in PGE EO S.A., PGE EC S.A., PGE Gryfino 2050 sp. z o.o., PGE Baltica 2 sp. z o.o. and PGE Baltica 3 sp. z o.o.. The analysis showed that there were no grounds to test the shares for impairment.

8.2 Assumptions for impairment tests

Macroeconomic assumptions

The main price assumptions, i.e. those concerning the prices of electricity, CO_2 emission allowances, coal, natural gas and the assumptions relating to the majority of the Group's generating facilities are derived from a study prepared in 2023 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 Company's own estimates for the first two years 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 projections assume an average annual price increase of around 29.5% between 2025 and 2026 compared to 2024, a price decrease of 2.1% in 2027 compared to 2026, followed by an average annual increase of around 3.2% between 2028 and 2030 and an average annual increase of around 2.5% between 2031 and 2040.

CO_2 allowance price projections assume a 40.6% price increase in 2025 compared to 2024, a 1.3% decrease in 2026 compared to 2025, followed by an average annual increase between 2027 and 2030 of around 10.4%, reflecting changes in the parameterisation of the Market Stability Reserve (MSR) mechanism and the EU ETS itself, introduced following the adoption of the Fit for 55 package and incorporating the effects of the adoption of the EU Repower plan. These changes result in a marked reduction in the supply of allowances in the second half of this decade. After 2030, an average annual increase of around 5.8% is projected until 2040, as a result of the continuation of EU policies leading to climate neutrality in 2050.

Coal price forecasts assume an average annual price increase of around 33.2% between 2025 and 2026 compared to 2024, driven by the anticipated rebound in global fuel prices as the economy improves. Thereafter, a gradual decline in global coal demand is expected due to the implementation of climate policy elements, including in particular the development of RES, resulting in an average annual decline of around 3.8% by 2030. By 2035, hard coal prices are to decrease on average by 2.2% every year. Subsequently, by 2040, they are expected to rise on average by 2.5% every year.

Natural gas price forecasts assume a 25.5% increase in 2025 relative to 2024 prices and a 6.5% increase in 2026 relative to 2025. The increases in the first years of the forecast are due to an expected rebound in global demand for gas, with a tight supply-demand balance. Thereafter, until 2035, natural gas prices are expected to fall annually by around 1.2%, which in the second half of the 2020s is due to an increase in the supply of internationally traded gas, and then after 2030 is expected to be caused by a reduction in the share of gas in the energy mix in favour of hydrogen and RES, combined with the development of energy storage facilities.

The price forecasts for energy origin property rights assume an average annual price increase between 2025 and 2026, followed by an average annual decrease between 2027 and 2031 of around 13.1% relative to 2026, which is related to the decreasing obligation to redeem such rights.

Forecasts of revenue from the capacity market in the years 2024-2028 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 2029 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. For one-year contracts with delivery from 1 July 2025 and multi-year contracts concluded in the auctions for 2025 onwards, an emission criterion of 550g CO_2/kWh (so-called EPS 550) applies, which in practice excluded the participation of all coal-fired units in the Capacity Market. However, according to the adopted amendment to the Capacity Market Act of 23 July 2021, there is a limited possibility to use CMUs that do not meet EPS 550 for concluded contracts.

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

Weighted average cost of capital

In 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 military conflicts in Ukraine and the Middle East. As part of the ongoing monetary tightening cycle, one of the fastest on record, a significant number of countries, including Poland, have achieved the effects of lowering the level of inflation, although this has taken place in an environment of reduced economic growth. Consequently, a high level of uncertainty about the macroeconomic outlook persists, which affects the dynamics of the situation on financial markets.

In view of these conditions, for the purposes of impairment testing, the PGE Group applies a weighted average cost of capital path, which takes into account current market parameters and characteristics (including elevated levels of market interest rates), and in subsequent periods gradually approaches levels representing the long-term average, based on the full business cycle and fundamental economic relationships. In the PGE Group's view, this approach avoids undue influence of short-term volatility on the valuation of long-term assets.

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 CO_2 emission allowance prices was also maintained throughout 2023. The changes introduced may negatively affect the margins earned by carbon-intensive power generation units, particularly to the extent that the increase in the price of CO_2 allowances is not passed on in the price at which these units sell the electricity or heat they produce. In December 2022, the Council and the EU Parliament reached important agreements on the "Fit for 55" package proposal, the EU's plan to increase the target of reducing greenhouse gas emissions below 55% by 2030 compared to 1990 levels. Another important element of the package was to increase the target for the share of RES in the European Union's energy mix to 42.5% (previously 32%). The establishment of this target in agreement with the Council was voted through in the European Parliament in September 2023.

On 15 December 2022, the Decarbonisation Plan to 2050 was adopted for the Heat Generation segment within the PGE Capital Group. The Plan was updated on 5 October 2023. The objective of the Decarbonisation Plan is to meet the regulatory requirements for the power industry and to maintain the current generation potential in the long term in order to meet customer needs. 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 renewable and low-carbon sources. 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. Natural gas, geothermal, biomass, waste heat, large-scale heat pumps and electrode boilers will be used to generate heat in the new and upgraded district heating units. 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 4.6. The regulatory environment in *The Management Board's Report on the activities of the PGE Group for the year 2023 ended 31 December 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.

8.3 Share impairment tests for PGE GiEK S.A.

The issue of potential sale of assets of PGE GiEK S.A. is described in note 24.1.3. 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 November 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 December 2023 to the end of their operation. In the Company's opinion, the adoption of financial forecasts for periods longer than five years is justifiable in view of the significant and long-term impact of the estimated changes in the regulatory environment. Thanks to adopting longer-term forecasts, the estimates of recoverable values may be more reliable.

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 2024-2025, at an annual average level for individual CGUs of between 7.18% and 8.98%,
  - for the years 2026-2036, at an annual average level for individual CGUs of between 6.40% and 7.55%.

In the Company's opinion, the status of the decision of 13 March 2024 on the environmental conditions for further exploitation of the lignite deposit in Turów does not affect the assumptions made in the impairment tests carried out as at 30 November 2023.

In relation to PGE GiEK S.A. shares, the conducted tests showed the necessity of an impairment write-down. The book value of PGE GiEK S.A. shares recognised in the Company's books amounted to PLN 11,723 million. As a result of the conducted test, the value of equity of PGE GiEK S.A. was estimated at PLN 0. As a consequence, a write-down was necessary in the separate financial statements of PGE S.A. The decrease of the value results from significant deterioration of prospects for electricity market in the short and medium term, which is reflected in the decrease of electricity market prices and estimated margin on electricity generation.

The basis for the estimates made was the enterprise value calculated using the income method adjusted to equity by interest-bearing liabilities, financial assets and discounted land rehabilitation expenditure. The results of the sensitivity analysis showed that changes in the assumptions for the price of electricity, the price of CO_2 emission allowances, the price of hard coal and the weighted average cost of capital had the greatest impact on the value of the shares under analysis.

Climate issues

The future of the Polish energy market is determined by the European Union's climate policy, and developments in the electricity market in the run up to 2050 will be influenced by the European Green Deal ("EGD"), which aims to achieve EU climate neutrality by 2050. One of the most important steps towards achieving climate neutrality was the acceptance by the European Council in December 2020 of a new binding target for the EU to reduce net greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels. A consequence of the higher CO_2 reduction target is the rising cost of CO_2 emission allowances, which may negatively affect the performance of PGE GiEK S.A. and the PGE Capital Group. The macroeconomic assumptions used for impairment testing take into account the new higher CO_2 emission reduction target in 2030 and, as a result, the rising price level of CO_2

in accordance with EU IFRS (in PLN million)

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.

8.4 Share impairment tests for PGE Obrót S.A.

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

- the effects of the Regulation of the Ministry of Climate and Economy on the reduction of charges for the household consumer, of 9 September 2023,
- the effects of the Act on amending Acts to support consumers of electricity, gaseous fuels and heat, which extends the energy price freeze until 30 June 2024, of 7 December 2023,
- the effects of the Act on extraordinary measures to reduce electricity prices and support certain consumers in 2023, of 27 October 2022,
- the effects of the amendment to the Act on renewable energy sources of 29 October 2021, introducing changes to the way prosumers are billed. The previous system of discounts has been replaced by a so-called "net-billing" model,
- the dynamic development of photovoltaic micro-installations and the billing of prosumers who will still be billed according to the net-metering system.

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

- the assumptions for electricity prices were derived from an independent expert's study, taking into account the Company's own estimates, based on the current market situation,
- an increase of approximately 5% in total sales volumes in 2028 compared to 2023,
- a higher forecast realisation of electricity margins between 2024 and 2028 compared to 2023,
- correlation of electricity prices in the period 2024-2028 when selling energy to retail customers with electricity prices on the wholesale market and the impact on their level resulting from the change in the obligation to redeem property rights as well as changes in the price of property rights,
- economic effects related to the dynamic development of prosumer micro-installations in the forecast horizon on the basis of the market trends observed in 2021 and in connection with the amendment of the RES Act of 29 October 2021,
- adoption of a weighted average cost of capital after tax at an annual average level in the range of 7.42%-8.98%.

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

The value of PGE Obrót S.A. shares recognised in the Company's books is PLN 622 million. As a result of the impairment test, the value of PGE Obrót S.A. shares was estimated at PLN 621 million. Due to the insignificant difference between the book value and the estimated market value, in the opinion of PGE S.A. there are no grounds for the impairment write-down of PGE Obrót S.A. shares recognised in previous reporting periods.

The results of the sensitivity analysis showed that the most significant impact on the value of the shares was mainly due to changes in assumptions regarding the weighted average cost of capital and unit margins. The estimated impact of changes in the key assumptions on changes in the write-down of PGE Obrót S.A. shares on 31 December 2023 is presented below.

Parameter	Change	Impact on write-down	
		Increase in write-down	Decrease in write-down
Change in unit margin	1%	-	144
	-1%	144	-

in accordance with EU IFRS (in PLN million)

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

Parameter	Change	Impact on write-down	
		Increase in write-down	Decrease in write-down
Change in WACC	+0.25 p.p.	198	-
	-0.25 p.p.	-	220

An increase in the WACC by 0.25 p.p. would increase the write-down by PLN 198 million.

8.5 Share impairment tests for PGE Energetyka Kolejowa Holding S.A.

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

On 31 December 2023, impairment tests were carried out with respect to the cash generating units by determining their recoverable values. The recoverable amount of the analysed assets was determined based on the estimation of their value in use based on the discounted net cash flow method on the basis of financial projections prepared for the period 2024-2030, after 2030 the residual value was determined after the period of the detailed forecast. In the opinion of PGE S.A., the adoption of financial projections longer than five years is justified due to the fact that the property, plant and equipment used have a significantly longer economic useful life and due to the significant and long-term impact of 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 assets include the following:

- adoption of volume, margin and cost forecasts based on the current Financial Plan for the Railway Power Engineering segment, its actual performance and other long-term forecasts, assuming in particular the following:
  - development of the traction energy volume distribution business,
  - maintenance of margins in traction energy trading,
  - development of the Fuels Branch, in line with the Fuels Division strategy,
  - maintenance of long-term profitability of contracts concluded by the Services Branch,
  - allocation of CUW costs and costs incurred for the benefit of PGE S.A. Head Office in accordance with the projected allocation keys among CGUs,
- adoption of an adjusted weighted average cost of capital after tax and differentiated over time:
  - for the Distribution Branch – in accordance with the regulatory WACC approved in the tariff by the ERO President and the forecasts of the regulatory WACC for subsequent years,
  - for the other branches:
    - for the years 2024-2029 at an annual average of 6.83%,
    - from 2030 onwards at 6.40%.

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

8.6 Analysis of the circumstances of PGE EC S.A.

At the end of the 2023 reporting period, the Company analysed the circumstances to verify whether assets may have been impaired.

The key analysed factors included the following:

- the financial plan,
- a confirmation that the investment plan is up to date,
- energy, coal, CO2 emission allowances and gas prices,
- assumptions regarding the capacity market, support for co-generation,
- sales price estimates for generated heat,
- estimates of margins on production and sales of electricity in future periods, in the light of forecasts for energy, hard coal, gas and CO_2 emission allowances.

The analysis of the Company's circumstances indicated that the generating units were implementing the financial plan in line with the assumptions. Forecasts available to the PGE Capital Group for prices of natural gas, electricity, coal and CO_2 emission allowances result in favourable forecasts for margins realised on both electricity and heat sales. During the four years of operation of the support system for high-efficiency co-generation in Poland, the companies of the Heat Generation segment, including PGE EC S.A., were active in obtaining each of the available types of bonuses, which significantly translated into the financial result. In the case of negative decisions of the ERO President regarding the cogeneration bonus, support for cogeneration will be replaced by support in the form of a capacity market, thus not posing the risk of a significant change in value in use. The assumptions for the capacity market, relative to previous periods, are at a comparable level. In view of the above, in the opinion of PGE S.A., as at the reporting date, there are no circumstances indicating the necessity for impairment testing of PGE EC S.A. shares held by PGE S.A.

Climate issues

On 15 December 2022, the Decarbonisation Plan to 2050 was adopted for the Heat Generation segment within the PGE Capital Group. The Plan was updated on 5 October 2023. The objective of the Decarbonisation Plan is to meet the regulatory requirements for the power industry and to maintain the current generation potential in the long term in order to meet customer needs. 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 indicates the directions and schedule for the transformation of the generation assets of the individual PGE EC sites. The transformation of generation capacities through the achievement of a significant share of new low- or zero-carbon power generation units is planned for the period until 2030 and the achievement of climate neutrality by 2050.

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

At the end of the reporting period, the Company performed an analysis of the circumstances to verify whether there may have been an impairment of assets and consequently an impact on the value of the shares held by PGE S.A..

The following separate cash-generating units (CGUs) are identified and analysed within PGE EO S.A.:

- all pumped storage power plants,
- all other hydroelectric power plants,
- individual wind farms.

At the end of the reporting period, the Company performed an analysis of the circumstances to verify whether there may have been an impairment of assets and consequently an impairment of shares held by PGE S.A..

The key analysed factors included the following:

- the realisation of the financial plan,
- the prices of electricity and energy origin property rights,
- the assumptions concerning the so-called capacity market,
- the investment plan,
- the electricity generation and sales plans.

The analysis of the circumstances concerning the PGE EO S.A. CGU indicated that, in the Wind segment, the slightly lower realisation of the plan was mainly due to lower revenue from electricity sales, which resulted mainly from lower sales prices and a lower volume of electricity generation due to weaker wind conditions. The higher result in the Water segment was driven by higher electricity generation volumes mainly due to more favourable hydrological conditions. For the pumped storage power plants, the higher result was mainly due to higher sales of electricity from pumped storage power plants and higher revenue from the Capacity Market. The Company's favourable results will have a positive impact on valuation, primarily with regard to the pumped storage power plants, while the slightly lower financial results in the Wind area do not significantly affect the valuation of this area. In addition, the stable level of revenue from the Capacity Market and the level of generation volumes for the individual power plants and the maintenance of long-term price forecasts at an unchanged level have a positive impact on the value in use of the individual assets undergoing tests. With respect to the investment plan, an increase in planned CAPEX relating to modernisation and restoration expenditure is assumed; however, the results of the tests on 30 June 2023 showed a large surplus and an increase in expenditure does not pose a risk of the value of the assets falling below their book value.

Therefore, the Company concludes that there is no indication for impairment testing of the shares of PGE EO S.A. at the reporting date of 31 December 2023.

8.8 Analysis of the circumstances of PGE Gryfino 2050 Sp. z o.o.

At the end of the reporting period, the Company performed an analysis of the circumstances to verify whether there may have been an impairment of assets of the company PGE Gryfino 2050 sp. z o.o. and consequently an impact on the value of the shares held by PGE S.A..

The key analysed factors included the following:

- the forecasts of electricity, gas, and CO_2 prices,
- the assumptions concerning the-called capacity market,
- progress in the realisation of the project and investment plan,
- the electricity generation and sales plans.

The conducted analysis of the circumstances of PGE Gryfino 2050 sp. z o.o. indicated that the electricity, gas and CO_2 emission allowance price forecasts available to the PGE Capital Group provide for favourable forecasts of realised margins of gas-fired units. Maintaining long-term forecasts of gas-fired units' margins at a satisfactory level and a stable level of revenue from the capacity market has a positive impact on the value in use of the individual assets undergoing tests. In addition, the project is at an advanced stage of maturity and there is no indication of a significant increase in capital expenditure.

In view of the above, the Company concludes that there is no indication of the necessity to conduct impairment tests of the PGE Gryfino 2050 sp. z o.o. shares held by PGE S.A. on 31 December 2023.

8.9 Analysis of the circumstances of PGE Baltica 2 sp. z o.o. and PGE Baltica 3 sp. z o.o.

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

The main assets held by PGE Baltica 2 sp. z o.o. are 100% of the shares in PGE Baltica 6 sp. z o.o., which, in turn, holds 50% of the shares in Elektrownia Wiatrowa Baltica 2 sp. z o.o. ("EWB2"). The main assets held by PGE Baltica 3 sp. z o.o. are 100% of the shares in PGE Baltica 5 sp. z o.o., which, in turn, holds 50% of the shares in Elektrownia Wiatrowa Baltica 3 sp. z o.o. ("EWB3").

During the current reporting period, the Company analysed the existing circumstances to verify whether the value of the shares might have been impaired.

The key analysed factors included the following:

- the revenue side secured by the differential contract,
- the impact of an increase in inflation and the weighted average cost of capital,
- the projects implementation schedule,
- the budget for the development and implementation phases of the project, the so-called DEVEX and CAPEX.

The EWB2 and EWB3 projects are entitled to obtain public support and consequently secure a revenue side that is indexed for inflation, thus partially mitigating the negative aspects of the macroeconomic environment. The project development phase is being financed from the approved budget.

in accordance with EU IFRS (in PLN million)

In view of the above, in the Company's opinion, at the reporting date there were no indications for conducting impairment tests of the shares held by PGE S.A. in PGE Baltica 2 sp. z o.o. and PGE Baltica 3 sp. z o.o.

8.10 Impairment tests for other shares

In 2023, the liquidation process of PGE Trading GmbH was underway, which involved the recognition of an impairment write-down of PLN 23 million.

8.11 Shares and interests in associates and other entities

	As at 31 December 2023	As at 31 December 2022
Polimex Mostostal S.A.	81	81
ZPBE Energopomiar Sp. z o.o.	-	2
TOTAL ASSOCIATES	**81**	**83**
ElectroMobility Poland S.A.	13	13
PGE PAK Energia Jądrowa S.A.	5	-
TOTAL OTHER ENTITIES	**18**	**13**

On 4 January 2023, a tripartite agreement was concluded on the sale of shares in the company Zakłady Pomiarowo-Badawcze Energetyki "Energopomiar" sp. z o.o., where the seller was PGE S.A. and PGE Energia Ciepła S.A. and the buyer was PGE GiEK S.A. On the basis of this agreement, PGE S.A. sold 100% of its shares for PLN 4.6 million.

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 24.1.4 to these financial statements.

9. Participation in joint ventures

The Company considers the activities under the Capacity Market Management Agreement entered into on 27 July 2018 to be a joint venture. The agreement has the following parties: PGE S.A. as Manager and its subsidiaries PGE GiEK S.A., PGE EC S.A., PGE EO S.A., ZEW Kogeneracja S.A., PGE Toruń S.A., Elektrociepłownia Zielona Góra S.A., PGE Gryfino 2050 sp. z o.o., PGE Inwest 14 sp. z o.o., Rybnik 2050 sp. z o.o. as Customers.

The agreement ensures optimal acquisition of support on the capacity market for the units belonging to the PGE Capital Group and proper performance of the concluded capacity contracts in the delivery periods covered by the cooperation of the parties in order to minimise potential consequences of non-performance of capacity obligations, as well as sharing of costs and benefits resulting from participation in the capacity market within the PGE Capital Group.

Revenue from this agreement is presented and described in note 4.1 to these financial statements.

10. Other current assets

SIGNIFICANT ACCOUNTING PRINCIPLES

Other assets (including prepaid expenses)

The Company recognises assets as prepayments if the following conditions are met:

- they result from past events– expenses incurred for operational purposes of the entity,
- their value can be assessed reliably,
- they relate to future reporting periods.

Prepayments are measured at the amount of incurred and reliably determined expenses related to future periods and future economic benefits.

Other assets include in particular receivables under public law regulations, prepayments for goods and services, as well as receivables under dividends.

in accordance with EU IFRS (in PLN million)

	As at 31 December 2023	As at 31 December 2022*
Advance payments	147	-
Receivables related to VAT	6	-
Other	2	4
TOTAL	**155**	**4**

**a change in the current period's presentation of deposits received and transferred to PGE Dom Maklerski S.A. as collateral for settlements with the Warsaw Commodity Clearing House, consisting in the reclassification of deposits from non-financial receivables and payables to financial receivables and payables, respectively.*

The item "Advance payments" relates primarily to settlements related to the purchases of CO_2 emission allowances, which are made through PGE Dom Maklerski S.A. The amount of advances for this purpose in the amount of EUR 31.1 million (PLN 146 million) will be settled in the first quarter of 2024.

11. Cash and cash equivalents

SIGNIFICANT ACCOUNTING PRINCIPLES

Cash and cash equivalents

Cash comprises cash in hand and deposits payable on demand.

Cash equivalents comprise short-time investments with large liquidity, easily exchangeable into particular amounts of cash and exposed to a minimum risk of impairment.

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

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

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

	As at 31 December 2023	As at 31 December 2022
Cash at bank	379	559
Overnight deposits	-	764
Short-term deposits	1,304	8,574
Funds in VAT accounts	59	696
TOTAL	**1,742**	**10,593**
Undrawn credit facilities as at 31 December	5,358	10,900
including overdraft facilities	*2,028*	*3,300*

A detailed description of credit agreements is presented in note 16.1.3 to these financial statements.

12. Equity

SIGNIFICANT ACCOUNTING PRINCIPLES

Equity

Equity is recognised at par value, divided into its types and in accordance with the legal regulations and the provisions of the Company Statutes.

In the financial statements, share capital is recognised at the amount specified in the Company Statutes and entered in the court register.

Declared but unpaid capital contributions are recognised as due capital contributions with a negative value.

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

In accordance with common practice, the Company monitors the net debt to EBITDA ratios at the PGE Group level. Net debt is understood as short- and long-term financial debt (interest-bearing credits and loans, bonds and other debt instruments as well as lease, as well as reverse and recourse factoring liabilities), less cash and cash equivalents and short-term deposits. Restricted cash is not included in the calculation of net debt. Information on the net debt to EBITDA ratio at the PGE Group level is presented in note 19 to the consolidated financial statements.

in accordance with EU IFRS (in PLN million)

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

12.1 Share capital

	As at 31 December 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.

After the reporting date and before the date on which these financial statements were prepared, there had been no changes in the value of the Company's share capital.

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

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

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

On the basis of the provisions in question, the minister responsible for state assets may object to a resolution adopted by the Management Board or any other legal action carried out by the Management Board, the object of which is the disposal of an asset posing a threat to the functioning, continuity of operation and integrity of 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. An objection of the minister in charge of state assets is expressed – after consultation with the minister responsible for energy affairs – in the form of an administrative decision.

in accordance with EU IFRS (in PLN million)

12.2 Supplementary capital

Supplementary capital comprises mainly statutory contributions from profits generated in the previous financial years as well as from surpluses from the distribution of profits over the statutorily required contributions and from mergers of PGE S.A. with its subsidiaries.

According to the requirements of the Commercial Companies Code, entities with the status of joint-stock companies are obliged to establish supplementary capital to finance losses. Each year this supplementary capital is increased with at least 8% of the Company's profit for a given financial year as shown in its separate financial statements until this capital has reached the amount of at least one third of the Company's share capital. Supplementary capital equal to one third of the share capital may be used only to finance losses disclosed in an entity's standalone financial statements and may not be distributed for other purposes. The use of supplementary capital and reserve capital is determined by the General Meeting.

On 31 December 2023, supplementary capital subject to distribution among shareholders amounted to PLN 21.751 million and PLN 18.654 million on 31 December 2022.

12.3 Hedging reserve

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

	Year ended 31 December 2023	Year ended 31 December 2022
AS AT 1 JANUARY	**402**	**246**
Change in hedging reserve, including:	**(293)**	**193**
Recognition of the effective portion of change in fair value of hedging financial instruments in the part considered as effective hedge	(367)	250
Accrued interest on derivatives transferred from revaluation reserve and recognised as adjustment of interest expense	25	(44)
Currency revaluation of CCIRS transaction transferred from hedging reserve and recognised in foreign exchange gains/losses	49	(13)
Deferred tax	**56**	**(37)**
HEDGING RESERVE AFTER DEFERRED TAX	**165**	**402**

12.4 Undistributed financial result and dividend payment restrictions

Non-distributable retained profits are amounts which may not be paid out in the form of dividend.

	As at 31 December 2023	As at 31 December 2022
Retained earnings not distributable - amount of gains/(losses) recognised through an item in other comprehensive income	(40)	4
Distributable retained earnings	-	3.097
Net loss	(5,894)	-
TOTAL RETAINED EARNINGS/(LOSSES) RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION	**(5,934)**	**3,101**

The company expects that the net loss for the year ended 31 December 2023 of PLN 5,894 million will be funded from the capital reserve.

Dividend payment restrictions are described in note 12.2 to these financial statements. On 31 December 2023 there were no other limitations concerning the payment of dividend.

in accordance with EU IFRS (in PLN million)

12.5 Earnings per share

SIGNIFICANT ACCOUNTING PRINCIPLES

Net earnings per share

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

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

During the current and comparative reporting periods there was no dilutive effect on net earnings /(loss) per share.

	Year ended 31 December 2023	Year ended 31 December 2022
NET PROFIT/(LOSS)	**(5,894)**	**3,097**
NET PROFIT/(LOSS) ATTRIBUTABLE TO HOLDERS OF ORDINARY SHARES, APPLIED TO CALCULATE EARNINGS PER SHARE	**(5,894)**	**3,097**
Number of ordinary shares at the beginning of the reporting period	2,243,712,994	1,869,760,829
Number of ordinary shares at the end of the reporting period	2,243,712,994	2,243,712,994
WEIGHTED AVERAGE NUMBER OF OUTSTANDING ORDINARY SHARES USED TO CALCULATE EARNINGS/(LOSS) PER SHARE	**2,243,712,994**	**2,129,990,555**
NET PROFIT/(LOSS) AND DILUTED NET PROFIT/(LOSS) PER SHARE (IN PLN)	**(2.63)**	**1.45**

12.6 Dividends paid and proposed

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

13. Provisions

SIGNIFICANT ACCOUNTING PRINCIPLES

Provisions

The Company establishes provisions when the Company has a (legal or customarily expected) liability resulting from past events and when it is probable that meeting this liability will result in the necessary outflow of economic benefits and it is possible to assess reliably the amount of such a liability. If the consequence of changes in time value of money is significant, the amount of a provision corresponds to the current value of expenditures expected to be necessary to meet such a liability. The discount rate is determined before taxation, i.e. the discount rate reflect the current market assessment of the time value of money and the risk related specifically to a given liability. The discount rate is not effected by the risk used to adjust the estimates of future cash flows.

Provisions for benefits to be paid after employment period

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

- a retirement severance benefit payable on a one-off basis at the time of an employee's retirement,
- a death benefit,
- a cash equivalent resulting from the tariff for power industry employees,
- benefits from the Company Social Benefits Fund,
- health care.

The Company creates the provision for post-employment benefits in order to allocate related costs to particular periods. The provision is charged to operating costs in amounts corresponding to the value of future rights acquired gradually by the present employees. The current value of such liabilities is calculated by an independent actuary.

in accordance with EU IFRS (in PLN million)

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

The most significant values relate to provisions for post-employment benefits. The provisions for employee benefits were assessed by means of the actuarial methods.

As at the reporting date, the actuary adopted the following assumptions to calculate the amounts of the provisions:

	As at 31 December 2023	As at 31 December 2022
Forecast inflation rate (%)	6.6 in 2024; 4.25 in 2025, 3.5 in 2026, 3 in 2027, 2.7 in 2028, 2.5 in 2029 and the subsequent years,	13.7 in 2023; 2.5-3.0 in the subsequent years
Discount rate (%)	5.1	7.0
Assumed average annual growth of bases (%)	2.5-12.4	2.5-13.7
Employee turnover rate (%)	5.2-11.2	4.9-11
Forecast increase rate for the value of medical services (%)	2.5	10 in 2023; 2.5 in the subsequent years
Forecast increase rate for the value of allowance for Company Social Benefits Fund (%)	25.72 in 2024; 6 in the subsequent years	5

The employee attrition probability is based on the historical data on employee turnover in the Company and statistical data on employee attrition in the industry.

- Mortality and the likelihood of living up to a certain age are adopted in accordance with the Life Expectancy Table published by the Chief Statistical Office, assuming that the population of the Company employees corresponds to the average for Poland with respect to mortality.
- The regular retirement procedure was adopted, in accordance with the rules included in the Retirement Act, with the exception of employees meeting the conditions for early retirement.
- Future payments of benefits were discounted at the rate of 5.1% (on 31 December 2022: 7%) i.e. at the level of profitability of securities issued by the State Treasury and listed in the Polish capital market.

The current carrying amount of provisions is as follows:

	As at 31 December 2023		As at 31 December 2022	
	Long-term	Short-term	Long-term	Short-term
Post-employment benefits	56	3	12	1
Provision for incentive bonuses	6	1	-	-
Other	-	39	-	39
TOTAL PROVISIONS	**62**	**43**	**12**	**40**

<u>Change in provisions</u>

Year ended 31 December 2023	Employee benefits	Other
AS AT 1 JANUARY 2023	**13**	**39**
Current employment costs	5	-
Past employment costs	18	-
Adjustment to discount rate and other assumptions	30	-
Interest costs	2	-
Use	(2)	-
Reversal	-	-
AS AT 31 DECEMBER 2023	**66**	**39**

in accordance with EU IFRS (in PLN million)

Year ended 31 December 2022	Post-employment benefits	Other
AS AT 1 JANUARY 2022	**14**	**39**
Current employment costs	1	-
Adjustment to discount rate and other assumptions	(1)	-
Use	(1)	-
AS AT 31 DECEMBER 2022	**13**	**39**

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

- adoption of a discount rate higher by 1 percentage point (p.p.) would decrease the amount of provisions by PLN 7.9 million, and adoption of a rate lower by 1 p.p. would increase the amount of provisions by PLN 9.9 million.
- adoption of a planned bases increase rate higher by 1 p.p. would increase the amount of provisions by PLN 8 million, and adoption of a rate lower by 1 p.p. would decrease the amount of provisions by PLN 9.9 million.

Other provisions

In 2021, the Company 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. 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 short-term provisions. The amount of the created provision adjusted the result on the sale of shares presented in the comparative period in these financial statements.

On 31 December 2023, the Company did not identify any circumstances that would necessitate a change in the amount of the provision.

14. Post-employment benefits

The value of the provisions for post-employment benefits as reported in the financial statements comes from the valuation prepared by an independent actuary.

Current book value of provisions for employment benefits:

	As at 31 December 2023		As at 31 December 2022	
	Long-term	Short-term	Long-term	Short-term
Retirement severance and death benefits	8	1	2	-
Energy tariff	26	1	7	1
Company Social Benefits Fund	17	1	1	-
Health care	5	-	2	-
TOTAL EMPLOYEE BENEFITS	**56**	**3**	**12**	**1**

The increase in provisions for employee benefits occurred mainly as a result of the adopted assumptions resulting from the Collective Labour Agreement for the Employees of PGE S.A. entered into on 26 May 2023 with the trade union organisations functioning in PGE S.A. The document has been in force since 19 June 2023, i.e. since the date of its registration by the Regional Labour Inspector in Lublin.

15. Other non-financial liabilities

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

in accordance with EU IFRS (in PLN million)

	As at 31 December 2023	As at 31 December 2022
Liabilities for settlements within the tax capital group	1	3
Liabilities related to output VAT	685	367
Bonuses for employees (annual bonus, quarterly bonus) and the Management Board	50	36
Accrued annual leave entitlements	12	8
Estimates of other employee benefit liabilities	-	1
Prepayments received	240	79
Liabilities relating to contributions to Price Difference Payment Fund	41	88
Other	11	9
TOTAL OTHER LIABILITIES	**1,040**	**591**

*'*a change in the current period's presentation of deposits received and transferred to PGE Dom Maklerski S.A. as collateral for settlements with the Warsaw Commodity Clearing House, consisting in the reclassification of deposits from non-financial receivables and payables to financial receivables and payables, respectively.*

Under "Prepayments received", the Company discloses mainly settlements with PGE GiEK S.A. related to the purchase of CO_2 emission allowances. The value of prepayments on this account as at the reporting date was PLN 239 million and in the comparative period – PLN 79 million.

In December 2022, the Company recognised as expense an amount of PLN 88 million resulting from the regulations of the Extraordinary Measures Act. On 31 December 2023, the liability to the company Zarządca Rozliczeń S.A. on this account was PLN 41 million. A detailed description of the requirements related to the operation of the Price Difference Payment Fund is included in note 24.1.5 to these financial statements.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

16. Financial instruments

SIGNIFICANT ACCOUNTING PRINCIPLES

Classification and valuation

Financial assets are allocated to the following categories of financial instruments:

- measured at amortised cost;
- measured at fair value through other comprehensive income (FVOCI);
- measured at fair value through profit or loss (FVPL).

The classification of financial assets is based on a business model and characteristic features of cash flows.

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

- the adopted business model provides for the maintenance of a given asset for the purpose of collecting cash flows resulting from an agreement;
- cash flows resulting from an agreement and related to a given instrument comprise exclusively the repayment of the principal amount and interest on the unpaid part of the principal amount – (the SPPI test).

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

- the adopted business model provides for the maintenance of a given asset for the purpose of collecting cash flows resulting from an agreement and the sale of such an asset;
- cash flows resulting from an agreement and related to a given instrument comprise exclusively the repayment of the principal amount and interest on the unpaid part of the principal amount – (the SPPI test).

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

Investments in equity instruments are always measured at fair value. The Company may make an irrevocable decision to recognise changes in fair value in other comprehensive income unless the instrument is held for trading. In the case of equity instruments held for trading, changes in fair value are recognised in profit or loss.

All standard transactions of purchase and sale of financial assets are recognised at the transaction date, i.e. the date when the entity commits itself to purchase a given asset. Standard transactions of purchase or sale of financial assets are transactions of purchase or sale in which the date of delivery of assets to the other party is generally determined by the laws or customs of a given market.

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

- financial assets measured at amortised cost;
- financial assets measured at FVOCI;
- commitments to grant a credit if there is currently an obligation to provide it;
- granted financial guarantees that fall within the scope of IFRS 9;
- receivables under lease agreements falling within the scope of IFRS 16;
- contractual assets that are within the scope of IFRS 15.

The Company allocates financial liabilities to one of the following categories:

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

in accordance with EU IFRS (in PLN million)

16.1 Description of significant items within the particular categories of financial instruments

16.1.1 Trade receivables and other financial receivables

SIGNIFICANT ACCOUNTING PRINCIPLES

Financial receivables

Financial receivables, including trade receivables, are measured as at the date they arise at fair value, and then at amortised cost using the effective interest rate, including write-downs for expected credit loss.

The Company applies simplified methods of valuation of receivables measured at amortised cost if it does not distort the information contained in the statement of financial position, in particular when the period until the payment of receivables is not long.

In the case of trade receivables, the Company assesses the amount of a write-down related to expected credit losses in the amount equal to expected credit losses during the whole lifetime of an instrument.

The Company measures financial assets at amortised cost, in accordance with the adopted business model. This model assumes that a financial asset is held to produce contractual cash flows.

	As at 31 December 2023		As at 31 December 2022*	
	Long-term	Short-term	Long-term	Short-term
Trade receivables	-	6,274	-	2,962
Bonds acquired	-	2,174	2,180	3,408
Cash pooling receivables	-	703	-	348
Loans granted	3,562	19,083	3,288	9,339
Other financial receivables	-	2,042	-	1,569
TOTAL FINANCIAL RECEIVABLES	**3,562**	**30,276**	**5,468**	**17,626**

*'*a change in the current period's presentation of deposits received and transferred to PGE Dom Maklerski S.A. as collateral for settlements with the Warsaw Commodity Clearing House, consisting in the reclassification of deposits from non-financial receivables and payables to financial receivables and payables, respectively.*

Trade receivables

Trade receivables in the amount of PLN 6.274 million relate mainly to the sales of CO_2 emission allowances, electricity and services to the subsidiaries in the PGE Capital Group. On 31 December 2023, the balance of the three largest customers, i.e. PGE Obrót S.A., PGE EC S.A. and Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A., accounted for 81% of the total balance of trade receivables.

Additional information on trade receivables is presented in note 17.3.1 to these financial statements.

Bonds acquired

	As at 31 December 2023		As at 31 December 2022	
	Long-term	Short-term	Long-term	Short-term
BONDS ACQUIRED – ISSUER				
PGE GiEK S.A.	-	2,174	2,180	3,408
TOTAL BONDS ACQUIRED	**-**	**2,174**	**2,180**	**3,408**

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

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

in accordance with EU IFRS (in PLN million)

Cash pooling receivables

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

Loans granted

	As at 31 December 2023		As at 31 December 2022	
	Long-term	Short-term	Long-term	Short-term
LOANS GRANTED – BORROWER				
PGE Gryfino 2050 sp. z o.o.	3,562	52	3,286	-
PGE GiEK S.A.	-	5,991	-	-
PGE Dystrybucja S.A.	-	3,650	-	1,504
PGE Energetyka Kolejowa S.A.		2,903	-	-
PGE Energia Odnawialna S.A.	-	1,740	-	1,353
PGE Obrót S.A.	-	1,535	-	1,464
PGE Energia Ciepła S.A.	-	1,500	-	2,738
PGE Paliwa sp. z o.o.	-	624	-	2,067
Rybnik 2050 sp. z o.o.	-	484	-	-
PGE Baltica 6 sp. z o.o.	-	346	-	-
PGE Systemy S.A.	-	233	-	196
EW Baltica 5 sp. z o.o.	-	11	-	1
PGE Baltica sp. z o.o.	-	9	-	-
PGE Baltica 2 sp. z o.o.	-	4	-	-
EW Baltica 4 sp z o.o.	-	1	-	1
PUP ELTUR-SERWIS sp. z o.o.	-	-	-	7
Betrans sp. z o.o.	-	-	2	8
TOTAL LOANS GRANTED	**3,562**	**19,083**	**3,288**	**9,339**

The repayment deadlines for the loans were set for the years 2024-2025.

Other financial receivables

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

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

ACCOUNTING PRINCIPLES

Derivative financial instruments and hedges

Derivative instruments used by the Company to hedge against interest rate and currency exchange rate risks include in particular forwards, futures and interest rate swap contracts, as well as CCIRS transactions to hedge the exchange rate and interest rate. Financial derivative instruments of this type are measured at fair value. Derivative instruments are recognised as assets if their value is positive or as liabilities if their value is negative.

Gains and losses from changes in the fair value of derivative instruments that do not meet the conditions of hedge accounting and the ineffective part of hedging relationships in cash flow hedges are charged directly to profit or loss for the financial year.

The fair value of currency forward contracts is determined by reference to the current forward rates calculated on the basis of market data. The fair value of interest rate swap contracts is calculated on the basis of yield curves.

in accordance with EU IFRS (in PLN million)

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

	As at 31 December 2023			
	Recognised in profit or loss	Recognised in other comprehensive income	Assets	Liabilities
DERIVATIVES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Commodity forwards	2,631	-	2,093	-
Futures	(1,615)	-	-	159
Currency forwards	(1,040)	-	22	1,580
Options	(5)	-	13	-
HEDGING DERIVATIVES				
CCIRS hedging transactions	(60)	(51)	4	-
IRS hedging transactions	168	(242)	193	-
OTHER ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Investment fund participation units	4	-	31	-
TOTAL	**83**	**(293)**	**2,356**	**1,739**
long-term part	-	-	236	-
short-term part	-	-	2,120	1,739

	As at 31 December 2022			
	Recognised in profit or loss	Recognised in other comprehensive income	Assets	Liabilities
DERIVATIVES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Commodity forwards	1,827	-	-	538
Futures	(309)	-	1,456	-
Currency forwards	(1,045)	-	212	730
Options	2	-	18	-
HEDGING DERIVATIVES				
CCIRS hedging transactions	(9)	(19)	104	-
IRS hedging transactions	119	212	459	-
OTHER ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Investment fund participation units	2	-	28	-
TOTAL	**587**	**193**	**2,277**	**1,268**
long-term part	-	-	608	-
short-term part	-	-	1,669	1,268

For commodity and currency forwards, the valuation of the instruments is presented in the column "Recognised in profit or loss".

Commodity and currency forwards

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

IRS transactions

The company has active IRS transactions to hedge the interest rate on its credits and issued bonds. Their total original nominal value amounted to PLN 3,400 million (PLN 2,000 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 1.125 million. To recognise these IRS transactions, the Company uses hedge accounting. The impact of hedge accounting on equity is presented in note 12.3 to these financial statements.

CCIRS hedging transactions

In connection with entering into loan agreements with the subsidiary PGE Sweden AB (publ) described in note 16.1.3 to these financial statements, in 2014 PGE S.A. entered into a CCIRS transaction to hedge the foreign currency exchange rate. Under this transaction, banks-counterparties pay PGE S.A. interest based on a fixed rate in EUR and PGE S.A. pays interest based on a fixed rate in PLN. The notional amount, payment of interest and repayment of the notional amount in the CCIRS transactions are correlated with the relevant conditions arising from the loan agreements.

To recognise these CCIRS transactions, the Company uses hedge accounting. The impact of hedge accounting on equity is presented in note 12.3 to these financial statements.

in accordance with EU IFRS (in PLN million)

Options

PGE S.A. acquired from Towarzystwo Finansowe Silesia Sp. z o.o. call options to purchase shares in Polimex-Mostostal S.A. The options were measured using the Black-Scholes method.

Investment fund participation units

As at the reporting date, the Company held participation units in three sub-funds of Towarzystwo Funduszy Inwestycyjnych Energia S.A., whose value as at the reporting date was PLN 31 million.

The terms and conditions of the particular derivatives and other assets measured at fair value through profit or loss are set out below.

	As at 31 December 2023		As at 31 December 2022		Maturity as at 31 December 2023
	Value in financial statement in PLN	Par value in original currency	Value in financial statement in PLN	Par value in original currency	
Currency forward, sale – EUR	22	47	212	91	February 2026
Currency forward, purchase – EUR		335		1,961	November 2026
Currency forward, sale – USD		8		297	July 2026
IRS – interest rate PLN	193	500	459	625	December 2027
		313		375	June 2028
		312		375	December 2028
		-		1,452	-
		400		400	May 2026
		1,000		1,000	May 2029
Futures, purchase EUA – EUR	-	-	1,456	1,445	-
Futures, sale EUA – EUR		-		12	-
Commodity forward, sale EUA – PLN	2,093	27,027			December 2026
Commodity forward, purchase EUA – EUR		4,813			December 2026
Commodity forward, purchase EUA – PLN		3			December 2024
CCIRS – EUR to PLN	4	144	104	144	July 2029
Options	13	4	18	4	November 2026
Fund participation units	31	23	28	23	n/d
FINANCIAL ASSETS	**2,356**		**2,277**	**-**	
Currency forward, purchase – EUR	1,581	5,226	730	3,899	December 2026
Currency forward, sale – EUR		4		28	November 2026
Currency forward, purchase – USD		8		297	July 2026
Futures, purchase EUA – EUR	159	845	-	-	December 2025
Futures, sale EUA – EUR		1		-	December 2024
Commodity forward, sale EUA – PLN	-	-	538	30,033	-
Commodity forward, purchase EUA – EUR		-		4,574	-
Commodity forward, sale EUA – EUR		-		-	-
Commodity forward, purchase EUA – PLN		-		85	-
FINANCIAL LIABILITIES	**1,740**		**1,268**	**-**	

in accordance with EU IFRS (in PLN million)

16.1.3 Credits, loans, bonds, cash pooling and leases

	As at 31 December 2023		As at 31 December 2022	
	Long-term	Short-term	Long-term	Short-term
Credit liabilities	6,123	4,123	3,139	1,911
Loans received	624	8	673	9
Bonds issued	1,399	10	1,399	13
Cash pooling liabilities	-	1,371	-	5,614
Lease liabilities	22	1	22	2
TOTAL CREDITS, LOANS, BONDS AND CASH POOLING	**8,168**	**5,513**	**5,233**	**7,549**

Credits

Creditor	Hedging instrument	Date of conclusion	Date of maturity	Limit in currency	Currency	Interest rate	Liability at 31-12-2023	Liability at 31-12-2022
European Investment Bank	-	2022-12-09	2041-03-15	2,000	PLN	Fixed	2.041	-
Bank consortium	-	2023-03-01	2027-03-01	2,330	PLN	Variable	1.501	-
Bank Gospodarstwa Krajowego	-	2018-06-01	2026-09-29	2,000	PLN	Variable	1.320	-
European Investment Bank	-	2015-10-27	2034-08-25	1,500	PLN	Fixed	1.317	1.442
European Investment Bank	-	2023-02-03	2041-03-15	850	PLN	Variable	867	-
PKO BP S.A.	-	2018-04-30	2025-12-31	1,000	PLN	Variable	767	-
European Investment Bank	-	2023-02-03	2041-03-15	550	PLN	Fixed	562	-
Bank Gospodarstwa Krajowego	IRS	2014-12-17	2027-12-31	1,000	PLN	Variable	501	627
European Investment Bank	-	2015-10-27	2034-08-25	490	PLN	Fixed	431	472
European Bank for Reconstruction and Development	IRS	2017-06-07	2028-06-07	500	PLN	Variable	315	378
Bank Gospodarstwa Krajowego	IRS	2015-12-04	2028-12-31	500	PLN	Variable	313	376
European Investment Bank	-	2019-12-16	2038-10-16	273	PLN	Fixed	274	274
Bank Pekao S.A.	-	2018-07-05	2024-12-22	1,150	PLN	Variable	37	-
Bank Gospodarstwa Krajowego	-	2023-11-28	2028-11-28	2,500	PLN	Variable	-	-
Bank consortium	IRS	2015-09-07	2023-09-30	3,630	PLN	Variable	-	1.481
TOTAL BANK CREDITS							**10,246**	**5,050**

The Company's outstanding overdraft facility limits amounted to PLN 2,026 million on 31 December 2023 and PLN 3,300 million on 31 December 2022.

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

Loans received

Creditor	Hedging instrument	Date of conclusion	Date of maturity	Limit in currency	Currency	Interest rate	Liability at 31-12-2023	Liability at 31-12-2022
PGE Sweden AB	CCIRS	2014-08-27	2029-07-31	143	EUR	Fixed	632	682
TOTAL LOANS RECEIVED							**632**	**682**

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

Domestic market bond issues

Date of granting	Date of maturity	Tranche issue date	Tranche maturity date	Hedging instrument	Limit in currency	Currency	Interest rate	Liability at 31-12-2023	Liability at 31-12-2022
2013-06-27	indefinite	2019-05-21	2029-05-21	IRS	5,000	PLN	Variable	1,007	1,009
		2019-05-21	2026-05-21					402	403
TOTAL BONDS ISSUED								**1,409**	**1,412**

Cash pooling liabilities

The launch of the real cash pooling service is described in note 16.1.1 to these financial statements.

in accordance with EU IFRS (in PLN million)

Currency position and interest rates

As at 31 December 2023

Currency	Reference rate	Value in currency	Value in PLN	Repayment deadline
PLN	Fixed	4,625	4,625	credits – Apr. 2034 – Mar. 2041
	Fixed	23	23	lease – until Dec. 2089
	Variable	1,371	1,371	cash pooling - Dec. 2024 – Jul. 2025
	Variable	5,621	5,621	credits - Dec. 2024 – Mar. 2041
	Variable	1,409	1,409	bonds - May 2026 – May 2029
TOTAL PLN		**13,049**	**13,049**	
EUR	Fixed	145	632	loans - Jul. 2029
TOTAL EUR		**145**	**632**	
TOTAL CREDITS, LOANS, BONDS AND CASH POOLING			**13.681**	

As at 31 December 2022

Currency	Reference rate	Value in currency	Value in PLN	Repayment deadline
PLN	Fixed	2,188	2,188	credits – VIII 2034 – X.2038
	Fixed	24	24	lease – until Dec. 2089
	Variable	5,614	5,614	cash pooling - Dec. 2023 – Jul. 2024
	Variable	2,862	2,862	credits - Sep. 2023 – Dec. 2028
	Variable	1,412	1,412	bonds - May 2026 – May 2029
TOTAL PLN		**12,100**	**12,100**	
EUR	Fixed	145	682	loans - Jul. 2029
TOTAL EUR		**145**	**682**	
TOTAL CREDITS, LOANS, BONDS AND CASH POOLING			**12,782**	

The Company is keeping abreast of work related to the IBOR reform, which may affect financial instruments based on a variable interest rate. On 31 December 2023, the value of credits, borrowings and bonds exposed to interest rate risk amounted to PLN 7,030 million (these credits are based on the WIBOR rate). In order to mitigate the interest rate risk related to financial liabilities, PGE S.A. uses IRS hedging instruments in accordance with its hedging procedures and strategy.

The table below presents changes in interest-bearing debt in the years ended 31 December 2023 and 2022, respectively:

	Year ended 31 December 2023	Year ended 31 December 2022
AS AT 1 JANUARY	**12,782**	**10,248**
CHANGE IN OVERDRAFT FACILITY	**-**	**-**
CHANGE IN CASH POOLING LIABILITIES	**(4,243)**	**4,268**
CHANGE IN LEASE LIABILITIES	**(1)**	**4**
CHANGE IN OTHER CREDITS, LOANS AND BONDS, including:	**5,143**	**(1,738)**
Obtained credits, loans / issued bonds/	8,365	2,200
Accrued interest	731	359
Repayment of credits, loans / redemption of bonds/	(3,342)	(3,985)
Repayment of interest	(584)	(325)
Foreign exchange differences	(126)	13
Other	99	-
AS AT 31 DECEMBER	**13,681**	**12,782**

In 2023, PGE S.A., as part of the settlement of the acquisition of PKP Energetyka Holding sp. z o.o., assumed loans in the amount of PLN 1,543 million. This value together with accrued interest, i.e. the amount of PLN 1,621 million, was set off against the dividend due in the amount of PLN 1,412 million. The remaining outstanding value, i.e. PLN 209 million, was presented in the line “Repayment of credits, loans/redemption of bonds”.

in accordance with EU IFRS (in PLN million)

16.1.4 Other financial liabilities measured at amortised cost

ACCOUNTING PRINCIPLES

Liabilities

Liabilities constitute the Company's present obligation resulting from past events whose fulfilment, according to expectations, will cause an outflow of resources containing economic benefits.

The Company divides its financial liabilities into the following categories:

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

If the consequences of changes in the time value of money are significant, liabilities are presented at discounted value.

	As at 31 December 2023		As at 31 December 2022*	
	Long-term	Short-term	Long-term	Short-term
Trade payables	-	1,601	-	1,382
Other	7	192	9	1,774
TOTAL OTHER FINANCIAL LIABILITIES	**7**	**1,793**	**9**	**3,156**

*'*a change in the current period's presentation of deposits received and transferred to PGE Dom Maklerski S.A. as collateral for settlements with the Warsaw Commodity Clearing House, consisting in the reclassification of deposits from non-financial receivables and payables to financial receivables and payables, respectively.*

Trade payables

Trade payables relate mainly to electricity purchase transactions.

Other financial liabilities

Under "Other", the Company mainly presents settlements with exchanges, primarily related to the purchase of CO_2 emission allowances (PLN 858 million), and future payments to the Polish National Foundation.

16.2 Fair value of financial instruments

The book value of financial receivables and liabilities measured at amortised cost, except for loans received from PGE Sweden AB (publ) and the credit from the European Investment Bank, is a reasonable approximation of their fair values. The fair value of loans received from PGE Sweden AB (publ) is estimated by PGE S.A. at PLN 588 million (against PLN 632 million of the book value). The fair value was determined using the estimated credit risk of PGE S.A. The indexes used in valuation belong to Level 2 of the fair value hierarchy. In case of the fixed rate credit obtained from the European Investment Bank, the amortised cost disclosed in the financial statements as at the reporting date amounted to PLN 4,625 million and their fair value amounted to PLN 4,635 million. The indexes used in valuation belong to Level 2 of the fair value hierarchy.

16.3 Fair value hierarchy

Derivative instruments

The Company measures derivatives at fair value using valuation models for financial instruments based on publicly available exchange rates, interest rates, discount curves in particular currencies (applicable also for commodities whose prices are denominated in these currencies) obtained from 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 CIRS 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 accordance with EU IFRS (in PLN million)

The value of the concluded forward contracts includes the Company's remuneration for the performed activities, and therefore the valuation of the forward contracts includes the margin realised on the transaction. The value of this margin measured on 31 December 2023 amounted to PLN 360 million (PLN 399 million in the comparative period).

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

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

	Assets as at 31 December 2023		Liabilities as at 31 December 2023	
FAIR VALUE HIERARCHY	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Commodity forwards	-	2,093	-	-
Futures	-	-	-	159
Currency forwards	-	22	-	1,580
Options	-	13	-	-
DERIVATIVES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	**-**	**2,128**	**-**	**1,739**
CCIRS hedging transactions	-	4	-	-
IRS hedging transactions	-	193	-	-
HEDGING DERIVATIVES	**-**	**197**	**-**	**-**
Investment fund participation units	-	31	-	-
OTHER ASSETS / LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	**-**	**31**	**-**	**-**

	Assets as at 31 December 2022		Liabilities as at 31 December 2022	
FAIR VALUE HIERARCHY	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Commodity forwards	-	-	-	538
Futures	-	1,456	-	
Currency forwards	-	212	-	730
Options	-	18	-	-
DERIVATIVES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	**-**	**1,686**	**-**	**1,268**
CCIRS hedging transactions	-	104	-	-
IRS hedging transactions	-	459	-	-
HEDGING DERIVATIVES	**-**	**563**	**-**	**-**
Investment fund participation units	-	28	-	-
OTHER ASSETS / LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	**-**	**28**	**-**	**-**

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.

<u>Instruments not listed on active markets, whose fair value cannot be reliably determined</u>

PGE S.A. holds considerable shareholdings in in companies that are not listed on active markets. These are shares in subsidiaries and associates that are excluded from the scope of IFRS 9 and, as described in note 8, are measured at cost less impairment write-downs.

in accordance with EU IFRS (in PLN million)

16.4 Security for payment of receivables and payables

The Company uses many types of security and their combinations for the repayment of loans. The most common ones include declarations of submission to enforcement proceedings. Additionally, the Company uses powers of attorney to use bank accounts. As a rule, receivables from entities related to PGE S.A. are not secured.

On 31 December 2023 and 31 December 2022, the Company's assets did not constitute any security for the payment of liabilities or contingent liabilities.

16.5 Statement of comprehensive income

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

YEAR ENDED 31 DECEMBER 2023	Hedging derivatives	Derivatives measured at fair value through profit or loss	Cash and cash equivalents	Shares, interests and other capital instruments in CG	Other financial assets	Financial liabilities measured at amortised cost	Liabilities under lease	TOTAL
Dividends	-	-	-	3,269	-	-	-	3,269
Interest income / (costs)	157	-	443	-	2,094	(964)	(1)	1,729
Foreign exchange differences	-	(49)	(16)	-	(1,073)	1,106	-	(32)
Revaluation of financial instruments / Reversal of write-downs	-	27	-	-	-	-	-	27
Revaluation of financial instruments / (Creation of write-downs)	-	(28)	-	(11,746)	(504)	(5)	-	(12,283)
Gain on disposal of investment	-	-	-	21	-	-	-	21
TOTAL PROFIT / (LOSS)	**157**	**(50)**	**427**	**(8,456)**	**517**	**137**	**(1)**	**(7,269)**

YEAR ENDED 31 December 2022	Hedging derivatives	Derivatives measured at fair value through profit or loss	Cash and cash equivalents	Shares, interests and other capital instruments in CG	Other financial assets	Financial liabilities measured at amortised cost	Liabilities under lease	TOTAL
Dividends	-	-	-	1,639	-	-	-	1,639
Interest income / (costs)	110	-	305	-	819	(570)	(1)	663
Foreign exchange differences	-	13	(2)	-	26	(68)	-	(31)
Revaluation of financial instruments / Reversal of write-downs	-	39	-	-	-	-	-	39
Revaluation of financial instruments / (Creation of write-downs)	-	(36)	-	(17)	-	-	-	(53)
Gain on disposal of investment	-	-	-	35	-	-	-	35
TOTAL PROFIT / (LOSS)	**110**	**16**	**303**	**1,657**	**845**	**(638)**	**(1)**	**2,292**

The creation of impairment write-downs of shares in the current and comparative reporting periods is described in notes 4.4 and 8.1 to these financial statements.

17. Objectives and principles of financial risk management

The primary objective of financial risk management in the Company is to support the process of creating the Group's value for shareholders and the implementation of the Group's business strategy by reducing and maintaining financial risk at the level acceptable to the Company's management. Responsibility for managing financial risk lies with the Management Board of PGE S.A. The Management Board specifies appetite for risk, which is understood as an acceptable level of deterioration of the PGE Group's financial results, taking into consideration its current and planned economic and financial position. The Management Board also decides on the allocation of risk appetite to specific business areas.

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

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

Financial risk is managed from the perspective of the PGE Capital Groups as a whole, with the leading role of the Company, which functions as a centre of competencies in this area and manages the process in an integrated manner. Exposures to risk faced by the particular business areas are examined on a comprehensive basis, taking into account interdependencies among exposures, the possibility of using natural hedging effects and their overall impact on the PGE Capital Group's risk profile and financial position.

The financial risk management model includes the following elements:

- collecting and analysing market and risk exposure data broken down by individual financial risk categories;
- measuring financial risk, for example by means of Value-at-Risk and Profit-at-Risk, for individual risk factors and jointly for material risk factors;
- managing the consolidated exposure of the PGE Capital Group in relation to the capital at risk and the risk limits established on its basis (among others, by defining and implementing hedging strategies).

In the key areas where financial risks occur, the Company implemented internal regulations setting out the principles for the management of such risks.

The Company is exposed to various types of financial risks, for example:

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

The Company's exposure to individual financial risks depends on the extent of its activities in the commodity and financial markets.

17.1 Market risk

The market risk comprises the commodity risk, the interest rate risk, and the currency risk.

The main objective of market risk management is to protect financial results, maintain the risk resulting from the conducted commercial and financial activities at the acceptable level and support the implementation of the business strategy as well as maximise the Group's value for shareholders.

The procedures implemented in the Company for the purpose of managing individual categories of market risk relating to commercial and financial activities trading and financial activities specify, among other things:

- the purpose, scope and principles of risk management;
- responsibility for risk management;
- management and operational processes within the framework of risk management for commercial activities in the electricity and related products markets and for financial activities,
- the ways of identifying sources of risk exposure;
- acceptable instruments for hedging risk exposure;
- methods for measuring and monitoring risk exposure.

The market risk management principles implemented in the Company further define how the appetite for market risk is determined, how market risk exposures are limited and the mechanisms for hedging risk when limits are exceeded.

17.1.1 Commodity risk

Commodity risk is related to the possibility of deterioration in the financial result due to changes in commodity prices.

The Company's exposure to the commodity price risk concerns first of all the following commodities:

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

The Company pursues a strategy of hedging key exposures in the area of trade in electricity and related commodities in a time horizon of up to 5 years. The level of hedging for an open position is set taking into account risk appetite, results of monitoring the risk related to prices of electricity and related products, liquidity of specific markets, the financial position of the Company and the Group, as well as the Group's strategic objectives.

in accordance with EU IFRS (in PLN million)

17.1.2 Interest rate risk

Interest rate risk is related to the possibility of deterioration in the financial result due to changes in interest rates.

The Company's exposure to interest rate risk arises mainly from the fact that the Company finances its operating and investing activities by obtaining funds partly based on a variable interest rate, primarily in the form of credits, loans and bonds issued in domestic and foreign currencies, as well as from investments in financial assets bearing variable interest rates.

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

Moreover, the PGE Group establishes hedging strategies with respect to its exposure to interest rate in the form of hedging ratios subject to approval of the Risk Committee and the PGE Management Board. The implementation of hedging strategies and the level of interest rate risk are subject to monitoring and are reported regularly to the Risk Committee.

The Company enters into IRS and CIRS transactions solely for the purpose of hedging an identified risk exposure. The regulations in force in the PGE Capital Group do not allow, with regard to interest rate derivative transactions, entering into speculative transactions, i.e. transactions which would be aimed at generating additional profits resulting from changes in the level of interest foreign currency exchange rates, while exposing the Company to the risk of incurring a potential loss on this account.

Market bonds issued in the amount of PLN 1.4 billion under the PLN 5 billion bonds issue programme bear interest at a variable rate in PLN. Payments relating to these bonds are hedged by IRS instruments, as described in note 16.1.2.

Loans received from the subsidiary PGE Sweden AB (publ) are fixed interest rate loans denominated in EUR. Payments relating these loans are hedged by CCIRS instruments, as described in note 16.1.2.

The Company also has committed financing in the form of a long-term credit in the amount of PLN 875 million under the Credit Agreements entered into on 17 December 2014 and 4 December 2015 with Bank Gospodarstwa Krajowego and the Credit Agreement with the European Bank for Reconstruction and Development entered into on 7 June 2017; the credits described above are variable interest rate instruments in PLN. Payments relating to these credits and loans are hedged by IRS instruments, as described in note 16.1.2.

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

		Type of interest rate	As at 31 December 2023	As at 31 December 2022
Derivatives – assets exposed to interest rate risk	PLN	Fixed	-	-
		Variable	206	477
	EUR	Fixed	-	-
		Variable	2,119	1,772
Loans granted, bonds acquired and cash exposed to interest rate risk	PLN	Fixed	26,125	27,184
		Variable	703	354
	EUR	Fixed	436	1,618
		Variable	-	-
Derivatives – liabilities exposed to interest rate risk	PLN	Fixed	-	-
		Variable	-	-
	EUR	Fixed	-	-
		Variable	(1,739)	(1,268)
Loans received and bonds issued exposed to interest rate risk	PLN	Fixed	(4,648)	(2,213)
		Variable	(8,401)	(9,887)
	EUR	Fixed	(632)	(682)
		Variable	-	-
Net exposure	**PLN**	**Fixed**	**21,477**	**24,971**
		Variable	**(7,492)**	**(9,056)**
	EUR	**Fixed**	**(196)**	**936**
		Variable	**380**	**504**

Variable interest rates of financial instruments are reviewed in periods shorter than one year. Interest on financial instruments with fixed rates is constant during the whole period until their maturity.

in accordance with EU IFRS (in PLN million)

17.1.3 Currency risk

Currency risk is related to the possibility of deterioration in the financial result due to changes in currency exchange rates.

The main sources of the Company's exposure to currency risk are set out below:

- debt denominated in foreign currencies;
- purchase or sale transactions relating to CO_2 emission allowances and denominated in foreign currencies;
- investment financial assets denominated in foreign currencies;
- foreign subsidiaries;
- other operating cash flows denominated in or indexed to foreign currencies.

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

Moreover, the Company establishes hedging strategies using hedging ratios subject to approval of the Risk Committee and the Management Board. The implementation of hedging strategies and the level of currency risk are subject to monitoring and are reported regularly to the Risk Committee.

The Company enters into currency exchange rate derivative transactions only for the purpose of hedging identified risk exposures. The regulations in force in the PGE Capital Group do not allow, with regard to currency exchange rate derivative transactions, entering into speculative transactions, i.e. transactions which would be aimed at generating additional profits resulting from changes in the level of foreign currency exchange rates, while exposing the Company to the risk of incurring a potential loss on this account.

In view of the adopted currency risk management strategy based on minimising and hedging currency risk exposures, the cost of servicing liabilities in foreign currencies, in the medium and long term, under conditions of escalating risks related to Russia's aggression in Ukraine, did not change significantly, as a result of hedging activities implemented in accordance with the previously adopted hedging strategies.

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

	Total amount in statements, in PLN	CURRENCY POSITION AS AT 31 DECEMBER 2023			
		EUR	PLN	USD	PLN
FINANCIAL ASSETS					
Trade and other receivables, including:	33,838	294	1,278	-	-
Other financial receivables	*2,042*	*294*	*1,278*	-	-
Cash and cash equivalents	1,742	100	435	-	-
Derivatives and other assets measured at fair value through profit or loss, including:	2,356	5,253	22,840	8	31
Measured at fair value through profit or loss	*2,115*	*5,101*	*22,179*	*8*	*31*
Hedging instruments	*4*	*152*	*661*	-	-
FINANCIAL LIABILITIES					
Credits, loans, bonds, including:	13,681	145	632	-	-
Loans received	*632*	*145*	*632*	-	-
Trade and other payables, including:	1,800	37	162	-	-
Other financial liabilities	*199*	*37*	*162*	-	-
Derivative instruments	1,739	6,066	26,375	8	31
NET CURRENCY POSITION		**(601)**	**(2,616)**	**-**	**-**

The book value of derivative instruments is the result of valuation to fair value. The value of exposure to currency risk for forwards represents their nominal amount in a given currency. The value of exposure to currency risk for CCIRSs represents the value of discounted cash flows of the currency leg in a given currency.

in accordance with EU IFRS (in PLN million)

	Total amount in statements, in PLN	CURRENCY POSITION AS AT 31 DECEMBER 2022*			
		EUR	PLN	USD	PLN
FINANCIAL ASSETS					
Trade and other receivables, including:	23,094	331	1,550	-	-
Trade receivables	*2,962*	*6*	*28*	-	-
Other financial receivables	*1,569*	*325*	*1,522*	-	-
Cash and cash equivalents	10,593	344	1,613	1	5
Derivatives and other assets measured at fair value through profit or loss, including:	2,277	3,448	16,171	297	1,393
Measured at fair value through profit or loss	*1,686*	*3,303*	*15,491*	*297*	*1,393*
Hedging instruments	*563*	*145*	*680*	-	-
FINANCIAL LIABILITIES					
Credits, loans, bonds, including:	12,782	145	682	-	-
Loans received	*682*	*145*	*682*	-	-
Trade and other payables, including:	3,165	450	2,111	-	-
Trade payables	*1,382*	*73*	*344*	-	-
Other financial liabilities	*1,783*	*377*	*1,767*	-	-
Derivative instruments	1,268	8,445	39,607	297	1,393
NET CURRENCY POSITION		**(4,917)**	**(23,066)**	**1**	**5**

*'*a change in the current period's presentation of deposits received and transferred to PGE Dom Maklerski S.A. as collateral for settlements with the Warsaw Commodity Clearing House, consisting in the reclassification of deposits from non-financial receivables and payables to financial receivables and payables, respectively.*

The book value of derivative instruments is the result of valuation to fair value. The value of exposure to currency risk for forwards represents their nominal amount in a given currency. The value of exposure to currency risk for CCIRSs represents the value of discounted cash flows of the currency leg in a given currency.

17.2 Liquidity risk

liquidity risk concerns a financial situation in which the Company is not able to fulfil its (current or non-current) payment obligations at their maturity dates.

The main objective of liquidity risk management in the PGE Capital Group is to ensure and maintain its companies' ability to meet its current and future financial liabilities, taking into consideration the costs of acquiring liquidity. In the PGE Capital Group, managing liquidity risk consists, among other things, in planning and monitoring cash flows in both the short- and long-term perspectives with respect to the conducted operating, investing, and financing activities and undertaking actions aimed at ensuring resources for the activities of PGE S.A. and its subsidiaries and, simultaneously, minimising the costs of such activities.

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

Long-term liquidity risk management allows the PGE Capital Group to determine its borrowing capacity and supports decisions regarding the financing of long-term investments.

The PGE Capital Group uses a central financing model according to which, as a matter of principle, external financing agreements are entered into by PGE S.A. Its subsidiaries within the PGE Capital Group take advantage of various intra-group financing sources such as loans, bonds, bank account consolidation agreements or real cash pooling agreements.

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

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

in accordance with EU IFRS (in PLN million)

	Year ended 31 December 2023	Year ended 31 December 2022
Net debt / EBITDA	1.11x	-0.31x

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

- overdraft facilities and working capital term credits granted by banks;
- real cash pooling agreements;
- term credits.

The table below presents the maturity of the Company's financial instruments in the chronological order on the basis of contractual undiscounted payments:

AS AT 31 DECEMBER 2023	Value in statement	Total payments	Up to 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years
Credits	**10,246**	**13,038**	3,746	749	3,511	5,032
Bonds	**1,409**	**1,866**	-	100	730	1,036
Loans received	**632**	**740**	10	10	77	643
Cash pooling liabilities	**1,371**	**1,371**	1,371	-	-	-
Leases	**23**	**67**	-	2	6	59
Trade and other payables measured at amortised cost	**1,638**	**1,638**	1,630	2	6	-
Settlements with exchanges, mainly related to purchase of CO_2 emission allowances(**)	**162**	**162**	162	-	-	-
Derivative instruments related to purchase of CO_2	**(376)**	**(821)**	4,766	(2,747)	(2,840)	-
Commodity forwards – purchase	*(2,093)*	*20,928*	*7,584*	*11,772*	*1,572*	-
Commodity forwards – sale		*(27,027)*	*(5,297)*	*(16,940)*	*(4,790)*	-
Futures – purchase	*159*	*3,674*	*1,663*	*1,667*	*344*	-
Futures – disposal		*(3)*	-	*(3)*	-	-
Currency forwards	*1,558*	*1,607*	*816*	*757*	*34*	-
TOTAL	**15,105**	**18,061**	**11,685**	**(1,884)**	**1,490**	**6,770**

(*)Settlements are related to variation margins whose value depends on the current price of CO_2 emission allowances.

AS AT 31 DECEMBER 2022*	Value in statement	Total payments	Up to 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years
Credits	**5,050**	**5,813**	783	1,338	2,135	1,557
Bonds	**1,412**	**2,108**	-	125	848	1,135
Loans received	**682**	**820**	11	10	84	715
Cash pooling liabilities	**5,614**	**5,614**	5,614	-	-	-
Leases	**24**	**68**	-	2	6	60
Trade and other payables measured at amortised cost	**1,742**	**1,742**	1,733	-	9	-
Settlements with exchanges, mainly related to purchase of CO_2 emission allowances(*)	**1,423**	**1,423**	1,423	-	-	-
Derivative instruments related to purchase of CO_2	**(188)**	**(1,014)**	5,309	(3,433)	(2,890)	-
Commodity forwards – purchase	*538*	*21,535*	*9,499*	*10,885*	*1,151*	-
Commodity forwards – sale		*(30,033)*	*(9,334)*	*(16,460)*	*(4,239)*	-
Futures – purchase	*(1,456)*	*6,775*	*4,959*	*1,644*	*172*	-
Futures – disposal		*(57)*	*(13)*	*(40)*	*(4)*	-
Currency forwards	*730*	*766*	*198*	*538*	*30*	-
TOTAL	**15,416**	**16,231**	**14,530**	**(1,958)**	**192**	**3,467**

(*) a change in the presentation in the current period of advances received and transferred to PGE Dom Maklerski S.A. as collateral for settlements with the Warsaw Commodity Clearing House, consisting of the reclassification of advances from non-financial receivables and payables to financial receivables and payables respectively.

(**)Settlements are related to variation margins whose value depends on the current price of CO_2 emission allowances.

in accordance with EU IFRS (in PLN million)

17.3 Credit risk

Credit risk is connected with a potential credit event which may have the form of a business partner's insolvency, partial payment of liabilities, significant delay in the payment of liabilities or any other default with respect to contractual conditions (in particular a failure to make a delivery of or to accept goods under a concluded contract or to pay damages and contractual penalties).

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

- The core activities – the source of credit risk is, among others, transactions for the sale or purchase of electricity, gas and CO_2 emission allowances. This relates primarily to the possibility of a default by the other party to a transaction if fair value of a transaction is positive from the point of view of the Company;
- The investment of free cash – credit risk occurs in consequence of PGE's investing free cash in financial instruments bearing credit risk, i.e. financial instruments other than those issued by the State Treasury.

To monitor credit risk in its operations, the Company applies an internal ratings methodology, using rating models implemented in cooperation with an external provider.

The maximum exposure to credit risk resulting from the Company's financial assets is equal to the book values of these items.

	As at 31 December 2023	As at 31 December 2022*
Trade receivables	6,274	2,962
Other financial assets	27,564	20,132
Cash and cash equivalents	1,742	10,593
Derivatives – assets	2,356	2,277
MAXIMUM EXPOSURE TO CREDIT RISK	**37,936**	**35,964**

*'*a change in the current period's presentation of deposits received and transferred to PGE Dom Maklerski S.A. as collateral for settlements with the Warsaw Commodity Clearing House, consisting in the reclassification of deposits from non-financial receivables and payables to financial receivables and payables, respectively.*

17.3.1 Trade receivables and other financial receivables

SIGNIFICANT ACCOUNTING PRINCIPLES

Write-downs of receivables

Receivables from loans granted and bonds purchased from subsidiaries

The business model of the PGE Group assumes that, as a rule, financing is granted to subsidiaries only from the level of PGE S.A. The Company analyses financial results and plans of the subsidiaries and assigns internal ratings on this basis. In the event of significant deterioration of the financial position of the subsidiaries, analyses of recoverability of all assets employed in a given subsidiary are performed.

Trade receivables and other financial receivables

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

The Company applies the following principles for estimating and recognising impairment write-downs of other financial receivables:

- for receivables from significant customers covered by the credit risk assessment procedure, the Company estimates expected credit losses on the basis of the model used to assess this risk based on ratings allocated to particular business partners; ratings are assigned the likelihood of bankruptcy adjusted by the impact of macroeconomic factors;
- for receivables from mass customers or customers not covered by the credit risk assessment procedure, the Company estimates expected credit losses on the basis of an analysis of the probability of incurring credit losses in the particular ageing ranges;
- in justified cases, the Company may assess the amount of a write-down on an individual basis.

in accordance with EU IFRS (in PLN million)

The ratios adopted for estimating expected losses calculated according to the provision matrix:

	31 December 2023		31 December 2022	
	Write-down amount	Write-down percentage	Write-down amount	Write-down percentage
Receivables not overdue	904	0.0 – 100.0(*)	415	0.0 – 100.0(*)
Overdue < 30 days	4	0.0 – 100.0(*)	37	0.0 – 100.0(*)
Overdue 30-90 days	-	0.0	-	0.0
Overdue 90-180 days	-	100.0(*)	12	100.0(*)
Overdue 180-360 days	-	100.0(*)	77	100.0(*)
Overdue > 360 days	51	100.0	4	100.0
TOTAL FINANCIAL ASSETS	**959**		**545**	

(*) The write-down relates to receivables written down according to the matrix (0%) and on an individual basis (100%).

The ratios adopted for estimating expected losses calculated according to the key customers model:

Rating level	31 December 2023		31 December 2022	
	Write-down amount	Write-down percentage	Write-down amount	Write-down percentage
Highest AAA to AA – according to S&P and Fitch and Aaa to Aa3 according to Moody's	-	-	-	-
Medium-high A+ to A- according to S&P and Fitch and A1 to A3 according to Moody's	-	-	-	-
Medium BBB+ to BBB- according to S&P and Fitch and Baa1 to Baa3 according to Moody's	28	100.0	<1	100.0
TOTAL FINANCIAL ASSETS	**28**		**<1**	

Trade receivables typically have payment terms of 2-3 weeks. In 2023, the Company waited on average 26 days for the payment of receivables. For one of the subsidiaries, due to liquidity problems, the Company extended the payment terms to 90 days from 1 August 2022 to 31 December 2023 for gas fuel supplies.

Trade receivables mainly relate to receivables from the sale of CO2 emission allowances and electricity. Thanks to ongoing supervision over the process of collecting trade receivables, according to the Company's management, there occurs no additional credit risk above the level determined by write-downs relating to expected credit losses.

The Company mitigates and controls the credit risk associated with commercial transactions. In the case of commercial transactions, which due to their high value may generate significant losses as a result of the counterparty's default, a counterparty assessment is carried out prior to the transaction, taking into account a financial analysis, the counterparty's credit history and other factors. Based on the assessment, an internal rating is assigned or the Company uses a rating assigned by a reputable independent agency. Based on the rating, a limit is set for the counterparty. Entering into contracts that would increase exposures above set limits generally requires the establishment of security in accordance with accepted credit risk management principles. The level of used limits is monitored on a regular basis, and in the event of material overruns, the units responsible for counterparty risk management are required to take action to eliminate them. The company monitors the payment of receivables on an ongoing basis - it applies early collection and also uses the services of Business Information Offices.

The credit risk on trade receivables on a geographical basis is presented in the table below:

	31 December 2023		31 December 2022	
	Balance of receivables	Share %	Balance of receivables	Share %
Poland	6,274	100%	2,961	100%
Germany	-	-	1	-
TOTAL	**6,274**	**100%**	**2,962**	**100%**

The majority of sales transactions and trade receivables balances concern the related entities in the PGE Capital Group and large entities operating on the Polish electricity market. Information on transactions with the related entities is presented in note 21 to these financial statements.

<u>Ageing of receivables and write-downs related to expected credit losses</u>

On 31 December 2023, some financial assets were covered by write-downs related to future credit losses.

in accordance with EU IFRS (in PLN million)

It was assumed that control over the assets of the subsidiaries exercised by PGE S.A. is a form of security that was taken into account when estimating the Recovery Rate parameter. Consequently, with respect to loans granted to and bonds purchased from the subsidiaries, this parameter was set at 0%.

On 31 December 2023, as a result of the deterioration of the financial position of PGE GiEK S.A. and PGE Obrót S.A., expected credit losses were calculated for loans and bonds receivable.

All loans receivable and bonds purchased are classified as basket 1 under IFRS 9.

The table below presents changes in impairment write-downs for these classes of financial instruments:

2023	Receivables for deliveries and services	Loans granted	Receivables for cash pooling	Bonds acquired	Other financial receivables
Writ-down related to expected credit losses as at 1 January	**(159)**	**-**	**-**	**(386)**	**-**
Creation of write-downs	-	(19)	-	(484)	-
Reversal of write-downs	60	-	-	-	-
Use	-	-	-	-	-
Write-down related to expected credit losses as at 31 December	**(99)**	**(19)**	**-**	**(870)**	**-**
Value of items before write-down	**6,373**	**22,664**	**703**	**3,044**	**2,042**
Net value of item (book value)	**6,274**	**22,645**	**703**	**2,174**	**2,042**

2022*	Receivables for deliveries and services	Loans granted	Receivables for cash pooling	Bonds acquired	Other financial receivables
Writ-down related to expected credit losses as at 1 January	**(4)**	**-**	**-**	**(386)**	**-**
Creation of write-downs	(155)	-	-	-	-
Reversal of write-downs	-	-	-	-	-
Use	-	-	-	-	-
Write-down related to expected credit losses as at 31 December	**(159)**	**-**	**-**	**(386)**	**-**
Value of items before write-down	**3,121**	**12,627**	**348**	**5,974**	**1,569**
Net value of item (book value)	**2,962**	**12,627**	**348**	**5,588**	**1,471**

*'*a change in the current period's presentation of deposits received and transferred to PGE Dom Maklerski S.A. as collateral for settlements with the Warsaw Commodity Clearing House, consisting in the reclassification of deposits from non-financial receivables and payables to financial receivables and payables, respectively.*

On 31 December 2023, an write-down for interest on Autostrada Wielkopolska S.A. bonds in the amount of PLN 475 million was created, relating to interest income recognised in the books in the same period.

Trade receivables and other financial assets

	31 December 2023			31 December 2022*		
	Gross value	Write-downs	Net book value	Gross value	Write-downs	Net book value
Receivables not overdue	**34,731**	**(933)**	**33,798**	**23,509**	**(415)**	**23,094**
Overdue < 30 days	5	(4)	1	37	(37)	-
Overdue 30-90 days	-	-	-	-	-	-
Overdue 90-180 days	-	-	-	12	(12)	-
Overdue 180-360 days	-	-	-	77	(77)	-
Overdue > 360 days	90	(51)	39	4	(4)	-
Total overdue receivables	**95**	**(55)**	**40**	**130**	**(130)**	**-**
TOTAL FINANCIAL ASSETS	**34,826**	**(988)**	**33,838**	**23,639**	**(545)**	**23,094**

*'*a change in the current period's presentation of deposits received and transferred to PGE Dom Maklerski S.A. as collateral for settlements with the Warsaw Commodity Clearing House, consisting in the reclassification of deposits from non-financial receivables and payables to financial receivables and payables, respectively.*

17.3.2 Deposits, cash and cash equivalents

The Company manages the credit risk related to cash deposits by diversifying the group of banks where such deposits are held. All entities with which the Company enters into deposit transactions conduct business activities in the financial sector. They are exclusively banks registered in Poland or conducting business activities in Poland in the form of branches of foreign banks with at least investment grade ratings and adequate liquidity ratings, considerable equity capital as well as strong and stable market positions.

17.3.3 Derivative instruments

All entities with which the Company enters into derivative transactions conduct business activities in the financial sector. These are banks with investment grade ratings, adequate equity capital as well as strong and stable market positions. As at the reporting date, the Company was a party to derivative transactions described in detail in note 16.1.2 to these financial statements.

17.3.4 Guarantees and sureties

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

17.4 Climate risk

The PGE Capital Group is aware of the impact of its activities on the climate, as well as the risks of climate change to the Group's operations. This interdependence generates both risks and opportunities for growth. Stakeholders' expectations regarding the reporting of the environmental impact of its activities are therefore understood, thus recognising climate risk management as a key element of strategic management, with a direct impact on financial aspects.

Accordingly, the PGE Group focuses not only on risks but also on opportunities to ensure resilience to risks and to increase the Group's sustainable revenue. During the course of the year, the PGE Capital Group took a number of actions aimed at achieving climate neutrality in 2050, as indicated in the PGE Group Strategy to 2030, and continues to work on the implementation of the PGE Group ESG Strategy, focusing on the following four 4 areas:

- Competitiveness in the financial market;
- Being the leader of green transformation;
- A corporate culture that supports sustainable development;
- Active communication on sustainability with all stakeholders.

The Group also stepped up its efforts to meet regulatory requirements, both national and European. This mainly relates to the EU Environmental Taxonomy1, the preparation for meeting the requirements arising from the Corporate Sustainability Reporting Directive (CSRD) as well as the expectations of financial institutions, investors and customers.

As part of meeting the requirements of the new regulations, work on aligning the PGE CG with the CSRD Directive of 14 December 2022 and building a new ESRS reporting system, including ESG risks, and climate risks started in 2023 and is currently underway to make robust disclosures with the support of an external advisor.

Issues related to the climate risk are subject to rigorous requirements and guidelines resulting from the corporate risk management process. The body responsible for overseeing the PGE Group's corporate risk management process, including the climate risk, is the Risk Committee. The establishment of the Risk Committee reporting directly to the Management Board, reporting directly to the Management Board ensures the supervision over the effectiveness of the risk management processes in the Group. This positioning of the risk function allows for an independent assessment of individual risks, their impact on the PGE Group, as well as the mitigation and control of significant risks through dedicated instruments.

The assessment of climate and environmental risks is carried out on the basis of the General Procedure for Corporate Risk Management. In the PGE Group, climate-related risks are analysed both in the

[1] *The PGE Group is obliged to disclose the extent to which its activities can be considered environmentally sustainable in accordance with Regulation 2020/852 of 18 June 2020 on the establishment of a framework to facilitate sustainable investments, amending Regulation 2019/2088 and the Delegated Regulations on the establishment of a framework to facilitate sustainable investments.*

context of the impact of climate change on business and the impact of business on climate change. The identification and analysis of climate-related risks and continuous improvement of pro-environmental solutions as well as control tools allow for effective management and minimisation of climate impact, while taking care of the PGE Group's financial performance. Solutions developed by the PGE Group facilitate aim to ensure its development and sustainable transformation in line with climate requirements and interests of all stakeholders.

Climate issues are assessed centrally in PGE S.A., taking into account all activities of Group entities. This means that the result of the assessment is reported at the PGE Capital Group level.

The approach to the issue of climate risks is inspired by the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD); however, the method adopted for the inventory and assessment of risks is an internal PGE S.A. concept.

In 2023, the PGE Group once again participated in an international study on the environmental impact of the PGE Capital Group's activities, i.e. the Carbon Disclosure Project - CDP (https://www.cdp.net/en). The Group responded to queries from global investors on the impact of its activities on the climate and water resources, and also identified both risks and opportunities.

There is an interdependence between climate-related risks and opportunities for business. Any business is affected by two types of climate risks:

- **physical risks** related to the physical impacts of climate change i.e. real threats in the form of extreme weather events, drought, flooding;
- **risks related to transition** (i.e. transformation/transition risks) towards a low-carbon and climate-resilient economy; these relate to meeting regulatory requirements, implementing new technologies or the impact on the Company's reputation.

At the same time, the changing climate and climate change mitigation activities aimed at mitigating and adapting to its effects provide new opportunities and chances for business development. Therefore, the PGE Group focuses on not only risks but also opportunities to ensure that it is resilient to risks and increases sustainable profits. Climate-related opportunities in the PGE Group primarily relate to the following:

- **effective resources management**, e.g. in the form of work on waste management solutions and recovery of valuable products from wind turbine blades;
- **new sources of electricity** through investments in offshore and onshore wind farms and photovoltaic farms, construction of an electricity storage facility;
- **new products** such as the expansion of the product portfolio with PRO EKO initiatives - products compatible with low-carbon heating systems, development of products/offers promoting low-carbon activities, following changes in consumer preferences or development of insurance solutions for offshore wind farms;
- **increased resilience to climate change**, for example in the form of developing competences in the offshore wind power industry as part of PGE S.A.'s cooperation with secondary schools and universities in Poland, establishing scientific and research cooperation between PGE S.A. and institutes from the offshore wind power industry or underground cabling.

Within the PGE Capital Group, the climate risk was defined in the following areas:

- **difficulties in obtaining aid funds and investment incentives** - related to the increasing impact of climate requirements relevant to the allocation of aid funds and investment incentives in national regulations,
- **requirements related to international regulations** - related to EU legislation in the field of energy and climate policies, in particular under the pending Fit for 55 package,
- **CO_2 emissions** - related to the rising cost of emission allowances, which may adversely affect the profitability of generating units or lead to the suspension of production at these units,
- **operations** - relating to extreme weather phenomena or changes in climate conditions that may adversely affect the assets and operations of the PGE Capital Group,
- **investments** - relating to the PGE Group's potential failure to meet its investment commitments aimed at green transformation, at the EU, national and strategic goals level.

Each area of climate risks described above is assessed in the short, medium and long terms. The adopted time horizons result from analogy with ongoing external studies.

Assessment of the impact of physical climate risks on the PGE Group's operations

Global warming, changing precipitation patterns, rising sea levels and extreme weather events are increasingly posing serious challenges to the resilience of electricity systems, thus increasing the likelihood of disruptions. Climate change directly affects every segment of the electricity system:

- generation potential and capacity,
- demand for heating and cooling,
- the resilience of transmission and distribution networks,
- demand patterns.

The PGE Group, being aware of the risks posed by climate change, as part of the first stage of the climate risk management process, in 2023 once again conducted an assessment of the relevant physical (material) climate risks that could have a negative impact on its operations, consequently supporting adaptation to climate change and increasing resilience to climate risks. The assessment covered climatic factors in the form of primarily temperature, precipitation and wind as well as their negative impact on the key activities of the Group.

The assessment of climate risks related to physical hazards in the PGE Group in 2023 was carried out on a current basis and a long-term basis, using scientific models describing possible climate scenarios, i.e.:

- RCP 4.5 - the optimistic scenario, which assumes the introduction of new technologies to achieve a higher reduction in greenhouse gas emissions than today, assuming that the increase in average global temperature will be around 2.5°C at the end of the 21st century relative to the pre-industrial era;
- RCP 8.5- the pessimistic scenario, which assumes a continuation of the current rate of increase in greenhouse gas emissions, on a business-as-usual basis, assuming that, by the end of the 21st century, the average global temperature will have risen by 4.5°C compared to the pre-industrial era.

The performed assessment showed a low to medium impact of risks related to physical climate hazards on the key activities of the Group. According to the adopted criterion, risks whose assessment showed a high impact were tested. An important role in the impact assessment process is played, among others, by the implementation of adaptation measures developed in the PGE Group that increase the stability of the power systems through the use of solutions that are more resistant to weather conditions, e.g. the cable programme (replacement of overhead transmission power lines with cables placed in the ground), preventive management of the key elements of the infrastructure affecting the continuity of operations, insurance against events related to weather phenomena or precise analyses of land for new investments.

Impact of transformational climate risks on the PGE Group's operations

Transformational climate risks in the PGE Capital Group mainly concern areas affecting the change towards achieving climate neutrality planned by 2050, i.e. requirements and regulations applicable to existing products and services (area: policy and law), replacement of existing products and services with their low-carbon counterparts (area: technology) and stakeholder concerns/negative opinions (area: reputation).

Examples of risks from the above areas by category:

Policy and law

Existing climate regulations have a direct impact on energy companies. PGE Capital Group companies, like other entities of the energy sector, are exposed to risks and threats resulting from the nature of their operations and functioning in a specific market and regulatory and legal environment. The PGE Capital Group operates in an environment characterised by a significant impact of domestic and foreign regulations. The risk of current regulations is particularly significant in the context of obtaining capital, subsidies and support from aid funds.

The PGE Group undertakes a number of activities related to monitoring available sources of support, preparing solid application documentation and using expert know-how. The PGE Group has extensive experience in obtaining preferential support and has the knowledge and staff to successfully implement this process.

Emerging regulations

Emerging regulations are important for implementing the Strategy and for supporting an effective transition to low- and zero-carbon technologies. The PGE Group seeks to take full advantage of available financing options for green investments. Emerging regulatory changes, such as EU infrastructure support to stimulate sustainable investments, consideration of financing shortfalls, penalties for climate negative transactions, may give rise to significant risks. These changes will have an impact on the credit risk and may affect cash flows generated by the PGE Group's assets and thus affect their income value.

The risk of increasing costs of emission allowances, including a reduction in the limit of free emission allowances for district heating, results in a decrease in the ability to finance low- and zero-emission investments.

The PGE Capital Group systematically undertakes measures to reduce greenhouse gas emissions. The decarbonisation of generation assets will intensify in parallel with the implementation of the PGE Capital Group Strategy. As a result, the Group's contribution to avoiding CO_2 emissions is expected to be 120 million tonnes by 2030. At the same time, pro-environmental investments constitute the core of the PGE Capital Group's investment activities. Furthermore, the Group invests in asset modernisation and development projects, including the optimisation of combustion processes and the introduction of solutions aimed at improving generation efficiency, higher fuel and raw material consumption efficiency and reducing the energy intensity of generation processes and internal needs.

Technology

A sustainable reduction in emissions intensity is to be achieved in the PGE Group by changing generation technologies, investing in new technologies, expanding the portfolio of renewable energy sources, developing the circular economy and enabling customers to participate in the energy transition. The technology risk also includes the selection of optimal and efficient new technologies, the use of potential by the PGE Capital Group. By 2030, the share of low- and zero-carbon sources in the Group's generation portfolio is expected to reach 85% and renewable energy sources will account for 50% of generated energy. The PGE Capital Group aims to achieve climate neutrality by 2050.

Reputation

The reputational risk for the PGE Group is very significant as the power sector plays an important role in supporting an effective transition to a low-carbon and ultimately zero-carbon economy. As the leader of the energy transition, the PGE Group is focusing on reducing its environmental impact. A sustainable reduction in emissions intensity is to be achieved by changing generation technologies, expanding the renewable portfolio and enabling customers to participate in the energy transition by offering them attractive products.

17.5 Market (financial) risk – sensitivity analysis

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

- the interest rate risk,
- the currency risk.

At present the Company is exposed mainly to the risk of changes in the EUR/PLN currency exchange rates. Furthermore, the Company is exposed to the risk of changes in PLN reference interest rates. For the purpose of an analysis of sensitivity to changes in the market risk factors, the Company uses the scenario analysis method. The Company uses expert scenarios reflecting the Company's subjective assessment of future changes in the market risk factors.

The scenario analyses presented in this item aim to analyse the impact of changes in the market risk factors on the Company's financial results. With respect to the interest rate risk and the currency risk, the analysis focuses exclusively on these items the fulfil the definition of financial instruments.

In an analysis of sensitivity to the interest rate risk, the Company uses the parallel shift of the interest rate curve by a potentially possible change in the reference interest rates during the next year.

In the case of an analysis of sensitivity to changes in interest rates, the effect of changes in the risk factors would be charged in the statement of comprehensive income to the item of interest income/costs or the item of revaluation of financial instruments measured at fair value.

The table below presents a sensitivity analysis for every type of the market risk to which the Company was exposed as at the reporting date, showing how the gross financial result would be influenced potentially by changes in the particular risk factors according to the classes of financial assets and liabilities.

in accordance with EU IFRS (in PLN million)

Currency exchange risk sensitivity analysis

The table below shows the sensitivity of the gross financial result and equity to reasonably possible changes in currency exchange rates based on the assumption that the other risk factors for these classes of financial instruments exposed to the currency exchange risk remain unchanged.

CLASSES OF FINANCIAL INSTRUMENTS	Value in statement in PLN	CURRENCY RISK SENSITIVITY ANALYSIS AS AT 31 DECEMBER 2023				
		Value at risk in PLN	EUR/PLN Impact on financial result/equity		USD/PLN Impact on financial result/equity	
			10%	-10%	10%	-10%
Trade receivables and other financial receivables	33,838	1,278	128	(128)	-	-
Cash and cash equivalents	1,742	435	44	(44)	-	-
Derivatives measured at fair value through profit or loss - assets	2,356	22,210	(1,968)	1,968	3	(3)
Hedging derivatives - assets	197	661	62	(62)	-	-
Credits, loans, bonds	13,681	632	(63)	63	-	-
Trade payables and other financial liabilities	1,800	162	(16)	16	-	-
Derivatives measured at fair value through profit or loss - liabilities	1,739	24,406	1,904	(1,904)	(3)	3
IMPACT ON FINANCIAL RESULT			**91**	**(91)**	**1**	**(1)**
Hedging derivatives - assets	4	661	4	(4)	-	-
IMPACT ON REVALUATION RESERVE			**1**	**(1)**	**-**	**-**

CLASSES OF FINANCIAL INSTRUMENTS*	Value in statement in PLN	CURRENCY RISK SENSITIVITY ANALYSIS AS AT 31 DECEMBER 2022				
		Value at risk in PLN	EUR/PLN Impact on financial result/equity		USD/PLN Impact on financial result/equity	
			10%	-10%	10%	-10%
Trade receivables and other financial receivables	23,094	1,550	155	(155)	-	-
Cash and cash equivalents	10,593	1,618	161	(161)	1	(1)
Derivatives measured at fair value through profit or loss - assets	1,686	16,884	205	(205)	139	(139)
Hedging derivatives - assets	563	680	67	(67)	-	-
Credits, loans, bonds	12,782	682	(68)	68	-	-
Trade payables and other financial liabilities	3,165	2,111	(211)	211	-	-
Derivatives measured at fair value through profit or loss - liabilities	1,268	41,000	(329)	329	(139)	139
IMPACT ON FINANCIAL RESULT			**4**	**(4)**	**1**	**(1)**
Hedging derivatives - assets	104	680	1	(1)	-	-
IMPACT ON REVALUATION RESERVE			**1**	**(1)**		

**a change in the current period's presentation of deposits received and transferred to PGE Dom Maklerski S.A. as collateral for settlements with the Warsaw Commodity Clearing House, consisting in the reclassification of deposits from non-financial receivables and payables to financial receivables and payables, respectively.*

in accordance with EU IFRS (in PLN million)

Interest rate risk sensitivity analysis

The table below shows the sensitivity of the gross financial result and equity to reasonably possible changes in interest rates based on the assumption that the other risk factors for these classes of financial instruments exposed to the interest rate risk remain unchanged:

FINANCIAL ASSETS AND LIABILITIES	INTEREST RATE SENSITIVITY ANALYSIS AS AT 31 DECEMBER 2023					
	Value in statement in PLN	Value at risk in PLN	WIBOR Impact on financial result/equity		EURIBOR Impact on financial result/equity	
			+50pb	−50pb	+25pb	−25pb
Trade and other receivables	33,838	703	4	(4)	-	-
Derivatives measured at fair value through profit or loss - assets	2,356	2,128	10	(10)	-	-
Credits, loans, bonds, cash pooling	13,026	8,401	(42)	42	-	-
Derivatives measured at fair value through profit or loss - liabilities	1,739	1,739	(9)	9	-	-
IMPACT ON FINANCIAL RESULT			**(37)**	**37**	**-**	**-**
CCIRS hedging derivatives	4	4	15	(15)	(9)	9
IRS hedging derivatives	193	193	36	(38)	-	-
IMPACT ON REVALUATION RESERVE			**51**	**(53)**	**(9)**	**9**

For derivative instruments, the value exposed to the interest rate risk is the fair value (book value) of such instruments. A sensitivity analysis for CCIRS and IRS derivative instruments was carried out with the application of changes in valuations with the shifted interest rate curves in a given currency.

FINANCIAL ASSETS AND LIABILITIES*	INTEREST RATE SENSITIVITY ANALYSIS AS AT 31 DECEMBER 2022					
	Value in statement in PLN	Value at risk in PLN	WIBOR Impact on financial result/equity		EURIBOR Impact on financial result/equity	
			+50pb	−50pb	+25pb	−25pb
Trade and other receivables	23,094	354	2	(2)	-	-
Derivatives measured at fair value through profit or loss - assets	1,686	1,686	8	(8)	-	-
Credits, loans, bonds, cash pooling	12,782	9,887	(49)	49	-	-
Derivatives measured at fair value through profit or loss - liabilities	1,268	1,268	(7)	7	-	-
IMPACT ON FINANCIAL RESULT			**(46)**	**46**	**-**	**-**
CCIRS hedging derivatives	104	104	16	(14)	(10)	10
IRS hedging derivatives	459	459	42	(44)	-	-
IMPACT ON REVALUATION RESERVE			**58**	**(58)**	**(10)**	**10**

*'*a change in the current period's presentation of deposits received and transferred to PGE Dom Maklerski S.A. as collateral for settlements with the Warsaw Commodity Clearing House, consisting in the reclassification of deposits from non-financial receivables and payables to financial receivables and payables, respectively.*

For derivative instruments, the value exposed to the interest rate risk is the fair value (book value) of such instruments. A sensitivity analysis for CCIRS and IRS derivative instruments was carried out with the application of changes in valuations with the shifted interest rate curves in a given currency.

in accordance with EU IFRS (in PLN million)

17.6 Hedge accounting

SIGNIFICANT ACCOUNTING PRINCIPLES

Hedge accounting

Changes in the fair value measurement of derivative financial instruments designated as CCIRS and IRS cash flow hedges are recognised in the revaluation reserve for the portion that constitutes an effective hedge, while the ineffective portion of the hedge is recognised in profit or loss.

The amounts of the cumulative change in the measurement of the fair value of a hedging instrument previously recognised in the revaluation reserve are transferred to profit or loss in the period or periods during which the hedged item affects profit or loss. Alternatively, where a hedge of a forecast transaction results in the recognition of a non-financial asset or non-financial liability, the Company excludes such an amount from equity and includes it in the initial cost or another book value of an non-financial asset or non-financial liability.

In connection with loans received from PGE Sweden AB, PGE S.A. concluded CCIRS transactions hedging the exchange rate. In these transactions, banks-counterparties pay PGE S.A. interest based on a fixed rate in EUR and PGE S.A. pays interest based on a fixed rate in PLN. The notional amount, payment of interest and repayment of the notional amount in the CCIRS transactions are correlated with the relevant conditions arising from the loan agreements. The Company applies hedge accounting to these transactions.

PGE S.A. also applies hedge accounting to IRS transactions hedging the interest rate in connection with its financial commitments under agreements such as the Credit Agreement with Bank Gospodarstwa Krajowego concluded on 17 December 2014 and 4 December 2015, the Credit Agreement with the European Bank for Reconstruction and Development concluded on 7 June 2017 and under the market bonds issued on 9 May 2019. Under these IRS transactions, banks-counterparties pay PGE S.A. interest based on a variable rate in PLN and PGE S.A. pays interest based on a fixed rate in PLN.

The source of partial ineffectiveness for hedge accounting is solely the CCIRS transaction hedging the exchange rate of the loan obtained from PGE Sweden AB.

	Year ended 31 December 2023
VALUE OF HEDGED ITEM AS AT 1 JANUARY	**682**
Loan repayment	-
Interest accrued	19
Payment of interest	(20)
Foreign exchange differences	(49)
VALUE OF HEDGED ITEM AS AT 31 DECEMBER	**632**

Information on the hedging instruments – the maturity structure:

Derivative	Currency	Up to 1 year	From 1 year to 5 years	Over 5 years
CCIRS	EUR	11	38	(103)
IRS	PLN	(61)	(84)	(10)

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

The IBOR reform may also have an impact on variable rate derivatives. The implementation date of the reform has been postponed until the end of 2027. On 31 December 2023, the nominal value of IRS derivatives exposed to the interest rate risk amounted to PLN 2,525 million (these instruments are based on WIBOR). Before the reform comes into effect, the PGE Group will have to settle the instruments hedging the credit agreement with Bank Gospodarstwa Krajowego, whose nominal value on 31 December 2023 was PLN 500 million and whose maturity date falls in December 2027, as well as a bond hedging instrument, whose nominal value as at the reporting date was PLN 400 million and whose maturity date falls in May 2026.

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

in accordance with EU IFRS (in PLN million)

EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

18. Statement of cash flows

SIGNIFICANT ACCOUNTING PRINCIPLES

Statement of cash flows

The statement of cash flows is drawn up on the basis of the indirect method.

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

18.1 Cash flows from operating activities

Interest and dividend

	Year ended 31 December 2023	Year ended 31 December 2022
Dividends receivable	(3,269)	(1,639)
Interest on bonds purchased	(675)	(245)
Interest on bonds issued	119	89
Interest on loans granted	(1,318)	(549)
Interest on loans received	290	199
Interest and commissions on credits	529	272
Interest on derivatives	(157)	(110)
Other	1	(3)
TOTAL INTEREST AND DIVIDENDS	**(4,480)**	**(1,986)**

(Profit) / loss on investing activities

	Year ended 31 December 2023	Year ended 31 December 2022
Accrual valuation of derivative instruments	29	(426)
Creation and reversal of write-downs of financial assets	12,250	17
Disposal of financial fixed assets	(3)	(34)
Accrual valuation of securities	(4)	-
Other	(13)	(3)
TOTAL (PROFIT)/LOSS ON INVESTING ACTIVITIES	**12,259**	**(446)**

Change in receivables

	Year ended 31 December 2023	Year ended 31 December 2022*
Change in trade and other receivables	(10,742)	3,791
Adjustment for change in loans granted (including cash pooling)	10,370	4,914
Adjustment for change in bonds purchased	(3,414)	(3,554)
Set off of receivables and loans granted to subsidiaries	(16,468)	-
Other	-	(2)
TOTAL CHANGE IN RECEIVABLES	**(20,254)**	**5,149**

Change in liabilities, excluding credits and loans

	Year ended 31 December 2023	Year ended 31 December 2022
Change in trade payables	220	(7,553)
Change in other non-financial liabilities	528	(185)
Change in other financial liabilities	(1,661)	604
Change in investment liabilities	(9)	-
Adjustment for change in settlements in the tax capital group	2	194
Other	(9)	(2)
TOTAL CHANGE IN LIABILITIES, EXCLUSIVE OF CREDITS AND LOANS	**(929)**	**(6,942)**

in accordance with EU IFRS (in PLN million)

Change in other non-financial assets

	Year ended 31 December 2023	Year ended 31 December 2022
Change in other current assets	(50)	(83)
Other	-	-
TOTAL CHANGE IN OTHER NON-FINANCIAL ASSETS	**(50)**	**(83)**

*'*a change in the current period's presentation of deposits received and transferred to PGE Dom Maklerski S.A. as collateral for settlements with the Warsaw Commodity Clearing House, consisting in the reclassification of deposits from non-financial receivables and payables to financial receivables and payables, respectively.*

18.2 Cash flows from investing activities

Purchase and redemption of bonds issued by PGE Group companies

PGE S.A. acquires bonds issued by the companies of the PGE Capital Group. Funds acquired from bond issues are used to finance investment projects, refinance financial liabilities, and finance current operations. A detailed description is included in note 16.1.1.

Granting and repayment of loans

The Company grants loans to PGE Group companies mainly to finance investments, refinance financial liabilities and finance current operating activities. A detailed description is included in note 16.1.1.

Disposal of other financial assets

The amount of proceeds from the disposal of other financial assets mainly relates to the sale of 100% of the shares held in Zakłady Pomiarowo-Badawcze Energetyki "Energopomiar" sp. z o.o. to PGE GiEK S.A. The gain on the sale of these shares was PLN 2 million.

On 17 October 2023, the Company received EUR 4 million (PLN 18 million) as an advance payment for the settlement of the liquidation of the assets of PGE Trading GmbH.

Acquisition of subsidiaries

The item "Expenditure on acquisition of subsidiaries" includes amounts relating to the acquisition of shares in subsidiaries, as described in note 8 to these financial statements.

A significant transaction was the acquisition, on 3 April 2023, of 100% of shares in PKP Energetyka Holding sp. z o.o. for PLN 1,873 million.

In addition, on 28 June 2023, the Company spent PLN 32 million on the acquisition of the following:

- 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.

Dividends received

The total amount of dividends received consists mainly of dividends from PGE Dystrybucja S.A. in amount of PLN 1,154 million, PGE EO S.A. in amount of PLN 668 million and PGE Baltica sp. z o.o. in amount of PLN 18 million, and in the comparative period mainly from PGE Dystrybucja S.A. in amount of PLN 1,138 million, PGE EO S.A. in amount of PLN 449 million and PGE EC S.A. in amount of PLN 25 million.

Dividends due from PGE Energetyka Kolejowa S.A. in the amount of PLN 1,412 million were offset with the liability of PGE S.A. for acquired loans, as described in note 18.3 to these financial statements.

Cash flows under the cash pooling service

As it is described in note 16.1.1., PGE S.A. acts as a coordinator of the cash pooling service in the PGE Capital Group. This means, among other things, that individual subsidiaries settle their accounts with the Company, and the Company settles its accounts with the banks. Therefore, the Company discloses loans granted and inflows from cash pooling from entities participating in cash pooling.

Interest received

The total amount of interest received mainly consists of the following:

- interest on loans granted to subsidiaries in the amount of PLN 1,355 million,
- interest received on Autostrada Wielkopolska S.A. bonds in the amount of PLN 72 million.

18.3 Cash flows from financing activities

Proceeds from obtained loans and credits

In the current reporting period, the Company obtained credits and loans for the amount of PLN 8,365 million.

Repayment of loans, credits and finance leases

In the current reporting period, the Company repaid credits for the total amount of PLN 3.342 million.

Also included in the presented amount is PLN 209 million, being the final settlement of the liability for acquired loans (as part of the settlement of the acquisition of PGE Energetyka Kolejowa Holding sp. z o.o.) in the amount of PLN 1,621 million and dividend due to PGE S.A. for 2023 in the amount of PLN 1,412 million.

in accordance with EU IFRS (in PLN million)

OTHER EXPLANATORY NOTES

19. Contingent receivables and payables. Litigation

SIGNIFICANT ACCOUNTING PRINCIPLES

Contingent liabilities

With respect to the recognition and valuation of provisions and contingent liabilities, the Company assesses the likelihood of the occurrence of contingent liabilities. If the occurrence of a negative event is probable, the Company recognised a provision in a relevant amount. If, according to the Company, the occurrence of a negative event is possible, but not probable, it is recognised as a contingent liability.

19.1 Contingent liabilities

	As at 31 December 2023	As at 31 December 2022*
Liabilities under guarantees and sureties	24,237	20,686
Sureties securing exchange transactions	14,005	3,504
Other contingent liabilities	146	59
TOTAL CONTINGENT LIABILITIES	**38,388**	**24,249**

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

Liabilities under guarantees and sureties

In connection with the establishment of the Eurobond programme in 2014, an agreement was concluded under which PGE S.A. provided a guarantee for the liabilities of PGE Sweden AB (publ). The guarantee was granted for the amount of up to EUR 2,500 million (PLN 10,870 million) and is valid until 31 December 2041. On 31 December 2023, the amount of liabilities of PGE Sweden AB (publ) under issued bonds is EUR 140 million (PLN 607 million) and on 31 December 2022 – EUR 140 million (PLN 655 million).

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

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

Sureties securing exchange transactions

On 7 June 2022, PGE S.A. issued a surety for the liabilities of PGE Dom Maklerski S.A. in favour of MacquarieBank Europe Designated Activity Company to secure the settlement of exchange transactions on CO_2 emission allowances. The surety was granted up to the amount of EUR 130 million, which is equivalent to approx. PLN 565 million. The surety is valid until 31 December 2024.

On 15 September 2023, PGE S.A. concluded an annex to the surety agreement up to the amount of PLN 2 billion, pursuant to which PGE S.A. guaranteed all liabilities of PGE Dom Maklerski S.A. and PGE GIEK S.A. resulting from exchange transactions concluded by PGE Dom Maklerski on the Power Exchange on behalf of and for the benefit of PGE GIEK S.A. The surety was granted until 31 March 2024.

On 17 October 2023, PGE S.A. entered into a surety agreement with IRGiT S.A. up to the amount of PLN 11 billion, under which PGE S.A. guaranteed all liabilities of PGE EC S.A., EC Zielona Góra S.A. and PGE Dom Maklerski S.A. arising from electricity trading transactions entered into by PGE Dom Maklerski on the Power Exchange on behalf and for the benefit of these companies. The surety was granted until 31 December 2026.

These liabilities represent also sureties issued by PGE S.A. for bank guarantees provided as a deposit to secure exchange transactions resulting from the membership in the Warsaw Commodity Clearing House. On 31 December 2023 the total amount of sureties for bank guarantees issued by banks was PLN 140 million and on 31 December 2022 – PLN 251 million.

Other contingent liabilities

On 21 February 2023, PGE S.A. issued, for the benefit of its subsidiary PGE Sweden a Loan Note and an Unconditional shareholders' contribution for the amount of EUR 20 million (approx. PLN 87 million) in order to restore the company's equity to the amount of 50% of the registered share capital, as required by Swedish law. PGE S.A. obliged itself to contribute up to EUR 20 million to PGE Sweden in case PGE Sweden has to pay tax liabilities. At the reporting date, PGE S.A. assesses the fulfilment of the obligation as unlikely.

In connection with the sale of shares in PGE EJ1 sp. z o.o. to the State Treasury 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 short-term provisions. The amount of the created provision adjusted the result on the sale of shares presented in the comparative period of these financial statements.

PGE S.A. is in the course of administrative proceedings before the President of ERO regarding the imposition of a financial penalty for the Company for failure to comply with the obligation to obtain and present for redemption to the President of ERO energy efficiency certificates in the amount of approx. 29 units in total for 2017 and 2018. Due to the low value of the arrears, the Company estimates that the value of the penalty accrued, if any, should not be material, and therefore no provision for this has been recognized in this report.

19.2 Other significant issues related to contingent liabilities

Commitment to provide financing for new investments in PGE Capital Group companies

In connection with the PGE Capital Group's strategic investments, the Company granted issued a letter of commitment for its subsidiary PGE GiEK o/ELT, in which it undertook to provide financing for the planned investments. The letter of commitment relates to strictly defined investment procedures and may be used for such purposes only. As at the reporting date, the approximate value of future investment commitments related to such projects amounts to approximately PLN 215 million.

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 of heat generation 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.

19.3 Other court cases and disputes

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. The first-instance court proceedings are currently underway and an expert opinion on transfer pricing has been drawn up. A trial date has not been set.

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 9 March 2017 and the deadline for filing a response to the lawsuit was set by the court at 9 July 2017. The companies PGE S.A. and PGE GiEK S.A. submitted a response to the claim on 8 July 2017. On 28 September 2018, the District Court in Warsaw ruled in the first instance and the lawsuit by Pozwy sp. z o.o. against PGE S.A., PGE GiEK S.A. and PWC Polska sp. z o.o. was dismissed. On 8 April 2019, PGE S.A. received a copy of the appeal filed by the claimant on 7 December 2018. PGE S.A. and PGE GiEK S.A.'s response to the appeal was prepared on 23 April 2019. The hearing was held on 21 December 2020. The Court of Appeal issued a verdict in which it overturned the appealed verdict of the District Court in its entirety and returned the case for re-examination to the District Court. On 22 January 2021 PGE S.A. together with PGE GiEK S.A. filed a complaint against the verdict to the Supreme Court, requesting that the verdict of the Court of Appeal be reversed in its entirety and the case be returned to the Court of Appeal for re-examination. At a closed session on 27 April 2021, the Supreme Court overturned the appealed verdict. Thus, the case was returned for re-examination by the Court of Appeal. In a verdict of 10 January 2024, the Court of Appeal upheld the claimant's appeal and overturned the appealed verdict of the District Court and referred the case back to that court.

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

The Company did not establish any provision for the filed lawsuit.

20. 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.

Income tax expense

From 1 January 2024, the previously suspended minimum income tax rules will apply. This tax will apply to taxpayers who report a tax loss from a source of revenue other than capital gains or profitability (understood as the share of income from a source of revenue other than from capital gains in revenue other than from capital gains) of less than 2%. It will be possible to determine profitability for a group of related companies, and the Act also provides for a number of subjective and objective exclusions. The tax rate is in principle 0.3% of revenue.

The Polish authorities are also obliged to implement the provisions of Council Directive (EU) 2022/2523 of 14 December 2022 on ensuring the global minimum level of taxation of multinational enterprise groups and large domestic groups in the European Union (so-called Pillar 2) into the Polish legal system. In the event of an effective tax rate of less than 15% in a given jurisdiction, a global or national top-up tax will apply. A draft act in this respect has not yet been published.

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

The Company 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 Company's counterparties that decide to use this mechanism and on the relation between the payment dates of receivables and payables. On 31 December 2023, the balance of cash on the VAT accounts was PLN 59 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.

Information on the implemented tax strategy

Pursuant to the provisions of the Income Tax Act, the largest companies of the PGE Capital Group publish annually, on their websites, information on their implemented tax strategy for the previous year. This information includes, among others, data on the procedures applied by the taxpayer with regard to the proper fulfilment of tax obligations, the number of reported tax schemes and requests for interpretation, transactions with related parties and restructuring activities.

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.

in accordance with EU IFRS (in PLN million)

21. Information on related entities

The State Treasury is the dominant shareholder of the PGE Capital Group. Therefore, companies owned by the State Treasury are regarded as related entities. The Company identifies in detail transactions with the largest companies controlled by the State Treasury. The combined value of transactions with such companies is presented in the tables below under "other related entities".

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

21.1 The Company's transactions with related parties

Year ended 31 December 2023

STATEMENT OF COMPREHENSIVE INCOME	Company's subsidiaries	Other entities related within PGE CG	Other related entities	Not related entities	TOTAL
Sales revenue	63,860	-	1,587	395	**65,842**
Other operating income/(expenses)	77	-		(37)	**40**
Finance income/(expenses)	(7,280)	-		7	**(7,273)**
Operating expenses	15,039	-	2,121	46,734	**63,894**

Year ended 31 December 2022

STATEMENT OF COMPREHENSIVE INCOME	Company's subsidiaries	Other entities related within PGE CG	Other related entities	Not related entities	TOTAL
Sales revenue	33,106	-	1,726	1,090	**35,922**
Other operating income/(expenses)	(149)	-	-	(22)	**(171)**
Finance income/(expenses)	2,332	-	-	(41)	**2,291**
Operating expenses	6,575	-	1,198	26,839	**34,612**

The Company recognises revenue from sales to subsidiaries in the PGE Group mainly from the sale of electricity, CO_2 emission allowances, gas, licences, property rights and support services.

Financial income relates primarily to dividends and interest on loans and bonds.

Operating expenses relate to the value of goods and materials sold.

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

21.2 Company's accounts with related entities

As at 31 December 2023

ASSETS	Company's subsidiaries	Other entities related within PGE CG	Other related entities	Not related entities	TOTAL
Financial assets:	**33,136**		**113**	**589**	**33,838**
Bonds acquired	2,174		-		2,174
Trade receivables	6,156		113	5	6,274
Other loans and financial assets	24,806		-	584	25,390
Shares and interests in subsidiaries	**21,711**	**-**	**-**	**-**	**21,711**
Shares and interests in associates, as well as jointly controlled and other entities	**-**	**86**	**-**	**13**	**99**
Derivatives – assets	**-**	**-**	**-**	**2,356**	**2,356**
Other current assets	**-**	**-**	**-**	**155**	**155**

As at 31 December 2022

ASSETS	Company's subsidiaries	Other entities related within PGE CG	Other related entities	Not related entities	TOTAL
Financial assets:	**22,822**	**-**	**209**	**63**	**23,094**
Bonds acquired	5,588	-	-	-	5,588
Trade receivables	2,737	-	209	16	2,962
Other loans and financial assets	14,497	-	-	47	14,544
Shares and interests in subsidiaries	**29,445**	**-**	**-**	**-**	**29,445**
Shares and interests in associates and jointly controlled entities	**-**	**83**	**-**	**13**	**96**
Derivatives – assets	**-**	**-**	**-**	**2,277**	**2,277**
Other current assets	**-**	**-**	**-**	**4**	**4**

*'*a change in the current period's presentation of deposits received and transferred to PGE Dom Maklerski S.A. as collateral for settlements with the Warsaw Commodity Clearing House, consisting in the reclassification of deposits from non-financial receivables and payables to financial receivables and payables, respectively.*

As at 31 December 2023

LIABILITIES	Company's subsidiaries	Other related entities	Not related entities	TOTAL
Derivatives – liabilities	**-**	**-**	**1,739**	**1,739**
Financial liabilities measured at amortised cost:	**3,720**	**5**	**11,756**	**15,481**
Bonds issued	-	-	1,409	1,409
Interest-bearing credits and loans	632	-	10,246	10,878
Cash pooling liabilities	1,371	-	-	1,371
Trade payables	1,548	5	48	1,601
Lease liabilities IFRS 16	-	-	23	23
Other financial liabilities	169	-	30	199

As at 31 December 2022

LIABILITIES	Company's subsidiaries	Other related entities	Not related entities	TOTAL
Derivatives – liabilities	**-**	**-**	**1,268**	**1,268**
Financial liabilities measured at amortised cost:	**7,956**	**27**	**7,964**	**15,947**
Bonds issued	-	-	1,412	1,412
Interest-bearing credits and loans	682	-	5,050	5,732
Cash pooling liabilities	5,614	-	-	5,614
Trade payables	1,317	27	38	1,382
Lease liabilities IFRS 16	-	-	24	24
Other financial liabilities	343	-	1,440	1,783

*'*a change in the current period's presentation of deposits received and transferred to PGE Dom Maklerski S.A. as collateral for settlements with the Warsaw Commodity Clearing House, consisting in the reclassification of deposits from non-financial receivables and payables to financial receivables and payables, respectively.*

The issues related to letters of commitment and sureties granted to the subsidiaries of PGE S.A. are described in note 19 to these financial statements.

21.3 Management remuneration

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

PLN thousand	Year ended 31 December 2023	Year ended 31 December 2022
Short-term employee benefits (remuneration and surcharges)	8,825	9,406
Post-employment and termination benefits	925	554
TOTAL MANAGEMENT REMUNERATION	**9,750**	**9,960**

PLN thousand	Year ended 31 December 2023	Year ended 31 December 2022
Management Board	9,044	9,193
Supervisory Board	706	767
TOTAL MANAGEMENT REMUNERATION	**9,750**	**9,960**

The members of the Company's Management Board are employed on the basis of civil law agreements for the provision of management services (so-called managerial contracts). In note 4.2 Expenses by nature and by function, these remunerations are presented under other expenses by nature and, in addition to basic salaries, include the values of reversed provisions for bonuses for former Management Board Members and established provisions for bonuses for the present Management Board Members.

in accordance with EU IFRS (in PLN million)

22. Remuneration of the audit firm

The entity authorised to audit the separate financial statements of PGE S.A. for the years 2023 and 2022 and the consolidated financial statements of the PGE Capital Group as well as providing the service of reviewing the semi-annual separate and consolidated financial statements for the years 2023 and 2022 is PKF Consult sp. z o.o. sp.k., on the basis of the agreement entered into on 21 January 2022.

PLN PLN	Year ended 31 December 2023	Year ended 31 December 2022
Audit of the annual separate financial statements and the annual consolidated financial statements of the PGE Group	582	493
Other certification services, including for the review of the semi-annual financial statements	273	188
Total remuneration	**855**	**681**

The amount of PLN 855,000 additionally includes remuneration resulting from:

- Annex No. 1 to the Agreement for the audit of financial statements concluded on 3 October 2023 for an increase in the remuneration of PKF Consult sp. z o.o. sp. k. for the audit of the separate and consolidated financial statements for the year 2022 and the provision of other services under the agreement, relating to the year 2022, for a total amount of PLN 91,800.
- the Agreements for the audit of the reports on the use of cash from the share capital increase, concluded on 19 April 2023 and described in more detail in note 18.2 to these financial statements. The item "Other assurance services" includes PLN 82,000 for the settlement of this agreement for 2022.

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

Article 44 of the Energy Law imposes an obligation on power companies to prepare regulatory financial statements with a balance sheet (a statement of financial position) and a statement of profit or loss (a statement of comprehensive income) for reporting periods, separately for each type of business activities conducted in the following areas:

- the transmission or distribution of electricity, the transmission, distribution or storage of gaseous fuels, the trade in gaseous fuels, the liquefaction of natural gas or re-gasification of liquefied natural gas, as well as for customer groups specified in the tariff,
- not related to the activities mentioned above.

23.1 Principles of allocation to particular types of activities

The Company's separate types of activities referred to in Article 44 of the Energy Law, as well as the principles for allocating revenue, costs, assets and liabilities to these types of activities, are presented below.

23.1.1 Description of separate types of activities

The Company has identified the following types of activities in accordance with Article 44(1) of the Energy Law:

- trade in gaseous fuels,
- other activities.

23.1.2 Principles of allocation of revenue, costs, assets and liabilities

The Company allocates selected items of the statement of comprehensive income and the statement of financial position to individual activities on the basis of the accounting records:

- sales revenue,
- cost of goods sold,
- selling costs,
- general and administrative expenses,
- finance income and expenses,
- trade receivables,

in accordance with EU IFRS (in PLN million)

- trade payables,
- derivative instruments,
- inventories,
- provisions, except for provisions for employee benefits.

The Company allocates the selected items of the statement of financial position to the various activities, using division keys:

- property, plant and equipment and intangible assets – in proportion of depreciation/amortisation costs,
- provisions for employee benefits and liabilities for wages and salaries, personal income tax social insurance – in proportion to the cost of employee benefits,
- VAT liabilities – in proportion to sales revenue.

Selected items in the statement of comprehensive income and statement of financial position are not allocated to specific types of activities as they relate to the entity's overall operations. The main unallocated items include the following:

- deferred tax assets and liabilities,
- loans and receivables other than trade receivables,
- Interest-bearing bank credits, loans, bonds,
- shares in subsidiaries and financial assets available for sale,
- income tax assets and liabilities,
- cash and cash equivalents,
- equity, excluding profit for the reporting period,
- income tax in the statement of comprehensive income.

The unallocated items are presented together with other activities.

23.2 Breakdown by type of business activity

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023

	Trade in natural gas	Other activities and unallocated items	Total
SALES REVENUE	**939**	**64,903**	**65,842**
Cost of goods sold	(940)	(62,473)	**(63,413)**
GROSS PROFIT ON SALES	**(1)**	**2,430**	**2,429**
Distribution and selling expenses	(4)	(103)	**(107)**
General and administrative expenses	-	(374)	**(374)**
Other operating income/(expenses)	60	(20)	**40**
OPERATING PROFIT/(LOSS)	**55**	**1,933**	**1,988**
Finance income/(expenses)	-	(7,273)	**(7,273)**
GROSS PROFIT	**55**	**(5,340)**	**(5,285)**
Income tax expense	-	(609)	**(609)**
NET PROFIT FOR REPORTING PERIOD	**55**	**(5,949)**	**(5,894)**

In note 4.1, Revenue from sales of individual types of activities is presented under "Revenue from sales of goods" and "Revenue from sales of services".

in accordance with EU IFRS (in PLN million)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

	Trade in natural gas	Other activities and unallocated items	Total
NON-CURRENT ASSETS			
Property, plant and equipment	-	147	147
Intangible assets	-	2	2
Right to use assets	-	22	22
Financial receivables	-	3,562	3,562
Derivatives and other assets measured at fair value through profit or loss	-	236	236
Shares and interests in subsidiaries	-	21,711	21,711
Shares and interests in related and other entities	-	99	99
Other non-current assets	-	4	4
	-	**25,783**	**25,783**
CURRENT ASSETS			
Inventories	-	1	1
Income tax receivables	-	-	-
Derivative instruments	-	2,120	2,120
Shares and interests in subsidiaries	-	-	-
Trade and other receivables	96	30,180	30,276
Other current assets	-	155	155
Cash and cash equivalents	-	1,742	1,742
	96	**34,198**	**34,294**
TOTAL ASSETS	**96**	**59,981**	**60,077**

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

	Trade in natural gas	Other activities and unallocated items	Total
Net profit for the reporting period	55	(5,949)	(5,894)
Other capital	-	47,455	47,455
TOTAL EQUITY	**55**	**41,506**	**41,561**
NON-CURRENT LIABILITIES			
Non-current provisions	-	62	62
Deferred tax liabilities	-	59	59
Credits, loans, bonds, cash pooling and leases	-	8,168	8,168
Other financial liabilities	-	7	7
		8,296	**8,296**
CURRENT LIABILITIES			
Current provisions	-	43	43
Credits, loans, bonds, cash pooling and leases	-	5,513	5,513
Trade and other payables	5	1,788	1,793
Derivative instruments	-	1,739	1,739
Income tax liabilities	-	92	92
Other non-financial liabilities	10	1,030	1,040
	15	**10,205**	**10,220**
TOTAL LIABILITIES	**15**	**18,501**	**18,516**
TOTAL EQUITY AND LIABILITIES	**70**	**60,007**	**60,077**

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	Trade in natural gas	Other activities and unallocated items	Total
SALES REVENUE	**1,219**	**34,703**	**35,922**
Cost of goods sold	(1,195)	(33,018)	**(34,213)**
GROSS PROFIT ON SALES	**24**	**1,685**	**1,709**
Distribution and selling expenses	(2)	(97)	**(99)**
General and administrative expenses	(27)	(273)	**(300)**
Other operating income/(expenses)	(154)	(17)	**(171)**
OPERATING PROFIT/(LOSS)	**(159)**	**1,298**	**1,139**
Finance income/(expenses)	-	2,291	**2,291**
GROSS PROFIT	**(159)**	**3,589**	**3,430**
Income tax expense	-	(333)	**(333)**
NET PROFIT FOR REPORTING PERIOD	**(159)**	**3,256**	**3,097**

in accordance with EU IFRS (in PLN million)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

	Trade in natural gas	Other activities and unallocated items	Total
NON-CURRENT ASSETS			
Property, plant and equipment	10	129	139
Right to use assets	-	24	24
Financial receivables	-	5,468	5,468
Derivatives and other assets measured at fair value through profit or loss	-	608	608
Shares and interests in subsidiaries	-	29,441	29,441
Shares and interests in related and other entities	-	96	96
Other non-current assets	-	104	104
	10	**35,870**	**35,880**
CURRENT ASSETS	**-**		
Inventories	-	1	1
Derivative instruments	-	1,669	1,669
Shares and interests in subsidiaries	-	4	4
Trade and other receivables	196	17,430	17,626
Other current assets	4	-	4
Cash and cash equivalents	-	10,593	10,593
	200	**29,697**	**29,897**
TOTAL ASSETS	**210**	**65,567**	**65,777**

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

	Trade in natural gas	Other activities and unallocated items	Total
Net profit for the reporting period	(159)	3,256	3,097
Other capital	-	44,639	44,639
TOTAL EQUITY	**(159)**	**47,895**	**47,736**
NON-CURRENT LIABILITIES			
Non-current provisions	1	11	12
Deferred tax liabilities	-	143	143
Credits, loans, bonds, cash pooling and leases	-	5,233	5,233
Other financial liabilities	-	9	9
	1	**5,396**	**5,397**
CURRENT LIABILITIES			
Current provisions	-	40	40
Credits, loans, bonds, cash pooling and leases	-	7,549	7,549
Trade and other payables	9	3,147	3,156
Derivative instruments	-	1,268	1,268
Income tax liabilities	-	40	40
Other non-financial liabilities	16	575	591
	25	**12,619**	**12,644**
TOTAL LIABILITIES	**26**	**18,015**	**18,041**
TOTAL EQUITY AND LIABILITIES	**(133)**	**65,910**	**65,777**

*'*a change in the current period's presentation of deposits received and transferred to PGE Dom Maklerski S.A. as collateral for settlements with the Warsaw Commodity Clearing House, consisting in the reclassification of deposits from non-financial receivables and payables to financial receivables and payables, respectively.*

24. Significant events during and after the reporting period

24.1 Significant events during the reporting period

24.1.1 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 and OT 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,
- 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

- a significant reduction in the availability of low-sulphur coal,
- a possibility of sharp fluctuations in hard 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 Gas 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 the company ORLEN S.A. (formerly PGNiG) and the Gas Transmission System Operator (Gaz-System S.A.). The PGE Group has established communication channels with ORLEN S.A. and Gaz-System S.A. for the purposes of 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.
- At present, the main suppliers of hard coal for electricity and heat generation are Polish mining companies. Coal supplied by importing companies complements the main, domestic supply channel. At present, CHP plants and centrally managed generating units have high stocks of hard coal, which allows 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. At present, the PGE Group has not identified any threats to electricity or heat supply to residents, institutions and enterprises.

Risk of the impact of the war on future financial results

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

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

24.1.2 Acquisition of 100% of shares in PKP Energetyka Holding sp. z o.o.

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 S.A. (now PGE Energetyka Kolejowa S.A.) 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 on 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.

24.1.3 The coal asset spin-off project

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 the spin-off of assets was to 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 the power complexes fired with lignite, lignite mines will also be among the aforementioned assets. The project did not include coal mining assets. Heat generation assets, due to their planned modernisation and adjustment to low- and zero-carbon sources, were also excluded from the planned transaction. The project provided for a spin-off of assets from the energy groups through the acquisition of shares of individual companies directly by the State Treasury, and then their consolidation within the NESA through the contribution of shares of individual companies to the capital increase of PGE GiEK S.A.

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

The NESA was to be a fully self-sufficient entity, i.e. it was to 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, 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 NESA was to ensure the necessary power balance in the power system. The NESA was to 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.

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 CO_2 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 CO_2 emission allowances.

All of the above measures will, in the opinion of the Management Board, make the Company more attractive to shareholders.

Activities related to a spin-off of coal and lignite power generation assets

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 NESA.

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.

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. As at the date of these financial statements, the above conditions precedent have not been met. In addition, in February 2024, the Council of Ministers withdrew from the Sejm a bill on the rules for granting guarantees by the State Treasury for the liabilities of the National Energy Security Agency.

Current status of the project and recognition of shares in PGE GiEK S.A. in the financial statements

As described in note 8.1 to these financial statements, impairment tests were performed on 30 November 2023. As a result of the tests, the book value of PGE GiEK S.A. shares was written down in full. The value of the write-down amounted to PLN 11.7 billion.

The continuation of the project, as well as its possible final shape and schedule, depends on government decisions. As at the date of preparation of these financial statements, no further decision had been made with respect to the coal assets and their future within the PGE Capital Group.

24.1.4 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 Pątnów-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.

On 24 November 2023, the Ministry of Climate and Environment issued the Basic Decision for the construction of a nuclear power plant in the Konin region.

24.1.5 Regulatory changes in the electricity market

Due to the crisis situation in the energy market, the legislator has decided to introduce regulations that temporarily introduced exceptional solutions for electricity prices and electricity tariffs in 2023. With respect to the Company, from 1 December 2022 to 31 December in 2023, the Company was primarily impacted by the provisions of the Extraordinary Measures in 2023 Act, which made it mandatory 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.

For electricity trading companies, the calculation of the price cap is as follows:

- 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.

On 1 March and 1 September 2023, amendments to the provisions of the Extraordinary Measures in 2023 Act governing the rules of making contributions to the Fund came into force.

The changes included an expansion of the catalogue of revenue that constitutes the basis for calculating contributions to the Fund and the manner of determining the amount of contributions in relation to revenue from other agreements related to the sale of electricity. As a result, the amount of contributions made by PGE S.A. increased.

In connection with doubts concerning the interpretation of the provisions and the qualification of revenue from additional cash settlements, which should be taken into account in the calculation of contributions to the Fund, the Company applied to the President of the Energy Regulatory Office for an individual interpretation confirming the applied interpretation of the Act, as a result of which revenue from selected agreements should not be taken into account in the calculation of contributions to the Fund. The President of the ERO did not share the Company's position. PGE S.A., disagreeing with the adverse decision of the President of the ERO, appealed against it to the Regional Court in Warsaw. At the same time, PGE paid contributions to the Fund in accordance with the decision of the President of the ERO, subject to the return of the amounts paid.

In addition, according to the introduced regulations, the system of contributions to the Fund for the 2023 settlement periods will not be closed before 31 December 2023. Contributions to the Fund will also be made in 2024 for sales effected in the last weeks of 2023. It should be noted that the legislator, in the Act of 7 December 2023 amending the acts to support consumers of electricity, gas fuels and heat, did not decide to extend the obligation to pay contributions to the Fund to 2024, which means that the last month for which a contribution to the Fund was due was December 2023.

For PGE S.A., the contribution due to the Fund (reducing the financial result) for December 2022 amounted to PLN 88 million, and for 2023 to PLN 94 million (including the amount of PLN 90 million, disputed by PGE S.A.).

25. Approval of the financial statements

These financial statements were approved for publication by the Management Board on April 3, 2024.

Warsaw, April 3, 2024

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

President of the Management Board	**Dariusz Marzec**	
Vice President of the Management Board	**Przemysław Kołodziejak**	
Vice President of the Management Board	**Marcin Laskowski**	

Signature of the person responsible for the preparation of the financial statements	Michał Skiba Director of the Reporting and Taxation Department	

in accordance with EU IFRS (in PLN million)

26. Glossary of terms and abbreviations

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

Abbreviation	Full name
CCIRS	Cross Currency Interest Rate Swaps
CGU	Cash Generating Units
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
EPS 550	The criterion of carbon dioxide emission per unit of electricity produced introduced as part of the so-called Winter Package, conditioning the participation of generating units in the capacity market - the limit is 550 g CO_2/kWh.
EUA	European Union Allowances
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
NPS	National Power System
NTS	National Transmission System
MCE	Ministry of Climate and Environment
EU IFRS	International Financial Reporting Standards as adopted by the European Union
NESA	National Energy Security Agency
TSO	Transmission System Operator
OCP	Operational Continuity Plan
PEP	Poland’s Energy Policy until 2040
VLP	Voluntary Leave Programme
RTUA	Rights to use assets
PGE S.A., Company, parent company	PGE Polska Grupa Energetyczna S.A.
PGE EC S.A.	PGE Energia Ciepła S.A.
EC Zielona Góra S.A.	Elektrociepłownia “Zielona Góra” S.A.
PGE EO S.A.	PGE Energia Odnawialna S.A.
PGE GiEK S.A.	PGE Górnictwo i Energetyka Konwencjonalna S.A.
PGE GiEK o/ELT	PGE Górnictwo i Energetyka Konwencjonalna S.A. Turów Powere Plant Branch
PGNiG	Polskie Górnictwo Naftowe i Gazownictwo S.A.
PKN ORLEN	Polski Koncern Naftowy ORLEN S.A.
RPUL	Right of perpetual usufruct of land
Financial statements	Separate financial statements of PGE S.A.
TGE, TGE S.A.	Towarowa Giełda Energii S.A.
ERO	Energy Regulatory Office
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)
WACC	Weighted Average Cost of Capital
OPE	Organised Part of Enterprise
ZEW Kogeneracja S.A.	Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A.
CSBF	Company Social Benefits Fund
CCLA	Company Collective Labour Agreement