CONSOLIDATED 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

CONSOLIDATED FINANCIAL HIGHLIGHTS OF THE PGE CAPITAL GROUP

	Year ended 31 December		Year ended 31 December	
	2023	2022	2023	2022
	PLN million		EUR million	
Sales revenue	**95,964**	**73,435**	**21,192**	**15,663**
Operating profit (loss)	(3,431)	4,299	(758)	917
Gross profit/(loss)	(4,055)	4,110	(895)	877
Net profit/(loss)	**(4,902)**	**3,390**	**(1,083)**	**723**
Net profit/(loss) attributable to shareholders of the parent company	(5,012)	3,328	(1,107)	710
Comprehensive income	(6,673)	2,897	(1,474)	618
Net cash from operating activities	3,269	11,609	722	2,476
Net cash from investing activities	(11,451)	(7,296)	(2,529)	(1,556)
Net cash from financing activities	2,328	841	514	179
Net change in cash and cash equivalents	(5,854)	5,154	(1,293)	1,099
Net profit /(loss) per share attributable to shareholders of the parent company (in PLN/EUR per share)	**(2.23)**	**1.56**	**(0.49)**	**0.33**
Diluted net profit /(loss) per share attributable to shareholders of the parent company (in PLN/EUR per share)	**(2.23)**	**1.56**	**(0.49)**	**0.33**
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		EUR million	
Non-current assets	78,340	71,732	18,017	15,295
Current assets	35,103	34,046	8,073	7,259
Total assets	**113,443**	**105,778**	**26,091**	**22,554**
Equity	47,855	54,383	11,006	11,596
Equity attributable to shareholders of the parent company	46,874	53,538	10,781	11,416
Share capital	**19,184**	**19,184**	**4,412**	**4,090**
Non-current liabilities	23,378	16,099	5,377	3,432
Current liabilities	42,210	35,296	9,708	7,526
Number of shares at the end of the reporting period	2,243,712,994	2,243,712,994	2,243,712,994	2,243,712,994
Book value per share (in PLN/EUR per share)	**20.89**	**23.86**	**4.80**	**5.09**
Diluted book value per share (in PLN/EUR per share)	**20.89**	**23.86**	**4.80**	**5.09**

**Reclassification of item*

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 the 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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for the year 2023 in accordance with EU IFRS (in PLN million)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2023	Year ended 31 December 2022
SALES REVENUE	*7.1*	**95,964**	**73,435**
Cost of goods sold	*7.2*	(87,561)	(67,694)
GROSS PROFIT FROM SALES		**8,403**	**5,741**
Distribution and selling expenses	*7.2*	(8,151)	(2,012)
General and administrative expenses	*7.2*	(1,853)	(1,382)
Net other operating income/(expenses)	*7.3*	(1,830)	1,952
OPERATING PROFIT/(LOSS)		**(3,431)**	**4,299**
Net finance income/(costs), including:	*7.4*	(626)	(189)
Interest income calculated using the effective interest rate method		*1,184*	*458*
Share of profit / (loss) of entities accounted for under the equity method	*7.5*	2	-
GROSS PROFIT / (LOSS)		**(4,055)**	**4,110**
Income tax expense	*8.1*	(847)	(720)
NET PROFIT/(LOSS)		**(4,902)**	**3,390**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss in the future:		**(1,068)**	**(640)**
Valuation of debt financial instruments	*19.3*	11	(3)
Valuations of hedging instruments	*19.3*	(1,325)	(788)
Foreign exchange differences from translation of foreign entities		(4)	1
Deferred tax	*8.1*	250	150
Items that may not be reclassified to profit or loss in the future:		**(703)**	**147**
Actuarial gains and losses from valuation of provisions for employee benefits	*21*	(868)	179
Deferred tax	*8.1*	164	(33)
Share in result of entities accounted for using the equity method	*7.5*	1	1
NET OTHER INCOME		**(1,771)**	**(493)**
TOTAL COMPREHENSIVE INCOME		**(6,673)**	**2,897**
NET PROFIT/(LOSS) ATTRIBUTABLE TO:			
shareholders of the parent company		(5,012)	3,328
non-controlling interests		110	62
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
shareholders of the parent company		(6,782)	2,836
non-controlling interests		109	61
NET PROFIT/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY (IN PLN)	*19.7*	**(2.23)**	**1.56**
DILUTED NET PROFIT/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY (IN PLN)		**(2.23)**	**1.56**

for the year 2023 in accordance with EU IFRS (in PLN million)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2023	As at 31 December 2022*
Property, plant and equipment	*9*	68,508	64,388
Intangible assets	*10*	1,952	726
Rights to use assets	*11*	1,852	1,311
Financial receivables	*24.1.1*	254	223
Derivatives and other assets measured at fair value through profit or loss	*24.1.2*	278	608
Shares, interests and other capital instruments		102	117
Shares and interests accounted for using the equity method	*12*	453	180
Other non-current assets	*16.1*	1,147	882
CO_2 emission allowances for captive use	*15*	20	114
Deferred income tax assets	*13.1*	3,774	3,183
NON-CURRENT ASSETS		**78,340**	**71,732**
Inventories	*14*	3,773	4,918
CO_2 emission allowances for captive use	*15*	10,517	4,754
Income tax receivables		967	239
Derivatives and other assets measured at fair value through profit or loss	*24.1.2*	116	927
Trade receivables and other financial receivables	*24.1.1*	10,516	9,083
Other current assets	*16.2*	3,181	2,238
Cash and cash equivalents	*17*	6,033	11,887
CURRENT ASSETS		**35,103**	**34,046**
TOTAL ASSETS		**113,443**	**105,778**
Share capital	*19.1*	19,184	19,184
Supplementary capital	*19.2*	28,146	25,049
Hedging reserve	*19.3*	(1,095)	(32)
Foreign exchange differences from translation	*19.4*	(1)	4
Retained earnings	*19.5*	640	9,333
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY		**46,874**	**53,538**
Equity attributable to non-controlling interests	*19.6*	981	845
TOTAL EQUITY		**47,855**	**54,383**
Non-current provisions	*20*	9,746	6,363
Credits, loans, bonds and leases	*24.1.3*	10,384	6,799
Derivative instruments	*24.1.2*	351	305
Deferred income tax liabilities	*13.2*	1,055	1,002
Deferred income and government grants	*22.1*	1,147	1,011
Other financial liabilities	*24.1.4*	524	478
Other non-financial liabilities	*23.1*	171	141
NON-CURRENT LIABILITIES		**23,378**	**16,099**
Current provisions	*20*	23,263	21,223
Bank credits, loans, bonds and leases	*24.1.3*	4,513	2,137
Derivative instruments	*24.1.2*	1,682	1,629
Trade payables and other financial liabilities	*24.1.4*	7,609	6,707
Income tax liabilities		260	198
Deferred income and government grants	*22.2*	105	97
Other non-financial liabilities	*23.2*	4,778	3,305
CURRENT LIABILITIES		**42,210**	**35,296**
TOTAL LIABILITIES		**65,588**	**51,395**
TOTAL EQUITY AND LIABILITIES		**113,443**	**105,778**

** Reclassification of item*

for the year 2023 in accordance with EU IFRS (in PLN million)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Supplementary capital	Hedging reserve	Foreign exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total equity
Note	*19.1*	*19.2*	*19.3*	*19.4*	*19.5*		*19.6*	
1 JANUARY 2023	**19,184**	**25,049**	**(32)**	**4**	**9,333**	**53,538**	**845**	**54,383**
Net profit/(loss) for reporting period	-	-	-	-	(5,012)	(5,012)	110	(4,902)
Other comprehensive income	-	-	(1,063)	(5)	(702)	(1,770)	(1)	(1,771)
COMPREHENSIVE INCOME	**-**	**-**	**(1,063)**	**(5)**	**(5,714)**	**(6,782)**	**109**	**(6,673)**
Retained earnings distribution	-	3,097	-	-	(3,097)	-	-	-
Dividend	-	-	-	-	-	-	(2)	(2)
Share of change in capital of jointly controlled entities	-	-	-	-	129	129	-	129
Settlement of purchase of additional shares in subsidiaries	-	-	-	-	(12)	(12)	2	(10)
Capital increase by shareholders	-	-	-	-	-	-	28	28
Other changes	-	-	-	-	1	1	(1)	-
31 DECEMBER 2023	**19,184**	**28,146**	**(1,095)**	**(1)**	**640**	**46,874**	**981**	**47,855**

	Share capital	Supplementary capital	Hedging reserve	Foreign exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total equity
Note	*19.1*	*19.2*	*19.3*	*19.4*	*19.5*		*19.6*	
1 JANUARY 2022	**19,165**	**20,154**	**609**	**2**	**7,564**	**47,494**	**797**	**48,291**
Net profit for the reporting period	-	-	-	-	3,328	3,328	62	3,390
Other comprehensive income	-	-	(641)	2	147	(492)	(1)	(493)
COMPREHENSIVE INCOME	**-**	**-**	**(641)**	**2**	**3,475**	**2,836**	**61**	**2,897**
Retained earnings distribution	-	1,734	-	-	(1,734)	-	-	-
Dividend	-	-	-	-	-	-	(3)	(3)
Share of change in capital of jointly controlled entities	-	-	-	-	34	34	-	34
Decrease of par value of shares	(3,178)	3,178	-	-	-	-	-	-
Increase in equity	3,197	(17)	-	-	-	3,180	-	3,180
Entities' exit from Capital Group	-	-	-	-	-	-	(10)	(10)
Other changes	-	-	-	-	(6)	(6)	-	(6)
31 DECEMBER 2022	**19,184**	**25,049**	**(32)**	**4**	**9,333**	**53,538**	**845**	**54,383**

for the year 2023 in accordance with EU IFRS (in PLN million)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2023	Year ended 31 December 2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Gross profit/(loss)		**(4,055)**	**4,110**
Income tax paid		(1,954)	(2,168)
Adjustments for:			
Share in profit of entities accounted for using the equity method		(2)	-
Depreciation, liquidation and write-downs		13,455	4,362
Interest and dividend, net		(13)	286
Profit on investing activities	*26.1*	488	18
Change in receivables	*26.1*	(737)	(1,373)
Change in inventories	*26.1*	1,236	(2,727)
Change in balance of CO_2 allowances for captive use		(5,669)	35
Change in liabilities, excluding loans and credits	*26.1*	(1,004)	3,005
Change in other non-financial assets and prepayments	*26.1*	(1,073)	(1,130)
Change in provisions	*26.1*	2,815	7,147
Other		(218)	44
NET CASH FROM OPERATING ACTIVITIES		**3,269**	**11,609**
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposal of PPE and IA		43	24
Purchase of PPE and IA	*26.2*	(9,733)	(6,661)
Opening of term deposits – over 3 months	*26.2*	(237)	(1,391)
Closing of term deposits – over 3 months	*26.2*	256	1,367
Acquisition of financial assets		(61)	(4)
Acquisition of a fully consolidated entity, net of cash acquired	*26.2*	(1,820)	(797)
Interest received	*26.2*	72	-
Disposal of subsidiary	*26.2*	-	111
Disposal of other financial assets		25	23
Repayment of loans granted		-	16
Other		4	16
NET CASH FROM INVESTING ACTIVITIES		**(11,451)**	**(7,296)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from share issue	*26.3*	-	3,197
Proceeds from share issue for non-controlling shareholders	*26.3*	157	33
Proceeds from acquired loans, credits	*26.3*	9,114	2,293
Repayment of loans, credits and leases	*26.3*	(6,365)	(4,352)
Interest paid	*26.3*	(702)	(364)
Grants received for property, plant and equipment		128	53
Other		(4)	(19)
NET CASH FROM FINANCING ACTIVITITES		**2,328**	**841**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(5,854)**	**5,154**
Net foreign exchange differences		*(40)*	*7*
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	*17*	**11,887**	**6,733**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	*17*	**6,033**	**11,887**

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

1. General information

1.1 Information on the parent company

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

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

- Wojciech Dąbrowski – President of the Management Board,
- Wanda Buk – Vice President of the Management Board,
- Lechosław Rojewski – Vice President of the Management Board,
- Paweł Śliwa – Vice President of the Management Board,
- Ryszard 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 from the Management Board as of 23 November 2023.

As at 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 resolutions to appoint the following persons 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, and
- Mr Marcin Laskowski, and to entrust him with the duties of the Vice President of the Management Board for Regulatory Affairs.

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

- to terminate, as of 17 March 2024, the delegation of Mr Eric 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
- to terminate, as of 8 March 2024, the delegation of Ms Małgorzata Banasik, Member of the Supervisory Board, to temporarily perform the duties of a Member of the 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 approval of these consolidated financial statements for publication, 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.

Ownership structure

The shareholding structure of the parent company was as follows:

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

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

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

1.2 Information on the PGE Capital Group

The Capital Group of PGE Polska Grupa Energetyczna S.A. consists of the parent company, i.e. PGE S.A., and 80 consolidated subsidiaries. Consolidation covers also 2 entities constituting so-called joint operations, 5 associates and 1 jointly controlled entity. For additional information about subordinated entities included in these consolidated financial statements, please refer to note 1.3.

These consolidated financial statements of the PGE Capital Group cover the period from 1 January 2023 to 31 December 2023, and include comparative data for the period from 1 January 2022 to 31 December 2022, as well as at 31 December 2022.

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

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

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

Business activities are conducted under appropriate concessions granted to the particular entities making up the composition of the PGE Capital Group. The PGE Capital Group conducts business activities primarily in the territory of Poland.

Going concern

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

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In 2023, PGE Obrót S.A. incurred a net loss of PLN (2,458) million and showed negative equity of PLN (1,867) million as at 31 December 2023. This was mainly the result of regulatory changes in the retail electricity trading market and the ERO President's approval of a tariff for households that did not fully cover the cost of energy purchases. PGE Obrót S.A. has access to financing provided by PGE S.A., therefore the going concern assumption for this company is justified. The impact of regulatory changes on the operations of the PGE Capital Group is described in note 32.4 to these financial statements.

In 2021, ENESTA sp. z o.o. (now ENESTA sp. z o.o. under restructuring) terminated unfavourable agreements for the supply of electricity and natural gas. In 2022, some counterparties took their claims to court. After unsuccessful attempts to reach an agreement with the counterparties, ENESTA filed for restructuring proceedings. On 21 June 2022, the restructuring (recovery) proceedings were initiated. At the end of 2022 and in February 2023, verdicts unfavourable to ENESTA were given in the pending proceedings. The verdicts established the existence and validity of agreements for the sale of electricity and natural gas. At the end of 2022, a provision of PLN 37 million was created for onerous agreements in connection with the necessity to continue the performance of the aforementioned sales agreements. In addition, provisions were created for potential litigation in connection with reserve sales carried out by the seller under an official order in 2022, in the amount of PLN 56 million. During the course of 2023, all provisions for onerous agreements were reversed. Sales revenue is invoiced in accordance with final court verdicts. In September 2023, ENESTA's capital was increased by PLN 32 million. All shares in the increased capital were acquired by PGE Obrót S.A. In December 2023, another resolution was passed regarding a capital increase of PLN 34 million. The new shares were acquired by PGE Obrót in 2024.

As at 31 December 2023, ENESTA's assets, capital and liabilities amounted to PLN 135 million and its equity amounted to PLN (173) million.

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

1.3 Composition of the PGE Capital Group

1.3.1 Direct and indirect subsidiaries under consolidation under the full method

	Company name	Shareholder	Shares held by PGE CG companies as at 31 December 2023	Shares held by PGE CG companies as at 31 December 2022
	SEGMENT: TRADE			
1.	PGE Polska Grupa Energetyczna S.A. Warsaw	Parent company		
2.	PGE Dom Maklerski S.A. Warsaw	PGE S.A.	100.00%	100.00%
3.	PGE Obrót S.A. Rzeszów	PGE S.A.	100.00%	100.00%
4.	ENESTA sp. z o.o. under restructuring Stalowa Wola	PGE Obrót S.A.	92.25%	87.33%
5.	PGE Paliwa sp. z o.o. Kraków	PGE EC S.A.	100.00%	100.00%
	SEGMENT: CONVENTIONAL POWER GENERATION			
6.	PGE Górnictwo i Energetyka Konwencjonalna S.A. Bełchatów	PGE S.A.	100.00%	100.00%
7.	Elbest Security sp. z o.o. Bełchatów	PGE S.A.	100.00%	100.00%
8.	MegaSerwis sp. z o.o. Bogatynia	PGE GiEK S.A.	100.00%	100.00%
9.	ELMEN sp. z o.o. Wola Grzymalina	PGE GiEK S.A.	100.00%	100.00%
10.	ELTUR-SERWIS sp. z o.o. Bogatynia	PGE GiEK S.A.	100.00%	100.00%
11.	"Betrans" sp. z o.o. Kalisko	PGE GiEK S.A.	100.00%	100.00%
12.	BESTGUM POLSKA sp. z o.o. Rogowiec	PGE GiEK S.A.	100.00%	100.00%
13.	RAMB sp. z o.o. Piaski	PGE GiEK S.A.	100.00%	100.00%
14.	Energoserwis – Kleszczów sp. z o.o. Rogowiec	PGE S.A.	51.00%	51.00%

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	Company name	Shareholder	Shares held by PGE CG companies as at 31 December 2023	Shares held by PGE CG companies as at 31 December 2022
	SEGMENT: HEAT GENERATION			
15.	PGE Energia Ciepła S.A. Warsaw	PGE S.A.	100.00%	100.00%
16.	PGE Toruń S.A. Toruń	PGE EC S.A.	95.22%	95.22%
17.	Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. Wrocław	PGE EC S.A.	58.07%	58.07%
18.	Elektrociepłownia Zielona Góra S.A. Zielona Góra	KOGENERACJA S.A.	100.00%	98.40%
19.	"MEGAZEC" sp. z o.o. Bydgoszcz	PGE S.A.	100.00%	100.00%
	SEGMENT: CIRCULAR ECONOMY			
20.	PGE Ekoserwis S.A. Wrocław	PGE S.A.	100.00%	100.00%
	EPORE S.A. Bogatynia	PGE GiEK S.A.	-	100.00%
21.	ZOWER sp. z o.o. Rybnik	PGE Ekoserwis S.A.	100.00%	100.00%
	SEGMENT: RENEWABLE POWER GENERATION			
22.	PGE Energia Odnawialna S.A. Warsaw	PGE S.A.	100.00%	100.00%
23.	Elektrownia Wiatrowa Baltica-1 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
24.	Elektrownia Wiatrowa Baltica-4 sp. z o.o. Warsaw	PGE S.A.	66.19%	66.19%
25.	Elektrownia Wiatrowa Baltica-5 sp. z o.o. Warsaw	PGE S.A.	66.19%	66.19%
26.	Elektrownia Wiatrowa Baltica-6 sp. z o.o. Warsaw	PGE S.A.	66.24%	66.24%
27.	Elektrownia Wiatrowa Baltica -7 sp. z o.o. (previously PGE Baltica 4 sp. z o.o.) Warsaw	PGE S.A.	55.04%	55.04%
28.	Elektrownia Wiatrowa Baltica-8 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
29.	Elektrownia Wiatrowa Baltica 9 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
30.	Elektrownia Wiatrowa Baltica 10 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
31.	Elektrownia Wiatrowa Baltica 11 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
32.	Elektrownia Wiatrowa Baltica 12 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
33.	PGE Baltica 2 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
34.	PGE Baltica 3 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
35.	PGE Baltica 5 sp. z o.o. Warsaw	PGE Baltica 3 sp. z o.o.	100.00%	100.00%
36.	PGE Baltica 6 sp. z o.o. Warsaw	PGE Baltica 2 sp. z o.o.	100.00%	100.00%
37.	PGE Baltica sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
	PGE Klaster sp. z o.o. Warsaw	PGE EO S.A.	-	100.00%
38.	PGE Soleo 2 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
	PGE Soleo 3 sp. z o.o. Warsaw	PGE EO S.A.	-	100.00%
	Mithra B sp. z o.o. Warsaw	PGE EO S.A.	-	100.00%
39.	Mithra D sp. z o.o. Poznań	PGE EO S.A.	100.00%	100.00%
40.	Mithra F sp. z o.o. Poznań	PGE EO S.A.	100.00%	100.00%
41.	Mithra G sp. z o.o. Poznań	PGE EO S.A.	100.00%	100.00%
42.	Mithra H sp. z o.o. Poznań	PGE EO S.A.	100.00%	100.00%
43.	Mithra I sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%

for the year 2023 in accordance with EU IFRS (in PLN million)

	Company name	Shareholder	Shares held by PGE CG companies as at 31 December 2023	Shares held by PGE CG companies as at 31 December 2022
44.	Mithra K sp. z o.o. Poznań	PGE EO S.A.	100.00%	100.00%
45.	Mithra M sp. z o.o. Poznań	PGE EO S.A.	100.00%	100.00%
46.	Mithra N sp. z o.o. Poznań	PGE EO S.A.	100.00%	100.00%
47.	Mithra O sp. z o.o. Poznań	PGE EO S.A.	100.00%	100.00%
48.	Mithra P sp. z o.o. Poznań	PGE EO S.A.	100.00%	100.00%
49.	LongWing Polska sp. z o.o. Warsaw	PGE EO S.A.	100.00%	-
	SEGMENT: DISTRIBUTION			
50.	PGE Dystrybucja S.A. Lublin	PGE S.A.	100.00%	100.00%
	SEGMENT: RAILWAY POWER ENGINEERING			
51.	PGE Energetyka Kolejowa Holding sp. z o.o. Warsaw	PGE S.A.	100.00%	-
52.	PGE Energetyka Kolejowa S.A. Warsaw	PGE EKH sp. z o.o.	100.00%	-
53.	PGE Energetyka Kolejowa Obsługa sp. z o.o. Warsaw	PGE EKH sp. z o.o.	100.00%	-
54.	PGE Energetyka Kolejowa CUW sp. z o.o. Łódź	PGE EKH sp. z o.o.	100.00%	-
55.	Energetyka Kolejowa Budownictwo sp. z o.o. Warsaw	PGE EKH sp. z o.o.	100.00%	-
56.	Energetyka Kolejowa sp. z o.o. Warsaw	PGE EKH sp. z o.o.	100.00%	-
57.	Energetyka Kolejowa Obrót sp. z o.o. Warsaw	PGE EKH sp. z o.o.	100.00%	-
58.	Cedton Investments sp. z o.o. Warsaw	PGE EKH sp. z o.o.	100.00%	-
59.	Remton Investments sp. z o.o. Warsaw	PGE EKH sp. z o.o.	100.00%	-
	SEGMENT: OTHER ACTIVITIES			
60.	PGE Systemy S.A. Warsaw	PGE S.A.	100.00%	100.00%
61.	PGE Sweden AB (publ) Stockholm	PGE S.A.	100.00%	100.00%
62.	PGE Synergia sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
63.	ELBIS sp. z o.o. Rogowiec	PGE S.A.	100.00%	100.00%
64.	PGE Inwest 2 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
65.	PGE Ventures sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
66.	PGE Gryfino 2050 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
67.	PGE Inwest 9 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
68.	PGE Inwest 10 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
69.	PGE Inwest 11 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
70.	PGE Inwest 12 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
71.	PGE Asekuracja S.A. Warsaw	PGE S.A.	100.00%	100.00%
72.	PGE Inwest 14 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
73.	PGE Nowa Energia sp. z o.o. in liquidation Warsaw	PGE S.A.	100.00%	100.00%
74.	Rybnik 2050 sp. z o.o. Rybnik	PGE S.A.	100.00%	100.00%
75.	PGE Inwest 20 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
76.	PGE Inwest 21 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
77.	PGE Inwest 22 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
78.	PGE Inwest 23 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%

for the year 2023 in accordance with EU IFRS (in PLN million)

	Company name	Shareholder	Shares held by PGE CG companies as at 31 December 2023	Shares held by PGE CG companies as at 31 December 2022
79.	PGE Inwest 24 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
80.	PGE Inwest 25 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
81.	Energetyczne Systemy Pomiarowe sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%

The above table includes the following changes in the structure of PGE Group companies subject to full consolidation that took place during the period ended 31 December 2023:

- On 1 March 2023, the Extraordinary General Meeting of Elektrociepłownia Zielona Góra S.A. adopted a resolution on the compulsory buyout of shares held by minority shareholders, representing a total of 1.6% of the share capital of Elektrociepłownia Zielona Góra S.A. On 25 April 2023, the aforementioned shares were transferred to ZEW KOGENERACJA S.A. by making an appropriate entry in the register of shareholders of Elektrociepłownia Zielona Góra S.A. As a result, ZEW KOGENERACJA S.A. became the sole shareholder of Elektrociepłownia Zielona Góra S.A. on 25 April 2023. The price paid for the shares was PLN 10 million.
- On 3 April 2023, PGE S.A. finalised the transaction for the acquisition of 100% of shares in the company 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.),
  - Energetyka Kolejowa Budownictwo sp. z o.o.,
  - Energetyka Kolejowa sp. z o.o.,
  - Energetyka Kolejowa Obrót sp. z o.o.,
  - Cedton Investments sp. z o.o.,
  - Remton Investments sp. z o.o.

  On 3 April 2023, the share of the PGE Capital Group in the capital and voting rights of the aforementioned companies was the same as the percentage share of the PGE Capital Group presented in the table above as at 31 December 2023.
- On 30 June 2023, the National Court Register registered the merger of PGE EO S.A. (the acquiring company) with PGE Klaster sp. z o.o., PGE Soleo 3 sp. z o.o. and Mithra B sp. z .o.o. (the companies being acquired). The merger had no impact on these consolidated financial statements.
- On 20 September 2023, PGE EO S.A. acquired 100% shares in LongWing Polska sp. z o.o.
- On 2 October 2023, the National Court Register registered the merger of PGE Ekoserwis S.A. (the acquiring company) and EPORE S.A. (the company being acquired). The merger had no impact on these consolidated financial statements.
- On 22 September 2023, the Extraordinary General Meeting of the company ENESTA sp. z o.o. in restructuring adopted a resolution on increasing the share capital by PLN 32 million by way of creating 32,000 new shares with a par value of PLN 1,000.00 each. All shares were taken up by PGE Obrót S.A. Consequently, the shareholding of this company in the capital of ENESTA sp. z o.o. in restructuring increased to 92.25%. The aforementioned facts were registered in the National Court Register on 18 December 2023.

Transactions after the reporting date

- 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. in that company fell to 51%. On 4 March 2024, the increase in the company's share capital was entered in the National Court Register.
- On 18 December 2023, the Extraordinary General Meeting of ENESTA sp. z o.o. in restructuring adopted a resolution on increasing the share capital by PLN 34 million by way of creating 34,000 new shares with a par value of PLN 1,000.00 each. All shares were taken up by PGE Obrót S.A. As

at the date of the approval of these consolidated financial statements for publication, the aforementioned capital increase had not been registered in the National Court Register.

for the year 2023 in accordance with EU IFRS (in PLN million)

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

	Company name	Shareholder	Shares held by PGE CG companies as at 31 December 2023	Shares held by PGE CG companies as at 31 December 2022
	SEGMENT: RENEWABLE POWER GENERATION			
1.	Elektrownia Wiatrowa Baltica-2 sp. z o.o. Warsaw	PGE Baltica 6 sp. z o.o.	50.00%	50.00%
2.	Elektrownia Wiatrowa Baltica-3 sp. z o.o. Warsaw	PGE Baltica 5 sp. z o.o.	50.00%	50.00%
	PGE SOLEO KLESZCZÓW sp. z o.o. Kleszczów	PGE EO S.A.	-	50.00%

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

	Company name	Shareholder	Shares held by PGE CG companies as at 31 December 2023	Shares held by PGE CG companies as at 31 December 2022
1.	Polimex Mostostal S.A. Warsaw	PGE S.A.	16.22%	16.40%
2.	Przedsiębiorstwo Energetyki Cieplnej S.A. Bogatynia	PGE EC S.A.	34.93%	34.93%
3.	ZPBE Energopomiar sp. z o.o. Gliwice	PGE GiEK S.A.	49.79%	49.79%
4.	PGE SOLEO KLESZCZÓW sp. z o.o. Kleszczów	PGE EO S.A.	50.00%	-
5.	PGE PAK Energia Jądrowa S.A. Konin	PGE S.A.	50.00%	-
6.	Elester sp. z o.o. Łódź	PGE EKH sp. z o.o. PGE EK S.A.	39.96% 50.00%	-

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

On 13 April 2023, a special purpose company, PGE PAK Energia Jądrowa S.A. with its registered office in Konin, was established. PGE S.A. holds a 50% stake in the company. The company was established to implement a nuclear power plant project with potential participation of a technology partner. More information on this is provided in note 32.6 to these financial statements.

1.4 Settlement of the new acquisitions

Acquisition of the PKP Energetyka Capital Group

As described in note 32.5 to these financial statements, on 3 April 2023, the transaction of PGE's direct acquisition of 100% of shares in PKP Energetyka Holding sp. z o.o., and consequently the indirect acquisition of 100% of shares in PKP Energetyka S.A. and shares in other subsidiaries of PKP Energetyka Holding sp. z o.o. by PGE S.A. was completed.

In the second half of 2023, the valuation of property, plant and equipment, intangible assets and rights to use assets of the acquired entities was carried out and, as a result, the final accounting for the acquisition of the assets and liabilities of the acquired entities is presented in these financial statements in accordance with IFRS3 *Business Combinations*.

for the year 2023 in accordance with EU IFRS (in PLN million)

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

	Value as at 3 April 2023		
	Preliminary settlement	Adjustments	Final settlement
Property, plant and equipment, intangible assets and rights to use assets	6,001	976	6,977
Other non-current assets	111	151	262
Loans and other financial receivables	1,665	46	1,711
Cash and cash equivalents	387	-	387
Other current assets	806	(13)	793
Total assets	**8,970**	**1,160**	**10,130**
Credits and loans	5,045	(1,968)	3,077
Provisions	379	(3)	376
Other liabilities	1,502	2,101	3,603
Total liabilities	**6,926**	**130**	**7,056**
NET ASSETS OF ACQUIRED ENTITIES	**2,044**	**1,030**	**3,074**

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

	Value as at 3 April 2023		
	Preliminary settlement	Adjustments	Final settlement
Net assets of acquired entities	**2,044**	**1,030**	**3,074**
Transferred cash and cash equivalents	1,873	**-**	1,873
Acquired liabilities under loans	1,543	**3**	1,546
Total acquisition price	**3,416**	**3**	**3,419**
Goodwill from consolidation	**1,372**	**(1,027)**	**345**

The goodwill recognised by the PGE Capital Group results from the fact that, according to the PGE Group's assumptions, the discounted cash flows from operating activities, which will be generated by the purchased assets, will be higher than the value of the net assets of the acquired companies, determined in accordance with IFRS 3. The goodwill was fully attributed to the Railway Power Engineering segment. The goodwill recognised does not constitute goodwill for tax purposes.

As a result of the final settlement of the acquisition of the PKP Energetyka Group, the "Customer relations" asset was recognised in intangible assets, reflecting the favourable impact of relationships and contracts with overhead contact line network customers on profitability and the achievement of higher margins than market averages. The value of customer relationships amounts to PLN 471 million and was estimated using the Multi-period Excess Earnings Method as the discounted excess of trading results projected at the acquisition date over trading results forecast earlier by the PGE Capital Group.

Performance of acquired entities

From 3 April 2023 to 31 December 2023, the share of the acquired companies in the results of the PGE Capital Group was as follows:

- The share in consolidated revenue amounted to PLN 4.724 million (after consolidation exclusions and adjustments).
- The share in net profit the amounted to PLN 874 million (after consolidation exclusions and adjustments).

During the course of 2023, the acquired entities recorded sales revenue of PLN 7,118 million (net of consolidation exclusions and adjustments) and net profit of PLN 618 million (net of consolidation exclusions and adjustments).

Acquisition of LongWing Polska sp. z o.o.

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

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

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

The combined value of the transaction amounted to PLN 338 million. The amount of PLN 82 million represented the remuneration for the shares, while the amount of PLN 256 million related to the subrogation of liabilities.

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

2. Basis for preparation of the financial statements

2.1 Statement of compliance

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

2.2 Presentation and functional currency

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

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

	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 already effective standards and interpretations are not endorsed by the European Union or were not effective as at 1 January 2023:

Standard	Description of changes	Effective date
IFRS 14 Regulatory Deferral Accounts	The principles of accounting and disclosure for regulatory deferral accounts.	In accordance with the decision of the European Commission, the approval process of the standard in its preliminary version will not be initiated before the standard in its final version is published.
Changes to IFRS 10 and IAS 28	The guidelines concerning sales transactions or an investor's contribution of assets to an associate or a joint venture.	Work on the approval of the changes has been suspended indefinitely
Changes to IAS 1	Changes relate to the presentation of financial statements – classification of liabilities as current and non-current	1 January 2024
Changes to IFRS 16	Changes related to the manner of valuation of liabilities under sale and leaseback transactions.	1 January 2024
Changes to IAS 7	Changes related to disclosures in cash flow statements	1 January 2024
Changes to IAS 21	The changes relate to the effects of changes in foreign currency exchange rates – lack of convertibility	1 January 2025

The PGE Capital Groups intends to accept the aforementioned standards and changes to standards and interpretations as published by the International Accounting Standards Board, but not effective as at the reporting date, after they have entered into force.

The above regulations will not have a material impact on the future financial statements of the PGE Capital Group.

2.4 The Management Board's professional judgement and estimates

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

- During the reporting period, the Group carried out an analysis of the circumstances and subsequent impairment testing of non-current assets. The results of the tests are described in note 3 to these financial statements.
- The estimate of the recoverable amount of property, plant and equipment is based on a number of significant assumptions, the future realisation of which is uncertain and, for a significant part, beyond the control of the PGE Capital Group. The Group adopted what it believed to be the most appropriate amounts and values; nevertheless, it cannot be ruled out that the realisation of particular assumptions will differ from those adopted by the Group.
- Provisions are liabilities whose amount or timing of payment is uncertain. During the reporting period, the Group changed its estimates of the reasonableness or amount of certain provisions.
- In particular, the provision for land rehabilitation costs and the provision for employee benefits were updated during the reporting period due to an increase in the discount rate and inflation rate. Details are set out in note 20 to these consolidated financial statements.
- Uncertainties related to tax settlements are described in note 29 to these consolidated financial statements.
- The Group makes significant estimates in respect of recognised contingent liabilities. Relevant details are set out in note 27 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 future financial statements of the PGE Capital Group. Note 24.1.2 provides information on the impact of the valuation of financial instruments on profit or loss and other comprehensive income.
- Due to the crisis situation on the electricity market, a number of legal regulations came into force in 2022 and 2023, which made it necessary on the part of the PGE Capital Group to make estimates of revenue and costs in the field of compensation related to the purchase of coal, compensation and price adjustments resulting from the Act for households and contributions to the Price Difference Payment Fund resulting from the Emergency Measures in 2023 Act. The Group 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 32.3 and 32.4 to these financial statements.
- Some of the sales revenue described in detail in note 7.1 to these consolidated financial statements is invoiced based on cyclical readings of metering and billing systems. This results in the necessity to re-estimate sales revenue in respect of supplies for which the PGE Capital Group does not have meter readings at the reporting date.

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

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

In the reporting period, the Group analysed the circumstances and identified the factors that could materially contribute to changes in the value of its assets in the Conventional Power Generation and Railway Power Engineering sectors. On 30 June 2023, asset impairment tests were carried out in the Renewable Power Generation and Heat Generation segments, the companies PGE Gryfino 2050 sp. z o.o., PGE Baltica 2 sp. z o.o. and PGE Baltica 3 sp. z o.o., on the basis of which no grounds for impairment write-downs were found. In the current reporting period, the PGE Capital Group performed an analysis on the basis of which it was found that there were no grounds for asset impairment tests in the Renewable Power Generation and Heat Generation segments as well as the companies PGE Gryfino 2050 sp. z o.o., PGE Baltica 2 sp. z o.o. and PGE Baltica 3 sp. z o.o. as at 31 December 2023.

External circumstances

- The market capitalisation of PGE S.A. continues to be below the net book value of its 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 aforementioned circumstances, the Group carried out asset impairment tests on 30 November 2023 for the Conventional Power Generation segment and on 31 December 2023 for the Railway Power Engineering segment, to which goodwill and customer relationship assets are allocated. On the basis of the conducted tests, the need for a write-down in the Conventional Power Generation segment was identified.

An analysis of the circumstances showed that there was no basis for impairment tests in the Renewable Power Generation and Heat Generation segments, as well as the companies PGE Gryfino 2050 sp. z o.o., EWB2 and EWB3. Tests of goodwill allocated to the Heat Generation segment and the companies EWB2 and EWB3 were performed on 30 June 2023.

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 ("Advisor"). The said study takes into account the Company's own estimates for the first two years of the forecast based on 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 reviews 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.

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 excludes 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, achieved the effects of lowering the level of inflation, although this took 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 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% in 2030 (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 locations where the transformation of generation assets will be carried out, a timetable for the main activities, planned expenditure and 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. It is planned that, 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 technology, 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 was 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 generation from conventional sources is anticipated, with a consequent reduction in expenditure (CAPEX and OPEX) on maintenance tasks of coal assets, which further affects the anticipated decline in profitability through the gradual deterioration of the availability of these units. At the same time, the aforementioned legislative and market changes favour the development of zero- and low-carbon sources, which, when the Group invests in these particular technologies, positively translates into the value in use of the assets under tests. 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 to 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 Capital Group adopts assumptions developed by an independent think tank and taking into account the current regulatory and market situation. Future developments in the electricity market may differ from the currently adopted assumptions, which may lead to significant changes in the financial position and results of the PGE Group. These will be included in future financial statements.

3.1 Description of assumptions for the Conventional Generation segment

The issue of a potential sale of assets of PGE GiEK S.A. is described in note 32.2.3 to these consolidated financial statements. As at the reporting date, the segment's assets did 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 asset 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 Group's opinion, the adoption of financial forecasts for periods longer than five years is justifiable in view of the significant and long-term impact of the estimated changes in the regulatory environment. Thanks to adopting longer-term forecasts, the estimates of recoverable values may be more reliable.

Specific assumptions relating to the segment

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

- recognising the following as individual CGUs, due to technological linkages:

for the year 2023 in accordance with EU IFRS (in PLN million)

  - the Bełchatów Lignite Mine Branch and the Bełchatów Power Plant Branch,
  - the Turów Lignite Mine Branch and the Turów Power Plant Branch,

- recognising the Opole Power Plant, the Rybnik Power Plant and the Dolna Odra Power Plant as three individual CGUs.
- adopting the assumption of continued operations:
  - until 2036 for the Bełchatów Complex, based on the date accepted by the Social Partner for the decommissioning of 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%.

Note 27.4 to these financial statements describes the issue of obtaining an environmental decision for the Turów Mine. In the Group's opinion, the status of this decision does not affect the assumptions made in the impairment tests carried out as at 30 November 2023.

On 30 November 2023, the value of the Conventional Power Generation segment’s property, plant and equipment that had been tested for impairment was PLN 28,609 million. This value does not include CGUs for which the value in use of the tested assets was negative. As a result of the conducted asset impairment tests, the Group ascertained the necessity to write down these assets for the total amount of PLN 7,928 million.

Furthermore, in December 2023, the macroeconomic assumptions used to estimate the amount of provisions for the rehabilitation of final workings at the mines were updated, which resulted simultaneously in both an increase in these provisions and the value of property, plant and equipment at the Bełchatów Complex and the Turów Complex. As this increase in the value of property, plant and equipment was not included in the test results as at 30 November 2023, the value of the property, plant and equipment resulting from the change in the estimate of the indicated provision was also additionally written down.

The combined value of write-downs is shown in the table below:

	Tested value	Identified impairment	Value after write-down
Bełchatów Complex	11,610	(5,045)	6,565
Turów Complex	5,770	(1,111)	4,659
Opole Power Plant	11,693	(2,290)	9,403
Dolna Odra Power Plant	-	-	-
Rybnik Power Plant	-	-	-
TOTAL	**29,073**	**(8,446)**	**20,627**

In the case of CGUs fully written down in previous reporting periods (Dolna Odra Power Plant, Rybnik Power Plant), tests confirmed the validity of the full write-down of property, plant and equipment. The Company created write-downs related to new investments of PLN 187 million at these Branches in 2023.

Sensitivity analysis

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

The impact of a change in key assumptions using the ceteris paribus principle on the value in use of assets at 30 November 2023 for the Conventional Power Generation segment is shown below. The analysis ignored the impact on the value in use of the assets written off in full in previous reporting periods.

Parameter	Change	Impact on value in use in PLN million	
		Increase	Decrease
Change in electricity price in whole forecast period	1%	2,297	-
	-1%	-	2,370

A 1% drop in the price of electricity would reduce the value in use of the assets by approximately PLN 2.4 billion.

Parameter	Change	Impact on value in use in PLN million	
		Increase	Decrease
Change in WACC	0.5 p.p.	549	-
	- 0.5 p.p.	-	603

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

Parameter	Change	Impact on value in use in PLN million	
		Increase	Decrease
Change in price of CO_2 emission allowances	1%	-	1,184
	- 1%	1,143	-

A 1% increase in the price of CO_2 emission allowances would reduce the value in use of the assets by approximately PLN 1.2 billion.

Parameter	Change	Impact on value in use in PLN million	
		Increase	Decrease
Change in price of hard coal	1%	-	197
	- 1%	181	-

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

Climate issues

The future of the Polish energy market is determined by the European Union's climate policy, and developments in the electricity market in the run up to 2050 will be influenced by the European Green Deal ('EGD'), which aims to achieve EU climate neutrality by 2050. One of the most important steps towards achieving climate neutrality was the acceptance, by the European Council in December 2020, of a new binding target for the EU to reduce net greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels. A consequence of the higher CO_2 reduction target is the rising cost of CO_2 emission allowances, which may negatively affect the performance of the Conventional Power Generation segment and the PGE Capital Group. The macroeconomic assumptions used for impairment testing take into account the new higher CO_2 emission reduction target in 2030 and, as a result, the rising prices of CO_2 emission allowances in the long term. In December 2022, the Council and the EU Parliament reached important agreements on the 'Fit for 55' package proposal, the EU's plan to increase the target of reducing greenhouse gas emissions below 55% by 2030 compared to 1990 levels.

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

3.2 Description of assumptions for the Railway Power Engineering segment

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. The Group is of the opinion that the adoption of financial projections longer than five years is reasonable due to the fact that the property, plant and equipment used by the Group has a materially longer economic life and due to the material and long-term impact of the estimated changes in the regulatory environment included in the detailed forecast.

Specific assumptions

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

- recognition of the Railway Power Engineering segment as a single CGU due to a number of factors related to cash generation capacity,
- 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 its 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%.

On 31 December 2023, the value of the Railway Power Engineering segment's non-current assets tested for impairment amounted to PLN 7,150 million, customer relationship assets to PLN 471 million and goodwill to PLN 345 million.

The Group carried out an impairment test of its shares held in the company Elester sp. z o.o., reported in the consolidated financial statements of the PGE Capital Group, whose value amounted to PLN 231 million at the end of 2023. As the result of the impairment test of assets, the Group concluded there was no need to recognise any impairment losses on these assets.

Sensitivity analysis

In accordance with IAS 36 Impairment of Assets, the Group performed a sensitivity analysis for the Railway Power Engineering segment.

The impact of a change in key assumptions using the ceteris paribus principle on the value in use of assets for the Railway Power Engineering segment as at 31 December 2023 is shown below.

Parameter	Change	Impact on value in use in PLN million	
		Increase	Decrease
Change in electricity price in whole forecast period	1%	1.26	-
	-1%	-	1.26

A 1% drop in the price of electricity would reduce the value in use of the assets by approximately PLN 1.26 million.

Parameter	Change	Impact on value in use in PLN million	
		Increase	Decrease
Change in margins in the Trade segment in the whole forecast period	1%	23	-
	-1%	-	23

A 1% drop in margins in the Trade segment would reduce the value in use of the assets by approximately PLN 23 million.

Parameter	Change	Impact on value in use in PLN million	
		Increase	Decrease
Change in WACC (for segments except for Distribution)	+ 0.5 p.p.	-	303
	- 0.5 p.p.	377	-

A 0.5 percentage point increase in the WACC for non-regulated businesses (excluding Distribution) would result in a reduction in the value in use of assets by approximately PLN 303 million.

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

3.3 Analysis of the circumstances of the Heat Generation sector

In previous reporting periods, the PGE Capital Group made significant impairment write-downs of property, plant and equipment in the Heat Generation segment. The key assumptions adopted for asset impairment tests performed in previous reporting periods are described in the consolidated financial statements of the PGE Capital Group for previous financial years.

At the end of H1 2023, asset impairment tests were carried out. On their basis, it was concluded that no write-downs were necessary. The key assumptions adopted for asset impairment tests performed on 30 June 2023 are described in the interim consolidated financial statements of the PGE Capital Group for the 6 months' period ended 30 June 2023.

At the end of the 2023 reporting period, the Group analysed the existing circumstances to verify whether further write-downs or the reversal of the earlier write-downs was necessary.

The key analysed factors included the following:

- the financial plan,
- confirmation that the investment plan is up to date,
- energy, coal, CO_2 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 Heat Generation segment'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 to be 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 were active in obtaining each of the available types of bonuses, which significantly and positively impacted 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 the PGE Capital Group, as at the reporting date there were no circumstances indicating the necessity to write down property, plant and equipment in the Heat Generation segment, nor to reverse any write-downs recognised in the previous periods.

Climate issues

On 15 December 2022, the Decarbonisation Plan until 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 customers' 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 Group 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.

3.4 Analysis of the circumstances of the Renewable Power Generation segment

In previous reporting periods, the PGE Capital Group made significant impairment write-downs, or reversals of write-downs, of property, plant and equipment in the Renewable Power Generation segment. As a result of asset impairment tests for PGE Energia Odnawialna S.A. in the years 2019-2021, impairment write-downs were reversed to the maximum extent possible for all wind farms for which asset impairment write-downs had been recognised in previous reporting periods.

At the end of H1 2023, asset impairment tests were carried out. On their basis, it was concluded that no write-downs were necessary. The key assumptions adopted for asset impairment tests performed on 30 June 2023 are described in the interim consolidated financial statements of the PGE Capital Group for the 6 months' period ended 30 June 2023.

At the end of the 2023 reporting period, the PGE Capital Group analysed the circumstances to verify whether assets might have been impaired.

The following separate cash-generating units (CGUs) are identified and analysed within the Renewable Power Generation segment:

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

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 the 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 individual assets undergoing tests. With respect to the investment plan, an increase in planned capital expenditure relating to modernisation and restoration is assumed; however, the results of the tests as at 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 Group concludes that there is no indication for impairment testing of the generation assets at the reporting date of 31 December 2023.

3.5 Analysis of the circumstances of the CCGT units construction project in Nowy Czarnów to be implemented by PGE Gryfino 2050 sp. z o.o.

At the end of the 2023 reporting period, the PGE Capital Group analysed the circumstances of the project to verify whether the assets of the company PGE Gryfino 2050 sp. z o.o. might have been impaired.

The key analysed factors included the following:

- the forecasts of electricity, gas, and CO_2 prices,
- the assumptions concerning the 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 provided 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 have a positive impact on the value in use of 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.

Therefore, the Group concludes that there is no indication for impairment testing of the generation assets at the reporting date of 31 December 2023.

3.6 Analysis of the circumstance of the Offshore Wind Energy project

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

At the end of H1 2023, impairment tests were carried out with respect to the company's goodwill. On their basis, it was concluded that no write-downs were necessary. Goodwill impairment tests were performed based on the determination of the recoverable value of assets and the assumptions used in the asset impairment tests performed on 30 June 2023 are described in the interim consolidated financial statements of the PGE Capital Group for the 6 months' period ended 30 June 2023.

During the current reporting period, the PGE Capital Group 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 view of the above, in the opinion of the PGE Group, at the reporting date there were no indications for any impairment of goodwill arising on the EWB2 and EWB3 projects.

3.7 Property, plant and equipment in the Distribution segment

As at the reporting date, the book value of property, plant and equipment related to distribution activities was approximately PLN 24 billion and represented approximately 34% of total consolidated property, plant and equipment. Their recoverable value depends mainly on the tariff approved by the President of the Energy Regulatory Office. Regulated (tariff) income determined annually ensures the coverage of reasonable operating costs, depreciation, taxes, purchase of energy to compensate for a balance difference, costs carried forward and the achievement of a return on capital employed in distribution activities at a reasonable level. The level of return on capital employed as well as depreciation depend on the so-called Regulatory Value of Assets.

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

4. Selected significant accounting principles

These financial statements have been prepared on the historical cost basis, except for:

- CO_2 emission allowances purchased to realise gains on market price fluctuations, which are recognised at fair value less costs of sales;
- financial instruments measured at fair value;
- assets whose impairment has been ascertained.

These consolidated financial statements of the PGE Capital Group have been prepared on the basis of the financial statements of the parent company, as well as the financial statements of its subsidiaries, associates and jointly controlled entity. The financial statements of the entities under consolidation have been prepared for the same reporting period, on the basis of the uniform accounting principles.

All balances of settlements, revenue and expenses arising among the PGE Group entities and unrealised intragroup profits are eliminated in full.

Subsidiaries are subject to consolidation as of the date on which the Group obtains control over them and cease to be subject to consolidation as of the date on which such control ceases. The parent company exercises control over a subsidiary when it holds, directly or indirectly through its subsidiaries, more than a half of the voting rights in a given company, unless it is possible to prove that such ownership does not constitute the exercise of control. The parent company exercises control when, by virtue of its involvement in another entity, it has rights to variable financial results and has the ability to exert impact on the amount of such financial results by exercising control over that entity. Exercising control may also occur when the parent company does not own more than a half of votes in a subsidiary.

Accounting for the establishment of the PGE Capital Group and subsequent transformations within the Group in consolidated financial statements

Issues related to acquisitions and business combinations are in principle regulated by IFRS 3 *Business Combinations*, however this standard excludes from its scope transactions among entities under common control. At the time of their merger, the entities on the basis of which the PGE Group was established were controlled by the State Treasury. Therefore, in the Company's opinion, the contribution transaction fulfilled the criteria of the definition of a transaction under common control and, consequently, it is excluded from the scope of IFRS 3.

The combinations of businesses under common control were accounted for using the pooling of interests method. Thus, consolidated financial statements reflect the continuity of common control and do not reflect changes in the value of net assets to fair values (or the recognition of new assets) or the valuation of goodwill.

Subsequent combinations within the PGE Group were recognised as transactions between entities under common control and were therefore accounted for within the Capital Group's equity with no impact on goodwill.

Acquisitions of companies from unrelated entities are accounted for using the acquisition method, in accordance with IFRS 3.

Joint arrangements and joint control

In connection with participation in a joint venture (a joint contractual arrangement that confers a right to a share of net assets), such a share is recognised as an investment in financial statements and is accounted for using the equity method.

In connection with participation in a joint venture, each partner recognises its share of such an operation's assets and liabilities, revenue and costs.

Joint control is a contractually agreed division of control within the scope of a contractual arrangement that occurs only when decisions on significant activities require the unanimous consent of the parties exercising joint control.

Investments in associates

Associates are entities over which the parent company, directly or indirectly through subsidiaries, exercises significant influence, but not control or joint control. Investments in associates are accounted for using the equity method.

Measurement of the fair value of acquired assets and liabilities, determination of the value of goodwill

In accordance with IFRS *3 Business Combinations, the* PGE Group identifies and measures acquired assets, liabilities and goodwill or gain from a bargain purchase. Such measurement is based on a number of significant assumptions, including a selection of the appropriate method, the management's plans for the use of acquired assets, financial forecasts (including price trajectories identifying major revenue and cost items), legislative changes, etc. On the other hand, the settlement of a transaction is affected by the appropriate determination of the purchase price (including the contingent portion). The applied assumptions can have a significant impact on the determination of the fair value of acquired assets and liabilities and the determination of the value of goodwill or gain from a bargain purchase. Goodwill is tested for impairment together with relevant cash generating units.

Translation of items denominated in foreign currencies

Transactions denominated in foreign currencies are translated into the Polish zloty using the exchange rate prevailing at the date of a given transaction. As at the reporting date:

- monetary items are translated using the simplified method and the closing rate quoted by the National Bank of Poland,
- non-monetary items measured at historical cost in a foreign currency are translated using the exchange rate effective as at the date of the initial transaction,
- non-monetary items measured at fair value in a foreign currency are translated using the exchange rate effective as at the date when the fair value was determined.

Exchange differences resulting from translation are recognised in profit or loss or, where accounting policies so specify, in the value of assets.
Exchange differences arising on non-monetary items, such as equity instruments measured at fair value through profit or loss, are recognised as part of changes in fair value. Exchange differences arising on non-monetary items, such as equity instruments, are recognised in other comprehensive income. Exchange differences resulting from translation of assets and liabilities of foreign companies with a functional currency other than the functional currency of the parent company are recognised in other comprehensive income and accumulated under a separate equity item "Foreign exchange differences from translation".

5. 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 Group:

- 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 to IAS 12 – amendments relate 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 Group analysed its contracts against the criteria of insurance contracts, in accordance with IFRS 17 *Insurance Contracts*. No contracts meeting these criteria were identified.

EXPLANATORY NOTES TO THE CONSOLIDTED FINANCIAL STATEMENTS

EXPLANATORY NOTES TO THE OPERATING SEGMENTS

6. Information on the business segments

SIGNIFICANT ACCOUNTING PRINCIPLES

Operating segments

An operating segment is a component of the Group:

- that engages in economic activities in connection with which it may earn revenue and incur expenses (including revenue and expenses related to transactions with other constituent part of the same entity),
- whose operating results are regularly reviewed by the Group's chief operating decision making body and which uses such results in deciding on the allocation of resources to the segment and in assessing the segment's performance,
- for which separate financial information is available.

Segment revenue is revenue generated from either sales to external customers or transactions with other segments within the PGE Capital Group, which are reported in the PGE Capital Group's statement of profit or loss and are directly attributable to a given segment along with the appropriate portion of revenue that can be reasonably attributed to that segment.

Segment expenses comprise the cost of sales to external customers and the cost of transactions with other segments within the Group that result from the operating activities of the segment and are directly attributable to the segment along with the appropriate portion of the entity's expenses that can be reasonably attributed to that segment.

Segment result is the difference between segment revenue and segment expenses.

Segment assets are operating assets that are employed by a segment in its operating activities and that are either directly attributable to the segment or can be reasonably attributed to the segment. Segment liabilities are operating liabilities that result from the operating activities of a segment and that are either directly attributable to the segment or can be reasonably attributed to the segment.

Segment assets and liabilities do not include income tax settlements.

Segment liabilities include, for example, trade payables, other payables, accruals, prepayments received from customers, provisions for claims relating to goods supplied and services rendered.

The liabilities of a segment whose activities are not primarily financial activities do not include loans and similar liabilities.

The companies of the PGE Capital Group conduct their activities on the basis of relevant concessions, including in particular concessions for the generation, trading and distribution of electricity, the generation, transmission and distribution of heat, granted by the President of the Energy Regulatory Office, as well as concessions for the mining of lignite from deposits granted by the Minister of the Environment. Concessions are generally granted for periods of from 10 to 50 years. The key concessions held by the PGE Capital Group expire in the years 2024-2044.

The concessions for lignite mining, electricity and heat generation as well as electricity and heat distribution have corresponding assets allocated to them, as shown in the detailed information on the operating segments. In connection with the electricity and heat concessions, the PGE Group incurs annual fees dependent on revenue. In the case of the activities related to the mining of lignite, the PGE Group incurs extraction fees dependent on applicable rates and mining volumes, as well as mining usage fees. In 2023, the PGE Group's costs related to concessions amounted to approximately PLN 17 million (PLN 17 million in 2022), while the mining fee and the mining usage fee amounted to PLN 123 million in 2023 and PLN 157 million in 2022.

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

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

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

Seasonality of the business segments’ activities

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

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

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

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

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6.1 Information concerning the operating segments

Information on operating segments for 2023

	Conventional Power Generation	Heat Generation	Renewable Power Generation	Distribution	Railway Power Engineering	Trade	Circular Economy	Other Activities	Adjustments	Total
STATEMENT OF COMPREHENSIVE INCOME										
Sales to external customers	38,579	7,863	1,792	10,191	4,724	32,618	177	12	8	95,964
Sales among segments	9,390	4,763	1,014	399	4	40,698	199	340	(56,807)	-
TOTAL SEGMENT REVENUE	**47,969**	**12,626**	**2,806**	**10,590**	**4,728**	**73,316**	**376**	**352**	**(56,799)**	**95,964**
Cost of goods sold	(49,205)	(10,278)	(1,607)	(7,668)	(3,433)	(70,598)	(262)	(292)	55,782	(87,561)
EBIT	**(9,418)**	**1,168**	**753**	**2,578**	**866**	**(38)**	**42**	**22**	**596**	**(3,431)**
Depreciation, liquidation and write-downs recognised in profit or loss	10,890	784	361	1,302	377	34	14	51	**(354)**	**13,459**
EBITDA	**1,472**	**1,952**	**1,114**	**3,880**	**1,243**	**(4)**	**56**	**73**	**242**	**10,028**
GROSS (LOSS)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4,055)**
Income tax expense	-	-	-	-	-	-	-	-	-	(847)
NET (LOSS)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4,902)**
ASSETS AND LIABILITIES	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Segment assets without PPE, IA, IP, RTUA trade receivables	14,497	1,813	478	53	177	1,480	17	541	(418)	18,638
PPE, IA, RTUA	21,125	8,361	6,605	24,343	7,570	327	71	3,988	(78)	72,312
Trade receivables	1,250	1,748	271	2,120	548	10,633	84	66	(9,984)	6,736
Shares and interests accounted for using the equity method	-	-	-	-	-	-	-	-	-	453
Unallocated assets	-	-	-	-	-	-	-	-	-	15,304
TOTAL ASSETS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**113,443**
Segment liabilities, excluding trade payables	30,903	2,311	916	3,416	987	6,182	70	146	(2,303)	42,628
Trade payables	1,538	4,382	107	751	2,407	5,545	48	37	(10,100)	4,715
Unallocated liabilities	-	-	-	-	-	-	-	-	-	18,245
TOTAL LIABILITIES	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**65,588**
OTHER INFORMATION ON SEGMENT	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Capital expenditure	1,471	1,504	1,223	4,222	1,053	31	17	827	(290)	10,058
Increases in RTUA	7	19	-	2	-	-	-	2	-	30
TOTAL CAPITAL EXPENDITURE	**1,478**	**1,523**	**1,223**	**4,224**	**1,053**	**31**	**17**	**829**	**(290)**	**10,088**
Acquisition of PPE, IA, and RTUA as part of acquisition of new companies*	-	-	225	-	6,977	-	-	-	459	7,661
Write-downs on financial and non-financial assets	8,965	59	-	12	13	375	3	5	(327)	9,105
Other non-monetary expenses*	22,524	3,019	56	533	122	1,862	12	30	(360)	27,798

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

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Information on operating segments for 2022

data restated	Conventional Power Generation	Heat Generation	Renewable Power Generation	Distribution	Trade	Circular Economy	Other Activities	Adjustments	Total
STATEMENT OF COMPREHENSIVE INCOME									
Sales to external customers	32,864	5,345	2,220	6,723	26,093	153	29	8	73,435
Sales among segments	3,596	2,345	1,181	80	20,473	201	288	(28,164)	-
TOTAL SEGMENT REVENUE	**36,460**	**7,690**	**3,401**	**6,803**	**46,566**	**354**	**317**	**(28,156)**	**73,435**
Cost of goods sold	(36,262)	(8,097)	(1,784)	(4,886)	(42,533)	(256)	(275)	26,399	(67,694)
EBIT	**127**	**(713)**	**1,440**	**1,616**	**2,010**	**28**	**6**	**(215)**	**4,299**
Depreciation, liquidation and write-downs recognised in profit or loss	1,938	752	355	1,234	33	9	51	(14)	4,358
EBITDA	**2,065**	**39**	**1,795**	**2,850**	**2,043**	**37**	**57**	**(229)**	**8,657**
GROSS PROFIT	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,110**
Income tax expense	-	-	-	-	-	-	-	-	(720)
NET PROFIT	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,390**
ASSETS AND LIABILITIES	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Segment assets without PPE, IA, IP, RTUA trade receivables	6,933	2,017	301	70	3,020	25	296	244	12,906
PPE, IA, RTUA	29,251	7,607	4,673	21,331	311	68	3,210	(26)	66,425
Trade receivables	1,262	1,242	274	1,308	7,744	84	49	(5,446)	6,517
Shares and interests accounted for using the equity method	-	-	-	-	-	-	-		180
Unallocated assets	-	-	-	-	-	-	-		19,750
TOTAL ASSETS	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**105,778**
Segment liabilities, excluding trade payables	25,261	3,514	863	2,552	6,907	57	78	(3,011)	36,221
Trade payables	1,681	1,612	119	437	5,124	67	45	(5,981)	3,104
Unallocated liabilities	-	-	-	-	-	-	-		12,070
TOTAL LIABILITIES	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**51,395**
OTHER INFORMATION ON SEGMENT	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Capital expenditure	745	1,140	458	2,572	14	16	2,195	(104)	7,036
Increases in RTUA	5	-	-	4	3	-	5	-	17
TOTAL CAPITAL EXPENDITURE	**750**	**1,140**	**458**	**2,576**	**17**	**16**	**2,200**	**(104)**	**7,053**
Acquisition of PPE, IA, and RTUA as part of acquisition of new companies	-	-	1,116	-	-	-	-	-	1,116
Write-downs on financial and non-financial assets	618	(111)	-	16	144	(1)	2	11	679
Other non-monetary expenses*	17,496	2,205	(89)	24	1,041	10	25	(244)	20,468

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

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6.2 Information on geographical areas

The geographical breakdown of sales revenue for 2023 and 2022 is presented in the table below.

	Year ended 31 December 2023	Year ended 31 December 2022
OPERATING REVENUE		
Domestic market	95,939	73,406
EU countries	25	29
TOTAL SALES REVENUE	**95,964**	**73,435**

The geographical breakdown of assets as at 31 December 2023 and 31 December 2022 is presented in the table below.

	As at 31 December 2023	As at 31 December 2022 *data restated*
OTHER INFORMATION ON THE AREA		
Domestic market	97,683	85,845
EU countries	3	3
TOTAL ASSETS ALLOCATED TO SEGMENTS	**97,686**	**85,848**
Domestic market	15,257	19,677
EU countries	47	73
TOTAL ASSETS NOT ALLOCATED TO SEGMENTS	**15,304**	**19,750**
Domestic market	453	180
TOTAL SHARES AND INTERESTS RECOGNISED UNDER THE EQUITY METHOD	**453**	**180**
TOTAL ASSETS	**113,443**	**105,778**

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

7. Revenue and expenses

7.1 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 remuneration to which the Group expects to be entitled in exchange for the specified good delivered or service provided.

The Group 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 Group can identify each party's rights regarding the goods or services to be transferred;
- the Group 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 remuneration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

At contract inception, the Group 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 Group 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, an asset.

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

For each performance obligation satisfied over time, the Group 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 Group recognises as revenue the amount of the transaction price that is allocated to that performance obligation. The transaction price includes some or all of the amount of variable remuneration 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 remuneration is subsequently resolved. Revenue is recognised net of the goods and services tax, excise tax, as well as other sales taxes, fees discounts and rebates.

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 remuneration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue from wholesale of electricity

Contracts for the sale of electricity concluded on the wholesale market are reported to the Transmission System Operator (TSO) as a notification of the volume of electricity declared per each hour which the Group 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. Revenue from the sale of electricity on the exchange is recognised on the delivery date.

The actual electricity supply takes place through the Balancing Market, where the Transmission System Operator ensures reliability of data concerning the supplied volume of energy and deviations in volume from the previously notified work schedules (the so-called ESC: Energy Sale Contracts) are settled at prices resulting from the mechanism of operation of the Balancing Market. Settlements of the Balancing Market are executed with the Transmission System Operator every decade, whereas settlements of wholesale sales on the Polish Power Exchange are carried out with the Warsaw Commodity Clearing House, which 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 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 sales of heat

Revenue is measured at the currently applicable prices of heat and tariff rates, subject to the approval of the ERO President. Heat prices relate to the heat capacity ordered, the heat energy sold and the heat carrier in terms of heat generation, while the variable and fixed tariff rates relate to heat distribution and transmission. Revenue invoiced for the sales of heat is the product of the tariff rates described above and sales volumes.

Quantitative heat sales are derived from readings of metering and billing systems. Readings are taken on specified working days of each calendar month, including dates close to the end of a month. Therefore, for the purposes of financial reporting, sales volumes are adjusted for the period between the last reading date of a month and the end of that month.

Revenue from the sales of heat is recognised when heat is delivered in accordance with meter readings, including adjustments.

Revenue from sales of electricity distribution services

The volume of revenue from the sales of electricity distribution services is based on sales documented by invoices, adjusted by the reassessment made of non-invoiced sales of electricity distribution services in a given period. Adjustments of sales are made at least at the end of each quarter.

Revenue from a distribution service is recognised at the time the service is performed, based on the readings of the metering and billing systems, taking into account adjustments of consumption.

Sales revenue does not include the value of fees collected on behalf of third parties for which the Group acts as payer, i.e. the transitional charge, the RES charge, the co-generation charge and the capacity charge.

Revenue from sales of electricity and gaseous fuel

The Group earns revenue from the sales of electricity and natural gas to end users. Revenue from the sales of electricity is recognised on the basis of the sales month indicated in invoices.

Due to the continuous character of energy supplies, for the purposes of proper recognition in the account books, the Group adjusts sales revenue (invoiced sales) by the amount of energy supplied but not invoiced in a given period. Adjustments of electricity sales are carried out at the end of each month.

The calculation of the value of adjusted sales is made separately for each energy consumption point and separately for individual price components and types of tariff charges. Adjustments of electricity volumes are calculated based on the average daily energy consumption for a given consumption point, determined on the basis of the following:

- data from energy sales invoiced in the latest billing period,
- forecast daily consumption of electricity and natural gas

Adjustments of electricity volumes for a newly acquired electricity consumption point (with no history of electricity consumption in the billing system) are determined on the basis of the volume declared by the customer.

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In the case of electricity consumption points billed on the basis of forecast invoices, adjustments make sales realistic by recalculating the charges for the forecast amount of electricity according to the current rates applicable in the forecast period.

Receivables from reassessed sales as at 31 December 2023 are shown in note 24.1.1 to these financial statements.

Revenue from the capacity market

Under the Capacity Market Act, power suppliers may offer the Operator (OSP S.A.) a capacity obligation for a specific delivery period in capacity auctions. A capacity obligation is an obligation of a capacity supplier to remain ready during the delivery period to supply a specified volume of electricity to the system by a capacity market unit and to supply a specified volume of electricity to the system during emergency periods.

Operating lease revenue

Operating lease revenue is recognised in profit or loss for a given period on a straight-line basis over a lease term, unless another systematic basis is more representative of the distribution of decreasing benefits derived from the use of a leased asset over time.

The undiscounted lease payments to be received annually in the subsequent periods are presented in the table below.

Maturity dates	Year ended 31 December 2023	Year ended 31 December 2022
up to 1 year	69	59
from 1 to 2 years	63	52
from 2 to 3 years	58	51
from 3 to 4 years	54	48
from 4 to 5 years	53	45
over 5 years	860	697

Sales revenue for 2023 broken down by category

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

	Conventional Power Generation	Heat Generation	Renewable Power Generation	Distribution	Railway Power Engineering	Trade	Circular Economy	Other Activities	Adjustments	Total
Revenue from contracts with customers	47,956	12,004	2,827	9,327	4,587	66,155	376	350	(56,779)	**86,803**
Revenue from recognised compensation under the Electricity and Gaseous Fuels Pricing Act	1	120	-	1,199	141	6,197	-	-	-	**7,658**
Revenue from recognised compensation pursuant to the Act on preferential purchase of the solid fuel for households	-	-	-	-		958	-	-	-	**958**
Revenue from support for high-efficiency cogeneration	-	584	-	-	-	-	-	-	-	**584**
Revenue from auction support for RES	-	-	(27)	-	-	-	-	-	-	**(27)**
Revenue from PPA compensation	-	(109)	-	-		-	-	-	-	**(109)**
Operating lease revenue	12	27	6	64	-	6	-	2	(20)	**97**
TOTAL SALES REVENUE	**47,969**	**12,626**	**2,806**	**10,590**	**4,728**	**73,316**	**376**	**352**	**(56,799)**	**95,964**

The total revenue amount includes approximately PLN 489 million in sales transactions whose value was not ultimately established as at the end of the reporting period. The PGE Group estimates revenue and the most significant estimates relate to:

- re-estimate of revenue from the sales of electricity, gaseous fuel, distribution services in the segments of Trade, Distribution and Railway Power Engineering,
- reduction of revenue resulting from the Regulation of the Ministry of Climate and Environment on reduction of electricity bills by an average of PLN 125,
- estimate of revenue from support for high-efficiency co-generation in the Heat Generation segment.

Lease payments recognised as income in 2023 amounted to PLN 97 million (PLN 86 million in 2022). The Group did not achieve revenue from operating lease relating to variable lease payments that do not depend on any index or rate.

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

Type of good or service	Conventional Power Generation	Heat Generation	Renewable Power Generation	Distribution	Railway Power Engineering	Trade	Circular Economy	Other Activities	Adjustments	Total
Revenue from sales of goods and products, without excluding taxes and fees	47,905	11,948	2,784	10,759	4,297	64,348	164	-	**(54,297)**	87,908
Taxes and fees collected on behalf of third parties	*(10)*	*(4)*	-	*(1,497)*	*(156)*	*(138)*	-	-	**-**	*(1,805)*
Revenue from sales of goods and products, including:	**47,895**	**11,944**	**2,784**	**9,262**	**4,141**	**64,210**	**164**	**-**	**(54,297)**	**86,103**
Sales of electricity	43,629	7,048	2,291	11	1,837	27,942	-	-	(20,873)	61,885
Capacity market	2,203	218	259	-	-	30	-	-	-	2,710
Sales of distribution services	17	23	-	8,817	1,542	74	-	-	(352)	10,121
Sales of heat	135	4,513	-	-	-	14	-	-	(18)	4,644
Sales of energy origin property rights	-	72	214	-	-	-	-	-	(27)	259
Regulatory system services	1,698	3	14	-	-	-	-	-	-	1,715
Sales of natural gas	-	-	-	-	-	927	-	-	(698)	229
Sales of other fuels	-	-	-	-	168	6,147	-	-	(3,146)	3,169
Sales of CO_2 emission allowances	68	54	-	-	-	29,071	-	-	(29,043)	150
Other sales of goods and materials	145	13	6	434	594	5	164	-	(140)	1,221
Revenue from sales of services	**61**	**60**	**43**	**65**	**446**	**1,945**	**212**	**350**	**(2,482)**	**700**
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**47,956**	**12,004**	**2,827**	**9,327**	**4,587**	**66,155**	**376**	**350**	**(56,779)**	**86,803**

Timing of transfer of goods or services	Conventional Power Generation	Heat Generation	Renewable Power Generation	Distribution	Railway Power Engineering	Trade	Circular Economy	Other Activities	Adjustments	Total
Revenue from sales of goods and services transferred to the customer over time	47,682	11,805	2,564	8,828	3,379	28,987	-	-	(21,941)	81,304
Revenue from sales of goods and services transferred to the customer at a particular point in time	274	199	263	499	1,208	37,168	376	350	(34,838)	5,499
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**47,956**	**12,004**	**2,827**	**9,327**	**4,587**	**66,155**	**376**	**350**	**(56,779)**	**86,803**

Sales revenue for 2022 broken down by category

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

for the year 2023 in accordance with EU IFRS (in PLN million)

data restated	Conventional Power Generation	Heat Generation	Renewable Power Generation	Distribution	Trade	Circular Economy	Other Activities	Adjustments	Total
Revenue from contracts with customers	36,449	7,435	3,425	6,746	45,887	353	316	(28,139)	**72,472**
Revenue from recognised compensation under the Electricity and Gaseous Fuels Pricing Act	-	-	-	-	543	-	-	-	**543**
Revenue from recognised compensation pursuant to the Act on preferential purchase of the solid fuel for households	-	-	-	-	131	-	-	-	**131**
Revenue from support for high-efficiency cogeneration	-	231	-	-	-	-	-	-	**231**
Revenue from auction support for RES	-	-	(30)	-	-	-	-	-	**(30)**
Revenue from PPA compensation	-	2	-	-	-	-	-	-	**2**
Operating lease revenue	11	22	6	57	5	1	1	(17)	**86**
TOTAL SALES REVENUE	**36,460**	**7,690**	**3,401**	**6,803**	**46,566**	**354**	**317**	**(28,156)**	**73,435**

The total revenue amount includes approximately PLN 66 million in sales transactions whose value was not ultimately established as at the end of the reporting period. The PGE Group makes estimates of revenue the most important of which relate to revenue from the sales of electricity, gaseous fuel and distribution services in the Trade and Distribution segments, as well as revenue from support for high efficiency cogeneration in the Heat Generation segment.

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

Type of good or service *data restated*	Conventional Power Generation	Heat Generation	Renewable Power Generation	Distribution	Trade	Circular Economy	Other Activities	Adjustments	Total
Revenue from sales of goods and products, without excluding taxes and fees	36,362	7,387	3,364	8,207	44,487	162	20	(26,178)	**73,841**
Taxes and fees collected on behalf of third parties	*(8)*	*(5)*	-	*(1,515)*	*(73)*	-	-	-	***(1,601)***
Revenue from sales of goods and products, including:	**36,354**	**7,382**	**3,364**	**6,692**	**44,414**	**162**	**20**	**(26,178)**	**72,240**
Sales of electricity	33,434	3,969	2,849	15	22,520	-	-	(8,870)	**53,917**
Capacity market	2,142	211	276	-	29	-	-	-	**2,658**
Sales of distribution services	13	15	-	6,374	46	-	-	(77)	**6,371**
Sales of heat	89	2,901	-	-	13	-	-	(14)	**2,989**
Sales of energy origin property rights	1	75	246	-	-	-	-	13	**335**
Regulatory system services	220	91	16	-	-	-	-	-	**327**
Sales of natural gas	-	-	-	-	1,041	-	-	(465)	**576**
Sales of other fuels	-	-	-	-	8,568	-	-	(4,357)	**4,211**
Sales of CO_2 emission allowances	263	67	-	-	12,200	-	-	(12,221)	**309**
Other sales of goods and materials	192	53	7	303	(3)	162	20	(187)	**547**
Revenue from sales of services	**95**	**53**	**31**	**54**	**1,473**	**191**	**296**	**(1,961)**	**232**
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**36,449**	**7,435**	**3,425**	**6,746**	**45,887**	**353**	**316**	**(28,139)**	**72,472**

Timing of transfer of goods or services *data restated*	Conventional Power Generation	Heat Generation	Renewable Power Generation	Distribution	Trade	Circular Economy	Other Activities	Adjustments	Total
Revenue from sales of goods and services transferred to the customer over time	35,898	7,187	3,141	6,389	23,649	-	-	(9,426)	**66,838**
Revenue from sales of goods and services transferred to the customer at a particular point in time	551	248	284	357	22,238	353	316	(18,713)	**5,634**
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**36,449**	**7,435**	**3,425**	**6,746**	**45,887**	**353**	**316**	**(28,139)**	**72,472**

for the year 2023 in accordance with EU IFRS (in PLN million)

7.2 Expenses by kind and function

SIGNIFICANT ACCOUNTING PRINCIPLES

Cost of goods sold

Cost of goods sold includes the following:

- the costs of manufacturing products incurred in a given reporting period, adjusted by a change in the inventories (finished goods, semi-finished products and work in progress) and adjusted by the cost of manufacturing products for the Company's own purposes,
- the value of electricity, goods and materials sold at purchase price,
- changes in the fair value measurements of financial instruments related to lignite measured at fair value, and changes in the measurement of lignite inventories measured at fair value.

The costs of generation that can be allocated directly to revenue achieved by entities influence the Group's financial result for the reporting period in which such revenue occurs.

The costs of generation that can be allocated only indirectly to revenue or other benefits achieved by the Group influence its financial result in the part in which they relate to a given reporting period, ensuring that they are commensurate with revenue or other economic benefits.

	Year ended 31 December 2023	Year ended 31 December 2022
EXPENSES BY KIND		
Depreciation and write-downs	13,501	4,371
Consumption of materials and energy	13,693	11,348
Third party services	4,695	2,787
Taxes and charges	32,743	23,278
Employee benefits expenses	7,462	6,092
Other expenses by kind	514	436
TOTAL COSTS BY TYPE	**72,608**	**48,312**
Change in products	(39)	(7)
Cost of services for entity's own needs	(1,318)	(689)
Distribution and selling expenses	(8,151)	(2,012)
General and administrative expenses	(1,853)	(1,382)
Value of goods and materials sold	26,314	23,472
COST OF GOODS SOLD	**87,561**	**67,694**

As presented in note 7.2.1 to these financial statements, in 2023, as a result of the performed impairment tests, the Group recognised impairment write-downs of property, plant and equipment in the amount of PLN 8,446 million in line "Depreciation and write-downs".

The increase in selling and distribution costs is due to the recognition of a contribution to the PDP Fund of PLN 6,569 million.

7.2.1 Depreciation, liquidation and write-downs

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

for the year 2023 in accordance with EU IFRS (in PLN million)

Year ended	Depreciation and liquidation					Write-downs			
31 December 2023	**PPE**	**IA**	**RTUA**	**IP**	**TOTAL**	**PPE**	**IA**	**RTUA**	**TOTAL**
Cost of goods sold	4,408	86	94	2	**4,590**	8,690	6	1	**8,697**
Distribution and selling expenses	11	2	4	-	**17**	-	-	-	**-**
General and administrative expenses	102	25	21	-	**148**	6	1	-	**7**
RECOGNISED IN PROFIT OR LOSS	**4,521**	**113**	**119**	**2**	**4,755**	**8,696**	**7**	**1**	**8,704**
Change in products	5	-	-	-	**5**	-	-	-	**-**
Cost of services for entity's own needs	34	2	1	-	**37**	-	-	-	**-**
TOTAL	**4,560**	**115**	**120**	**2**	**4,797**	**8,696**	**7**	**1**	**8,704**
Other operating revenue	-	-	-	-	**-**	(4)	-	-	**(4)**

Year ended	Depreciation and liquidation					Write-downs			
31 December 2022	**PPE**	**IA**	**RTUA**	**IP**	**TOTAL**	**PPE**	**IA**	**RTUA**	**TOTAL**
Cost of goods sold	4,089	45	50	2	**4,186**	87	10	-	**97**
Distribution and selling expenses	8	2	4	-	**14**	-	-	-	**-**
General and administrative expenses	41	7	10	-	**58**	2	1	-	**3**
RECOGNISED IN PROFIT OR LOSS	**4,138**	**54**	**64**	**2**	**4,258**	**89**	**11**	**-**	**100**
Change in products	(2)	-	-	-	**(2)**	-	-	-	-
Cost of services for entity's own needs	14	1	-	-	**15**	-	-	-	**-**
TOTAL	**4,150**	**55**	**64**	**2**	**4,271**	**89**	**11**	**-**	**100**
Other operating expenses	-	-	-	-	**-**	4	-	-	**4**

In 2023, the Group carried out impairment tests for property, plant and equipment, which resulted in write-downs in the total amount of PLN 8,446 million. A detailed description is provided in note 3.1 to these financial statements.

Other write-downs made during the reporting period mainly relate to capital expenditure incurred in the entities for which complete impairment was recognised in previous periods.

Under Depreciation and liquidation, the Group recognised in the current period a net amount of PLN 36 million for the liquidation of PPE and IA (PLN 44 million in the comparative period).

7.2.2 Consumption of materials and energy

	Year ended 31 December 2023	Year ended 31 December 2022
Generation fuel costs	11,473	9,377
Energy consumption	638	964
Consumption of materials used in repairs and operations	942	518
Other	640	489
TOTAL MATERIALS AND ENERGY CONSUMPTION	**13,693**	**11,348**

7.2.3 Third party services

	Year ended 31 December 2023	Year ended 31 December 2022
Transmission services	2,854	1,316
Third party services – overhauls and operation	596	508
Transport services	364	363
IT services	196	137
Consulting services	74	59
Rents and leases	37	21
Telecommunications services	26	20
Other	548	363
TOTAL COSTS OF THIRD PARTY SERVICES	**4,695**	**2,787**

for the year 2023 in accordance with EU IFRS (in PLN million)

7.2.4 Taxes and charges

	Year ended 31 December 2023	Year ended 31 December 2022
CO_2 emissions fees	23,714	20,325
Contribution to PDP Fund	6,569	351
Environmental fees	1,107	1,411
Property tax	1,093	1,009
Other	260	182
TOTAL TAXES AND CHARGES	**32,743**	**23,278**

7.2.5 Costs of employee benefits and structure of employment

	Year ended 31 December 2023	Year ended 31 December 2022
Payroll	5,269	4,224
Cost of social insurance	1,018	809
Cost of pension benefits	68	53
Jubilee benefits, allowances in kind	157	124
Other post-employment benefits	66	54
Change in provision for employee benefits	110	150
Other employee benefits expenses	774	678
TOTAL EMPLOYEE BENEFITS EXPENSES, INCLUDING:	**7,462**	**6,092**
Items recognised in cost of goods sold	5,424	4,456
Items recognised in distribution and selling expenses	465	364
Items recognised in general and administrative expenses	1,056	957
Cost of services for entity’s own needs	517	315

Under Other employee benefits expenses, the Group recognised, among other things, the costs of employee pension schemes, the contribution to the Company Social Benefits Fund, the costs of medical care and training.

The number of employees in the PGE Capital Group (in full-time positions) was as follows:

	As at 31 December 2023	As at 31 December 2022
Conventional Power Generation	19,816	19,574
Heat Generation	3,409	3,628
Renewable Power Generation	777	713
Distribution	9,737	9,703
Railway Power Engineering	3,889	-
Trade	3,172	2,702
Circular Economy	992	970
Other consolidated companies	760	723
TOTAL EMPLOYMENT	**42,552**	**38,013**

7.3 Other operating income and expenses

SIGNIFICANT ACCOUNTING PRINCIPLES

Other operating income and expenses

Other operating income and expenses are recognised in the financial statements in accordance with the principles of prudence and matching.

for the year 2023 in accordance with EU IFRS (in PLN million)

	Year ended 31 December 2023	Year ended 31 December 2022
NET OTHER OPERATING INCOME/(EXPENSES)		
(Creation)/reversal of other provisions	(788)	162
Effect of revaluation of provisions for costs of land rehabilitation	(527)	1,721
Valuation and exercise of derivatives, including:	(383)	(22)
- CO_2	-	*33*
- Lignite	*(383)*	*(55)*
(Creation) of write-downs of receivables	(113)	(548)
Penalties, fines, damages	69	599
Damage settlement and failure elimination	(51)	(19)
Donations given	(43)	(75)
Asset surpluses, disclosures/Settlement of inventory shortages	(30)	75
Grants	30	32
PPE/IA and other infrastructure received free of charge	30	21
Gain/(Loss) on disposal of PPE/IA	22	18
Other	(46)	(12)
TOTAL NET OTHER OPERATING INCOME/(EXPENSES)	**(1,830)**	**1,952**

The creation of other provisions relates, among other things, to provisions for onerous agreements with G tariff customers of PGE Obrót S.A., as described in note 20.4 to these financial statements.

The issue of the valuation of the land rehabilitation provision is described in note 20.1 to these financial statements.

In the comparative period, the Group recognised a contractual penalty of PLN 562 million for the consortium of Mitsubishi Power Europe GmbH, TECNICAS REUNIDAS S.A. and BUDIMEX S.A for failing to meet the availability rate of the Turów Power Plant unit. The contractual penalty was subject to a write-down in the same amount.

During the course of 2023, the repair of major defects in the guarantee period, which had been reported by PGE GiEK S.A. to the general contractor, continued. On 15 June 2023, PGE GiEK S.A. again sent the contractor a request for payment of a contractual penalty (reminder) for failure to meet the guaranteed availability parameter of the unit in the first and second years of the warranty period. Due to the contractual limitation of the maximum value of the contractual penalties, the amount specified in the request for payment did not increase compared to the penalty demanded in 2022, despite the contractor's failure to meet the guaranteed availability parameter of the unit also in the second year of the warranty period.

Furthermore, on 15 June 2023, PGE GiEK S.A. applied to the General Attorney's Office of the Treasury of the Republic of Poland for mediation with the participation of a mediator of the Court of Arbitration at the General Attorney's Office of the Republic of Poland, in order to attempt an amicable settlement of the disputes arising from the contract.

As at the date of these financial statements, the mediation was still underway.

7.4 Finance income and expenses

SIGNIFICANT ACCOUNTING PRINCIPLES

Finance income and expenses

Interest income and expenses 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, in compliance with the materiality principle.

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

for the year 2023 in accordance with EU IFRS (in PLN million)

	Year ended 31 December 2023	Year ended 31 December 2022
NET FINANCE INCOME/(EXPENSES) FROM FINANCIAL INSTRUMENTS		
Dividends	1	4
Interest, including:	459	147
Interest income calculated using the effective interest rate method	*1,184*	*458*
Revaluation of financial assets	(42)	(4)
Reversal / (Establishment) of write-downs	(509)	(9)
Foreign exchange differences	(46)	(26)
Gain/(Loss) on disposal of investments	20	37
Accounting for loss of control	-	(1)
TOTAL NET FINANCE EXPENSES RELATING TO FINANCIAL INSTRUMENTS	**(117)**	**148**
OTHER NET FINANCE INCOME/(EXPENSES)		
Interest expense on non-financial items	(474)	(338)
Interest on liabilities to state budget	(12)	(3)
Reversal of provisions	(2)	(2)
Other	(21)	6
TOTAL OTHER NET FINANCE INCOME/(EXPENSES)	**(509)**	**(337)**
TOTAL NET FINANCE INCOME/(EXPENSES)	**(626)**	**(189)**

The Group reports interest income mainly on cash held in bank accounts and deposits as well as interest on bonds issued by the company Autostrada Wielkopolska S.A. Interest costs mainly relate to issued bonds, taken credits and loans, settled IRS transactions as well as leases. The costs of interest on lease liabilities in the current period amounted to PLN 66 million (PLN 41 million in 2022). Interest costs on non-financial items relate to provisions for land rehabilitation and provisions for employee benefits. In the item reversal/(creation) of write-downs, the Group presents in the current reporting period mainly the creation of a write-down for accrued interest on Autostrada Wielkopolska S.A. bonds. Revaluation costs result mainly from the valuation of derivatives and embedded derivatives included in electricity sales contracts in the Renewable Power Generation segment.

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

2023	Polimex Mostostal	PEC Bogatynia	Energopomiar	PGE Soleo Kleszczów	PGE PAK Energia Jądrowa	Elester*
SHARE OF VOTES	**16.22%**	**34.93%**	**49.79%**	**50.00%**	**50.00%**	**89.96%**
Revenue	3,322	27	68	**-**	**-**	73
Result from continuing operations	55	(1)	-	-	(3)	7
Share in the result of entities accounted for using the equity method	**9**	**-**	**-**	**-**	**(1)**	**6**
Elimination of unrealised gains and losses	(12)	-	-	**-**	**-**	-
SHARE IN RESULT OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	**(3)**	**-**	**-**	**-**	**(1)**	**6**
Other comprehensive income	6	-	-	**-**	**-**	-
SHARE IN OTHER COMPREHENSIVE INCOME OF ENTITIES ACCOUNTED FOR UNDER THE EQUITY METHOD	**1**	**-**	**-**	**-**	**-**	-

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

for the year 2023 in accordance with EU IFRS (in PLN million)

2022	Polska Grupa Górnicza	Polimex Mostostal	PEC Bogatynia	Energopomiar
SHARE OF VOTES	**15.32%**	**16.26%**	**34.93%**	**49.79%**
Revenue	8,287	3,766	19	65
Result from continuing operations	1,664	143	-	1
Share in the result of entities accounted for using the equity method	**255**	**23**	**-**	**-**
Elimination of unrealised gains and losses	(6)	(17)	-	-
Impairment write-down	(255)	-	-	-
SHARE IN RESULT OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	**(6)**	**6**	**-**	**-**
Other comprehensive income	76	9	-	-
SHARE IN OTHER COMPREHENSIVE INCOME OF ENTITIES ACCOUNTED FOR UNDER THE EQUITY METHOD	12	1	-	-
Impairment write-down	(12)	-	-	-
SHARE IN OTHER COMPREHENSIVE INCOME OF ENTITIES ACCOUNTED FOR UNDER THE EQUITY METHOD AFTER WRITE-DOWN	**-**	**1**	**-**	**-**

On 25 October 2022, the agreement on the sale of shares in Polska Grupa Górnicza S.A. was performed. Pursuant to the agreement, PGE GiEK S.A. sold all its PGG shares to the State Treasury. Accordingly, PGG data were presented for the period until 30 September 2022.

The Group made consolidation adjustments for the margin on the sales of coal between PGG and the Group (until the sale of shares in this company) and continues to adjust the margin on contracts performed by Polimex - Mostostal for the benefit of the Group.

8. Income tax expense

SIGNIFICANT ACCOUNTING PRINCIPLES

Income tax expense

Income tax recognised in profit or loss comprises current and deferred income tax.

The statement of profit or loss presents the factual income tax expense for a given reporting period calculated by the Group's entities in accordance with the applicable provisions of the Corporate Income Tax Act as well as changes in deferred income tax assets and liabilities not settled against equity.

8.1 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 expense	1,268	2,177
Adjustments concerning current income tax expense from previous years	20	7
Deferred income tax	(476)	(1,452)
Adjustments to deferred income tax	35	(12)
INCOME TAX EXPENSE RECOGNISED IN THE FINANCIAL RESULT	**847**	**720**
INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME		
On actuarial gains (losses) on valuation of employee benefit provisions	(164)	33
On valuation of hedging instruments	(250)	(150)
(Tax benefit)/tax charge recognised in other comprehensive income (equity)	**(414)**	**(117)**

for the year 2023 in accordance with EU IFRS (in PLN million)

8.2 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 tax rate applicable to the Group is as follows:

	Year ended 31 December 2023	Year ended 31 December 2022
PROFIT/(LOSS) BEFORE TAX	**(4,055)**	**4,110**
Tax at statutory rate effective in Poland – 19%	(770)	781
ITEMS ADJUSTING INCOME TAX		
Adjustments concerning current income tax expense from previous years	20	7
Adjustments to deferred income tax	35	(12)
Reversal of deferred tax asset and provision relating to the provision for the rehabilitation of final workings	523	-
Creation of non-fiscal provisions and write-downs	565	151
Non-deductible costs	152	60
Tax loss on which no tax asset was recognised	438	25
Reversal of non-fiscal provisions and write-downs	(14)	(183)
Non-taxable income	(66)	(126)
Other adjustments	(36)	17
INCOME TAX EXPENSE AT EFFECTIVE TAX RATE **Income tax (charge) in the consolidated financial statements**	**847**	**720**
EFFECTIVE TAX RATE	**(21)%**	**18%**

In the current reporting year, the Group discontinued creating deferred tax assets on rehabilitation provisions due to the distant timing of the expenditure for which such provisions are intended and the worsening outlook for fossil fuel power generation. It is not certain whether conventional power companies will generate sufficient taxable income to achieve deferred tax assets. Deferred tax assets relating to the provision for the rehabilitation of final workings in the lignite mines and furnace waste disposal sites at the power plants and established in previous periods were reversed.

As described in note 7.3, in the comparative period, the subsidiary PGE GiEK S.A. charged a contractual penalty of PLN 562 million. The contractual penalty was subject to a write-down in the same amount. No deferred tax (PLN 107m) was recognised on the revenue or on the created write-down.

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

9. 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 measured 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 property, plant and equipment, 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. As at the time of purchasing or manufacturing a component of property, plant and equipment, the Group identifies and distinguishes all their constituents significant in view of the purchase price or manufacturing cost of the whole asset and depreciates each such constituent separately. The Group also recognises the costs of general overhauls and periodic maintenance inspections as an element of a component of property, plant and equipment.

The basis for calculating depreciation charges is a purchase price/manufacturing cost of a component of property, plant and equipment less its residual value. Depreciation starts when an asset is available for use. Depreciation of assets takes place on the basis of a depreciation plan specifying the expected economic lifetime of a component of property, plant and equipment. The applied depreciation method reflects the process of the Group's consuming the economic benefits related to a given asset. General overhauls and periodic maintenance inspections constituting components of property, plant and equipment are depreciated for the period from the month following the end of an overhaul/inspection to the month in which the next overhaul/inspection starts.

The methods of depreciation, rates of depreciation and residual values of tangible fixed assets are reviewed annually. All changes resulting from conducted reviews are recognised as changes in estimates and possible adjustments of depreciation charges are made in the year in which a review is made and in the subsequent periods.

Property, plant and equipment under construction are assets in the course of being constructed or assembled; they are recognised at their acquisition prices or manufacturing costs less possible impairment write-downs. Property, plant and equipment under construction are not depreciated until construction is completed and the item of property, plant and equipment is brought into use.

Borrowing costs

Borrowing costs include interest and other costs incurred by the Group in connection with the borrowing of financial resources. Borrowing costs which can be allocated directly to the purchase, construction or generation of a given asset are activated as a part of the purchase price or the manufacturing cost of such an asset. Other borrowing costs are recognised as costs of the period. In the case of foreign exchange differences occurring in connection with loans and credits in foreign currencies, the Group capitalises them up to the amount in which they are regarded as an adjustment of interest costs.

Impairment of non-financial non-current assets

As at every reporting date, the Group estimates whether there are any circumstances indicating the possibility of impairment of any non-financial non-current assets. If the Group determines that there are such circumstances or if it becomes necessary to conduct an annual test checking whether particular

SIGNIFICANT ACCOUNTING PRINCIPLES

assets have been impaired, the Group estimates the recoverable value of a given asset or a cash generating unit to which a given asset belongs.

The recoverable value of an asset or a cash generating unit corresponds to its fair value less the costs of selling such an asset or a relevant cash generating unit or its value in use, whichever is higher. The recoverable value is determined for particular assets unless a given asset does not generate cash flows which are mostly independent of cash flows generated by other assets or groups of assets. If the book value of an asset is higher than its recoverable value, impairment occurs and the asset needs to be written down to the established recoverable value. In the estimation of value in use, forecast cash flows are discounted to their current value based on the discount rate before taking into consideration the consequences of taxation, which reflect the current market estimate of the time value of money and risks typical for a given asset. Impairment write-downs of assets used in the continued activities are recognised in the categories of costs corresponding to the function of an asset in the case of which impairment has been identified.

Stripping costs

If the conditions specified in the interpretation of IFRIC 20 are met, the mines recognise also so-called stripping assets, i.e. the costs of overburden removal incurred during the production stage, as a component of property, plant and equipment. The value of the stripping asset at the production stage is determined based on a model that takes into account, among other things, the estimated value of the overall N-W ratio (the ratio of the amount of overburden to lignite) and the actual annual N-W ratio. This ratio is calculated as the ratio of the remaining quantity of overburden to the remaining lignite resources to be removed from the date of application of IFRIC 20 until the end of lignite extraction from a given deposit component. The ratio is determined on the basis of the mine technical teams' best knowledge as at the end of every financial year; it may change if new information concerning the size of a particular deposit and its deposition is acquired in parallel to progress in the mining operations.

The stripping asset is depreciated systematically by means of the natural method based on the volume of lignite extracted from a given part of the deposit.

Measurement of the stripping asset at the production stage

The value of the asset related to stripping operations at the stage of production is established on the basis of a model including, among other things, the estimated value of the general N:W ratio.

Final workings rehabilitation costs in the opencast lignite mines

The opencast lignite mines operating in the PGE Group recognise in the value of property, plant and equipment the estimated rehabilitation costs of the final workings attributable to excavated overburden in the proportion corresponding to the ratio of the volume of the open pit attributable to overburden as at the reporting date to the planned volume of the open pit attributable to overburden as at the end of the mining period.

The asset related to land rehabilitation costs is depreciated systematically by means of the natural method based on the volume of lignite extracted from a given open pit.

Property, plant and equipment subject to operating leases

The Group classifies each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if substantially all risks and rewards relating to ownership of the underlying asset are transferred to the lessee. All other leases are treated as operating leases.

Assets leased under operating leases are presented in the statement of financial position according to the nature of the assets.

The entity, as a lessor, divides each class of property, plant and equipment into assets subject to operating leases and assets not subject to operating leases.

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Economic lifetimes adopted for particular groups of property, plant and equipment

Asset group	Average remaining depreciation period in years	Most frequently used depreciation periods in years
Buildings, premises and civil engineering structures	17	20 – 60
Machinery and technical equipment	11	2 – 40
Means of transport	6	4 – 15
Other property, plant and equipment	2	3 – 10

	As at 31 December 2023	As at 31 December 2022
Land	236	200
Buildings and structures	29,320	26,506
Technical equipment	27,161	29,138
Means of transport	583	333
Other property, plant and equipment	393	1,541
PPA under construction	10,815	6,670
NET VALUE OF PROPERTY, PLANT AND EQUIPMENT	**68,508**	**64,388**

Change in property, plant and equipment by generic group

	Land	Buildings and structures	Technical equipment	Means of transport	Other PPE	PPE under construction	Total
GROSS BOOK VALUE							
AS AT 1 JANUARY 2023	**235**	**49,624**	**66,303**	**964**	**8,533**	**6,851**	**132,510**
Capital expenditure	-	-	1	-	6	9,913	**9,920**
Settlement of PPE under construction	11	3,610	3,184	128	68	(7,001)	**-**
Liquidation, sale	(2)	(168)	(440)	(14)	(9)	(5)	**(638)**
Change in composition of CG	33	2,515	1,935	224	8	1,323	**6,038**
Effect of changes in assumptions for rehabilitation provision	-	52	26	-	1,282	-	**1,360**
Donations and transfers free of charge	-	97	5	(1)	-	-	**101**
Other	(3)	24	(98)	(2)	5	(44)	**(118)**
AS AT 31 DECEMBER 2023	**274**	**55,754**	**70,916**	**1,299**	**9,893**	**11,037**	**149,173**
AMORTISATION AND WRITE-DOWNS							
AS AT 1 JANUARY 2023	**35**	**23,118**	**37,165**	**631**	**6,992**	**181**	**68,122**
Depreciation and net value of liquidation included in costs by nature	3	1,726	2,474	98	253	6	**4,560**
Write-downs	-	1,775	4,600	1	2,258	42	**8,676**
Liquidation, sale	-	(163)	(429)	(13)	(8)	-	**(613)**
Other	-	(22)	(55)	(1)	5	(7)	**(80)**
AS AT 31 DECEMBER 2023	**38**	**26,434**	**43,755**	**716**	**9,500**	**222**	**80,665**
NET VALUE AS AT 31 DECEMBER 2023	**236**	**29,320**	**27,161**	**583**	**393**	**10,815**	**68,508**

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	Land	Buildings and structures	Technical equipment	Means of transport	Other PPE	PPE under construction	Total
GROSS BOOK VALUE							
AS AT 1 JANUARY 2022	**234**	**48,018**	**64,066**	**940**	**9,104**	**3,478**	**125,840**
Capital expenditure	-	-	1	1	-	6,911	6,913
Settlement of PPE under construction	8	1,576	1,916	48	25	(3,573)	-
Liquidation, sale	(3)	(306)	(381)	(20)	(9)	-	(719)
Change in composition of CG	(4)	195	693	(5)	(8)	38	909
Effect of changes in assumptions for rehabilitation provision	1	18	16	-	(579)	-	(544)
Donations and transfers free of charge	-	126	6	-	-	-	132
Other	(1)	(3)	(14)	-	-	(3)	(21)
AS AT 31 DECEMBER 2022	**235**	**49,624**	**66,303**	**964**	**8,533**	**6,851**	**132,510**
AMORTISATION AND WRITE-DOWNS							
AS AT 1 JANUARY 2022	**35**	**21,958**	**35,164**	**589**	**6,790**	**179**	**64,715**
Depreciation and net value of liquidation included in costs by nature	2	1,567	2,294	63	221	3	4,150
Write-downs	-	(12)	99	-	1	5	93
Liquidation, sale	-	(301)	(372)	(16)	(8)	-	(697)
Change in composition of CG	(2)	(87)	(16)	(2)	(10)	-	(117)
Other	-	(7)	(4)	(3)	(2)	(6)	(22)
AS AT 31 DECEMBER 2022	**35**	**23,118**	**37,165**	**631**	**6,992**	**181**	**68,122**
NET VALUE AS AT 31 December 2022	**200**	**26,506**	**29,138**	**333**	**1,541**	**6,670**	**64,388**

Significant increases in property, plant and equipment

The largest capital expenditure was incurred by the Distribution segment (PLN 4,224 million), the Heat Generation segment (PLN 1,523 million), the Renewable Power Generation segment (PLN 1,478 million) and the Conventional Power Generation segment (PLN 1,053 million).

The main expenditure items in the Distribution segment were connections of new customers to the distribution network (PLN 1,593 million) and the cabling programme (PLN 881 million). In the Conventional Power Generation segment, the main items of expenditure were incurred at the Bełchatów Power Plant for the overhaul of unit 7 (PLN 43 million) and unit 14 (PLN 365 million), at the Turów Power Plant for the adjustment of the power plant to the BAT conclusions (PLN 49 million) and at the Opole Power Plant for the mid-term overhaul of unit 4 (PLN 41 million). In the Heat Generation segment, the largest expenditure items were incurred on the construction of the new Czechnica CHP plant (PLN 538 million), the construction of a cogeneration source at the Bydgoszcz CHP plant (PLN 69 million) and the construction of the second technological line at the thermal waste processing with energy recovery (TWPER) installation at the Rzeszów CHP plant (PLN 161 million). In the Railway Power Engineering segment, the largest expenditure items were incurred on the modernisation of power supply systems (PLN 998 million). In the Other Activities segment, expenditure was mainly incurred on the construction of two CCGT units at PGE Gryfino 2050 (PLN 364 million) and the construction of a CCGT unit at Rybnik 2050 (PLN 97 million).

In the comparative period, the largest capital expenditure items were incurred by the Distribution segment (PLN 2,576 million), the Other Activities segment (PLN 2,202 million) and the Heat Generation segment (PLN 1,140 million). The main expenditure items included connections of new customers to the distribution network (PLN 1,097 million) and the cabling programme (PLN 503 million). Expenditure in the Other Activities segment was incurred primarily on the construction of CCGT units in PGE Gryfino 2050 sp. z o.o. In the Heat Generation segment, the largest part of expenditure was incurred on the construction of the new Czechnica CHP plant (PLN 393 million).

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

- On 3 April 2023, the Group acquired shares in PKPE Holding. The transaction increased the net value of property, plant and equipment by PLN 5,699 million.
- On 20 September 2023, PGE Energia Odnawialna S.A. purchased shares in LongWing Polska sp. z o.o. The transaction increased the net value of property, plant and equipment by PLN 331 million.

In the comparative period, the Group purchased shares in companies owning wind farms. As a result of this transaction, the net value of property, plant and equipment increased by PLN 1,116 million.

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Significant decreases in property, plant and equipment

As presented in note 3.1 to these financial statements, in 2023, as a result of the impairment tests carried out for the item write-downs, the Group recognised impairment write-downs on property, plant and equipment.

Borrowing costs

During the year ended 31 December 2023, the PGE Group recognised borrowing costs in property, plant and equipment in the amount of approximately PLN 222 million (PLN 71 million in the comparative period). The average capitalisation rate of borrowing costs in the year ended 31 December 2023 amounted to 31% (18% in the comparative period).

Capitalised deposit preparation costs

In the current period, in accordance with the requirements of IFRIC 20, expenditure incurred for the removal of overburden during the production stage was capitalised at PLN 39 million. At the same time in the current reporting period, the Group recognised depreciation of capitalised stripping costs of PLN 155 million, and an impairment write-down of PLN 1,045 million. Capitalised stripping costs are presented under "Other property, plant and equipment".

Capitalisation of changes in the measurement of the rehabilitation provision

Under property, plant and equipment, PGE Group recognises changes in the rehabilitation provision allocated to overburden, the provision for rehabilitation of wind farm sites and the provision for liquidation of property, plant and equipment. On 31 December 2023, the net value of the capitalised portion of the rehabilitation provisions (net of the impairment write-down and depreciation) amounted to PLN 341 million (including the provision for final workings rehabilitation of PLN 131 million). In the comparative period, the net value of the capitalised part of the rehabilitation provisions was PLN 239 million (including the provision for final workings rehabilitation of PLN 113 million).

Depreciation periods for property, plant and equipment

The rates of depreciation charges are established on the basis of the expected economic lifetime of a particular component of property, plant and equipment as well as estimates concerning its residual value. Capitalised overhauls are depreciated over a period remaining until the next planned overhaul.

Economic useful life periods are verified at least once during the course of a financial year.

Carried out in 2023, the verification of economic useful life periods for property, plant and equipment resulted in a decrease in depreciation costs for 2023 by the combined amount of approximately PLN 56 million.

Property, plant and equipment subject to operating leases

The table below shows changes in property, plant and equipment under operating leases by class of an underlying asset.

	Land	Buildings and structures	Technical equipment	Other PPE	Total
GROSS BOOK VALUE					
AS AT 1 JANUARY 2023	**25**	**72**	**8**	**1**	**106**
Sales					
Liquidation		(2)			(2)
Other	(2)	(5)		1	(6)
AS AT 31 DECEMBER 2023	**23**	**65**	**8**	**2**	**98**
AMORTISATION AND WRITE-DOWNS					
AS AT 1 JANUARY 2023	**2**	**39**	**7**	**1**	**49**
Depreciation and net value of liquidation included in costs by nature		2			2
Sales					
Liquidation		(2)			(2)
Other					
AS AT 31 DECEMBER 2023	**2**	**39**	**7**	**1**	**49**
NET VALUE AS AT 31 DECEMBER 2023	**21**	**26**	**1**	**1**	**49**

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	Land	Buildings and structures	Technical equipment	Other PPE	Total
GROSS BOOK VALUE					
AS AT 1 JANUARY 2022	**26**	**70**	**8**	**1**	**105**
Sales	-	(2)	-	-	(2)
Other	(1)	4	-	-	3
AS AT 31 DECEMBER 2022	**25**	**72**	**8**	**1**	**106**
AMORTISATION AND WRITE-DOWNS					
AS AT 1 JANUARY 2022	**3**	**39**	**7**	**-**	**49**
Depreciation and net value of liquidation included in costs by nature	-	2	-	-	2
Sales	-	(2)	-	-	(2)
Other	(1)	-	-	1	-
AS AT 31 DECEMBER 2022	**2**	**39**	**7**	**1**	**49**
NET VALUE AS AT 31 December 2022	**23**	**33**	**1**	**-**	**57**

10. Intangible assets and goodwill

SIGNIFICANT ACCOUNTING PRINCIPLES

Intangible assets

As intangible assets, the Group recognises identifiable non-cash assets without a physical form such as:

- non-current property rights acquired for commercial use, which have estimated useful lives of more than one year and are to be used for the Group's own needs,
- costs of development work,
- goodwill excluding internally generated goodwill,
- easements acquired for power lines and received free of charge, not fulfilling the criteria of lease pursuant to IFRS 16,
- PUOL concerning mine workings, forelands and spoil heaps (excluded from the application of IFRS 16),
- intangible assets not yet available for use.

Intangible assets acquired in a separate transaction are initially recognised at acquisition or production cost (in the case of development work).

After the initial recognition, intangible assets are stated at their purchase prices or manufacturing costs less amortisation and impairment write-downs.

The Group estimates whether the economic useful life of an intangible asset is definite or indefinite and, if it is definite, it estimates its length on the basis of production volume or any other measure constituting a basis for determining the length of economic useful life. The economic useful life of an intangible asset is regarded by the Group as indefinite if, on the basis of an analysis of relevant factors, there exists no foreseeable length of time in which such an asset will generate cash flows for the Group.

Depreciation is applicable to the initial value of an intangible asset with a definite economic lifetime less its residual value. The residual value of an intangible asset is based on the recoverable amount from disposal determined using prices prevailing at the date of estimation for similar assets that have reached the end of their useful life and have operated under conditions similar to those in which the intangible asset has operated.

The applicable period and depreciation method are reviewed annually. Any changes resulting from the review are recognised as a change in estimates.

Intangible assets with indefinite useful lives and intangible assets which have not been brought into use are tested for impairment on a cyclical (annual) basis.

Other intangible assets are tested for impairment only if there are indications of impairment. If there are indications of impairment and the book value exceeds the estimated recoverable amount, then the book value of such assets or the cash-generating units to which such assets belong is written down to the recoverable amount. The Group recognises impairment write-downs of intangible assets in the statement of profit and loss under costs by type, and in accordance with the depreciation reference under costs by function. This also applies to impairment write-downs on intangible assets not yet brought into use or those resulting from the impairment of an entire CGU.

Economic lifetimes adopted for particular groups of intangible assets:

Asset group	Average remaining period of amortisation in years	Applied total periods of amortisation in years
Patents and licences	4	4 - 25
Costs of completed development works	2	3 – 15
Other	12	3 – 25

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	As at 31 December 2023	As at 31 December 2022
Costs of completed development work	1	1
Goodwill	621	276
Customer relations	471	-
Software	414	179
Other licences and patents	10	5
Other intangible assets	191	151
IA not brought into use	244	114
NET VALUE OF INTANGIBLE ASSETS	**1,952**	**726**

Changes in intangible assets by group

	Costs of completed development work	Goodwill	Customer relations	Software	Other licences and patents	Other intangible assets	IA not brought into use	Total
GROSS BOOK VALUE								
AS AT 1 JANUARY 2023	**16**	**276**	**-**	**866**	**115**	**274**	**149**	**1,696**
Capital expenditure	-	-	-	-	-	1	137	**138**
Settlement of intangible assets not brought into use	-	-	-	63	10	13	(86)	**-**
Liquidation, sale	-	-	-	(5)	(12)	-	-	**(17)**
Changes in composition of Capital Group	-	345	471	267	-	40	82	**1,205**
Other	-	-	-	-	(2)	5	-	**3**
AS AT 31 DECEMBER 2023	**16**	**621**	**471**	**1,191**	**111**	**333**	**282**	**3,025**
AMORTISATION AND WRITE-DOWNS								
AS AT 1 JANUARY 2023	**15**	**-**	**-**	**687**	**110**	**123**	**35**	**970**
Amortisation, liquidation	-	-	-	94	4	17	-	**115**
Write-downs	-	-	-	-	1	-	6	**7**
Liquidation, sale	-	-	-	(5)	(12)	-	-	**(17)**
Other	-	-	-	1	(2)	2	(3)	**(2)**
AS AT 31 DECEMBER 2023	**15**	**-**	**-**	**777**	**101**	**142**	**38**	**1073**
NET VALUE AS AT 31 DECEMBER 2023	**1**	**621**	**471**	**414**	**10**	**191**	**244**	**1952**

	Costs of completed development work	Goodwill	Software	Other licences and patents	Other intangible assets	IA not brought into use	Total
GROSS BOOK VALUE							
AS AT 1 JANUARY 2022	**18**	**285**	**842**	**107**	**260**	**106**	**1,618**
Capital expenditure	-	-	-	-	-	123	**123**
Settlement of intangible assets not brought into use	-	-	64	3	11	(78)	**-**
Transfers between groups	-	-	(5)	5	-	-	**-**
Liquidation, sale	-	-	(30)	(1)	-	-	**(31)**
Changes in composition of Capital Group	(3)	(9)	(2)	1	(1)	1	**(13)**
Other	1	-	(3)	-	4	(3)	**(1)**
AS AT 31 DECEMBER 2022	**16**	**276**	**866**	**115**	**274**	**149**	**1,696**
AMORTISATION AND WRITE-DOWNS							
AS AT 1 JANUARY 2022	**16**	**-**	**677**	**104**	**105**	**34**	**936**
Amortisation, liquidation	1	-	42	2	10	-	**55**
Write-downs	-	-	-	3	8	-	**11**
Transfers between groups	-	-	(3)	3	-	-	**-**
Liquidation, sale	-	-	(29)	(1)	-	-	**(30)**
Changes in composition of Capital Group	(2)	-	(2)	-	(1)	1	**(4)**
Other	-	-	2	(1)	1	-	**2**
AS AT 31 DECEMBER 2022	**15**	**-**	**687**	**110**	**123**	**35**	**970**
NET VALUE AS AT 31 DECEMBER 2022	**1**	**276**	**179**	**5**	**151**	**114**	**726**

Intangible assets not brought into use

The presented amount of intangible assets not brought into use as at 31 December 2023 mainly relates to IT system implementation projects within the Capital Group.

Goodwill

As at the reporting date of 31 December 2023, goodwill was allocated to the following segments:

- Railway Power Engineering – PLN 345 million,
- Heat Generation – PLN 192 million,
- Renewable Power Generation – PLN 84 million.

Customer relations

As a result of the final settlement of the acquisition of the PKP Energetyka Group, the "Customer relations" asset was recognised in intangible assets, reflecting the favourable impact of relationships and contracts with overhead contact line network customers on profitability and the achievement of higher margins than market averages. As at the reporting date, the value of customer relations amounted to PLN 471 million and was estimated using the Multi-period Excess Earnings Method as the discounted excess of trading results projected at the acquisition date over trading results forecast earlier by the PGE Capital Group. Customer relations are an asset with an indefinite useful life.

The amortisation periods for intangible assets

Carried out in 2023, the verification of economic useful life periods of intangible assets resulted in an increase in amortisation costs for 2023 by the combined amount of approximately PLN 1 million.

11. Rights to use assets

SIGNIFICANT ACCOUNTING PRINCIPLES

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 remuneration.

The scope of application of IFRS 16 excludes lease agreements concerning exploration for or use of lignite deposits, including in particular agreements for establishing mining usufruct and perpetual usufruct of land, rental agreements and similar land lease agreements concerning mine workings, forelands and spoil heaps. In accordance with the Group's interpretation, agreements concerning the exploitation of lignite deposits are excluded from the scope of application of IFRS 16.

The Group 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 Group 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 concerns 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 Group 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 interest rate of the lease agreement is the interest rate that causes the present value of the lease payments and the unguaranteed residual value to equal the sum of the fair value of the underlying asset and any initial direct costs incurred by the lessor.

The lessee's marginal rate of interest is the interest rate that the lessee would have to pay to borrow funds necessary to purchase an asset of a value similar to that of the asset under the right to use for a similar period, with similar collateral, and in a similar economic environment.

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

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SIGNIFICANT ACCOUNTING PRINCIPLES

The Group, 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 no longer than 12 months and which do not include a purchase option;
- leases for which the underlying asset is of a low value and is not sub-leased. The Group 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 Group, 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 no longer than 12 months and which do not include a purchase option;
- leases for which the underlying asset is of a low value and is not sub-leased. The Group 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 choice of the exemption for short-term leases is made according to the base class of the asset to which the right to use applies. The Group takes advantage of the exemption for all concluded lease agreements. The choice of the exemption for leases where the underlying asset is of a low value is made in relation to individual leases.

At the commencement date, the lessee measures an asset constituting the right to use an asset at cost. The cost of an asset with the right to use should include the following:

- the amount of the initial measurement of the lease liability,
- any lease payments made on or before the commencement date, less any lease incentives received,
- any initial direct costs incurred by the lessee, and
- an estimate of the costs to be incurred by the lessee to dismantle and remove the underlying asset, to refurbish the site on which it is located, or to restore the underlying asset to the condition required by the lease terms, unless such costs are incurred for the purpose of creating inventories. The lessee assumes the obligation to cover these costs on the commencement date or as a result of using the underlying asset for a given period.

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).

Ranges of economic lifetimes adopted for the particular groups of rights to use assets

Asset group	Average remaining period of depreciation in years	Applied total depreciation periods in years
Land lease and rental agreements	11	1-70
RPUL	45	3-90
Easement agreements	25	17-50
Buildings and structures	8	1-60
Other	3	1-28

	As at 31 December 2023	As at 31 December 2022
Land lease and rental agreements	350	273
RPUL	1,080	883
Easement agreements	29	29
Buildings and structures	311	97
Other	82	29
NET VALUE OF THE RIGHT TO USE ASSETS	**1,852**	**1,311**

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Changes in the rights to use assets by group

	Leases and rental of land	RPUL	Easements	Buildings and structures	Other	Total
GROSS BOOK VALUE						
AS AT 1 JANUARY 2023	344	966	35	154	30	1,529
Liquidation, sale	(2)	(3)	-	(4)	(2)	(11)
Changes, revaluation of liability, modification of contracts	111	23	-	25	2	161
Contracts concluded in the current period, including:	3	33	3	42	15	96
Increases in RTUA (amounts paid)	-	*18*	*3*	*3*	*6*	*30*
Increases in RTUA (amounts discounted)	*3*	*15*	-	*39*	*9*	*66*
Changes in composition of Capital Group	6	165	-	198	56	425
Other	(10)	3	(2)	(6)	3	(12)
AS AT 31 DECEMBER 2023	**452**	**1,187**	**36**	**409**	**104**	**2,188**
AMORTISATION AND WRITE-DOWNS						
AS AT 1 JANUARY 2023	71	83	6	57	1	218
Depreciation	30	24	1	41	24	120
Write-downs	-	-	-	1	-	1
Liquidation, sale	-	-	-	(1)	(2)	(3)
Other	1	-	-	-	(1)	-
AS AT 31 DECEMBER 2022	**102**	**107**	**7**	**98**	**22**	**336**
NET VALUE AS AT 31 DECEMBER 2023	**350**	**1,080**	**29**	**311**	**82**	**1,852**

	Leases and rental of land	RPUL	Easements	Buildings and structures	Other	Total
GROSS BOOK VALUE						
AS AT 1 JANUARY 2022	254	974	29	149	33	1,439
Liquidation, sale	(1)	(5)	-	(23)	(3)	(32)
Changes, revaluation of liability, modification of contracts	19	(4)	-	11	2	28
Contracts concluded in the current period, including:	52	4	3	14	8	81
Increases in RTUA (amounts paid)	-	*1*	*3*	*8*	*5*	*17*
Increases in RTUA (amounts discounted)	*52*	*3*	-	*6*	*3*	*64*
Other	20	(3)	3	3	(10)	13
AS AT 31 DECEMBER 2022	**344**	**966**	**35**	**154**	**30**	**1,529**
AMORTISATION AND WRITE-DOWNS						
AS AT 1 JANUARY 2022	48	67	5	60	2	182
Depreciation	22	17	1	17	7	64
Write-downs						
Liquidation, sale	-	(1)	-	(19)	(3)	(23)
Other	1	-	-	(1)	(5)	(5)
AS AT 31 DECEMBER 2022	**71**	**83**	**6**	**57**	**1**	**218**
NET VALUE AS AT 31 DECEMBER 2022	**273**	**883**	**29**	**97**	**29**	**1,311**

12. Shares and interests accounted for using the equity method

	As at 31 December 2023	As at 31 December 2022
Polimex - Mostostal S.A., Warszawa	179	169
Energopomiar Sp. z o.o., Gliwice	11	11
PGE Soleo Kleszczów sp. z o.o., Kleszczów	28	-
PGE PAK Energia Jądrowa S.A., Konin	4	-
Elester sp. z o.o., Łódź	231	-
SHARES ACCOUNTED FOR USING THE EQUITY METHOD	**453**	**180**

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	Polimex Mostostal	PEC Bogatynia	Energopo-miar	PGE Soleo Kleszczów	PGE PAK Energia Jądrowa	Elester
SHARE OF VOTES	**16.22%**	**34.93%**	**49.79%**	**50.00%**	**50.00%**	**89.96%**
AS AT 31 DECEMBER 2023						
Current assets	1,761	9	25	44	6	99
Non-current assets	689	20	21	11	3	12
Current liabilities	1,197	7	22	-	2	25
Non-current liabilities	245	2	3	-	-	11
NET ASSETS	**1,008**	**20**	**21**	**55**	**7**	**75**
Share in net assets	**163**	**7**	**11**	**28**	**4**	**67**
Adjustment of fair value at purchase	16	-	-	-	-	164
Impairment write-down	-	(7)	-	-	-	-
SHARES ACCOUNTED FOR USING THE EQUITY METHOD	**179**	**-**	**11**	**28**	**4**	**231**

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

13. Deferred tax in the statement of financial position

SIGNIFICANT ACCOUNTING PRINCIPLES

Deferred income tax

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 Group establishes the amounts of deferred income tax liabilities and assets.

Deferred income tax liabilities are recognised with respect to all positive temporary differences.

Deferred income tax assets are recognised with respect to all negative temporary differences up to the amount for which it is probable that a company will achieve taxable income, which will make it possible to deduct negative temporary differences.

The Group separately recognises deferred tax assets due to negative temporary differences connected with recognition of lease liabilities in consequence of the implementation of IFRS 16 and deferred tax liabilities due to positive temporary differences related to RPUL.

The current book value of deferred income tax assets and liabilities is verified as at every reporting date. Deferred income tax assets and liabilities are regarded as non-current items. The Group offsets deferred tax assets and liabilities at the level of the tax capital group and at the level of individual companies of the PGE Capital Group.

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13.1 Deferred income tax assets

	As at 31 December 2023	As at 31 December 2022
Difference between tax and current book values of property, plant and equipment	3,312	2,214
Provision for land rehabilitation	85	637
Provision for employee benefits	822	608
Provision for purchase of CO_2 emission allowances	3,965	3,852
Difference between tax and current book values of liabilities	693	712
Difference between tax value and book value of right-of-use assets	273	187
Tax losses	1,125	145
Other provisions	336	243
Difference between tax and current book values of financial assets	348	367
Compensations for PPA	218	81
Difference between tax and current book values of financial assets	100	103
Infrastructure acquired free of charge and received grid connection fees	109	96
Liabilities from recognised compensation under the Electricity Pricing Act	17	4
Other	40	19
DEFERRED INCOME TAX ASSETS	**11,443**	**9,268**

Change in deferred income tax assets

	Year ended 31 December 2023	Year ended 31 December 2022
AS AT 1 JANUARY	**9,268**	**7,553**
Changes in correspondence with profit or loss	1,834	1,647
Changes in correspondence with other comprehensive income	155	(31)
Changes in correspondence with retained earnings	-	2
Changes in composition of Capital Group	204	106
Other changes	(18)	(9)
AS AT 31 DECEMBER	**11,443**	**9,268**

The changes in correspondence with other comprehensive income relate to the changes in deferred tax on the portion of the provision for employee benefits relating to post-employment benefits. The other changes in each item were recognised in profit or loss.

13.2 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	5,070	4,807
CO_2 emission allowances	1,979	795
Difference between tax and current book values of financial assets	805	951
Difference between tax and current book values of lease liabilities	342	235
Receivables from recognised compensation under the Electricity Pricing Act	288	103
Receivables from recognised compensation pursuant to the Act on preferential purchase of solid fuel	84	25
Difference between tax and current book values of energy origin property rights	3	20
Difference between tax and current book values of financial liabilities	22	30
Other	131	121
DEFERRED TAX LIABILITIES	**8,724**	**7,087**

Change in deferred income tax – liabilities

	Year ended 31 December 2023	Year ended 31 December 2022
AS AT 1 JANUARY	**7,087**	**7,022**
Changes in correspondence with profit or loss	1,393	183
Changes in correspondence with other comprehensive income	(259)	(148)
Change in composition of CG	524	28
Other changes	(21)	2
AS AT 31 DECEMBER	**8,724**	**7,087**

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

The Group 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 parent company is able to control the dates of reversals of temporary differences.

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

	Year ended 31 December 2023	Year ended 31 December 2022
Deferred tax assets	3,774	3,176
Income tax liabilities	(1,055)	(1,002)

14. Inventories

SIGNIFICANT ACCOUNTING PRINCIPLES

Inventories

Inventories are assets held for sale in the course of ordinary business activities; they are in the course of being manufactured for the purpose of selling or have the form of materials or products consumed in production processes or in the provision of services.

Inventories include the following:

- materials,
- products,
- intermediate products and work in progress,
- energy origin rights – purchased, generated or received property rights related to certificates of origin for energy generated from renewable sources, property rights related to certificates of origin for energy generated in cogeneration, and property rights related to certificates of energy efficiency,
- goods (in particular CO_2 emission allowances intended for resale).

Inventories (except for CO_2 emission allowances acquired in order to realise gains) are measured at the lower of cost and net realisable value.

Rights acquired to realise gains from market price fluctuations are recognised at fair value less costs of sale.

Inventory outflows are measured in accordance with the following rules:

- materials and goods (except for CO_2 emission allowances and property rights) – in line with the FIFO method;
- CO_2 emission allowances – by way of detailed identification;
- property rights – by way of detailed identification.

As at the reporting date, the purchase prices or manufacturing costs of inventories used in their valuation may not be higher than their possible net prices. Write-downs of inventories are recognised as operating costs. If a given component of inventories regains previously lost value in part or in whole, its value is updated by decreasing the value of the previous write-down.

The companies in which backlog and redundant inventories represent a significant item may, on the basis of specific instructions, apply more detailed rules for calculating and writing down their values. Write-downs of backlog and redundant inventories may be recognised in other operating activities.

	As at 31 December 2023			As at 31 December 2022		
	Initial value	Revaluation	Net book value	Initial value	Revaluation	Net book value
Coal	2,022	-	2,022	1,958	-	1,958
Repair and maintenance materials	*820*	*(22)*	*798*	776	(30)	746
Mazout	*46*	-	*46*	64	-	64
Other materials	*181*	*(16)*	*165*	156	(13)	143
TOTAL MATERIALS	**3,069**	**(38)**	***3,031***	**2,954**	**(43)**	**2,911**
Green property rights	*305*	*(37)*	*268*	466	(38)	428
Other property rights	*15*	-	*15*	4	(1)	3
ENERGY ORIGIN RIGHTS	**320**	**(37)**	***283***	**470**	**(39)**	**431**
CO_2 emission allowances	1	-	1	1	-	1
Coal	*773*	*(430)*	*343*	1,723	(226)	1,497
Other goods	6	(1)	5	8	(1)	7
TOTAL GOODS	**780**	**(431)**	**349**	**1,732**	**(227)**	**1,505**
OTHER INVENTORIES	**110**	**-**	**110**	**71**	**-**	**71**
TOTAL INVENTORIES	**4,279**	**(506)**	**3,773**	**5,227**	**(309)**	**4,918**

	Year ended 31 December 2023	Year ended 31 December 2022
REVALUATION OF INVENTORIES AS AT 1 JANUARY	**(309)**	**(101)**
Creation of write-down	(792)	(81)
Reversal of write-down	5	66
Use of write-down	574	3
Fair value measurement	95	(196)
Change in composition of CG	-	(5)
Other changes	(79)	5
REVALUATION OF INVENTORIES AS AT 31 DECEMBER	**(506)**	**(309)**

15. CO_2 emission allowances for captive use

SIGNIFICANT ACCOUNTING PRINCIPLES

CO_2 emission allowances for captive use

The PGE Capital Group emits carbon dioxide into the atmosphere as part of its operations. The demand for carbon dioxide emission allowances is partly covered by allowances received free of charge, and the remaining part must be obtained by the PGE Capital Group on the market. In order to meet the demand of the PGE Capital Group's generating units, external transactions for purchase of greenhouse gas emission allowances are concluded. A separate item of the statement of financial position presents CO_2 emission allowances for captive use of generating units. Emission allowances received free of charge are presented in the statement of financial position at par value, i.e. zero. Purchased emission allowances are recognised at purchase price. The consumption of CO_2 emission allowances for captive use is measured by way of detailed identification.

As the PGE Capital Group enters into transactions concerning purchase of CO_2 emission allowances at the time of contracting sales, each purchase is allocated to a relevant basket related to sales contracted for a given year. The value of allowances allocated to the basket relating to a given reporting period is reflected in the value of the provision for CO_2 emission costs of that period.

Forward transactions related to hedging the purchase of CO_2 allowances for redemption purposes benefit from the captive-use exemption and are not recognised in the statement of financial position.

EUA	As at 31 December 2023		As at 31 December 2022	
	Long-term	Short-term	Long-term	Short-term
Quantity (Mg million)	**0**	**26**	**0**	**20**
Value (PLN million)	**20**	**10,517**	**114**	**4,754**

EUA	Quantity (Mg million)	Value (PLN million)
AS AT 1 JANUARY 2022	**43**	**4,903**
Purchase/Sale	47	11,525
Granted free of charge	1	-
Redemption	(71)	(11,560)
AS AT 31 DECEMBER 2022	**20**	**4,868**
Purchase/Sale	81	28,491
Granted free of charge	1	-
Redemption	(76)	(22,822)
AS AT 31 DECEMBER 2023	**26**	**10,537**

16. Other current and non-current assets

SIGNIFICANT ACCOUNTING PRINCIPLES

Other assets, including prepayments

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

- they result from past events – expenses incurred for operational purposes of entities,
- 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, advances for goods and services (including advances for property, plant and equipment under construction) and receivables under dividends.

16.1 Other non-current assets

	As at 31 December 2023	As at 31 December 2022*
Prepayments for property, plant and equipment under construction	985	615
Customer acquisition costs	102	102
Prepayments for deliveries	2	-
Other non-current assets	58	165
TOTAL OTHER ASSETS	**1,147**	**882**

** Reclassification of item*

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

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

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16.2 Other current assets

	As at 31 December 2023	As at 31 December 2022*
PREPAYMENTS AND DEFERRED EXPENSES		
Customer acquisition costs	79	60
Long-term contracts	37	35
Property and tort insurance	28	17
IT services	24	19
CSBF	12	5
Logistic costs related to purchase of coal	9	55
Other prepayments and deferred expenses	13	30
OTHER CURRENT ASSETS		
Input VAT receivables	2,474	1,570
Prepayments for deliveries	464	404
Excise tax receivables	7	12
Other current assets	34	31
TOTAL OTHER ASSETS	**3,181**	**2,238**

**Reclassification of item*

The amount of input VAT receivables and the amount of prepayments for deliveries are mainly related to CO_2 purchases and future coal deliveries for the Conventional Power Generation segment.

SIGNIFICANT ACCOUNTING PRINCIPLES

Customer acquisition costs

Costs incurred prior to the execution of a contract for the performance of its subject matter are classified as other assets and recognised as prepayments if it is likely that future revenue from the customer will cover such costs.

As at 31 December 2023 and 31 December 2022, the Group recognised the following costs to be settled over time:

	Year ended 31 December 2023	Year ended 31 December 2022
AS AT 1 JANUARY	**162**	**162**
Capitalised incremental costs of obtaining a contract	81	56
Depreciation and write-downs	(62)	(56)
AS AT 31 DECEMBER	**181**	**162**
Short-term	79	60
Long-term	102	102

Incremental costs of obtaining a contract comprise mainly agency commissions for customer acquisition or retention.

The asset is depreciated on a systematic basis, taking into account the period over which the goods or services to which it relates are transferred to the customer.

17. 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 one month, depending on the Group's current cash requirement.

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

	As at 31 December 2023	As at 31 December 2022*
Cash at bank and in hand	2,760	1,428
Overnight deposits	103	791
Short-term deposits	236	6,147
Proceeds from share issue	1,309	2,727
Funds in VAT accounts	1,625	794
TOTAL	**6,033**	**11,887**
Undrawn credit facilities as at 31 December	5,692	11,783
including overdraft facilities	*2,272*	*3,817*

A detailed description of credit agreements is presented in note 24.1.3 to these financial statements.

The value of cash includes restricted cash in the amount of PLN 419 million (PLN 295 million in the comparative period), held in customer accounts of PGE Dom Maklerski S.A. as collateral for settlements with the Warsaw Commodity Clearing House.

18. Assets and liabilities of the Company Social Benefits Fund

SIGNIFICANT ACCOUNTING PRINCIPLES

The Company Social Benefits Fund and other Special Funds

Pursuant to the Social Benefits Fund Act of 4 March 1994, as amended, a Company Social Benefit Fund is established by entities employing more than 50 people, calculated in full-time positions. The companies making up the Group establish such a fund and make periodic contributions to it. The objective of the Fund is to subsidise the Group's social activities, loans granted to employees, as well as other social costs. Contributions to the Company Social Benefits Fund made during the course of a year constitute costs incurred in a given period.

The Group offsets the liabilities and assets of the Company Social Benefits Fund.

	As at 31 December 2023	As at 31 December 2022
Loans granted to employees	85	75
Cash and cash equivalents	58	48
Other assets	2	2
Fund's liabilities	(132)	(120)
BALANCE AFTER COMPENSATION	**13**	**5**
Contribution to Fund during period	**293**	**283**

Additionally, as described in note 21, the PGE Group companies recognise a provision for post-employment benefits (Company Social Benefits Fund).

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19. 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 company statutes.

In the consolidated financial statements, the reserve and supplementary capitals are those shown in the parent company's separate financial statements. Hedging reserve, foreign exchange differences from translation and retained earnings include both the components of the parent company's equity and respective portions of equity of subsidiaries, established in accordance with the consolidation principles.

In the consolidated statement of financial position, equity is presented broken down into:

- equity attributable to shareholders of the parent company,
- equity attributable to non-controlling interests.

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

In accordance with the common practice, the Group monitors the net debt to EBITDA ratios at the level of the whole PGE Capital Group. 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, 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.

The Group'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 Group's financial forecasts and plans.

	Year ended 31 December 2023	Year ended 31 December 2022
Net debt / EBITDA	1.11	-0.31x
Net debt/equity	0.23	-0.05x

19.1 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 that 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.

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

- the dissolution of the Company,
- changes in the use of, or refusal to use, an asset constituting a component of the critical infrastructure,
- changes in the objects of the Company,
- the disposal or lease of an enterprise or its organised part, or the establishment of a limited property right thereon,
- the adoption of a material and financial plan, a capital expenditure 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.

19.2 Supplementary capital

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

According to the requirements of the Commercial Companies Code (Article 396), 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 the Company's separate financial statements and may not be distributed for other purposes. The use of supplementary capital and reserve capital is determined by the General Meeting.

As at 31 December 2023, the supplementary capital subject to distribution among shareholders amounted to PLN 21,751 million and PLN 18,654 million as at 31 December 2022.

19.3 Hedging reserve

	Year ended 31 December 2023	Year ended 31 December 2022
AS AT 1 JANUARY	**(32)**	**609**
Change in hedging reserve, including:	**(1,313)**	**(791)**
Valuation of hedging instruments, including:	**(1,325)**	**(788)**
Recognition of the effective portion of change in fair value of hedging financial instruments in the part considered as effective hedge	*(1,396)*	*(728)*
Accrued interest on derivatives transferred from hedging reserve and recognised in interest expense	*25*	*(45)*
Currency revaluation of CCIRS transaction transferred from hedging reserve and recognised in foreign exchange gains/losses	*49*	*(13)*
Ineffective portion of change in fair value of hedging derivatives recognised in profit or loss	*(3)*	*(2)*
Valuation of other financial instruments	**12**	**(3)**
Deferred tax	**250**	**150**
AS AT 31 DECEMBER	**(1,095)**	**(32)**

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

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19.4 Foreign exchange differences from translation

Exchange differences from translation of a subsidiary include the effect of translating financial statements of a foreign company, namely PGE Sweden AB (publ), into PLN within consolidation procedures.

19.5 Undistributed financial result and dividend payment restrictions

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

	As at 31 December 2023	As at 31 December 2022
Amounts included in retained earnings not distributable by the parent company:		
Retained earnings of subsidiaries attributable to equity holders of the parent company, including consolidation adjustments	6,574	6,232
Amount of profit/(loss) recognised by the parent company in retained earnings through other comprehensive income	(40)	4
Net profit/(loss) of the parent company	(5,894)	3,097
TOTAL RETAINED EARNINGS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION	**640**	**9,333**

Dividend payment restrictions are described in note 19.2 to these financial statements. As at 31 December 2023 there were no other limitations concerning the payment of dividend.

19.6 Equity attributable to non-controlling interests

As at 31 December 2023, the equity attributable to non-controlling interests mostly related to non-controlling shareholders of the company KOGENERACJA S.A.

The table below presents changes in equity attributable to non-controlling interests in the reporting periods.

	As at 31 December 2023	As at 31 December 2022
AS AT 1 JANUARY	**845**	**797**
Share of net profit of subsidiaries	110	62
Share of actuarial gains and losses	(1)	(1)
Capital increase by shareholders	28	-
Dividend declared by subsidiaries	(2)	(3)
Purchase of non-controlling interests by the Capital Group	2	-
Disposal of subsidiaries	-	(10)
Other	(1)	-
AS AT 31 DECEMBER	**981**	**845**

Of the total equity attributable to non-controlling interests, 75% is the equity of KOGENERACJA S.A. A summary of information on this subsidiary is presented below.

	KOGENERACJA S.A.
SHARE OF VOTES	**58.07%**
AS AT 31 DECEMBER 2023*	
Current assets	909
Non-current assets	2.384
Current liabilities	994
Non-current liabilities	575
Equity	1,724
Revenue	1,707
Result from continuing operations	167
Dividends declared	-

**Data differs from statutory data due to consolidation procedures*

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19.7 Earnings/(loss) per share

SIGNIFICANT ACCOUNTING PRINCIPLES

Net earnings/(loss) per share

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

Diluted earnings/(loss) per share are calculated by dividing the net profit or loss 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) ATTRIBUTABLE TO	**(4,902)**	**3,390**
shareholders of the parent company	(5,012)	3,328
non-controlling interests	110	62
NET PROFIT/(LOSS) ATTRIBUTABLE TO HOLDERS OF ORDINARY SHARES, APPLIED TO CALCULATE EARNINGS PER SHARE	**(5,012)**	**3,328**
Number of ordinary shares at the beginning of the reporting period	2243712994	1869760829
Number of ordinary shares at the end of the reporting period	2243712994	2243712994
WEIGHTED AVERAGE NUMBER OF OUTSTANDING ORDINARY SHARES USED TO CALCULATE EARNINGS/(LOSS) PER SHARE	**2243712994**	**2129990555**
NET PROFIT/(LOSS) AND DILUTED NET PROFIT/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY (IN PLN)	**(2.23)**	**1.56**

19.8 Dividends paid and proposed

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

20. Provisions

SIGNIFICANT ACCOUNTING PRINCIPLES

Provisions

The Group establishes provisions when the Group 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 expenditure expected to be necessary to meet such a liability. The discount rate is determined before taxation, i.e. the discount rate reflects 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.

Reversals of discounts are charged to finance costs.

Provisions for benefits to be paid after employment period and jubilee awards

Depending on the company, employees of the Group's companies 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,
- a coal allowance given in a particular quantity in kind or payable in the form of a cash equivalent,
- benefits from the Company Social Benefits Fund,
- health care.

Employees of the Group's companies are also entitled to jubilee awards payable after an employee has worked a particular number of years. The amount of jubilee awards depends on an employee's service period and average salary.

The Group 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.

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 with respect to post-employment benefits and in operating costs of the reporting period with respect to jubilee awards.

Provision for land rehabilitation

The lignite mines belonging to the Group create provisions for the cost of land rehabilitation to be carried out after the termination of mining operations. The amount of the provision is based on the estimated cost of rehabilitation and development works related to final workings. This cost is divided into a part attributable to removed overburden and a part attributable to lignite. The provision is created:

- for the part related to extracted lignite: in the proportion corresponding to the ratio of lignite extracted as at the reporting date to the planned total extraction of lignite from the deposit during the whole mining period,
- for the part related to removed overburden: in the proportion corresponding to the ratio of the volume of the open pit related to overburden as at the reporting date to the planned volume of the open pit related to overburden as at the end of the mining period.

The provision is revaluated in the event of changes in the estimated rehabilitation period, changes in expenditure necessary for rehabilitation or changes in the discount rate. The estimation of a rehabilitation provision requires the adoption of technical and geological, environmental, legal, and tax assumptions, as well as a schedule, scope and level of rehabilitation process costs. Any changes in the aforementioned assumptions influence the value of the rehabilitation provision, the value of the capitalised rehabilitation costs recognised in property, plant and equipment as well as the statement of comprehensive income.

for the year 2023 in accordance with EU IFRS (in PLN million)

SIGNIFICANT ACCOUNTING PRINCIPLES

With respect to the rehabilitation of the ash (power generation waste) disposal sites, the cost of creating the provision is charged to operating costs in proportion to the degree of a particular site's filling.

A provision for rehabilitation of wind farm construction sites is created when a farm is brought into use in the present value of estimated costs of dismantling and removal of remaining devices, structures and buildings and also cost of returning the sites to a condition as close to its state prior to the construction of the farm as possible.

Estimates concerning expected costs of rehabilitation are subject to revaluation at least once in a five years' period. However, once a year the amount of the provision is verified according to actual assumptions in terms of inflation rate, discount rate and the volume of lignite extraction or the degree of a disposal site's filling, respectively.

The increase in the provision concerning a given year is recognised in operating expenses or in the initial value of property plant and equipment, respectively. The effect of discount reversal is recognised in finance costs. A change in the valuation of the provision resulting from changes in the assumptions (e.g. macroeconomic factors, land rehabilitation methods, time of particular operations, etc.) is recognised as follows:

- for provisions recognised as a part of manufacturing costs of a component of property, plant and equipment – it is added to or subtracted from the purchase price or manufacturing cost of a particular asset, with the proviso that the amount subtracted from the purchase price or manufacturing cost of an asset should not be larger than its book value,
- in other operating expenses or other operating income – for other cases.

Provision for the shortage of greenhouse gas emission allowances

The PGE Capital Group maintains a provision for liabilities related to CO_2 emission allowances with respect to the shortage of CO_2 emission allowances granted free of charge. The provision is created in the amount of the most appropriate estimate of expenditure necessary to fulfil the present obligation as at the reporting date. The assessment of expenditure necessary to fulfil the obligation to redeem CO_2 emission allowances is carried out based on the method of detailed identification, taking into account the allocation of both free and purchased allowances to a particular year.

The cost of the created provision is presented in the statement of comprehensive income in operating activities and recorded as cost of sales in the case of classifying expenses by kind and as taxes and fees in the case of the comparative variant.

Provision for the value of energy origin rights held for redemption

The provision is created based on the requirement for a certain percentage share of renewable energy and energy from cogeneration units in total sales of electricity to the final customer and the volume of sales to the end customer. Up to the amount of energy origin rights held for redemption, the provision is recognised at the value of such rights. The part of provision that is not covered by energy origin rights is measured at a reliably estimated amount of the future property rights redemption obligation. In the estimation, the Group takes into account, among other things, the amount of the substitute fee and the market price. The cost of the provision is recognised in the cost of sales.

The current book value of the provisions is as follows:

	As at 31 December 2023		As at 31 December 2022	
	Long-term	Short-term	Long-term	Short-term
Employee benefits	3,329	372	2,188	298
Provision for land rehabilitation	6,360	10	4,139	3
Provision for the shortage of CO_2 emission allowances	-	21,211	-	20,318
Provision for value of energy origin rights held for redemption	-	526	-	271
Onerous agreements	-	835	-	86
Other provisions	57	309	36	247
TOTAL PROVISIONS	**9,746**	**23,263**	**6,363**	**21,223**

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Change in provisions

	Employee benefits	Provision for land rehabilitation costs	Provision for costs of CO_2 emissions	Provision for energy origin rights to be redeemed	Onerous contracts	Other	Total
1 JANUARY 2023	**2,486**	**4,142**	**20,318**	**271**	**86**	**283**	**27,586**
Actuarial gains and losses	536	-	-	-	-	-	536
Current employment costs	126	-	-	-	-	-	126
Past employment costs	53	-	-	-	-	-	53
Interest costs	182	292	-	-	-	-	474
Adjustment to discount rate and other assumptions	471	1,854	-	-	-	-	2,325
Benefits paid / Provisions used	(299)	-	(22,821)	(739)	-	(87)	(23,946)
Provisions reversed	-	(22)	(2)	(5)	(86)	(54)	(169)
Recognised provisions - costs	-	48	23,716	871	835	122	25,592
Recognised provisions – expenditure	-	48	-	-	-	-	48
Change in composition of CG	141	5	-	128	-	107	381
Other changes	5	3	-	-	-	(5)	3
31 DECEMBER 2023	**3,701**	**6,370**	**21,211**	**526**	**835**	**366**	**33,009**
Change recognised in operating costs	(318)	(48)	(23,714)	(866)	-	(25)	(24,971)
Change recognised in other operating income/(costs)	-	(527)	-	-	(749)	(39)	(1,315)
Change recognised in other finance income/(costs)	(182)	(292)	-	-	-	(4)	(478)
Change recognised in assets	-	(1,346)	-	-	-	-	(1,346)
Change recognised in other comprehensive income	(869)	-	-	-	-	-	(869)

for the year 2023 in accordance with EU IFRS (in PLN million)

	Employee benefits	Provision for land rehabilitation costs	Provision for costs of CO_2 emissions	Provision for energy origin rights to be redeemed redeemed	Onerous contracts	Other	Total
1 JANUARY 2022	**2,657**	**6,075**	**11,553**	**276**	**353**	**245**	**21,159**
Actuarial gains and losses	605	-	-	-	-	-	605
Current employment costs	80	-	-	-	-	-	80
Past employment costs	(1)	-	-	-	-	-	(1)
Interest costs	95	243	-	-	-	-	338
Adjustment to discount rate and other assumptions	(711)	(2,285)	-	-	-	-	(2,996)
Benefits paid / Provisions used	(234)	(1)	(11,559)	(1,140)	-	(55)	(12,989)
Provisions reversed	-	-	(1)	(17)	(347)	(40)	(405)
Recognised provisions - costs	-	53	20,325	1,152	86	151	21,767
Recognised provisions – expenditure	-	24	-	-	-	-	24
Change in composition of CG	(3)	25	-	-	-	-	22
Other changes	(2)	8	-	-	(6)	(18)	(18)
31 DECEMBER 2022	**2,486**	**4,142**	**20,318**	**271**	**86**	**283**	**27,586**
Change recognised in operating costs	(152)	(53)	(20,324)	(1,135)	-	(8)	(21,672)
Change recognised in other operating income/(costs)	-	1,721	-	-	261	(100)	1,882
Change recognised in other finance income/(costs)	(95)	(243)	-	-	-	(3)	(341)
Change recognised in assets	-	532	-	-	-	-	532
Change recognised in other comprehensive income	179	-	-	-	-	-	179

20.1 Provision for land rehabilitation

Provision for the rehabilitation of mine workings

After the termination of mining operations the areas of the Group's opencast lignite mines will undergo the process of land rehabilitation. According to the current plans, costs will be incurred in the years 2032-2066 in the case of the Bełchatów Lignite Mine Branch and in the years 2045-2085 in the case of the Turów Lignite Mine Branch.

The Group creates provisions for land rehabilitation costs. The amount of the provision presented in the financial statements includes also the value of the Mining Plant Liquidation Plan established in accordance with the Geology and Mining Law Act. As at 31 December 2023 the value of the provision was PLN 5,694 million (as at 31 December 2022 – PLN 3,606 million).

Furthermore, the Group adjusted the discount rates used in assessing the present value of future expenditure on the rehabilitation of the workings in both opencast lignite mines. These rates are as follows:

- for expenditure expected to be incurred within 15 years from the reporting date – 5.1% (7.0% as at 31 December 2022),
- for expenditure expected to be incurred within 25 years from the reporting date – 5.5% (7.03% as at 31 December 2022),
- for expenditure expected to be incurred later than 25 years from the reporting date – 5.67%, PGE's extrapolation, in accordance with the adopted methodology (7.08% as at 31 December 2022).
- In addition, the Group revised its inflation forecasts.

The update of the above assumptions resulted in an increase in the provision by PLN 1,733 million. The current lignite extraction and discount reversal resulted in an increase in the value of the provision by PLN 355 million. In consequence, the provision for the rehabilitation of mine workings rose in the current reporting period by PLN 2,088 million. This change was recognised as follows:

- PLN 1,296 million – in correspondence with assets (as an increase in property, plant and equipment – PLN 1,282 million and an increase in the balance of MPLF deposits – PLN 14 million),
- PLN 792 million - in correspondence with the current financial result.

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The estimated changes in the land rehabilitation provision due to a change in the discount rate:

	Value in statement	Discount rate	
		-1 p.p.	+1 p.p.
Provision for the rehabilitation of mine workings	5,694	1,497	(1,153)

Provision for the rehabilitation of the ash disposal sites

The power plants create a provision for the rehabilitation of the furnace waste disposal sites. As at 31 December 2023, the provision amounted to PLN 256 million (PLN 205 million as at the end of the comparative period).

Provision for the rehabilitation of the wind farm sites

The companies that own wind farms create a provision for the rehabilitation of wind farm sites. As at 31 December 2023, the provision amounted to PLN 7 million (PLN 22 million as at 31 December 2022).

Property, plant and equipment liquidation costs

As at the reporting date, the provision amounted to PLN 412 million (PLN 309 million as at the end of the comparative period) and refers to some assets of the Conventional Power Generation and Renewable Power Generation segments.

20.2 Provision for costs of CO_2 emissions

As described in note 15 to these financial statements, since 2020 the Group has not received free emission allowances for electricity generation. The Group is only entitled to free allowances for heat generation. As at 31 December 2023, the provision amounted to PLN 21,211 million (PLN 20,318 million as at the end of the comparative period).

20.3 Provision for energy origin rights to be redeemed

The PGE Group companies create a provision for the value of energy origin rights relating to sales carried out during the reporting period or in the prior reporting periods, for the part unredeemed before the reporting date. As at 31 December 2023, the provision amounted to PLN 526 million (PLN 271 million in the comparative period) and was created mainly by PGE Obrót S.A.

20.4 Provision for onerous contracts

On 15 December 2023, the President of the Energy Regulatory Office issued a decision approving the electricity tariff for customers in G tariff group, for the period from 1 January 2024 to 31 December 2024.

The approved tariff does not fully cover the costs of purchasing electricity resulting from previously concluded purchase contracts, origin energy rights and the costs of regulated activities. Accordingly, on 31 December 2023, the Company established a provision for onerous contracts with customers in Gx tariff groups in 2024 for a total amount of PLN 761 million. The provision was estimated in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, according to which unavoidable costs of contract fulfilment include both variable costs (energy, origin energy y rights) and the Company's own costs related to providing services to Gx customers and incurred by PGE Obrót S.A., exclusive of general administrative expenses.

In addition, PGE Obrót S.A. recognised a provision in the amount of PLN 74 million due to the extension of the maximum price for micro, small and medium enterprises and local government units to the first half of 2024. PGE Obrót S.A. is obliged to apply maximum prices in settlements with eligible customers until 30 June 2024, also when the cost of electricity purchase for the performance of these contracts is significantly higher than the maximum price.

20.5 Other provisions

Provision for potential claims from counterparties

Provisions for potential claims from counterparties consist of provisions created by ENESTA sp. z o.o. in restructuring (PLN 60 million).

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In addition, in 2021, the Group created a provision in the amount of PLN 39 million in connection with the sale of shares in PGE EJ1 sp. z o.o. to the State Treasury. Pursuant to the concluded agreement regulating the liability of the existing shareholders for the costs of the dispute with Worley Parsons, PGE S.A. may be obliged to cover the costs of the dispute in the maximum amount of PLN 98 million, if it loses the dispute. The amount of PLN 59 million is disclosed in contingent liabilities, in note 27.1.

21. Employee benefits

The amount of actuarial provisions recognised in the financial statements results from the valuation prepared by an independent actuary.

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, 4.2 in 2025, 3.5 in 2026, 3.0 in 2027, 2.7 in 2028, 2.50 in 2029 and subsequent years	13.70 in 2023 5.05 in 2024 3.00 in 2025, 2.50 in 2026 and subsequent years
Discount rate (%)	5.1	7.0
Average assumed annual growth of bases (%)	2.5-15.4	3.8 – 5.0
Employee turnover rate (%)	0.1 – 12.7	0.0 – 8.2
Forecast increase rate for the value of medical services (%)	0.0 – 73.3	0.0 – 14.5
Forecast increase rate for the value of contribution to Company Social Benefits Fund (%)	25.72 in 2024 6.0 in subsequent years	0.0 – 10

- The likelihood of employee resignations was assessed on the basis of historic data concerning the Group’s employment turnover.
- 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 Group employees corresponds to the average for Poland with respect to mortality.
- A statutory mode of retirement for employees was adopted according to the detailed rules set out in the Act amending the Act on pensions from the Social Insurance Fund and certain other acts of 16 November 2016.
- The discount rate of 5.1% was adopted for discounting future payments of benefits as at the reporting date (31 December 2022: 7.0%) i.e. at the level of profitability of securities issued by the State Treasury and listed on the Polish capital market.

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Current book value of provisions for post-employment benefits and jubilee awards

	As at 31 December 2023		As at 31 December 2022	
	Long-term	Short-term	Long-term	Short-term
Retirement severance and death benefits	566	126	460	103
Coal allowances in kind	82	9	72	9
Energy tariff	1,200	59	678	47
Company Social Benefits Fund	537	29	254	19
Health care	79	7	43	4
TOTAL POST-EMPLOYMENT BENEFITS	**2,464**	**230**	**1,507**	**182**
Jubilee awards	859	142	681	116
Incentive bonus	6	-	-	-
TOTAL ACTUARIAL PROVISIONS	**3,329**	**372**	**2,188**	**298**

Changes in provisions for employee benefits

	Retirement severance and death benefits	Coal allowances in kind	Energy tariff	CSBF	Health care	Jubilee awards	Incentive bonus	Total
AS AT 1 JANUARY 2023	**563**	**81**	**725**	**273**	**47**	**797**	**-**	**2.486**
Actuarial gains and losses	14	3	283	151	31	54	-	536
Discount rate adjustment	65	10	211	93	7	84	1	471
Current employment costs	31	1	25	11	1	57	-	126
Past employment costs	7	-	4	10	-	26	6	53
Interest costs	41	6	51	21	3	60	-	182
Benefits paid / Provisions used	(72)	(9)	(42)	(23)	(4)	(148)	(1)	(299)
Change in composition of CG	43	-	-	27	-	71	-	141
Other changes	-	(1)	2	3	1	-		5
AS AT 31 DECEMBER 2023	**692**	**91**	**1.259**	**566**	**86**	**1.001**	**6**	**3.701**
Change charged to operating costs	(38)	(1)	(29)	(21)	(1)	(221)	(7)	(318)
Change recognised in finance income/(expenses)	(41)	(6)	(51)	(21)	(3)	(60)	-	(182)
Change charged to other comprehensive income	(79)	(13)	(494)	(244)	(38)	-	-	(868)

	Retirement severance and death benefits	Coal allowances in kind	Energy tariff	CSBF	Health care	Jubilee awards	Total
AS AT 1 JANUARY 2022	**563**	**109**	**781**	**374**	**58**	**772**	**2.657**
Actuarial gains and losses	137	(4)	225	11	4	232	605
Discount rate adjustment	(123)	(20)	(287)	(109)	(13)	(159)	(711)
Current employment costs	22	1	11	4	1	41	80
Past employment costs	(1)	-	-	-	-	-	(1)
Interest costs	20	4	28	13	2	28	95
Benefits paid / Provisions used	(54)	(9)	(33)	(19)	(3)	(116)	(234)
Change in composition of CG	(1)	-	-	(1)	-	(1)	(3)
Other changes	-	-	-	-	(2)	-	(2)
AS AT 31 DECEMBER 2022	**563**	**81**	**725**	**273**	**47**	**797**	**2.486**
Change charged to operating costs	(21)	(1)	(11)	(4)	(1)	(114)	(152)
Change recognised in finance income/(expenses)	(20)	(4)	(28)	(13)	(2)	(28)	(95)
Change charged to other comprehensive income	(14)	24	62	98	9	-	179

Analysis of sensitivity of the actuarial provisions as at 31 December 2023 to changes in the key assumptions

	Value in statement	Financial discount rate		Planned increases in bases	
		-1 p.p.	+ 1 p.p.	-1 p.p.	+ 1 p.p.
Retirement severance and death benefits	692	17	(62)	(63)	17
Coal allowances in kind	91	7	(5)	(6)	7
Energy tariff	1,259	148	(124)	(126)	148
Company Social Benefits Fund	566	58	(60)	(59)	55
Health care	86	6	(5)	(9)	3
Jubilee awards	1,001	17	(88)	(89)	17
Incentive bonus	6	-	(1)	(1)	-
TOTAL	**3,701**	**253**	**(345)**	**(353)**	**247**

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22. Deferred income and government grants

SIGNIFICANT ACCOUNTING PRINCIPLES

Deferred income and government grants

Deferred income is accounted for in compliance with the prudence principle and the revenue-and-cost matching principle. Deferred income includes the following items:

- funds received for financing the purchase or manufacture of property, plant and equipment as well as intangible assets. This is accounted for by gradually increasing other operating income by an amount corresponding to the depreciation charges on such assets in the part financed by the said funds. This applies in particular to partially or fully remitted loans and credits and grants for the purchase of property, plant and equipment, as well as grants for development work or purchase of intangible assets,
- property, plant and equipment and intangible assets received free of charge. Write-downs of this revenue is recognised in other operating income in parallel with the depreciation charges on such property, plant and equipment.

Government grants are recognised if there is reasonable certainty that a grant will be acquired and all related conditions will be fulfilled. If a grant is related to an asset, then its accounting consists in gradually increasing other operating income by the amount corresponding to depreciation charges on such assets.

22.1 Long-term deferred income and government grants

	As at 31 December 2023	As at 31 December 2022
GOVERNMENT GRANTS		
Grants from National Fund for Environmental Protection	372	296
Environmental funds loans remission	23	25
Other settlements of government grants	124	124
DEFERRED INCOME		
Grants received and connection charges	55	56
Donations and property, plant and equipment received free of charge	516	455
Other deferred income	57	55
TOTAL LONG-TERM GRANTS AND DEFERRED INCOME	**1,147**	**1,011**

22.2 Short-term deferred income and government grants

	As at 31 December 2023	As at 31 December 2022
GOVERNMENT GRANTS		
Grants from National Fund for Environmental Protection	20	16
Environmental funds loans remission	2	3
Other settlements of government grants	7	11
DEFERRED INCOME		
Grants received and connection charges	3	3
Donations and property, plant and equipment received free of charge	63	57
Other deferred income	10	7
TOTAL SHORT-TERM GRANTS AND DEFERRED INCOME	**105**	**97**

23. Other non-financial liabilities

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

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23.1 Other non-current non-financial liabilities

	As at 31 December 2023	As at 31 December 2022
TOTAL OTHER NON-CURRENT LIABILITIES		
Contract liabilities	170	139
Other	1	2
TOTAL OTHER NON-CURRANT LIABILITIES	**171**	**141**

23.2 Other current non-financial liabilities

	As at 31 December 2023	As at 31 December 2022
OTHER CURRENT LIABILITIES		
Contract liabilities	1.103	446
Liabilities related to output VAT	951	840
Excise tax liabilities	34	12
Liabilities related to payments to WRC Fund	782	351
Environmental fees	200	266
Payroll liabilities	393	299
Bonuses for employees	371	297
Accrued annual leave and other employee benefits	350	313
Awards for Management Boards	22	19
Personal income tax	122	95
Social insurance liabilities	370	291
Other	80	76
TOTAL OTHER CURRENT LIABILITIES	**4.778**	**3.305**

Environmental fees relate mainly to charges for the use of water and gas emissions in conventional power plants as well as mining fees paid by the lignite mines. The item "Other" mainly comprises payments to the Employees' Pension Scheme, deductions from employees' wages and salaries, as well as payments to the State Fund for the Rehabilitation of Disabled Persons.

Contract liabilities

Contract liabilities mainly include advances for deliveries and prepayments made by customers for connection to the distribution grid as well as forecasts for electricity consumption concerning future periods. In 2023, the Group recognised revenue of PLN 243 million (PLN 167 million in 2022) that was included in the balance of contract liabilities at the beginning of the period.

EXPLANATORY NOTES TO FINANCIAL INSTRUMENTS

24. Financial instruments

SIGNIFICANT ACCOUNTING PRINCIPLES

Financial instruments

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;
- measured at fair value through profit or loss.

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 Group 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;
- debt financial assets measured at fair value through other comprehensive income;
- 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 Group allocates financial liabilities to one of the following categories:

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

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

24.1.1 Financial receivables and other financial receivables

SIGNIFICANT ACCOUNTING PRINCIPLES

Financial receivables

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

The Group 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.

For financial receivables, the Group 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 Group measures financial assets at amortised cost, in accordance with the adopted business model. This model assumes that a financial asset is held to generate contractual cash flows.

	As at 31 December 2023		As at 31 December 2022	
	Long-term	Short-term	Long-term	Short-term
Trade receivables	-	6,736	-	6,517
Receivables from due recognised compensation	-	2,013	-	671
Deposits, securities and collateral	9	1,275	7	1,579
High efficiency cogeneration support system	-	243	-	41
Settlements related with stock market transactions	-	162	-	-
Deposits and loans	240	-	214	-
Loans granted	-	-	-	-
Damages and penalties	-	11	-	192
Other financial receivables	5	76	2	83
FINANCIAL RECEIVABLES	**254**	**10,516**	**223**	**9,083**

Deposits, securities and collateral mainly relate to transaction and hedging deposits as well as the guarantee fund related to trade in electricity and emission allowances.

Trade receivables

The main component of trade receivables is receivables reported by PGE Obrót S.A. Receivables from households represent approximately 7% of the consolidated balance of trade receivables, while receivables from corporate customers represent approximately 60% of the consolidated balance of trade receivables. Additional information on trade receivables is presented in note 25.3.1 to these financial statements.

Trade receivables also include adjustments to estimates of electricity sales.

Other financial receivables

Other financial receivables mainly comprise the guarantee fund, damages and disputed receivables described in note 27.4 to these consolidated financial statements.

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24.1.2 Derivatives and other instruments measured at fair value through profit or loss

SIGNIFICANT ACCOUNTING PRINCIPLES

Derivative financial instruments and hedges

Derivative instruments used by the Group 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.

	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				
Currency forwards	(170)	-	3	25
Commodity forwards	2	-	-	-
Commodity SWAP	145	-	65	14
Contracts for purchase/sale of coal	(25)	-	78	19
Derivatives embedded in commercial contracts	13	-	-	410
Options	(5)	-	13	-
HEDGING DERIVATIVES				
CCIRS hedging transactions	(60)	(54)	4	-
IRS hedging transactions	168	(242)	193	-
Currency forward - USD	-	11	-	-
Currency forward - EUR	-	(1,040)	7	1,565
OTHER ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Investment fund participation units	4	-	31	-
TOTAL	**72**	**(1,325)**	**394**	**2,033**
short-term part	-	-	116	1,682
long-term part	-	-	278	351

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	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				
Currency forwards	(199)	-	3	111
Commodity forwards	157	-	5	1
Commodity SWAP	(65)	-	95	71
Contracts for purchase/sale of coal	(8)	-	650	650
Derivatives embedded in commercial contracts	9	-	-	397
Options	2	-	18	-
HEDGING DERIVATIVES				
CCIRS hedging transactions	(11)	(19)	104	-
IRS hedging transactions	119	212	459	-
Currency forward - USD	-	(14)	-	13
Currency forward - EUR	-	(967)	173	691
OTHER ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Investment fund participation units	2	-	28	-
TOTAL	**6**	**(788)**	**1,535**	**1,934**
short-term part	-	-	927	1,629
long-term part	-	-	608	305

In the case of currency forwards, the column "Recognised in profit or loss" presents the valuation of the instruments.

Commodity and currency forwards

Commodity and currency forward transactions mainly relate to trade in CO_2 emission allowances and hard coal sales. To recognise forward currency transactions, the Group applies hedge accounting.

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.

Coal swaps

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

Purchase and sales contracts with physical delivery of coal

PGE Paliwa Sp. z o.o. measures all of its sales and purchase contracts with physical delivery of coal at fair value, using the trader-broker model. As at the reporting date, the Company held contracts that would be performed in 2025.

Derivatives embedded in commercial contracts

In 2023, PGE Energia Odnawialna S.A. had 6 long-term power purchase agreements (PPAs) in its portfolio, including two concluded directly with end customers. Four of the agreements contain embedded derivatives, which are valued at the end of each reporting period. The effects of changes in the value of these instruments are recognised in the result of the period under financial income/expenses. Sales of energy with physical delivery have two components: a fixed element (in a specific schedule for the year) and a variable element relating to the actual generation of electricity and the market price in monthly billing periods. The agreements were concluded for a period between 8 and 10 years, and the rights and obligations arising from them were established until 31 December 2030.

The derivatives were valued using the discounted cash flow (DCF) method. Net cash flows were calculated as the product of the volume declared to be delivered under an agreement and the difference between the agreed price for the indicated volume and the forecast electricity price over the period.

For the purpose of measuring the financial instrument described, a forecast of electricity prices was prepared for a period identical to the period of sales of electricity under the PPAs.

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The discounting of cash flows was performed using the WIBOR 1M index to obtain a Mark-to-Market valuation. Taking into consideration IFRS 13 defining fair value, and IFRS 9 imposing requirements to take into account the risk of contractual default in determining fair value, an adjustment was additionally made to cash flow discounting to reflect the quality and credit risk of the entity or counterparty, depending on the classification of the derivative as an in-the-money or out-of-the-money instrument.

IRS transactions

The Group 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 Group uses hedge accounting. The impact of hedge accounting on the revaluation reserve is presented in note 19.3 to these consolidated financial statements.

CCIRS hedging transactions

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

To recognise these CCIRS transactions, the PGE Capital Group uses hedge accounting. The impact of hedge accounting is presented in note 19.3 to these financial statements.

Investment fund participation units

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

24.1.3 Bank credits, loans, bonds and leases

	As at 31 December 2023		As at 31 December 2022	
	Long-term	Short-term	Long-term	Short-term
Credits and loans	7,018	4,376	3,808	2,062
Bonds issued	1,999	18	2,046	21
Lease	1,367	119	945	54
TOTAL CREDITS, LOANS, BONDS AND LEASES	**10,384**	**4,513**	**6,799**	**2,137**

Currency position and interest rates

As at 31 December 2023

Currency	Reference rate	Value in currency	Value in PLN	Repayment deadline
PLN	Variable	8,252	8,252	credits, loans – Dec. 2024 – Mar. 2041; bonds – May 2026 – May 2029 leases – Dec. 2089
	Fixed	5,886	5,886	credits, loans – Aug. 2034 – Mar. 2041 leases – indefinite period
TOTAL PLN		**14,138**	**14,138**	
EUR	Variable	-	-	-
	Fixed	140	608	bonds – Aug. 2029
TOTAL EUR		**140**	**608**	
USD	Variable	38	151	credits and loans – Oct. 2024
TOTAL USD		**38**	**151**	
TOTAL CREDITS, LOANS, BONDS AND LEASES			**14.897**	

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As at 31 December 2022

Currency	Reference rate	Value in currency	Value in PLN	Repayment deadline
PLN	Variable	4,959	4,959	credits, loans – Sep. 2023 – Mar. 2036; bonds – May 2026 – May 2029
	Fixed	3,282	3,282	credits, loans – Sep. 2026 – Oct. 2038 leases – Jan. 2023 – Nov. 2120
TOTAL PLN		**8,241**	**8,241**	
EUR	Variable	-	-	-
	Fixed	140	655	bonds – Aug. 2029
TOTAL EUR		**140**	**655**	
USD	Variable	9	40	credits and loans – Oct. 2023
TOTAL USD		**9**	**40**	
TOTAL CREDITS, LOANS, BONDS AND LEASES			**8,936**	

Change in credits, loans and bonds during the years ended 31 December 2023 and 2022

	Year ended 31 December 2023	Year ended 31 December 2022
AS AT 1 JANUARY	**7,937**	**9,902**
CHANGE IN OVERDRAFT FACILITIES	**-**	**-**
CHANGE IN CREDITS, LOANS, BONDS	**5,474**	**(1,965)**
Obtained credits, borrowings / issued bonds	9,114	2,293
Repayment of credits, borrowings / redemption of bonds	(6,271)	(4,305)
Interest accrued	787	399
Interest paid	(771)	(362)
Foreign exchange differences	(130)	13
Change in composition of Group	2,745	-
Other changes	-	(3)
AS AT 31 DECEMBER	**13,411**	**7,937**

Credits and loans

Creditor	Hedging instrumer	Date of maturity	Limit in currency	Currency	Interest rate	Liability at 31-12-2023	Liability at 31-12-2022
European Investment Bank	-	2041-03-15	2,000	PLN	Fixed	2,041	-
Bank consortium	-	2027-03-01	2,330	PLN	Variable	1,501	-
Bank Gospodarstwa Krajowego	-	2026-09-29	2,000	PLN	Variable	1,320	-
European Investment Bank	-	2034-08-25	1,500	PLN	Fixed	1,317	1,442
European Investment Bank	-	2041-03-15	850	PLN	Variable	867	-
PKO BP S.A.	-	2025-12-31	1,000	PLN	Variable	767	-
European Investment Bank	-	2041-03-15	550	PLN	Fixed	562	-
Bank Gospodarstwa Krajowego	IRS	2027-12-31	1,000	PLN	Variable	501	627
European Investment Bank	-	2034-08-25	490	PLN	Fixed	431	472
European Bank for Reconstruction and Development	IRS	2028-06-07	500	PLN	Variable	315	378
Bank Gospodarstwa Krajowego	IRS	2028-12-31	500	PLN	Variable	313	376
European Investment Bank	-	2038-10-16	273	PLN	Fixed	274	274
Bank Pekao S.A.	-	2024-10-31	40	USD	Variable	151	40
Bank Pekao S.A.	-	2024-12-22	1,150	PLN	Variable	37	-
Bank consortium	IRS	2023-09-30	3,630	PLN	Variable	-	1,481
Bank Gospodarstwa Krajowego	-	2028-11-02	2,500	PLN	Variable	-	-
ING	-	2024-06-30	57	PLN	Variable	-	-
PKO BP S.A.	-	2024-06-30	183	PLN	Variable	-	-
NEPWMF	-	Dec. 2028 – Jun. 2043	240	PLN	Fixed	86	89
NEPWMF	-	Jun. 2024 – Sep. 2037	1,057	PLN	Variable	772	515
PEPWMF	-	Jun. 2026	9	PLN	Fixed	4	5
PEPWMF	-	Mar. 2026 – Dec. 2029	213	PLN	Variable	135	171
TOTAL BANK CREDITS						**11,394**	**5,870**

As at 31 December 2023, the value of overdraft facilities available to the major companies of the PGE Capital Group amounted to PLN 5,692 million. The repayment dates of granted overdraft facilities in the current accounts of the major PGE Group companies fall in the years 2024 – 2026.

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

Bonds issued

Issuer	Hedging instrument	Date maturity of programme	Limit in programme currency	Currency	Interest rate	Tranche issue date	Tranche maturity date	Liability as at 31-12-2023	Liability as at 31-12-2022
PGE SA	IRS	indefinite	5,000	PLN	Variable	2019-05-21	2029-05-21	1,007	1,009
						2019-05-21	2026-05-21	402	403
PGE Sweden AB (publ)	CCIRS	indefinite	2,000	EUR	Fixed	2014-08-01	2029-08-01	608	655
TOTAL BONDS ISSUED								**2,017**	**2,067**

The Group is keeping abreast of work related to the IBOR reform, which may affect financial instruments based on a variable interest rate. As at 31 December 2023, the value of credits, loans and credits exposed to interest rate risk amounted to PLN 8,088 million (PLN 7,937 million is based on WIBOR, PLN 151 million on CME TERM SOFR USD). In order to mitigate the interest rate risk related to financial liabilities, the Group uses IRS hedging instruments in accordance with its hedging procedures and strategy.

Leases

SIGNIFICANT ACCOUNTING PRINCIPLES

Lease liabilities

Lease liabilities are recognised by the lessee at the commencement date.

At the commencement date, the lessee measures the lease liability at the present value of the lease payments outstanding at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. Otherwise, the lessee uses the lessee's incremental borrowing rate.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- fixed payments (including, in principle, fixed lease payments), less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be paid by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease terms provide for the possibility of the lessee's exercising an option to terminate the lease.

After the commencement date, the lessee measures the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability which, in each period during the lease term, is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability,
- reducing the carrying amount to reflect the lease payments made, and
- remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised substantially fixed lease payments.

The PGE Group is a party to a number of lease, tenancy, easement or rental contracts. The underlying assets include land, areas of technical infrastructure, office and utility space, equipment, plants, technical premises, as well as IT infrastructure. Contracts are concluded for a definite or indefinite period of time with a specified notice period. The Group also has the right to use land under perpetual usufruct. The Group estimates the term of each lease, taking into account relevant facts and circumstances that may affect the extension or shortening of lease terms.

Some contracts include variable fees based on the inflation rate announced by the Central Statistical Office for the previous year. The index-based element determines their variable nature – these charges are taken into account in the measurement of lease liabilities. In some cases, the annual lease payment is increased by variable charges other than those linked to a rate or index. These include, for example, payments of property tax or building tax. These charges are not included in the measurement of lease liabilities. Leases of land for the construction and operation of wind farms, in addition to the rent, include charges for compensation for the exclusion of land from cultivation for the construction period. These charges are not included in the measurement of the lease liability as no rights to use assets are transferred to the lessee and no services are provided for the benefit of the lessee. Similarly, charges relating to compensation for losses for entering land to perform operation, maintenance and other work related to the operation of a wind power park are also treated similarly.

Decisions on the right of perpetual usufruct of land are usually granted for a fixed period of 99 years. The fee for perpetual usufruct of land is established as a percentage of the land value. The amount of the annual fee for perpetual usufruct of land property is revised no more frequently than once every 3 years, if the value of such property changes, thus it will be a variable fee depending on an index or rate that is included in the measurement of the lease liability.

The Group leases small office equipment (printing equipment, photocopiers, computers, etc.), treated as leases of low-value assets. The Group decided to apply the exemption and not to recognise the right-to-use assets and lease liabilities in respect of these contracts in the statement of financial position.

The Group also applied a practical exemption for short-term leases. This mainly concerns decisions on use of a road or rail lane strip if a decision is issued for less than 12 months.

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The Group also takes advantage of a simplification for short-term leases in the case of property leases for an indefinite period with a notice period of less than 12 months, where leased space is not subject to special adjustments, there are no significant exit barriers (e.g. penalties for early termination) and both parties have a practical possibility to lease such space on the market.

24.1.4 Trade payables and other financial liabilities

SIGNIFICANT 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 Group recognises the following categories of liabilities:

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

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	-	4,715	-	3,104
Purchase of PPE and IA	3	1,647	1	1,078
Security deposits received	50	178	31	169
Liabilities on account of LTC	355	20	375	55
Compensation	-	420	-	357
Insurance	-	6	-	4
Settlements related with stock market transactions	-	-	-	1,423
Other	116	623	71	517
TRADE PAYABLES AND OTHER FINANCIAL LIABILITIES	**524**	**7,609**	**478**	**6,707**

The item "Other" includes, among other elements, the estimated liabilities of PGE Obrót resulting from the tariff regulation described in more detail in note 32.4 to these financial statements and liabilities of PGE Dom Maklerski S.A. to its customers for cash payments.

24.2 Fair value of financial instruments

The value of financial assets and liabilities measured at amortised cost is a reasonable approximation of their fair value, except for bonds issued by PGE Sweden AB (publ) and a credit obtained from the European Investment Bank.

Bonds issued by PGE Sweden AB (publ) are based on a fixed interest rate. As at 31 December 2023, their value at amortised cost, as disclosed in these financial statements, amounted to EUR 140 million and their fair value was EUR 130 million. The indexes used in valuation belong to Level 1 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.

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

The most significant items in this category of financial instruments are shares in entities not listed on active markets. The PGE Capital Group is not able to reliably determine the fair value of shares in companies not listed on active markets, therefore they are presented at cost, adjusted for impairment write-downs, if necessary.

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24.3 Fair value hierarchy

Derivative instruments

The Group valuates 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 resulting from concluded transactions, calculated on the basis of the difference between the forward price and the transaction price. The valuation of IRS transactions is the difference in the discounted interest flows of a fixed rate stream and a floating rate stream. The valuation of CCIRS transactions is the difference in the discounted flows paid and received in two different currencies. Forward exchange rates are not modelled as a separate risk factor, but are derived from the spot rate and the corresponding forward interest rate for the foreign currency in relation to PLN.

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

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

Additionally, the Group presents the CCIRS derivative hedging instrument for foreign exchange 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**
CO_2 emission allowances in trading activities	1	-	-	-
Hard coal in trading activities	343	-	-	-
INVENTORIES	**344**	**-**	**-**	**-**
Currency forwards	-	3	-	25
Commodity SWAP	-	65	-	14
Contracts for purchase/sale of coal	-	78	-	19
Derivatives embedded in commercial contracts		-		410
Options	-	13	-	-
DERIVATIVES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	**-**	**159**	**-**	**468**
CCIRS hedging transactions	-	4	-	-
IRS hedging transactions	-	193	-	-
Currency forward - EUR	-	7	-	1,565
HEDGING DERIVATIVES	**-**	**204**	**-**	**1,565**
Investment fund participation units	-	31	-	-
OTHER ASSETS / LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	**-**	**31**	**-**	**-**

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

Derivatives are presented in note 25.1.2 to these financial statements. During the current and comparative reporting periods, there were no transfers of financial instruments between level 1 and level 2 of the fair value hierarchy.

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The terms and conditions of the particular derivatives and other receivables 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
	Value in financial statement in PLN	Par value in original currency	Value in financial statement in PLN	Par value in original currency	31 December 2023
CCIRS – EUR to PLN	4	144	104	144	July 2029
Options	13	4	18	4	November 2026
Investment fund participation units	31	23	28	23	n/d
Currency forward, purchase of EUR	7	330	173	1961	December 2025
Currency forward, sale of EUR		4		91	December 2024
Commodity forward, sale of PLN	-	-	5	40	-
Commodity forward, purchase of PLN		-		35	-
IRS – interest rate PLN	193	500	459	625	December 2027
		313		375	June 2028
		312		375	December 2028
		-		1,452	-
		1,000		1,000	May 2029
		400		400	May 2026
Commodity SWAP, purchase of USD	65	11	95	4	March 2024
Commodity SWAP, sale of USD		83		114	March 2025
Contracts for purchase – USD	78	-	650	10	-
Contracts for sales – USD		271		201	December 2025
Currency forward, purchase of USD	3	2	3	5	January 2024
Currency forward, sale of USD		14		48	June 2024
Financial assets	**394**	**-**	**1,535**	**-**	
Currency forward, purchase of EUR	1,565	5,184	691	3,899	December 2026
Currency forward, sale of EUR		-		28	-
Commodity forward – PLN	-	- -	1	28 29	-
Commodity SWAP, purchase of USD	14	41	71	82	April 2024
Commodity SWAP, sale of USD		1		6	March 2024
Currency forward, purchase of USD	9	33 -	72	747 14	June 2024
Currency forward - USD	-	-	13	105	-
Currency forward, purchase of USD	-	-	39	297	-
Contracts for purchase – USD	19	795	650	816	December 2024
Contracts for sales – USD		94		-	December 2024
Derivatives embedded in commercial contracts	410	337	397	397	December 2030
Currency forward, purchase of EUR	10	20	-	-	October 2025
Currency forward, purchase of EUR	2	11			October 2026
Currency forward, purchase of USD	2	8	-	-	July 2026
Currency forward, purchase of EUR	1	13	-	-	November 2026
Currency forward, purchase of EUR	1	3	-	-	October 2026
Financial liabilities	**2,033**		**1,934**		

24.4 Statement of comprehensive income

Impact of the particular categories of financial instruments on finance income and costs

Year ended 31 December 2023	Cash and cash equivalents	Other financial assets	Shares, interests and other capital instruments	Financial instruments measured at fair value	Hedging derivatives	Other financial liabilities	TOTAL
Dividends	-	-	1	-	-	-	1
Interest income / (costs)	504	653	-	-	160	(858)	459
Revaluation	-	(1)	-	(28)	-	(13)	(42)
Reversal / (Establishment) of write-downs	-	(482)	(27)	-	-		(509)
Foreign exchange differences	(32)	(1,075)	-	-	-	1,061	(46)
Gain/(Loss) on disposal of investments	-	-	24	(3)	-	(1)	20
Accounting for loss of control	-	-	-	-	-	-	-
TOTAL PROFIT / (LOSS)	**472**	**(905)**	**(2)**	**(31)**	**160**	**189**	**(117)**

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Year ended 31 December 2022	Cash and cash equivalents	Other financial assets	Shares, interests and other capital instruments	Financial instruments measured at fair value	Hedging derivatives	Other financial liabilities	TOTAL
Dividends	-	-	4	-	-	-	4
Interest income / (costs)	343	109	-	-	108	(413)	147
Revaluation	-	-	(7)	3	-	-	(4)
Reversal / (Establishment) of write-downs	-	(5)	(4)	-	-	-	(9)
Foreign exchange differences	4	26	-	-	-	(56)	(26)
Gain/(Loss) on disposal of investments	-	-	37	-	-	-	37
Accounting for loss of control	-	-	(1)	-	-	-	(1)
TOTAL PROFIT / (LOSS)	**347**	**130**	**29**	**3**	**108**	**(469)**	**148**

24.5 Security for payment of receivables and payables

In order to secure the repayment of its credits, the Group uses a number of individual security instruments and their combinations. The most frequently used instruments include claims transfer agreements, bills of exchange and declarations of voluntary submissions to enforcement procedures. Additionally, the Group uses powers of attorney to use bank accounts and assignments of receivables.

As at the reporting date the following assets constituted security for the repayment of liabilities and contingent liabilities:

	As at 31 December 2023	As at 31 December 2022
Property, plant and equipment	45	958
Trade receivables	110	94
TOTAL VALUE OF ASSETS CONSTITUTING SECURITY FOR REPAYMENT OF LIABILITIES	**155**	**1.052**

As described in note 32.5 to these financial statements, the PKP Energetyka Group was acquired in the current period. This group had a registered pledge to a syndicated credit agreement in the amount of PLN 5,425 million. In view of the full repayment of the above credit, as at 31 December 2023 the registered pledge was no longer in force, but was in the process of being removed from the register of pledges.

In accordance with the regulations of the Warsaw Commodity Clearing House, companies belonging to the PGE Capital Group are obliged to maintain a certain balance of cash in accounts held with PKO BP. Cash from customers is held at PKO BP, Santander Bank Polska and Bank Polska Kasa Opieki S.A. The balance of cash reported as restricted cash under these two obligations amounted to PLN 419 million as at 31 December 2023 (PLN 295 million in the comparative period).

In addition, financial receivables include funds for the MPLF in the amount of PLN 240 million (PLN 214 million in the comparative period).

25. Objectives and principles of financial risk management

The primary objective of financial risk management in the PGE Capital Group 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 Group's management.

Responsibility for managing financial risk in the PGE Capital Group 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 in the PGE Capital Group is based on the principle of organisational independence of an entity responsible for risk measurement and control (the Risk and Insurance Department in PGE Polska Grupa Energetyczna S.A.) of business units being risk owners. Risk reports are submitted directly to the Risk Committee of the PGE Capital Group, the Audit Committee of the Supervisory Board of PGE S.A., as well as the Management Board of PGE S.A.

The PGE Capital Group has a Risk Committee that exercises supervision of the financial and corporate risk management process in the PGE Capital Group. The Risk Committee monitors the PGE Group's 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.

From the perspective of the whole PGE Capital Group, financial risk is measured in an integrated manner. The process is conducted or supervised within the framework of the Corporate Centre of the PGE Capital Group, which is a centre of competencies in this area. 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 (VaR) and Profit-at-Risk (PaR), 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 PGE Capital Group implemented internal regulations setting out the principles for the management of such risks.

The PGE Capital Group is exposed to various types of financial risks:

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

The exposure of the PGE Capital Group to individual financial risks depends on the extent of its activities in the commodity and financial markets.

25.1 Market risk

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

The main objective of market risk management in the PGE Capital Group 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 PGE Capital Group for the purpose of managing individual categories of market risk relating to commercial and financial activities specify, among other things:

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

The market risk management principles in force in the PGE Capital Group further define how the appetite for market risk is determined, how market risk exposures are limited and the mechanisms for hedging exposure when limits are exceeded.

25.1.1 Commodity risk

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

The exposure of the PGE Capital Group to the commodity price risk concerns first of all the following commodities:

- electricity;
- CO_2 emission allowances;
- origin rights related to certificates of origin for electricity;
- guarantees of origin;
- hard coal;
- natural gas;
- biomass and other fuels.

The PGE Capital Group owns lignite mines that supply production fuel to two power plants operating within the PGE Group. Due to this fact, the Group's exposure to price risk in this area is not significant.

Selected types of commodity risk (including currency risk) to which PGE Group is exposed (exclusive of applied risk hedging strategies)

Risk	Description	Example of exposure source
Risk of changes in electricity prices	• The PGE Group has a natural long position due to its generation assets and a lack of possibility to place its production on the market at a pre-determined price.	• The level of margin generated as a result of changes in electricity prices and electricity generation costs; • Price of electricity sale contracts to retail customers; • Price of transactions to buy/sell energy on the wholesale market.
Risk of changes in the prices of origin energy rights arising from certificates of origin for electricity	• The PGE Group has a net short position resulting from the obligation to surrender origin energy rights arising from certificates of origin for electricity related to the sale of electricity to end users.	• Price of transactions to buy/sell origin energy rights on the wholesale market.
Risk of changes in prices of CO_2 emission allowances	• Risk related to changes in the prices of CO_2 emission allowances in EUR and risk of changes in the EUR/PLN exchange rate; • The PGE Group has a short position given its electricity generation at units participating in the EU-ETS scheme.	• Use of generation sources not as planned due to their varying emission levels; • Price of transactions to buy/sell CO_2 emission allowances on the wholesale market.
Risk of electricity production fuel price changes (including hard coal, natural gas, biomass, heating oil)	• Risk of commodity price changes, including commodities denominated in foreign currencies (or indexed to foreign currencies) and foreign currency risk; • The PGE Group has a short position due to its need to purchase fuel on the market.	• Price of transactions to buy/sell fuel on the wholesale market.
Long-term volume risk	• Risk relating to changes in demand for electricity in the National Power System and the long-term risk of PGE CG generating units being replaced, with respect to meeting this demand, by generating units with lower generation costs (in particular renewable energy sources).	• Macroeconomic situation, especially in energy-intensive industries; • Technological changes, particularly in energy efficiency and the development of distributed power generation (renewable energy sources); • Climate changes; • Regulations concerning the ESG area, including preferences for specific sectors of the power generation industry; • Degree of integration with foreign energy systems.

Risk	Description	Example of exposure source
Short-term volume risk	• Risk relating to changes in the planned volume of electricity sales as a result of changes in customers' demand for electricity or short- and medium-term substitution of the PGE Capital Group's generating units by generating units with lower generation costs (in particular renewable energy sources) in meeting this demand.	• Trends among retail clients concerning changes in energy suppliers; • Regulations, including those pertaining to the opportunity to change energy suppliers; • Short-, mid-term weather changes; • Short-term changes in the availability of supply from renewable energy sources; • Risk related to the model for planning demand for energy and quality of source data used in planning.

The PGE Group follows a strategy of securing its key exposures in the area of electricity and related products trading; it corresponds to appetite for risk in a mid-term perspective. The level of hedging for an open position is set taking into account the variability of prices of electricity and related products, the liquidity of specific markets, the financial position of the Group, as well as the Group's strategic objectives.

The PGE Capital Group's exposure to the commodity price risk (in respect of raw materials) is determined by the volumes of external purchases of individual raw materials. These volumes are presented in the table below:

COMMODITY	Year ended 31 December 2023		Year ended 31 December 2022	
	Tonnage – external purchase (thousand tonnes)	Purchase costs (PLN million)	Tonnage – external purchase (thousand tonnes)	Purchase costs (PLN million)
Coal	10,656	8,942	11,348	8,085
CO_2 emission allowances for captive use	81,305	28,605	48,343	11,765
Natural gas [thousand m^3].	1142362	2,584	832,945	1,570
Biomass	789	386	491	196
Heating oil	64	188	72	272
TOTAL	**-**	**40,705**	**-**	**21,888**

25.1.2 Interest rate risk

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

The exposure of the PGE Capital Group to the interest rate risk arises mainly from the fact that the Group's companies finance their operating and investing activities by obtaining funds 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 PGE Capital Group controls the interest rate risk through a system of limits relating to the maximum potential loss from changes in interest rates in relation to the consolidated interest rate risk exposure of the Group's companies. 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 Capital Group establishes hedging strategies with respect to its exposure to the interest rate risk 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 PGE Capital Group companies enter into interest 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 interest rate derivative transactions, entering into speculative transactions, i.e. transactions which would be aimed at generating additional profit resulting from changes in the level of foreign currency exchange interest rates, while exposing the Group to the risk of incurring a potential loss on this account.

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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 contracts.

Bonds issued under the Medium Term Eurobonds Issue Programme bear interest at a fixed rate in EUR. Payments relating to these bonds are hedged by CCIRS instruments.

The Group 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 under these credits are secured by IRS contracts.

The exposure of the PGE Capital Group to the 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	-	5
		Variable	206	477
	Other currencies	Fixed	-	-
		Variable	157	1,025
Deposits, cash, debt securities, leases	PLN	Fixed	4,980	10,180
		Variable	5	-
	Other currencies	Fixed	1,292	1,926
		Variable	-	-
Derivatives – liabilities exposed to interest rate risk	PLN	Fixed	-	(1)
		Variable	(410)	(397)
	Other currencies	Fixed	-	-
		Variable	(1,623)	(1,536)
Credits, loans, issued bonds and leases	PLN	Fixed	(5,886)	(3,276)
		Variable	(8,252)	(4,959)
	Other currencies	Fixed	(608)	(661)
		Variable	(151)	(40)
Net exposure	PLN	Fixed	(906)	6,908
		Variable	(8,451)	(4,879)
	Other currencies	Fixed	684	1,265
		Variable	(1,617)	(551)

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.

25.1.3 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 exposure of the PGE Capital Group to the currency risk are set out below:

- capital expenditure denominated in or indexed to foreign currencies;
- debt denominated in foreign currencies;
- purchase and sales of electricity denominated in foreign currencies (if applicable);
- fees denominated in or indexed to foreign currency exchange rates on account of purchase of transmission capacities (if applicable);
- sales and purchase of CO_2 emission allowances and gas as well as purchase of hard coal and other fuels denominated in or indexed to foreign currencies;
- expenditure related to current operation of generation assets denominated in or indexed to foreign currencies;
- investment financial assets denominated in foreign currencies;
- other operating cash flows denominated in or indexed to foreign currencies.

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The PGE Capital Group controls the currency risk through a system of limits relating to the maximum potential loss due to changes in exchange rates with respect to the consolidated currency risk exposure of the Group's companies. 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 PGE Capital Group establishes hedging strategies with respect to its exposure to the currency risk in the form of 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.

PGE Capital Group companies enter 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 profit resulting from changes in the level of foreign currency exchange rates, while exposing the Group 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 Group's exposure to currency risk by class of financial instruments

	Total value in statements in PLN	CURRENCY POSITION AS AT 31 DECEMBER 2023					
		EUR		DKK		USD	
		currency	PLN	currency	PLN	currency	PLN
Trade receivables and other financial receivables:	10,770	184	802	-	-	-	-
Cash and cash equivalents	6,033	283	1,229	108	63	-	-
Derivatives, including:	394	478	2,078	-	-	355	1,396
Measured at fair value through profit or loss	*159*	-	-	-	-	*355*	*1,396*
Hedging instruments	*204*	*478*	*2,078*	-	-	-	-
Other assets measured at fair value through profit or loss	*31*	-	-	-	-	-	-
FINANCIAL ASSETS		**945**	**4,109**	**108**	**63**	**355**	**1,396**
Bank credits, loans, bonds and leases	14,897	140	608	-	-	38	151
Trade and other payables measured at amortised cost	8,133	64	278	-	-	-	-
Derivatives, including:	2,033	5,231	22,745	-	-	782	3,076
Measured at fair value through profit or loss	*468*	*47*	*205*			*782*	*3,076*
Hedging instruments	*1,565*	*5,184*	*22,540*	-	-	-	-
FINANCIAL LIABILITIES		**5,435**	**23,631**	**-**	**-**	**820**	**3,227**

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.

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	Total value in statements in PLN	CURRENCY POSITION AS AT 31 DECEMBER 2022					
		EUR		DKK		USD	
		currency	PLN	currency	PLN	currency	PLN
Trade receivables and other financial receivables:	9.306	284	1.329	-	-	-	-
Cash and cash equivalents	11.887	397	1.864	90	57	1	5
Derivatives, including:	1.573	2.015	9.450	-	-	344	1.514
Measured at fair value through profit or loss	*771*	-	-	-	-	*344*	*1.514*
Hedging instruments	*736*	*2.015*	*9.450*	-	-	-	-
Other assets measured at fair value through profit or loss	*28*	-	-	-	-	-	-
FINANCIAL ASSETS		**2.696**	**12.643**	**90**	**57**	**345**	**1.519**
Bank credits, loans, bonds and leases	8.936	141	661	-	-	9	40
Trade and other payables measured at amortised cost	7.185	381	1.784	-	-	117	514
Derivatives, including:	1.934	3.871	18.155	-	-	1.164	5.124
Measured at fair value through profit or loss	*1.230*	-	-			*1.164*	*5.124*
Hedging instruments	*704*	*3.871*	*18.155*	-	-	-	-
FINANCIAL LIABILITIES		**4.393**	**20.600**	**-**	**-**	**1.290**	**5.678**

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.

25.2 Liquidity risk

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

The main objective of liquidity risk management in the PGE Capital Group is to ensure and maintain its companies' ability to meet their current and future financial liabilities, taking into consideration their costs and acquirability.

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 the PGE Capital Group 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 PGE Group companies (the cash pooling mechanism) as well as using external financing, including overdraft and revolving 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 PGE Capital Group uses various sources of financing such as overdraft and revolving facilities, term and investment loans, bond and eurobond issues.

As part of the assessment of its liquidity, the Group 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 investment programme can be financed. The ratio is calculated on the basis of the consolidated financial statements of the PGE Capital Group. The value of the debt ratio is presented in note 20 to these financial statements.

The table below shows the maturity of the Group's financial liabilities at the reporting dates by maturity date based on contractual undiscounted payments.

In the case of commodity derivatives, the table shows net flows, i.e. payments are presented net of receipts from the performance of contracts.

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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 and loans	11,394	14,388	3,933	854	3,931	5,670
Bonds issued	2,017	2,574	-	118	820	1,636
Trade payables and other financial liabilities	8,133	8,133	6,314	1,292	515	12
Lease liabilities	1,486	3,427	45	136	571	2,675
Derivative instruments	1,890	3,742	943	2,542	168	89
TOTAL	**24,920**	**32,264**	**11,235**	**4,942**	**6,005**	**10,082**

(*)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 and loans	5,870	6,926	823	1,504	2,625	1,974
Bonds issued	2,067	2,897	-	145	926	1,826
Trade payables and other financial liabilities	5,762	5,847	4,759	525	420	143
Settlements with exchanges, mainly related to purchase of CO_2 emission allowances(*)	1,423	1,423	1,423	-	-	-
Lease liabilities	999	2,293	18	54	293	1,928
Derivative instruments	1,184	3,986	1,774	1,731	341	140
TOTAL	**17,305**	**23,372**	**8,797**	**3,959**	**4,605**	**6,011**

25.3 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 PGE Group companies are exposed to credit risk arising in the following areas:

- principal activities of its companies – credit risk results from, among others, purchases and sales of electricity, heat, origin energy rights arising from certificates of origin for electricity, CO_2 emission allowances, fuels etc. This includes the possibility that the Group's counterparties and customers may fail to make payments when due or fail to fulfil their delivery obligations to a PGE Group company if the fair value of the transaction is positive from the Group's point of view;
- investing activities of the companies – credit risk results from transactions resulting from investment projects whose success depends on the financial standing of the Group's suppliers;
- investing free cash of PGE Group companies – credit risk results from investing free cash of the PGE Group companies in securities bearing credit risk, i.e. financial instruments other than those issued by the State Treasury.

To monitor credit risk in operations, the Group's most commercially important companies follow an internal ratings approach, using rating models implemented with the assistance of an external provider.

In the PGE Capital Group there is a concentration of credit risk related to trade receivables. The three most significant customers account for approximately 7% of the trade receivables balance.

The maximum exposure to credit risk resulting from the financial assets of the PGE Capital Group is equal to the book values of these items.

	Year ended 31 December 2023	Year ended 31 December 2022
Trade receivables and other financial receivables	10,770	9,306
Cash and cash equivalents	6,033	11,887
Derivatives – assets	394	1,535
MAXIMUM EXPOSURE TO CREDIT RISK	**17,197**	**22,728**

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25.3.1 Trade receivables. Other loans and 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 Group applies simplified methods of valuation of receivables measured at amortised cost if it does not distort information contained in the statement of financial position, in particular when the period until the payment of receivables is not long.

The Group 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 companies apply 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 companies estimate 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 CDS (credit default swap);
- for receivables from mass customers or customers not covered by the credit risk assessment procedure, the companies estimate 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 companies may assess the amount of a write-down on an individual basis.

Write-downs of receivables are recognised as other operating costs or financial costs, respectively. Long-term receivables are measured at current (discounted) value.

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	985	0.0 – 98.0/ 100	463	0.0 – 79.39/ 100
Overdue <30 days	5	0.0 – 1.1/ 100	8	0.0 – 79.39/ 100
Overdue 30-90 days	15	0.0 – 13.2/ 100	18	0.0 – 59.47/ 100
Overdue 90-180 days	41	100.0	28	100.0
Overdue 180-360 days	66	100.0	651	100.0
Overdue >360 days	1,122	100.0	275	100.0
TOTAL FINANCIAL ASSETS	**2,234**		**1,443**	

The write-down relates to receivables written down according to the matrix and on an individual basis (100%). The Group does not have any significant items of receivables, overdue more than 90 days, that were not subject to a 100% write-down at the reporting date.

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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 Highest AAA to AA- according to S&P and Fitch, and Aaa to Aa3 according to Moody's	-	-	-	--
Medium-high A+ to A- according to S&P and Fitch and A1 to A3 according to Moody's	-	-	-	--
Medium BBB+ to BBB- according to S&P and Fitch and Baa1 to Baa3 according to Moody's	<1	100.0	<1	100.0
TOTAL FINANCIAL ASSETS	**<1**		**<1**	

Trade receivables typically have payment terms of 14-21 weeks. In 2023, the Group waited on average 27 days for the payment of receivables. Trade receivables mainly relate to receivables for energy sold and distribution services provided. In the opinion of the management of the PGE Capital Group, there is no additional risk of non-payment of receivables above the level determined by the impairment write-down.

The PGE Capital Group mitigates and controls the credit risk related to trade transactions in accordance with uniform credit risk management principles implemented in all key companies of the PGE Capital Group. 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, the PGE Capital Group assigns an internal rating or uses a rating assigned by an independent reputable rating 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 the credit risk management principles in force in the PGE Capital Group. The level of used limits is monitored and reported 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 PGE Capital Group monitors on an ongoing basis the payment of receivables and applies early collection, taking into account deadlines resulting from the energy law and a high level of repayment of receivables with short overdue periods. It also cooperates with business intelligence agencies and debt collection companies.

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	6,735	100%	6,515	100%
Germany	1	0%	2	0%
TOTAL	**6,736**	**100%**	**6,517**	**100%**

Ageing of receivables and impairment write-downs

As at 31 December 2023, some financial assets were subject to impairment write-downs. The table below presents changes in impairment write-downs for these classes of financial instruments:

2023	Trade receivables	Other financial receivables	Bonds	Total financial assets
Write-down as at 1 January	**(243)**	**(814)**	**(386)**	**(1,443)**
Use of write-downs	8	8	-	16
Reversal of write-downs	99	48	-	147
Creation of write-downs	(162)	(108)	(475)	(745)
Change in composition of CG	(222)	(16)	-	(238)
Other changes	32	(3)	-	29
Write-down as at 31 December	**(488)**	**(885)**	**(861)**	**(2,234)**
Value before impairment write-down	**7,224**	**4,919**	**861**	**13,004**
Net position value (book value)	**6,736**	**4,034**	**-**	**10,770**

Most of the impairment write-downs of trade receivables relate to the Distribution and Railway Power Engineering segments. The total amount of impairment write-downs of trade receivables of these segment companies as at 31 December 2023 was PLN 475 million (in 2022, impairment write-downs in the Trade segment companies amounted to PLN 235 million).

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The Group does not have any significant items of receivables that were significantly overdue as at the reporting date, but had not been written down.

2022	Trade receivables	Other financial receivables	Bonds	Total financial assets
Write-down as at 1 January	**(150)**	**(389)**	**(386)**	**(925)**
Use of write-downs	15	6	-	21
Reversal of write-downs	94	169	-	263
Creation of write-downs	(206)	(600)	-	(806)
Other changes	4	-	-	2
Write-down as at 31 December	**(243)**	**(814)**	**(386)**	**(1,443)**
Value before impairment write-down	**6,760**	**3,380**	**386**	**10,526**
Net position value (book value)	**6,517**	**2,566**	**-**	**9,083**

The ageing analysis of trade receivables, other loans and receivables, taking into account impairment write-downs, is presented below:

	31 December 2023			31 December 2022		
	Gross	Write-downs	Net book value	Gross	Write-downs	Net book value
Receivables not overdue	**11,269**	**(985)**	**10,284**	**9,466**	**(463)**	**9,003**
Overdue <30 days	350	(5)	345	229	(8)	221
Overdue 30-90 days	145	(15)	130	92	(18)	74
Overdue 90-180 days	41	(41)	-	28	(28)	-
Overdue 180-360 days	66	(66)	-	651	(651)	-
Overdue > 360 days	1,133	(1,122)	11	283	(275)	8
Total overdue receivables	**1,735**	**(1,249)**	**486**	**1,283**	**(980)**	**303**
Total financial assets	**13,004**	**(2,234)**	**10,770**	**10,749**	**(1,443)**	**9,306**

As at 31 December 2023, more than 71% of the balance of overdue trade receivables and other loans and receivables for which no impairment write-downs had been made were related to the sales of energy to end users.

25.3.2 Deposits, cash and cash equivalents

The Group manages the credit risk related to cash deposits by diversifying the group of banks where such deposits are held. All entities with which the PGE Capital Group 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. The share of the three major banks where the PGE Capital Group holds the largest cash balances as at 31 December 2023 was approximately 72% (similarly in the comparative period).

25.3.3 Derivative instruments

All entities with which the PGE Capital Group enters into derivative transactions conduct business activities in the financial sector. These are banks and entities subject to financial supervision with investment grade ratings, adequate equity capital as well as strong and stable market positions. As at the reporting date, the Group was a party to derivative transactions described in detail in note 24.1.2 to these consolidated financial statements.

25.3.4 Granted guarantees and sureties

Guarantees and sureties granted by PGE Capital Group companies are presented in note 28 to these consolidated financial statements.

25.4 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 Capital Group 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 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 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 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 Group'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

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[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.

increases sustainable profit. 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,
- 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 2022 was carried out on an ongoing 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 PGE Capital 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 other things, 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 planned climate neutrality 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 in the energy sector, are exposed to risks and threats resulting from the nature of their operations and functioning in a specific market as well as 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 utilisation 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.

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25.5 Market (financial) risk – sensitivity analysis

The PGE Capital Group is mainly exposed to the EUR/PLN exchange rate risk and the risk of changes in reference interest rates of PLN and EUR. It also has positions exposed to interest rate risk in USD, EUR and foreign exchange risk in EUR, USD and DKK, which are smaller in scale and therefore low in risk to the Group. For the purpose of an analysis of sensitivity to changes in market risk factors, the PGE Capital Group uses the scenario analysis method, i.e. expert scenarios reflecting subjective evaluation of future development of market risk factors.

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

In the analysis of sensitivity to the interest rate risk, the Group 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 consolidated 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 PGE Capital Group 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.

The value of exposure to the currency risk for forwards represents their nominal amount together with interest accrued until the reporting date, translated into PLN at the closing rate as at 31 December 2023 and as at 31 December 2022 respectively, without discount. The book value of derivative instruments is the result of valuation to fair value.

Currency exchange risk sensitivity analysis

The table below shows the sensitivity of financial instruments to reasonably possible changes in exchange rates, with all other risk factors remaining unchanged.

CLASSES OF FINANCIAL INSTRUMENTS	Value in statements in PLN	CURRENCY EXCHANGE RISK SENSITIVITY ANALYSIS AS AT 31 DECEMBER 2023						
		Value exposed to risk	EUR/PLN impact on profit or loss/equity		DKK/PLN impact on profit or loss/equity		USD/PLN impact on profit or loss/equity	
			+10%	-10%	+10%	-10%	+10%	-10%
Trade receivables and other financial receivables	10,770	802	80	(80)	-	-	-	-
Cash and cash equivalents	6,033	1,292	123	(123)	6	(6)	-	-
Derivatives measured at fair value	159	1,396	-	-	-	-	130	(130)
Hedging derivatives	204	661	62	(62)	-	-	-	-
Interest-bearing credits and loans	(11,394)	(151)	-	-	-	-	(15)	15
Bonds issued	(2,017)	(608)	(61)	61	-	-	-	-
Lease liabilities	(1,486)	-	-	-	-	-	-	-
Trade payables and other financial liabilities	(8,133)	(278)	(28)	28	-	-	-	-
Derivatives measured at fair value	(468)	(3,281)	21	(21)	-	-	(276)	276
IMPACT ON FINANCIAL RESULT			**197**	**(197)**	**6**	**(6)**	**(161)**	**161**
Hedging instruments		(20,462)	2,400	(2,400)	-	-	-	-
IMPACT ON REVALUATION RESERVE			**2,400**	**(2,400)**	**-**	**-**	**-**	**-**

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CLASSES OF FINANCIAL INSTRUMENTS	Value in statements in PLN	CURRENCY EXCHANGE RISK SENSITIVITY ANALYSIS AS AT 31 DECEMBER 2022						
		Value exposed to risk	EUR/PLN impact on profit or loss/equity		DKK/PLN impact on profit or loss/equity		USD/PLN impact on profit or loss/equity	
			+10%	-10%	+10%	-10%	+10%	-10%
Trade receivables and other financial receivables	9,306	1,329	133	(133)	-	-	-	-
Cash and cash equivalents	11,887	1,926	186	(186)	6	(6)	1	(1)
Derivatives measured at fair value	771	1,514	-	-	-	-	151	(151)
Hedging derivatives	736	680	67	(67)	-	-	-	-
Interest-bearing credits and loans	(5,870)	(40)	-	-	-	-	(4)	4
Bonds issued	(2,067)	(655)	(66)	66	-	-	-	-
Lease liabilities	(999)	(6)	(1)	1	-	-	-	-
Trade payables and other financial liabilities	(7,185)	(2,298)	(178)	178	-	-	(51)	51
Derivatives measured at fair value	(1,230)	(4,662)	-	-	-	-	(319)	319
IMPACT ON FINANCIAL RESULT			**141**	**(141)**	**6**	**(6)**	**(222)**	**222**
Hedging instruments	32	(9,167)	2,694	(2,694)	-	-	46	(46)
IMPACT ON REVALUATION RESERVE			**2,694**	**(2,694)**	**-**	**-**	**46**	**(46)**

Interest rate risk sensitivity analysis

The Group identifies its exposure to the risk of changes in the WIBOR, EURIBOR and LIBOR interest rates. The table below shows the sensitivity of financial instruments to reasonably possible changes in interest rates, with all other risk factors remaining unchanged.

FINANCIAL ASSETS AND LIABILITIES	Value in statements in PLN	INTEREST RATE RISK SENSITIVITY ANALYSIS AS AT 31 DECEMBER 2023						
		Value exposed to risk	WIBOR impact on profit or loss/equity		EURIBOR impact on profit or loss/equity		LIBOR impact on profit or loss/equity	
			+50%	-50%	+25%	-25%	+25%	-25%
Trade receivables and other financial receivables	10,770	5	-	-	-	-	-	-
Derivatives at fair value through profit or loss – assets	159	159	-	-	-	-	-	-
Interest-bearing credits and loans	(11,394)	(6,679)	(33)	33	-	-	-	-
Bonds issued	(2,017)	(1,409)	(7)	7	-	-	-	-
Leases	(1,486)	(314)	(2)	2	-	-	-	-
Derivatives – liabilities	(468)	(468)	(2)	2	-	-	-	-
IMPACT ON FINANCIAL RESULT			**(44)**	**44**	**-**	**-**	**-**	**-**
Hedging instruments	(1,361)	(1,361)	43	(45)	(9)	9	-	-
IMPACT ON REVALUATION RESERVE			**43**	**(45)**	**(9)**	**9**	**-**	**-**

FINANCIAL ASSETS AND LIABILITIES	Value in statements in PLN	INTEREST RATE RISK SENSITIVITY ANALYSIS AS AT 31 DECEMBER 2022						
		Value exposed to risk	WIBOR impact on profit or loss/equity		EURIBOR impact on profit or loss/equity		LIBOR impact on profit or loss/equity	
			+50%	-50%	+25%	-25%	+25%	-25%
Derivatives at fair value through profit or loss – assets	771	766	-	-	-	-	2	(2)
Interest-bearing credits and loans	(5,870)	(3,587)	(18)	18	-	-	-	-
Bonds issued	(2,067)	(1,412)	(7)	7	-	-	-	-
Derivatives – liabilities	(1,230)	(1,229)	(2)	2	-	-	(2)	2
IMPACT ON FINANCIAL RESULT			**(27)**	**27**	**-**	**-**	**-**	**-**
Hedging instruments	32	32	58	(58)	(12)	12	-	-
IMPACT ON REVALUATION RESERVE			**58**	**(58)**	**(12)**	**12**	**-**	**-**

Commodity price change risk sensitivity analysis

The Group identifies exposure to the risk of changes in commodity prices, including raw materials for electricity generation.

The table below presents a sensitivity analysis for 10% changes in the purchase prices of selected commodities:

COMMODITY	AS AT 31 DECEMBER 2023			AS AT 31 DECEMBER 2022		
	Commodity purchase cost	Impact on profit or loss		Commodity purchase cost	Impact on profit or loss	
		+10%	-10%		+10%	-10%
Coal	8,942	894	(894)	8,085	809	(809)
CO_2 emission allowances for captive use	28,605	2,861	(2,861)	11,765	1,177	(1,177)
Natural gas [thousand m^3]	2,584	258	(258)	1,570	157	(157)
Biomass	386	39	(39)	196	20	(20)
Heating oil	188	19	(19)	272	27	(27)
TOTAL	**40,705**	**4,071**	**(4,071)**	**21,888**	**2,190**	**(2,190)**

25.6 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 Group 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 (publ), 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. In the consolidated financial statements, a relevant part of CCIRS transactions is treated as a hedge of bonds issued by PGE Sweden AB (publ).

PGE S.A. hedges the risk of changes in cash flows resulting from foreign exchange rates in connection with forward contracts for the purchase of carbon emission allowances whose price is expressed in EUR.

The Group 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.

To recognise these IRS transactions, the PGE Capital Group uses hedge accounting.

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The source of ineffectiveness for hedge accounting is solely the CCIRS transaction hedging the interest rate on bonds issued by PGE Sweden AB.

	Year ended 31 December 2023	Year ended 31 December 2022
VALUE OF HEDGED ITEM AS AT 1 JANUARY	**655**	**642**
Interest accrued	18	19
Payment of interest	(18)	(19)
Foreign exchange differences	(47)	13
VALUE OF HEDGED ITEM AS AT 31 DECEMBER	**608**	**655**

Information on hedging instruments – maturity structure as at 31 December 2023. Payments received by the Group are presented with a "minus" sign and payments made by the Group are presented with a "plus" sign.

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)
Currency forwards	EUR	(1,574)	(33)	-

The Group 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 of the PGE Capital Group.

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. As at 31 December 2023, the par 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 par value as at 31 December 2023 was PLN 500 million and whose maturity date falls in December 2027, as well as a bond hedging instrument, whose par 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 19.3 to these financial statements.

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EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

26. Statement of cash flows

SIGNIFICANT ACCOUNTING PRINCIPLES

Statement of cash flows

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

26.1 Cash flows from operating activities

(Profit) / loss on investing activities

	Year ended 31 December 2023	Year ended 31 December 2022
Impact of write-downs on other financial assets	499	-
Accrual valuation of derivative instruments	(2)	71
(Gain)/loss on disposal of property, plant and equipment	(20)	(21)
(Gain)/loss on disposal of non-current financial assets	(5)	(47)
Other	16	15
TOTAL (GAIN)/LOSS ON INVESTING ACTIVITIES	**488**	**18**

Change in receivables

	Year ended 31 December 2023	Year ended 31 December 2022
Change in trade receivables and other financial receivables	(1,464)	(1,375)
Adjustment for acquisition/disposal of subsidiary	696	4
Deposit balance adjustment	26	20
Other	5	(22)
TOTAL CHANGE IN RECEIVABLES	**(737)**	**(1,373)**

Change in inventories

	Year ended 31 December 2023	Year ended 31 December 2022
Change in inventories	1,145	(2,729)
Adjustment for transfer of investment materials to PPE	(40)	(23)
Adjustment for acquisition/disposal of subsidiary	132	25
Other	(1)	-
TOTAL CHANGE IN INVENTORIES	**1,236**	**(2,727)**

Change in liabilities, excluding credits and loans

	Year ended 31 December 2023	Year ended 31 December 2022
Change in trade payables and other financial payables	948	2,067
Change in other non-financial liabilities	1,503	1,055
Adjustment for change in investment liabilities	(194)	(163)
Adjustment for acquisition/disposal of subsidiary	(3,287)	(8)
Other	26	54
TOTAL CHANGE IN LIABILITIES	**(1,004)**	**3,005**

Change in other non-financial assets and prepayments

	Year ended 31 December 2023	Year ended 31 December 2022
Change in other assets	(1,218)	(956)
Change in deferred income	144	124
Adjustment for change in prepayments for fixed assets under construction	83	(134)
Adjustment for acquisition/disposal of subsidiary	154	(7)
Adjustment for change concerning financing/investing activities	(233)	(187)
Other	(3)	30
TOTAL CHANGE IN OTHER NON-FINANCIAL ASSETS, PREPAYMENTS	**(1,073)**	**(1,130)**

for the year 2023 in accordance with EU IFRS (in PLN million)

Change in provisions

	Year ended 31 December 2023	Year ended 31 December 2022
Change in provisions	5,423	6,427
Adjustment for change in actuarial provisions recognised in other comprehensive income	(869)	178
Adjustment for change in rehabilitation provisions recognised in assets	(1,358)	542
Adjustment for acquisition/disposal of subsidiary	(381)	(25)
Other	-	25
TOTAL CHANGES IN PROVISIONS	**2,815**	**7,147**

26.2 Cash flows from investing activities

Acquisition of property, plant and equipment and intangible assets

In 2023, the largest expenditure on the acquisition of property, plant and equipment as well as intangible assets was incurred by the following segments:

- Distribution – PLN 3,948 million,
- Conventional Power Generation – PLN 1,402 million,
- Heat Generation – PLN 1,374 million,
- Renewable Power Generation – PLN 1,249 million,
- Railway Power Engineering – PLN 937 million
- Other Activities – PLN 783 million

Opening and closing of deposits with maturity of over 3 months

The companies in the Conventional Power Generation segment are obligated to hold funds in the Mine Liquidation Fund, in accordance with the provisions of the Geological and Mining Law.

Acquisition of a fully consolidated entity, net of cash acquired

- Acquisition of the PKP Energetyka Capital Group

As described in note 32.5 to these financial statements, on 3 April 2023, the transaction of PGE's direct acquisition of 100% of shares in PKP Energetyka Holding sp. z o.o., and consequently the indirect acquisition of 100% of shares in PKP Energetyka S.A. and shares in other subsidiaries of PKP Energetyka Holding sp. z o.o. by PGE S.A. was completed. The final price paid by PGE S.A. to the seller amounted to PLN 1,873 million. Acquired loan liabilities amounted to PLN 1,546 million and acquired cash of the purchased companies amounted to PLN 387 million.

- Acquisition of LongWing Polska sp. z o.o.

On 20 September 2023, PGE Energia Odnawialna S.A. acquired 100% of shares in LongWing Polska sp. z o.o. with a value of EUR 17.5 million from Solar Energy Resources S.A. R.L. and Ser WindPark Zalesie GmbH. In these financial statements, the transaction is tentatively shown as an asset acquisition. The combined value of the transaction amounted to PLN 338 million. The amount of PLN 82 million represented the remuneration for the shares, while the amount of PLN 256 million related to the subrogation of liabilities. Acquired cash of the purchased company amounted to PLN 4 million.

In the comparative period, PGE EO S.A. purchased:

- 100% of shares in Collfield Investments sp. z o.o., which holds 100% of shares in three special purpose vehicles (Future Energy sp. z o.o., Radzyn Clean Energy Poland sp. z o.o., Elwiatr Pruszyński sp. z o.o.) operating three wind farms with a total capacity of 84.2 MW. Expenditure on the acquisition of the company amounted to PLN 939 million, while acquired cash amounted to PLN 183 million.
- 100% of shares in the companies Mithra, which own 35 photovoltaic projects with a total capacity of 85 MW. Expenditure on the acquisition of the company amounted to PLN 41 million, while acquired cash amounted PLN 200,000.

Disposal of subsidiary

In the comparative period, the amount of PLN 111 million relates to the proceeds from the sale of the following companies: Elbest sp. z o.o., TFI Energia S.A. and Przedsiębiorstwo Usługowo-Handlowe TOREC sp. z o.o.

Interest received

Interest received on Autostrada Wielkopolska S.A. bonds in the amount of PLN 72 million.

26.3 Cash flows from financing activities

Proceeds from share issue

The raising of proceeds from the share issue in 2022 in the amount of approximately PLN 3,197 million was aimed at supporting the PGE Capital Group's investments in the area of development of renewable energy sources, decarbonisation through development of low-carbon sources and development of the distribution segment.

The funds raised from the share issue may only be used for investments in the three areas described above. The manner of disbursement of the funds from the share issue is subject to detailed reporting and periodical verification by a certified auditor.

Proceeds from share issue for non-controlling shareholders

Proceeds of PLN 129 million in the current period and PLN 33 million in the comparative period relate to half of the payments made by Ørsted for the acquisition of shares and equity increases in contractual joint operations, i.e. EWB2 and EWB3.

The amount of PLN 28 million relates to equity increases effected by shareholders in the companies PGE Baltica 7 sp. z o.o. and PGE Inwest 12 sp. z o.o.

Proceeds from obtained loans and credits

In the current reporting period, PGE S.A. used available credits in the total amount of PLN 8,365 million (PLN 2,200 million in 2022). Additionally, the companies of the Heat Generation segment obtained loans and credits from environmental funds in the amount of approximately PLN 316 million (PLN 21 million in 2022).

Repayment of loans, credits and finance leases

In the current reporting period, PGE S.A. repaid credits in the total amount of PLN 3,133 million (PLN 3,985 million in 2022). In addition, the company PGE Energetyka Kolejowa sp. z o.o. repaid its debt under a credit from before the acquisition date in the amount of PLN 3,028 million.

Payments of the main part of lease liabilities amounted to PLN 94 million in the current period and PLN 47 million in the previous period.

Interest paid

In the current reporting period, the item mainly includes interest on loans and credits of approximately PLN 635 million, on bonds of PLN 139 million, on financial instruments (CCIRS and IRS) of (-) PLN 182 million, commissions on guarantees and sureties related to credits of PLN 42 million, on lease liabilities of PLN 68 million.

In 2022, the item included mainly interest on loans and credits in the amount of PLN 270 million, on bonds in the amount of PLN 99 million, on financial instruments (CCIRS and IRS) in the amount of PLN (-) 65 million and on lease liabilities in the amount of PLN 41 million.

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OTHER EXPLANATORY NOTES

27. Contingent receivables and payables. Litigation

SIGNIFICANT ACCOUNTING PRINCIPLES

Contingent liabilities

Pursuant to the provisions of IAS 37, with respect to the recognition and measurement of provisions and contingent liabilities, the Group assesses the likelihood of the occurrence of contingent liabilities. If the occurrence of an adverse event is probable, the Group recognises a provision in a relevant amount. If the occurrence of an adverse event is possible, but not probable, it is recognised as a contingent liability.

27.1 Contingent liabilities

	As at 31 December 2023	As at 31 December 2022
Security for return of grants from environmental funds	536	616
Liabilities related to legal actions	106	86
Liabilities related to bank guarantees securing exchange transactions	400	601
Perpetual usufruct of land	60	61
Other contingent liabilities	75	31
TOTAL CONTINGENT LIABILITIES	**1,177**	**1,395**

Security for return of grants from environmental funds

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

Liabilities related to legal actions

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

Liabilities also represent the value of litigation in the amount of PLN 32 million arising from the realisation of investments in PGE GiEK S.A., the Turów Power Plant branch.

Bank guarantee liabilities

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

Perpetual usufruct of land

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

Other contingent liabilities

In August 2022, a "Cost Reimbursement Agreement" was signed between EWB1, EWB2 and EWB3 and the company carrying out the construction of the installation port. The agreement provides the works contractor with reimbursement of the costs incurred in connection with the construction of the installation port in the event that the companies do not continue with the investment project in question. The value of the contingent liability is estimated at EUR 6.5 million and PLN 10 million, and with respect to the individual companies, the reimbursement payment will be made on a 33.33% basis to each company. Accordingly, the potential value of the liability on the part of the PGE Capital Group, taking into account the shares referred to in note 1.3.2, was estimated at PLN 25.5 million.

27.2 Other significant issues related to contingent liabilities

Non-contractual use of property

As described in note 20.4, the PGE Capital Group established a provision for legal disputes concerning non-contractual use of real property for distribution purposes. Furthermore, the PGE Capital Group is involved in disputes that are at early stages of proceedings and it cannot be ruled out that the number and value of similar disputes will increase in the future.

Contractual liabilities related to fuel purchases

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

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

Obligations to maintain fuel stocks

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

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

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

Before the date of the preparation of these consolidated financial statements, no penalty had been imposed on PGE GiEK S.A. for failure to meet the obligation to maintain and restore coal stocks at an appropriate level. From February 2023 until the date of drawing up these consolidated financial statements, the level of coal stocks was maintained above the minimum level required by law.

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

Funds from an increase in the Company's share capital

On 5 April 2022, an investment agreement was concluded between PGE S.A. and the State Treasury concerning the acquisition by the State Treasury of shares issued as a result of the share capital increase. According to the provisions of the agreement, funds raised from the share issue in the amount of PLN 3.2 billion are to be 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.

"Cancellation fees" w EWB2

During the 2023 financial year and after the reporting date, the company EWB2 entered into contracts for the construction phase of the ongoing Baltica 2 Offshore Wind Farm project. There are provisions in these contracts according to which, in the event that the Final Investment Decision (FID) is not made and all concluded contracts are consequently cancelled, EWB2 will be obliged to pay cancellation fees. Accordingly, the potential value of the liability on the part of the PGE Capital Group, taking into account the shares referred to in note 1.3.2, was estimated at EUR 90.7 million. Given the progress of work on the Baltica 2 Offshore Wind Farm project, EWB2 assesses the need to incur cancellation fees as negligible. Accordingly, no liability or contingent liability was recognised on this account.

Energy efficiency certificates

PGE S.A. is in the process of administrative proceedings before the President of the Energy Regulatory Office concerning the imposition of a fine for failure to comply with the obligation to obtain and submit for redemption to the ERO President energy efficiency certificates in the amount of approximately 29 certificates in total for 2017 and 2018. Due to the low value of the arrears, PGE S.A. estimates that the value of a potential penalty should not be material, so no provision for this is recognised in these financial statements.

27.3 Contingent receivables

In the previous reporting period, the Group recognised a contingent receivable for a potential refund of the excise tax overpayment of PLN 120 million. The Group awaited the Supreme Administrative Court's decision on what excise duty rate should be applied to settle the excise duty relief for the redemption of origin energy rights arising from renewable energy sources before 1 January 2019.

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

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

On 22 November 2023, the Supreme Administrative Court issued a ruling unfavourable to the Company. The ruling of the Supreme Administrative Court is final and not subject to appeal.

As at 31 December 2023, the Group does not recognise a contingent receivable. However, further analysis of the possibility of recovering the overpaid tax is ongoing.

27.4 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. No trial date has been set.

In addition, a similar claim was submitted by the company 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 PGE Group did not establish any provision for the lawsuit.

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

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

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

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

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

Issues relating to the request by the Polimex-Mostostal consortium for an increase in remuneration for the construction of the Siechnice CHP plant

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

Due to the occurrence - in the opinion of the Consortium - of an extraordinary change in economic relations, resulting in an increase in the prices of goods and materials as a consequence of the COVID 19 pandemic and a new phase of the armed aggression of the Russian Federation against Ukraine, the company received from the Consortium requests to increase the amount of the contractual remuneration for the above contract. The Company commissioned external experts to prepare a legal and technical opinion the results of which will form the basis for mediation aimed at resolving the disputes that have arisen concerning the existence of factual and legal grounds and the possible scope of a possible change in the amount of the remuneration. On 15 September 2023, the Parties entered into an agreement for mediation before a permanent mediator at the General Attorney's Office of the Treasury of the Republic of Poland. In November 2023, the first mediation meetings were held. As at the date of publication of these financial statements, the mediation had not been completed. The Consortium estimated its indexation claim at a net amount of PLN 344 million. In the company's opinion, the Consortium - at this point in time - has not demonstrated, in accordance with the distribution of the burden of proof, the factual and legal grounds for the claim.

On 20 and 26 September 2023 - at the Consortium's request - the Regional Court in Wrocław issued a decision on granting security for the Consortium's claim to shape the legal relationship and amend the contract. The value of the subject matter of the security was set by the Court at PLN 344 million.

Pursuant to the wording of the Court's decision on the security, until the court proceedings concerning a change in the amount of the contractual remuneration end with a legally binding verdict, half of the net value of the subject of the security, i.e. the amount of PLN 172 million, will increase the existing value of the payments under the investment obligations indicated in the application and will be invoiced successively in parallel to the works performed by the Consortium. The establishment of the security is not legally binding. The decision was supplemented with an immediate enforceability clause.

On 2 November 2023, the company commenced a formal appeal procedure against the Court's non-final order granting the security, said procedure aimed at challenging the rationale for the granting of the security with respect to both principle and amount. On 9 November 2023, the company sent a request to suspend the enforcement of the aforementioned decision to grant the security.

On 13 December 2023, KOGENERACJA S.A. received the decision of the Regional Court in Wrocław, 10th Commercial Division, dated 1 December 2023, concerning suspension of the enforceability of the decision of 20 September 2023 on granting the security for the claim until the complaint against this decision was resolved. Thus, the request of KOGENERACJA S.A. of 9 November 2023 was granted. The decision to stay the enforcement was supplemented with an immediate enforceability clause.

In these financial statements, no provision was recognised by the PGE Group for the aforementioned claim.

Environmental decision on the Turów Lignite Mine

On 31 May 2023, the Provincial Administrative Court in Warsaw suspended – pending an analysis of the relevant complaint – the enforceability of the environmental decision on lignite mining for the Turów Mine. The environmental decision sets out the conditions for the implementation of the project: "Continuation of the exploitation of the Turów lignite deposit, carried out in the commune of Bogatynia". The complaint against the environmental decision was filed by, among others, the Frank Bold Foundation, Greenpeace and the EKO-UNIA Ecological Association.

On 12 June 2023, PGE GiEK S.A. filed a complaint with the Supreme Administrative Court in Warsaw against the decision concerning the Turów Mine and issued by the Provincial Administrative Court on 31 May 2023. This was the company's response to the Provincial Administrative Court's suspension of the enforceability of the environmental decision issued by the General Directorate of Environmental Protection in September 2022.

On 18 July 2023, the Supreme Administrative Court overturned the decision of the Provincial Administrative Court of 31 May 2023 to suspend the enforceability of the environmental decision concerning the Turów Mine. The complaints filed by the General Directorate of Environmental Protection, PGE GiEK S.A. and the National Public Prosecutor's Office were taken into consideration.

On 31 August 2023, the Provincial Administrative Court suspended the proceedings on the environmental decision issued by the General Directorate of Environmental Protection and concerning the Turów Mine until the formal conclusion of the proceedings relating to the application of PGE GIEK S.A. for amending the environmental decision. At the request of PGE GIEK S.A. to amend the environmental decision, the proceedings ended with a final and legally binding decision to discontinue the proceedings.

On 13 March 2024, the Provincial Administrative Court overruled the decision of the General Directorate of Environmental Protection determining the environmental conditions for further exploitation of the lignite deposit in Turów. As the Court stressed, this did not mean either the closure or suspension of work at the Turów mine. The ruling is not legally binding.

28. Future capital expenditure commitments

As at 31 December 2023, the PGE Capital Group had undertaken to incur expenditure for property, plant and equipment in the amount of approximately PLN 17,762 million. These amounts will be allocated mainly for the construction of offshore wind farms, new power generation units, modernisation of assets of the Group's entities and purchase of machinery and equipment.

for the year 2023 in accordance with EU IFRS (in PLN million)

	As at 31 December 2023	As at 31 December 2022
Renewable Power Generation	8,938	2,092
Other activities	4,704	2,067
Distribution	2,530	2,824
Heat Generation	1,094	1,928
Conventional Power Generation	288	512
Railway Power Engineering	206	-
Trade	2	3
TOTAL FUTURE INVESTMENT COMMITMENTS	**17,762**	**9,426**

The most important future capital expenditure concerns the following projects:

- Renewable Power Generation – construction of the Baltica 2 wind farm in the Baltic Sea (including an agreement for the supply and installation of offshore wind turbines, a service and warranty agreement, an agreement for the design, manufacture and commissioning of offshore substations, an agreement for the supply of foundations, internal cables for the turbines) – an amount of approximately PLN 7,249 million; modernisation of the upper reservoir of the Porąbka-Żar pumped storage power plant – an amount of approximately PLN 886 million; design and construction of new photovoltaic installations in more than 40 different locations – an amount of approximately PLN 391 million; environmental studies together with an environmental impact report and acquisition of a decision on environmental conditions for the project covering the construction of the Baltica 1 wind farm in the Baltic Sea together with offshore and onshore connection infrastructure – an amount of approximately PLN 290 million.
- Other Activities – construction of a CCGT power generation unit (Rybnik 2050 sp. z o.o.) – an amount of approximately PLN 2,983 million; construction of two CCGT power generation units and a service contract for two gas turbines (PGE Gryfino 2050 sp. z o.o.) – an amount of approximately PLN 1,622 million.
- Distribution – investment commitments related mainly to network distribution assets in the amount of approximately PLN 2,530 million.
- Heat Generation – construction of a CCGT power plant called Czechnica-2 in Siechnice – an amount of approximately PLN 287 million; construction of a gas-fuelled cogeneration source based on gas engines and a reserve and peak heat generation source in Bydgoszcz – an amount of approximately PLN 262 million; construction of Line II of the Thermal Processing Plant with Energy Recovery in Rzeszów – an amount of approximately PLN 194 million.

29. Tax settlements

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

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

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

The tax system in Poland is characterised by a high level of changeability and complexity of tax regulations, and high potential penalties for tax crimes or violations. Tax settlements and other activity areas subject to regulations (customs or currency inspections) can undergo inspections conducted by competent authorities entitled to 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 Group uses funds received from counterparties in VAT accounts to pay its liabilities that contain VAT. The amount of funds held in these VAT accounts at a given date depends mainly on the number of the PGE Capital Group's counterparties that decide to use this mechanism and on the relation between the payment dates of receivables and payables. As at 31 December 2023, the balance of cash on the VAT accounts was PLN 1.625 million.

Reporting of tax schemes (MDR)

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

Excise tax

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

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

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

Property tax

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

Uncertainty related to tax settlements

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

for the year 2023 in accordance with EU IFRS (in PLN million)

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.

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.

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

30. Information on related entities

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

30.1 Associates and jointly controlled entities

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

	Year ended 31 December 2023	Year ended 31 December 2022
Sales to associates and jointly controlled entities	35	22
Purchases from associates and jointly controlled entities	611	1,316

	As at 31 December 2023	As at 31 December 2022
Trade receivables from associates and jointly controlled entities	97	6
Trade payables to associates and jointly controlled entities	66	17

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

30.2 Companies controlled by the State Treasury

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

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

	Year ended 31 December 2023	Year ended 31 December 2022
Sales to related entities	11,745	8,410
Purchases from related entities	16,170	10,324

	As at 31 December 2023	As at 31 December 2022
Trade receivables from related entities	784	1,260
Trade payables to related entities	1,510	1,089

The largest transactions with participation of State Treasury companies concern PSE S.A., PGG S.A., Orlen S.A., PKO Bank Polski S.A., Enea Wytwarzanie S.A., Jastrzębska Spółka Węglowa S.A., PKP PLK S.A., PKP Cargo S.A., WĘGLOKOKS S.A. and Zakłady Azotowe PUŁAWY S.A.

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

The data presented above do not include significant transactions with Zarządca Rozliczeń S.A., which include contributions to the Price Difference Payment Fund as well as compensation settled and paid to eligible entities for the introduction of the maximum price, as defined by the Act of 27 October 2022 on emergency measures to limit the level of electricity prices and support for certain consumers in 2023. This information is described in note 32.4 Regulatory changes in the electricity market.

30.3 Management remuneration

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

PLN '000	Year ended 31 December 2023	Year ended 31 December 2022
Short-term employee benefits (remuneration and surcharges)	44,503	37,433
Post-employment benefits	4,708	1,938
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**49,211**	**39,371**
Remuneration of key management personnel in companies conducting non-core activities	18,563	23,616
TOTAL MANAGEMENT REMUNERATION	**67,774**	**62,987**

PLN '000	Year ended 31 December 2023	Year ended 31 December 2022
Management Board of the parent company	9,044	9,193
including post-employment benefits	*925*	*555*
Supervisory Board of the parent company	706	767
Management Boards – subsidiaries	34,732	25,647
Supervisory Boards – subsidiaries	4,729	3,764
TOTAL	**49,211**	**39,371**
Remuneration of key management personnel in companies conducting non-core activities	18,563	23,616
TOTAL MANAGEMENT REMUNERATION	**67,774**	**62,987**

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

31. Remuneration of the audit firm

The entity authorised to audit the separate financial statements of PGE S.A. for the year 2023 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. (PKF), on the basis of an agreement entered into on 21 January 2022.

The selection of the aforementioned audit firm for the years 2022-2024 was made by the Supervisory Board of PGE S.A. PKF is also an entity authorised to audit annual financial statements of selected PGE Capital Group companies.

In 2023 and 2022, the Group also used the following services provided by PKF:

- verification of annual and semi-annual packages for consolidation purposes,
- confirmation of conditions for maintaining indices set out in financing agreements,
- examination of annual financial statements of self-balancing branches,
- examination of reports on the regulatory revaluation of assets and smart metering systems,
- preparation of a report including an assessment of compliance with the requirements for the safekeeping of customers' assets,
- examination of reports on the use of funds from the increase of the Company's share capital,
- confirmation of the correctness of the calculation of the amounts and reasonableness of the requested funds earmarked for the financing of the tasks assigned to PGE Paliwa Sp. z o.o. by the Decision of the Prime Minister of 13 July 2022,
- confirmation of the correctness of the calculation of the compensation resulting from the provisions of the Act of 27 October 2022 on preferential purchase of solid fuel for households.

The amount of remuneration of entities, including PKF, authorised to audit financial statements of PGE Polska Grupa Energetyczna S.A. and the members of the Capital Group is presented in the table below.

PLN '000	Year ended 31 December 2023	Year ended 31 December 2022
Remuneration of the audit firm for:		
Audit of annual financial statements	3,366	2,682
Review of semi-annual financial statements	260	241
Other assurance services	1,190	699
TOTAL	**4,816**	**3,622**

The increase in the remuneration of the entities authorised to audit financial statements compared to 2022 was mainly due to:

- the acquisition of the PGE Energetyka Kolejowa Holding sp. z o.o. Group by the PGE Capital Group,
- the indexation of the remuneration due to an increase in inflation.

32. Significant events during and after the reporting period

32.1 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 Crisis 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 operations 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 CO_2 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 natural gas prices on international markets.

Risks associated with gas supplies

- 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 (in the case of 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 CHP 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.

32.2 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. A spin-off of coal-fired generation assets from the companies with State Treasury shareholding". According to the document, the process of a 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 National Energy Security Agency 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 spin-off of coal-fired generation assets, the energy companies will focus on developing their activities on the basis of their assets in the area of distribution, heating, trade and generation of energy in low- and zero-emission sources.

The role of the 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 the spin-off of coal 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 had not been met. In addition, in February 2024, the Council of Ministers withdrew from the Parliament a draft law on the principles of guaranteeing the National Energy Security Agency's liabilities by the State Treasury

Current status of the project and recognition of assets related to PGE GiEK S.A. in the financial statements

In the opinion of the PGE Capital Group, as at the reporting date, the conditions of IFRS 5 concerning operations held for sale regarding assets and liabilities as well as revenue and expenses for the described coal-fired units are not met. In particular, as at the reporting date, there is significant uncertainty about the project's ability to continue in its current form (including uncertainty regarding the maintenance of the financial conditions).

Consequently, as at 31 December 2023, assets related to PGE GiEK S.A. were not reclassified to discontinued operations. PGE S.A. also did not make adjustments bringing the value of assets related to PGE GiEK S.A. to the values required by IFRS 5. The values of assets, liabilities, revenue, expenses and profit of the Conventional Power Generation segment, showing the data for PGE GiEK S.A. and its subsidiaries, are presented in note 6.1 to these financial statements.

As described in note 3.1 to these consolidated financial statements, impairment tests were performed on the non-current assets on 30 November 2023. As a result of the tests, the non-current assets of the Conventional Power Generation segment were written down in the gross amount of PLN 8.4 billion. Consequently, the book value of the consolidated net assets of PGE GiEK S.A. and its subsidiaries was PLN 1,814 million on 31 December 2023. There was also a total write-down of the book value of PGE GiEK S.A. shares in the separate financial statements. The value of the write-down amounted to PLN 11.7 billion. The write-down did not affect the financial result presented in the consolidated financial statements.

The continuation of the project, as well as its possible final shape and timing, depend on the government's decisions. At the date of these financial statements, no further arrangements had been made regarding the coal assets and their future within the PGE Group.

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

By the end of April 2023, PGE Paliwa sp. z o.o. had been implementing the Prime Minister's decisions, issued in mid-2022, instructing the company to purchase at least 3 million tonnes of thermal coal with parameters close to the quality parameters used by households and to import it into the country.

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

The implementation of the decision resulted in a temporary increase in the PGE Capital Group's cash requirements and a periodic increase in debt in connection with the settlement of coal purchase and resale transactions.

In connection with a significant decrease in market prices of coal, the PGE Capital Group realised a negative result on sales of coal purchased by PGE CG in order to implement the Decision and not sold by 30 April 2023. The negative result on sales of this coal together with other costs incurred in order to implement the Decision recognised in the financial results of PGE CG before 31 December 2023 amounted to PLN 610 million. Furthermore, taking into account the prudence principle, the financial results of the PGE Capital Group included an impairment write-down of the value of the stock of coal purchased by PGE CG for the purpose of the implementation of the Decision and not sold before 31 December 2023 to the estimated coal prices achievable on the market. As at 31 December 2023, the amount of the inventory write-down amounted to PLN 239 million.

On 10 October 2023, an agreement was entered into with the Ministry of Climate and Environment for the financing of the implementation of the Prime Minister's decision. The agreement provided for the reimbursement of costs incurred in connection with the implementation of the decision. A report on the implementation of the decision as at 30 April 2023, as required by the provisions of the agreement, was submitted on time by PGE Paliwa sp. z o.o. to the Ministry of Climate and Environment. The report was approved by the Minister of Climate and Environment. The financial effect of the agreement was adequately reflected in the financial results of the PGE Capital Group in Q4 2023. At the time of the preparation of these consolidated financial statements, the net revenue recognised in the books amounted to PLN 849 million; it consisted of PLN 406 million received in 2023 and estimated compensation to be settled in 2024 in the amount of PLN 443 million.

The Group recognised PLN 109 million in the 2023 results as revenue from compensation for coal deliveries made from January to April 2023. Also, the net amount of PLN 131 million was recognised in the 2022 results for deliveries made in 2022. Applications for compensation payments for the respective periods were submitted in accordance with the deadlines set out in the Act on preferential purchase of solid fuel for households of 27 October 2022. PGE Paliwa sp. z o.o. received all of the compensation requested and timely submitted and settled with the Settlement Administrator S.A. the final application relating to the received compensation. PGE Paliwa sp. z o.o. carried out sales based on the aforementioned Act until 30 April 2023.

32.4 Regulatory changes in the electricity market

Due to the crisis situation in the electricity market, the legislator decided to introduce regulations that temporarily introduced exceptional solutions for electricity prices and electricity tariffs in 2023. On 18 October 2022, the Act on special solutions to protect electricity consumers in 2023 in connection with the situation on the electricity market of 7 October 2022 (hereinafter the "Households Act") entered into force and on 4 November 2022, the Act on emergency measures to reduce electricity prices and support certain consumers in 2023 of 27 October 2022 (hereinafter the "Extraordinary Measures Act 2023") entered into force. According to the Households Act, in 2023, a power company carrying out the business of electricity trading was obliged to apply, with respect to household customers, prices equal to those contained in the tariff in force on 1 January 2022 for individual tariff groups up to specified consumption limits. On the other hand, once the Act Amending the Household Act of 16 August

2023 entered into force, the consumption limits for each category of customers were increased by an additional 1MWh. Once the consumption limits dedicated to household customers were exceeded, a maximum price of 693 PLN/MWh (price excluding VAT and excise duty) would be used for settlements with household customers in accordance with the Extraordinary Measures Act in 2023. This meant that electricity prices had been established in legal regulations and, therefore, in 2023, tariffs approved by the President of the ERO did not directly affect electricity prices for households.

In addition, under the Extraordinary Measures Act, in 2023, the maximum electricity price for other eligible customers was set at PLN 785/MWh (price excluding VAT and excise duty). After the Act Amending the Household Act of 16 August 2023 entered into force, the maximum price was, as for households, PLN 693 per MWh. This price, in principle, applied from 1 December 2022, but it was also in force in a different amount from 1 October 2023 to 31 December 2023. The indicated limit of the maximum price for eligible customers also applied to electricity sales agreements that were concluded or amended after 23 February 2022 and where the maximum price also applied to settlements for the period from the date of conclusion or amendment of such agreements until 30 November 2022. Power companies were obliged to successively reimburse the amounts resulting from the application of the maximum prices until the end of 2023.

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

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

In accordance with the provisions of the Act of 7 December 2023 on amending laws to support consumers of electricity, gaseous fuels and heat, which came into force on 31 December 2023 (the Act for 2024), the mechanisms for freezing tariff prices and the maximum price were extended until 30 June 2024.

After 1 December 2022, the financial position of the PGE Group was also affected by the provisions of the Extraordinary Measures Act 2023, which introduced the obligation for electricity generators and electricity trading companies to make monthly contributions to the account of the Price Difference Payment Fund. A contribution to the Fund was the product of the volume of electricity sold and the positive difference between the volume-weighted average market price of electricity sold and the volume-weighted average price cap of electricity sold, as specified in the Regulation of the Council of Ministers of 8 November 2022 on the manner of calculating the price limit.

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

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

For electricity trading companies, on the other hand:

- for energy sold to end-users, the price limit was 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 was 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 Act governing the rules of making contributions to the Fund came into force.

The amendment concerned, among other things, the extension of the catalogue of revenue items that constituted the basis for calculating the contribution to the Fund. As a result, the amount of contributions transferred by the PGE Capital Group 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, PGE S.A. 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 opinion. PGE S.A., disagreeing with the adverse decision of the President of the ERO, appealed against it to the Regional Court in Warsaw.

In 2023, the contribution due to the Fund amounted to PLN 6,569 million (decrease in the financial result). In turn, compensation income for 2023 amounted to PLN 7,658 million. Revenue from compensation is independent of the amount of contributions to the Fund. As described above, the amounts of compensation received by the sales companies were intended to compensate for the losses these entities had suffered due to the price freeze. The contributions to the Fund, on the other hand, limited the margins realised by individual energy companies to the specific levels indicated in the regulations.

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

The system of contributions to the Fund for the 2023 settlement periods had not been closed before 31 December 2023. Contributions to the Fund will also have to be transferred in 2024 for sales effected in the last weeks of 2023. In the Act for 2024, the legislator did not decide to extend the obligation to make contributions to the Fund to 2024, which means that the last month for which a contribution to the Fund should have been paid was December 2023.

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

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

On 31 December 2023, taking into account the number of recipients who met at least one of the conditions set out in the regulation, revenue was reduced by PLN 535 million (of which PLN 230 million was an estimate).

32.5 Acquisition of 100% of shares in PKP Energetyka Holding

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

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

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

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

On 31 October 2022 PGE Polska Grupa Energetyczna S.A. and Korea Hydro & Nuclear Power Co. Ltd. and ZE PAK S.A. signed 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 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 such a fundamental decision for the construction of a nuclear power plant in the Konin region.

33. Approval of the financial statements

These consolidated 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**	*Signed with qualified electronic signature*
Vice President of the Management Board	**Przemysław Kołodziejak**	*Signed with qualified electronic signature*
Vice President of the Management Board	**Marcin Laskowski**	*Signed with qualified electronic signature*

Signature of the person responsible for the preparation of the financial statements	Michał Skiba Director of the Reporting and Taxation Department	*Signed with qualified electronic signature*

for the year 2023 in accordance with EU IFRS (in PLN million)

34. Glossary of terms and abbreviations

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

Abbreviation	Full name
BAT	Best Available Technology
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.
ENESTA	ENESTA sp. z o.o under restructuring
EUA	European Union Allowances
EWB2, EWB3	Elektrownia Wiatrowa Baltica–2 sp. z o.o., Elektrownia Wiatrowa Baltica–3 sp. z o.o.
MPLF	Mining Plant Liquidation Fund
PDP Fund, PDPF	Price Difference Payment Fund
GDOŚ	General Directorate of Environmental Protection
PGE Capital Group, PGE Group, Group, PGE CG	The Capital Group of PGE Polska Grupa Energetyczna S.A.
WCCH	Warsaw Commodity Clearing House
IRS	Interest Rate Swaps
PPA	Power Purchase Agreements
IFRIC	International Financial Reporting Interpretations Committee
KOGENARACJA S.A.	Zespół Elektrociepłowni Wrocławskich KOGENARACJA S.A.
MFW Baltica 2	Offshore Wind Farm Baltica 2
MCE	Ministry of Climate and Environment
IFRS	International Financial Reporting Standards
EU IFRS	International Financial Reporting Standards as adopted by the European Union
NESA	National Energy Security Agency
NEPWMF	National Environmental Protection and Water Management Fund
IP	Investment property
SAC	Supreme Administrative Court
TSO	Transmission System Operator
RTUA	Rights to use assets
PEC Bogatynia	Przedsiębiorstwo Energetyki Cieplnej S.A. in Bogatynia
PGE S.A., Company, parent company	PGE Polska Grupa Energetyczna S.A.
PGE EC S.A.	PGE Energia Ciepła S.A.
PGE EKH sp. z o.o.	PGE Energetyka Kolejowa Holding sp. z o.o.
PGE EO S.A.	PGE Energia Odnawialna S.A.
PGE GiEK S.A.	PGE Górnictwo i Energetyka Konwencjonalna S.A.
PGE GIEK S.A. o/ELT	PGE Górnictwo i Energetyka Konwencjonalna S.A. Turów Power Plant Branch
RPUL	Right of perpetual usufruct of land
PPE	Property, plant and equipment
Financial statements, consolidated financial statements	Consolidated financial statements of the PGE Capital Group
TGE	Towarowa Giełda Energii S.A.
ERO	Energy Regulatory Office
The Households Act	The Act on special solutions to protect electricity consumers in 2023 in connection with the situation on the electricity market of 7 October 2022 (Journal of Laws 2023.269 of 9 February 2023)
The Extraordinary Measures in 2023 Act	The Act on extraordinary measures to reduce electricity prices and support certain consumers in 2023 of 27 October 2022 (Journal of Laws 2022.2243 of 3 November 2022)
WACC	Weighted Average Cost of Capital
PEPWMF	Provincial Environmental Protection and Water Management Fund
IA	Intangible assets
PAC	Provincial Administrative Court
CSBF	Company Social Benefits Fund