SEPARATE FINANCIAL STATEMENTS

PGE Polska Grupa Energetyczna S.A.
2022

year ended December 31, 2022
in accordance with IFRS (in PLNm)

Prowadzimy w zielonej zmianie

PGE S.A.'S SELECTED FINANCIAL DATA

	Year ended December 31		Year ended December 31	
	2022	2021*	2022	2021*
	PLN million	PLN million	EUR million	EUR million
Revenue from sales	35,922	35,917	7,662	7,846
Operating profit/(loss)	1,139	601	243	131
Gross profit/loss (before tax)	3,430	1,914	732	418
Net profit/loss for the reporting period	3,097	1,734	661	379
Comprehensive income	3,254	2,273	694	497
Net cash from operating activities	(1,105)	938	(236)	206
Net cash from investing activities	5,428	1,887	1,158	412
Net cash from financing activities	954	(1,016)	203	(222)
Net change in cash and equivalents	5,277	1,809	1,125	396
Net profit per share (in PLN/EUR per share)	1.45	0.93	0.31	0.20
Diluted profit per share (in PLN/EUR per share)	1.45	0.93	0.31	0.20
Weighted average number of ordinary shares used to calculate profit per share	2,129,990,555	1,869,760,829	2,129,990,555	1,869,760,829

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

	As at		As at	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
	PLN million	PLN million	EUR million	EUR million
Non-current assets	35,880	36,929	7,650	8,029
Current assets	29,897	27,881	6,375	6,062
Total assets	**65,777**	**64,810**	**14,025**	**14,091**
Equity	47,736	41,302	10,178	8,980
Share capital	**19,184**	**19,165**	**4,090**	**4,167**
Non-current liabilities	5,397	7,144	1,151	1,553
Current liabilities	12,644	16,364	2,696	3,558

The above financial data was converted into EUR in accordance with the following rules:
▪ asset and equity and liability items - at the average exchange rate announced by the National Bank of Poland for December 31, 2022 - EURPLN 4.6899 and for December 31, 2021 - EURPLN 4.5994.
▪ items in the statement of comprehensive income and statement of cash flows - at an exchange rate constituting the arithmetic mean of the average exchange rates published by the National Bank of Poland for the last day of each month in the financial year from January 1, 2022 to December 31, 2022 - EURPLN 4.6883; for the period from January 1, 2021 to December 31, 2021 - EURPLN 4.5775.

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STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2022	Year ended December 31, 2021
STATEMENT OF PROFIT OR LOSS			
REVENUE FROM SALES	*4.1*	**35,922**	**35,917**
Cost of sales	*4.2*	(34,213)	(35,094)
GROSS PROFIT ON SALES		**1,709**	**823**
Distribution and selling expenses	*4.2*	(99)	(17)
General and administrative expenses	*4.2*	(300)	(206)
Other operating income / (costs)	*4,3*	(171)	1
OPERATING PROFIT		**1,139**	**601**
Financial income / (costs), including	*4.4*	2,291	1,313
Interest income calculated using the effective interest rate method		*1,129*	*463**
GROSS PROFIT		**3,430**	**1,914**
Income tax	*5.1*	(333)	(180)
NET PROFIT		**3,097**	**1,734**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss:			
Valuation of hedging instruments	*12.3*	193	659
Deferred tax	*5.1*	(37)	(125)
Items that may not be reclassified to profit or loss:			
Actuarial gains and losses from valuation of provisions for employee benefits		1	6
Deferred tax		-	(1)
NET OTHER INCOME		**157**	**539**
TOTAL COMPREHENSIVE INCOME		**3,254**	**2,273**
NET PROFIT AND DILUTED NET PROFIT PER SHARE /IN PLN/	*12.5*	**1.45**	**0.93**

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

STATEMENT OF FINANCIAL POSITION

	Note	As at December 31, 2022	As at December 31, 2021
NON-CURRENT ASSETS			
Property, plant and equipment	*6.*	139	146
Right-of-use assets	*7.*	24	20
Financial receivables	*16.1.1*	5,468	6,936
Derivatives and other assets measured at fair value through profit or loss	*16.1.2*	608	358
Shares in subsidiaries	*8.*	29,441	29,370
Shares in subsidiaries, jointly controlled entities, associates and other	*8.2*	96	96
Deferred income tax assets	*5.3.2*	-	-
Other non-current assets		104	3
		35,880	**36,929**
CURRENT ASSETS			
Inventories		1	1
Income tax receivables		-	136
Trade and other receivables	*16.1.1*	17,528	19,637
Derivatives	*16.1.2*	1,669	2,254
Shares in subsidiaries	*8.*	4	162
Other current assets	*10.*	102	375
Cash and cash equivalents	*11.*	10,593	5,316
		29,897	**27,881**
TOTAL ASSETS		**65,777**	**64,810**
EQUITY			
Share capital	*12.1*	19,184	19,165
Reserve capital	*12.2*	25,049	20,154
Hedging reserve	*12.3*	402	246
Retained earnings	*12.4*	3,101	1,737
		47,736	**41,302**
NON-CURRENT LIABILITIES			
Non-current provisions	*13,14*	12	13
Loans, borrowings, bonds and leases	*16.1.3*	5,233	7,084
Deferred income tax liability	*5.3.2*	143	34
Derivatives	*16.1.2*	-	-
Other liabilities	*16.1*	9	13
		5,397	**7,144**
CURRENT LIABILITIES			
Current provisions	*13,14*	40	40
Loans, borrowings, bonds, cash pooling, leases	*16.1.3*	7,549	3,164
Derivatives	*16.1.2*	1,268	2,278
Trade and other liabilities	*16.1.4*	2,813	10,238
Income tax liabilities		40	1
Other non-financial liabilities	*15.*	934	643
		12,644	**16,364**
TOTAL LIABILITIES		**18,041**	**23,508**
TOTAL EQUITY AND LIABILITIES		**65,777**	**64,810**

STATEMENT OF CHANGES IN EQUITY

	Share capital	Supplementary capital	Hedging reserve	Retained earnings	Total equity
Note	*12.1*	*12.2*	*12.3*	*12.4*	
AS AT JANUARY 1, 2021	**19,165**	**18,410**	**(288)**	**1,742**	**39,029**
Net profit for the reporting period	-	-	-	1,734	**1,734**
Other comprehensive income	-	-	534	5	**539**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**534**	**1,739**	**2,273**
Allocation of profit from previous years	-	1,744	-	(1,744)	**-**
AS AT DECEMBER 31, 2021	**19,165**	**20,154**	**246**	**1,737**	**41,302**
Net profit for the reporting period	-	-	-	3,097	**3,097**
Other comprehensive income	-	-	156	1	**157**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**156**	**3,098**	**3,254**
Allocation of profit from previous years	-	1,734	-	(1,734)	**-**
Reduction of nominal value of shares	**(3,178)**	**3,178**	**-**	**-**	**-**
Share capital increase	**3,197**	**(17)**	**-**	**-**	**3,180**
AS AT DECEMBER 31, 2022	**19,184**	**25,049**	**402**	**3,101**	**47,736**

STATEMENT OF CASH FLOWS

	Note	Year ended December 31, 2022	Year ended December 31, 2021*
CASH FLOWS FROM OPERATING ACTIVITIES			
Gross profit		**3,430**	**1,914**
Income tax paid		(239)	(718)
Adjustments for:			
Depreciation, amortisation and impairment losses		12	12
Interest and dividend, net	*18.1*	(1,986)	(1,400)
Profit / loss on investing activities	*18.1*	(446)	102
Change in receivables	*18.1*	5,363	(7,942)
Change in inventories		-	-
Change in liabilities, excluding loans and borrowings	*18.1*	(6,942)	8,736
Change in other non-financial assets	*18.1*	(297)	254
Change in provisions		1	(20)
Exchange differences		(1)	-
NET CASH FROM OPERATING ACTIVITIES		**(1,105)**	**938**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets		(7)	(3)
(Purchase) / buy-back of bonds issued by PGE Group companies	*18.2*	3,550	800
Sale of other financial assets		217	391
Purchase of subsidiaries	*18.2*	(117)	(136)
Dividends received	*18.2*	1,639	1,252
Received/(provided) cash under cash pooling	*18.2*	4,332	78
Loans granted		(19,228)	(12,519)
Interest received		591	451
Loans repaid		14,441	11,573
Other		10	**-**
NET CASH FROM INVESTING ACTIVITIES		**5,428**	**1,887**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		3,197	-
Proceeds from loans, borrowings	*18.3*	2,200	273
Repayment of loans, borrowings, leases	*18.3*	(3,985)	(976)
Interest paid		(444)	(313)
Other		(14)	-
NET CASH FROM FINANCING ACTIVITIES		**954**	**(1,016)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**5,277**	**1,809**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	*11*	**5,316**	**3,507**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	*11*	**10,593**	**5,316**

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

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

1. General information

1.1 Company operations

PGE Polska Grupa Energetyczna S.A. was founded on the basis of the Notary Deed of August 2, 1990 and registered in the District Court in Warsaw, XVI Commercial Department on September 28, 1990. The Company was registered in the National Court Register of the District Court for the capital city of Warsaw, XII Commercial Department, under no. KRS 0000059307. On April 6, 2022, an Extraordinary General Meeting adopted a resolution to change the Company's registered office to Lublin. On July 1, 2022, the change was registered in the National Court Register maintained by the District Court for Lublin-Wschód in Lublin, based in Świdnik, VI Commercial Division of the National Court Register, and the registered office is now located in Lublin at Aleja Kraśnicka 27.

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

The State Treasury is the Company's principal shareholder.

The Company's core activities are as follows:

- trade in electricity and other energy market products
- oversight of head offices and holding companies
- provision of financial services to PGE Group companies
- provision of other services related to these activities

PGE S.A.'s business activities are conducted under appropriate concessions, including concession for electricity trading granted by the Energy Regulatory Office. The concession is valid until 2025. No significant assets or liabilities are assigned to the concession. According to the concession the annual fees are paid depending on the level of turnover. In 2022 and in 2021, the Company's costs relating to the concession amounted to PLN 2.5 million.

Revenue from the sale of electricity and other energy market products is the only significant items in operating revenue. This revenue is generated on the domestic market. The Company's Management Board does not analyse its business based on segments as a result of which the Company does not report operating or geographical segments.

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

Going concern

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

These financial statements cover the period from January 1, 2022 to December 31, 2022 and include comparative data for the period from January 1, 2021 to December 31, 2021.

1.2 Ownership structure

	As at December 31, 2022	As at January 1, 2022
State Treasury	60.86%	57.39%
Other shareholders	39.14%	42.61%
Total	**100.00%**	**100.00%**

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

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

As disclosed in note 12.1 to these financial statements, the Company in the present period reduced the nominal value of its shares and increased its share capital. The changes in the Company's share capital were registered at the National Court Register on May 18, 2022.

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

1.3 Composition of the Company's Management Board

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

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

On November 17, 2022, the Supervisory Board adopted a resolution to dismiss Mr. Paweł Cioch from the Management Board.

As at December 31, 2022 the Company's 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 January 4, 2023, the Supervisory Board adopted a resolution to appoint Mr. Rafał Włodarski to the Management Board as of January 9, 2023.

At the date on which these financial statements were published, the Company's 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,
- Rafał Włodarski – Vice-President of the Management Board.

2. Basis for preparation of financial statements

2.1 Statement of compliance

These financial statements were prepared in accordance with IFRS EU. IFRS comprise standards and interpretations, approved by the International Accounting Standards Board and the IFRIC Interpretations Committee.

Included in these financial statements, in note 23, is the financial information referred to in art. 44 sec. 2 of the Energy Law dated April 10, 1997 (Official Journal from 2012 item 1059, as amended).

These financial statements are prepared under the historical cost convention, which was modified in relation to:

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

- Impaired assets – presented in historical cost adjusted by impairment losses.

The accounting rules used in the preparation of these financial statements are described in the individual detailed notes and have been applied consistently by the Company for all periods presented unless otherwise stated.

2.2 Presentation and functional currency

The Company's functional currency and the presentation currency of these financial statements is the Polish zloty ("PLN"). All amounts are in PLN million, unless indicated otherwise.

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

	December 31, 2022	December 31, 2021
USD	4.4018	4.0600
EUR	4.6899	4.5994

2.3 New standards and interpretations published, not yet effective

The following standards, changes in already effective standards and interpretations are not endorsed by the European Union or are not effective as at January 1, 2022:

Standard	Description of changes	Effective date
IFRS 14 Regulatory Deferral Accounts	Accounting and disclosure principles for regulatory deferral accounts.	In accordance with a decision by the European Commission, the approval process for the standard in its preliminary version will not begin before the final version is published.
Amendments to IFRS 10 and IAS 28	Contains guidelines on the sale or contribution of assets between an investor and its joint venture or associate.	Postponed indefinitely
IFRS 17 Insurance contracts	Defines a new approach to recognising revenue and profit/loss in the period in which insurance services are provided	January 1, 2023
Amendments to IFRS 17 Insurance Contracts	First-time Adoption of IFRS 17 and IFRS 9 - Comparative Data	January 1, 2023
Amendments to IAS 1	The changes concern presentation of financial statements - Classification of Liabilities as Current or Non-current	January 1, 2023
Amendments to IAS 1	The amendments concern the presentation of financial statements - disclosures regarding the applied accounting policy	January 1, 2023
Amendments to IAS 8	The amendments concerning disclosures regarding the applied accounting policy, including changes in estimated values and correcting errors	January 1, 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	January 1, 2023
Amendments to IFRS 16	The changes relate to how liabilities concerning sale and leaseback transactions are measured	January 1, 2024

The Company intends to adopt the above-mentioned new standards, amendments to standards and IFRS interpretations published by the International Accounting Standards Board but not yet effective at the reporting date, when they become effective.

These regulations will not have a material impact on PGE S.A.'s future financial statements.

2.4 Professional judgement of management and estimates

In the process of applying the accounting policy to the issues set out below, the most significant factor, apart from accounting estimates, was management's professional judgement, which influences the figures reported in the separate financial statements, including the notes. The estimates were based on the best knowledge of the Management Board relating to current and future operations and events in particular areas. Detailed information on the assumptions made is presented below or in respective explanatory notes.

- During the reporting period, the Company carried out an analysis of the rationale and subsequent testing for impairment of non-current financial assets. The test results are described in note 8.1 to these financial statements.

- Provisions are liabilities of uncertain amount or timing. During the reporting period a provision for employee benefits was updated due to an increase in the discount rate and inflation. Details are presented in note 13 to these financial statements.
- Uncertainties concerning tax settlements are described in note 20 to these financial statements.
- The Company makes significant estimates in respect of the recognised contingent liabilities, details are set out in note 19 of these financial statements.
- The valuation of financial instruments is based on a number of assumptions and estimates on the basis of the data available at the time of preparing the financial statements. Changes in these assumptions and estimates may affect the future financial statements of PGE. Note 16.1.2 provides information on the impact of the valuation of financial instruments on profit or loss and other comprehensive income.
- In view of the crisis situation in the electricity market in 2022, a number of legal regulations came into force, which made it necessary for PGE to make cost estimates for the contribution for the Price Difference Payment Fund resulting from the Emergency Measures Act in 2023. These estimates are described in greater detail in note 24.1.5 to these financial statements.

3. Changes in accounting principles and data presentation

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

The accounting principles (policy) applied in preparing these financial statements are consistent with those applied in preparing the financial statements for 2021. The following amendments to IFRSs are applied in these financial statements in line with their effective dates. The following amendments did not have a material impact on the presented and disclosed financial information or were not applicable to the Company's transactions:

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

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

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

4. Revenue and costs

4.1 Revenue from sales

ACCOUNTING POLICIES

Revenue from contracts with customers

Revenue is recognised so as to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is recognised when the performance obligation is met, i.e. goods (product) are provided to the customer. The transfer of the goods occurs when the customer gains control of the goods.

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

- the parties have executed a contract (in written or verbal form or in accordance with customary trade practices) and are obligated to perform their duties;
- the entity is able to identify the rights of each of the parties with regard to the goods or services that are to be transferred;
- the entity is able to identify terms of payment for the goods or services that are to be transferred;
- the contract has commercial substances;
- it is probable that the the entity will receive the consideration to which it is entitled to in exchange for the goods or services when these are delivered to the customer.

Upon contract execution, the entity analyses the goods or services covered by the contract with the client and identifies as a performance obligation all commitments to provide the customer with:

- goods or services (or packages of goods or services) that are distinguishable; or
- groups of separate goods or services that are essentially the same and in the transfer to the client is the same.

The Company recognises revenue when the performance obligation concerning the goods and services is met (or is in the process of being met). The transfer of an asset occurs when the customer obtains control of the asset, that is, the ability to directly dispose of the asset and the ability to obtain substantially all of the other benefits from the asset.

The Company transfers control over goods or services over time and thus satisfies the performance obligation and recognises revenue over time if one of the following conditions is met:

- the customer receives and derives benefits from the Company's consideration as the Company provides the consideration;
- as a result of the Company's consideration a new or improved asset is created (e.g. production in progress) and control over this asset - as it is created or improved - is exercised by the customer; or
- as a result of the Company's consideration no new asset is created for alternative use by the Company and the Company has an enforceable title to pay for the consideration provided thus far.

For each performance obligation over time, the entity recognises revenue over time, measuring the degree of performance of this obligation. The purpose of the measurement is to determine the progress in meeting the entity's obligation to transfer control of the goods or services promised to the customer (i.e. the extent to which the performance obligation is met).

When a performance obligation is met (or is in the process of being met), the entity recognises as revenue an amount equal to the transaction price that was allocated to that performance obligation. The transaction price takes into account part or all of the amount of estimated variable consideration only to the extent that it is highly probable that a significant portion of the amount of previously recognised accumulated revenue will not be reversed when uncertainty about the amount of variable consideration ceases.

To determine the transaction price, the entity considers the terms of the contract and its usual commercial practices. The transaction price is the amount of consideration that the entity expects to receive in exchange for transferring the promised goods or services to the customer, excluding amounts collected on behalf of third parties.

Lease income

The Company, as lessor, has classified the leases entered into as operating leases. Operating lease income is recognised in the profit or loss of the current period using the straight-line method. The leases are mainly for office and commercial space.

Revenue from wholesale of electricity

Contracts for the sale of electricity concluded on the wholesale market are notified to the Transmission System Operator (TSO) in the form of the quantity of electricity declared each hour which the company, as supplier, is required to deliver or cause to be delivered and the customer to receive. The settlement price as well as the volumes of electricity in particular hours result from the previously signed OTC (Over The Counter) contracts or in case of sales on the markets of the TGE markets from the electronically recorded transactions.

The settlement of deviations of the actually delivered electricity quantities from the previously notified delivery schedules (Energy Sale Contracts) takes place on the Balancing Market operated by the Transmission System Operator at balancing energy prices determined in accordance with its operating rules. Balancing market settlements are carried out with the TSO in 10-day cycles, while wholesale settlements on TGE are conducted with clearinghouse IRGiT, which is the guarantor for settlements of transactions executed on TGE, and they are performed daily, in accordance with the IRGiT settlement rules. In the case of OTC contracts, settlements are carried out in accordance with the provisions of these contracts, i.e. in 10-day or monthly cycles.

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

Type of goods or services	Year ended December 31, 2022	Year ended December 31, 2021
REVENUE FROM CONTRACTS WITH CUSTOMERS	**35,917**	**35,913**
Revenue from sale of goods, including:	**34,177**	**34,822**
Sale of electricity	*20,730*	*11,797*
Sale of gas	*1,219*	*486*
Sale of CO_2 emission allowances	*12,199*	*22,506*
Revenue from the Capacity Market	*29*	*33*
Revenue from sale of services	**1,740**	**1,091**
Revenue from leases	**5**	**4**
TOTAL REVENUE FROM SALE	**35,922**	**35,917**

The total amount of revenue from sales includes approx. PLN 9 million due to sales transactions for which the value was not finally determined at the end of the reporting period.

In 2022, the Company recognised revenue for performance obligations met in prior periods resulting from adjustments to the value of electricity sales in the balancing market made in prior years. The total value of these adjustments was approx. PLN 26 million (approx. PLN 24 million in 2021).

Deadline for delivery of goods or services	Year ended December 31, 2022	Year ended December 31, 2021
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS		
Revenue from sale of goods or services provided to the customer over time	*23,718*	*13,407*
Revenue from sale of goods or services provided to the customer at a point in time	*12,199*	*22,506*
TOTAL REVENUE FROM SALE	**35,917**	**35,913**

The Company operates predominately in Poland. Sales to foreign customers in 2022 and 2021 amounted to PLN 11 million and PLN 5,226 million, respectively, and mainly concerned the sale of CO_2 allowances. The decline in sales to foreign customers is mainly due to the rollover of part of the CO_2 emission allowances in 2021, as described below.

The rise in revenue from electricity sales in 2022 compared to the same period of the previous year is the result of a higher average electricity sales price, with a lower volume of electricity sold. The decrease in volume is mainly due to a lower volume of electricity sold to PGE Obrót S.A. to secure the demand of retail customers.

The increase in revenue from natural gas sales in 2022 compared to the previous year is mainly due to an increase in the average gas sales price.

The decrease in revenue from the sale of CO_2 allowances is the result of a decrease in the number of CO_2, with an increase in the average sale price. Sales of CO_2 allowances decreased both to PGE Group companies and to entities outside PGE Group.

The decrease in the number of CO_2 allowances sold is mainly due to a different schedule in 2022 for the purchase of CO_2 allowances for redemption for 2021 and 2022, compared to the purchase in 2021 for redemption for 2020 and 2021. Moreover, in 2021, in order to optimise cash flows, PGE Group decided to change its strategy regarding the hedging of CO_2 allowances and to roll over part of the contracts concerning these allowances. As a result of this strategy, purchase contracts with delivery in December 2021, with a total volume of 19.6 million, were closed and replaced by contracts with delivery in the first quarter of 2022. This transaction generated additional revenue of PLN 5,034 million in 2021.

{In connection with the commencement of operation of the Capacity Market from January 1, 2021, PGE Group companies that are capacity suppliers to PSE S.A. earn revenue related to the fulfilment of the capacity obligation. This revenue is settled by individual Group companies according to an algorithm described in the Capacity Market Management Agreement. PGE S.A., which according to the Agreement serves as Manager, recognises revenue from activities it undertakes. The decline in revenue from the Capacity Market in 2022 from the Power Market compared to the previous year is mainly due to the increased costs incurred in 2021 to launch the operation of the Capacity Market, which had an impact on the Capacity Market revenue achieved in that year.

Revenue from the sale of services mainly concerns services performed for PGE Group subsidiaries and includes, inter alia, services related to electricity trade and supply, supply of fuel, licenses and support services. The increase is mostly due to an increase in electricity trading and supply services, mainly as a result of an increase in electricity prices.

Information on major customers

The Company's main counterparties are PGE Group subsidiaries. In 2022, sales to PGE Obrót S.A. accounted for 47% of revenue from sales, while sales to PGE GiEK S.A. accounted for 36%. In 2021, sales to these companies accounted for 28% and 35%, respectively.

4.2 Costs by nature and function

ACCOUNTING POLICIES

Cost of sales

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

Costs that can be directly attributable to revenues recognised by the Company are recognised in profit or loss for the reporting period in which the revenues were recognised.

Costs that can only be indirectly attributed to revenues or other economic benefits recognised by the Company, are recognised in the profit or loss in the reporting periods to which they relate, in accordance with accrual basis of accounting, taking into account the principles of measurement of property, plant and equipment and inventories.

	Year ended December 31, 2022	Year ended December 31, 2021
COSTS BY NATURE		
Depreciation, amortisation	12	12
External services	85	75
Employee benefits expenses	200	152
Contributions to price difference payment fund	88	-
Other costs by nature	121	69
TOTAL COSTS BY NATURE	**506**	**308**
Distribution and selling expenses	(99)	(17)
General and administrative expenses	(300)	(206)
Cost of goods and materials sold	34,106	35,009
COST OF SALES	**34,213**	**35,094**

The decline in the value of goods and materials sold compared to 2021 was mainly driven by changes in the value of sales of CO_2 emission allowances and electricity and natural gas, as described above in note 4.1.

In the current reporting period, an impairment loss of PLN 88 million for the price difference adjustment fund was included in selling and distribution costs. A detailed description of the requirements related to the provisions of the Emergency Measures Act is available in note 24.1.5 of this report.

The increase in general and administrative expenses compared to 2021 was mainly driven by higher marketing costs (up by PLN 32 million), salary and employee benefits costs (up by PLN 28 million) and contributions to international organisations (up by PLN 7 million).

4.2.1 Depreciation, amortisation and impairment losses

	Depreciation, amortisation					
	Year ended December 31, 2022			Year ended December 31, 2021		
	Property, plant and equipment	Right-of-use assets	TOTAL	Property, plant and equipment	Right-of-use assets	TOTAL
Cost of sales	4	-	**4**	4	-	**4**
General and administrative expenses	7	1	**8**	8	-	**8**
TOTAL	**11**	**1**	**12**	**12**	**-**	**12**

4.2.2 External services

	Year ended December 31, 2022	Year ended December 31, 2021
Trading commissions	21	19
IT services	25	23
Consulting services	26	17
Transmission services	-	7
Other	13	9
TOTAL EXTERNAL SERVICES	**85**	**75**

4.2.3 Employee benefits expenses and employment structure

	Year ended December 31, 2022	Year ended December 31, 2021
Payroll	154	130
Social security expenses	24	20
Cost of voluntary leave programs	-	(11)
Other employee benefits	22	13
TOTAL EMPLOYEE BENEFITS EXPENSES, INCLUDING:	**200**	**152**
Included in costs of goods sold	66	50
Included in distribution and selling costs	2	2
Recognised in general and administrative expenses	132	100

As at December 31, 2022, the Company had 807 employees (full-time equivalent), compared to 698 at December 31, 2021.

4.2.4 Other costs by nature

	Year ended December 31, 2022	Year ended December 31, 2021
Sponsoring and advertising	83	48
Management remuneration	9	6
Taxes and fees	6	5
Other	23	10
TOTAL	**121**	**69**

4.3 Other operating income and costs

In the current reporting period, other operating expenses amounted to PLN 178 million and other operating income to PLN 7 million.

Other operating expenses consist mainly of impairment on receivables from subsidiary ENESTA sp. z o.o. w restrukturyzacji in the amount of PLN 154 million and donations made in the amount of PLN 14 million.

4.4 Financial income and costs

ACCOUNTING POLICIES

Financial income and costs

Interest income and costs are recognised over the respective period using the effective interest method in relation to the net amount of the financial instrument at the reporting date.

Dividends are recognised when the shareholders' right to receive payments is established.

	Year ended December 31, 2022	Year ended December 31, 2021
NET FINANCIAL INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS		
Dividends	1,639	1,252
Interest, including	663	141
Interest income calculated using the effective interest rate method	*1,129*	*463**
Revaluation of financial instruments	3	(33)
Reversal/(recognition) of impairment	(17)	(7)
Exchange differences	(31)	(4)
Profit/(loss) on disposal of investment	35	(36)
TOTAL NET FINANCIAL INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS	**2,292**	**1,313**
NET OTHER FINANCIAL INCOME/(COSTS)		
Interest cost on non-financial items	-	-
Other	(1)	-
TOTAL NET OTHER FINANCIAL INCOME/(COSTS)	**(1)**	**-**
TOTAL NET FINANCIAL INCOME/(COSTS)	**2,291**	**1,313**

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

In 2022, the Company reported dividend income mainly from PGE Dystrybucja S.A. (PLN 1,138 million), PGE EO S.A. (PLN 449 million) and PGE EC S.A. (PLN 25 million), and in the comparative period mainly PLN 784 million from PGE Dystrybucja S.A., PLN 277 million from PGE EC S.A. and PLN 166 million from PGE EO S.A.

The Company reports interest income mainly from financing provided to subsidiaries of PLN 549 million, from cash held in bank accounts and deposits of 310 million, from bonds issued by subsidiaries of PLN 245 million. Interest costs mainly relate to borrowings (PLN 280 million), cash pooling liabilities (PLN 196 million) and bonds issued (PLN 88 million), as described in note 16.1.3 of these financial statements.

In the item reversal/(creation) of impairment losses, the Company presents in the current reporting period the creation of impairment loss of subsidiary PGE Nowa Energia Sp. z o.o. in the amount of PLN 17 million. In the comparative period, impairment losses were created mainly in relation to Betrans sp. z o.o. in the amount of PLN 9 million, Elmen sp. z o.o. in the amount of PLN 7 million and ElectroMobility Poland S.A. PLN 4 million, and in the case of the release of an impairment loss in relation to Elbest sp. z o.o. in the amount of PLN 22 million.

The item 'impairment of financial statements' includes valuation of hedging transactions in the part considered as the ineffective part of a hedge for instruments designated as hedging instruments in cash flow hedge accounting and in full when it comes to other instruments.

On September 23, 2022, as part of the implementation of the spin-off of the coal assets to NABE, PGE S.A. sold 100% of its shares in the Companies: Ramb sp. z o.o., MegaSerwis sp. z o.o., ELTUR – SERWIS sp. z o.o., ELMEN sp. z o.o., Betrans sp. z o.o., Bestgum Polska sp. z o.o. to PGE Górnictwo i Energetyka Konwencjonalna S.A. The gain on these shares is PLN 30 million in total. On July 15, 2022, the agreement for the sale of all shares held by PGE S.A. in TFI Energia S.A. to PZU S.A. was executed. The gain on the sale of shares in TFI Energia S.A. amounted to nearly PLN 4 million. In the comparative period, the amount of loss on disposal of investments presented relates to the transaction of sale of all shares in PGE EJ1 sp. z o.o. to the State Treasury.

5. Income tax

ACCOUNTING POLICIES

Taxes

Income tax recognised in profit or loss comprises current income tax and deferred income tax. Recognised are actual fiscal charges for the reporting period calculated by the Company in accordance with regulations of the Corporate Income Tax Act and the change in deferred tax assets and deferred tax liabilities other than the ones charged or credited directly to equity.

In connection with temporary differences between the reported value of assets and liabilities in the books and their tax value and tax loss deductible in the future, the Company establishes deferred tax liabilities and assets.

The value of deferred tax assets and liabilities in the statement of financial position is reviewed at each reporting date. Deferred tax assets and deferred tax liabilities are classified entirely as long-term. The Company offsets deferred tax assets and liabilities.

The Company reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow deferred tax asset to be utilised partially or entirely.

5.1 Tax in the statement of comprehensive income

Main elements of income tax expense for the years ended December 31, 2022 and December 31, 2021 are as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS		
Current income tax PGE S.A.	262	130
Benefits from tax group settlements	-	(3)
Adjustments related to settlement of current income tax of previous years	-	26
Deferred income tax from prior years	(2)	-
Deferred income tax	73	27
INCOME TAX EXPENSE RECOGNISED IN STATEMENT OF PROFIT OR LOSS	**333**	**180**
INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME		
From valuation of hedging instruments	37	125
From actuarial gains and losses on valuation of employee benefit provisions	-	1
(Tax benefit) / tax burden recognised in other comprehensive income (equity)	**37**	**126**

PGK PGE 2015 no longer exists as of December 31, 2021. From 1 January 2022, all companies included in the tax group agreement have become independent CIT taxpayers again.

5.2 Effective tax rate

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

	Year ended December 31, 2022	Year ended December 31, 2021
PROFIT/(LOSS) BEFORE TAX	**3,430**	**1,914**
Income tax according to Polish statutory tax rate of 19%	652	364
ITEMS ADJUSTING INCOME TAX		
Adjustments related to settlement of current income tax of previous years	-	26
Deferred income tax from prior years	(2)	-
Tax losses of companies belonging to the tax group	-	(3)
Non-taxable income	(311)	(234)
Non-tax-deductible tax loss	-	22
Costs not recognised as tax-deductible costs	(6)	5
TAX AT EFFECTIVE TAX RATE (Income tax (expense) as presented in the financial statements)	**333**	**180**
EFFECTIVE TAX RATE	**9.7%**	**9.4%**

Non-taxable income refers mainly to dividend income which are not included in the calculation of the current income tax base (in 2022 tax impact of PLN 311 million and in 2021 of PLN 238 million).

In the current and comparative reporting period, the Company's non-deductible expenses mainly included impairment of shares in subsidiaries.

5.3 Deferred tax in the statement of financial position

5.3.1 Deferred income tax assets

	As at December 31, 2022	As at December 31, 2021
Difference between tax value and carrying amount of financial liabilities	32	17
Difference between tax value and carrying amount of financial assets	207	417
Provisions for employee benefits	11	9
Non-taxable costs of the period	19	-
Other	5	8
DEFERRED TAX ASSETS	**274**	**451**

Change in deferred income tax - assets

	Year ended December 31, 2022	Year ended December 31, 2021
AS AT JANUARY 1	**451**	**404**
Change in correspondence to financial result	(177)	47
AS AT DECEMBER 31	**274**	**451**

5.3.2 Deferred tax liabilities

	As at December 31, 2022	As at December 31, 2021
Difference between tax value and carrying amount of property, plant and equipment	15	15
Difference between tax value and carrying amount of other financial assets	402	470
DEFERRED TAX LIABILITIES	**417**	**485**

Change in deferred income tax - liabilities

	Year ended December 31, 2022	Year ended December 31, 2021
AS AT JANUARY 1	**485**	**285**
Change in correspondence to financial result	(105)	74
Change in correspondence to other comprehensive income	37	126
AS AT DECEMBER 31	**417**	**485**

Changes in correspondence with other comprehensive income relate to the change in deferred tax on the measurement of hedging instruments. Other changes in each item have been recognised in the financial result.

	Year ended December 31, 2022	Year ended December 31, 2021
Deferred tax assets	-	-
Income tax liabilities	143	34

The Company does not determine a deferred tax liability or asset for the difference between the tax and book value of its shares in subsidiaries due to the uncertainty about the realisation of these differences. The total surplus of negative temporary differences between the tax value and carrying amount of shares in subsidiaries would amount to PLN 9,027 million, representing a PLN 1,715 million impact on the deferred tax asset. The company also does not recognize a deferred tax liability on the difference between the tax and book value of PGE GiEK S.A. shares. (potential deferred tax amount of PLN 273 million) due to the uncertainty of the value of income taxes that will be realized upon the sale of this company. As presented in Note 24.1.4 of these financial statements, significant parameters related to the sale of PGE GiEK S.A. are not yet determined.

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

6. Property, plant and equipment

ACCOUNTING POLICIES

Property, plant and equipment

Property, plant and equipment are assets:

- held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and
- expected to be used for more than one year.

Property, plant and equipment is measured at net carrying amount, i.e. initial value (or deemed cost for items of property, plant and equipment used before the transition to IFRS) less any accumulated depreciation and any impairment losses. Initial value comprises purchase price including all costs directly attributable to the purchase and bringing the asset into use. The cost comprises estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having it used for purposes other than to produce inventories.

The depreciable amount is the cost of an asset less its residual value. Depreciation commences when the asset is available for use. Depreciation is based on a depreciation plan reflecting the future useful life of the asset. The depreciation method used reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

The following useful lives are adopted for particular groups of property, plant and equipment:

Group	Average remaining amortisation period in years	Applied total depreciation periods in years in years
Buildings and structures	14	2-31
Machinery and equipment	6	1-39
Vehicles	3	1-10
Other property, plant and equipment	3	1-15

	As at December 31, 2022	As at December 31, 2021
Buildings	127	135
Other property, plant and equipment	12	11
NET VALUE OF PROPERTY, PLANT AND EQUIPMENT	**139**	**146**

In the reporting and comparative period, the Company did not purchase nor sold any significant property, plant and equipment.

Part of the area of the building owned by the Company was leased out under operating leases. The net value of property, plant and equipment under operating leases was PLN 14 million as at December 31, 2022. The depreciation of these assets recognised in current period costs amounted to PLN 1 million.

7. Right-of-use assets

ACCOUNTING POLICIES

Right-of-use assets

As defined in IFRS 16, an arrangement is or contains a lease if it transfers the right to control the use of an identified asset for a specified period in exchange for consideration.

The Company defines the lease term as an irrevocable period over which the lessee has the right to use the underlying asset, along with:

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

In determining the lease term and estimating the length of the irrevocable lease term, the Company applies the contract definition and determines the enforceability period of the contract. A lease ceases to be enforceable when both the lessee and the lessor have the right to terminate the lease without the consent of the other party, resulting at most in a minor penalty. The notion of penalty includes all kinds of "disadvantages" of an economic nature, creating barriers to exit from the contract.

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

The lease term begins on the inception date (when the underlying asset is made available for use by the lessee) and includes any rent-free periods granted to the lessee by the lessor.

At the inception of the lease, the Company takes into account all relevant facts and circumstances that create an economic incentive for the lessee to exercise or not to exercise the option to renew the lease, the option to purchase the underlying asset or the option to terminate the lease.

The lessee recognises the right-of-use asset on the inception date.

At the inception date, the lessee measures the right-of-use asset at cost.

Subsequent to the inception date, the lessee measure the right-of-use asset using the cost model. The lessee measures the right-of-use asset at cost:

- less accumulated depreciation (amortisation) and accumulated impairment losses. Depreciation is charged over the life of the lease, from the moment the asset is put in service. No depreciation is charged on the right-of-use classified as non-current assets held for sale.
- adjusted for revaluation of the liability (e.g. as a result of changes in lease payments).

As a lessee, the Company applies a recognition, measurement and presentation exemption to:

- short-term leases, i.e. leases with a term that is not longer than 12 months and which do not contain a call option; The exemption applies mainly to the letting of office premises;
- leases in respect of which the underlying asset is of low value and which are not subleased. The Company considers the value of the underlying asset to be low (the value of a new asset regardless of the age of the leased asset) if it does not exceed PLN 18 thousand. The exemption is applied to small office equipment (printers, photocopiers, computers, etc.).

In the item 'Right-of-use assets', the Company recognises the right to perpetual usufruct of land, which at the effective date of IFRS 16, i.e. i.e. January 1, 2019, was measured at the value of future discounted payments.

The value of the right-of-use as at December 31, 2022 was PLN 24 million.

The depreciation periods for the right-of-use are:

Group	Remaining depreciation period in years	Total depreciation period in years
Perpetual usufruct of land	67	99
Vehicles	1.5	2.5

As at December 31, 2022 no impairment risk regarding these assets was identified.

8. Shares in subsidiaries

ACCOUNTING POLICIES

Shares in subsidiaries, jointly controlled entities and associates

Subsidiaries are entities over which the Company has control as a result of its investment if by virtue of its involvement in the entity it is exposed to variable returns, or has rights to variable returns, and has the ability to affect those returns through its power over the entity. This involves holding the majority of total votes in decision-making bodies of these organisations. To determine whether the Company has control over the given organisation, existence and impact of potential voting rights that can be realised or converted at any time are considered.

A jointly controlled entity is an organisation in which the division of control over the business as specified in the agreement requires unanimity of controlling parties with respect to strategic financial and operational decisions.

An associate is an entity, including a partnership such as a corporation, over which the investor has significant influence and that is not a subsidiary or jointly controlled entity. IAS 28 defines 'significant influence' as the power to participate in the operational and financial policy decisions of an investee but not to exercise control or joint control over that investee.

The entity's ownership interests in subsidiaries, jointly controlled entities and associates are measured in accordance with IAS 27 Separate Financial Statements at historical cost. If there is objective evidence that these assets are impaired, the amount of the impairment is measured as the difference between the current book value of the asset and the estimated recoverable amount.

Shares in subsidiaries are recognised at cost less accumulated impairment losses.

	Registered office	Stake as at December 31, 2022	As at December 31, 2022	Stake as at December 31, 2021	As at December 31, 2021
PGE Górnictwo i Energetyka Konwencjonalna S.A.	Bełchatów	100.00%	11,723	100.00%	11,723
PGE Dystrybucja S.A.	Lublin	100.00%	10,595	100.00%	10,595
PGE Energia Ciepła S.A.	Warsaw	100.00%	4,341	100.00%	4,341
PGE Energia Odnawialna S.A.	Warsaw	100.00%	1,349	100.00%	1,349
PGE Obrót S.A.	Rzeszów	100.00%	622	100.00%	622
PGE Baltica 3 sp. z o.o.	Warsaw	100.00%	138	100.00%	138
PGE Baltica 2 sp. z o.o.	Warsaw	100.00%	104	100.00%	104
Elektrownia Wiatrowa Baltica 1 sp. z o.o.	Warsaw	100.00%	99	100.00%	32
PGE Dom Maklerski S.A.	Warsaw	100.00%	97	100.00%	97
PGE Ekoserwis sp. z o.o.	Wrocław	100.00%	70	100.00%	70
PGE Ventures sp. z o.o	Warsaw	100.00%	68	100.00%	68
PGE Sweden AB (publ)	Stockholm	100.00%	52	100.00%	52
PGE Gryfino 2050 sp. z o.o. (PGE Inwest 8)	Warsaw	100.00%	35	100.00%	35
PGE Trading GmbH	Berlin	100.00%	23	100.00%	23
Rybnik 2050 sp. z o.o.	Rybnik	100.00%	23	100.00%	23
PGE Nowa Energia sp. z o.o w likwidacji	Warsaw	100.00%	11	100.00%	28
PGE Systemy S.A.	Warsaw	100.00%	10	100.00%	10
MEGAZEC sp. z o.o.	Bydgoszcz	100.00%	10	100.00%	10
PGE Inwest 14 sp. z o.o.	Warsaw	100.00%	7	100.00%	4
PGE Baltica sp. z o.o.	Warsaw	100.00%	9	100.00%	9
PGE Inwest 21 sp. z o.o.	Warsaw	100.00%	9	100.00%	-
ELBIS sp. z o.o.	Rogowiec	100.00%	8	100.00%	8
PGE Inwest 12 sp. z o.o.	Warsaw	100.00%	6	100.00%	<1
PGE Synergia sp. z o.o.	Warsaw	100.00%	6	100.00%	6
PGE Inwest 22 sp. z o.o.	Warsaw	100.00%	5	100.00%	-
Energoserwis Kleszczów sp. z o.o.	Rogowiec	51.00%	5	-	-

	Registered office	Stake as at December 31, 2022	As at December 31, 2022	Stake as at December 31, 2021	As at December 31, 2021
PGE Inwest 24 sp. z o.o.	Warsaw	100.00%	4	100.00%	-
PGE Inwest 23 sp. z o.o.	Warsaw	100.00%	4	100.00%	-
ELBEST Security sp. z o.o.	Warsaw	100.00%	4	100.00%	4
PGE Inwest 25 sp. z o.o.	Warsaw	100.00%	3	100.00%	-
Elektrownia Wiatrowa Baltica 8 sp. z o.o. (PGE Baltica 1 sp. z o.o.)	Warsaw	100.00%	1	100.00%	1
Elektrownia Wiatrowa Baltica 6 sp. z o.o.	Warsaw	66.24%	1	100.00%	1
Elektrownia Wiatrowa Baltica 9 sp. z o.o.	Warsaw	100.00%	1	100.00%	1
PGE Asekuracja S.A. (PGE Inwest 13 S.A.)	Warsaw	100.00%	1	100.00%	1
PGE Baltica 4 sp. z o.o.	Warsaw	55.04%	1	100.00%	1
Elektrownia Wiatrowa Baltica 4 sp. z o.o.(Inwest 17)	Warsaw	66.19%	<1	100.00%	<1
Elektrownia Wiatrowa Baltica 5 sp. z o.o.(Inwest 18)	Warsaw	66.19%	<1	100.00%	<1
5 limited liability companies named PGE Inwest 2;9-11;20	Warsaw	100.00%	<1	100.00%	<1
Elektrownia Wiatrowa Baltica 10 sp. z o.o.	Warsaw	100.00%	<1	100.00%	<1
Elektrownia Wiatrowa Baltica 11 sp. z o.o.	Warsaw	100.00%	<1	100.00%	<1
Elektrownia Wiatrowa Baltica 12 sp. z o.o.	Warsaw	100.00%	<1	100.00%	<1
ELBEST sp. z o.o.	Bełchatów	-	-	100.00%	88
Towarzystwo Funduszy Inwestycyjnych Energia S.A.	Warsaw	-	-	100.00%	18
BETRANS sp. z o.o.	Bełchatów	-	-	100.00%	26
ELMEN sp. z o.o.	Rogowiec	-	-	100.00%	16
BESTGUM POLSKA sp. z o.o.	Rogowiec	-	-	100.00%	12
Ramb sp. z o.o.	Piaski	-	-	100.00%	7
Mega Serwis sp. z o.o.	Bogatynia	-	-	100.00%	7
ELTUR SERWIS sp. z o.o.	Bogatynia	-	-	100.00%	2
TOTAL			**29,445**		**29,532**

Significant changes in the structure of subsidiaries that took place in 2022:

- On February 8, 2022, an Extraordinary General Meeting of PGE Inwest 14 sp. z o.o. adopted a resolution to increase the company's share capital by PLN 3 million. The increase of the company's share capital was acquired by PGE S.A. in exchange for a cash contribution. On April 13, 2021, the increase in the company's share capital was registered with the National Court Register.
- On March 4, 2022 an agreement was performed to sell all Elbest sp. z o.o. shares held by PGE S.A. to Polski Holding Hotelowy sp. z o.o. for PLN 88 million. The book value of the shares at the time of the sale was also PLN 88 million.
- On March 31, 2022, an Extraordinary General Meeting of PGE Nowa Energia sp. z o.o. adopted a resolution to dissolve PGE Nowa Energia sp. z o.o. and appoint a liquidator to carry out liquidation.
- On April 6, 2022, an Extraordinary General Meeting of PGE Inwest 12 sp. z o.o. adopted a resolution to increase the company's share capital by PLN 3.5 million. The increase of the company's share capital was acquired by PGE S.A. in exchange for a cash contribution. On June 6, 2021, the increase in the company's share capital was registered with the National Court Register.
- On July 14, 2021, the Extraordinary General Meeting of Elektrownia Wiatrowa Baltica-1 sp. z o.o. adopted a resolution to increase the Company's share capital by PLN 67 million. The increase of the company's share capital was acquired by PGE S.A. in exchange for a cash contribution. On September 19, 2021, the increase in the company's share capital was registered with the National Court Register.
- On July 15, 2022, an agreement for the sale of all shares held by PGE S.A. in TFI Energia to PZU S.A. was executed. The gain on the sale of shares in TFI Energia S.A. amounted to PLN 3.7 million.
- On July 25, 2022, the ownership of a 33.8% stake held by PGE S.A. in EWB 4, EWB 5 and EWB 6 was transferred to ENEA S.A. for PLN 0.6 million. The book value of the shares at the time of the sale was also PLN 0.6 million.
- On August 1, 2022, an Extraordinary General Meeting of PGE Inwest 12 sp. z o.o. adopted a resolution to increase the company's share capital by PLN 2.6 million. The increase of the company's share capital was acquired by PGE S.A. in exchange for a cash contribution. On

September 21, 2021, the increase in the company's share capital was registered with the National Court Register.

- On September 23, 2022, as part of the implementation of the spin-off of the coal assets to NABE, PGE S.A. sold 100% of its shares in the following companies: Ramb sp. z o.o., MegaSerwis sp. z o.o., ELTUR – SERWIS sp. z o.o., ELMEN sp. z o.o., Betrans sp. z o.o., Bestgum Polska sp. z o.o. to PGE Górnictwo i Energetyka Konwencjonalna S.A. The gain on the sale of these shares was PLN 30 million in total.
- On September 27, 2022, the ownership of a 44.96% stake held by PGE S.A. in PGE Baltica 4 was transferred to Tauron Polska Energia S.A. for PLN 0.5 million. The book value of the shares at the time of the sale was also PLN 0.5 million.
- On October 25, PGE S.A. acquired 2,040 shares in Energoserwis Kleszczów sp. z o.o. on the basis of a share sale agreement with PGE Górnictwo i Energetyka Konwencjonalna S.A. concluded on that date, as a result of which it currently holds 51% of the share capital of Energoserwis Kleszczów sp. z o.o. The price paid for the shares was PLN 4.5 million.
- On November 9, 2022, an Extraordinary General Meeting of PGE Inwest 21 sp. z o.o. adopted a resolution to increase the company's share capital by PLN 9 million. The increase of the company's share capital was acquired by PGE S.A. in exchange for a cash contribution. On January 20, 2023, the increase in the company's share capital was registered with the National Court Register.
- On November 16, 2022, the Extraordinary General Meetings of PGE Inwest 22 sp. z o.o., PGE Inwest 23 sp. z o.o., PGE Inwest 24 sp. z o.o., PGE Inwest 25 sp. z o.o. adopted resolutions to increase the share capital of PGE Inwest 23 sp. z o.o. and PGE Inwest 24 sp. z o.o. by PLN 4.4 million, while in PGE Inwest 22 sp. z o.o. by PLN 4.5 million,
- On November 16, 2022, an Extraordinary General Meeting of PGE Inwest 22 sp. z o.o. adopted a resolution to increase the company's share capital by PLN 4.5 million. The increase of the company's share capital was acquired by PGE S.A. in exchange for a cash contribution. On January 23, 2023, the increase in the company's share capital was registered with the National Court Register.
- On November 16, 2022, an Extraordinary General Meeting of PGE Inwest 23 sp. z o.o. adopted a resolution to increase the company's share capital by PLN 4.4 million. The increase of the company's share capital was acquired by PGE S.A. in exchange for a cash contribution. On January 23, 2023, the increase in the company's share capital was registered with the National Court Register.
- On November 16, 2022, an Extraordinary General Meeting of PGE Inwest 24 sp. z o.o. adopted a resolution to increase the company's share capital by PLN 4.4 million. The increase of the company's share capital was acquired by PGE S.A. in exchange for a cash contribution. On January 12, 2023, the increase in the company's share capital was registered with the National Court Register.
- On November 16, 2022, an Extraordinary General Meeting of PGE Inwest 25 sp. z o.o. adopted a resolution to increase the company's share capital by PLN 2.8 million. The increase of the company's share capital was acquired by PGE S.A. in exchange for a cash contribution. On January 20, 2023, the increase in the company's share capital was registered with the National Court Register.
- On December 23, 2022, an Extraordinary General Meeting of PGE Inwest 2 sp. z o.o. adopted a resolution to increase the company's share capital by PLN 110 thousand . The increase of the company's share capital was acquired by PGE S.A. in exchange for a cash contribution. On March 7, 2023, the increase in the company's share capital was registered with the National Court Register.
- On December 23, 2022, an Extraordinary General Meeting of PGE Inwest 9 sp. z o.o. adopted a resolution to increase the company's share capital by PLN 110 thousand . The increase of the company's share capital was acquired by PGE S.A. in exchange for a cash contribution. On February 13, 2023, the increase in the company's share capital was registered with the National Court Register.
- On December 23, 2022, an Extraordinary General Meeting of PGE Inwest 10 sp. z o.o. adopted a resolution to increase the company's share capital by PLN 110 thousand . The increase of the company's share capital was acquired by PGE S.A. in exchange for a cash contribution. On February 21, 2023, the increase in the company's share capital was registered with the National Court Register.
- On December 23, 2022, an Extraordinary General Meeting of PGE Inwest 11 sp. z o.o. adopted a resolution to increase the company's share capital by PLN 110 thousand. The increase of the company's share capital was acquired by PGE S.A. in exchange for a cash contribution. On March 1, 2023, the increase in the company's share capital was registered with the National Court Register.
- On December 23, 2022, an Extraordinary General Meeting of PGE Inwest 20 sp. z o.o. adopted a resolution to increase the company's share capital by PLN 90 thousand . The

increase of the company's share capital was acquired by PGE S.A. in exchange for a cash contribution. On February 21, 2023, the increase in the company's share capital was registered with the National Court Register.

- On December 23, 2022, an Extraordinary General Meeting of Elektrownia Wiatrowa Baltica 10 sp. z o.o. adopted a resolution to increase the company's share capital by PLN 109 thousand . The increase of the company's share capital was acquired by PGE S.A. in exchange for a cash contribution. On March 1, 2023, the increase in the company's share capital was registered with the National Court Register.
- On December 23, 2022, an Extraordinary General Meeting of Elektrownia Wiatrowa Baltica 11 sp. z o.o. adopted a resolution to increase the company's share capital by PLN 110 thousand . The increase of the company's share capital was acquired by PGE S.A. in exchange for a cash contribution. On March 1, 2023, the increase in the company's share capital was registered with the National Court Register.
- On December 23, 2022, an Extraordinary General Meeting of Elektrownia Wiatrowa Baltica 12 sp. z o.o. adopted a resolution to increase the company's share capital by PLN 110 thousand . The increase of the company's share capital was acquired by PGE S.A. in exchange for a cash contribution. At the date on which these financial statements were approved for publication, the share capital increase at Elektrownia Wiatrowa Baltica 12 sp. z o.o. was not yet registered at the National Court Register.

8.1 Analysis of the value of non-current financial assets

Impairment analysis of PGE GiEK S.A., PGE EC S.A. and PGE EO S.A.

In the present reporting period, the Company analysed the rationale and identified factors that could significantly contribute to a change in the value of its generating assets and consequently affect the value of PGE S.A.'s stakes in PGE GiEK S.A., PGE EC S.A., PGE EO S.A. and PGE Gryfino 2050 sp. z o.o.

External factors

- PGE's market capitalisation remaining below net asset book value.
- Global energy crisis, characterised by rising levels of fuel, electricity and CO_2 prices and levels of volatility hitherto unobserved. This crisis was exacerbated by Russia's invasion of Ukraine on 24 February 2022 and the emergence of the risk of coal and gas shortages in Europe:
  - The average electricity price for forward contracts for the year ahead (Y+1) in 2022 was 1,112 PLN/MWh, i.e. 188% higher than in 2021.
  - CO_2 prices, after a sharp collapse triggered by the pandemic outbreak in mid-March 2020, began to recover until a sharp increase began in November 2021. In 2022, the average weighted price of the EUA DEC 22 instrument was 80.85 EUR/t and was significantly higher (50%) than the average price of EUA DEC 21 observed in 2021,
  - The average price of hard coal at ARA ports in monthly follow-on contracts in 2022 was 253 USD/t, up 234% compared to 2021,
  - The average price of natural gas in futures contracts with delivery in 2022 was 118 EUR/MWh, an increase of 293% compared to 2021.
- The Act of October 27, 2022 on emergency measures to reduce electricity price levels and support certain consumers in 2023 requires generating entities to make payments to the Price Difference Payment Fund for each month from December 2022 to December 2023. These funds are intended to cover the difference between the maximum energy price adopted in the Act and the contractual or reference price to be paid to electricity sellers in the form of compensation.

As a result of the analysis of the aforementioned rationale, asset impairment tests were carried out as at December 31, 2022 at the companies PGE GiEK S.A, PGE EC S.A., PGE EO S.A. and PGE Gryfino 2050 sp. z o.o. On the basis of the tests carried out, it was concluded that no impairment losses were necessary on the generating assets and consequently on the value of the shares held by PGE S.A.

Macroeconomic assumptions

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

Electricity price forecasts assume a growth trend in 2024 relative to 2023 prices, followed by an average annual decrease of approx. 22.4% in 2025-2026 relative to 2024, and an average annual increase of approx. 5.6% in 2027-2030.

Price projections for CO_2 emission allowances assume an increase in 2024 relative to 2023, followed by an average annual decline in 2025-2026 at approx. 14.9% relative to 2024, and an average annual increase between 2027 and 2029 of approx. 14.6%. A slight decrease is expected in 2030, in comparison with 2029, followed by stable growth at approx. 3.7% annually until 2040.

Hard coal price forecasts assume an average annual decline of about 28.9% between 2024 and 2026 relative to 2023 prices, followed by an average annual increase of approx. 2.4% until 2040.

The forecasts for natural gas prices expect an annual average decrease of approx. 38.6% in 2024-2026 relative to 2023, followed by an average annual growth of approx. 3.8% in subsequent years.

The price forecasts for certificates of origin for energy expect an average annual decrease of approx. 9.6% in 2024-2031 relative to 2023, which is related to the decreasing obligation to redeem these certificates.

The forecast for revenue from the capacity market for 2023-2027 is based on the results of completed main and additional auctions for these delivery periods, taking into account the joint balancing mechanism at PGE Group companies. From 2028, the forecast was developed by a team of experts at PGE S.A. on the basis of assumptions concerning estimated future flows for generating units, based on, inter alia, results of completed auctions and forecasts from an external expert. As of 1 July 2025, all Capacity Market Entities that have entered into capacity contracts after 31 December 2019 (i.e. for contracts entered into in the Main Auction for the delivery year 2025 onwards) will be subject to an emissions criterion of 550g CO_2/kWh (so-called EPS 550), which will effectively exclude all coal units from participating in subsequent Capacity Market auctions.

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

Weighted average cost of capital

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

Climate matters

In July 2021, the European Commission published the Fit for 55 legislative package, which intends to, inter alia, reduce GHG emissions in the EU by 55% (previously by 40%) by 2030, relative to 1990. In line with the expectations of market participants, the EU ETS reform included in the package should result in a considerable increase in the prices of CO_2 emission allowances, which in practice already took place in 2021. The high prices of CO_2 allowances also continued in 2022. The changes introduced might have an adverse effect on the margins achieved by carbon-intensive generating 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 their electricity or the price of heat.

The 2050 Decarbonisation Plan for the District Heating segment was adopted at PGE Group in December 2021, aiming to fulfil regulatory requirements in the energy industry and retain the existing generation potential in the long-term in order to meet customer needs. The Decarbonisation Plan operationalises objectives specified directly in PGE Group's strategy and in the District Heating segment strategy implementation plan. The plan identifies the locations where the transformation of manufacturing assets will take place, the timing of major activities, planned expenditures and effects. Generation capacity transition via new low- or zero-carbon generating units is planned for the 2030 horizon, and climate neutrality for the 2050 horizon. To this end, the District Heating segment is gradually replacing old coal-fired sources with new low-emission sources fired with gas and oil. The new generating units will be characterised by greater operational flexibility and reliability. This is contributing to lower emissions in the cities where they will be built. Between 2023 and 2029, most of the locations where PGE Group's district heating assets are located will be commissioned with installations that will result in a complete or significant shift away from coal fuel. Gas, municipal waste, biomass, waste heat and renewable energy will be used to produce heat in the new and modernised district heating units. The decarbonisation plan was taken into account when estimating the value in use of the generation assets of the District Heating segment.

Conventional Generation segment assets. The divestment of coal assets to the National Energy Security Agency is planned. This issue is provided with a description in note 24.1 to these financial statements.

The aforementioned changes mean that a decrease in the volume of production from conventional generation is expected and a decrease in margins generated by these assets in the future. As a consequence, this results in a reduction of expenditures (CAPEX and OPEX) for the maintenance of coal assets, which additionally affects the expected decline in profitability through the gradual deterioration of the availability of these units. At the same time, these legislative and market developments are encouraging the development of zero- and low-carbon sources, which, when the Group invests in these particular technologies, positively translates into the value in use of the assets under test. It should also be kept 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.

Material changes in the regulatory environment, both in terms of domestic and foreign regulations, which affect or will affect the operations of PGE Group, are described in note 4.5. Regulatory environment in the Management Board report on PGE Group's activities in the year ended on December 31, 2022.

More information on climate risks is presented in note 17.4 of these financial statements.

Climate issues are included in the assumptions used for impairment testing to the best of the Company's knowledge, with the support of an external, independent expert. PGE with its subsidiaries is monitoring the market and regulatory situation on an on-going basis. The current record levels of fuel, electricity and CO_2 prices and their hitherto unobserved levels of volatility mean that the PGE Group faces considerable uncertainty about future developments. This is why, in the long term, the Group has decided to leave the assumptions developed by the independent think tank adopted for the impairment tests carried out in 2021. These assumptions have been adjusted for own estimates for the first three years of the forecast so as to account for the best present knowledge of the situation in energy markets. Future changes on the electricity market may differ from the current assumptions, which may lead to substantial changes in Company's financial situation and results. They will be recognised in future financial statements.

Impairment tests on stake in PGE GiEK S.A.

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

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

Determining fair value for very large groups of assets for which there is no active market and there are few comparable transactions is very difficult in practice. In the case of complete power plants and mines for which a value on the local market should be determined there are no observable fair values. Given the above, the recoverable amount of the assets under review was determined based on an estimate of their value in use using the discounted net cash flow method on the basis of financial projections prepared for the period from January 2023 to the end of their useful life. According to the Company, financial projections longer than five years are justified due to significant and long-term effects of projected changes in the regulatory environment. Using longer projections, recoverable amounts may be determined more reliably.

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

- classify the following as one CGU due to technological links:
    - Branch KWB Bełchatów and Branch Elektrownia Bełchatów,
    - Branch KWB Turów and Branch Elektrownia Turów,
- consider Elektrownia Opole, Elektrownia Rybnik and Elektrownia Dolna Odra as three separate CGUs,
- adopt the following assumptions about going concern:
    - until 2036 for the Bełchatów complex, based on a shut-down date for all units accepted by the trade unions and adopted for the purposes of the Just Transition Plan for Łódzkie Voivodship,
    - until 2044 for the Turów complex, based on a decision prolonging the mining concession to 2044, dated April 28, 2021,

- take into account work cost optimisation resulting from current work plans, among other things,
- maintain production capacities as a result of replacement-type investments,
- adopt varied levels of WACC after tax for the projection period, depending on the CGU, in accordance with an individually estimated level of risk:
  - for 2023-2025: average annual level for each CGU of 8.30% - 9.30%,
  - for 2026-2036: average annual level for each CGU of 6.73% - 7.64%.

The tests did not indicate the necessity to recognise an impairment loss on the shares of PGE GiEK S.A. The recoverable value of these shares exceeds their book value indicated in these financial statements. At the same time, as the future financial flows of the analysed company are subject to uncertainties and the realisation of assumptions which, in a significant part, are beyond the control of PGE Group, in the opinion of PGE S.A. there are no prerequisites for reversal of impairment losses on PGE GiEK S.A. shares recognised in previous reporting periods.

Analysis of indications for PGE EO S.A.

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

Impairment tests were conducted on December 31, 2022, on cash generating unit basis by establishing their recoverable amounts. The recoverable value of the analysed assets was estimated on the basis of discounted net cash flow method which relied on the financial projections prepared for the assumed useful life of the particular CGU in the case of wind farms or for 2023-2030 in the case of other CGUs. For those CGUs whose assumed economic life extends beyond 2030, a residual value was determined after the detailed forecast period. According to the Company, financial projections longer than five years are justified due to significant and long-term effects of projected changes in the regulatory environment. Using longer projections, recoverable amounts may be determined more reliably.

Detailed segment assumptions

- classification as a separate CGU of the following:
  - pumped-storage plants (one CGU for all plants due to their shared economic nature),
  - other hydropower plants (one CGU for all plants due to their shared economic nature),
  - individual wind farms (separate CGU for each wind farm due to different operational periods),
- production of electricity and property rights were estimated based on historic data, adjusted by the availability of units,
- unit availability was estimated based on repair plans, taking into account statistical failure rates,
- revenue from regulatory system services until mid-2025 were estimated based on the currently functioning system of remuneration for these services, from mid-2025 it is expected that the market mechanism for contracting regulatory services will start functioning, the revenues from which have been estimated based on PGE Group's internal analyses;
- maintain production capacities as a result of replacement-type investments,
- adopt WACC after tax for the projection period at different levels:
  - for 2023-2025: average annual level of 8.30%
  - for 2026-2030: average annual level of 6.73%

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

Impairment tests on shares of PGE EC S.A.

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

Impairment tests on non-current assets were conducted as of December 31, 2022, on cash generating unit basis by establishing their recoverable amounts. Determining fair value for very large groups of assets for which there is no active market and there are few comparable transactions is very difficult in practice. In the case of complete power plants and mines for which a value on the local market should be determined there are no observable fair values. Given the above, the recoverable value of the analysed assets was estimated on the basis of discounted net cash flow method which relied on financial projections prepared for the period from January 2023 to the end of 2030. According to the Company, financial projections longer than five years are justified due to significant and long-term effects of projected changes in the regulatory environment. Using longer projections, recoverable amounts may be determined more reliably. For generating units with expected periods of economic useful lives in excess of 2030, a residual value was determined for the remaining service time.

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

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

Climate matters

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

Detailed segment assumptions

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

- specific units of PGE EC S.A. being considered as separate CGUs Branch no. 1 in Kraków (CHP Kraków), Branch Wybrzeże (CHP Gdańsk, CHP Gdynia), Branch in Rzeszów (CHP Rzeszów), Branch in Lublin (CHP in Lublin Wrotków), Branch in Bydgoszcz (CHP Bydgoszcz I, CHP Bydgoszcz II), Branch in Gorzów Wielkopolski (CHP in Gorzów Wielkopolski), Branch in Zgierz (CHP in Zgierz), Branch in Kielce (CHP in Kielce), Branch in Szczecin (CHP in Szczecin, CHP in Pomorzany, district heating network in Gryfino);
- three production facilities owned by KOGENERACJA S.A. being considered as one CGU: CHP Wrocław, CHP Czechnica, CHP Zawidawie,
- for the period from 2023 it is assumed that PGE Group producers do not receive free-of-charge allocations of CO_2 emission allowances for the production of electricity;
- taking account of the allocation of free CO_2 emission allowances in the period 2023-2030 for system district heating and high-efficiency cogeneration. Member States may apply for a 30% free allocation of emission allowances for heat in the period from 2022 to 2030, with the 30% value relating to the gas benchmark and district heating supply for municipal purposes,
- assumption for conventional plants that during the residual period there will be support from the capacity market or equivalent,
- take into account the support system for high-efficiency cogeneration in the forecast horizon and in the residual period: for existing units, support was assumed in the form of guaranteed bonus and, if the financing gap condition is met, individual guaranteed bonus; a cogeneration bonus is to be granted to new gas units,
- maintain production capacities as a result of replacement-type investments. For generating assets in respect of which actions have been taken to implement the Decarbonisation Plan, replacement expenditures represent the transition of generation assets to gas-fired assets. The decarbonisation plan encompasses the following locations: Kraków, Gdańsk, Gdynia, Wrocław, Bydgoszcz, Kielce, Zgierz,
- taking into account development investments, for projects with a high level of advancement, minimum inclusion in the Company's approved investment plan,
- adopt WACC after tax for the projection period at different levels:
    - for 2023-2025: average annual level of 8.30%
    - for 2026-2030: average annual level of 6.73%

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

Impairment tests on shares of PGE Gryfino 2050 Sp. z o.o.

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

Impairment tests were conducted on December 31, 2022, on cash generating unit basis by establishing their recoverable amounts. Determining fair value for very large groups of assets for which there is no active market and there are few comparable transactions is very difficult in practice. In the case of complete power plants for which a value on the local market should be determined there are no observable fair values. Accordingly, the recoverable amount of the assets under review was determined based on an estimate of their value in use using the discounted net cash flow method on the basis of financial projections prepared for the period from January 2023 to the end of their useful life. According to the Company, financial projections longer than five years are justified due to significant and long-term effects of projected changes in the regulatory environment. Using longer projections, recoverable amounts may be determined more reliably.

Presented below are the key assumptions having impact on estimates of the useful value of the assets being tested:

- Nominal power and average efficiency of units assumed in accordance with the parameters guaranteed in the Contract with the Contractor,
- Operating period: 25 (benchmark life of CCGT units),
- Capital expenditure: for 2023-2024 is assumed in accordance with PGE Group's Investment Plan and concluded contracts for the implementation of the unit,
- Adoption of a weighted average after-tax cost of capital differentiated for each CGU, according to the individually assessed level of risk and varying over time at an annual average of 8.12%.

The tests performed did not indicate a need to write down the value of PGE Gryfino 2050 Sp. z o.o. shares held by PGE S.A. The recoverable amount of these shares exceeds their book value as shown in these financial statements.

Analysis of impairment of stake in PGE Obrót S.A.

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

- the effects of the Act of October 7, 2022 on special solutions for the protection of electricity consumers in 2023 in connection with the electricity market situation,
- the effects of the Act on Emergency Measures to Reduce Electricity Prices and Support Certain Consumers in 2023,
- The effects of the amendment to the Act on Renewable Energy Sources of October 29, 2021, introducing changes to the way prosumers are billed. The existing discount system will be replaced by a net-billing model,
- dynamic development of micro photovoltaic installations and the billing of prosumers, who will still be billed according to the net-metering system.

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

- key price assumptions concerning the price of electricity were derived from a study prepared by an independent expert, taking into account own estimates based on the current market situation,
- increase in overall sales volume in 2027 by approx. 3.5% compared to 2022,
- lower projected realisation of electricity margins between 2023 and 2027 compared to 2022,
- correlation between electricity prices in 2023-2027 in sales to retail customers with wholesale prices and impact on their level resulting from a change in the obligation to redeem property rights as well as changes in the prices of property rights,
- inclusion of economic effects in the projection related to the dynamic development of prosumer micro-installations in the forecast horizon on the basis of the observed market trends in 2021 and in connection with the amendment of the Act on RES of October 29, 2021,
- adopt WACC after tax for the projection period in the range of 7.81%-10.74%.

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

A merger of PGE Obrót S.A. (acquiring company) with PGE Centrum sp. z o.o. (acquired company) was registered at the National Court Register on November 2, 2021. Thus, the book value of PGE Obrót S.A. shares recognised in the Company's books amounted to PLN 622 million. As a result of the impairment test, the value of PGE Obrót S.A. shares was estimated at PLN 620 million. Due to the immaterial difference between the book value and the estimated market value, in the opinion of PGE S.A. there are no grounds to reverse the impairment loss on PGE Obrót S.A. shares recognised in previous reporting periods.

The results of the sensitivity analysis showed that the largest impact on the value of the shares being valued is mainly due to changes in the WACC assumptions and unit margins. Presented below is the estimated impact of changes in key assumptions on changes in impairment losses as regards the stake in PGE Obrót S.A. as at December 31, 2022.

Parameter	Change	Impact on impairment loss	
		Increase in impairment loss	Decrease in impairment loss
Change in unit margin	1%	-	121
	-1%	120	-

A 1% decline in unit margin would cause the impairment loss to grow by PLN 120 million.

Parameter	Change	Impact on impairment loss	
		Increase in impairment loss	Decrease in impairment loss
Change in WACC	+0.5pp	331	-
	-0.5pp	-	401

An increase in WACC by 0.5 percentage points would cause an increase in the impairment loss by PLN 331 million.

Analysis of impairment of of other stakes

As of the end of 2022, PGE S.A. recognised an impairment loss on its stake in PGE Nowa Energia sp. z o.o. w likwidacji amounting to PLN 17 million. The rationale for recognising this impairment loss was the difference between the value of this company's shares in PGE S.A.'s books and the value of this company estimated using the sum of parts method.

8.2 Shares in associates and other

	As at December 31, 2022	As at December 31, 2021
Polimex Mostostal S.A.	81	81
ZPBE Energopomiar Sp. z o.o.	2	2
ASSOCIATES, TOTAL	**83**	**83**
ElectroMobility Poland S.A.	13	13
OTHER ENTITIES, TOTAL	**13**	**13**

Three tranches of the call options were exercised in the first half of 2022, as a result of which PGE S.A. acquired 500,000 shares of Polimex Mostostal S.A. In effect, PGE S.A.'s stake in Polimex Mostostal S.A. increased from 16.40% to 16.48%. On September 27, 2022, the conversion of bonds into shares took place and, as a result of this transaction, PGE S.A.'s shareholding decreased to 16.26%.

Transactions after the reporting period

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

9. Joint ventures

The Company considers the activities resulting from the Capacity Market Management Agreement entered into on July 27, 2018 to be a joint venture. The parties to the agreement are: PGE S.A. as Managing Entity and entities with capital links to it: PGE GiEK S.A., PGE EC S.A., PGE EO S.A., ZEW Kogeneracja S.A., PGE Toruń S.A., Elektrociepłownia Zielona Góra S.A., PGE Gryfino 2050 sp. z o.o., PGE Inwest 14 sp. z o.o., Rybnik 2050 sp. z o.o. as Ordering Party.

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

This revenue is presented and described in note 4.1 to these financial statements.

10. Other current assets

ACCOUNTING POLICIES

Other assets (including prepayments)

The Company recognises an asset as a prepayment under the following conditions:

- an expense was incurred in the past in relation to operating activity,
- it can be reliably measured,
- it refers to future reporting periods.

Prepayments are recognised at reliably measured amounts, relate to future periods and will generate future economic benefits.

Other assets include in particular state receivables, advances for deliveries and services and dividend receivables.

	As at December 31, 2022	As at December 31, 2021
Receivables from tax group	-	42
Advance payments	98	313
VAT receivables	-	17
Other	4	3
TOTAL	**102**	**375**

PGK PGE 2015 no longer exists as of December 31, 2021. From 1 January 2022, all companies included in the tax group agreement have become independent CIT taxpayers again.

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

11. Cash and cash equivalents

ACCOUNTING POLICIES

Cash and equivalents

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Short-term deposits have different maturities, from one day up to three months, depending on the Company’s needs for cash, and are deposited at individually agreed interest rates.

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

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

	As at December 31, 2022	As at December 31, 2021
Cash at bank	559	3,858
Overnight deposits	764	-
Short-term deposits	8,574	1,100
Cash in VAT accounts	696	358
TOTAL	**10,593**	**5,316**
Undrawn borrowing facilities as at December 31	10,900	4,100
including overdraft facilities	*3,300*	*1,800*

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

12. Equity

ACCOUNTING POLICIES

Equity

Equity is stated at nominal value, classified by nature, in accordance with legal regulations and the Company’s Articles of Association.

Share capital in the statement of financial position is stated at the value specified in the Articles of Association and registered in the Court Register.

Capital contributions that have been declared but not paid are recognised as capital contributions due at a negative amount.

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

In line with common practice, the Company monitors the net debt to EBITDA ratio at the level of PGE Group as described in Note 20 to the consolidated financial statements. Net debt is understood as short- and long-term financial debt (interest-bearing loans and borrowings, bonds and other debt securities issued, as well as lease liabilities), less cash and cash equivalents, and short-term deposits and placements. Restricted cash is not included in the calculation of net debt.

The Company's aim is to maintain its investment grade credit ratings. In connection with the ongoing investment program, leverage is planned to increase in the coming years. The net debt to EBITDA ratio is a central element of the Company's financial forecasts and plans.

12.1 Share capital

	As at December 31, 2022
1,470,576,500 Series A ordinary Shares with a nominal value of PLN 8.55 each	12,574
259,513,500 Series B ordinary Shares with a nominal value of PLN 8.55 each	2,219
73,228,888 Series C ordinary Shares with a nominal value of PLN 8.55 each	626
66,441,941 Series D ordinary Shares with a nominal value of PLN 8.55 each	568
373,952,165 Series E ordinary Shares with a nominal value of PLN 8.55 each	3,197
Total share capital	**19,184**

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

All of the Company's shares are paid up.

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

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

The changes in PGE S.A.'s share capital were registered with the National Court Register on May 18, 2022. The Company's recapitalisation is also discussed in note 12.1 to these financial statements.

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

The Company is a part of the PGE Polska Grupa Energetyczna S.A. Group, to which State Treasury holds special rights as long as it remains a shareholder.

Specific powers of the State Treasury, which may apply to PGE Group companies, are provided for in the Act of March 18, 2010 on Special Powers of the Minister Responsible for State Assets and their Exercise in Certain Capital Companies or Groups Operating in the Electricity, Oil and Gas Fuels Sectors (i.e. Polish Journal of Laws of 2020, item 2173). The Act defines specific powers vested in the minister responsible for state assets in capital companies or groups operating in the electricity, oil and gas fuels sectors, whose assets are disclosed in the uniform list of facilities, installations, equipment and services constituting critical infrastructure.

On the basis of the provisions in question, the minister responsible for state assets may object to a resolution adopted by the Management Board or any other legal action carried out by the Management Board, the object of which is the disposal of an asset that would pose a threat to the functioning, continuity of operation and integrity of critical infrastructure.

The objection can also be applied to any resolution pertaining to:

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

if the performance of such a resolution would cause an actual threat to the functioning, operational continuity and integrity of critical infrastructure. The objection of the minister responsible for state assets will be expressed - after consulting the minister responsible for energy - in the form of an administrative decision.

12.2 Reserve capital

Supplementary capital results from statutory allocation of profits generated in previous reporting periods, from surplus of profit distribution in excess of the value of statutory allocations, as well as from merger of PGE S.A. with its subsidiaries.

According to regulations of the Commercial Code, joint stock companies are obliged to create reserve capital to cover potential losses. At least 8% of the profit for the reporting year recognised in the separate financial statements of the Company is transferred to supplementary capital, until this supplementary amounts to at least one third of share capital. The part of supplementary capital which amounts to one third of share capital can only be used to cover losses recognised in the separate financial statements and cannot be distributed for other purposes. The General Meeting decides on the use of supplementary capital and other capital reserves.

Reserve capital subject to distribution to shareholders amounted to PLN 18,654 million as at December 31, 2022 and to PLN 13,766 million as at December 31, 2021.

12.3 Hedging reserve

Change in the revaluation reserve concerning cash flow hedge accounting implemented:

	Year ended December 31, 2022	Year ended December 31, 2021
AS AT JANUARY 1	**246**	**(288)**
Change in hedging reserve, including:	**193**	**659**
Recognition of the effective part of change in fair value of hedging instruments in the part considered as effective hedge	250	665
Accrued interest on derivatives transferred from hedging reserve and recognised as adjustment to interest expense	(44)	(8)
Currency revaluation of CCIRS transaction transferred from hedging reserve and recognised in the result on foreign exchange differences	(13)	2
Ineffective portion of changes in fair value of hedging derivatives recognised in profit or loss Ineffective portion of changes in fair value of hedging derivatives recognised in profit or loss	-	-
Deferred tax	**(37)**	**(125)**
HEDGING RESERVE INCLUDING DEFERRED TAX	**402**	**246**

12.4 Unallocated financial result and dividend payment restrictions

Retained earnings which are not subject to distribution are amounts that cannot be paid in the form of dividends.

	As at December 31, 2022	As at December 31, 2021
Retained earnings not subject to distribution - profit / (loss) recognised in other comprehensive income	4	3
Retained earnings subject to distribution	3,097	1,734
Net (loss)	-	-
TOTAL RETAINED EARNINGS/(LOSSES) PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	**3,101**	**1,737**

For information regarding limitations to payment of dividends from reserve capital please refer to 12.2 of these financial statements. As at December 31, 2022, there were no other restrictions on dividend payments.

12.5 Earnings per share

ACCOUNTING POLICIES

Earnings per share

Earnings per share for each period is calculated by dividing profit or loss attributable to ordinary equity holders of the Company by the weighted average number of shares outstanding during the reporting period.

The Company calculates diluted earnings per share by dividing profit or loss attributable to ordinary equity holders of the Company (after deduction of interest on redeemable convertible preference shares) by the weighted average number of shares outstanding during the period (adjusted by the number of dilutive options or dilutive redeemable convertible preference shares).

There was no dilution effect on earnings per share in the current and comparative reporting period.

	Year ended December 31, 2022	Year ended December 31, 2021
NET PROFIT	**3,097**	**1,734**
NET PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY USED TO CALCULATE EARNINGS PER SHARE	**3,097**	**1,734**
Number of ordinary shares at the beginning of the reporting period	1,869,760,829	1,869,760,829
Number of ordinary shares at the end of the reporting period	2,243,712,994	1,869,760,829
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES USED TO CALCULATE EARNINGS PER SHARE	**2,129,990,555**	**1,869,760,829**
NET PROFIT/ PER SHARE AND DILUTED NET PROFIT/ PER SHARE (IN PLN)	**1.45**	**0.93**

12.6 Dividends paid and recommended for payment

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

13. Provisions

ACCOUNTING POLICIES

Provisions

The Company recognises provisions when there is present obligation (legal or constructive) that arises from past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is significant, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate does not reflect risks for which future cash flow estimates have been adjusted.

Provision for post-employment benefits

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

- retirement and pension benefits – paid once when the employee retires or becomes a pensioner,
- post-mortem severance,
- cash equivalent related to energy tariff for employees of power industry,
- benefits from the Social Fund,
- medical benefits.

The Company recognises a provision for future obligations relevant to past service costs and jubilee awards for the purpose of assigning costs to the periods in which they are incurred. The provision raised is recognised as an operating expense in the amount corresponding with accrued future employees' benefits. The present value of these obligations is measured by an independent actuary.

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

The most significant values relate to provisions for post-employment benefits. Provisions for employee benefits were estimated using actuarial methods.

Key actuarial assumptions related to the calculation of provisions as at the reporting date are as follows:

	As at December 31, 2022	As at December 31, 2021
Expected inflation rate (%)	13,7 in 2023; 2,5-3 in subsequent years	2,5-4,45
Discount rate (%)	7,0	3,6
Expected annual salary growth rate (%)	2,5-13,7	2,5-5
Employee turnover (%)	4,9-11	4,6-11,4
Expected medical care costs growth rate (%)	10 in 2023; 2,5 in in subsequent years	-22,34* in 2022; 2,5% in subsequent years
Expected Social Fund allowance growth rate (%)	5	4,5-7,27

**The change is mainly due to a change in medical provider.*

The probability of employee departures was based on the Company's historical employee turnover data and industry employee departure statistics.

- Mortality rates and probabilities of survival were assumed in accordance with the Life Expectancy Tables published by the Central Statistical Office, assuming that the Company's employee population corresponds to the Polish average in terms of mortality.
- The normal mode of retirement of employees has been adopted according to the detailed rules of the Pension Act, except for those employees who meet the conditions for early retirement.
- A discount rate of 7% (December 31, 2021: 3.6%) was used to discount future benefit payments, i.e. at a level similar to the yield on long-term securities issued by the State Treasury and listed on the Polish capital market.

The carrying amount of provisions is as follows:

	At December 31, 2022		At December 31, 2021	
	Non-current	Current	Non-current	Current
Post-employment benefits	12	1	13	1
Other	-	39	-	39
TOTAL PROVISIONS	**12**	**40**	**13**	**40**

Changes in provisions

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

Year ended December 31, 2021	Post-employment benefits	Other
AS AT JANUARY 1, 2021	**20**	**20**
Current employment costs	1	-
Adjustment of discount rate and other assumptions	(6)	-
Recognition of provisions	-	39
Use	(1)	(10)
Release	-	(10)
AS AT DECEMBER 31, 2021	**14**	**39**

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

- should the discount rate be higher by 1 percentage point, the provision would decrease by PLN 1.2 million, and should the discount rate be lower by 1pp, the provision would increase by PLN 1.5 million.
- should the growth rates be higher by 1pp, the provision would increase by PLN 1.5 million, and should the rates be lower by 1pp, the provision would decrease by PLN 1.3 million.

Other provisions

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 Agreement regulating the liability of the existing Partners for the costs of the dispute with Worley Parsons, in case of defeat PGE S.A. may be required to cover the costs of the dispute in the amount of up to PLN 98 million. The probability of losing the dispute was estimated in order to determine the fair value of the payment received. In effect, PLN 59 million was recognised under contingent liabilities and PLN 39 million in non-current provisions. The amount of the provision adjusted the result on the sale of shares presented in the comparative period of these financial statements.

As at December 31, 2022, the Company has not identified any circumstances that would necessitate a change in the amount of the provision.

14. Post-employment benefits

The amount of provisions for post-employment benefits recognised in the financial statements results from the valuation prepared by an independent actuary.

The carrying amount of provisions for employee benefits:

	At December 31, 2022		At December 31, 2021	
	Non-current	Current	Non-current	Current
Retirement, pension and post-mortem benefits	2	-	1	-
Energy tariff	7	1	8	1
Social Fund	1	-	1	-
Medical benefits	2	-	3	-
TOTAL EMPLOYEE BENEFITS	**12**	**1**	**13**	**1**

15. Other non-financial liabilities

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

	As at December 31, 2022	As at December 31, 2021
Liabilities due to settlements in the tax group	3	197
VAT liabilities	367	35
Bonuses for employees (annual, quarterly) and Management Board	36	28
Unused annual holiday leave	8	7
Estimated liabilities concerning other employee benefits	1	2
Advances received	422	368
Liabilities concerning contributions to price difference payment fund	88	-
Other	9	6
TOTAL OTHER LIABILITIES	**934**	**643**

PGE S.A. is the representing entity in its tax group, which covers the Company and most of its subsidiaries. The legal entity PGK PGE 2015 ceased to exist as of December 31, 2021, as described in note 20 to these financial statements.

Under advances received, the Company mainly reports settlements with PGE Dom Maklerski S.A. related to the purchase of CO_2 allowances. The value of these advances as at the reporting date is PLN 343 million and in the comparative period PLN 368 million.

In December this year, the Company recognised PLN 88 million in costs resulting from the provisions of the Emergency Measures Act. The liability to Zarządca Rozliczeń S.A. on this account amounts to PLN 88 million. A detailed description of the requirements related to the operation of the Price Difference Payment Fund is included in note 24.1.5 of these financial statements.

EXPLANATORY NOTES TO FINANCIAL INSTRUMENTS

16. Financial Instruments

ACCOUNTING POLICIES

Classification and valuation

Financial assets are subject to classification in the following categories of financial instruments:

- measured at amortised cost;
- measured at fair value through other comprehensive income ("FVTOCI");
- measured at fair value through profit or loss ("FVTPL").

The classification of financial assets is based on the business model and characteristics of cash flows.

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

- the objective of the entity's business model is to hold the financial asset to collect the contractual cash flows;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test).

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test).

All other debt instruments must be measured at fair value through profit or loss (FVTPL).

All equity investments are to be measured at fair value. If an equity investment is not held for trading, the Company can make an irrevocable election at initial recognition to measure it at FVTOCI. For equity instruments held for trading, changes in fair value are recognised in profit or loss.

All standard transactions to purchase or sell financial assets are recognised at the transaction date, i.e. at the date on which the entity committed to purchase the asset. Standard transactions to purchase or sell financial assets are purchase or sale transactions in which the asset delivery deadline is explicitly stated by law or customs in a given market.

An impairment model is based on expected credit losses and its scope covers the following:

- Financial assets measured at amortised cost;
- Financial assets mandatorily measured at FVTOCI;
- Loan commitments when there is a present obligation to extend credit;
- Financial guarantee contracts to which IFRS 9 is applied;
- Lease receivables within the scope of IFRS 16;
- Contract assets within the scope of IFRS 15.

The Company classified financial liabilities in one of the following categories:

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

16.1 Description of significant items within particular classes of financial instruments

16.1.1 Trade and other financial receivables

ACCOUNTING POLICIES

Financial receivables

Financial receivables, including trade receivables, are measured at fair value at inception and subsequently at amortised cost using the effective interest rate including allowances for expected credit losses.

The Company uses simplified methods for the valuation of receivables measured at amortised cost if this does not distort the information contained in the statement of financial position, in particular if the period until repayment of the receivables is not long.

For financial receivables, the Company measures the allowance for expected credit losses at an amount equal to the expected credit losses over the life of the instrument.

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

	At December 31, 2022		At December 31, 2021	
	Non-current	Current	Non-current	Current
Trade receivables	-	2,962	-	7,703
Bonds acquired	2,180	3,408	5,580	3,562
Cash pooling receivables	-	348	-	449
Loans granted	3,288	9,339	1,356	6,258
Other financial receivables	-	1,471	-	1,665
TOTAL FINANCIAL RECEIVABLES	**5,468**	**17,528**	**6,936**	**19,637**

Trade receivables

Trade receivables of PLN 2,962 million relate mainly to the sale of CO_2 emission allowances, electricity and services to subsidiaries in PGE Group. As at December 31, 2022, the balance of the three most important customers, i.e. PGE Obrót S.A., PGE EC S.A., PGE GiEK S.A., constituted 80% of the balance of trade receivables.

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

Bonds acquired

	At December 31, 2022		At December 31, 2021	
	Non-current	Current	Non-current	Current
BONDS ACQUIRED - ISSUER				
PGE Górnictwo i Energetyka Konwencjonalna S.A.	2,180	3,408	5,580	3,562
TOTAL BONDS ACQUIRED	**2,180**	**3,408**	**5,580**	**3,562**

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

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

Cash pooling receivables

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

Loans granted

	At December 31, 2022		At December 31, 2021	
	Non-current	Current	Non-current	Current
LOANS GRANTED - BORROWER				
PGE Gryfino 2050 sp. z o.o.	3,286	-	1,248	29
PGE Energia Ciepła S.A.	-	2,738	100	1,439
PGE Paliwa sp. z o.o.	-	2,067	-	-
PGE Dystrybucja S.A.	-	1,504	-	606
PGE Obrót S.A.	-	1,464	-	953
PGE Energia Odnawialna S.A.	-	1,353	-	992
PGE Systemy S.A.	-	196	-	166
Betrans sp. z o.o.	2	8	8	2
PUP ELTUR-SERWIS sp. z o.o.	-	7	-	-
EW Baltica 4 sp z o.o.	-	1	-	1
EW Baltica 5 sp. z o.o.	-	1	-	1
PGE GiEK S.A.	-	-	-	1,900
EW Baltica 2 sp. z o.o.	-	-	-	92
EW Baltica 3 sp. z o.o.	-	-	-	64
Elbest sp. z o.o.	-	-	-	13
TOTAL LOANS GRANTED	**3,288**	**9,339**	**1,356**	**6,258**

The loan repayment deadline is in 2023-2024.

Other financial receivables

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

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

ACCOUNTING POLICIES

Derivatives and hedging instruments

The derivative instruments used by the Company to hedge the risks associated with changes in interest rates and exchange rates are primarily forward FX contracts, futures and IRS interest rate swap contracts and CCIRS transactions to hedge foreign exchange and interest rates. Such derivatives are measured at fair value. Depending on whether the valuation of a derivative is positive or negative, it is recognised as a financial asset or financial liability, respectively.

Gains and losses from changes in the fair value of derivatives that do not qualify for hedge accounting and the ineffective portion of hedging relationships in cash flow hedge accounting are charged directly to the financial result for the financial year.

The fair value of forward foreign exchange contracts is determined by reference to the exchange rate at which the contract is entered into and current forward rates calculated based on market data. The fair value of interest rate swap contracts is calculated based on yield curves.

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

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

	At December 31, 2021			
	Recognised in profit or loss	Recognised in other comprehensive income	Assets	Liabilities
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS				
Commodity forwards	(900)	-	-	2,242
Futures	904	-	1,765	-
Currency forwards	(12)	-	488	36
Options	-	-	16	-
HEDGING DERIVATIVES				
CCIRS hedges	(44)	80	110	-
IRS hedges	(119)	579	203	-
OTHER ASSETS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Investment fund participation units	1	-	30	-
TOTAL	**(170)**	**659**	**2,612**	**2,278**
non-current	-	-	358	-
current	-	-	2,254	2,278

Commodity and currency forwards

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

IRS transactions

The Company entered into IRS transactions to hedge interest rates on loans taken out and bonds issued with a total nominal value of PLN 7,030 million (PLN 5,630 million for loans and PLN 1,400 million for bonds). Due to the commencement of principal repayments on certain loans, the current nominal amount of loan-hedging IRS transactions is PLN 2,827 million. To recognise these IRS transactions, the Company uses hedge accounting. The impact of hedge accounting on equity is presented in note 12.3 to these financial statements.

CCIRS hedges

In connection with loans received from subsidiary PGE Sweden AB (publ) disclosed in note 16.1.3 to these financial statements, in 2014 PGE S.A. concluded a CCIRS transaction, hedging the exchange rate. In this transaction, banks-counterparties pay PGE S.A. interest based on a fixed rate in EUR and PGE S.A. pays interest based on a fixed rate in PLN. The nominal value, payment of interest and repayment of nominal value in the CCIRS transaction are correlated with the relevant conditions arising from loan agreements.

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

Options

PGE S.A. has bought call option for shares of Polimex-Mostostal S.A. from Towarzystwo Finansowe Silesia Sp. z o.o. The options have been valued using the Black-Scholes method.

Investment fund participation units

As of the reporting date, the Company holds participation units in three sub-funds of Towarzystwo Funduszy Inwestycyjnych Energia S.A., whose value as of the reporting date amounts to PLN 28 million.

Presented below are the terms of the derivative instruments and other assets carried at fair value through profit or loss.

	At December 31, 2022		At December 31, 2021		
	Value in financial statements in PLN	Instrument's nominal value in original currency	Value in financial statements in PLN	Instrument's nominal value in original currency	Maturity, as of December 31, 2022
Currency forward sale EUR	212	91	488	14	December 2024
Currency forward purchase EUR		1,961		3,980	December 2024
Currency forward sale USD		297		8	November 2023
IRS - interest rate PLN	459	375	203	438	June 2028
		625		750	December 2027
		375		438	December 2028
		1,452		2,904	September 2023
		1,000		1,000	May 2029
		400		400	May 2026
Futures purchase EUA - EUR	1,456	1,445	1,765	1,185	December 2024
Futures sale EUA - EUR		12		30	December 2024
CCIRS - EUR to PLN	104	144	110	144	July 2029
Options	18	4	16	5	November 2026
Fund participation units	28	23	30	27	n/a
FINANCIAL ASSETS	**2,277**		**2,612**	**-**	
Currency forward purchase EUR	730	3,899	36	831	December 2024
Currency forward sale EUR		28		65	December 2024
Currency forward purchase USD		297		8	November 2023
Commodity forward sale EUA - PLN	538	30,033	2,242	23,074	January 2025
Commodity forward purchase EUA - EUR		4,574		3,735	December 2024
Commodity forward sale EUA - EUR		-		2	-
Commodity forward purchase EUA - PLN		85		207	January 2025
FINANCIAL LIABILITIES	**1,268**		**2,278**	**-**	

16.1.3 Loans, borrowings, bonds, cash pooling, leases

	At December 31, 2022		At December 31, 2021	
	Non-current	Current	Non-current	Current
Credit liabilities	3,139	1,911	5,006	1,803
Loans received	673	9	660	9
Bonds issued	1,399	13	1,399	5
Cash pooling liabilities	-	5,614	-	1,346
Lease liabilities	22	2	19	1
TOTAL LOANS, BORROWINGS, BONDS AND CASH POOLING	**5,233**	**7,549**	**7,084**	**3,164**

Bank credit

Lender	Security instrument	Date of execution	Maturity	Limit in currency	Currency	Interest rate	Liability 31-12-2022	Liability 31-12-2021
Bank consortium	IRS	2015-09-07	2023-09-30	3,630	PLN	Variable	1,481	2,909
European Investment Bank	-	2015-10-27	2034-08-25	1,500	PLN	Fixed	1,442	1,505
Bank Gospodarstwa Krajowego	IRS	2014-12-17	2027-12-31	1,000	PLN	Variable	627	751
European Bank for Reconstruction and Development	IRS	2017-06-07	2028-06-06	500	PLN	Variable	378	439
Bank Gospodarstwa Krajowego	IRS	2015-12-04	2028-12-31	500	PLN	Variable	376	438
European Investment Bank	-	2015-10-27	2034-08-25	490	PLN	Fixed	472	493
European Investment Bank	-	2019-12-16	2038-10-16	273	PLN	Fixed	274	274
Bank Pekao S.A.	-	2018-07-05	2024-07-03	500	PLN	Variable	-	-
PKO BP S.A.	-	2018-04-30	2023-12-31	300	PLN	Variable	-	-
Bank Gospodarstwa Krajowego	-	2018-06-01	2024-06-12	2.500	PLN	Variable	-	-
European Investment Bank	-	2022-12-09	2042-12-09	2.000	PLN	Fixed	-	-
Bank Gospodarstwa Krajowego	-	2022-09-05	2023-06-30	2.000	PLN	Variable	-	-
Bank Gospodarstwa Krajowego	-	2022-12-20	2023-12-31	1.600	PLN	Variable	-	-
PKO BP S.A.	-	2022-12-20	2023-10-31	2.000	PLN	Variable	-	-
TOTAL BANK CREDIT							**5,050**	**6,809**

The value of overdraft limits at the Company's disposal amounted to PLN 3,300 million as at December 31, 2022 and PLN 1,800 million as at December 31, 2021.

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

Loans received

Lender	Security instrument	Date of execution	Maturity	Limit in currency	Currency	Interest rate	Liability 31-12-2022	Liability at 31-12-2021
PGE Sweden AB	CCIRS	2014-08-27	2029-07-31	100	EUR	Fixed	207	466
PGE Sweden AB	CCIRS	2014-08-27	2029-07-31	43	EUR	Fixed	475	203
TOTAL LOANS RECEIVED							**682**	**669**

In 2014, PGE S.A. and PGE Sweden AB (publ) established a Euro Medium Term Note Program, in which PGE Sweden AB (publ) may issue Eurobonds up to EUR 2 billion with a minimum maturity of 1 year. In 2014, PGE Sweden AB (publ) issued Eurobonds in the total amount of EUR 138 million. The subsidiary allocated the funds raised under this program to grant a loan to its parent company.

Domestic market bond issues

Execution date	Maturity	Tranche issue date	Tranche buy-back date	Security instrument	Limit in currency	Currency	Interest rate	Liability 31-12-2022	Liability at 31-12-2021
2013-06-27	indefinite	2019-05-21	2029-05-21	IRS	5.000	PLN	Variable	1,009	1.003
		2019-05-21	2026-05-21					403	401
TOTAL OUTSTANDING BONDS								**1.412**	**1.404**

Cash pooling liabilities

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

Currency position and interest rates

As at December 31, 2022

Currency	Reference rate	Value in currency	Value in PLN	Final repayment deadline
PLN	Fixed	2,188	2,188	loans – VIII 2034 – X.2038
	Fixed	24	24	leasing - until XII 2089
	Variable	5,614	5,614	cash pooling - XII 2023 – VII 2024
	Variable	2,862	2,862	loans IX 2023 – XII 2028
	Variable	1,412	1,412	bonds - May 2026-May 2029
TOTAL PLN		**12,100**	**12,100**	
EUR	Fixed	145	682	loans VII 2029
TOTAL EUR		**145**	**682**	
TOTAL LOANS, BORROWINGS, BONDS, CASH POOLING			**12,782**	

As at 31 December 2021

Currency	Reference rate	Value in currency	Value in PLN	Final repayment deadline
PLN	Fixed	2,272	2,272	loans - VIII 2034 – X 2038
	Fixed	20	20	leasing - until XII 2089
	Variable	4,537	4,537	loans - September 2023-December 2028
	Variable	1,404	1,404	bonds - V 2026 – V 2029
	Variable	1,346	1,346	cash pooling - XII 2023 – XII 2024
TOTAL PLN		**9,579**	**9,579**	
EUR	Fixed	145	669	loans - July 2029
TOTAL EUR		**145**	**669**	
TOTAL LOANS, BORROWINGS, BONDS, CASH POOLING			**10,248**	

The Company is continuously monitoring works related to the IBOR reform, which may have an impact on financial instruments based on a variable interest rate. At December 31, 2022 the value of credit facilities, loans and bonds exposed to interest rate risk was PLN 4,274 million (credit facilities based on WIBOR). To hedge the interest rate in respect of incurred financial liabilities, PGE S.A. uses IRS hedges. The entire value of the above loans, borrowings and bonds is covered by hedging instruments.

The following table illustrates changes in interest-bearing debt in the years ended 31 December 2022 and 2021:

	Year ended December 31, 2022	Year ended December 31, 2021
AS AT JANUARY 1	**10,248**	**10,752**
CHANGE IN OVERDRAFTS	**-**	**-**
CHANGE IN CASH POOLING LIABILITIES	**4,268**	**197**
CHANGE IN LEASE LIABILITIES	**4**	**-**
CHANGE IN OTHER LOANS, BORROWINGS AND BONDS, including:	**(1,738)**	**(701)**
Drawn loans and borrowings / issued bonds /	2,200	273
Accrued interest	359	157
Repayment of loans and borrowings / redemption of bonds	(3,985)	(976)
Paid interest	(325)	(153)
Exchange differences	13	(2)
Paid commissions	-	-
AS AT DECEMBER 31	**12,782**	**10,248**

16.1.4 Other financial liabilities measured at amortised cost

ACCOUNTING POLICIES

Liabilities

Liabilities are the Company’s present obligations, arising from past events, settlement of which will cause an outflow of resources embodying economic benefits from the Company.

The Company divides financial liabilities into the following categories:

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

When the effect of the time value of money is significant, liabilities are presented at discounted value.

	At December 31, 2022		At December 31, 2021	
	Non-current	Current	Non-current	Current
Trade liabilities	-	1,382	-	8,566
Other	9	1,431	13	1,672
TOTAL OTHER FINANCIAL LIABILITIES	**9**	**2,813**	**13**	**10,238**

Trade liabilities

Trade liabilities mainly relate to transactions for the purchase of CO_2 emission allowances and electricity.

Other financial liabilities

In the item "Other", the Company mainly reports settlements with exchanges, primarily related to the purchase of CO_2 (PLN 1,365 million) and future payments to the Polish National Foundation.

16.2 Fair value of financial instruments

The book value of financial receivables and liabilities measured at amortised cost, except for loans received from PGE Sweden AB (publ) and the loan with the European Investment Bank, is a reasonable approximation of their fair values. The fair value of loans received from PGE Sweden AB (publ) is estimated by PGE S.A. at PLN 609 million (vs. book value of PLN 682 million). The fair value was determined using the estimated credit risk of PGE S.A. The indicators adopted for the valuation belong to Level 2 of the fair value hierarchy. In the case of the loan with the European Investment Bank, which is based on a fixed interest rate, its value at amortised cost shown in the financial statements as at the reporting date is PLN 2,188 million and its fair value is PLN 1,871 million. The indicators used in the valuation belong to Level 2 of fair value hierarchy.

16.3 Fair value hierarchy

Derivatives

The Company measures derivatives at fair value using valuation models for financial instruments based on publicly available exchange rates, interest rates, discount curves for currencies (valid also for commodities, prices of which are denominated in those currencies) derived from active markets. The fair value of derivatives is determined based on discounted future cash flows from transactions, calculated based on the difference between the forward rate and transaction price. The valuation of an IRS transaction is the difference between the discounted interest flows of a fixed-rate stream and a floating-rate stream. The valuation of a CIRS transaction is the difference of 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 appropriate forward interest rate for foreign currencies in relation to PLN.

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

In 2022, the Company changed its contractual remuneration and settlement rules with its subsidiaries in relation to CO_2 hedging and delivery. From 2022 onwards, the value of the forward contracts entered into includes the Company's remuneration for the activities performed, and therefore the valuation of the forward contracts includes the margin realised on the transaction. The value of this margin in the December 31, 2022 valuation is PLN 399 million.

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

In addition, the Group presents a derivative hedging instrument for exchange rate and interest rate hedging CCIRS and IRS hedging transactions swapping a floating rate in PLN for a fixed rate in PLN (Level 2).

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

FAIR VALUE HIERARCHY	Assets at December 31, 2021		Liabilities at December 31, 2021	
	Level 1	**Level 2**	**Level 1**	**Level 2**
Currency forwards	-	-	-	2,242
Commodity forwards	-	1,765	-	-
Futures	-	488	-	36
Options		16	-	-
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS	**-**	**2,269**	**-**	**2,278**
CCIRS hedges	-	110	-	-
IRS hedges	-	203	-	-
HEDGING DERIVATIVES	**-**	**313**	**-**	**-**
Investment fund participation units	-	30	-	-
OTHER ASSETS / LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	**-**	**30**	**-**	**-**

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

Instruments not quoted in an active market for which a reliable determination of fair value is not possible

PGE S.A. holds significant amount of shares in entities not quoted on active markets. These are shares in subsidiaries and associates that are excluded from the scope of IFRS 9 and as described in note 8 are measured at cost less impairment losses.

16.4 Collateral for repayment of receivables and liabilities

The Company uses a variety of collateral and its combinations. The most frequently used are execution statements. Additionally, the Company uses powers of attorney to bank accounts and the assignment of receivables. As a rule, there is no collateral on subsidiaries' liabilities towards PGE S.A.

As at December 31, 2022 and December 31, 2021, Company's assets are not encumbered as collateral for the repayment of the Company's liabilities and contingent liabilities.

16.5 Statement of comprehensive income

The table below presents the combined effect of the various categories of the financial instruments on the financial income and costs.

YEAR ENDED DECEMBER 31, 2022	Hedging derivatives	Derivatives measured at air value through profit o loss	Cash and cash equivalents	Shares and other equity nstruments at the Grou	Other financial assets	Financial liabilities at amortised cost	Liabilities Lease liabilitie	TOTAL
Dividends	-	-	-	1,639	-	-	-	1,639
Interest income / (costs)	110	-	305	-	819	(570)	(1)	663
Exchange differences	-	13	(2)	-	26	(68)	-	(31)
Revaluation of financial instruments/Reversal of impairment losses	-	39	-	-	-	-	-	39
Revaluation of financial instruments /Recognition of impairment losses	-	(36)	-	(17)	-	-	-	(53)
Gain on sale of investment	-	-	-	35	-	-	-	35
TOTAL PROFIT/ (LOSS)	**110**	**16**	**303**	**1,657**	**845**	**(638)**	**(1)**	**2,292**

Year ended December 31, 2021	Hedging derivatives	Derivatives measured at air value through profit o loss	Cash and cash equivalents	Shares and other equity nstruments at the Grou	Other financial assets	Financial liabilities at amortised cost	Liabilities Lease liabilitie	TOTAL
Dividends	-	-	-	1,252	-	-	-	1,252
Interest income / (costs)	(129)	-	-	-	445	(174)	(1)	141
Exchange differences	(2)	-	1	-	(19)	16	-	(4)
Revaluation of financial instruments/Reversal of impairment losses	-	1	-	22	-	-	-	23
Revaluation of financial instruments /Recognition of impairment losses	(31)	-	-	(32)	-	-	-	(63)
Loss on sale of investment	-	-	-	(36)	-	-	-	(36)
TOTAL PROFIT/ (LOSS)	**(162)**	**1**	**1**	**1,206**	**426**	**(158)**	**(1)**	**1,313**

The recognition of impairment losses on shares in the current and comparative reporting period is described in notes 4.3 and 8.1 of these financial statements.

17. Objectives and principles of financial risk management

The main goal of financial risk management at PGE Group is to support the process of creating value for shareholders and to implement business strategies of the Group through maintaining the financial risk at the level acceptable for the Group management. Responsibility for managing financial risk lies with the Management Board of PGE S.A. The Management Board specifies risk appetite, understood as an acceptable level of deterioration of PGE Group's financial results, taking into consideration its current and planned economic and financial situation. The Management Board also decided on the allocation of risk appetite to specific business areas.

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

The Company has a Risk Committee that exercises oversight of the financial and corporate risk management process at PGE Group. The Risk Committee monitors exposure levels, sets limits on material financial risks, approves methodologies used in the area of financial risks arising from trading and financing activities, authorises expansion into new business areas, and takes other key decisions in the area of risk management.

Financial risk is managed at Group level as a whole, with the Company having a leading role, being a centre of competence in this area, and managing the process in an integrated manner. Risk exposures of individual business areas are considered in a comprehensive manner, taking into account the existing dependencies between exposures, the possibility of using natural hedging effects and their combined impact on the risk profile and financial position of the entire PGE Group.

The financial risk management model includes:

- collection and consolidation of data on exposure to particular categories of financial risk,
- calculation of financial risk metrics, including Value-at-Risk (VaR) and Profit-at-Risk (PaR) for specific risk factors and overall for all risk factors;
- management of the PGE Group's consolidated exposure in relation to capital at risk and risk limits established based on it (including the identification and implementation of hedging strategies).

In key areas of financial risk, the Company has implemented internal regulations for managing these risks.

The Company is exposed to a variety of financial risks:

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

The Company's exposure to specific financial risks depends on the scope of activities in commodity and financial markets.

17.1 Market risk

Market risk covers commodity risk, interest rate risk, currency risk.

The main objective of market risk management is to protect the financial result and maintain the level of risk arising from trading and financing activities at an acceptable level and to support the implementation of the Group's business strategy and maximisation of shareholder value.

The Company's procedures for managing specific market risk categories in trade and finance activities specify the following:

- objective, scope and rules for managing risk;
- responsibility for managing risk;
- management and operational processes within risk management in trade activities on electricity markets and electric product markets and as regards finance activities;
- ways of identifying sources of exposure to risk;
- permitted instruments for hedging exposure to risk;
- methods for measuring and monitoring exposures to risk.

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

17.1.1 Commodity risk

Commodity risk is related to the possibility that financial results deteriorate as a result of changes in commodity prices.

The Company's exposure to commodity risk mainly concerns the following commodity markets:

- electricity
- CO_2 emission allowances
- natural gas

The Company has a strategy for hedging key exposures in trading electricity and related products over a 5-year horizon. The level of hedging for an open position is set taking into account risk appetite, results of monitoring the risk of electricity and related product prices, liquidity of specific markets as well as the financial situation of the Company and the Group and the Group's strategic objectives

17.1.2 Interest rate risk

Interest rate risk is related to the possibility that financial results deteriorate as a result of changes in interest rates.

The Company's exposure to interest rate risk is mainly due to the fact that the Company finances its operating and investing activities with financing, some of which is based on variable interest rates, primarily in the form of credit, loans and bonds issued in domestic and foreign currency and from investments in financial assets bearing interest at variable rates.

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

In addition, the Company determines its hedging strategy for interest rate risk exposure through hedge ratios subject to the approval of the Risk Committee and the Management Board of PGE S.A. The execution of the hedging strategy and the level of interest rate risk are subject to monitoring and are regularly reported to the Risk Committee.

The Company executes derivative transactions concerning instruments that are based on interest rates only in order to hedge identified risk exposures. Regulations applicable to PGE Group do not permit derivative transactions based on interest rates for the purposes of speculative transactions that would be intended to generate additional earnings resulting from changes in interest rates while exposing the Company to a risk of potential losses.

Bonds issued in the amount of PLN 1.4 billion under the PLN 5 billion Bond Program are floating rate bonds in PLN. Payments on these bonds are secured by IRS hedging instruments as described in note 16.1.2.

Loans received from a subsidiary PGE Sweden AB (publ) are interest bearing loans at a fixed interest rate in EUR. Payments on these loans are hedged using the CCIRS hedging instruments described in note 16.1.2.

The Company also has financing in the form of a long-term loan of PLN 1 billion under the Loan Agreements entered into on December 17, 2014 and December 4, 2015 with Bank Gospodarstwa Krajowego, respectively, and a syndicated loan (term tranche) of PLN 1.45 billion under the Loan Agreement dated September 7, 2015, the above-mentioned loans are floating rate instruments in PLN. Payments on borrowings are hedged by IRS hedging instruments as described in note 16.1.2.

Interest rate hikes as a consequence of the fight against inflation did not noticeably affect the interest rate risk on long-term floating-rate debt, as this was 100% hedged with IRS and CCIRS contracts.

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

		Type of interest	As at December 31, 2022	As at December 31, 2021
Derivatives - assets exposed to interest rate risk	PLN	Fixed	-	-
		Variable	477	219
	EUR	Fixed	-	-
		Variable	1,772	2,363
Loans granted, bonds acquired and cash exposed to interest rate risk	PLN	Fixed	27,184	21,422
		Variable	354	449
	EUR	Fixed	1,618	650
		Variable	-	-
Derivatives – liabilities, exposed to interest rate risk	PLN	Fixed	-	-
		Variable	-	-
	EUR	Fixed	-	-
		Variable	(1,268)	(2,278)
Loans received, bonds issued exposed to interest rate risk	PLN	Fixed	(2,213)	(2,292)
		Variable	(9,887)	(7,287)
	EUR	Fixed	(682)	(669)
		Variable	-	-
Net exposure	**PLN**	**Fixed**	**24,971**	**19,130**
		Variable	**(9,056)**	**(6,619)**
	EUR	**Fixed**	**936**	**(19)**
		Variable	**504**	**85**

Interest rates on variable interest rate financial instruments are updated in periods shorter than one year. Interest rates on fixed interest rate financial instruments are fixed throughout the whole period until maturity of these instruments.

17.1.3 Currency risk

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

The main sources of exposure to currency risk are presented below:

- loans and borrowings denominated in foreign currencies;
- transactions of purchase and sale of CO_2 emission allowances denominated in foreign currencies;
- financial assets with deposit characteristics denominated in foreign currencies,
- foreign subsidiaries;
- other operating flows denominated in or indexed to foreign currencies.

The Company controls currency risk through a system of limits relating to the maximum potential loss due to changes in currencies. The currency risk measure is based on the VaR methodology, understood as the product of the absolute size of the net foreign exchange position and the value of a potential change in the exchange rate.

Moreover, the Company sets out hedging strategies for currency risk using hedging ratios subject to approval by PGE S.A.'s Risk Committee and Management Board. The hedging strategy and level of currency risk are subject to monitoring and are regularly reported to the Risk Committee.

The Company executes derivative transactions concerning instruments that are based on currency only in order to hedge identified risk exposures. The regulations binding at PGE Group do not allow, with respect to currency derivative transactions, to conclude speculative transactions, i.e. transactions aimed at generating additional profits resulting from changes in exchange rates, while exposing the company to the risk of possible loss on this account.

In view of the applied 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 materially, as a result of hedging activities implemented in accordance with previously adopted hedging strategies.

The Company's exposure to currency risk broken down into classes of financial instruments:

	Total value in financial statements in PLN	CURRENCY POSITION AT DECEMBER 31, 2022			
		EUR	PLN	USD	PLN
FINANCIAL ASSETS					
Trade and other financial receivables, including:	22,996	310	1,452	-	-
Trade receivables	*2,962*	*6*	*28*	-	-
Other financial receivables	*1,471*	*304*	*1,424*	-	-
Cash and cash equivalents	10,593	344	1,613	1	5
Derivatives and other assets measured at fair value through profit or loss, including:	2,277	3,448	16,171	297	1,393
Carried at fair value through profit or loss	*1,686*	*3,303*	*15,491*	*297*	*1,393*
Hedging instruments	*563*	*145*	*680*	-	-
FINANCIAL LIABILITIES					
Loans, borrowings, bonds, including:	12,782	145	682	-	-
Loans received	*682*	*145*	*682*	-	-
Trade and other payables, including:	2,822	377	1,768	-	-
Trade liabilities	*1,382*	*73*	*344*	-	-
Other financial liabilities	*1,440*	*304*	*1,424*	-	-
Derivatives	1,268	8,445	39,607	297	1,393
NET CURRENCY POSITION		**(4,865)**	**(22,821)**	**1**	**5**

The book value of derivatives constitutes their fair value measurement. The value of exposure to currency risk for forwards constitutes their nominal value in currency. The value of exposure to risk currency for CCIRS constitutes a value in the currency of discounted cash flows in the currency leg.

	Total value in financial statements in PLN	CURRENCY POSITION AT DECEMBER 31, 2021			
		EUR	PLN	USD	PLN
FINANCIAL ASSETS					
Trade and other financial receivables, including:	26,573	370	1,698	-	-
Trade receivables	*7,703*	*8*	*35*	-	-
Other financial receivables	*1,665*	*362*	*1,663*	-	-
Cash and cash equivalents	5,316	141	650	-	-
Derivatives and other assets measured at fair value through profit or loss, including:	2,612	5,299	24,372	2	8
Carried at fair value through profit or loss	*2,253*	*5,121*	*23,553*	*2*	*8*
CCIRS hedges	*110*	*178*	*819*	-	-
FINANCIAL LIABILITIES					
Loans, borrowings, bonds, including:	10,248	145	669	-	-
Loans received	*669*	*145*	*669*	-	-
Trade and other payables, including:	10,251	362	1,663	-	-
Other financial liabilities	*1,685*	*362*	*1,663*	-	-
Derivatives	2,278	4,499	20,693	2	8
NET CURRENCY POSITION		**804**	**3,695**	**-**	**-**

The book value of derivatives constitutes their fair value measurement. The value of exposure to currency risk for forwards constitutes their nominal value in currency. The value of exposure to risk currency for CCIRS constitutes a value in the currency of discounted cash flows in the currency leg.

17.2 Liquidity risk

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

The main objective of liquidity risk management at PGE Group is to ensure and maintain the companies' ability to meet their existing and future financial liabilities, taking into account the cost to obtain liquidity. Liquidity risk management at PGE Group involves, inter alia, planning and monitoring cash flows in the short and long term with respect to its operating, investing and financing activities and taking actions to ensure funds for the operation of PGE S.A. and its subsidiaries while minimising the costs of these activities.

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

Liquidity risk management in the long term allows PGE Group to define its borrowing capacity and supports decisions regarding the financing of long-term investments.

PGE Group has a central financing model in which, as a rule, agreements relating to external financing are executed by PGE S.A. PGE Group subsidiaries use various sources of intra-group financing such as loans, bonds, bank account consolidation agreements and real cash pooling agreements.

The Company has an active policy of investing free cash, monitors the balance of financial surpluses and makes cash flow forecasts and, based on these, implements an investment strategy in relation to free cash.

As part of the assessment of its liquidity, the Company monitors the performance of the net debt/EBITDA ratio at a level that guarantees the maintenance of investment grade credit ratings and, consequently, the ability to finance the Group's ambitious investment program. The ratio is calculated on the basis of PGE Group's consolidated financial statements.

	Year ended December 31, 2022	Year ended December 31, 2021
Ratio: net debt / EBITDA	-0.31x	0.44x

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

- overdrafts and working capital term loans granted by banks,
- bank accounts consolidation agreements (real cash-pooling),
- term loans and bond issues addressed to external investors.

Maturities of the Company's financial liabilities by maturity date, based on contractual non-discounted payments:

AT DECEMBER 31, 2022	Carrying amount	Total payments	Under 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years
Bank credit	**5,050**	**5,813**	783	1,338	2,135	1,557
Bond liability	**1,412**	**2,108**	-	125	848	1,135
Loans received	**682**	**820**	11	10	84	715
Cash pooling liabilities	**5,614**	**5,614**	5,614	-	-	-
Lease liabilities	**24**	**68**	-	2	6	60
Trade and other financial liabilities measured at amortised cost	**1,399**	**1,399**	1,390	-	9	-
Settlements with exchanges, largely related to the purchase of CO_2 emission allowances (*)	**1,423**	**1,423**	1,423	-	-	-
Derivatives related to purchase of CO_2 emission allowances	**(188)**	**(1,014)**	5,309	(3,433)	(2,890)	-
Commodity forward - purchase	*538*	*21,535*	*9,499*	*10,885*	*1,151*	-
Commodity forward - sale		*(30,033)*	*(9,334)*	*(16,460)*	*(4,239)*	-
Futures – purchase	*(1,456)*	*6,775*	*4,959*	*1,644*	*172*	-
Futures - sale		*(57)*	*(13)*	*(40)*	*(4)*	-
Currency forwards	*730*	*766*	*198*	*538*	*30*	-
TOTAL	**15,416**	**16,231**	**14,530**	**(1,958)**	**192**	**3,467**

(*)Settlements relate to margins, the value of which depends on the current price of CO_2 allowances.

AT DECEMBER 31, 2021	Carrying amount	Total payments	Under 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years
Bank credit	**6,809**	**7,459**	739	1,184	3,499	2,037
Bond liability	**1,404**	**1,712**	-	47	581	1,084
Loans received	**669**	**817**	9	9	77	722
Cash pooling liabilities	**1,346**	**1,346**	1,346	-	-	-
Lease liabilities	**20**	**64**	1	-	4	59
Trade and other financial liabilities measured at amortised cost	**8,588**	**8,589**	8,571	4	14	-
Settlements with exchanges, largely related to the purchase of CO_2 emission allowances (*)	**1,663**	**1,663**	1,663	-	-	-
Derivatives related to purchase of CO_2 emission allowances	**513**	**(348)**	122	781	(1,251)	-
Commodity forward - purchase	*2,242*	*17,387*	*5,210*	*3,800*	*8,377*	-
Commodity forward - sale		*(23,085)*	*(5,187)*	*(3,125)*	*(14,773)*	-
Futures – purchase	*(1,765)*	*5,451*	*145*	*141*	*5,165*	-
Futures - sale		*(139)*	*(50)*	*(41)*	*(48)*	-
Currency forwards	*36*	*38*	*4*	*6*	*28*	-
TOTAL	**21,012**	**21,302**	**12,451**	**2,025**	**2,924**	**3,902**

(*)Settlements relate to margins, the value of which depends on the current price of CO_2 allowances.

17.3 Credit risk

Credit risk is related to a potential credit event that may take the form of a counterparty's insolvency, only partial repayment of receivables, a material delay in repayment of receivables or other deviation from contractual terms (including, in particular, failure to deliver and receive agreed goods in accordance with the contract and possible non-payment of damages and contractual penalties).

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

- Core business - sources of credit risk include transactions for the purchase and sale of electricity, gas and CO_2 emission allowances. This includes the possibility of the other party to the transaction failing to meet its obligations to the Company if the fair value of the transaction is positive from the perspective of the Company;
- Investing free cash – the credit risk results from investing free cash of PGE S.A. in securities bearing credit risk, i.e. financial instruments other than those issued by the State Treasury.

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

Maximum credit risk exposure resulting from financial assets is equal to the carrying value of these items.

	Year ended December 31, 2022	Year ended December 31, 2021
Trade receivables	2,962	7,703
Other financial assets	20,034	18,870
Cash and cash equivalents	10,593	5,316
Derivatives - assets	2,277	2,612
MAXIMUM EXPOSURE TO CREDIT RISK	**35,866**	**34,501**

17.3.1 Trade and other financial receivables

ACCOUNTING POLICIES

Impairment of receivables

Receivables from loans granted and bonds purchased from subsidiaries

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

Trade and other financial receivables

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

The Company applies the following rules for estimating and recognising impairment losses on other financial receivables:

- for receivables from major customers who are subject to the credit risk assessment procedure, the Company estimates expected credit losses based on a model used to assess this risk, which is based on ratings assigned to individual counterparties; ratings are assigned a probability of bankruptcy, which is adjusted for the impact of macroeconomic factors;
- for receivables from bulk customers or those not covered by the credit risk assessment procedure, the Company estimates expected credit losses based on an analysis of the probability of incurring credit losses in each age bracket;
- in justified cases the Companies may estimate the value of the impairment loss individually.

Ratios used to estimate expected losses calculated according to the following provision matrix:

	December 31, 2022		December 31, 2021	
	Amount of impairment	% of impairment	Amount of impairment	% of impairment
Receivables before due date	415	0.0 – 100.0 (*)	390	0.0 - 100.0 (*)
Past due <30 days	37	0.0 – 100.0 (*)	-	0.0
Past due 30-90 days	-	0,0	-	0.0
Past due 90-180 days	12	100.0 (*)	-	100.0
Past due 180-360 days	77	100.0 (*)	-	100.0
Past due >360 days	4	100,0	-	100.0
TOTAL FINANCIAL ASSETS	**545**		**390**	

(*) The impairment loss applies to receivables subject to matrix and individual impairment loss (100%).

Indicators used to estimate expected loss values calculated according to the model for key customers:

Rating level	December 31, 2022		December 31, 2021	
	Amount of impairment	% of impairment	Amount of impairment	% of impairment
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 a 2-3-week payment deadline. In 2022, the Company waited on average 33 days for payment of receivables. For one of the subsidiaries, due to liquidity problems, the Company extended the payment terms to 90 days from August 1, 2022 to December 31, 2022 for the supply of gas fuel.

Trade receivables relate mainly to receivables for energy sold. Through the ongoing monitoring of trade receivables, in the opinion of management, there is no additional significant credit risk above the level determined by the allowance for expected credit losses.

The Company reduces and controls the credit risk related to trade transactions. In the case of trade transactions which due to high value may generate substantial loss in case of failure of business partner to comply with the agreement, the assessment of contractor is carried out before the transaction is conducted, taking into account contractor's financial analysis, its credit history and other factors. Based on the assessment, an internal rating is recognised or the Company uses a rating determined by an independent reputable agency. A limit for the contractor is set based on the rating. Entering into contracts that would increase exposure above the limit, requires in principle the collateral in line with rules pertaining to credit risk management. The level of used limit is regularly monitored and if it is substantially exceeded, units responsible for contractor's risk are obliged to undertake measures to eliminate them. The Company monitors the payment of its receivables on an ongoing basis - it applies early debt collection and uses the services of Economic Information Offices.

Credit risk relating to trade receivables by geographical region is presented in the table below:

	December 31, 2022		December 31, 2021	
	Receivables balance	% share	Receivables balance	% share
Poland	2,961	100%	7,668	99.0%
Germany	1	-	31	1.0%
Belgium	-	-	4	-
TOTAL	**2,962**	**100%**	**7,703**	**100.0%**

The majority of sales transactions and trade receivables balances relate to related parties within PGE Group as well as large entities on the Polish electricity market. Information on transactions with related parties is presented in note 21 of these financial statements.

Age structure of receivables and allowances for expected credit losses

At December 31, 2022, some financial assets were subject to allowances for future credit losses.

It was assumed that PGE S.A.'s control over the assets of subsidiaries is a form of collateral, which was taken into account when estimating the Recovery Rate parameter. Consequently, with regard to loans and bonds granted to subsidiaries, this parameter was set at 0%. All receivables from loans granted and bonds purchased from subsidiaries are classified in one basket.

The change in allowances accounts for these classes of financial instruments is presented in the table below:

2022	Trade receivables	Loans granted	Cash pooling receivables	Bonds acquired	Other financial receivables
Allowance for expected credit losses as of January 1	**(4)**	**-**	**-**	**(386)**	**-**
Recognition of impairment losses	(155)	-	-	-	-
Reversal of impairment losses	-	-	-	-	-
Use	-	-	-	-	-
Allowance for expected credit losses as of December 31	**(159)**	**-**	**-**	**(386)**	**-**
Value before	**3,121**	**12,627**	**348**	**5,974**	**1,471**
Net value (book value)	**2,962**	**12,627**	**348**	**5,588**	**1,471**

2021	Trade receivables	Loans granted	Cash pooling receivables	Bonds acquired	Other financial receivables
Allowance for expected credit losses as of January 1	**(34)**	**-**	**-**	**(386)**	**-**
Recognition of impairment losses	7	-	-	-	-
Use	23	-	-	-	-
Allowance for expected credit losses as of December 31	**(4)**	**-**	**-**	**(386)**	**-**
Value before	**7,707**	**7,614**	**449**	**9,528**	**1,665**
Net value (book value)	**7,703**	**7,614**	**449**	**9,142**	**1,665**

Trade receivables and other financial assets

	December 31, 2022			December 31, 2021		
	Gross value	Impairment	Net carrying amount	Gross value	Impairment	Net carrying amount
Receivables before due date	**23,411**	**(415)**	**22,996**	**26,941**	**(389)**	**26,552**
Past due <30 days	37	(37)	-	21	-	21
Past due 30-90 days	-	-	-	-	-	-
Past due 90-180 days	12	(12)	-	-	-	-
Past due 180-360 days	77	(77)	-	-	-	-
Past due >360 days	4	(4)	-	1	(1)	-
Receivables past due, total	**130**	**(130)**	**-**	**22**	**(1)**	**21**
TOTAL FINANCIAL ASSETS	**23,541**	**(545)**	**22,996**	**26,963**	**(390)**	**26,573**

17.3.2 Deposits, cash and cash equivalents

The Company manages credit risk related to cash and cash equivalents by diversification of banks in which surpluses of cash are allocated. All entities with which the Company concludes deposit transactions with operate in the financial sector. These are exclusively banks incorporated in Poland or operating in Poland in the form of branches of foreign banks, with a rating of at least investment grade, with an adequate solvency ratio and equity capital, and with a strong and stable market position.

17.3.3 Derivatives

All entities with which the Company concludes derivative transactions with operate in the financial sector. These are banks with investment ratings, adequate equity and strong, stable market position. As at the reporting date, the Company was party to the derivative transactions, described in detail in note 16.1.2 to these financial statements.

17.3.4 Guarantees and sureties

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

17.4 Climate risk as part of the enterprise risk management system

PGE Group is aware of the impact of its activities on the climate, as well as the threats posed by climate change to the Group's operations. It is well known that our business activities both influence and depend on the climate, this interdependence generates both risks and opportunities for growth. We therefore understand the expectations of stakeholders in terms of reporting on the environmental impact of the business, recognising climate risk management as a key element of strategic management, with a direct impact on financial aspects.

PGE Group is therefore focusing not only on risks but also on opportunities to ensure resilience to risks and to increase sustainable Group revenues. PGE Group has taken a number of actions in 2022 aimed at achieving climate neutrality in 2050, already indicated in PGE Group's Strategy to 2030, and continues to work on the implementation of PGE Group's ESG Strategy, focusing on 4 areas: competitiveness in the financial market, a leader in green transformation, a corporate culture that supports sustainable development and active communication on sustainable development with all stakeholders. The Group is also implementing measures to meet regulatory requirements, both national and European. This includes, among other things, the EU Taxonomy, preparation to the Corporate Sustainability Reporting Directive (CSRD), as well as the expectations of financial institutions, investors and customers.

Climate risks are subject to the rigours and guidelines arising from the enterprise risk management process. The body responsible for overseeing PGE Group's enterprise risk management process, including climate risk, is the Risk Committee, as in the case of financial risks. Having a Risk Committee at the top executive level that reports directly to the Management Board ensures supervision over the effectiveness of risk management processes across the entire Group. This positioning of the risk function allows for an independent assessment of individual risks, their impact on PGE Group and 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 Enterprise Risk Management. At PGE Group, climate risk is analysed both in the context of the impact of climate change on business as well as the impact of business on climate change. Identification and analysis of climate risk as well as continuous improvement of pro-environmental solutions and control tools allow effective management and minimisation of the impact on climate, while ensuring financial results for PGE Group. The solutions worked out by PGE Group are aimed at its development and sustainable transition in line with climate-related requirements and with care for all stakeholders.

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

The approach to climate risks is inspired by the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), however, the method of inventory and risk assessment adopted as well as the assumptions made are an internal PGE concept.

In 2022, PGE Group once again took part in an international study on the company's environmental impact, i.e. Carbon Disclosure Project - CDP (https://www.cdp.net/en). The Group responded to global investor queries on the climate and water resource impacts of its operations and identified both the risks and opportunities involved.

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

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

The changing climate and climate change mitigation and adaptation efforts simultaneously provide new opportunities and chances for business development. This is why PGE Group focuses not only on risks but also on opportunities so as to ensure resilience to risks and to increase sustainable earnings. Climate-related opportunities at PGE Group primarily concern:

- resource efficiency, e.g. by working on waste management solutions and recovering valuable products from wind turbine blades;
- new energy sources, e.g. through investment in offshore and onshore wind farms, as well as PV farms, the construction of emission-free hybrid electricity storage;
- new products, e.g. expanding the product portfolio with PRO EKO initiatives - products that align with low-carbon heating systems, developing products/offerings that promote low-carbon activities, following changes in consumer preferences or developing insurance solutions for Offshore Wind Farms;
- increased resilience to climate change in the form of, among other things, competence building in the offshore wind power industry as part of PGE S.A.'s cooperation with secondary schools and universities in Poland, the establishment of scientific and research cooperation between PGE S.A. and institutions from the offshore wind power industry in Poland, or underground cabling.

PGE Group defines climate risk in five areas:

- securing aid funds and investment incentives in national regulations - related to increasing the impact of climate requirements relevant to the allocation of aid funds and investment incentives in national regulations,
- international regulations - related to EU legislation on energy and climate policy, in particular as part of the current Fit for 55 package,
- CO_2 emissions - related to the rising costs of emission allowances, which may adversely affect the profitability of generating units or lead to discontinuation of production in these units,
- operations - related to extreme weather events or changes in climate conditions that may adversely affect the assets and operating activities of PGE Group,
- investments - concerning PGE Group's failure to meet its investment commitments, aimed at green transition, at EU, national and own strategic objectives.

Each climate risk area is assessed in the short term, medium term and long term. The adopted time horizons are due to analogies with ongoing external research. Market (financial) risk - sensitivity analysis

Assessing the impact of physical climate risks on operations

Global warming, changing precipitation patterns, rising sea levels and extreme weather events are increasingly posing serious challenges to the resilience of electricity systems, increasing the likelihood of disruption. Climate change directly affects every segment of the electricity system: both generation potential and capacity, heating and cooling demand, the resilience of transmission and distribution networks and demand patterns.

PGE Group, being aware of the risks posed by climate change, as part of the first phase of the climate risk management process, conducted an assessment in 2022 of the relevant climatic physical (material) risks - which could have a negative impact on its operations, supporting adaptation to climate change and enhancing resilience to climate risks. Climatic factors in the form of mainly temperature, precipitation and wind and their negative impact on key activities in the Group were assessed.

An assessment of the risks associated with climatic physical hazards in the PGE Group in 2022 was carried out in the current and long-term perspective 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 is currently the case, assuming an increase in global average temperature of approx. 2.5° at the end of the 21st century relative to the pre-industrial era and
- RCP 8.5- a pessimistic scenario that 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 Earth's average temperature will have risen by 4.5° relative to the pre-industrial era.

The assessment carried out showed a low to medium impact of risks related to climatic physical hazards on key activities in the Group in 2022. According to the criterion adopted, risks whose assessment showed a high impact were tested. An important role in the impact assessment process is played by, among others, the implementation of adaptation measures developed in PGE Group to increase the resilience of the power systems to climate change in the form of the use of more weather-proof solutions in the form of a cabling programme (replacement of overhead transmission networks with cables placed in the ground), preventive management of key infrastructure elements affecting the continuity of operations, insurance against events related to weather phenomena or precise analyses of land for new investments.

Impact of transition climate risks on operations

The PGE Group's transitional climate risks mainly relate to areas affecting the transformation towards achieving the planned climate neutrality by 2050, i.e., among others: requirements and regulation of 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 feedback (area: reputation). Examples of risks from the above areas are listed below, by category:

Politics and law

Climate regulations have a direct impact on energy companies. PGE 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 and regulatory and legal environment. PGE Group operates in an environment characterised by a significant impact of domestic and foreign regulations. The risk of current regulations is particularly relevant in the context of raising capital, grants and support from aid funds.

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

Emerging regulations

The emerging regulations are important to implement the strategy and to support an effective transition to low-carbon technologies. PGE Group aims to make full use of available financing options for green investments. Emerging regulatory changes, such as support for EU infrastructure to stimulate sustainable investment, addressing the lack of financing, penalties for climate-negative transactions, may give rise to significant risks. These changes will have an impact on credit risk and may affect the cash flows generated by PGE Group assets and thus affect their income value.

The risk of rising costs of greenhouse gas emission allowances, including a reduction in the cap on free of charge emission allowances for district heating, has the effect of reducing the ability to finance low- and zero-carbon investments.

PGE Group is systematically taking measures to reduce greenhouse gas emissions. Decarbonisation of generation assets will intensify with the implementation of the new PGE Group strategy. As a result, PGE's contribution to avoiding CO_2 emissions by 2030 is expected to be 120 million tonnes. At the same time, pro-environmental investments form the core of PGE Group's investment activities. In addition, the Group invests in asset modernisation and development investments, including optimising combustion processes and introducing solutions to improve generation efficiency, higher fuel and raw material consumption efficiency and reducing the energy intensity of generation processes and internal needs.

Technology

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

Reputation

Reputation risk for PGE Group is very significant as the energy sector plays an important role in supporting an effective transition to a low-carbon and ultimately zero-carbon economy. As a transition leader, PGE Group is focused 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. Failure to pay due attention to the low-carbon economy and ESG matters can cause problems with access to capital.

In order to mitigate risk at PGE Group, a team for the calculation of the carbon footprint of the PGE Group was established, a joint initiative was created within the Polish Association of Combined Heat and Power Plants to develop a sectoral guide for the uniform recognition of the carbon footprint of power plants, combined heat and power plants, including heat transmission and distribution, and electricity distribution activities, and the staffing of organisational units involved in processes related to reporting, decarbonisation and risk assessment was increased.

17.5 Market (financial) risk - sensitivity analysis

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

- interest rate risk,
- currency risk.

Currently, the Company is exposed mainly to currency risk related to foreign exchange rates between EUR/PLN. Furthermore, the Company is exposed to interest rate risk related to referential interest rates of PLN. The Company uses a scenario analysis for the purpose of analysing sensitivity to changes of market risk factors. The Company uses expert scenarios reflecting the Company's subjective assessment of future market risk factors.

The scenario analysis presented in this point is intended to analyse the influence of changes in market risk factors on the financial results of the Company. Only those items that can be defined as financial instruments are subject to the analysis of interest and currency risk.

In sensitivity analysis related to interest rate risk, the Company applies parallel shift of interest rate curve related to a potential possible change of referential interest rates during the following year.

In case of sensitivity analysis of interest rates’ fluctuations, the effect of risk factors’ changes could be recorded in the statement of comprehensive income as income or expenses or as revaluation of financial instruments measured at fair value.

The sensitivity analysis related to all types of market risks the Company is exposed to as at the reporting date, indicating the potential influence of changes of individual risk factors by class of financial assets and liabilities on profit before tax is presented below.

Sensitivity analysis for currency risk

The following table shows the sensitivity of profit before tax and equity to reasonably possible changes in exchange rates, assuming no changes in other risk factors for those classes of financial instruments that are exposed to exchange rate risk.

FINANCIAL INSTRUMENTS BY CLASS	Value in financial statements in PLN	Sensitivity analysis for currency risk AS AT DECEMBER 31, 2022				
		Value at risk in PLN	EUR/PLN Impact on financial result / equity		USD/PLN Impact on financial result / equity	
			10%	-10%	10%	-10%
Trade and other financial receivables	22,996	1,452	145	(145)		
Cash and cash equivalents	10,593	1,618	161	(161)	1	(1)
Derivatives measured at fair value through profit or loss - assets	1,686	16,884	205	(205)	139	(139)
Derivative hedges - assets	563	680	67	(67)	-	-
Loans, borrowings, bonds	12,782	682	(68)	68	-	-
Trade and other financial payables	2,822	1,768	(177)	177	-	-
Derivatives measured at fair value through profit or loss - liabilities	1,268	41,000	(329)	329	(139)	139
Impact on financial result			**4**	**(4)**	**1**	**(1)**
Derivative hedges - assets	104	680	1	(1)	-	-
Impact on revaluation reserve			**1**	**(1)**		

FINANCIAL INSTRUMENTS BY CLASS	Value in financial statements in PLN	Sensitivity analysis for currency risk AS AT DECEMBER 31, 2021				
		Value at risk in PLN	EUR/PLN Impact on financial result / equity		USD/PLN Impact on financial result / equity	
			10%	-10%	10%	-10%
Trade and other financial receivables	26,573	1,698	170	(170)	-	-
Cash and cash equivalents	5,316	650	65	(65)	-	-
Derivatives measured at fair value through profit or loss - assets	2,269	23,561	1,293	(1,293)	1	(1)
Derivative hedges - assets	313	819	66	(66)	-	-
Loans, borrowings, bonds	10,248	669	(67)	67	-	-
Trade and other financial payables	10,251	1,663	(166)	166	-	-
Derivatives measured at fair value through profit or loss - liabilities	2,278	20,701	(1,365)	1,365	(1)	1
Impact on financial result			**(4)**	**4**	**-**	**-**
Derivative hedges - assets	313	872	16	(16)	-	-
Impact on revaluation reserve			**16**	**(16)**	**-**	**-**

Sensitivity analysis for interest rate risk

The following table shows the sensitivity of profit before tax and capital to reasonably possible changes in interest rates, with other risk factors unchanged, for those classes of financial instruments that are exposed to interest rate risk:

FINANCIAL ASSETS AND LIABILITIES	Sensitivity analysis for interest rate risk AS AT DECEMBER 31, 2022					
	Value in financial statements in PLN	Value at risk in PLN	WIBOR Impact on financial result / equity		EURIBOR Impact on financial result / equity	
			+50bp	−50bp	+25bp	−25bp
Trade and other receivables	22,996	354	2	(2)	-	-
Derivatives measured at fair value through profit or loss - assets	1,686	1,686	8	(8)	-	-
Loans, borrowings, bonds, cash pooling	12,782	9,887	(49)	49	-	-
Derivatives measured at fair value through profit or loss - liabilities	1,268	1,268	(7)	7	-	-
Impact on financial result			**(46)**	**46**	**-**	**-**
CCIRS hedges	104	104	16	(14)	(10)	10
IRS hedges	459	459	42	(44)	-	-
IMPACT ON REVALUATION RESERVE			**58**	**(58)**	**(10)**	**10**

Value of derivatives exposed to interest rate risk is fair value of those instruments (carrying amount). Sensitivity analysis for CCIRS and IRS derivatives was carried out using the valuation change due to the shift of interest rates curves for particular currency.

FINANCIAL ASSETS AND LIABILITIES	Sensitivity analysis for interest rate risk AS AT DECEMBER 31, 2021					
	Value in financial statements in PLN	Value at risk in PLN	WIBOR Impact on financial result / equity		EURIBOR Impact on financial result / equity	
			+50bp	−50bp	+25bp	−25bp
Trade and other receivables	26,573	449	2	(2)	-	-
Derivatives measured at fair value through profit or loss - assets	2,269	2,269	11	(11)	-	-
Loans, borrowings, bonds, cash pooling	10,248	4,537	(36)	36	-	-
Derivatives measured at fair value through profit or loss - liabilities	2,278	2,278	(11)	11	-	-
Impact on financial result			**(34)**	**34**	**-**	**-**
CCIRS hedges	110	110	21	(22)	(14)	15
IRS hedges	203	203	66	(73)	-	-
IMPACT ON REVALUATION RESERVE			**87**	**(95)**	**(14)**	**15**

Value of derivatives exposed to interest rate risk is fair value of those instruments (carrying amount). Sensitivity analysis for CCIRS and IRS derivatives was carried out using the valuation change due to the shift of interest rates curves for particular currency.

17.6 Hedge accounting

ACCOUNTING POLICIES

Hedge accounting

Changes in the fair value measurement of derivative financial instruments designated as CCIRS and IRS cash flow hedges are taken to the revaluation reserve for the portion that represents an effective hedge, while the ineffective portion of the hedge is taken to the income statement.

The accumulated changes in fair value of hedging instrument, previously recognised in hedging reserve are transferred to profit or loss in the period or periods in which the hedged item affects profit or loss. Alternatively, if the hedge of a planned transaction results in the recognition of non-financial assets or non-financial liabilities, the Company excludes the amount from equity and includes it in the initial cost or other carrying amount of a non-financial asset or liability.

In June and August 2014, in connection with loans received from PGE Sweden AB, PGE S.A. concluded CCIRS transactions, hedging both exchange rates. In these transactions, the counterparty banks pay PGE S.A. interest based on a fixed rate in EUR and PGE S.A. pays interest based on a fixed rate in PLN. The nominal value, payment of interest and repayment of nominal value in CCIRS transactions are correlated with the relevant conditions arising from loan agreements. To recognise these transactions, the Company uses hedge accounting.

PGE S.A. also applies hedge accounting to IRS transactions, hedging the interest rate in connection with its financial commitments under credit agreements such as the Credit Agreement with a bank syndicate concluded on September 7, 2015 and Credit Agreement with Bank Gospodarstwa Krajowego concluded on December 17, 2014 and under the market bonds issued on May 9, 2019. In these transactions, counterparty banks pay PGE S.A. interest based on a fixed rate in EUR and PGE S.A. pays interest based on a fixed rate in PLN.

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

	Year ended December 31, 2022
VALUE OF HEDGED ITEM AS OF JANUARY 1	**669**
Repayment of loan	-
Accrued interest	21
Paid interest	(21)
Exchange differences	12
VALUE OF HEDGED ITEM AS OF DECEMBER 31	**682**

Information on hedging instruments - maturity structure:

Derivative instrument	Currency	Within 1 year	From 1 year to 5 years	Over 5 years
CCIRS	EUR	9	27	(266)
IRS	PLN	(194)	(277)	(56)

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

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

EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

18. Statement of cash flows

ACCOUNTING POLICIES

Statement of cash flows

The statement of cash flows is prepared using the indirect approach.

Presented below is the analysis of the most significant items of cash flow statement.

18.1 Cash flows from operating activities

Interest and dividends

	Year ended December 31, 2022	Year ended December 31, 2021
Dividend receivables	(1,639)	(1,252)
Interest on purchased bonds	(245)	(322)
Interest on issued bonds	89	25
Interest on loans granted	(549)	(130)
Interest on loans received	199	23
Interest and commission on bank credit	272	126
Interest on derivatives	(110)	129
Other	(3)	1
TOTAL INTEREST AND DIVIDENDS	**(1,986)**	**(1,400)**

(Gain) / loss on investing activities

	Year ended December 31, 2022	Year ended December 31, 2021
Valuation of derivatives based on accrual basis	(426)	57
Recognition and reversal of impairment losses on financial assets	17	7
(Profit)/loss on sale of other financial assets	-	36
Result on disposal of financial non-current assets	(34)	-
Other	(3)	2
TOTAL (PROFIT)/LOSS ON INVESTING ACTIVITIES	**(446)**	**102**

Change in receivables

	Year ended December 31, 2022	Year ended December 31, 2021
Change in trade and other receivables	4,005	(8,216)
Adjustment for changes in loans issued (including cash pooling)	4,914	1,072
Adjustment for changes in purchased bonds	(3,554)	(801)
Other	(2)	3
TOTAL CHANGE IN RECEIVABLES	**5,363**	**(7,942)**

Change in liabilities, excluding loans and borrowings

	Year ended December 31, 2022	Year ended December 31, 2021
Change in trade and other financial payables	(7,553)	7,849
Change in other non-financial liabilities	(185)	143
Change in other financial liabilities	604	806
Adjustment for changes in settlements in tax group	194	(58)
Other	(2)	(4)
TOTAL CHANGE IN LIABILITIES, EXCLUDING LOANS AND BORROWINGS	**(6,942)**	**8,736**

Change in other non-financial assets

	Year ended December 31, 2022	Year ended December 31, 2021
Change in other current assets	(297)	254
Other	-	-
TOTAL CHANGE IN OTHER CURRENT ASSETS	**(297)**	**254**

18.2 Cash flows from investing activities

Purchase and redemption of bonds issued by PGE Group companies

PGE S.A. acquires bonds issued by entities belonging to PGE Group. Funds obtained from the issue of bonds is used for financing investments, repayment of financial liabilities as well as for financing current operations. Detailed description in note 16.1.1.

Lending and repayment of loans

The Company provides loans to PGE Group companies mainly to finance investments, refinance financial liabilities and finance current operating activities. For a detailed description, see note 16.1.1.

Sale of other financial assets

The amount of proceeds from the sale of other financial assets relates mainly to the sale of shares in:

- TFI Energia to PZU S.A. The gain on this sale of shares amounted to PLN 3.7 million,
- shares in the following entities: Ramb sp. z o.o., MegaSerwis sp. z o.o., ELTUR – SERWIS sp. z o.o., ELMEN sp. z o.o., Betrans sp. z o.o., Bestgum Polska sp. z o.o. to PGE Górnictwo i Energetyka Konwencjonalna S.A. The gain on the sale of these stakes came to PLN 30 million.

Purchase of subsidiaries

Included under expenditures on the acquisition of subsidiaries are amounts relating to the acquisition of shares in subsidiaries, as described in note 8 of these financial statements.

Dividends received

The total amount of dividends received consists mainly of dividends from PGE Dystrybucja S.A. in the amount of PLN 1,138 million, PGE EO S.A. PLN 449 million and PGE EC S.A. PLN 25 million and in the comparative period mainly from PGE Dystrybucja S.A. in the amount of PLN 784 million, PGE EC S.A. PLN 277 million and PGE EO S.A. PLN 166 million.

Cash flows under cash pooling

As described in note 16.1.1, PGE S.A. serves as coordinator for PGE Group's cash pooling services. This means, among others, that certain entities settle with the Company and the Company settles with banks. In connection with the above, balances with related parties participating in cash pooling are reported in the Company's financial receivables and liabilities.

18.3 Cash flows from financing activities

Proceeds from loans, borrowings

In the current reporting period, the Company took out loans totalling PLN 2,200 million.

Repayment of loans, credit facilities, bonds and leases

In the current reporting period, the Company repaid loans totalling PLN 3,985 million.

OTHER EXPLANATORY NOTES

19. Contingent liabilities and receivables. Legal claims

ACCOUNTING POLICIES

Contingent liabilities

Recognition and measurement of provisions and contingent liabilities requires that the Company estimates the probability of occurrence of potential liabilities. If the occurrence of an adverse event is probable, the Company recognises a provision in the appropriate amount. If the occurrence of an adverse event in the Company's opinion is possible but not probable, a contingent liability is disclosed.

19.1 Contingent liabilities

	As at December 31, 2022	As at December 31, 2021
Guarantee and surety liabilities	8,961	18,029
Surety	3,253	690
Bank guarantees securing exchange transactions	251	2,760
Other contingent liabilities	59	59
Total contingent liabilities	**12,524**	**21,538**

Guarantee for PGE Sweden AB (publ) liabilities

Due to establishment of the Eurobonds program in 2014, an agreement was concluded for the issue of guarantee by PGE S.A. for the liabilities of PGE Sweden AB (publ). The guarantee was granted to the amount of EUR 2,500 million (PLN 10,750 million) and will be valid until December 31, 2041. As at December 31, 2022, PGE Sweden AB (publ)'s liabilities due to bonds issued amounted to EUR 140 million (PLN 655 million), as at December 31, 2021 liabilities amounted to EUR 140 million (PLN 642 million).

Sureties for the liabilities of PGE EC S.A. and EC Zielona Góra S.A.

On March 30, 2022, PGE S.A. entered into a surety agreement up to PLN 470 million, under which PGE S.A. guaranteed all liabilities of PGE EC S.A. and PGE EC Zielona Góra S.A. arising from electricity trading transactions concluded by PGE Dom Maklerski on TGE on behalf and for the benefit of these companies. This agreement was annexed on August 3, 2022, increasing the surety amount to PLN 1.35 billion.

Surety for PGE GiEK S.A.'s liabilities

On December 28, 2021, PGE S.A. entered into a surety agreement up to the amount of PLN 5 billion, on the basis of which PGE S.A. guaranteed all liabilities of PGE GiEK S.A. resulting from electricity trading transactions entered into on TGE, cleared by IRGiT. Due to a change in the settlement model, this surety was terminated on March 31, 2022.

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

The liability represents a guarantee granted by PGE S.A. for the liabilities of PGE Dom Maklerski S.A. in order to secure the settlement of exchange transactions on CO_2 emission allowances:

- Citigroup Global Markets Europe AG, surety up to EUR 265 million, which is the equivalent of PLN 1,243 million; the surety is valid until December 21, 2023,
- MacquarieBank Europe Designated Activity Company, surety up to EUR 130 million, which is the equivalent of PLN 610 million; the surety is valid until December 31, 2024.

Bank guarantees securing exchange transactions

These liabilities represent sureties issued by PGE S.A. for bank guarantees lodged as a deposit to secure exchange transactions resulting from membership in clearinghouse IRGiT. As at December 31, 2022, the total amount of bank guarantees was PLN 251 million, and as at December 31, 2021 it was PLN 2,760 million.

Other disputes

In connection with the sale of shares of PGE EJ1 sp. z o.o. to the State Treasury and pursuant to the Agreement regulating the responsibility of the current Shareholders for the costs of a dispute with Worley Parsons, if PGE S.A. loses the dispute, it may be required to cover the costs of the dispute in the maximum amount of PLN 98 million. The probability of losing the dispute was estimated in order to determine the fair value of the payment received. In effect, PLN 59 million was recognised under contingent liabilities and PLN 39 million in current provisions. The amount of the provision adjusted the result on the sale of shares presented in the comparative period of these financial statements.

19.2 Other significant issues related to contingent liabilities

Standby commitments to ensure financing of new investments for PGE Group companies

In connection with PGE Group's strategic investments, the Company granted a standby commitment to its subsidiary in which it undertook to provide financing for the planned investments. The standby commitment relates to strictly defined investment procedures and may only be used for these purposes. At the reporting date, the approximate value of future investment commitments relating to these projects is approx. PLN 215 million.

Proceeds from increase of the Company's share capital

As described in note 24.1.2 of this report, the disbursement of funds not in accordance with the provisions of the investment agreement may result in the mandatory repayment of funds received.

19.3 Other court cases and disputes

Compensation for conversion of shares

On November 12, 2014, Socrates Investment S.A. (purchaser of receivables from former shareholders of PGE Górnictwo i Energetyka S.A.) filed a lawsuit seeking damages in the total amount of over PLN 493 million (plus interest) for the loss suffered in connection with the incorrect (in its opinion) determination of the share exchange parity in the process of the merger of PGE Górnictwo i Energetyka S.A. with PGE S.A. The company filed a response to the lawsuit. On November 15, 2017 the Company received a procedural document from the claimant - change of demand sought, increasing the amount sought in court to PLN 636 million. A hearing to appoint a court expert was held on November 20, 2018. A first-instance court proceeding is currently under-way. In a ruling dated April 19, 2019 the court appointed experts to draft an opinion on this matter. On April 8, 2022, a further hearing was held on the need and possibility of a supplementary opinion by an additional expert. To date, a final expert opinion has not been produced.

Furthermore, a similar claim was raised by Pozwy sp. z o.o., an entity that purchased claims from former PGE Elektrownia Opole S.A. shareholders. Pozwy sp. z o.o. filed a claim at the District Court in Warsaw against PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE S.A. and PwC Polska sp. z o.o. ("Defendants"), demanded from the Defendants, in solidum, or jointly damages for Pozwy sp. z o.o. totalling over PLN 260 million with interest for allegedly incorrect (in its opinion) determination of the exchange ratio for PGE Elektrownia Opole S.A. shares for PGE Górnictwo i Energetyka Konwencjonalna S.A. shares in a merger of these companies. This lawsuit was delivered to PGE S.A. on March 9, 2017, and the deadline for responding to it was set by the court as July 9, 2017. The following companies: PGE S.A. and PGE GiEK S.A. submitted a response to the claim on July 8, 2017. On September 28, 2018, the District Court in Warsaw ruled in the first instance - the lawsuit by Pozwy sp. z o.o. against PGE S.A., PGE GiEK S.A. and PWC Polska sp. z o.o. was dismissed. On April 8, 2019 PGE S.A. received a copy of an appeal lodged by the claimant on December 7, 2018. A response from PGE S.A. and PGE GiEK S.A. to the appeal was drafted on April 23, 2019. A hearing was held on December 21, 2020. The Appeals Court ruled to repeal the District Court's ruling in its entirety and referred the case to the District Court for re-examination. On January 22, 2021 PGE S.A. and PGE GiEK S.A. appealed the ruling to the Supreme Court, requesting that the appealed ruling be repealed entirely and the case referred to the Appeals Court for re-examination. At a closed-door hearing on April 27, 2021 the Supreme Court reversed the judgement. The case was returned to be re-examined by the Appeals Court. The case is currently pending before the Court of Appeal in Warsaw, with witnesses being heard at subsequent hearings set by the Court.

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

PGE Group did not create a provision for this claim.

20. Tax settlements

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

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

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

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

Tax group

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

VAT split payment mechanism

The Group intends to effectively use the funds received from counterparties in VAT accounts to pay its liabilities that contain VAT. The level of funds in these VAT accounts on any given day depends mainly on how many of PGE Group's counterparties decide to use this mechanism and the relation between the payment deadlines for receivables and liabilities. As at 31 December 2021, the cash balance in VAT accounts was PLN 696 million.

Reporting of tax arrangements (MDR)

In 2019, new regulations introduced mandatory reporting of tax arrangements (Mandatory Disclosure Rules - MDR). A tax arrangement should be understood as any activity of which the main or one of the main benefits is is the obtaining of a tax advantage. In addition, events with so-called special or other distinctive hallmarks, as defined in the legislation, have been identified as a tax scheme. Three types of entities are subject to the reporting obligation: promoter, supporter and beneficiary. The MDR regulations are complex and imprecise in many areas, raising interpretative questions about their practical application.

Uncertainty concerning tax settlements

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

Taxation and other areas of activity (for example, customs and foreign exchange) may be audited by the authorities, which have the power to impose heavy fines and penalties, and any additional tax liabilities arising from an audit must be paid with high interest. These conditions make tax risk in Poland higher than in countries with a more stable tax system.

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

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

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

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

21. Information on related parties

The State Treasury is the dominant shareholder of the PGE Group and as a result State Treasury companies are recognised as related entities. The Company closely monitors transactions with key State Treasury subsidiaries. The total value of transactions with such entities is presented in the table below in the column "other related parties".

Transactions with related parties are based on market prices for the goods, products and services supplied or are based on their cost.

21.1 Transactions with related parties

Year ended December 31, 2022

STATEMENT OF COMPREHENSIVE INCOME	Subsidiaries	Other PGE Group related parties	Remaining related parties	Third parties	TOTAL
Revenue from sales	33,106	-	1,726	1,090	**35,922**
Other operating income / (expenses)	(149)	-	-	(22)	**(171)**
Financial income / (costs)	2,332	-	-	(41)	**2,291**
Operating costs	6,575	-	1,198	26,839	**34,612**

Year ended December 31, 2021

STATEMENT OF COMPREHENSIVE INCOME	Subsidiaries	Other PGE Group related parties	Remaining related parties	Third parties	TOTAL
Revenue from sales	25,608	-	1,263	9,046	**35,917**
Other operating income / (expenses)	12	-	-	(11)	**1**
Financial income / (costs)	1,630	-	-	(317)	**1,313**
Operating costs	12,069	-	1,108	22,140	**35,317**

The Company recognises revenues from sales to subsidiaries in PGE Group mainly from the sale of electricity, gas, property rights and CO_2.

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

Operating costs relate to the value of sales of materials and goods.

The Company concludes significant transactions on the energy market via Towarowa Giełda Energii S.A. (Polish Power Exchange). Due to the fact that this entity only deals with the organization of trading, purchases and sales transacted through this entity are not recognised as transactions with related parties.

21.2 Balances with related parties

As at December 31, 2022

ASSETS	Subsidiaries	Other PGE Group related parties	Remaining related parties	Third parties	TOTAL
Financial assets:	**22,724**	**-**	**209**	**63**	**22,996**
Bonds acquired	5,588	-	-	-	5,588
Trade receivables	2,737	-	209	16	2,962
Other loans and financial assets	14,399	-	-	47	14,446
Shares in subsidiaries	**29,445**	**-**	**-**	**-**	**29,445**
Shares in subsidiaries, jointly controlled entities, associates and other	**-**	**83**	**-**	**13**	**96**
Derivatives - assets	**-**	**-**	**-**	**2,277**	**2,277**
Other current assets	**98**	**-**	**-**	**4**	**102**

As at 31 December 2021

ASSETS	Subsidiaries	Other PGE Group related parties	Remaining related parties	Third parties	TOTAL
Financial assets:	**26,376**	**-**	**134**	**63**	**26,573**
Bonds acquired	9,142	-	-	-	9,142
Trade receivables	7,508	-	134	61	7,703
Other loans and financial assets	9,726	-	-	2	9,728
Shares in subsidiaries	**29,532**	**-**	**-**	**-**	**29,532**
Shares in subsidiaries, jointly controlled entities and associates	**-**	**83**	**-**	**13**	**96**
Derivatives - assets	**-**	**-**	**-**	**2,612**	**2,612**
Other current assets	**667**	**-**	**-**	**(292)**	**375**

As at December 31, 2022

LIABILITIES	Subsidiaries	Remaining related parties	Third parties	TOTAL
Derivatives - equity and liabilities	**-**	**-**	**1,268**	**1,268**
Financial liabilities measured at amortised cost:	**7,614**	**27**	**7,964**	**15,605**
Bonds issued	-	-	1,412	1,412
Interest bearing loans and borrowings	682	-	5,050	5,732
Cash pooling liabilities	5,614	-	-	5,614
Trade liabilities	1,317	27	38	1,382
Lease liabilities IFRS 16	-	-	24	24
Other financial liabilities	1	-	1,440	1,441

As at 31 December 2021

LIABILITIES	Subsidiaries	Remaining related parties	Third parties	TOTAL
Derivatives - equity and liabilities	**-**	**-**	**2,278**	**2,278**
Financial liabilities measured at amortised cost:	**10,474**	**56**	**9,969**	**20,499**
Bonds issued	-	-	1,404	1,404
Interest bearing loans and borrowings	669	-	6,809	7,478
Cash pooling liabilities	1,346	-	-	1,346
Trade liabilities	8,459	56	51	8,566
Lease liabilities IFRS 16	-	-	20	20
Other financial liabilities	-	-	1,685	1,685

Standby commitments and sureties granted to PGE S.A.'s subsidiaries are described in note 19 of these financial statements.

21.3 Management remuneration

The key management personnel comprises the Management Board and the Supervisory Board.

PLN 000s	Year ended December 31, 2022	Year ended December 31, 2021
Short-term employee benefits (salaries and salary related costs)	9,406	7,622
Post-employment and termination benefits	554	(935)
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**9,960**	**6,687**

PLN 000s	Year ended December 31, 2022	Year ended December 31, 2021
Management Board	9,193	5,869
Supervisory Board	767	818
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**9,960**	**6,687**

Members of the Company's Management Board are employed on the basis of civil law contracts for management (so called management contracts). In Note 4.2 Costs by nature and by function, remuneration is presented under other expenses by nature and, in addition to basic remuneration, also includes the values of reversed provisions for bonuses for former members of the Management Board and established provisions for bonuses for current members of the Management Board.

22. Audit firm remuneration

The entity authorised to audit the separate financial statements of PGE S.A. for 2022 and the consolidated financial statements of PGE Group, as well as to provide the service of reviewing the semi-annual separate and consolidated financial statements for 2022 is PKF Consult sp. z o.o. sp.k. on the basis of an agreement signed on January 21, 2022. As regards the comparative period, the entity authorised to audit the separate financial statements of PGE S.A. for 2021 and the consolidated financial statements of PGE Group as well as providing the service of semi-annual review of the separate and consolidated financial statements for the year 2021 was Deloitte Audyt sp. z o.o. sp.k. on the basis of a contract concluded on April 26, 2019.

PLN 000s	Year ended December 31, 2022	Year ended December 31, 2021
Audit of the annual separate financial statements and annual consolidated financial statements of PGE Group	493	518
Other assurance services, including for the review of half-yearly financial statements	188	215
Total amount of remuneration	**681**	**733**

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

Article 44 of the Energy Law imposes an obligation on the energy companies to prepare regulatory financial statements with a balance sheet (statement of financial position) and the statement of profit or loss for the reporting periods separately for each type of business activity related to the following areas:

- the transmission or distribution of electricity, the transmission, distribution or storage of gaseous fuels, the trade in gaseous fuels, the liquefaction of natural gas or re-gasification of liquefied natural gas, as well as for customer groups specified in the tariff,
- unrelated to the activities listed above.

23.1 Principles for allocation to different types of activities

The section below presents the types of activities referred to in art. 44 of the Energy Law and principles for allocation of revenues, expenses, assets and liabilities resulting from these types of activities.

23.1.1 Description of separate types of activities

The Company has identified the following types of activities pursuant to art. 44 point 1 of the Energy Law:
- trade in gaseous fuels
- other activities

23.1.2 Principles for allocating revenue, costs, assets and liabilities

Selected items in the statement of comprehensive income and statement of financial position are assigned by the Company to certain types of activities based on the accounting records:

- revenue from sale
- cost of goods sold
- selling and distribution costs
- general and administrative expenses
- financial income and costs
- trade receivables
- trade payables
- derivatives
- inventories
- provisions, except for employee benefit provisions

Selected items in the statement of financial position are assigned by the Company to certain types of activities with the use of allocation keys:

- property, plant and equipment as well as intangible assets in proportion to the depreciation/amortisation costs,
- provisions for employee benefits and liabilities for wages and salaries, personal income tax and Social Security in proportion to the cost of employee benefits,
- VAT liabilities in proportion to revenues from sales.

Selected items in the statement of comprehensive income and statement of financial position are not assigned to certain types of activities as they pertain to all activities of the entity. The main unallocated items include:

- deferred tax assets and liabilities,
- loans and receivables other than trade receivables
- interest-bearing loans, borrowings, bonds
- shares in subsidiaries and financial assets available for sale
- income tax receivables and liabilities
- cash and cash equivalents
- equity, except for profit for the reporting period
- income tax in statement of profit or loss

Unallocated items are presented together with other activities.

23.2 Type of business activity

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2022

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

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

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2022

	Gas trade	Other activities and unallocated items	Total
NON-CURRENT ASSETS			
Property, plant and equipment	10	129	139
Right-of-use assets	-	24	24
Financial receivables	-	2,182	2,182
Derivatives and other assets measured at fair value through profit or loss	-	608	608
Shares in subsidiaries	-	29,441	29,441
Shares in other related parties and other entities	-	96	96
Other non-current assets	-	104	104
	10	**32,584**	**32,594**
CURRENT ASSETS	**-**		
Inventories	-	1	1
Income tax receivables	-	-	-
Derivatives	-	1,669	1,669
Shares in subsidiaries	-	4	4
Trade and other receivables	196	20,618	20,814
Other current assets	4	98	102
Cash and cash equivalents	-	10,593	10,593
	200	**32,983**	**33,183**
TOTAL ASSETS	**210**	**65,567**	**65,777**

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2022

	Gas trade	Other activities and unallocated items	Total
Net profit for the reporting period	(159)	3,256	3,097
Other equity	-	44,639	44,639
TOTAL EQUITY	**(159)**	**47,895**	**47,736**
NON-CURRENT LIABILITIES			
Non-current provisions	1	11	12
Deferred tax liabilities	-	143	143
Loans, borrowings, bonds, cash pooling, leases	-	5,233	5,233
Derivatives	-	-	-
Other financial liabilities	-	9	9
	1	**5,396**	**5,397**
CURRENT LIABILITIES			
Current provisions	-	40	40
Loans, borrowings, bonds, cash pooling, leases	-	7,549	7,549
Trade and other liabilities	9	2,804	2,813
Derivatives	-	1,268	1,268
Income tax liabilities	-	40	40
Other non-financial liabilities	16	918	934
	25	**12,619**	**12,644**
TOTAL LIABILITIES	**26**	**18,015**	**18,041**
TOTAL EQUITY AND LIABILITIES	**(133)**	**65,910**	**65,777**

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2021

	Gas trade	Other activities and unallocated items	Total
REVENUE FROM SALES	**493**	**35,424**	**35,917**
Cost of sales	(490)	(34,604)	**(35,094)**
GROSS PROFIT ON SALES	**3**	**820**	**823**
Distribution and selling expenses	(9)	(8)	**(17)**
General and administrative expenses	(3)	(203)	**(206)**
Other operating income / (expenses)	-	1	**1**
OPERATING PROFIT / (LOSS)	**(9)**	**610**	**601**
Financial income / (costs)	-	1,313	**1,313**
GROSS PROFIT	**(9)**	**1,923**	**1,914**
Income tax	-	(180)	**(180)**
NET PROFIT FOR THE REPORTING PERIOD	**(9)**	**1,743**	**1,734**

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2021

	Gas trade	Other activities and unallocated items	Total
NON-CURRENT ASSETS			
Property, plant and equipment	3	143	146
Right-of-use assets	-	20	20
Financial receivables	-	6,936	6,936
Derivatives and other assets measured at fair value through profit or loss	-	358	358
Shares in subsidiaries	-	29,370	29,370
Shares in other related parties and other entities	-	96	96
Other non-current assets	-	3	3
	3	**36,926**	**36,929**
CURRENT ASSETS			
Inventories	-	1	1
Income tax receivables	-	136	136
Derivatives	-	2,254	2,254
Shares in subsidiaries	-	162	162
Trade and other receivables	155	19,482	19,637
Other current assets	7	368	375
Cash and cash equivalents	-	5,316	5,316
	162	**27,719**	**27,881**
TOTAL ASSETS	**165**	**64,645**	**64,810**

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2021

	Gas trade	Other activities and unallocated items	Total
Net profit for the reporting period	(9)	1,743	1,734
Other equity	-	39,568	39,568
TOTAL EQUITY	**(9)**	**41,311**	**41,302**
NON-CURRENT LIABILITIES			
Non-current provisions	-	13	13
Deferred tax liabilities	-	34	34
Loans, borrowings, bonds, cash pooling, leases	-	7,084	7,084
Derivatives	-	-	-
Other financial liabilities	-	13	13
	-	**7,144**	**7,144**
CURRENT LIABILITIES			
Current provisions	-	40	40
Loans, borrowings, bonds, cash pooling, leases	-	3,164	3,164
Trade and other liabilities	8	10,230	10,238
Derivatives	-	2,278	2,278
Income tax liabilities	-	1	1
Other non-financial liabilities	1	642	643
	9	**16,355**	**16,364**
TOTAL LIABILITIES	**9**	**23,499**	**23,508**
TOTAL EQUITY AND LIABILITIES	**-**	**64,810**	**64,810**

24. Significant events during and after the reporting period

24.1 Significant events during the reporting period

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

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

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

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

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

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

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

The counter measures taken (monitoring, incident handling and system recovery) allow attacks to be successfully repelled. These actions, combined with adequate management, lead to the build-up of resilience in cyberspace. At the same time, development and improvement of safety management appropriate to the risks identified is being implemented.

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

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

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

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

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

Risks related to gas supplies:

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

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

Impact of fuel availability constraints on electricity and heat generation

- In the case of gas fuel, due to the lack of stock-holding capacities, a reduced availability translates into an immediate disruption in electricity and heat production. However, if there are back-up coal-fuelled water boilers at a CHP plant, it is possible to produce heat until these stocks are exhausted (this pertains to CHP Lublin Wrotków and CHP Rzeszów). In the case

of CHP Gorzów, an OP-140 coal-fired steam boiler constitutes a back-up. At the EC Zielona Góra location, the reserve for heat production is constituted by oil boilers.
- The main suppliers of hard coal for electricity and heat production are Polish mining companies and coal importers. The CHPs have reserves of hard coal to enable uninterrupted production of electricity and heat. Due to the significant load and problems in the hard coal market, centrally-dispatched generating units have problems maintaining the minimum required stocks, resulting in the need to reduce production in order to maintain continuous operation of the units.

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

Risk associated with impact of war on commodity and financial markets

The energy crisis has spread across Poland, Europe and the world. The war in Ukraine is having a major impact on the heat and electricity market in Poland. It has a major impact on the prices and availability of energy raw materials, which has translated into higher energy and CO_2 emission allowance prices and the prices of goods and services, thereby affecting the levels of margins generated and capital raising opportunities. The disruption or complete shutdown of many production sites in Ukraine has ruptured the supply chain of components for key investments, or significantly increased their prices. The war in Ukraine has also highlighted the huge role of renewable energy sources, the development of which is a response to the cut-off of energy supplies from Russia and high energy prices. Renewable sources are not burdened by fuel and CO_2 costs. High energy prices are forcing improvements in energy and operational efficiency. There is also pressure mounting to accelerate the energy transition in line with the European Union's climate policy, using the phase-out of fossil fuels to modernise the Polish economy. As the leader of Poland's national energy transition, PGE Group is integrating the need to achieve climate neutrality into its long-term business strategy. At the same time, PGE Group is making an important contribution to maintaining the country's energy security by ensuring the import of hard coal from directions such as South America for the needs of both electricity producers and households. A change in the behavioural patterns of energy market customers is also inevitable, leading to efficient energy consumption. This is intended to avoid problems with heat and electricity shortages during the winter. PGE Group mitigates these risks by continuing its policy of hedging electricity generation costs along with energy sales on the wholesale market, which is reflected both in hedging CO_2 emission allowances and foreign currencies for transaction purposes.

In order to protect against major increases in electricity prices for some consumers, regulations have been put in place resulting in an obligation to apply price caps in the supply of electricity to eligible consumers. The regulations provide for compensation for trading companies that sell electricity at capped prices. The way compensation is calculated generates the risk of not fully covering the costs associated with electricity supply and limits the margins earned on electricity sales.

Also, in line with the current decision to impose war sanctions on Russia and Belarus, PGE Group has introduced contractor compliance verification in its supply chains.

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

The introduction by the European Union of an embargo on oil supplies from Russia will not be without an impact on the wider energy market, not least because of potential fuel price increases.

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

24.1.2 Recapitalisation of the Company by way of share issue

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

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

- development of renewable energy sources,
- decarbonisation via development of low-carbon sources,

- development of the distribution segment.

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

24.1.3 Preliminary agreement to purchase 100% of shares in PKPE Holding sp. z o.o.

On December 28, 2022, PGE S.A. and Edison Holdings S.à r.l. signed a Preliminary Share Purchase Agreement concerning PKPE Holding Sp. z o.o., pursuant to which the parties agreed to enter into a Final Agreement for the sale of 100% of shares in PKPE Holding sp. z o.o. In execution of the Preliminary Agreement, PGE S.A. will directly acquire 100% of the shares in PKPE Holding sp. z o.o. and indirectly 100% of the shares in PKP Energetyka S.A. as well as shares in other subsidiaries held by PKPE Holding sp. z o.o.

PKPE Holding Sp. z o.o. is a holding company controlling a number of entities the activities of which are focused around PKP Energetyka S.A. PKPE Group is a distributor and seller of electricity to the catenary, and additionally provides catenary maintenance services as well as supplying energy to customers outside the catenary on a TPA basis.

The price to be paid by PGE was set at approx. PLN 1,913 million based on enterprise value determined as at March 31, 2022 of approx. PLN 5,944 million and will be settled using a locked-box mechanism. The price will be subject to possible adjustments, especially by the amount of the outflow of funds from PKPE Group to the Edison Holdings S.à r.l. group.

The transaction is expected to close on April 3, 2023. Payment for the shares will take place on the closing date of the transaction.

In certain cases involving, among other things, differences between the value of certain actual and projected financial data, the parties may withdraw from the Preliminary Agreement.

The transaction closing will be carried out provided that, in particular, the following conditions are met:

- approval of the Office of Competition and Consumer Protection is obtained,
- the court dispute concerning the privatisation of PKP Energetyka is ended,
- approval from the Minister of State Assets is obtained,
- approvals from the financing entities are obtained.

If the circumstances set out in the Preliminary Agreement arise, the parties may withdraw from the transaction.

As a result of the transaction, PGE Group will gain access to the traction distribution network throughout the country.

24.1.4 Planned disposal of coal assets to National Energy Security Agency

On March 1, 2022, the Council of Ministers adopted a resolution on the adoption of the document "Energy sector transition in Poland." Carve out of coal-based generation assets from companies with a State Treasury shareholding." According to the document, the carve out process will follow the formula of purchase by the State Treasury from PGE S.A., ENEA S.A., TAURON Polska Energia S.A. and ENERGA S.A. of all assets connected to generation of energy in power plants fuelled by hard coal and lignite, including the accompanying service companies. Due to the inseparability of lignite-fuelled energy complexes, lignite mines will also be among the assets acquired. Assets related to hard coal mining will not become a part of the entity operating coal-based energy generation units. The district heating assets in connection with their planned upgrades to low- and zero-carbon sources will not be the subject of this transaction. It is planned that the spin-off of assets from the energy groups will take place through the acquisition of shares in individual companies directly by the State Treasury and their subsequent consolidation within NABE through the contribution of shares in individual companies to the capital increase of PGE GiEK.

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

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

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

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

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

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

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

At the date of these financial statements, work is underway to finalise the due diligence process, the valuation of the spin-off companies and the determination of other key parameters for a future sale transaction. Especially, the valuation and settlement rules for the debt and other liabilities associated with the ring-fenced assets have not yet been determined. No corporate’s decision concerning sale of PGE GiEK’ shares have been made. As a result, it is currently not possible to reliably estimate the impact of the spin-off on PGE's future financial statements, including the level of expected future credit losses.

As at reporting date In PGE s opinion,the conditions of IFRS 5 regarding the activities held for sale for shares of PGE GiEK S.A. are not met.

24.1.5 Regulatory changes on the electricity market

Due to the crisis in the energy market, the government has decided to introduce legal regulations that temporarily introduce exceptional measures for electricity prices and electricity tariffs in 2023. From December 1, 2022 to December 31, 2023, PGE Group's financial position is mainly affected by the provisions of the Emergency Measures Act, which introduced the obligation for electricity generators and electricity trading companies to make monthly contributions to the account of the Price Difference Payment Fund (the "Fund"). Contributions to the Fund are 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 regulated in the Decree of the Council of Ministers of November 8, 2022 on the method of calculating the price cap.

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

- for energy sold to final consumers, the price limit is the product of the volume-weighted average price of electricity purchased on the day in question and a margin set 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 shall be constituted by multiplying the volume-weighted average price of energy purchased on the day in question by the margin defined as 1.015 or 1.01.

From January 1, 2023 onwards, trading companies will calculate the amount of the contribution to the Fund for the calendar month to which the settlement relates, taking into account the volume of electricity sales, the market price and the price cap for periods of 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 the month. Until December 31, 2022, the Fund contributions were calculated separately for each day of the month.

For PGE S.A., the Fund contribution for December 2022 amounted to PLN 88 million (reduction of financial result). The contribution was made in the first quarter of 2023.

24.2 Events after the reporting period

On March 7, 2023, PGE S.A. entered into a preliminary agreement with ZE PAK S.A. regarding the establishment of a joint special purpose vehicle. In order to cooperate directly on the project to build a nuclear power plant based on Korean APR1400 technology, PGE S.A. and ZE PAK S.A. intend to jointly establish a special purpose vehicle in the form of a joint stock company based in Konin, which will then purchase or acquire shares in a company tasked with implementing the nuclear power plant project with the potential participation of a technology partner.

The agreement summarises the basic terms of cooperation between the Parties in respect of a joint venture to participate in the development of an investment for the construction of a nuclear power plant, including the definition of the corporate governance and operations of the SPV and restrictions on the disposal of shares in the SPV. PGE S.A. and ZE PAK S.A. will hold an equal number of shares in the SPV and the corporate rules will be based on the principle of joint control.

The creation of the special purpose vehicle is subject to the approval of the President of the Office of Competition and Consumer Protection for the concentration. PGE S.A. and ZE PAK S.A. intend to notify the intention of concentration without delay.

At the same time, it is planned that the SPV, as part of the next phase of cooperation, will prepare:

- feasibility study,
- land surveys,
- environmental impact assessment for the planned construction of a nuclear power plant.

25. Approval of the financial statements

These financial statements were approved for publication by the Management Board on March 20, 2023.

Warsaw, March 20, 2023

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

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

26. Glossary of terms and abbreviations

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

Abbreviation	Full term
CCIRS	Cross Currency Interest Rate Swap
CGU	Cash Generating Unit
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
EPS 550	Carbon dioxide emission criterion per unit of electricity produced, introduced as part of the so-called "Winter Package", conditioning the participation of generating units in the capacity market - this limit is 550 gCO_2/kWh.
EUA	European Union Allowances
EWB 4	Elektrownia Wiatrowa Baltica 4 sp. z o.o.
EWB 5	Elektrownia Wiatrowa Baltica 5 sp. z o.o.
EWB 6	Elektrownia Wiatrowa Baltica 6 sp. z o.o.
PGE Group, Group	PGE Polska Grupa Energetyczna S.A. Group
IRGiT	Izba Rozliczeniowa Giełd Towarowych S.A.
IRS	Interest Rate Swap
NABE	Narodowa Agencja Bezpieczeństwa Energetycznego S.A.
NPS	National Power System
IFRS EU	International Financial Reporting Standards approved by the European Union
TSO	Transmission System Operator
BCP	Business Continuity Plan
PEP	Poland's energy policy 2040
VLP	Voluntary Leave Program
Right-of-use assets	Right-of-use assets
PGE S.A., Company, Parent	PGE Polska Grupa Energetyczna S.A.
PGE EC S.A.	PGE Energia Ciepła S.A.
PGE EO S.A.	PGE Energia Odnawialna S.A.
PGE GiEK S.A.	PGE Górnictwo i Energetyka Konwencjonalna S.A.
Tax group	Tax group
PGNiG	Polskie Górnictwo Naftowe i Gazownictwo S.A.
Perpetual usufruct of land	Right of perpetual usufruct of land
Financial statements	Financial statements of PGE S.A.
TGE	Towarowa Giełda Energii S.A.
URE	Urząd Regulacji Energetyki (Energy Regulatory Office)
Emergency measures act 2023	Act of 27 October 2022 on emergency measures to reduce the level of electricity prices and support for certain consumers in 2023 (Journal of Laws 2022.2243 of 2022.11.03)
WACC	Weighted Average Cost of Capital
Organised part of enterprise	Organised part of enterprise
Social Fund	Social Fund