

PGE Polska Grupa Energetyczna S.A.

Quarterly financial report for the 3- and 9-month period

ended September 30, 2022,
in accordance with IFRS (in PLNm)



Prowadzimy w zielonej zmianie

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I. PGE GROUP CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 3-AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2022, IN ACCORDANCE WITH IFRS EU

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	3 months ended September 30, 2022 (unaudited)	9 months ended September 30, 2022 (unaudited)	3 months ended September 30, 2021 (unaudited) *	9 months ended September 30, 2021 (unaudited) restated data*
STATEMENT OF PROFIT OR LOSS					
REVENUE FROM SALES	7.1	19,355	51,980	10,942	32,892
Cost of sales	7.2	(17,237)	(46,094)	(11,489)	(30,323)
GROSS PROFIT ON SALES		2,118	5,886	(547)	2,569
Distribution and selling expenses	7.2	(405)	(1,210)	(367)	(1,126)
General and administrative expenses	7.2	(208)	(864)	(223)	(724)
Net other operating income/(costs)	7.4	(700)	1,247	2,109	3,411
OPERATING PROFIT		805	5,059	972	4,130
Net finance income / (costs), including:	7.5	72	(193)	(148)	(95)
Interest income calculated using the effective interest rate method		156	245	6	21
Share of profit/(loss) of entities accounted for using the equity method	7.6	11	22	4	3
GROSS PROFIT/(LOSS)		888	4,888	828	4,038
Income tax	9	(267)	(962)	(283)	(774)
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD		621	3,926	545	3,264
OTHER COMPREHENSIVE INCOME					
Items that may be reclassified to profit or loss in the future:					
Valuation of debt financial instruments	20.2	(5)	(10)	8	15
Valuation of hedging instruments	20.2	592	1,301	458	297
Foreign exchange differences from translation of foreign entities		1	3	2	-
Deferred tax	9	(111)	(245)	(88)	(59)
Items that may not be reclassified to profit or loss in the future:					
Actuarial gains and losses from valuation of provisions for employee benefits		-	190	161	243
Deferred tax		-	(36)	(31)	(46)
Share of profit of equity-accounted entities		-	1	2	2
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		477	1,204	512	452
TOTAL COMPREHENSIVE INCOME		1,098	5,130	1,057	3,716
NET PROFIT/(LOSS) ATTRIBUTABLE TO:					
shareholders of the parent		654	3,942	561	3,251
non-controlling interests		(33)	(16)	(16)	13
COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
shareholders of the parent		1,130	5,144	1,072	3,701
non-controlling interests		(32)	(14)	(15)	15
EARNINGS AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT (IN PLN)		0.29	1.88	0.30	1.74

* restatement of comparative data is described in note 4 of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at September 30, 2022 <i>(unaudited)</i>	As at December 31, 2021 <i>(audited)</i>
NON-CURRENT ASSETS			
Property, plant and equipment		61,784	60,817
Investment property		33	39
Intangible assets		680	682
Right-of-use assets		1,300	1,257
Financial receivables	17.1	215	204
Derivatives and other assets measured at fair value through profit or loss	19	795	364
Shares and other equity instruments		134	117
Shares accounted for using the equity method	12	179	156
Other non-current assets	18.1	962	873
CO ₂ emission allowances for captive use	16	108	797
Deferred income tax assets	14.1	2,466	933
		68,656	66,239
CURRENT ASSETS			
Inventories	15	4,450	2,189
CO ₂ emission allowances for captive use	16	2,032	4,106
Income tax receivables		103	144
Derivatives and other assets measured at fair value through profit or loss	19	1,783	575
Trade and other financial receivables	17.1	7,660	7,727
Other current assets	18.2	1,660	1,240
Cash and cash equivalents	17.2	11,807	6,733
		29,495	22,714
ASSETS CLASSIFIED AS HELD FOR SALE			
		13	13
TOTAL ASSETS		98,164	88,966
EQUITY			
Share capital	20.1	19,184	19,165
Reserve capital		25,049	20,154
Hedging reserve	20.2	1,653	609
Foreign exchange differences from translation		5	2
Retained earnings		9,955	7,564
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		55,846	47,494
Equity attributable to non-controlling interests		770	797
TOTAL EQUITY		56,616	48,291
NON-CURRENT LIABILITIES			
Non-current provisions	21	6,479	8,559
Loans, borrowings, bonds and lease	22.1	7,005	8,666
Derivatives	19	288	1
Deferred income tax liabilities	14.2	1,462	402
Deferred income and government grants		578	600
Other financial liabilities	22.2	531	517
Other non-financial liabilities	23.1	145	133
		16,488	18,878
CURRENT LIABILITIES			
Current provisions	21	15,744	12,600
Loans, borrowings, bonds and leases	22.1	2,236	2,160
Derivatives	19	313	82
Trade and other financial liabilities	22.2	3,947	4,601
Income tax liabilities		361	20
Deferred income and government grants		77	76
Other non-financial liabilities	23.2	2,382	2,258
		25,060	21,797
TOTAL LIABILITIES		41,548	40,675
TOTAL EQUITY AND LIABILITIES		98,164	88,966

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserve capital	Hedging reserve	Foreign exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total equity
Note	20.1		20.2					
JANUARY 1, 2022	19,165	20,154	609	2	7,564	47,494	797	48,291
Net profit for the reporting period	-	-	-	-	3,942	3,942	(16)	3,926
Other comprehensive income	-	-	1,044	3	155	1,202	2	1,204
COMPREHENSIVE INCOME	-	-	1,044	3	4,097	5,144	(14)	5,130
Allocation of profit from previous years	-	1,734	-	-	(1,734)	-	-	-
Dividend	-	-	-	-	-	-	(3)	(3)
Accounting for purchase of additional shares in subsidiaries	-	-	-	-	34	34	-	34
Reduction of nominal value of shares	(3,178)	3,178	-	-	-	-	-	-
Share capital increase	3,197	(17)	-	-	-	3,180	-	3,180
Changes in PGE Group	-	-	-	-	-	-	(10)	(10)
Other changes	-	-	-	-	(6)	(6)	-	(6)
SEPTEMBER 30, 2022	19,184	25,049	1,653	5	9,955	55,846	770	56,616

	Share capital	Reserve capital	Hedging reserve	Foreign exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total equity
Note	20.1		20.2					
JANUARY 1, 2021	19,165	18,410	(13)	5	4,951	42,518	983	43,501
Net profit for the reporting period	-	-	-	-	3,251	3,251	13	3,264
Other comprehensive income	-	-	251	-	199	450	2	452
COMPREHENSIVE INCOME	-	-	251	-	3,450	3,701	15	3,716
Allocation of profit from previous years	-	1,744	-	-	(1,744)	-	-	-
Dividend	-	-	-	-	-	-	(2)	(2)
Changes in PGE Group	-	-	-	(2)	(18)	(20)	(155)	(175)
Settlement of purchase of additional shares in subsidiaries	-	-	-	-	-	-	(5)	(5)
Other changes	-	-	-	-	(3)	(3)	-	(3)
SEPTEMBER 30, 2021	19,165	20,154	238	3	6,636	46,196	836	47,032

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Period ended September 30, 2022 <i>(unaudited)</i>	Period ended September 30, 2021 <i>(unaudited)</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Gross profit / loss		4,888	4,038
Income tax paid		(1,329)	(824)
Adjustments for:			
Share of (profit)/loss of equity-accounted entities		(22)	(3)
Depreciation, amortisation, disposal and impairment losses		3,259	3,234
Interest and dividend, net		227	235
(Profit) / loss on investing activities		(36)	(3,259)
Change in receivables		312	(257)
Change in inventories		(2,235)	429
Change in CO ₂ emission allowances for captive use		2,763	1,733
Change in liabilities, excluding loans and borrowings		(567)	972
Change in other non-financial assets, prepayments		(500)	(327)
Change in provisions		1,881	1,733
Other		(112)	101
NET CASH FROM OPERATING ACTIVITIES		8,529	7,805
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of property, plant and equipment and intangible assets		18	51
Purchase of property, plant and equipment and intangible assets		(4,006)	(3,361)
Recognition of deposits with maturity over 3 months		(1,220)	(93)
Termination of deposits with maturity over 3 months		1,197	84
Purchase of fully consolidated entities, after offsetting acquired cash		(773)	-
Purchase of other financial assets		(4)	(48)
Sale of subsidiaries, after offsetting cash received		117	368
Sale of other financial assets		-	56
Loss of control		(2)	(118)
Loans repaid		16	-
Other		15	7
NET CASH FROM INVESTING ACTIVITIES		(4,642)	(3,054)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		3,230	347
Proceeds from loans, borrowings		2,260	240
Repayment of loans, borrowings, leases		(4,049)	(1,023)
Interest paid		(254)	(265)
Other		(10)	24
NET CASH FROM FINANCING ACTIVITIES		1,177	(677)
NET CHANGE IN CASH AND CASH EQUIVALENTS			
<i>Net exchange differences</i>		(22)	1
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	17.2	6,734	4,173
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	0	11,798	8,247

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

1. General information

1.1 Information on the parent

PGE Polska Grupa Energetyczna S.A. was founded on the basis of a notarial deed of August 2, 1990 and registered in the District Court in Warsaw, XVI Commercial Department on September 28, 1990. The Company was entered into the National Court Register kept by the District Court for Krakow- Śródmieście in Kraków, XII Commercial Division of the National Court Register, under number 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.

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 Wasilek – Vice-President of the Management Board.

At September 30, 2022, and on the date on which these financial statements were published, the Company's Management Board did not change.

On November 17, 2022 the Supervisory Board decided to recall Mr. Paweł Cioch from the Management Board.

On 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 Wasilek – Vice-President of the Management Board.

Ownership structure

The parent's ownership structure was as follows:

	As at September 30, 2022	As at December 31, 2021
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 27.3 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.

1.2 Information on PGE Group

PGE Group consists of the parent, PGE S.A., along with 76 consolidated subsidiaries. Also subject to consolidation are 3 entities constituting a joint operation, 3 associates and 1 jointly controlled entity. For additional information about subsidiaries included in the consolidated financial statements please refer to note 1.3.

These consolidated financial statements of PGE Group cover the period from January 1, 2022 to September 30, 2022 and include comparative data for the period from January 1, 2021 to September 30, 2021 and as at December 31, 2021. These condensed consolidated interim financial statements do not include all of the information and disclosures required in annual financial statements and they should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2021, approved for publication on March 21, 2022.

The financial statements of all subordinated entities were prepared for the same reporting period as the financial statements of the parent company, using consistent accounting principles. Companies acquired in the course of the financial year were the exception, preparing financial data for the period from the moment when PGE Group obtained control.

PGE Group companies' core activities are as follows:

- production of electricity,
- distribution of electricity,
- wholesale and retail trade in electricity, energy origin rights, CO₂ emission allowances and natural gas,
- production and distribution of heat,
- provision of other services related to these activities

Business activities are conducted under appropriate concessions granted to specific PGE Group companies.

Going concern

These financial statements were prepared under the assumption that the key Group companies will continue operating as a going concern for at least 12 months from the reporting date.

In 2021, ENESTA sp. z o.o. terminated unfavourable contracts for the supply of electricity and natural gas. In connection with this, as of December 31, 2021 a PLN 279 million provision for counterparty claims was created. Some counterparties took their claims to court in 2022. After unsuccessful attempts to reach an agreement with its counterparties, ENESTA filed for restructuring proceedings. On June 21, 2022, restructuring (sanitation) proceedings were opened - notice in the National Debtors Register. As at September 30, 2022, ENESTA recalculated the provisions and an additional provision of PLN 272 million was created. Additionally, receivables from counterparties who have taken legal action were written down by PLN 315 million.

As at September 30, 2022, the value of ENESTA's assets and equity and liabilities is PLN 218 million and the value of equity is PLN (628) million.

Aside from the issue of ENESTA sp. z o.o. w restrukturyzacji, at the date of the approval of these financial statements, there is no evidence indicating that the going concern of significant Group companies is endangered.

Changes in accounting policies

With the exception of the change described in note 4, the same accounting principles (policy) and calculation methods were applied in these financial statements as in the most recent annual financial statements. These financial statements should be read in conjunction with PGE Group's consolidated financial statements for the year ended December 31, 2021, published on March 21, 2022.

1.3 PGE Group's consolidated companies

1.3.1 Fully consolidated direct and indirect subsidiaries

	Entity	Entity holding stake	Stake held by Group entities as at September 30, 2022	Stake held by Group entities as at December 31, 2021
	SEGMENT: SUPPLY			
1.	PGE Polska Grupa Energetyczna S.A. Warsaw	Parent		
2.	PGE Dom Maklerski S.A. Warsaw	PGE S.A.	100.00%	100.00%
3.	PGE Obrót S.A. Rzeszów	PGE S.A.	100.00%	100.00%
4.	ENESTA sp. z o.o. w restrukturyzacji Stalowa Wola	PGE Obrót S.A.	87.33%	87.33%
5.	PGE Paliwa sp. z o.o. Kraków	PGE EC S.A.	100.00%	100.00%
	SEGMENT: CONVENTIONAL GENERATION			
6.	PGE Górnictwo i Energetyka Konwencjonalna S.A. Bełchatów	PGE S.A.	100.00%	100.00%
7.	Elbest Security sp. z o.o. Bełchatów	PGE S.A.	100.00%	100.00%
8.	MegaSerwis sp. z o.o. Bogatynia	PGE S.A. PGE GiEK S.A.	- 100.00%	100.00% -
9.	ELMEN sp. z o.o. Rogowiec	PGE S.A. PGE GiEK S.A.	- 100.00%	100.00% -
10.	ELTUR-SERWIS sp. z o.o. Bogatynia	PGE S.A. PGE GiEK S.A.	- 100.00%	100.00% -
11.	BETRANS sp. z o.o. Kalisko	PGE S.A. PGE GiEK S.A.	- 100.00%	100.00% -
12.	BESTGUM POLSKA sp. z o.o. Rogowiec	PGE S.A. PGE GiEK S.A.	- 100.00%	100.00% -
13.	RAMB sp. z o.o. Piaski	PGE S.A. PGE GiEK S.A.	- 100.00%	100.00% -
14.	„Energoserwis – Kleszczów” sp. z o.o. Rogowiec	PGE GiEK S.A.	51.00%	51.00%
	SEGMENT: DISTRICT HEATING			
15.	PGE Energia Ciepła S.A. Warsaw	PGE S.A.	100.00%	100.00%
16.	PGE Toruń S.A. Toruń	PGE EC S.A.	95.22%	95.22%
17.	PGE Gaz Toruń sp. z o.o. Warsaw	PGE EC S.A.	100.00%	100.00%
18.	Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. Wrocław	PGE EC S.A.	58.07%	58.07%
19.	Elektrociepłownia Zielona Góra S.A. Zielona Góra	KOGENERACJA S.A.	98.40%	98.40%
20.	MEGAZEC sp. z o.o. Bydgoszcz	PGE S.A.	100.00%	100.00%
	Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. Zgierz	PGE EC S.A.	-	100.00%
	SEGMENT: CIRCULAR ECONOMY			
21.	PGE Ekoserwis S.A. Wrocław	PGE S.A.	100.00%	100.00%
22.	EPORE S.A. Bogatynia	PGE GiEK S.A.	100.00%	100.00%
23.	ZOWER sp. z o.o. Rybnik	PGE Ekoserwis S.A.	100.00%	100.00%
	SEGMENT: RENEWABLES			
24.	PGE Energia Odnawialna S.A. Warsaw	PGE S.A.	100.00%	100.00%
25.	Elektrownia Wiatrowa Baltica-1 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
26.	Elektrownia Wiatrowa Baltica-4 sp. z o.o. Warsaw	PGE S.A.	66,19%	100.00%
27.	Elektrownia Wiatrowa Baltica-5 sp. z o.o. Warsaw	PGE S.A.	66.19%	100.00%
28.	Elektrownia Wiatrowa Baltica-6 sp. z o.o. Warsaw	PGE S.A.	66.24%	100.00%
29.	Elektrownia Wiatrowa Baltica-9 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
30.	Elektrownia Wiatrowa Baltica-10 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%

	Entity	Entity holding stake	Stake held by Group entities as at September 30, 2022	Stake held by Group entities as at December 31, 2021
31.	Elektrownia Wiatrowa Baltica-11 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
32.	Elektrownia Wiatrowa Baltica-12 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
33.	Elektrownia Wiatrowa Baltica-8 sp. z o.o. (formerly PGE Baltica 1 sp. z o.o.) Warsaw	PGE S.A.	100.00%	100.00%
34.	PGE Baltica 2 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
35.	PGE Baltica 3 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
36.	PGE Baltica 4 sp. z o.o. Warsaw	PGE S.A.	55.04%	100.00%
37.	PGE Baltica 5 sp. z o.o. Warsaw	PGE Baltica 3 sp. z o.o.	100.00%	100.00%
38.	PGE Baltica 6 sp. z o.o. Warsaw	PGE Baltica 2 sp. z o.o.	100.00%	100.00%
39.	PGE Baltica sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
40.	PGE Klaster sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
	PGE Soleo 1 sp. z o.o. Warsaw	PGE EO S.A.	-	100.00%
41.	PGE Soleo 2 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
42.	PGE Soleo 3 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
43.	PGE Soleo 4 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
44.	PGE Soleo 5 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
45.	PGE Soleo 6 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	100.00%
46.	PGE Soleo 7 sp. z o.o. Warsaw	PGE EO S.A.	100.00%	-
47.	Mithra A sp. z o.o. Poznań	PGE EO S.A.	100.00%	-
48.	Mithra B sp. z o.o. Poznań	PGE EO S.A.	100.00%	-
49.	Mithra L sp. z o.o. Poznań	PGE EO S.A.	100.00%	-
50.	Mithra V sp. z o.o. Warsaw	PGE EO S.A.	100.00%	-
51.	Collfield Investments sp. z o.o. Kraków	PGE EO S.A.	100.00%	-
52.	Future Energy sp. z o.o. Kraków	PGE EO S.A.	100.00%	-
53.	Radzyn Clean Energy Poland sp. z o.o. Warsaw	PGE EO S.A.	100.00%	-
54.	Elwiatr Pruszyński sp. z o.o. Kraków	PGE EO S.A.	100.00%	-
	SEGMENT: DISTRIBUTION			-
55.	PGE Dystrybucja S.A. Lublin	PGE S.A.	100.00%	100.00%
	SEGMENT: OTHER ACTIVITY			
56.	PGE Systemy S.A. Warsaw	PGE S.A.	100.00%	100.00%
57.	PGE Sweden AB (publ) Stockholm	PGE S.A.	100.00%	100.00%
58.	PGE Synergia sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
	„Elbest” sp. z o.o. Bełchatów	PGE S.A.	-	100.00%
59.	ELBIS sp. z o.o. Rogowiec	PGE S.A.	100.00%	100.00%
60.	PGE Inwest 2 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
61.	PGE Ventures sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
62.	PGE Gryfino 2050 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
63.	PGE Inwest 9 sp. z o.o. (currently PGE Obsługa Klienta sp. z o.o.) Warsaw	PGE S.A.	100.00%	100.00%
64.	PGE Inwest 10 sp. z o.o.	PGE S.A.	100.00%	100.00%

	Entity	Entity holding stake	Stake held by Group entities as at September 30, 2022	Stake held by Group entities as at December 31, 2021
	Warsaw			
65.	PGE Inwest 11 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
66.	PGE Inwest 12 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
67.	PGE Asekuracja S.A. (formerly PGE Inwest 13 S.A.) Warsaw	PGE S.A.	100.00%	100.00%
68.	PGE Inwest 14 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
69.	PGE Nowa Energia sp. z o.o. w likwidacji Warsaw	PGE S.A.	100.00%	100.00%
	Towarzystwo Funduszy Inwestycyjnych Energia S.A. Warsaw	PGE S.A.	-	100.00%
70.	Rybnik 2050 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
71.	PGE Inwest 20 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
72.	PGE Inwest 21 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
73.	PGE Inwest 22 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
74.	PGE Inwest 23 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
77.	PGE Inwest 24 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
76.	PGE Inwest 25 sp. z o.o. Warsaw	PGE S.A.	100.00%	100.00%
	BIO-ENERGIA sp. z o.o. Warsaw	PGE EO S.A.	-	100.00%
	Przedsiębiorstwo Transportowo-Uslugowe „ETRA” sp. z o.o. Białystok	PGE Dystrybucja S.A.	-	100.00%
77.	Energetyczne Systemy Pomiarowe sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
	Przedsiębiorstwo Usługowo-Handlowe TOREC sp. z o.o. Toruń	PGE Toruń S.A.	-	51.05%
	4Mobility S.A. Warsaw	PGE Nowa Energia sp. z o.o. w likwidacji	-	51.47%
	PIMERGE S.A. Wrocław	PGE Ventures sp. z o.o.	-	89.87%

The table above includes the following changes in the structure of PGE Group companies subject to full consolidation which took place during the period ended September 30, 2022:

- The merger of PGE EC S.A. (acquiring company) and Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. (acquired company) was registered at the National Court Register on January 3, 2022. The merger had no impact on these consolidated financial statements of PGE Group.
- On February 4, 2022 PGE EO S.A. purchased 100% of shares in Mithra A sp. z o.o., Mithra B sp. z o.o., Mithra L sp. z o.o. and Mithra V sp. z o.o., which own 7 PV projects with a total capacity of 26 MW, for the total price of PLN 18.7 million.
- 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. The gain on this company's sale at the level of the consolidated financial statements was PLN 19 million.
- The merger of PGE Dystrybucja S.A. (acquiring company) and Przedsiębiorstwo Transportowo-Uslugowe "ETRA" sp. z o.o. (acquired company) was registered at the National Court Register on March 21, 2022. The merger had no impact on these consolidated financial statements of PGE Group.
- 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.
- All shares in PHU Torec sp. z o.o. held by PGE Toruń S.A. were sold on April 21, 2022. The loss on this company's sale at the level of the consolidated financial statements was PLN 3 million.
- The merger of PGE EO S.A. (acquiring company) and Bio-Energia sp. z o.o. (acquired company) was registered at the National Court Register on June 30, 2022. The merger had no impact on these consolidated financial statements of PGE Group.
- Because of the submitted motions to put the company into bankruptcy, PIMERGE S.A. was removed from consolidation at the beginning of 2022. The loss on this at the level of the consolidated financial statements was PLN 1 million.
- On April 1, 2022, PGE EO S.A. and Vanadium Holdco Limited executed a conditional share purchase agreement as a result of which PGE EO S.A. committed to acquiring 100% of shares in Collfield Investments, which owns 100% of shares in three SPVs operating three wind farms with a total capacity of 84.2 MW. The transaction value was PLN 939 million. The ownership of shares was transferred to PGE

EO S.A. on June 21, 2022. Collfield Investments sp. z o.o., Future Energy sp. z o.o., Radzyn Clean Energy Poland sp. z o.o., Elwiatr Pruszyński sp. z o.o. are consolidated as of June 30, 2022. A preliminary accounting for the acquisition of these companies is presented in note 1.4 of these consolidated financial statements.

- An agreement for the sale of all shares held by PGE S.A. in TFI Energia to PZU S.A. was executed on July 15, 2022. The result on the sale the TFI Energia S.A.'s shares at the level of the consolidated financial statements was PLN 4 million.
- An increase in the share capital of 4Mobility S.A. was registered on July 15, 2022. All new shares were offered by private subscription exclusively to EFF B.V., based in Maastricht - the current shareholder of 4Mobility S.A. As a result of the share capital increase, the equity interest of PGE Nowa Energia sp. z o.o. decreased from 51.47% to 37.93%, meaning that 4Mobility S.A. is no longer a PGE Group subsidiary.
- On July 25, 2022, the ownership of shares in EWB4, EWB5 and EWB6 was transferred to ENEA S.A. The result on the sale of 33.8% of shares in these companies, which was recognised at the level of the consolidated financial statements, amounted to approx. PLN 800 thousand.
- The ownership of 44.96% of shares held by PGE S.A. in PGE Baltica 4 was transferred to Tauron Polska Energia S.A. on September 27, 2022. The result on sale of the 44.96% of shares in PGE Baltica 4, which was recognised at the level of consolidated financial statements, was approx. PLN 250 thousand.

Events after the reporting period

- The merger of PGE EC S.A. (acquiring company) and PGE Gaz Toruń sp. z o.o. (acquired company) was registered at the National Court Register on November 2, 2022. The merger will have no impact on PGE Group's consolidated financial statements.

1.3.2 Joint ventures subject to consolidation as regards assets, equity and liabilities, revenues and costs attributable to PGE Group

	Entity	Entity holding stake	Stake held by Group entities as at September 30, 2022	Stake held by Group entities as at December 31, 2021
	SEGMENT: RENEWABLES			
1.	Elektrownia Wiatrowa Baltica-2 sp. z o.o. Warsaw	PGE Baltica 6 sp. z o.o.	50.00%	50.00%
2.	Elektrownia Wiatrowa Baltica-3 sp. z o.o. Warsaw	PGE Baltica 5 sp. z o.o.	50.00%	50.00%
3.	PGE Soleo Kleszczów sp. z o.o. Kleszczów	PGE EO S.A.	50.00%	-

On May 12, 2022, a PLN 4.1 million increase in the share capital of PGE Soleo 1 sp. z o.o. was registered with the National Court Register, through the creation of 4,100 new shares with a nominal value of PLN 1,000 each. The share capital increase was recognised as follows: PGE EO S.A. acquired 2,000 of the new-issue shares in exchange for a PLN 2 million cash contribution, while the Municipality of Kleszczów acquired 2,100 of the new-issue shares and paid PLN 2.1 million.

As a result of the above transaction, PGE EO S.A. and Kleszczów Municipality hold shares representing 50% of share capital each, and PGE Soleo 1 sp. z o.o. is no longer a PGE Group subsidiary but a joint venture subject to consolidation to the extent of assets and liabilities, revenues and costs attributable to PGE Group.

1.3.3 Associates and jointly controlled entities subject to consolidation using the equity method:

	Entity	Entity holding stake	Stake held by Group entities as at September 30, 2022	Stake held by Group entities as at December 31, 2021
1.	Polska Grupa Górnicza S.A. Katowice	PGE GiEK S.A.	15.32%	15.32%
2.	Polimex Mostostal S.A. Warsaw	PGE S.A.	16.48%	16.40%
3.	PEC Bogatynia Bogatynia	PGE EC S.A.	34.93%	34.93%
4.	Energopomiar sp. z o.o. Gliwice	PGE Group companies	49.79%	49.79%

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%.

A conditional agreement on the sale of shares in Polska Grupa Górnicza S.A. was executed on August 3, 2022. Pursuant to the agreement, PGE GiEK S.A. will sell to the State Treasury all of its shares in PGG at a price of PLN 1 for all shares held. The value of the investment in PGG has been fully written down and therefore the sale transaction will not have a material impact on the future consolidated financial statements of PGE Group.

The transfer of ownership of PGG's shares to the State Treasury took place on October 25, 2022.

1.4 Accounting for new acquisitions of subsidiaries

On June 21, 2022, PGE EO S.A. purchased from Vanadium Holdco Limited 100% of the shares in Collfield Investments, which holds a 100% stake in three special purpose vehicles (Future Energy sp. z o.o., Radzyn Clean Energy Poland sp. z o.o., Elwiatr Pruszyński sp. z o.o.) operating three wind farms with a total capacity of 84.2 MW.

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

In these financial statements, the transaction was initially reported as an asset acquisition. However, analyses have not been completed yet.

The transaction value was PLN 939 million. The amount of PLN 344 million was used to pay for the shares, and PLN 595 million concerned a subrogation of liabilities.

As required under IFRS 3, PGE Group should finish accounting for the acquisition within one year from the acquisition date.

2. Basis for preparation of financial statements

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* and in the scope required under the Regulation of the Minister of Finance of March 29, 2018 on current and periodic information provided by issuers of securities and conditions of recognition as equivalent information required by the law of a non-Member State (Polish Journal of Laws 2018, items 512 and 685).

IFRS comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee.

2.2 Presentation and functional currency

The parent's functional currency and the presentation currency of these consolidated financial statements is the Polish zloty (PLN). All amounts are in PLN millions (PLNm), 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:

	September 30, 2022	December 31, 2021	September 30, 2021
USD	4.9533	4.0600	3.9925
EUR	4.8698	4.5994	4.6329

2.3 New standards and interpretations that have been published but are not yet effective

The following standards, amendments to existing standards and interpretations are not yet 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 amendments concern the measurement of lease liability that arises in a sale and leaseback transaction	January 1, 2024

PGE Group intends to adopt the above new standards, amendments to standards and interpretations published by the International Accounting Standards Board but not yet effective at the reporting date, when they enter into force. These regulations will not have a material impact on PGE Group's future financial statements.

2.4 Professional judgement of management and estimates

In the process of applying accounting rules with regards to the below issues, management has made judgements and estimates that affect the amounts presented in the consolidated financial statements, including in other explanatory information. 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 Group conducted asset impairment tests as of June 30, 2022. The test results are described in note 3 to these financial statements.
- Estimates of the recoverable amount of property, plant and equipment are based on a number of significant assumptions, the appearance of which is uncertain and mostly beyond PGE Group's control. The Group believes that it has assumed the most accurate volumes and values. Nevertheless, realisation of the particular assumptions may diverge from the ones established by the Group.
- Provisions are liabilities of uncertain amount or timing. During the reporting period, the Group changed estimates regarding the validity or amounts of some provisions. In particular, during the reporting period a provision for land rehabilitation and a provision for employee benefits were updated due to an increase in the discount rate and inflation. Details are presented in note 21 to these financial statements.
- Uncertainties concerning tax settlements are described in note 25 to these consolidated financial statements.

- No significant extensions in the payment of receivables or problems with liquidity resulting from the COVID-19 pandemic were observed as of the reporting date. Following the pandemic's outbreak, in 2020 the Group updated its models for estimating expected credit losses. For the purposes of estimating the expected credit losses, counterparties were split into two groups: strategic counterparties, which have been internally assigned ratings based on a scoring model, and other counterparties, for which expected credit losses are estimated based on a provisions matrix. For the first group of counterparties, the basis for calculating expected credit losses was changed. Losses are currently calculated on the basis of Credit Default Swap (CDS) prices, while for the other group of counterparties percentage coefficients in each time interval of the provisions matrix were updated to a level corresponding to the current recovery rate for receivables.

3. Impairment tests on property, plant and equipment, intangible assets, right-of-use assets and goodwill

Property, plant and equipment is PGE Group's most significant group of assets. Due to variable macroeconomic conditions PGE Group regularly verifies indications of impairment for its assets. When assessing the market situation PGE Group uses both its own analytical tools and support from independent analytical centres. In previous reporting periods, PGE Group recognised substantial impairment allowances of property, plant and equipment of Conventional Generation segment and the Renewables segment. An impairment loss that had been recognised in the Renewables segment was also reversed in previous reporting periods.

In the first half of 2022, the Group analysed impairment indications and identified factors that could result in changes to the asset values in the above segments.

External factors

- PGE's market capitalisation remaining below net asset book value.
- Global energy crisis, characterised by rising levels of fuel, electricity and CO₂ 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 the first half of 2022 was 820 PLN/MWh, i.e. 165% higher than in the same period last year.
 - CO₂ 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 the first half of 2022, the average weighted price of the EUA DEC 22 instrument was 82.01 EUR/t and was significantly higher (+116%) than the average price of EUA DEC 21 in the same period of the previous year.
 - The average price of hard coal at ARA ports in monthly follow-on contracts in the first half of 2022 was USD 264/t, up 240% compared to the first half of 2021.
 - The average price of natural gas in futures contracts in the first half of 2022 was EUR 100/MWh, an increase of 361% compared to H1 2021.
- Rising inflation and changes in financial markets, where tighter monetary policy is being pursued.

Macroeconomic assumptions

The key price assumptions, i.e. the price of electricity, CO₂ 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 decline between 2024 and 2026 relative to 2023 prices, followed by an average annual increase of approx. 6% in 2027-2030.

Price projections for CO₂ emission allowances assume an increase in 2024 relative to 2022, followed by an average annual decline in 2025-2026 at approx. 17.2% 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. 4% annually until 2040.

Hard coal price forecasts assume an average annual decline of about 25.3% 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. 29.3% 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. 2.7% 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 2023-2026 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 2027, 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 CO₂/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 first half of 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 developments 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 disruption 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 40%) by 2030, in comparison with 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 CO₂ emission allowances, which in practice already took place in 2021. The high price level of CO₂ allowances also continued in the first half of 2022.

PGE Group is monitoring the market and regulatory situation on an on-going basis. The current record levels of fuel, electricity and CO₂ prices and their previously-not-seen levels of volatility mean that PGE Group faces a high degree of uncertainty regarding 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 PGE Group's financial situation and results. They will be recognised in future financial statements.

Following an analysis of these factors, the Group conducted asset impairment tests as at June 30, 2022 for the Conventional Generation and Renewables segments and the District Heating segment, in which goodwill is assigned. The tests showed that no impairment losses or reversals of impairment losses were necessary for the segments mentioned.

In the first half of 2022, the Group also analysed whether there were indications of impairment of goodwill recognised on Elektrownia Wiatrowa Baltica - 2 sp. z o.o. and Elektrownia Wiatrowa Baltica - 3 sp. z o.o. This analysis showed no grounds for recognising an impairment loss.

In the third quarter of 2022, the Group once again verified the indications and did not identify material changes in comparison with the previous analysis. In connection with this, the results of tests conducted as of June 30, 2022 remain up-to-date as of September 30, 2022.

3.1 Description of assumptions for the Conventional Generation segment

Impairment tests were conducted on June 30, 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 July 2022 to the end of the use period. According to the Group, 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

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

- classify the following as one CGU due to technological links:
 - Branch KWB Bełchatów and Branch Elektrownia Bełchatów,
 - Branch KWB Turów and Branch Elektrownia Turów,
- 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 2022-2025: average annual level for each CGU of 9.05% - 10.05%,
 - for 2026-2036: average annual level for each CGU of 6.73% - 7.64%.

As at June 30, 2022, the value of tested property, plant and equipment and intangible assets at PGE GiEK S.A. amounted to PLN 19,583 million. This value does not include CGUs for which the useful value of tested assets is negative. As a result of an asset impairment test, the Group concluded that there is no need to recognise or reverse impairment losses on these assets.

Sensitivity analysis

In accordance with IAS 36 *Impairment*, the Group carried out a sensitivity analysis for generating units in the Conventional Generation segment.

Presented below is the impact of changes in key assumptions on the useful value of assets in the Conventional Generation segment as at June 30, 2022.

Parameter	Change	Impact on useful value in PLNm	
		Increase	Decrease
Change in electricity prices throughout the forecast period	1%	2,368	
	-1%		2,371

A decline in electricity price by 1% would have caused a PLN 2.4 billion decrease in useful value.

Parameter	Change	Impact on useful value in PLNm	
		Increase	Decrease
Change in WACC	+0.5pp		1,071
	-0.5pp	1,147	

An increase in WACC by 0.5 percentage points would have caused a PLN 1.1 billion decrease in the useful value of assets.

Parameter	Change	Impact on useful value in PLNm	
		Increase	Decrease
Changes in prices for CO ₂ emission allowances	1%		1,251

An increase in the price of CO₂ emission allowances by 1% would have caused a PLN 1.3 billion decrease in useful value.

Climate matters

The future of the Polish energy market is determined by the European Union's climate policy, and developments in the electricity market through 2050 will be influenced by the European Green Deal ("EGD"), which aims to achieve EU climate neutrality by 2050. One of the most important steps towards achieving climate neutrality was the European Council's acceptance in December 2020 of a new binding EU target to reduce net greenhouse gas emissions by at least 55% by 2030 relative to 1990 levels. The consequence of a higher CO₂ emission reduction target is the growing cost of CO₂ emission allowances, which may have a negative impact on the results of the Conventional Generation segment and PGE Group. The macroeconomic assumptions adopted for the impairment tests take into account the new higher CO₂ emission reduction target in 2030 and, as a result, the increasing level of CO₂ emission allowance prices in the long term.

PGE Group's business environment is characterised by high volatility and is dependent on macroeconomic, market and regulatory conditions, and any changes thereto may have a substantial impact on PGE Group's financial situation and financial results. This is why the aforementioned assumptions and others used in estimating the useful value of assets are periodically analysed and verified. Any changes will be recognised in future financial statements.

3.2 Description of assumptions for the District Heating segment

Impairment tests on non-current assets were conducted as of June 30, 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 July 2022 to the end of 2030. According to the Group, 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 Group 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 generating 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 approved in October 2021 and aims 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 2022 it is assumed that PGE Group producers do not receive free-of-charge allocations of CO₂ emission allowances for the production of electricity;
- taking account of the allocation of free CO₂ emission allowances in the period 2022-2030 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
- 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 2022-2025: average annual level of 9.05%
 - for 2026-2030: average annual level of 6.73%

As at June 30, 2022, the value of tested property, plant and equipment in the District Heating segment was PLN 4,979 million, and goodwill amounted to PLN 192 million. As a result of an asset impairment test, the Group concluded that there is no need to recognise or reverse impairment losses on these assets.

Sensitivity analysis

In accordance with IAS 36 Impairment, the Group carried out a sensitivity analysis for generating units in the District Heating segment.

Presented below is the impact of changes in key assumptions on the useful value of assets in the District Heating segment as at June 30, 2022.

Parameter	Change	Impact on useful value in PLNm	
		Increase	Decrease
Change in electricity prices throughout the forecast period	1%	547	
	-1%		548

A decline in electricity price by 1% would have caused a PLN 0.5 billion decrease in useful value.

Parameter	Change	Impact on useful value in PLNm	
		Increase	Decrease
Change in WACC	+0.5pp		1,768
	-0.5pp	1,992	

An increase in WACC by 0.5 percentage points would have caused a PLN 1.8 billion decrease in the useful value of assets.

PGE Group's business environment is characterised by high volatility and is dependent on macroeconomic, market and regulatory conditions, and any changes thereto may have a substantial impact on PGE Group's financial situation and financial results. This is why the aforementioned assumptions and others used in estimating the useful value of assets are periodically analysed and verified. Any changes will be recognised in future financial statements.

3.3 Description of assumptions for the Renewables segment

Impairment tests were conducted as at June 30, 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 2022-2030 in the case of other CGUs. For CGUs with expected periods of economic useful lives in excess of 2030, a residual value was determined for the remaining service time. According to the Group, financial projections longer than five years are justified because the property, plant and equipment used by the Group have significantly longer useful lives and also due to considerable and long-term effects of projected changes in the regulatory environment included in the detailed forecast.

Detailed assumptions

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

- 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-2023 were estimated based on the currently functioning system of remuneration for these services, from mid-2023 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 2022-2025: average annual level of 9.05%
 - for 2026-2030: average annual level of 6.73%

As at June 30, 2022, the value of tested property, plant and equipment in the Renewables segment was PLN 2,534 million. As a result of an asset impairment test, the Group concluded that there is no need to recognise or reverse impairment losses on these assets.

Sensitivity analysis

A sensitivity analysis showed that factors such as WACC and electricity prices have a considerable impact on estimated useful value. The results of this sensitivity analysis apply all CGUs owned by PGE EO S.A.

Presented below is the impact of factors that have considerable influence throughout the entire projection period on forecast cash flows and thus also on estimated useful values.

Parameter	Change	Impact on useful value in PLNm	
		Increase	Decrease
Change in electricity prices throughout the forecast period	1%	87	
	-1%		87

A decline in electricity price by 1% would have caused a PLN 0.1 billion decrease in useful value.

Parameter	Change	Impact on useful value in PLNm	
		Increase	Decrease
Change in WACC	+0.5pp		1,257
	- 0,5 p.p.	1,590	

An increase in WACC by 0.5 percentage points throughout the forecast period would have caused a PLN 1.3 billion decrease in the useful value of assets.

Impairment tests on the non-current assets of CGU PGE Klaster sp. z o.o.

Impairment tests were conducted as at June 30, 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 wind farms.

Detailed assumptions

- production of electricity is assumed on the basis of assumptions for the investment model,
- adopt WACC after tax for the projection period at different levels:
 - adopt WACC in the period of support in the form of auction price for 2022-2024 at 7.25% and for 2025-2030 at 4.50%.
 - over the remaining projection period, after the end of the support period, at 5.56%.

As at June 30, 2022, the value of tested property, plant and equipment and intangible assets at PGE Klaster Sp. z o.o. amounted to PLN 677 million. As a result of an asset impairment test, the Group concluded that there is no need to recognise or reverse impairment losses on these assets.

Sensitivity analysis

In accordance with IAS 36, the Group performed a sensitivity analysis for PGE Klaster sp. z o.o.'s wind farms. Presented below is the impact of changes in WACC on the useful value of assets as at June 30, 2022:

Parameter	Change	Impact on useful value in PLNm	
		Increase	Decrease
Change in WACC	+0.5pp		60
	-0.5pp	65	

An increase in WACC by 0.5 percentage points throughout the forecast period would have caused a PLN 60 million decrease in the useful value of assets.

3.4 Analysis of indications for the Wind Energy project

In 2021, Ørsted acquired stakes in the increased share capital of Elektrownia Wiatrowa Baltica - 2 sp. z o.o. and Elektrownia Wiatrowa Baltica - 3 sp. z o.o. Following this transaction, Ørsted Group became a 50% shareholder in EWB2 and EWB3. In effect, PGE Group lost control over these two companies. Based on agreements executed between PGE Group and Ørsted Group companies, Elektrownia Wiatrowa Baltica - 2 sp. z o.o. and Elektrownia Wiatrowa Baltica - 3 sp. z o.o. constitute a joint operation in the meaning of IFRS 11 *Joint Arrangements*. As a result of accounting for the loss of control, goodwill of PLN 81 million were recognised in the consolidated financial statements.

During the reporting period, the Group performed an analysis of indications in order to determine whether goodwill is impaired.

The most important factors included:

- analysis of the revenue side secured with a contract for difference,
- impact of a rise in inflation and WACC,
- project timetables
- Project development phase budget, i.e. DEVEX.

The EWB2 and EWB3 projects are entitled to public support and consequently safety on the revenue side that is indexed for inflation, thus partially mitigating the negative aspects of the macroeconomic environment. In addition, the project is at an advanced stage of development and, as at the date of approval for publication of these consolidated financial statements, no delay in the date of the final investment decision is expected. The project development phase is implemented with an approved budget sufficient until the FID is made. In view of the above, in the opinion of PGE Group at the reporting date, there are no indications for an impairment of goodwill arising on the EWB2 and EWB3 projects.

4. 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, except for the amendment to IAS 16, as described below. The following amendments to IFRSs are applied in these financial statements in line with their effective dates. With the exception of the amendment to IAS 16, the following amendments did not have a material impact on the presented and disclosed financial information or were not applicable to the Group'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 Group decided not to apply early any standard, interpretation or amendment that was published but is not yet effective in the light of EU regulations.

Proceeds from trial start-up

In accordance with the requirements of IAS 16 effective from January 1, 2022, revenue from the sale of items generated in the course of bringing an item of property, plant and equipment to the location and condition necessary to enable it to operate properly and the costs of such items are recognised in the statement of profit and loss. IAS 16 requires retrospective application of the regulation described above, but only in respect of property, plant and equipment that was placed in service in the earliest period presented in the financial statements.

This regulation applies to revenue from the trial start-up of the power unit, which was generated in the first quarter of 2021 by PGE GiEK S.A., Elektrownia Turów Branch. According to the accounting policy in place in 2021, revenue from the so-called trial start-up reduced the cost of production of the power unit, but the amount of revenue that reduces the cost of production of the asset could not exceed the amount of the cost of verification (testing). In accordance with the accounting policy in place in 2021, in the first quarter of 2021 expenses related to the construction of the power unit were recognised as costs related to the trial start-up as well as revenue from the sale of electricity from the trial start-up in the amount of PLN 42 million. The surplus of revenue from the sale of electricity from trial start-up over the costs incurred for this amounted to PLN 9 million and was recognised in the statement of profit and loss.

In order to make the data for the first three quarters of 2021 comparable, revenue from electricity sales and own costs of sales were increased by PLN 42 million. The change had no impact on the financial result.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	9 months ended September 30, 2021 published data	Change in presentation	9 months ended September 30, 2021 restated data
REVENUE FROM SALES	32,850	42	32,892
Cost of sales	(30,281)	(42)	(30,323)
GROSS PROFIT ON SALES	2,569	-	2,569

5. Fair value hierarchy

Derivatives

The Group measures derivatives at fair value using valuation models for financial instruments based on publicly available exchange rates, interest rates, discount curves in particular currencies (applicable also for commodities which prices are denominated in these 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. 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.

In the category of financial assets and financial liabilities at fair value through profit or loss, the Group presents financial instruments related to greenhouse gas emissions trading – currency and commodity forwards, contracts to buy and sell coal, commodity swaps (Level 2).

In addition, the Group presents a foreign exchange hedging instrument (EURPLN), an interest rate CCIRS and IRS hedging transactions exchanging a variable interest in PLN for a fixed interest rate in PLN (Level 2).

FAIR VALUE HIERARCHY	Assets as of September 30, 2022		Liabilities as of September 30, 2022	
	Level 1	Level 2	Level 1	Level 2
CO ₂ emission allowances in trading activities	1	-	-	-
Hard coal in trading activities	572	-	-	-
INVENTORIES	573	-	-	-
Currency forwards	-	120	-	8
Commodity forwards	-	37	-	1
Commodity SWAP	-	12	-	16
Contracts for purchase/sale of coal	-	165	-	151
Derivatives embedded in sales contracts	-	-	-	383
Options	-	10	-	-
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS	-	344	-	559
CCIRS hedges	-	169	-	-
IRS hedges	-	584	-	-
Currency forward - USD	-	5	-	-
Currency forward - EUR	-	1,449	-	42
HEDGING DERIVATIVES	-	2,207	-	42
Investment fund participation units	-	27	-	-
OTHER ASSETS / LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	-	27	-	-

	Assets at December 31, 2021		Liabilities at December 31, 2021	
	Level 1	Level 2	Level 1	Level 2
FAIR VALUE HIERARCHY				
CO ₂ emission allowances in trading activities	1	-	-	-
Hard coal in trading activities	17	-	-	-
INVENTORIES	18	-	-	-
Currency forwards	-	4	-	6
Commodity forwards	-	47	-	1
Commodity SWAP	-	22	-	31
Contracts for purchase/sale of coal	-	19	-	11
Options	-	16	-	-
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS	-	108	-	49
CCIRS hedges	-	110	-	-
IRS hedges	-	203	-	-
Currency forward - USD	-	3	-	-
Currency forward - EUR	-	485	-	34
HEDGING DERIVATIVES	-	801	-	34
Investment fund participation units	-	30	-	-
OTHER ASSETS / LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	-	30	-	-

Derivative instruments are presented in note 19 to these financial statements. 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.

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

EXPLANATORY NOTES TO OPERATING SEGMENTS

6. Information on operating segments

PGE Group companies conduct their business activities based on relevant concessions, including primarily concession on: production, trading and distribution of electricity, generation, transmission and distribution of heat, granted by the President of Energy Regulatory Office and concessions for the extraction of lignite deposits, granted by the Minister of the Environment. Concessions are generally issued for a period between 10 and 50 years.

Relevant assets are assigned to concessions for lignite mining and generation and distribution of electricity and heat, as presented in detailed information on operating segments. For its concessions concerning electricity and heat, the Group pays annual fees dependent on the level of turnover, while lignite mining operations under concessions are subject to extraction fees depending on the current rate and volume of output as well as mining use fees.

PGE Group presents information on operating segments in the current and comparative reporting period in accordance with IFRS 8 *Operating Segments*. The Group's segment reporting is based on the following operating segments:

- Conventional Generation, comprising exploration and production of lignite, conventional generation of electricity and ancillary services.
- District Heating, comprising the generation of electricity from cogeneration sources and the transmission and distribution of heating.
- Renewables, comprising the generation of electricity in pumped-storage power plants and from renewable sources.
- Supply, comprising selling and buying electricity and natural gas on wholesale markets, emissions trading, buying and supplying fuels as well as selling electricity and providing services to end users.
- Distribution, comprising management over local distribution networks and transmission of electricity.
- Circular Economy, comprising management of the by-products of combustion.
- Other operations, comprising services provided by subsidiaries for the Group, e.g. capital raising, IT services, accounting and HR, and transport services and investments in startups. The segment also includes companies in charge of the construction of new low-carbon generation units.

PGE Group is organised and managed in segments that are distinct in terms of products and services. Each segment represents a strategic business unit that offers distinct goods and serves different markets. Entities assigned to operating segments are described in note 1.3 of these consolidated financial statements. PGE Group accounts for inter-segment transactions as if they concerned unrelated entities - on market terms. When analysing the results of segments the management of PGE Group focuses mainly on EBITDA.

Seasonality of business segments

Key factors affecting the demand for electricity and heating are: weather conditions – air temperature, wind force, rainfall; socio-economic factors – number of energy consumers, prices of energy sources, GDP growth; and technological factors – technological progress, manufacturing technologies. Each of these factors has an impact on technical and economic conditions of production, distribution and transmission of energy carriers, thus influence the results obtained by PGE Group.

The level of electricity sales varies throughout the year, depending especially on weather conditions - air temperature, length of the day. Growth in electricity demand is particularly evident in winter periods, while lower demand is observed during the summer months.

Moreover, seasonal changes are evident among selected groups of end users. Seasonality effects are more significant for households than for the industrial sector.

In the Renewables segment, electricity is generated from natural resources such as water, wind and sun. Weather conditions are an important factor affecting electricity generation in this segment.

The sale of heat depends in particular on air temperature and are higher in winter and lower in summer.

6.1 Information on operating segments

Information on operating segments for the period ended September 30, 2022

	Conventional Generation	District Heating	Renewables	Supply	Distribution	Circular Economy	Other activity	Adjustments	Total
STATEMENT OF PROFIT OR LOSS									
Sales to external customers	23,652	3,517	1,579	18,138	4,948	116	27	3	51,980
Inter-segment sales	2,265	1,377	922	14,028	59	129	194	(18,974)	-
TOTAL SEGMENT REVENUE	25,917	4,894	2,501	32,166	5,007	245	221	(18,971)	51,980
Cost of sales	(25,237)	(5,093)	(1,290)	(28,549)	(3,537)	(161)	(187)	17,960	(46,094)
EBIT	1,222	(510)	1,135	1,660	1,233	40	(2)	281	5,059
Depreciation, amortisation, liquidation and impairment recognised in profit or loss	1,465	559	267	25	907	7	36	(7)	3,259
EBITDA	2,687	49	1,402	1,685	2,140	47	34	274	8,318
GROSS PROFIT	-	-	-	-	-	-	-	-	4,888
Income tax	-	-	-	-	-	-	-	-	(962)
NET PROFIT FOR THE REPORTING PERIOD	-	-	-	-	-	-	-	-	3,926
ASSETS AND LIABILITIES									
Segment assets excluding trade receivables	33,690	8,525	4,687	4,083	19,938	70	3,214	(1,198)	73,009
Trade receivables	724	367	338	6,778	951	105	29	(3,636)	5,656
Equity-accounted interests	-	-	-	-	-	-	-	-	179
Unallocated assets	-	-	-	-	-	-	-	-	19,320
TOTAL ASSETS	-	-	-	-	-	-	-	-	98,164
Segment liabilities excluding trade liabilities	19,828	2,742	731	6,106	3,145	54	67	(4,850)	27,823
Trade liabilities	1,462	600	138	3,175	399	25	28	(3,767)	2,060
Unallocated liabilities	-	-	-	-	-	-	-	-	11,665
TOTAL LIABILITIES	-	-	-	-	-	-	-	-	41,548
OTHER INFORMATION ON BUSINESS SEGMENT									
Capital expenditures	399	522	200	11	1,213	2	1,538	(54)	3,831
Increases in right-of-use assets	1	-	-	-	2	-	-	-	3
TOTAL INVESTMENT EXPENDITURES	400	522	200	11	1,215	2	1,538	(54)	3,834
Acquisition of property, plant and equipment, intangible assets, right-of-use assets and investment properties as part of acquisition of new companies	-	-	365	-	-	-	-	728	1,093
Impairment losses on financial and non-financial assets	589	48	-	392	13	(1)	1	5	1,047
Other non-monetary expenses *)	12,160	1,467	(36)	1,125	19	3	19	(175)	14,582

* Non-monetary expenses include mainly changes in provisions such as: rehabilitation provision, provision for CO₂ emission rights, provision for seniority bonuses, employee tariff and non-financial liabilities concerning employee benefits that are recognised in profit or loss and other comprehensive income.

Information on operating segments for the period ended September 30, 2021

restated data*	Conventional Generation	District Heating	Renewables	Supply	Distribution	Circular Economy	Other activity	Adjustments	Total
STATEMENT OF PROFIT OR LOSS									
Sales to external customers	13,590	2,737	618	11,048	4,721	105	67	6	32,892
Inter-segment sales	3,126	1,072	383	6,694	58	111	269	(11,713)	-
TOTAL SEGMENT REVENUE	16,716	3,809	1,001	17,742	4,779	216	336	(11,707)	32,892
Cost of sales	(17,729)	(3,473)	(590)	(15,558)	(3,480)	(152)	(274)	10,933	(30,323)
EBIT	1,266	387	359	997	1,127	34	29	(69)	4,130
Depreciation, amortisation, liquidation and impairment recognised in profit or loss	1,537	480	237	25	920	7	46	(18)	3,234
EBITDA	2,803	867	596	1,022	2,047	41	75	(87)	7,364
GROSS PROFIT	-	-	-	-	-	-	-	-	4,038
Income tax	-	-	-	-	-	-	-	-	(774)
NET PROFIT FOR THE REPORTING PERIOD	-	-	-	-	-	-	-	-	3,264
ASSETS AND LIABILITIES									
Segment assets excluding trade receivables	34,607	7,912	4,242	3,130	19,472	66	365	(2,161)	67,633
Trade receivables	618	296	244	3,636	862	56	60	(2,254)	3,518
Equity-accounted interests	-	-	-	-	-	-	-	-	153
Unallocated assets	-	-	-	-	-	-	-	-	14,673
TOTAL ASSETS									85,977
Segment liabilities excluding trade liabilities	17,799	2,420	664	4,059	2,763	44	82	(2,003)	25,828
Trade liabilities	1,139	297	59	3,312	336	33	23	(3,691)	1,508
Unallocated liabilities	-	-	-	-	-	-	-	-	11,609
TOTAL LIABILITIES									38,945
OTHER INFORMATION ON BUSINESS SEGMENT									
Capital expenditures	1,709	372	104	4	915	4	37	(88)	3,057
Increases in right-of-use assets	-	2	-	-	3	-	7	-	12
TOTAL INVESTMENT EXPENDITURES	1,709	374	104	4	918	4	44	(88)	3,069
Acquisition of property, plant and equipment, intangible assets, right-of-use assets and investment properties as part of acquisition of new companies	-	-	81	-	-	-	-	-	81
Impairment losses on financial and non-financial assets	169	4	(45)	(44)	6	-	(1)	(1)	88
Other non-monetary expenses *)	7,465	871	18	807	(29)	2	17	-	9,151

* Non-monetary expenses include mainly changes in provisions such as: rehabilitation provision, provision for CO₂ emission rights, provision for seniority bonuses, employee tariff and non-financial liabilities concerning employee benefits that are recognised in profit or loss and other comprehensive income.

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

7. Revenue and costs

7.1 Revenue from sales

Revenue from sales for the period ended September 30, 2022, by category

The following table presents a reconciliation between revenue disclosed by category and information on revenue that the Group discloses for each reporting period.

	Conventional Generation	District Heating	Renewables	Supply	Distribution	Circular Economy	Other activity	Adjustments	Total
Revenue from contracts with customers	25,908	4,708	2,497	32,161	4,963	245	220	(18,956)	51,746
Revenues from LTC compensations	-	3	-	-	-	-	-	-	3
Revenue from support for high-efficiency cogeneration	-	166	-	-	-	-	-	-	166
Revenue from leases	9	17	4	5	44	-	1	(15)	65
TOTAL REVENUE FROM SALES	25,917	4,894	2,501	32,166	5,007	245	221	(18,971)	51,980

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.

Type of goods or services	Conventional Generation	District Heating	Renewables	Supply	Distribution	Circular Economy	Other activity	Adjustments	Total
Revenue from sale of goods and products, without excluding taxes and fees	25,847	4,665	2,474	31,152	6,057	127	20	(17,584)	52,758
Taxes and fees collected on behalf of third parties	(6)	(3)	-	(55)	(1,133)	-	-	-	(1,197)
Revenue from sale of goods and products, including:	25,841	4,662	2,474	31,097	4,924	127	20	(17,584)	51,561
Sale of electricity	23,818	2,641	2,159	16,728	10	-	-	(5,485)	39,871
Capacity market	1,611	157	210	22	-	-	-	-	2,000
Sale of distribution services	11	11	-	57	4,696	-	-	(58)	4,717
Sale of heat	62	1,781	-	8	-	-	-	(9)	1,842
Sale of energy origin rights	1	61	162	-	-	-	-	20	244
Regulatory system services	112	2	11	-	-	-	-	-	125
Sale of natural gas	-	-	-	817	-	-	-	(216)	601
Sale of fuel	-	-	-	4,325	-	-	-	(2,639)	1,686
Sale of CO ₂ emission allowances	147	1	-	9,144	-	-	-	(9,139)	153
Other sale of goods and materials	79	8	(68)	(4)	218	127	20	(58)	322
Revenue from sale of services	67	46	23	1,064	39	118	200	(1,372)	185
REVENUE FROM CONTRACTS WITH CUSTOMERS	25,908	4,708	2,497	32,161	4,963	245	220	(18,956)	51,746

Revenue from sales for the period ended September 30, 2021, by category

The following table presents a reconciliation between revenue disclosed by category and information on revenue that the Group discloses for each reporting period.

restated data*	Conventional Generation	District Heating	Renewables	Supply	Distribution	Circular Economy	Other activity	Adjustments	Total
Revenue from contracts with customers	16,707	3,781	997	17,738	4,736	216	332	(11,688)	32,819
Revenues from LTC compensations	-	5	-	-	-	-	-	-	5
Revenue from support for high-efficiency cogeneration	-	5	-	-	-	-	-	-	5
Revenue from leases	9	18	4	4	43	-	4	(19)	63
TOTAL REVENUE FROM SALES	16,716	3,809	1,001	17,742	4,779	216	336	(11,707)	32,892

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.

Type of goods or services <i>restated data*</i>	Conventional Generation	District Heating	Renewables	Supply	Distribution	Circular Economy	Other activity	Adjustments	Total
Revenue from sale of goods and products, without excluding taxes and fees	16,683	3,736	985	17,160	5,706	96	39	(10,627)	33,778
<i>Taxes and fees collected on behalf of third parties</i>	(7)	(3)	-	(109)	(1,008)	-	-	-	(1,127)
Revenue from sale of goods and products, including:	16,676	3,733	985	17,051	4,698	96	39	(10,627)	32,651
Sale of electricity	13,582	1,775	610	9,750	2	-	-	(3,574)	22,145
Capacity market	1,622	200	228	25	-	-	-	-	2,075
Sale of distribution services	14	9	-	36	4,549	-	-	(56)	4,552
Sale of heat	130	1,673	-	9	-	-	-	(2)	1,810
Sale of energy origin rights	35	34	128	-	-	-	-	(1)	196
Regulatory system services	194	11	30	-	-	-	-	-	235
Sale of natural gas	-	-	-	269	-	-	-	(118)	151
Sale of fuel	-	-	-	322	-	-	-	(158)	164
Sale of CO ₂ emission allowances	1,019	28	-	6,640	-	-	-	(6,666)	1,021
Other sale of goods and materials	80	3	(11)	-	147	96	39	(52)	302
Revenue from sale of services	31	48	12	687	38	120	293	(1,061)	168
REVENUE FROM CONTRACTS WITH CUSTOMERS	16,707	3,781	997	17,738	4,736	216	332	(11,688)	32,819

7.2 Costs by nature and function

	3 months ended September 30, 2022	Period ended September 30, 2022	3 months ended September 30, 2021	Period ended September 30, 2021 <i>restated data*</i>
COSTS BY NATURE				
Depreciation, amortisation and impairment losses	1,123	3,265	1,141	3,239
Materials and energy	2,876	6,764	1,356	4,153
External services	672	1,894	618	1,760
Taxes and fees	5,783	16,701	4,986	10,243
Employee benefits expenses	1,397	4,262	1,192	3,825
Other costs by nature	108	295	84	249
TOTAL COST BY NATURE	11,959	33,181	9,377	23,469
Change in product inventories	(19)	(21)	(11)	(2)
Cost of products and services for internal purposes	(161)	(413)	(122)	(407)
Distribution and selling expenses	(405)	(1,210)	(367)	(1,126)
General and administrative expenses	(208)	(864)	(223)	(724)
Cost of goods and materials sold	6,071	15,421	2,835	9,113
COST OF SALES	17,237	46,094	11,489	30,323

7.3 Depreciation, amortisation, liquidation and impairment losses

The following presents depreciation, amortisation, liquidation and impairment of property, plant and equipment, intangible assets, right-of-use assets and investment properties in the statement of comprehensive income.

Period ended September 30, 2022	Depreciation, amortisation, liquidation					Impairment			
	Property, plant and equipment	Intangible assets	Right- of-use assets	Investme nt property	TOTAL	Property, plant and equipment	Intangible assets	Right-of- use assets	TOTAL
Cost of sales	3,066	32	37	2	3,137	57	9	(1)	65
Distribution and selling expenses	7	1	2	-	10	-	-	-	-
General and administrative expenses	30	6	8	-	44	2	1	-	3
RECOGNISED IN PROFIT OR LOSS	3,103	39	47	2	3,191	59	10	(1)	68
Change in product inventories	(3)	-	-	-	(3)	-	-	-	-
Cost of products and services for internal purposes	9	-	-	-	9	-	-	-	-
TOTAL	3,109	39	47	2	3,197	59	10	(1)	68

Period ended September 30, 2021	Depreciation, amortisation, liquidation					Impairment			
	Property, plant and equipment	Intangible assets	Right- of-use assets	Investment property	TOTAL	Property, plant and equipment	Intangible assets	Right- of-use assets	TOTAL
Cost of sales	2,960	43	38	2	3,043	104	26	1	131
Distribution and selling expenses	8	2	-	-	10	-	-	-	-
General and administrative expenses	26	16	7	-	49	1	-	-	1
RECOGNISED IN PROFIT OR LOSS	2,994	61	45	2	3,102	105	26	1	132
Change in product inventories	1	-	-	-	1	-	-	-	-
Cost of products and services for internal purposes	4	-	-	-	4	-	-	-	-
TOTAL	2,999	61	45	2	3,107	105	26	1	132

Impairment losses recognised in the reporting period concern investment expenditures at units for which impairment had been recognised in previous periods.

In the item 'Depreciation/amortisation and liquidation' the Group recognised in the current and comparative period PLN 23 million net as liquidation of property, plant and equipment and intangible assets.

7.4 Other operating income and costs

	Period ended September 30, 2022	Period ended September 30, 2021
NET OTHER OPERATING INCOME/(COSTS)		
Effect of change in rehabilitation provision	1,738	424
(Creation)/reversal of impairment losses on receivables	(1,001)	(51)
Penalties, fines and compensations received	592	53
(Creation)/reversal of other provisions	(223)	11
Measurement and exercise of derivatives, including:	155	2,917
CO ₂	34	2,943
Coal	121	(26)
Donations granted	(67)	(16)
Grants received	23	24
Gain on sale of property, plant and equipment / intangible assets	16	32
Asset surpluses/disclosures	8	22
Other	6	(5)
TOTAL NET OTHER OPERATING INCOME/(EXPENSES)	1,247	3,411

The increase in *Penalties, fines and compensations* is due to the calculation by subsidiary PGE GiEK S.A. of a contractual penalty in the amount of PLN 562 million to the consortium of Mitsubishi Power Europe GmbH, TECNICAS REUNIDAS S.A and BUDIMEX S.A for failure to meet the availability rate of the Turów Power Plant unit in the first year of the guarantee period. The contractual penalty is covered by an impairment loss of the same amount. In July 2022, PGE GiEK S.A. submitted a demand for payment to the consortium, to which it received a negative response. The consortium requested mediation in October 2022.

The increase in other impairment of receivables mainly concerns receivables from ENESTA's counterparties, as described in note 1.2 of these financial statements.

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

The item *Donations granted* mainly includes a donation given by PGE Group to the Liberec Region in the Czech Republic, amounting to EUR 10 million.

7.5 Finance income and finance costs

	Period ended September 30, 2022	Period ended September 30, 2021
NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS		
Dividends	4	2
Interest, including	(5)	(224)
<i>Interest income calculated using the effective interest rate method</i>	245	21
Impairment	(14)	(27)
Reversal/(recognition) of impairment	(4)	(3)
Exchange differences	44	(4)
Gain / (loss) on sale of investment	27	(7)
Settlement of loss of control	-	324
TOTAL NET FINANCE INCOME/(COSTS) FROM FINANCIAL INSTRUMENTS	52	61
NET OTHER FINANCE INCOME/(COSTS)		
Interest cost on non-financial items	(236)	(151)
Interest on statutory receivables/(liabilities)	(1)	2
Recognition of provisions	(1)	(1)
Other	(7)	(6)
TOTAL NET OTHER FINANCE INCOME/(COSTS)	(245)	(156)
TOTAL NET FINANCE INCOME/(COSTS)	(193)	(95)

Interest costs mainly relate to outstanding bonds, credit facilities, loans, settled IRS transactions and leases. The interest cost on lease liabilities reached PLN 30 million in the current report (PLN 30 million in the comparative period).

The interest cost on non-financial items concerns land rehabilitation provisions and employee benefit provisions.

7.6 Share of profit of equity-accounted entities

Period ended September 30, 2022	Polska Grupa Górnicza	Polimex Mostostal	PEC Bogatynia	Energopomiar
SHARE IN VOTES	15.32%	16.48%	34.93%	49.79%
Revenue	8,287	2,845	13	44
Result on continuing operations	1,664	117	-	6
Share of profit of equity-accounted entities before consolidation adjustments	255	19	-	3
Elimination of unrealised gains and losses	10	(10)	-	-
Impairment	(255)	-	-	-
SHARE OF PROFIT OF EQUITY-ACCOUNTED ENTITIES	10	9	-	3
Other comprehensive income	76	9	-	-
Share in other comprehensive income	12	1	-	-
Impairment	(12)	-	-	-
Share of other comprehensive income of equity-accounted entities	-	1	-	-

Period ended September 30, 2021	Polska Grupa Górnicza	Polimex Mostostal	PEC Bogatynia	Energopomiar
SHARE IN VOTES	15.32%	16.48%	34.93%	49.79%
Revenue	5,731	1,561	13	52
Result on continuing operations	(674)	77	-	8
Share of profit of equity-accounted entities before consolidation adjustments	(103)	13	-	3
Elimination of unrealised gains and losses	(10)	(3)	-	-
Impairment	103	-	-	-
SHARE OF PROFIT OF EQUITY-ACCOUNTED ENTITIES	(10)	10	-	3

The Group makes a consolidation adjustment related to margin on sale of coal between PGG and the Group and an adjustment of margin on Polimex Mostostal's contracts for the Group.

The Group has recognised an impairment loss on its share in the result of Polska Grupa Górnicza due to the fact that its stake in that entity is subject to a complete impairment loss.

8. Impairment losses on assets

In the current and comparative reporting period, the Group did not recognise or release any significant impairment losses on assets.

Impairment losses on property, plant and equipment, intangible assets and right-of-use assets are presented in note 7.3.

The impairment loss on entity accounted for using the equity method (PGG) is presented in note 7.6, the value of the impairment was adjusted accordingly to the net assets attributable to PGE Group.

9. Income tax

9.1 Tax in the statement of comprehensive income

The main elements of the tax burden for the period ended September 30, 2022, and September 30, 2021, were as follows:

	Period ended September 30, 2022	Period ended September 30, 2021
INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS		
Current income tax	1,640	474
Adjustments concerning current income tax from prior years	14	28
Deferred income tax	(671)	273
Adjustments of deferred income tax	(21)	(1)
INCOME TAX EXPENSE RECOGNISED IN STATEMENT OF PROFIT OR LOSS	962	774
INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME		
From actuarial gains and losses from valuation of provisions for employee benefits	36	46
From measurement of hedging instruments	245	59
(Tax benefit) / tax burden recognised in other comprehensive income (equity)	281	105

9.2 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 Group is as follows:

	Period ended September 30, 2022	Period ended September 30, 2021
Gross profit before tax	4,888	4,038
Income tax according to Polish statutory tax rate of 19%	929	767
ITEMS ADJUSTING INCOME TAX		
Adjustments concerning current income tax from prior years	14	28
Adjustments concerning deferred income tax from prior years	(21)	(29)
Recognition of impairment losses and provisions for which no deferred tax was recognised	252	(6)
Non-taxable income	(126)	9
Recognition of land rehabilitation provisions for which no deferred tax was recognised	-	85
Release of land rehabilitation provisions for which no deferred tax was recognised	(119)	(41)
Result on settlement of loss of control	-	(62)
Other costs not recognised as tax-deductible costs	49	32
Reversal of other provisions and impairment losses for which no deferred tax was recognised	(11)	(9)
Other adjustments	(5)	-
TAX AT EFFECTIVE TAX RATE	962	774
Income tax (expense) as presented in the consolidated financial statements		
EFFECTIVE TAX RATE	19.68%	19.17%

As described in note 7.4, in the present period subsidiary PGE GiEK S.A. imposed a PLN 562 million contractual penalty. The contractual penalty is covered by an impairment loss of the same amount. No deferred tax was recognised on the revenue or on the created impairment loss (PLN 107 million).

In the comparative period, the result on the loss of control is related to Ørsted's acquisition of a 50% stake in the increased share capital of EW Baltica 2 and EW Baltica 3, as further described in note 13.

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

10. Material transactions to purchase and sell property, plant and equipment, intangible assets and right-of-use assets

In the present reporting period, the Group purchased property, plant and equipment and intangible assets worth PLN 3,830 million, along with the right-of-use for underlying assets worth PLN 3 million. The largest expenditures were incurred in the Other Activity segment (PLN 1,538 million), Distribution segment (PLN 1,215 million), District Heating segment (PLN 522 million) and the Conventional Generation segment (PLN 400 million). The main expenditures were as follows: construction of two gas-and-steam units (PGE Gryfino 2050 Sp. z o.o. PLN 1,492 million) and connection of new customers to PGE Dystrybucja S.A.'s network (PLN 607 million). These values include borrowing costs.

In the current period, the Group purchased shares in companies that own wind farms. The purchase is described in note 1.4 of these consolidated financial statements. As a result of this transaction, the net value of property, plant and equipment and right-of-use assets increased by PLN 1,093 million.

11. Future investment commitments

As at September 30, 2022, PGE Group committed to incur capital expenditures on property, plant and equipment of approximately PLN 9,285 million. These amounts relate mainly to construction of new power units, modernisation of Group's assets and the purchase of machinery and equipment.

	As at September 30, 2022	As at December 31, 2021
Distribution	2,552	1,058
Other activity	2,391	3,570
District Heating	2,336	1,549
Renewables	1,696	414
Conventional Generation	306	256
Supply	4	1
Circular Economy	-	4
TOTAL FUTURE INVESTMENT COMMITMENTS	9,285	6,852

The most significant future investment commitments concern:

- Distribution – investment commitments mainly related to grid assets amounting to approx. PLN 2,552 million,
- Other Activity - construction of two gas-and-steam units (PGE Gryfino 2050 sp. z o.o.) and contract for service for two gas turbines - approx. PLN 2,222 million,
- District Heating - construction of gas-and-steam CHP Nowa EC Czechnica in Siechnice - approx. PLN 990 million; construction of a gas-fuelled cogeneration source based on gas engines and a reserve and peak heat source in Bydgoszcz - amounting to approx. PLN 359 million; construction of 2nd technological line for waste-to-energy incinerator in Rzeszów - amount of approx. PLN 326 million,
- Renewables - modernisation of the upper reservoir of ESP Porąbka Żar - amounting to approx. PLN 788 million; conducting environmental surveys together with drawing up an Environmental Impact Report and obtaining an Environmental Conditions Decision for the project involving the construction of the Baltica 1 wind farm in the Baltic Sea together with offshore and onshore connection infrastructure - amounting to approx. PLN 444 million.

12. Shares accounted for using the equity method

	As at September 30, 2022	As at December 31, 2021
Polska Grupa Górnicza S.A., Katowice	-	-
Polimex - Mostostal S.A., Warsaw	166	144
PEC Bogatynia sp. z o.o., Bogatynia	-	-
Energopomiar sp. z o.o., Gliwice	13	12
EQUITY-ACCOUNTED INTERESTS	179	156

	Polska Grupa Górnicza	Polimex Mostostal	PEC Bogatynia	Energopomiar
SHARE IN VOTES	15.32%	16,48%	34.93%	49.79%
As at September 30, 2022				
Current assets	2,359	1,788	3	24
Non-current assets	6,995	635	20	22
Current liabilities	6,598	1,243	2	16
Non-current liabilities	3,713	266	-	4
NET ASSETS	(957)	914	21	26
Share in net assets	-	150	7	13
Goodwill	-	16	-	-
Impairment of investment	-	-	(7)	-
EQUITY-ACCOUNTED INTERESTS	-	166	-	13

	Polska Grupa Górnicza	Polimex Mostostal	PEC Bogatynia	Energopomiar
SHARE IN VOTES	15.32%	16.40%	34.93%	49.79%
AT DECEMBER 31, 2021				
Current assets	1,749	1,544	4	32
Non-current assets	8,722	673	20	19
Current liabilities	7,766	1,156	2	25
Non-current liabilities	3,034	276	-	3
NET ASSETS	(329)	785	22	23
Share in net assets	-	128	8	12
Goodwill	-	16	-	-
Impairment of investment	-	-	(8)	-
EQUITY-ACCOUNTED INTERESTS	-	144	-	12

13. Joint operations

In May 2021, Ørsted Group entities acquired stakes in the increased capital of EWB2 and EWB3. Following this transaction, Ørsted Group became a 50% shareholder in these companies.

In effect, PGE Group lost control over these two companies in the meaning of IFRS.

Based on agreements executed between PGE Group and Ørsted Group companies, PGE Group assessed that EWB2 and EWB3 constitute a joint operation in the meaning of IFRS 11 *Joint Arrangements*.

On May 12, 2022, a PLN 4.1 million increase in the share capital of PGE Soleo 1 sp. z o.o. was registered with the National Court Register. The share capital increase was acquired as follows: PGE EO S.A. acquired 2,000 of the new-issue shares, while the Municipality of Kleszczów acquired 2,100 of the new-issue shares.

As a result of this transaction, PGE EO S.A. and the Municipality of Kleszczów will each hold a 50% stake in share capital, and PGE Soleo 1 sp. z o.o. (currently PGE Soleo Kleszczów sp. z o.o.) is no longer a PGE Group subsidiary but a joint venture subject to consolidation to the extent of assets and liabilities, revenues and costs attributable to PGE Group.

14. Deferred tax in statement of financial position

14.1 Deferred income tax assets

	As at September 30, 2022	As at December 31, 2021
Difference between tax value and carrying amount of property, plant and equipment	2,479	2,585
Rehabilitation provision	606	859
Provision for cost of CO ₂ emissions	2,793	2,157
Provisions for employee benefits	582	626
Difference between tax value and carrying amount of liabilities	514	335
Difference between tax value and carrying amount of financial assets	357	545
Difference between carrying amount and tax value of right-of-use assets	183	152
Tax losses	134	55
Other provisions	84	111
LTC compensations	82	85
Energy infrastructure acquired free of charge and connection payments received	24	26
Difference between tax value and carrying amount of inventories	21	14
Other	12	3
TOTAL DEFERRED INCOME TAX ASSETS	7,871	7,553

14.2 Deferred tax liabilities

	As at September 30, 2022	As at December 31, 2021
Difference between tax value and carrying amount of property, plant and equipment	4,922	4,938
Difference between tax value and present carrying amount of financial assets	1,228	1,012
Difference between carrying amount and tax value of lease liabilities	223	190
CO ₂ emission allowances	364	792
Difference between tax value and carrying amount of energy origin units	15	15
Difference between tax value and present carrying amount of financial liabilities	28	11
Other	87	64
TOTAL DEFERRED TAX LIABILITIES	6,867	7,022

Group's deferred tax after offsetting assets and liabilities at companies and in 2021 also within tax group

Deferred income tax assets	2,466	933
Deferred income tax liabilities	(1,462)	(402)

15. Inventories

	As at September 30, 2022	As at December 31, 2021
Hard coal	2,266	499
Repair and maintenance materials	733	654
Heavy oil	72	50
Other materials	90	73
TOTAL MATERIALS	3,161	1,276
Green energy origin rights	625	824
Other energy origin rights	6	3
TOTAL ENERGY ORIGIN RIGHTS	631	827
CO ₂ emission allowances held for sale	1	1
Hard coal held for sale	572	17
Other commodities	7	9
TOTAL GOODS	580	27
OTHER INVENTORIES	78	59
TOTAL INVENTORIES	4,450	2,189

16. CO₂ emission allowances for captive use

Pursuant to the provisions of the Regulation of the Council of Ministers of 8 April 2014 on the list of electricity generating installations covered by the greenhouse gas emission allowance trading scheme, installations belonging to PGE Group are not entitled to the allocation of free emission allowances from 2020. Only EUAs for CO₂ emissions related to the production of heat are allocated.

EUA	At September 30, 2022		At December 31, 2021	
	Non-current	Current	Non-current	Current
Quantity (Mg million)	1	6	2	41
Value (PLN million)	108	2,032	797	4,106

EUA	Quantity (Mg million)	Value (PLN million)
AT JANUARY 1, 2021	21	1,774
Purchase/sale	80	9,447
Granted free of charge	1	-
Redemption	(59)	(6,318)
AT DECEMBER 31, 2021	43	4,903
Purchase/sale	34	8,797
Granted free of charge	1	-
Redemption	(71)	(11,560)
As at September 30, 2022	7	2,140

17. Selected financial assets

The value of financial receivables at amortised cost is a rational approximation of their fair value.

17.1 Trade and other financial receivables

	At September 30, 2022		At December 31, 2021	
	Non-current	Current	Non-current	Current
Trade receivables	-	5,656	-	4,209
Deposits and loans	210	-	194	-
Loans granted	-	-	-	77
Deposits, security and collateral	1	1,915	5	3,348
Support system for high-efficiency cogeneration	-	9	-	-
Other financial receivables	4	80	5	93
FINANCIAL RECEIVABLES	215	7,660	204	7,727

Deposits, security and collateral mainly concern transaction and hedging deposits for transactions on the electricity and CO₂ markets.

17.2 Cash and cash equivalents

Short-term deposits have different maturities, typically from one day up to three months, depending on the Group's needs for cash.

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

	As at September 30, 2022	As at December 31, 2021
Cash on hand and cash at bank	3,748	5,059
Overnight deposits	5	5
Short-term deposits	4,709	1,124
Proceeds from share issue	2,970	-
Cash in VAT accounts	375	545
TOTAL	11,807	6,733
Exchange differences on cash in foreign currencies	(9)	1
Cash and cash equivalents presented in the statement of cash flows	11,798	6,734
Unused credit facilities at the reporting date	8,381	6,002
<i>including overdraft facilities</i>	<i>1,873</i>	<i>1,830</i>

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

The recapitalisation of PGE S.A. is described in note 27.3 of these consolidated financial statements.

The value of cash includes restricted cash amounting to PLN 729 million (PLN 212 million in the comparative period) in customer accounts at PGE Dom Maklerski S.A., which constitute collateral for settlements with clearinghouse IRGiT.

18. Other current and non-current assets

18.1 Other non-current assets

	As at September 30, 2022	As at December 31, 2021
Advances for property, plant and equipment	833	749
Cost of acquire customers	101	106
Other non-current assets	28	18
TOTAL OTHER ASSETS	962	873

Advances for property, plant and equipment under construction are mainly related to the construction of two gas and steam units by PGE Gryfino 2050 sp. z o.o. and modernisation of pumped-storage plant Porąbka-Żar by PGE Energia Odnawialna S.A.

The cost to acquire customers concern co-financing by PGE Energia Ciepła S.A. of investments in the development of district heating networks and agency commissions at PGE Obrót S.A.

18.2 Other current assets

	As at September 30, 2022	As at December 31, 2021
PREPAYMENTS		
Cost of acquire customers	56	56
Long-term contracts	56	38
Social Fund	56	7
Logistics costs related to coal purchases	29	4
IT services	16	15
Fees for exclusion of land from agricultural production / forestry	14	-
Property and tort insurance	11	14
Fees for mining usufruct	4	-
Fees for installing equipment and taking up a road lane	8	-
Other prepayments	24	18
OTHER CURRENT ASSETS		
VAT receivables	926	537
Advances for deliveries	431	507
Excise tax receivables	13	17
Other current assets	16	27
TOTAL OTHER ASSETS	1,660	1,240

The increase in accrued VAT receivables is mainly due to increased coal purchases and increased investment purchases in the Other Activity and Renewables segments.

The amount of advance is mainly related to future coal supplies.

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

	As at September 30, 2022	
	Assets	Liabilities
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS		
Currency forwards	120	8
Commodity forwards	37	1
Commodity SWAP	12	16
Contracts for purchase/sale of coal	165	151
Derivatives embedded in sales contracts	-	383
Options	10	-
HEDGING DERIVATIVES		
CCIRS hedges	169	-
IRS hedges	584	-
Currency forward - USD	5	-
Currency forward - EUR	1,449	42
Other assets measure at fair value through profit or loss		
Investment fund participation units	27	-
TOTAL	2,578	601
current	1,783	313
non-current	795	288

	Aa at December 31, 2021	
	Assets	Liabilities
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS		
Currency forwards	4	6
Commodity forwards	47	1
Commodity SWAP	22	31
Contracts for purchase/sale of coal	19	11
Options	16	-
HEDGING DERIVATIVES		
CCIRS hedges	110	-
IRS hedges	203	-
Currency forward - USD	3	-
Currency forward - EUR	485	34
Other assets measured at fair value through profit or loss		
Investment fund participation units	30	-
TOTAL	939	83
current	575	82
non-current	364	1

Commodity and currency forwards

Commodity and currency forward transactions mainly relate to trade in CO₂ emission allowances and coal sales. The Group uses hedge accounting to account for currency forwards related to the purchase of CO₂ allowances.

Options

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

Coal swaps

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

Purchase and sale contracts with physical delivery of coal

PGE Paliwa Sp. z o.o. measures all of its sales and purchase contracts with physical delivery of coal at fair value using the trader-broker model.

Derivatives embedded in sales contracts

As described in note 1.4 of these consolidated financial statements, PGE Group purchased wind assets.

As part of the acquired wind farms, PGE Group also received derivatives embedded in sales contracts. The structure of these instruments relates to the necessity to deliver the contracted capacity every day throughout the contract term.

IRS transactions

PGE S.A. executed IRS transactions to hedge interest rates on credit facilities and outstanding bonds with a total nominal value of PLN 7,030 million (PLN 5,630 million for credit facilities 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 2,952 million. To recognise these IRS transactions, the Group uses hedge accounting.

The impact of hedge accounting on the revaluation reserve is presented in note 20.2 to these consolidated financial statements.

CCIRS hedges

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

Investment fund participation units

At the reporting date, the Company held participation units in three sub-funds managed by TFI Energia S.A.

20. Equity

The basic assumption of the Group's policy regarding equity management is to maintain an optimal equity structure over the long term perspective in order to assure a good financial standing and secure equity structure ratios that would support the operating activity of PGE Group. It is also crucial to maintain a sound equity base that would be the basis to win confidence of future investors, creditors and the market and ensure the Group's further development.

20.1 Share capital

	As at September 30, 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 27.3 to these financial statements.

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

The Company is a part of PGE Group, where the State Treasury holds special rights as long as it remains a shareholder.

The State Treasury's special rights applicable to PGE Group entities derive from the Act of March 18, 2010 on the special rights of the minister competent for state assets and their exercise at certain companies and groups operating in the electricity, oil and gas sectors (Polish Journal of Laws of 2020, item 2173). The Act specifies the special rights available to the Minister of Energy related to companies and groups operating in the electricity, oil and gas sectors whose assets are disclosed in the register of buildings, installations, equipment and services considered as critical infrastructure.

Based on this act the Minister of Energy has the right to object to any resolution adopted or legal activity undertaken by the Management Board involving assets that would endanger the functioning, operational continuity 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 is expressed in the form of an administrative decision.

20.2 Hedging reserve

	Period ended September 30, 2022	Year ended December 31, 2021
AS AT JANUARY 1	609	(13)
Change in hedging reserve:	1,289	768
Measurement of hedging instruments, including:	1,299	756
<i>Recognition of the effective part of change in fair value of hedging instruments in the part considered as effective hedge</i>	1,399	762
<i>Accrued interest on derivatives transferred from hedging reserve and recognised in interest expense</i>	(60)	(8)
<i>Currency revaluation of CCIRS transaction transferred from hedging reserve and recognised in the result on foreign exchange differences</i>	(39)	2
<i>Ineffective portion of changes in fair value of hedging derivatives recognised in profit or loss</i>	(1)	-
Measurement of other financial assets	(10)	12
Deferred tax	(245)	(146)
HEDGING RESERVE AFTER DEFERRED TAX	1,653	609

The hedging reserve mainly includes the measurement of cash flow hedges.

20.3 Dividends paid and recommended for payment

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

21. Provisions

The carrying amount of provisions is as follows:

	At September 30, 2022		At December 31, 2021	
	Non-current	Current	Non-current	Current
Employee benefits	2,169	256	2,381	276
Rehabilitation provision	3,958	1	6,071	4
Provision for cost of CO ₂ emissions	-	14,745	-	11,553
Provision for energy origin units held for redemption	-	325	-	276
Provision for non-contractual use of property	3	6	6	5
Other provisions	349	411	101	486
TOTAL PROVISIONS	6,479	15,744	8,559	12,600

Due to changes in market interest rates, PGE Group updated the discount rate and inflation forecast uses to measure land rehabilitation provisions and employee benefit provisions.

The discount rate for the mine excavation rehabilitation provision as at September 30, 2022 is:

- for expenses expected to be incurred within 15 years from the balance sheet date - 7.1% (compared to 3.6% as at December 31, 2021);
- for expenses expected to be incurred 16-25 years from the balance sheet date - 7.20%, PGE's extrapolation in accordance with the adopted method (compared to 4.08% as at December 31, 2021);
- for expenses expected to be incurred more than 25 years from the balance sheet date - 7.14%, PGE's extrapolation in accordance with the adopted method (compared to 4.17% as at December 31, 2021).

The discount rate for employee benefit provisions and other provisions for land rehabilitation as at September 30, 2022 is 6.9% (vs. 3.6% as at December 31, 2021).

These changes in discount rate and inflation forecast caused:

- a decrease in the land rehabilitation recognised correspondingly in other operating revenue of PLN 1,738 million;
- a decrease in the rehabilitation provision recognised correspondingly as a decrease in property, plant and equipment of PLN 645 million;
- a decrease in the post-employment benefit provisions recognised correspondingly as an increase in other comprehensive income of PLN 190 million;
- an increase in provisions for long service recognised correspondingly as an increase in operating costs of PLN 20 million.

Changes in provisions

	Employee benefits	Rehabilitation provision	Provision for cost of CO ₂ emissions	Provisions for energy origin rights held for redemption	Provision for non-contractual use of property	Other	Total
JANUARY 1, 2022	2,657	6,075	11,553	276	11	587	21,159
Actuarial gains and losses	403	-	-	-	-	-	403
Current employment costs	51	-	-	-	-	-	51
Interest costs	58	178	-	-	-	-	236
Adjustment of discount rate and other assumptions	(573)	(2,384)	-	-	-	-	(2,957)
Benefits paid / Provisions used	(169)	-	(11,559)	(818)	-	(34)	(12,580)
Provisions reversed	-	-	(1)	(17)	(3)	(143)	(164)
Provisions recognised - costs	-	42	14,752	884	1	377	16,056
Provisions recognised - expenditures	-	18	-	-	-	-	18
Changes in Group composition	(2)	25	-	-	-	-	23
Other changes	-	5	-	-	-	(27)	(22)
SEPTEMBER 30, 2022	2,425	3,959	14,745	325	9	760	22,223

	Employee benefits	Rehabilitation provision	Provision for cost of CO ₂ emissions	Provisions for energy origin rights held for redemption	Provision for non-contractual use of property	Other	Total
JANUARY 1, 2021	3,283	8,111	6,318	589	63	154	18,518
Actuarial gains and losses	209	-	-	-	-	-	209
Current employment costs	86	-	-	-	-	-	86
Past employment costs	(51)	-	-	-	-	-	(51)
Interest costs	42	177	-	-	-	-	219
Adjustment of discount rate and other assumptions	(678)	(2,323)	-	-	-	-	(3,001)
Benefits paid / Provisions used	(233)	(1)	(6,318)	(1,284)	(1)	(45)	(7,882)
Provisions reversed	-	(3)	(2)	(1)	(56)	(34)	(96)
Provisions recognised - costs	-	74	11,555	972	5	500	13,106
Provisions recognised - expenditures	-	40	-	-	-	-	40
Changes in Group composition	(1)	-	-	-	-	(2)	(3)
Other changes	-	-	-	-	-	14	14
DECEMBER 31, 2021	2,657	6,075	11,553	276	11	587	21,159

21.1 Provision for employee benefits

Provisions for employee benefits mainly include:

- post-employment benefits - PLN 1,673 million (PLN 1,885 million as at December 31, 2021),
- seniority bonuses - PLN 752 million (PLN 772 million as at December 31, 2021).

21.2 Rehabilitation provision

Provision for rehabilitation of post-mining properties

PGE Group creates provisions for the rehabilitation of post-mining properties. The amount of the provision recognised in the financial statements includes the value of the Mine Liquidation Fund created in accordance with the Geological and Mining Law. The value of the provision as at September 30, 2022 was PLN 3,483 million and as at December 31, 2021 it amounted to PLN 5,571 million.

Provision for rehabilitation of ash landfills

PGE Group's generating assets create provisions for the rehabilitation of ash landfills. As at September 30, 2022, this provision amounted to PLN 214 million (PLN 248 million at the end of the comparative period).

Provisions for wind farm decommissioning and restoration

Wind farm owners create provisions for decommissioning and restoration. The value of the provision as at September 30, 2022 was PLN 26 million (PLN 26 million as at December 31, 2021).

Liquidation of property, plant and equipment

As at the reporting date, the provision amounted to PLN 237 million (PLN 230 million as at the end of the comparative period) and concerned certain assets in the Conventional Generation and Renewables segments.

21.3 Provision for cost of CO₂ emissions

As described in note 16 to these financial statements, the Group no longer receives free emission allowances for electricity generation from 2020. The Group is only eligible to receive free allowances for heating generation. As at September 30, 2022, this provision amounted to PLN 14,745 million (PLN 11,553 million at the end of the comparative period). CO₂ emission allowances concerning 2021 were being redeemed until the end of April 2022.

21.4 Provision for energy origin rights held for redemption

PGE Group companies create a provision for energy origin rights concerning sales generated in the reporting period or previous periods, in the part yet to be redeemed as of the reporting date. The total value of provision as at September 30, 2022 was PLN 325 million (PLN 276 million in the comparative period) and was created mainly by PGE Obrót S.A.

21.5 Other provisions

Provision for settlements with prosumers

In 2021, there was a significant increase in prosumer installations, mainly as a result of the "My Electricity" support program. According to the Energy Market Agency, installed PV capacity in Poland grew by 94% to 7.67 GW in 2021 vs. 3.96 GW at the end of 2020. In turn, the Act on Renewable Energy Sources of February 20, 2015 introduced a billing system for prosumers and energy cooperatives that generates losses for the obliged seller (i.e. PGE Obrót S.A.) the higher the percentage of electricity fed into the grid the prosumer or energy cooperative can compensate with its own consumption.

Therefore, the prosumer does not incur any variable costs of distribution services for energy drawn from the grid. Companies in the Supply segment, which are merely intermediaries in the sale of distribution services, have to pay the full fee for electricity drawn by the prosumer to the Distribution System Operator. Companies in the Supply segment, despite the fact that they do not provide distribution services, have to bear the costs related to these services because they are a party to a framework contract with the customer.

The rights to use the current billing system are valid for the prosumer for 15 years. Current prosumers and new prosumers who apply for connection to the electricity grid by March 31, 2022 will be able to settle under

the current rules. New regulations abolishing the discount system came into force from April 1, 2022. As of that date, a net-billing system based on the purchase and sale of energy is in force, involving the settlement of energy by value. From July 1, 2022, the prosumer sells energy at an average monthly price. The surplus generated is collected in the course of the year, but with all charges according to the seller's tariff, so it also pays distribution charges (hitherto charged to energy sellers). If, after one year, it obtains an overpayment, it will not pay out more than 20% of the value of the energy injected into the grid in the month to which the overpayment relates.

The necessity to respect the prosumer's right to use the settlement system based on net-metering in accordance with the currently binding regulations of the Renewable Energy Sources Act for a period of 15 years generates further losses for PGE Obrót S.A. Therefore, a provision of PLN 18 million for onerous contracts within the meaning of IAS 37 was recognised in these statements. The provision has been recognised for losses projected for 2022, i.e. a period of reliably predictable energy price developments.

Provision for potential claims from counterparties

In 2021, ENESTA sp. z o.o. terminated unfavourable contracts for the supply of electricity and natural gas. In connection with this, as of December 31, 2021 a PLN 279 million provision for counterparty claims was created. Some counterparties took their claims to court in 2022. After unsuccessful attempts to reach an agreement with its counterparties, ENESTA filed for restructuring proceedings. On June 21, 2022, restructuring (sanitation) proceedings were opened - notice in the National Debtors Register. As at September 30, 2022, ENESTA recalculated the provisions and an additional provision of PLN 272 million was created. Additionally, receivables from counterparties who have taken legal action were written down by PLN 315 million.

22. Financial liabilities

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

Bonds issued by PGE Sweden AB (publ) are based on a fixed interest rate. Their amortised cost presented in these financial statements as at September 30, 2022 amounted to PLN 675 million and their fair value amounted to PLN 598 million.

22.1 Loans, borrowings, bonds and leases

	At September 30, 2022		At December 31, 2021	
	Non-current	Current	Non-current	Current
Loans and borrowings	4,007	2,141	5,757	2,099
Bonds issued	2,071	43	2,033	13
Leases	927	52	876	48
TOTAL CREDIT, LOANS, BONDS AND LEASES	7,005	2,236	8,666	2,160

Loans and borrowings

Among loans and borrowings presented above as at September 30, 2022, and December 31, 2021, PGE Group presents mainly the following facilities:

Lender	Security instrument	Maturity	Limit in currency	Currency	Interest rate	Liability as of 30-09-2022	Liability as of 31-12-2021
Bank consortium	IRS	2023-09-30	3,630	PLN	Variable	1,452	2,909
European Investment Bank	-	2034-08-25	1,500	PLN	Fixed	1,516	1,505
Bank Gospodarstwa Krajowego	IRS	2027-12-31	1,000	PLN	Variable	703	751
European Investment Bank	-	2034-08-25	490	PLN	Fixed	496	493
European Bank for Reconstruction and Development	IRS	2028-06-07	500	PLN	Variable	417	439
Bank Gospodarstwa Krajowego	IRS	2028-12-31	500	PLN	Variable	415	438
European Investment Bank	-	2038-10-16	273	PLN	Fixed	275	274
Nordic Investment Bank	-	2024-06-20	150	EUR	Variable	99	129
PKO BP S.A.	-	2023-12-31	300	PLN	Variable	34	-
Bank Pekao S.A.	-	2022-09-21	40	USD	Variable	-	135
Revolving credit facility (bank consortium)	-	2022-12-16	4,100	PLN	Variable	-	-
Bank Gospodarstwa Krajowego	-	2023-06-30	2,000	PLN	Variable	-	-
Bank Gospodarstwa Krajowego	-	2023-05-31	1,000	PLN	Variable	-	-
Bank Pekao S.A.	-	2024-12-22	500	PLN	Variable	-	-
NFOŚiGW	-	December 2028	215	PLN	Fixed	93	116
NFOŚiGW	-	June 2024 - March 2036	980	PLN	Variable	464	491
Voivodship Fund for Environmental Protection and Water Management (WFOŚiGW)	-	September 2026	34	PLN	Fixed	28	25
WFOŚiGW	-	March 2026 - September 2028	187	PLN	Variable	156	151
TOTAL LOANS AND BORROWINGS						6,148	7,856

As at September 30, 2022, the value of the available overdrafts at significant PGE Group companies was PLN 1,873 million. The repayment dates for the available overdraft facilities of PGE Group's key companies are in 2023-2024. The amount of overdraft limits remaining available was reduced by PLN 91 million (USD 18.5 million), i.e. by the amount of a letter of credit granted as security for the repayment of trade liabilities.

In the period ended on September 30, 2022 and after the reporting period no failures to make payment or other breaches of credit agreement terms were recorded.

Bonds issued

Issuer	Security instrument	Date maturity date	Program limit in currency	Currency	Interest rate	Tranche issue date	Tranche buy-back date	Liability at 30-09-2022	Liability at 31-12-2021
PGE S.A.	IRS	indefinite	5,000	PLN	Variable	2019-05-21	2029-05-21	1,028	1,003
						2019-05-21	2026-05-21	411	401
PGE Sweden AB (publ)	CCIRS	indefinite	2,000	EUR	Fixed	2014-08-01	2029-08-01	675	642
TOTAL OUTSTANDING BONDS								2,114	2,046

22.2 Trade and other financial liabilities

	At September 30, 2022		At December 31, 2021	
	Non-current	Current	Non-current	Current
Trade liabilities	-	2,060	-	1,608
Settlements related to transactions on exchange	-	366	-	1,663
Purchase of property, plant and equipment and intangible assets	1	759	7	909
Security deposits received	23	184	30	106
Insurance	-	10	-	-
Liabilities related to LTC	382	48	430	17
Other	125	520	50	298
TRADE AND OTHER FINANCIAL LIABILITIES	531	3,947	517	4,601

The item 'Other' includes PGE Dom Maklerski S.A.'s liabilities towards clients on account of funds deposited and deposits for treasuries transactions (currency forward and IRS).

23. Other non-financial liabilities

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

23.1 Other non-current non-financial liabilities

	As at September 30, 2022	As at December 31, 2021
OTHER NON-CURRENT LIABILITIES		
Liabilities related to a contract	144	132
Other	1	1
TOTAL OTHER NON-CURRENT LIABILITIES	145	133

23.2 Other current non-financial liabilities

	As at September 30, 2022	As at December 31, 2021 <i>restated data*</i>
OTHER CURRENT LIABILITIES		
VAT liabilities	609	564
Excise tax liabilities	12	27
Liabilities related to a contract	458	344
Environmental fees	188	240
Payroll liabilities	213	257
Bonuses for employees	321	278
Unused holidays and other employee benefits	202	101
Bonuses for the Management Board	15	17
Personal income tax	70	99
Liabilities from social insurances	228	255
Other	66	76
TOTAL OTHER CURRENT LIABILITIES	2,382	2,258

The item 'Other' largely includes liabilities related to contributions to the Employee Pensions Program, amounts withheld from employees' salaries and contributions to the State Fund for Rehabilitation of Disabled People.

Liabilities related to a contract

Contract liabilities mainly include advances for deliveries and prepayments by customers for connections to the distribution grid and electricity consumption forecasts for future periods.

OTHER EXPLANATORY NOTES

24. Contingent liabilities and receivables. Legal claims

24.1 Contingent liabilities

	As at September 30, 2022	As at December 31, 2021
Contingent return of grants from environmental funds	502	476
Liabilities related to bank guarantees and sureties securing exchange transactions	576	262
Usufruct of land	67	67
Legal claims and other liabilities	92	109
Total contingent liabilities	1,237	914

Contingent return of grants from environmental funds

The liabilities represent the value of possible future returns of funds received by PGE Group companies from environmental funds for selected investments. The funds will be returned if the investments for which they were granted do not achieve the expected environmental outcomes.

Bank guarantee liabilities

These liabilities represent bank guarantees provided as security for exchange transactions resulting from membership in the clearinghouse IRGiT.

Usufruct of land

Contingent liabilities pertaining to the usufruct of land are related to an update of annual fees for the usufruct of land. PGE GiEK S.A.'s branches have appealed the decisions in Local Appeals Courts. The contingent liability is measured as the difference between the discounted sum of the updated fees for usufruct of land throughout the entire period of the usufruct and the perpetual usufruct of land liability recognised in accounts based on previous fees.

Legal claims and other liabilities

Worley Parsons liability

In connection with the sale of shares in PGE EJ1 sp. z o.o. to the State Treasury in 2021 and in accordance with an agreement determining the responsibility of the former shareholders as regards the costs of a dispute with Worley Parsons, if the dispute is lost, PGE S.A. may be required to cover the cost of the dispute 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.

24.2 Other significant issues related to contingent liabilities

Contractual liabilities related to purchase of fuels

In accordance with fuel purchase agreements (mainly coal and gas), PGE Group is required to collect a minimum volume of fuel and to not exceed the maximum gas uptake levels in specific periods. Failure to uptake the contractual minimum volume of fuel may result in the necessity to pay fees (in case of gas fuel, volumes that have been paid for but not collected can be collected in the next three contractual years).

According to PGE Group, the terms of fuel delivery to its generating assets as described above do not diverge from the terms of delivery to other power stations in Poland.

Commitments to maintain fuel stocks

According to the applicable legislation, an energy enterprise producing electricity or heat is required to maintain fuel stocks in an amount sufficient to ensure continuity of supply of electricity or heat to consumers. In October 2021, the minimum hard coal stockpile was breached at all PGE GiEK S.A. generating units operating on hard coal (Opole Power Plant, Dolna Odra Power Plant, Rybnik Power Plant). By the end of 2021, hard coal stock levels were below the minimum volumes set for the month. The President of the Energy Regulatory Office positively considered the Branches' applications submitted in November 2021 and issued three separate administrative decisions extending the deadline for rebuilding hard coal stocks in the aforementioned Branches until February 28, 2022.

By the end of February 2022, at the Dolna Odra Power Plant and Rybnik Power Plant the coal stock was rebuilt and exceeded the minimum level indicated in the legislation, while at Opole Power Plant the required coal stock was not rebuilt by this deadline.

Pursuant to art. 56 sec. 1 point 2) of the Energy Law, a fine will be imposed on anyone who fails to comply with the obligation to maintain the fuel stocks, (...), or does not replenish them in time, (...). It should be noted that the mere fact of violating a prohibition or order provided for in the Energy Law results in the imposition of a penalty by the President of the Energy Regulatory Office. As the Opole Power Plant failed to rebuild the required coal reserves by February 28, 2022, the risk of the President of the Energy Regulatory Office imposing a penalty on PGE GiEK S.A. is high. Pursuant to art. 56 sec. 3 of the Energy Law, the penalty may not be lower than PLN 10 thousand and higher than 15% of the penalised enterprise's revenue generated in the previous tax year, and if the cash penalty is related to a concession activity, then the penalty may not be lower than PLN 10 thousand or higher than 15% of the penalised enterprise's revenue generated from the concession activity in the previous tax year.

Until the date on which these financial statements were prepared, no penalty was imposed on PGE GiEK S.A. for failure to meet the obligation to maintain and restore coal reserves at an appropriate level at Elektrownia Opole by the deadline set by the President of the Energy Regulatory Office (i.e. February 28, 2022). Taking into account the above mentioned reasons, independent from the Group, for not complying and not building the required minimum coal stocks within the designated timeframe, as well as the fact that PGE GiEK S.A. did not have any previous penalties on this account, which should be a premise for appropriate mitigation of the penalty, the Group estimates that the amount of the potential penalty should not be significant for the Group, therefore no provisions on this account were recognised in these financial statements.

Due to the continuing situation on the commodity markets and a number of factors beyond the Group's control, there were breaches of the minimum required stock levels at the Group's generating units in the first three quarters of the year.

24.3 Contingent receivables

As at the reporting date, the Group held PLN 120 million in contingent receivables (PLN 72 million in the comparative period) related to a potential refund of excess excise duty. The Group is waiting for a ruling by the Supreme Administrative Court on what excise duty rate should be applied in settling the excise duty relief related to the redemption of property rights created in renewable energy sources prior to January 1, 2019.

According to PGE Group, this relief should be settled using the rate applicable at the time the electricity generated from renewable sources is sold to the end customer, i.e. 20 PLN/MWh. This was confirmed in a ruling by the Voivodship Administrative Court in Rzeszów of October 8, 2019.

The tax authority issued a cassation appeal against this ruling by the Voivodship Administrative Court on November 20, 2019.

24.4 Other court cases and disputes

Termination by Enea S.A. of long-term energy origin rights sale contracts

In connection with the termination by Enea S.A. in 2016 of long-term agreements for the sale of property rights arising from certificates of origin of energy from renewable sources, PGE Group companies are in dispute with Enea S.A.

Justifying the termination, Enea S.A. claimed that the companies significantly breached the provisions of these contracts, i.e. failed to re-negotiate contractual provisions in accordance with the adaptive clause, as requested by Enea S.A. in July 2015 in connection with an alleged change in legal regulations having impact on performance of these contracts.

According to PGE Group, the notices terminating the contracts sent by Enea S.A. were submitted in breach of contractual obligations. The companies have taken their claims to court.

As a result of the willingness between the parties to hold settlement talks in an alternative dispute resolution, the court proceedings were suspended in 2020. In 2021, the parties to the disputes submitted them for conciliation by the General Prosecutor's Office of the Republic of Poland. In February 2022, the conciliation was concluded and the parties took steps to resume the litigation. In the course of 2022, the parties resumed conciliation and, at the concerted request of the parties, suspended the proceedings before the Courts. On September 12, 2022, a meeting took place between representatives of ENEA S.A. and PGE Group at the headquarters of the Court of Arbitration at the General Prosecutor's Office of the Republic of Poland. The conciliators outlined the disposition of the case, indicating that, in principle, the claims raised by PGE Group companies are valid and the position presented is supported by the law. Representatives of ENEA S.A. and PGE Group are currently negotiating in order to amicably end the dispute. A vast majority of the key issues have been resolved by the parties. The parties' intention is to reach agreement in 2022, however this will likely be performed in the first quarter of 2023.

Compensation for conversion of shares

Regardless of the above, on November 12, 2014 Socrates Investment S.A. (an entity that purchased claims from former PGE Górnictwo i Energetyka S.A. shareholders) filed a lawsuit seeking more than PLN 493 million in compensation (plus interest) for damages incurred in respect of incorrect (in their opinion) determination of the exchange ratio of shares in the merger of PGE Górnictwo i Energetyka S.A. and 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 underway. 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. No final opinion was issued by the court experts prior to the approval of these financial statements.

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 rejected. 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. As at the date of approval for publication of these consolidated financial statements, no further trial date had been set.

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 has not recognised a provision for this claim.

25. 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 have become independent CIT taxpayers again.

VAT split payment mechanism, requirement to make payments to accounts registered with tax authorities

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 of September 30, 2022, the cash balance in these VAT accounts totalled PLN 375 million.

Reporting of tax arrangements (MDR)

In 2019, new regulations introduced mandatory reporting of tax arrangements (Mandatory Disclosure Rules - MDR). In principle, a tax arrangement should be understood as any activity of which the main or one of the main benefits is the obtaining of a tax advantage. Moreover, tax arrangements include events that have general hallmarks or various specific hallmarks, as defined in regulations. Three types of entities are subject to the reporting obligation: promoter, supporter and beneficiary. MDR regulations are complex and imprecise in numerous areas, which gives rise to interpretation doubts as to their practical application.

Excise tax

In connection with an incorrect implementation of EU regulations in the Polish legal system, PGE GiEK S.A. in 2009 initiated proceedings regarding reimbursement of improperly paid excise tax for the period January 2006 - February 2009. The irregularity consisted of taxing electricity at the first stage of sale, i.e. by producers, whereas sales to end users should have been taxed.

Examining the company's complaints with regard to the restitution claims against decisions issued by tax authorities refusing to confirm overpayment of excise tax, administrative courts ruled that the company did not bear the economic burden of the improperly calculated excise tax (which in the context of the resolution by the Supreme Administrative Court of June 22, 2011, file no. I GPS 1/11, precludes the return of overpaid amounts). According to the Supreme Administrative Court, the claims that the company sought, especially using economic analyses, are of an offsetting nature and therefore may be sought only in civil courts. Given the above, PGE GiEK S.A. decided to withdraw from the proceedings as regards restitution claims. Activities concerning the excess excise tax are currently being conducted in civil courts. On January 10, 2020 the District Court in Warsaw issued a ruling in a case brought by PGE GiEK against the State Treasury - Minister of Finance. The court dismissed the case. On February 3, 2020 the company filed an appeal with the Court of Appeals in Warsaw against the first-instance ruling. The session was held on December 2, 2020, after which the Court of Appeals in Warsaw rejected PGE GiEK's appeal in a ruling dated December 17, 2020. On April 23, 2021, PGE GiEK S.A. submitted a cassation complaint to the Supreme Court. On May 20, 2021 PGE GiEK received a response from the general prosecutor's office regarding the company's cassation complaint.

Given the significant uncertainty over the final ruling in this issue, the Group does not recognise in its financial statements any effects related to potential compensation in civil courts in connection with the improperly paid excise tax.

Real estate tax

Real estate tax constitutes a considerable burden for certain PGE Group companies. Regulations on the real estate tax are unclear in some areas and give rise to a range of interpretation doubts. Tax authorities such as municipality head, city mayor or president, often issue inconsistent tax interpretations in substantively similar cases. This means that PGE Group companies were and can be parties in proceedings relating to real estate tax. If the Group concludes that an adjustment of settlements is probable as a result of such a proceeding, it creates an appropriate provision.

Uncertainty concerning tax settlements

Regulations concerning tax on goods and services, corporate income tax and burdens related to social insurance are subject to 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.

Tax settlements and other activity areas are conditioned by regulations (customs or currency controls) and can be subject to controls of respective authorities that are authorised to issue fines and penalties, and all additional tax liabilities resulting from such audits must be paid with high interest. This means that tax risk in Poland is higher than in countries with more stable tax systems.

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.

26. Information on related parties

PGE Group's transactions with related entities are concluded based on market prices for provided goods, products and services or are based on the cost of manufacturing.

26.1 Associates and jointly controlled entities

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

	Period ended September 30, 2022	Period ended September 30, 2021
Sales to associates and jointly controlled entities	22	127
Purchases from associates and jointly controlled entities	1,247	1,659

	As at September 30, 2022	As at December 31, 2021
Trade receivables from associates and jointly controlled entities	8	51
Trade liabilities to associates and jointly controlled entities	269	178

The value of this turnover and balances results from transactions with Polska Grupa Górnicza S.A., Przedsiębiorstwo Energetyki Ciepłej w Bogatyni S.A. and Polimex-Mostostal S.A.

Advances paid to associates (mainly Polska Grupa Górnicza S.A. and Polimex-Mostostal S.A.) are included in the amounts presented in note 18.1 Other non-current assets and in note 18.2 Other current assets.

26.2 State Treasury-controlled companies

The State Treasury is the dominant shareholder of PGE Polska Grupa Energetyczna S.A. and as a result in accordance with IAS 24 *Related Party Disclosures*, State Treasury companies are treated as related entities. PGE Group entities identify in detail transactions with approx. 40 of the biggest State Treasury subsidiaries.

The total value of transactions with such entities is presented in the table below:

	Period ended September 30, 2022	Period ended September 30, 2021
Sales to related parties	5,202	3,300
Purchases from related parties	6,770	4,695

	As at September 30, 2022	As at December 31, 2021*
Trade receivables from related parties	903	616
Trade liabilities to related parties	803	895

*Restated data

Largest transactions with the State Treasury's concern the following companies: Polskie Sieci Elektroenergetyczne S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A., Jastrzębska Spółka Węglowa S.A., PKO Bank Polski S.A., ENERGA-OPERATOR S.A., Zakłady Azotowe PUŁAWY S.A., PKP Cargo S.A., Grupa LOTOS S.A., Enea Wytwarzanie S.A., PKN Orlen S.A.

Moreover, PGE Group executes material transactions on the energy market via power exchange Towarowa Giełda Energii S.A. Due to the fact that this entity only manages exchange trading, purchases and sales transacted through this entity are not treated as transactions with related parties.

26.3 Management Board and Supervisory Board remuneration

The key management includes the Management Boards and Supervisory Boards of the parent company and significant Group entities.

PLN 000s	Period ended September 30, 2022	Period ended September 30, 2021
Short-term employee benefits (salaries and salary related costs)	28,440	26,315
Post-employment benefits	940	1,784
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	29,380	28,099
Remuneration of key management personnel of entities of non-core operations	16,268	18,970
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	45,648	47,069

PLN 000s	Period ended September 30, 2022	Period ended September 30, 2021
Management Board of the parent company	6,506	4,891
Supervisory Board of the parent company	596	622
Management Boards – subsidiaries	19,492	20,009
Supervisory Boards – subsidiaries	2,786	2,577
TOTAL	29,380	28,099
Remuneration of key management personnel of entities of non-core operations	16,268	18,970
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	45,648	47,069

PGE Group companies (direct and indirect subsidiaries) apply a rule whereby management board members are employed on the basis of management services contracts. The cost of this remuneration is presented, by nature and function, in note 7.2 other costs by nature.

27. Significant events during and after the reporting period

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

PGE is the largest energy group in Poland. The Group's units meet approx. 41% 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. The Crisis Team's work includes monitoring the security of electricity and heat generation and supply and the protection of critical 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 set up 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 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 in 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 CO₂ 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 Group'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 the international market,
- 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:

- CHP Gorzów and CHP 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 Gas Transmission System.
- CHP Toruń, CHP Zawidawie, CHP Lublin-Wrotków and CHP Rzeszów are supplied with high-methane gas (so-called gas E). Gas E taken from the National Gas 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 over the directions of supply and management of fuel transmission therefore the risk of possible disruptions lies with PGNiG S.A. (PGNiG) and the Transmission System Operator OGP Gaz - System S.A. (Gaz-System). PGE has established communication channels with PGNiG 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 CHP Zielona Góra, oil boilers serve as back-up for heat production.
- 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.

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 CO₂ 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 disrupted 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 (RES), 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 CO₂ 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 CO₂ 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 measurement of financial instruments may change.

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.

27.2 Planned disposal of coal assets to Narodowa Agencja Bezpieczeństwa Energetycznego S.A.

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. In connection with the indivisibility of lignite-based energy complexes, the acquired assets will also include lignite mines. 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. The assets may be carved out from the energy groups by:

- purchase of shares of each of the companies directly by the State Treasury and their consolidation within NABE - if this option is selected, consolidation within NABE will take place through their contribution to the capital increase at PGE GiEK,
- or through a conditional purchase of shares of these companies by PGE GiEK, on the condition that PGE GiEK S.A. shares are purchased by the State Treasury.

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 generating companies to their parent companies, accounting for the transactions will be subject to 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, a due-diligence process is in progress and the valuation of the companies subject to the spin-off has begun. According to public declarations from the government, the sale of assets to NABE is to be completed by the end of the first quarter of 2023.

The method of valuation and settlement of debt and other asset-related liabilities has not yet been determined. In connection with this, it is currently not possible to determine the impact of this carve out on the future financial statements of PGE S.A. and PGE Group.

27.3 Capital injection for PGE S.A. 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.

27.4 PGE Paliwa sp. z o.o.'s implementation of decisions relating to the purchase and sale of coal

On July 13 and August 8 2022, PGE Paliwa Sp. z o.o. received a decision from the Prime Minister recommending the purchase of at least 3 million tonnes of thermal coal with parameters similar to the quality parameters used by households and its import into the country by the end of April 2023. The company is in the process of implementing the decision.

The implementation of the decision will result in a temporary increase in PGE Group's cash requirements and a potential temporary increase in debt in connection with the settlement of coal purchase and resale transactions. In the current conditions, the company does not expect the implemented actions to have a material impact on PGE Group's consolidated financial result.

PGE Paliwa sp. z o.o. is designated in the Regulation of the Minister of State Assets of November 2, 2022 on the list of entities authorised to conduct sales of solid fuel to municipalities, as one of the six marketing entities authorised to conduct sales of solid fuel to municipalities for preferential purchase. In accordance with the provisions of the Act of October 27, 2022 on preferential purchase of solid fuel for households, the selling price of solid fuel may not be higher than PLN 1,500 gross. At the same time, the selling company is entitled to compensation equal to the product of the quantity of solid fuel and the difference between the justified average unit cost of solid fuel over that period and the average net selling price of solid fuel over that period, plus value added tax.

The company is in the process of implementing these sales.

27.5 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 solutions for electricity prices and electricity tariffs in 2023. The Act of October 7, 2022 on special measures for the protection of electricity consumers in 2023 due to the situation on the electricity market (hereinafter the "Household Act") entered into force on October 18, 2022, and the Act of October 27, 2022 on emergency measures to limit the level of electricity prices and support certain consumers in 2023 (hereinafter the "Emergency Measures Act") entered into force on November 4, 2022.

According to the Household Act, an energy company carrying out commercial activities in the field of electricity trading is required to apply to household customers prices equal to those contained in the tariff in force on January 1, 2022 for individual tariff groups up to specified consumption limits. Once the consumption limits dedicated to household customers have been exceeded, a maximum price of 693 PLN/MWh (price excluding VAT and excise duty) will be used for settlements with household customers in accordance with the Emergency Measures Act. This means that electricity prices have been set by law and, therefore, in 2023, tariffs approved by the URE President will not directly affect electricity prices for households.

Moreover, in accordance with the Emergency Measures Act, the maximum electricity price for other eligible customers has been set at 785 PLN/MWh (price excluding VAT and excise duty). As a rule, this price should be in effect from December 1, 2022 to December 31, 2023. The indicated limit of the maximum price for

eligible customers also applies to electricity sales contracts concluded or amended after February 23, 2022, for which the maximum price will also apply to settlements for the period from the date of conclusion or amendment of these contracts until November 30, 2022. Energy companies have been required to successively make refunds resulting from the application of capped prices by the end of 2023.

Electricity trading companies, in accordance with the introduced regulations, will be entitled to compensation for using electricity prices in their settlements with household customers at the same level as on January 1, 2022. The compensation will be the product of the electricity consumed at the point of consumption, up to the maximum consumption limits entitling customers to apply the 2022 prices to them, and the difference between the electricity price resulting from the electricity tariff approved by the President of the Energy Regulatory Office for 2023 and the electricity prices approved in the 2022 tariff. For the application of the maximum price of 693 PLN/MWh to household customers, trading companies will be entitled to compensation in the amount of the product of the volume of electricity consumed in a given month and the difference between the reference price and the capped price, for each energy point. The reference price will be the electricity price resulting from the electricity tariff approved by the President of the Energy Regulatory Office for 2023. Compensation will also be due for the use of capped prices in settlements with other eligible parties. In this case, as a rule, the reference price for compensation payments will be calculated on the basis of the price of electricity in exchange contracts and the price of electricity purchased for sale to an eligible customer, plus the cost of redemption of certificates of origin and a margin.

It is currently not possible to estimate the amount of future compensation for trading companies, as the tariff prices for 2023, which will affect the calculation of compensation, are not yet known. Nonetheless the mechanisms introduced in the Household Act and the Emergency Measures Act should in principle compensate trading companies for the price reduction.

From December 1, 2022 to December 31, 2023, PGE Group's financial position will also be affected by the provisions of the Emergency Measures Act, which provide for the obligation of electricity producers and power companies carrying out electricity trading activities to make monthly contributions to the Price Difference Payment Fund ("Fund"). The contribution to the Fund will be 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 Regulation of the Council of Ministers of November 8, 2022 on the manner of calculating the price cap.

A different way of calculating the price cap has been specified for individual generation sources:

- for lignite- and hard coal-fired generating units, the price cap takes into account, among other things, the unit cost of fuel consumed, the cost of CO₂ emission allowances, the efficiency of the generating units, the margin and a certain level of investment and fixed cost allowance of PLN 50/MWh.
- for units producing energy from renewable sources, the price cap is set in reference to a reference price, as referred to in art. 77 sec. 3 point 1 of the Act on Renewable Energy Sources, with the stipulation that for hydropower plants the price cap will be 40% of this preferential price.

For electricity trading companies:

- 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.

At the date of approval for publication of these financial statements, PGE Group's analysis of the impact of the Emergency Measures Act and the Regulation on the Group's future results is not complete.

II. PGE POLSKA GRUPA ENERGETYCZNA S.A. QUARTERLY FINANCIAL INFORMATION FOR THE 3- AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2022, IN ACCORDANCE WITH IFRS EU

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	3 months ended September 30 2022 <i>(unaudited)</i>	9 months ended September 30 2022 <i>(unaudited)</i>	3 months ended September 30, 2022 <i>(unaudited)</i>	9 months ended September 30, 2021 <i>(unaudited)</i>
STATEMENT OF PROFIT OR LOSS				
REVENUE FROM SALES	6,957	25,812	3,283	16,112
Cost of sales	(6,574)	(24,608)	(3,058)	(15,411)
GROSS PROFIT ON SALES	383	1,204	225	701
Distribution and selling expenses	(2)	(8)	(4)	(13)
General and administrative expenses	(76)	(208)	(40)	(138)
Other operating income / (expenses)	7	(58)	6	1
OPERATING PROFIT	312	930	187	551
Finance income / (costs), including	309	2,116	21	1,285
<i>Interest income calculated using the effective interest rate method</i>	<i>213</i>	<i>417</i>	<i>34</i>	<i>108</i>
GROSS PROFIT	621	3,046	208	1,836
Income tax	(109)	(256)	(110)	(137)
NET PROFIT FOR THE REPORTING PERIOD	512	2,790	98	1,699
OTHER COMPREHENSIVE INCOME				
Items that may be reclassified to profit or loss:				
Measurement of hedging instruments	(40)	341	105	304
Actuarial gains and losses from valuation of provisions for employee benefits	1	3	-	-
Deferred tax	7	(65)	(20)	(58)
Items that may not be reclassified to profit or loss:				
Actuarial gains and losses from valuation of provisions for employee benefits	-	-	2	3
Deferred tax	-	-	-	-
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET	(32)	279	87	249
TOTAL COMPREHENSIVE INCOME	480	3,069	185	1,948
NET PROFIT AND DILUTED NET PROFIT PER SHARE (IN PLN)	0.23	1.33	0.05	0.91

SEPARATE STATEMENT OF FINANCIAL POSITION

	As at September 30, 2022 <i>(unaudited)</i>	As at December 31, 2021 <i>(audited)</i>
NON-CURRENT ASSETS		
Property, plant and equipment	142	146
Right-of-use assets	23	20
Financial receivables	4,997	6,936
Derivatives and other assets measured at fair value through profit or loss	788	358
Shares in subsidiaries	29,448	29,370
Shares in subsidiaries, jointly controlled entities, associates and other	83	96
Other non-current assets	-	3
	35,481	36,929
CURRENT ASSETS		
Inventories	1	1
Income tax receivables	96	136
Trade and other receivables	12,481	19,637
Derivatives and other assets measured at fair value through profit or loss	1,908	2,254
Shares in subsidiaries	4	162
Other current assets	2,723	375
Cash and cash equivalents	9,531	5,316
	26,744	27,881
TOTAL ASSETS	62,225	64,810
EQUITY		
Share capital	19,184	19,165
Reserve capital	25,049	20,154
Hedging reserve	522	246
Retained earnings	2,796	1,737
	47,551	41,302
NON-CURRENT LIABILITIES		
Non-current provisions	11	13
Loans, borrowings, bonds and leases	5,467	7,084
Deferred income tax liability	203	34
Other liabilities	10	13
	5,691	7,144
CURRENT LIABILITIES		
Current provisions	40	40
Loans, borrowings, bonds, cash pooling, leases	5,993	3,164
Derivatives	1,630	2,278
Trade and other financial liabilities	1,018	10,238
Income tax liabilities	-	1
Other non-financial liabilities	302	643
	8,983	16,364
TOTAL LIABILITIES	14,674	23,508
TOTAL EQUITY AND LIABILITIES	62,225	64,810

SEPARATE STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserve capital	Hedging reserve	Retained earnings	Total equity
AS AT JANUARY 1, 2022	19,165	20,154	246	1,737	41,302
Net profit for the reporting period	-	-	-	2,790	2,790
Other comprehensive income	-	-	276	3	279
COMPREHENSIVE INCOME FOR THE PERIOD	-	-	276	2,793	3,069
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 SEPTEMBER 30, 2022	19,184	25,049	522	2,796	47,551

	Share capital	Reserve capital	Hedging reserve	Retained earnings	Total equity
AS AT JANUARY 1, 2021	19,165	18,410	(288)	1,742	39,029
Net profit for the reporting period	-	-	-	1,699	1,699
Other comprehensive income	-	-	247	2	249
COMPREHENSIVE INCOME FOR THE PERIOD	-	-	247	1,701	1,948
Allocation of profit from previous years	-	1,744	-	(1,744)	-
AS AT SEPTEMBER 30, 2021	19,165	20,154	(41)	1,699	40,977

SEPARATE STATEMENT OF CASH FLOWS

	Period ended September 30, 2022 <i>(unaudited)</i>	Period ended September 30, 2021 <i>(unaudited)</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Gross profit	3,046	1,836
Income tax paid	(140)	(451)
Adjustments for:		
Depreciation, amortisation and impairment losses	9	9
Interest and dividend, net	(1,891)	(1,359)
(Gain) / loss on investing activities	(324)	74
Change in receivables	6,826	(941)
Change in inventories	-	-
Change in liabilities, excluding loans and borrowings	(9,494)	1,914
Change in other non-financial assets	(1,224)	(64)
Change in provisions	-	(19)
Exchange differences	(14)	1
NET CASH FROM OPERATING ACTIVITIES	(3,206)	1,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	(5)	(2)
Buyback of bonds issued by PGE Group companies	3,550	-
Dividends received	473	7
Sale of other financial assets	117	384
Expenditure on purchase of shares in subsidiaries	(87)	(122)
Origination / (repayment) of loans granted under cash pooling agreement	2,697	1,254
Loans granted	(13,798)	(7,336)
Interest received	402	279
Loans repaid	12,704	9,227
NET CASH FROM INVESTING ACTIVITIES	6,053	3,691
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	3,197	-
Proceeds from loans, borrowings	2,234	-
Repayment of loans, borrowings, leases	(3,777)	(851)
Interest paid	(283)	(226)
Other	(17)	-
NET CASH FROM FINANCING ACTIVITIES	1,354	(1,077)
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,201	3,614
Net exchange differences	14	(1)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	5,317	3,493
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	9,518	7,107

1. Changes in accounting principles and data presentation

In the present period, the Company did not change accounting rules or data presentation.

New standards and interpretations that went into force on January 1, 2022 and had no impact on the Company's separate financial statements are described in note 4 to the consolidated financial statements.

III. APPROVAL OF QUARTERLY FINANCIAL REPORT

This financial report, containing PGE Group's consolidated interim financial statements and PGE S.A.'s quarterly financial information for the 3- and 9-month period ended September 30, 2022, was approved for publication by the Management Board on November 22, 2022.

Warsaw, November 22, 2022

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 Wasilek**

Signature of person responsible for drafting these financial statements Michał Skiba
Director, Reporting and Tax Department

GLOSSARY OF TERMS AND ABBREVIATIONS

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

Abbreviation	Full term
CCIRS	Cross Currency Interest Rate Swap
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
EWB2	Elektrownia Wiatrowa Baltica – 2 sp. z o.o o
EWB3	Elektrownia Wiatrowa Baltica – 3 sp. z o.o o
EUA	European Union Allowances
FID	Final Investment Decision
GAAR	General Anti-Abuse Rule
PGE Group, Group	PGE Polska Grupa Energetyczna S.A. Group
IRGIT	Izba Rozliczeniowa Giełd Towarowych S.A.
IRS	Interest Rate Swap
LTC	Long-term capacity and electricity sale contracts
KOGENERACJA S.A.	Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A.
IFRS	International Financial Reporting Standards
IFRS EU	International Financial Reporting Standards approved by the European Union
NABE	Narodowa Agencja Bezpieczeństwa Energetycznego S.A.
NFOŚiGW	National Fund for Environmental Protection and Water Management
Investment property	Investment property
RES	Renewable energy sources
BCP	Business Continuity Plan
Right-of-use assets	Right-of-use assets
PGE S.A., PGE, 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.
PGG	Polska Grupa Górnicza S.A.
PGE PGK	PGE's tax group
Property, plant and equipment	Property, plant and equipment
Financial statements, consolidated financial statements	PGE Group's consolidated financial statements
WFOŚiGW	Voivodship Fund for Environmental Protection and Water Management
Intangible assets	Intangible assets
Social Fund	Social Fund