Consolidated financial statements for the year ended 31 December 2023 prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union

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Consolidated financial statements for the year ended 31 December 2023 (PLN m)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Year ended 31 December 2023	Year ended 31 December 2022
Sales revenue	**10**	**22,081**	**20,095**
Revenue from the Price Difference Payout Fund		**4,006**	**349**
Cost of sales	**11.1**	(21,876)	(17,798)
Gross profit on sales		**4,211**	**2,646**
Other operating income	**11.4**	498	945
Selling and distribution expenses	**11.1**	(2,034)	(983)
General and administrative expenses	**11.1**	(506)	(397)
Other operating expenses	**11.5**	(477)	(844)
Financial income	**11.6**	117	168
Finance expenses	**11.7**	(720)	(429)
Share in profit (loss) of entities measured using the equity method		9	71
Profit/(loss) before tax		**1,098**	**1,177**
Income taxes	**12**	(492)	(168)
Net profit/(loss) for the period		**606**	**1,009**
Attributable to:			
Equity holders of the parent company		617	967
Non-controlling interests		(11)	42
Earnings or loss per share (in PLN)	**22**		
- basic		**1.49**	**2.34**
- diluted		**1.49**	**2.34**

Consolidated financial statements for the year ended 31 December 2023 (PLN m)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2023	Year ended 31 December 2022
Net profit or loss for the period		**606**	**1,009**
Items that will never be reclassified to profit or loss		***(15)***	***33***
Actuarial gains and losses on defined benefit plans	**24.1**	(19)	40
Deferred income tax		4	(7)
Items that may subsequently be reclassified to profit or loss		**(71)**	**(31)**
Foreign exchange differences from translation of foreign entities		(7)	1
Cash flow hedges	**29.6**	(79)	(40)
Deferred income tax		15	8
Share in other comprehensive income of entities measured using the equity method		**1**	**-**
Net other comprehensive income		**(85)**	**2**
Total comprehensive income		**521**	**1,011**
Attributable to:			
Equity holders of the parent company		533	969
Non-controlling interests		(12)	42

Consolidated financial statements for the year ended 31 December 2023 (PLN m)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2023	As at 31 December 2022
ASSETS			
Non-current assets			
Property, plant and equipment	**13**	20,513	17,386
Intangible assets	**14**	985	1,487
Right-of-use assets	**15**	1,152	1,050
Investments in associates and joint ventures measured using the equity method	**16**	163	153
Deferred tax assets	**12.3**	232	418
Other non-current financial assets	**29.1**	32	190
Other non-current assets	**20.1**	252	702
		23,329	**21,386**
Current assets			
Inventories	**17**	409	346
Income tax receivables		372	399
Trade receivables	**29.4.1**	5,135	3,271
Other current financial assets	**29.1**	1,276	210
Cash and cash equivalents	**19**	521	1,100
Other current assets	**20.2**	637	478
		8,350	**5,804**
Assets classified as held for sale	**28**	-	58
TOTAL ASSETS		**31,679**	**27,248**

31 December 2023 (PLN m)

	Note	As at 31 December 2023	As at 31 December 2022
EQUITY AND LIABILITIES			
Equity			
Share capital	**21.1**	4,522	4,522
Foreign exchange differences from translation of a foreign entity		(1)	6
Reserve capital	**21.4**	1,031	1,031
Supplementary capital	**21.5**	1,711	1,661
Cash flow hedge reserve	**21.6, 29.6**	(9)	55
Retained earnings	**21.7**	4,260	3,706
Equity attributable to owners of the parent company		**11,514**	**10,981**
Non-controlling interest	**21.8**	**928**	**559**
		12,442	**11,540**
Non-current liabilities			
Loans and borrowings	**29.4.2**	1,543	1,531
Bonds issued	**29.4.2**	1,811	1,965
Non-current provisions	**24**	644	696
Deferred tax liability	**12.3**	975	931
Deferred income and non-current grants	**26**	378	326
Lease liabilities	**34**	903	817
Other non-current financial liabilities	**25.1, 29.1**	37	5
Contract liabilities	**29.1**	7	9
		6,298	**6,280**
Current liabilities			
Trade liabilities	**29.1**	1,593	2,388
Contract liabilities	**29.1**	691	314
Current part of loans and borrowings	**29.4.2**	2,551	2,537
Bonds issued	**29.4.2**	39	609
Current income tax liability		5	3
Deferred income and grants	**26**	218	202
Current provisions	**24**	2,091	2,496
Other financial liabilities	**29.1**	5,324	609
Other current liabilities	**25.2**	427	245
		12,939	**9,403**
Liabilities directly related to assets classified as held for sale	**28**	-	25
Total liabilities		**19,237**	**15,708**
TOTAL EQUITY AND LIABILITIES		**31,679**	**27,248**

Consolidated financial statements for the year ended 31 December 2023 (PLN m)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Equity attributable to owners of the parent company							Non-controlling interest	Total equity
		Share capital	Foreign exchange differences from translation of a foreign entity	Reserve capital	Supplementary capital	Cash flow hedge reserve	Retained earnings	Total		
As at 1 January 2023		**4,522**	**6**	**1,031**	**1,661**	**55**	**3,706**	**10,981**	**559**	**11,540**
Net other comprehensive income	**21.7**	-	(7)	-	-	(64)	(13)	**(84)**	(1)	**(85)**
Net profit for the period		-	-	-	-	-	617	**617**	(11)	**606**
Total comprehensive income for the period		**-**	**(7)**	**-**	**-**	**(64)**	**604**	**533**	**(12)**	**521**
Distribution of profits/coverage of losses from previous years		**-**	**-**	-	50	**-**	(50)	**-**	**-**	**-**
Change in ownership structure		-	-	-	-	-	-	**-**	381	**381**
As at 31 December 2023		**4,522**	**(1)**	**1,031**	**1,711**	**(9)**	**4,260**	**11,514**	**928**	**12,442**
As at 1 January 2022		**4,522**	**5**	**821**	**1,661**	**87**	**2,912**	**10,008**	**(66)**	**9,942**
Net other comprehensive income	**21.7**	-	1	-	-	(32)	33	**2**	-	**2**
Net profit for the period		-	-	-	-	-	967	**967**	42	**1,009**
Total comprehensive income for the period		**-**	**1**	**-**	**-**	**(32)**	**1,000**	**969**	**42**	**1,011**
Distribution of profits/coverage of losses from previous years		-	-	210	-	-	(210)	**-**	-	**-**
Change in ownership structure		-	-	-	-	-	4	**4**	**583**	**587**
As at 31 December 2022		**4,522**	**6**	**1,031**	**1,661**	**55**	**3,706**	**10,981**	**559**	**11,540**

Consolidated financial statements for the year ended 31 December 2023 (PLN m)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2023	Year ended 31 December 2022
Cash flows from operating activities			
Profit/(loss) before tax		**1,098**	**1,177**
Adjustments for:			
Share in (profit)/loss of the entities measured using the equity method		(9)	(71)
(Profit)/Loss on foreign exchange		58	(3)
Amortization and depreciation		1,194	1,134
Net interest and dividends		508	306
(Profit)/ loss on investing activities	**31**	(9)	(272)
Change in provisions	**31**	565	2,640
Change in contract liabilities		370	24
Other adjustments	**31**	(27)	(116)
Changes in working capital:			
Change in current receivables and current prepaid expenses and accrued income	**31**	(1,805)	(1,408)
Change in inventories		(94)	(235)
Change in current liabilities, excluding loans and borrowings and current accrued expenses and deferred income	**31**	(608)	1,449
		1,241	**4,625**
Income tax paid		**(210)**	**(638)**
Net cash from operating activities		**1,031**	**3,987**
Cash flows from investing activities			
Disposal of property, plant and equipment and intangible assets and investments into investment property		10	4
Purchase of property, plant and equipment and intangible assets	**31**	(4,342)	(4,992)
Net cash flow from cash pooling		(1,153)	-
Advances for acquisition of shares in subsidiaries		(140)	-
Other cash flows from financial assets		85	126
Disposal of subsidiary		14	-
Interest received		35	-
Net cash flows from loans		42	-
Other		3	33
Net cash from investing activities		**(5,446)**	**(4,829)**
Cash flows from financing activities			
Net inflows from the issue of shares and other equity instruments and equity contributions		382	586
Proceeds from debt incurred	**29.4.2**	3,508	3,980
Repayment of debt incurred	**29.4.2**	(3,440)	(2,606)
Net cash flow from cash pooling		4,655	-
Redemption of debt securities		(578)	-
Repayment of lease liabilities	**29.4.2**	(70)	(71)
Grants received		72	43
Interest paid	**29.4.2**	(621)	(321)
Other		(36)	(14)
Net cash from/(used in) financing activities		**3,872**	**1,597**
Net increase/(decrease) in cash and cash equivalents		**(543)**	**755**

Accounting policies and notes to the consolidated financial statements are an integral part thereof

(This is translation of the consolidated financial statements originally issued in Polish)

Consolidated financial statements for the year ended 31 December 2023 (PLN m)

	Note	Year ended 31 December 2023	Year ended 31 December 2022
Cash and cash equivalents at the beginning of the period		**1,100**	**340**
Change in cash due to exchange rate differences		*(38)*	*5*
Change in cash classified as held for sale		*2*	*-*
Cash and cash equivalents at the end of the period		**521**	**1,100**
including restricted cash		*252*	*271*

Consolidated financial statements for the year ended 31 December 2023 (PLN m)

ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

1. General information

The Energa SA Group (the "Group") consists of **Energa Spółka Akcyjna** (the "parent company", the "Company") and its subsidiaries (see Note 2).

Name of the parent company: Energa SA
Legal form: joint stock company
Country of establishment: Republic of Poland
Registered office: Gdańsk
Address: al. Grunwaldzka 472, 80-309 Gdańsk
KRS: 0000271591
REGON: 220353024
NIP: 957-095-77-22
The parent company has been established for an indefinite time.
The entity's name or other identifying details have not changed since the end of the previous reporting period.
The consolidated financial statements of the Group are for the year ended 31 December 2023 and contain the relevant comparative data.

The core business of the Group is:

- distribution and sale of electricity and heat;
- production of electricity and heat; and
- trading in electricity.

As at 31 December 2023, the Company and the Energa SA Group are controlled by the ultimate parent, ORLEN S.A. (formerly PKN ORLEN S.A.).

2. Composition of the Group and joint ventures and associates

2.1. Composition of the Group at the end of the reporting period

As at 31 December 2023, the Group consists of Energa SA and the following subsidiaries:

No	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				31 December 2023	31 December 2022
Distribution Business Line (Segment)					
1	Energa-Operator SA	Gdańsk	distribution of electricity	100	100
2	Energa Operator Wykonawstwo Elektroenergetyczne Sp. z o.o.	Słupsk	contracting and design	100	100
Sales Business Line (Segment)					
3	Energa-Obrót SA	Gdańsk	trading in electricity	100	100
4	Energa Oświetlenie Sp. z o.o.	Sopot	lighting services	100	100
5	Energa SLOVAKIA s.r.o. in liquidation	Bratislava	trading in electricity	100	100
6	Enspirion Sp. z o.o.	Gdańsk	organization and management of development of innovative power projects	100	100
Generation Business Line (Segment)					
7	Energa Wytwarzanie SA	Gdańsk	production of energy	100	100
8	Energa Elektrownie Ostrołęka SA	Ostrołęka	production of energy	89.64	89.64
9	Energa Kogeneracja Sp. z o.o.	Elbląg	production of energy	100	100

Consolidated financial statements for the year ended 31 December 2023 (PLN m)

No	Company name	Registered office	Line of business	% held by the Group in share capital as at 31 December 2023	31 December 2022
10	Energa Ciepło Ostrołęka Sp. z o.o.	Ostrołęka	distribution of heat	100	100
11	Energa Serwis Sp. z o.o.	Ostrołęka	repairs and maintenance services	89.64	89.64
12	Energa Ciepło Kaliskie Sp. z o.o.	Kalisz	distribution of heat	91.24	91.24
13	Energa MFW 1 Sp. z o.o.	Gdańsk	production of energy	100	100
14	Energa MFW 1 Sp. z o.o.	Gdańsk	production of energy	100	100
15	Energa Wind Service Sp. z o.o.*	Gdańsk	holdings and management of companies and enterprises	100	100
16	ECARB Sp. z o.o.	Gdańsk	financing activity	89.64	89.64
Other Business Line					
17	Energa Finance AB (publ)	Stockholm	financing activity	100	100
18	Energa Informatyka i Technologie Sp. z o.o.	Gdańsk	information and communication technologies	100	100
19	Energa Logistyka Sp. z o.o.	Płock	logistics and supply	100	100
20	Energa Invest Sp. z o.o.	Gdańsk	investment project management	-	100
21	Centrum Badawczo-Rozwojowe im. M. Faradaya Sp. z o.o.	Gdańsk	development activity in engineering	100	100
22	CCGT Ostrołęka Sp. z o.o.	Ostrołęka	production of energy	50	50
23	CCGT Grudziądz Sp. z o.o.	Grudziądz	production of energy	100	100
24	CCGT Gdańsk Sp. z o.o.	Gdańsk	production of energy	100	100
25	Energa Green Development Sp. z o.o.	Gdańsk	Implementation of investment projects	100	100
26	Energa Prowis Sp. z o.o.	Gdańsk	implementation of investment projects	100	-

* as of 15 September 2023, formerly LBW 1 Sp. z o.o.

Additionally, as at 31 December 2023, the Group held shares in the joint venture Polska Elektrownia Ostrołęka Sp. z o.o. (formerly Elektrownia Ostrołęka SA) and in the associate Polimex-Mostostal S.A. ("Polimex") (see description in Note 2.2).

2.2. Changes in the composition of the Group and in the investments in joint ventures and associates in the reporting period

2.2.1. Polimex-Mostostal

On 18 January 2017, the Management Board of Energa S.A. along with Enea S.A., PGE S.A. and PGNiG Technologie S.A. ("Investors") and Polimex-Mostostal SA signed an investment agreement ("Investment Agreement") under which the Investors undertook to make an equity investment in Polimex. Energa SA holds approx. 39 million shares of the nominal value of PLN 2 each, which translates into a 16.22% stake in Polimex.

The stake in Polimex was classified as an associate accounted for using the equity method. The Investors' Committee, established under the Investment Agreement and composed of all Investors, exerts significant influence on the investment through its role in financial and operational policy-making and determining the composition of Polimex governing bodies.

Polimex is an engineering and construction company with its registered office in Warsaw, listed on the Warsaw Stock Exchange. The value of Energa SA's holding according to the daily exchange rate as at 31 December 2023 is PLN 164 m.

The investments in the consolidated financial statements amount to PLN 163 m as at 31 December 2023.

2.2.2. Ostrołęka Power Plant

Elektrownia Ostrołęka Sp. z o.o. is a special purpose vehicle under the joint control of Energa SA and Enea S.A. The company was established for the purpose of implementation of the project of construction of a power generating unit in Ostrołęka ("Coal Project").

Following analyses, the implementation of the Coal Project was halted on 2 June 2020. The project was resumed as a gas-fired plant, with CCGT Ostrołęka Sp. z o.o. as the SPV for implementation purposes. The Final settlement of the Coal Project with the General Contractor (GE Power Sp. z o.o. and GE Steam Power Systems S.A.S.) took place on 31 March 2022. The costs incurred by Energa SA in connection with settlement of the work carried out by the General Contractor accounted for 50% of the total amount settled, i.e. PLN 479 m net (the same amount was allocated to Enea S.A.).

The investment was classified as a joint venture and is recognized using the equity method.

Elektrownia Ostrołęka Sp. z o.o is a privately held company and, therefore, there are no market quotes for its share prices.

As at 31 December 2023, the value of investment in Elektrownia Ostrołęka Sp. z o.o. in the consolidated financial statements amounted to zero.

3. Composition of the parent company's Management Board

During 2023 and 2024 until the date of these consolidated financial statements, the composition of the Management Board of Energa SA has been as follows:

1) from 1 September 2022 until 16 February 2023:
- Zofia Paryła – President of the Management Board;
- Michał Perlik – Vice-President of the Management Board for Finance;
- Adrianna Sikorska – Vice-President of the Management Board for Communication;
- Janusz Szurski – Vice-President of the Management Board for Corporate Matters;
- Dominik Wadecki – Vice-President of the Management Board for Operations;

2) from 16 February 2023 until 27 March 2023:
- Zofia Paryła – President of the Management Board;
- Michał Perlik – Vice-President of the Management Board for Finance;
- Adrianna Sikorska – Vice-President of the Management Board for Communication;
- Janusz Szurski – Vice-President of the Management Board for Corporate Matters;

3) from 27 March 2023 until 31 January 2024:
- Zofia Paryła – President of the Management Board;
- Michał Perlik – Vice-President of the Management Board for Finance and Climate;
- Adrianna Sikorska – Vice-President of the Management Board for Communication;
- Janusz Szurski – Vice-President of the Management Board for Corporate Matters;

4) in the period from 31 January 2024 to 25 March 2024:
- Zofia Paryła – President of the Management Board;
- Michał Perlik – Vice-President of the Management Board for Finance and Climate;
- Janusz Szurski – Vice-President of the Management Board for Corporate Matters;

5) from 25 March 2024 to 20 April 2024:
- Michał Perlik – Acting President of the Management Board, Vice-President of the Management Board for Finance and Climate;

6) from 20 April 2024 to the date of these financial statements:
- Michał Perlik – Acting President of the Management Board, Vice-President of the Management Board for Finance and Climate;
- Sławomir Staszak – Vice-President of the Management Board;
- Roman Szyszko – Vice-President of the Management Board.

4. Approval of the financial statements

These consolidated financial statements were approved for publication on 23 April 2024.

5. Basis of preparation of financial statements

These consolidated financial statements have been prepared on the historical cost basis except for financial instruments measured at fair value through profit or loss and hedging derivatives.

These consolidated financial statements are presented in millions of zloty ("PLN m") unless stated otherwise.

These consolidated financial statements have been prepared based on the assumption that the Group would continue as a going concern in the foreseeable future.

5.1. Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) endorsed by the European Union (IFRS EU).

IFRSs include standards and interpretations approved by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC).

The Management Board of the Parent Company used its best knowledge in the application of standards and interpretations as well as measurement methods and principles for the individual items of the consolidated financial statements of the Energa SA Group in accordance with IFRS EU as at 31 December 2023. Due diligence was applied in the preparation of the accompanying supplementary information and notes.

The financial statements were prepared in the European Single Electronic Format (ESEF) in compliance with Regulation 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format.

5.2. Functional and presentation currency

The functional currency of the Parent Company and other Polish companies covered by these consolidated financial statements and the presentation currency of these consolidated financial statements is the Polish zloty. For Energa Slovakia s.r.o. and Energa Finance AB (publ), the functional currency of their individual financial statements is euro. For the purpose of these financial statements, the underlying accounts of the above-mentioned companies have been translated into Polish zlotys using the method described in Note 9.5.

6. Material items subject to professional judgment and estimates

In the process of applying accounting policies to the areas enumerated below, the management's professional judgement, in addition to the accounting estimates, which impacted the amounts presented in the consolidated financial statements and the notes thereto, was of key importance. The assumptions used in making these estimates are based on management's best knowledge of current and future activities and events in specific areas. Detailed information on the adopted assumptions has been presented in the relevant notes in these consolidated financial statements.
The key assumptions for the future and other main sources of uncertainty occurring as at the end of the reporting period, which entail a significant risk of considerable adjustment of the carrying amount of assets and liabilities in the next financial year, are discussed below.

Impairment of property, plant and equipment, intangible assets and goodwill

The Group assesses whether there are any indications of impairment of Cash Generating Units (CGU) and individual assets.

This analysis covers external factors, including technological, market, economic or legal changes in the environment in which we conduct our business or on the markets where we use the Group's assets to serve our clients, as well as internal factors associated with the physical condition of property, plant and equipment components and changes in the way they are used. If we find any such indications, we carry out asset impairment tests following the rules described in Note 9.10. Information on the conducted impairment tests is presented in Note 13.

Measurement of provisions

Provisions for employee benefits (provision for retirement and disability benefits, death gratuities, long service bonuses, employee energy tariff, additional allowances for the Company Social Benefit Fund due to employees of Group companies after the period of employment) are estimated using actuarial methods.

Other provisions are measured according to the best estimate of the expenditures necessary to fulfill the existing duties. If the time value of money is relevant, then the provision is equal to the present value of the expenditures expected to be necessary to fulfill this duty.

Detailed information about the accepted assumptions and provisions recognized are presented in Note 24.

Depreciation rates

Depreciation rates and charges are determined on the basis of the anticipated useful life of a property, plant and equipment component or intangible assets and estimates regarding their residual value. Every year, Group companies revise the adopted periods of useful life, based on the current estimates.

Energy price paths

An important element of the estimation of value in use of cash-generating units performed by the Group are energy price paths developed by independent industry experts, and in the case of estimates of provisions for post-employment benefits in the form of employee energy tariffs – energy price paths developed internally based on long-term models created on the basis of studies made by independent industry experts.

Electricity price paths, coal and natural gas prices, prices of certificates of origin and prices of carbon emission allowances used in the Energa Group are taken from the report "Long-Term Electricity Price Forecasts for the Polish Electricity System for 2022–2050".

Deferred tax asset

Deferred tax assets are measured using the tax rates that will be applied at the moment when the asset is utilized, based on the tax regulations in force on the day ending the reporting period. The Group recognizes a deferred tax asset based on the assumption that tax profit would be recorded in the future, allowing the Group to use the asset. This assumption may prove to be unjustified if tax results deteriorate in the future. Details on the deferred tax assets are provided in Note 12.3.

Fair value of financial instruments

The fair value of financial instruments, for which no active markets exist, is measured using appropriate valuation techniques. The Group applies professional judgment to the selection of such appropriate methods and assumptions. The method used to determine fair value of individual financial instruments is presented in Note 29.3.

Estimation of revenues on sales of electricity and distribution services

Meter readings of electricity sold to retail customers are made predominantly in the periods different from the reporting periods. Therefore, the entities comprising the Group make estimations of electricity and distribution services sold as at every last day of the reporting period, for the period not covered by meter readings. The estimate is calculated in billing systems based on the average 24-hour consumption of electricity from the date of the last actual reading to the balance date.

Impairment losses on receivables

Impairment losses on receivables are charged in conjunction with the past due period of receivables based on ratios estimated using historical data on the repayment of receivables and recoveries from counterparties. The Group incorporates forward-looking information into the parameters used in the expected loss estimation model through a management adjustment of the underlying default probability ratios.

In the case of impairment losses on trade and other receivables, the Group may carry out an individual assessment of the level of credit risk based on reasonable, documented and available information and make an individual business decision on the level of impairment loss for the customer being assessed.

Expected credit loss allowances are recognized and reversed under the (impairment)/reversal of impairment on trade receivables line of other income/expenses for principal receivables and under the (impairment)/reversal of impairment on financial instruments line of the financial income/expenses for interest on overdue payments.

The amounts of impairment losses on receivables are provided in Note 29.4.1.

7. Changes in estimates

During the current reporting period, no changes were made in the scope or methods used in determining significant estimates.

8. New standards and interpretations

No new standards and interpretations were introduced in the reporting period that would have a material impact on the Group's Accounting Policy and consolidated financial statements.

8.1. Amendments to International Financial Reporting Standards (IFRS)

The following amendments to existing standards issued by the International Accounting Standards Board (IASB) and approved for use in the EU are applicable for the first time to the Group's 2023 financial statements:

- **IFRS 17 Insurance Contracts** – with later amendments to IFRS 17 issued by the IASB on 25 June 2020, endorsed by the EU on 19 November 2021 (effective for annual periods beginning on or after 1 January 2023);
- **Amendments to IFRS 17 Insurance Contracts** – Initial Application of IFRS 17 and IFRS 9 – Comparative Information endorsed by the EU on 8 September 2022 (effective for annual periods beginning on or after 1 January 2023);
- **Amendments to IAS 1 Presentation of Financial Statements** – Disclosure of Accounting Policies, endorsed by the EU on 2 March 2022 (effective for annual periods beginning on or after 1 January 2023);
- **Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors** – Definition of Accounting Estimates endorsed by the EU on 2 March 2022 (effective for annual periods beginning on or after 1 January 2023);
- **Amendments to IAS 12 Income Taxes –** Deferred Tax related to Assets and Liabilities arising from a Single Transaction endorsed by the EU on 11 August 2022 (effective for annual periods beginning on or after 1 January 2023);
- **Amendments to IAS 12 Income Taxes** – International Tax Reform – Pillar Two Model Rules endorsed by the EU on 8 November 2023 (effective for annual periods beginning on or after 1 January 2023).

The aforementioned amendments to the existing standards did not have a material effect on the Group's consolidated financial statements for 2023.

8.2. Standards and interpretations adopted by the IASB and endorsed by the EU but not yet applicable

- **Amendments to IAS 1 Presentation of Financial Statements** – Classification of Liabilities as Current or Non-current, endorsed by the EU on 19 December 2023 (effective for annual periods beginning on or after 1 January 2024);
- **Amendments to IAS 1** Presentation of Financial Statements – Non-current Liabilities with Covenants, endorsed by the EU on 19 December 2023 (effective for annual periods beginning on or after 1 January 2024);
- **Amendments to IFRS 16 Leases** – Lease Liability in a Sale and Leaseback endorsed by the EU on 20 November 2023 (effective for annual periods beginning on or after 1 January 2024).

8.3. Standards and interpretations adopted by the IASB and pending endorsement by the EU

- **Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures** – Supplier Finance Arrangements (effective for annual periods beginning on or after 1 January 2024);
- **Amendments to IAS 21 – The Effects of Changes in Foreign Exchange Rates** – Lack of Exchangeability (effective for annual periods beginning on or after 1 January 2025);

According to the Group's estimates, the aforementioned new standards and amendments to existing standards would not have a material impact on the consolidated financial statements if applied by the Group as at the reporting date.

9. Significant accounting policies

The Group's accounting policies are applied on a continuous basis, except for the changes to EU IFRS.

9.1. Principles of consolidation

These consolidated financial statements include the financial statements of Energa SA and financial data of its subsidiaries prepared in each company for the year ended 31 December 2023.

Subsidiaries are consolidated in the period from the date the Group took control over them and they cease to be consolidated on the date such control ceases. Control is exercised by the Parent Company when, because of its investment, it is subject to exposure to varying returns, or if it holds rights to the variable returns and can also influence those returns by effecting control over the subsidiary.

The Group also considers whether to treat the part of the entity where the investment was made as a separate entity. If the Group controls the recognized separate entity then it consolidates the part of the entity where the investment was made.

The Group settles transactions of taking control over subsidiaries undertakings by using the purchase method. A payment transferred within the framework of the transaction is determined as the fair value of transferred assets, accepted obligations towards previous owners of the entity being acquired and equities issued by the acquiring entity.

The identifiable assets and liabilities of the acquiree are measured as at the acquisition date at fair value. Non-controlling interest in an acquiree is recognized as the proportionate share (corresponding to non-controlling interest) of identifiable, recognized net assets of the acquiree. Goodwill from the acquisition of a business is initially recognized at purchase price constituting the surplus of the price paid for shares in the acquired business plus the value of non-controlling interest, over the net fair value of identifiable assets, liabilities and contingent liabilities.

The costs related to the purchase of a subsidiary entity are recognized as an expense in the period in which they are incurred.

Unrealized profits from transactions concluded within the Group are eliminated in their entirety. Unrealized losses are ignored, unless they constitute a proof of impairment.

Changes in the Group's interest in an investee which do not result in the Group obtaining or losing control thereof are accounted for through equity as transactions between owners.

9.2. Business combinations of entities under common control

Business combinations of entities under common control are settled by adding up the various line items of the relevant assets and liabilities as well as the revenues and expenses of the merged companies, after first converting their values using uniform measurement methods and making the relevant exclusions. In the case of the acquired company, individual balance sheet and profit and loss items included in the financial statements of that company are added up in the amounts presented in the Group's consolidated financial statements. The share capital of the company whose assets are transferred to another company, or of the companies that are stricken from the commercial register as a result of the business combination, is subject to exclusion. After effecting this exclusion, the pertinent line items of the equity of the company to which the assets of the merged companies or of the newly-formed company are transferred are adjusted by the difference between the sum total of assets and liabilities and equity. All the account balances and transactions between the merging entities, including the profits or losses on business operations executed prior to the business combination and included in the assets and liabilities and equity undergoing combination, are also subject to exclusion.

The period-end financial statements of the company to which the merged companies' assets pass for the period in which the merger took place show comparative data for the previous financial year, which is presented as if the merger took place at the start of the previous financial year, but individual equity items as at the end of the previous year are disclosed as a sum total of the individual equity items.

9.3. Investments in joint ventures

A joint venture is a joint contractual arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Investments in joint ventures are recognized using the equity method after deducting impairment losses, if any. Application of the equity method involves the initial recognition of the investment at purchase price plus transaction costs. The Group's share in the profit or loss of the entities measured by the equity method (calculated taking into account the impact of the fair value measurement as at the investment purchase date) starting from the purchase date is recognized through the Group's profit or loss, while its share in other comprehensive income of such an entity, starting from the purchase date, is recognized through the Group's other comprehensive income. Unrealized gains and losses on account of transactions between the investor and the joint venture are eliminated in the amount corresponding to the investor's share in such gains/losses.

9.4. Investments in associates

Associates are entities on which the Parent Company exerts, directly or through subsidiaries, significant influence but does not have control or joint control over them.

Investments in associates are accounted for using the equity method. Investments in associates are carried in the statement of financial position at purchase price plus transaction cost and subsequent changes in the Parent Company's share in net assets of those entities less impairment losses, if any. The Group's share in the profit or loss of the entities measured using the equity method (calculated taking into account the impact of the fair value measurement as at the investment purchase date) starting from the purchase date is recognized through the Group's profit or loss, while its share in other comprehensive income of such an entity, starting from the purchase date, is recognized through the Group's other comprehensive income. Unrealized gains and losses on account of transactions between the investor and the associate are eliminated in the amount corresponding to the investor's share in such gains/losses.

9.5. Conversion of items in foreign currencies

Transactions denominated in currencies other than the Polish zloty are converted upon initial recognition into Polish zloty using the exchange rate applicable on the date of the transaction. At the end of the reporting period:

- cash is converted using the closing exchange rate (it is assumed that the closing exchange rate is the average exchange rate set for a given currency by the National Bank of Poland for the day);
- non-cash items measured at historical cost in a foreign currency are converted using the exchange rate in effect on the initial transaction date (exchange rate of the company's bank); and
- non-cash items measured at fair value in a foreign currency are converted using the exchange rate from the date the fair value is determined.

Foreign exchange differences arising from translation are posted to finance income (expense), as appropriate.

Foreign exchange differences that are part of borrowing costs eligible for capitalization are recognized at the value of the respective assets (see description in Note 9.10).

Foreign exchange differences on non-cash items such as equity instruments measured at fair value through profit or loss are recognized as changes in fair value.

Assets and liabilities of foreign entities consolidated using the full method are converted to the Group's presentation currency at the rate in effect at the end of the reporting period and their statements of profit or loss are converted at the average annual exchange rate for the reporting period. Foreign exchange differences resulting from such a conversion are posted directly to other comprehensive income. When a foreign entity is sold, the accumulated deferred exchange differences recognized in other comprehensive income relating to that foreign entity are recognized through profit or loss.

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The following exchange rates were used for measurement purposes at the end of the reporting period:

Exchange rate applicable on the last day of the period		
Currency	31 December 2023	31 December 2022
EUR	4.3480	4.6899

The weighted exchange rates for the individual financial years were as follows:

Average exchange rate in the period		
Currency	1 January – 31 December 2023	1 January – 31 December 2022
EUR	4.5284	4.6883

9.6. Property, plant and equipment

Property, plant and equipment is measured at its net value, i.e. the initial value less accumulated depreciation and impairment losses. The initial value of property, plant and equipment includes its purchase price plus all the costs directly related to the purchase and making the asset fit for use. The cost also includes the expected cost of dismantling the property, plant and equipment, removing it and restoring the asset's location to its original condition; the obligation to incur this cost arises upon installation of the asset or its use for purposes other than the production of inventories. The costs of purchase or manufacturing are capitalized until the asset is adapted to the place and conditions needed to begin its operation.

As at the date of purchasing of property, plant and equipment, all relevant elements with different useful lives comprising the asset are identified and separated (components). Property, plant and equipment also includes costs of general overhauls, periodic inspections, provided that their value is significant, and cost of replacement of major parts.

Depreciation charges are calculated on the basis of purchase price/manufacturing cost of the property, plant and equipment component less its residual value. Depreciation commences in the month following the month in which the asset becomes available for use. Property, plant and equipment is depreciated based on a depreciation plan defining the expected useful life of the property, plant and equipment item. The depreciation method used reflects the manner in which the business consumes economic benefits provided by the asset.

Depreciation is calculated using the straight-line method for the estimated period of the asset's useful life, i.e. for respective groups of property, plant and equipment:

Buildings, premises and civil engineering structures, of which:	5 – 100 years
– Buildings	10 – 100 years
– Premises and civil engineering structures	5 – 50 years
Machinery and technical equipment	3 – 50 years
Transport equipment	3 – 14 years
Office equipment, of which:	1 – 15 years
– Computer hardware	1 – 5 years
– Other	1 – 15 years
Other property, plant and equipment	2 – 15 years

Depreciation methods, rates and residual values of property, plant and equipment are reviewed at least once a year at the end of each financial year. Any changes resulting from such reviews are recognized as changes in estimates, with possible adjustments of depreciation charges accounted for on a prospective basis.

A property, plant and equipment item may be removed from the statement of financial position after its disposal or when no economic benefits are expected from further usage of such asset. All gains or losses arising from derecognition of an asset (calculated as a difference between the possible net sale price and the carrying amount of the item) are posted to the statement of profit or loss in the period when such derecognition took place.

9.7. Intangible assets

The Group classifies as intangible assets any identifiable non-pecuniary asset components devoid of physical form.

Intangible assets are carried at purchase price or manufacturing cost, less accumulated amortization and impairment losses.

Expenditure on intangible assets developed in-house, with the exception of capitalized development expenditure, is not capitalized and is recognized as an expense in the period in which they are incurred.

Intangible assets with a limited useful life are subject to straight-line amortization throughout their useful lives and subjected to impairment tests each time when there are indications of impairment. Amortization commences in the month following the month in which the asset is available for use. The amortization period and method applied to intangible assets with limited useful lives must be reviewed at least at the end of each reporting period. Any changes in the expected useful life or in the expected consumption of economic benefits from the asset are recognized by changing the amortization period or method accordingly and treated as changes to estimated amounts.

The estimated period of the economic useful life of software, licenses and patents as well as other intangible assets ranges from 2 to 5 years.

Gains or losses arising from derecognition of intangible assets from the statement of financial position are measured as the difference between net proceeds from their sale and the carrying amount of the asset and are posted to the statement of profit or loss upon derecognition.

Property rights

Property rights generated, acquired or received free of charge, intended for amortization purposes in connection with own consumption or in connection with sales to end customers, are recognized as intangible assets.

Acquired property rights that are classified as intangible assets are valued at cost.

Carbon emission allowances

Acquired carbon emission allowances are valued at cost and presented as intangible assets. These rights are not subject to amortization (due to their high residual value) and are subject to impairment testing.

9.8. Right-of-use assets

The Group recognizes as right-of-use assets the assets that are the object of a lease contract or contract comprising a lease. A contract is a lease or comprises a lease if that contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As at the commencement date of a lease contract, the Group measures a right-of-use asset based on the cost made up of:

a) the amount of initial valuation of a lease liability (see Note 9.19);

b) lease payments, if any, made at or prior to the commencement date, less any received lease incentives;

c) initial direct costs, if any, incurred by the lessee;

d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is used or restoring the underlying asset to the condition required by the terms and conditions of the lease unless those costs are incurred for the purpose of creation of inventories. The lessee assumes the obligation to cover those costs at the commencement date or as a result of use of the underlying asset over a given period.

After the commencement date of a lease contract, the right-of-use assets are measured using a cost model, i.e. their value is reduced by depreciation charges and impairment losses and adjusted for any remeasurement of the lease liability to reflect any reassessment or lease payment modification.

The depreciation and amortization rules applied by the Group to its right-of-use assets are the same as those applied to property, plant and equipment and intangible assets described with the proviso that the period of depreciation/amortization of a right-of-use asset equals the term of the lease contract if buyout of the leased asset is not anticipated. Where the contract provides for the buyout of the leased asset and the Group intends to exercise its right of buyout, the period of amortization/depreciation equal to the period of the economic useful life of the asset is determined.

A right-of-use asset may be removed from the statement of financial position analogically to property, plant and equipment and intangible assets.

The Group presents right-of-use assets in the statement of financial position separately from other assets as an additional item within the group of non-current assets. That rule does not apply to right-of-use assets satisfying the definition of investment property, which are presented in the statement of financial position as investment property.

The main categories in which the Group identifies leases include: right of perpetual usufruct of land, utility easements, fees for the placement of infrastructure in the road lane, and real estate leases.

The Group does not apply IFRS 16 Leases to leases or similar contracts involving intangible assets.

9.9. Impairment of non-financial non-current assets

At the end of every reporting period, the Group determines whether there are any indications of impairment of non-financial non-current assets. If such indications are found or when an annual impairment test must be carried out, the Group estimates the recoverable amount of such asset or cash generating unit to which such asset is allocated.

Where an individual asset generates no cash flow which would be largely independent of the cash inflows generated by other assets or groups of assets, the Group identifies a cash-generating unit (CGU). There are two applicable CGU structures within the Group. The first one designates sets of fixed assets, the second one designates assets invested in the form of stock in subsidiaries, associates and joint ventures.

Recoverable amount of an asset or a cash generating unit is equal to either its fair value less the cost to sell such an asset or cash generating unit, respectively, or its value in use, whichever is higher. Recoverable amount is determined for individual assets, unless the asset does not by itself generate any cash proceeds, which are mostly independent from those generated by other assets or asset groups. If the carrying amount of an asset is greater than its recoverable amount, impairment occurs and the value is written off to match the calculated recoverable amount.

When estimating the value in use, the forecast cash flows are discounted to their present value using the discount rate before the effects of taxation are taken into account, which reflects the current market estimation of time value of money and risk typical for a given asset. Impairment losses on assets used in the continuing activity are recognized in those cost categories, which correspond to the function of the impaired asset.

When estimating the fair value amount less selling cost, the Group takes into account the capacity of the market player to achieve economic benefits through the highest and most effective use of the asset or its sale to another market player, who would ensure the highest and most effective use of that asset.

A previously recognized impairment loss is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. In such a case, the carrying amount of the asset is increased to its recoverable amount. The increased amount must not exceed the carrying amount of the asset which would be calculated (after deducting accumulated depreciation) if the impairment loss had not been applied at all to such asset in previous years. A reversal of an asset impairment loss is recognized immediately as income through profit or loss.

9.10. Borrowing costs

Borrowing costs are capitalized as a portion of the cost of property, plant and equipment. Borrowing costs comprise interest and gains or losses on foreign exchange differences up to the amount corresponding to the interest expense adjustment.

The capitalization of financing expenses commences when measures are taken that are necessary to prepare an asset for usage. Capital expenditures and borrowing costs are incurred for a given asset. When an investment in an asset is discontinued for a longer period, the capitalization of borrowing costs is suspended. Capitalization is stopped when all the measures required to adapt an asset for usage are in principle concluded.

Current costs of special purpose loans and borrowings, less income from temporary placement of surplus funds, and the relevant portion of current costs of general loans and credits are capitalized, where expenditure on property, plant and equipment exceeds the value of special purpose loans and borrowings. Borrowing costs are capitalized in the amount being the product of the capitalization rate and the excess of expenditure on property, plant and equipment over the value of special purpose borrowings. The capitalization rate is determined as a weighted average of the borrowing costs associated with loans and borrowings comprising the Group's liabilities other than special purpose loans and borrowings. The amount of borrowing costs capitalized in a period does not exceed the amount of borrowing costs incurred in the period.

9.11. Inventories

Inventories include:

- assets held for sale in the ordinary course of business;
- assets in the production process for sale; or
- assets taking the form of materials or raw materials consumed in the production process or in the course of providing services;
- as well as registered certificates of origin, certificates of energy efficiency and carbon emission allowances held for sale.

Inventories are measured at the lower of: purchase price or manufacturing cost and net realizable value. The purchase prices applied to the valuation at the end of the reporting period cannot be higher than the net realizable value of those assets. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The Group measures the consumption of materials which are identical or considered identical due to similarity of their type and purpose as follows:

- coal and carbon emission allowances – according to the FIFO method;
- materials purchased to fulfill orders – using a detailed price identification method;
- other inventories – according to weighted average cost formula.

Certificates of origin

Certificates of origin generated internally or purchased and intended for sale outside the Group are recognized as inventory.

Certificates of origin relating to electricity generated during the reporting period are measured on initial recognition at the fair value determined as at the date of registration in the Certificate of Origin Register. Fair value is defined as the average weighted price of the certificates of origin from a given month, determined on the basis of listings on the Polish Power Exchange.

The certificates of origin are measured at purchase price at the time of initial recognition and at purchase price or net realisable value, whichever is lower, at the end of the reporting period.

9.12. Cash and cash equivalents

Cash and cash equivalents include:

- cash on hand and on current bank accounts; and
- other cash, including bank deposits with maturities no longer than three months.

The balance of cash and cash equivalents shown in the consolidated statement of cash flows consists of the aforementioned cash and cash equivalents less outstanding current account overdrafts.

Bank deposits with initial maturities exceeding three months are presented by the Group as deposits.

The Group classifies cash as a financial asset measured at amortized cost with impairment charges determined in accordance with the expected loss model.

9.13. Other assets

Other non-financial assets recognized by the Group include accruals and deferred income, public and legal receivables (except for corporate income tax receivables, which are presented as a separate item in the statement of financial position), surplus of assets over liabilities of the Company Social Benefit Fund and advances paid for future purchases of property, plant and equipment, intangible assets and inventories as well as biological assets.

Advances for future deliveries of goods or services are presented according to the expected realization dates. Advances, including for the acquisition of fixed assets, are presented as current if the expected realization time is less than 12 months or as non-current if the expected delivery time of associated goods or services is 12 months or more.

As non-monetary assets, advances are not discounted.

Accruals and deferred income

Prepayments are recorded at the level of incurred and reliably measured expenses that refer to future periods and will bring future economic benefits to the entities.

Prepaid expenses and accrued income are amortized over time or in relation to the value of services. The time and manner of settlement is justified by the nature of the cost being settled, in keeping with the conservative valuation principle.

At the end of a reporting period, the Group reviews prepaid expenses and accrued income to find whether the degree of certainty that the entity will achieve economic benefits after the elapse of the current reporting period is sufficient to recognize the item as an asset.

9.14. Assets classified as held for sale

Non-current assets and groups to be sold are classified by the Group as held for sale, if their carrying amount is recovered as a result of a sale transaction rather than from their continued use. This condition is deemed satisfied only when the sale transaction is highly probable and the asset (or group to be sold) is available for immediate sale in its current condition (according to generally accepted commercial terms).

Classification of an asset as held for sale assumes an intention to make a sale transaction within one year from the change in classification.

If the Group intends to make a sale leading to a loss of control over a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale if all of the above criteria are met and regardless of whether the Group retains any non-controlling stakes after the sale transaction.

Non-current assets and groups to be sold classified as held for sale are measured at the lower of the carrying amount and the fair value, less cost to sell.

9.15. Equity

The equity is recognized at par value, divided by type and according to the principles laid down by law and in the Parent Company's articles of association.

In the consolidated financial statements, share capital is recognized at the amount stated in the Parent Company's articles of association.

Retained earnings include net result of the current year, results carried forward from previous years, reserve capital and supplementary capital of subsidiaries, arising after the acquisition of control, IFRS transition adjustments and adjustments tied to a change in interests held in subsidiaries after the Parent Company acquired control over them.

9.16. Provisions for employee benefits

In accordance with the regulations applicable in the individual companies, the Group's employees are eligible to claim certain benefits after their employment period and other long-term employee benefits – long service bonuses.

The Group recognizes provisions for employee benefits in order to allocate costs to the pertinent periods. The present value of those liabilities at the end of each reporting period is calculated by an actuary using the projected unit credit method. The liabilities are calculated as discounted future payments adjusted for employee turnover, and refer to the period up to the end of the reporting period. Demographic information and information on employee turnover are based on historical data.

Provisions for pensions and other post-employment defined benefit plans

The Group recognizes provisions for the following post-employment benefits:

- pension and similar benefits paid once upon retirement/qualification for disability award;
- cash equivalent resulting from the employee tariff for energy industry employees; and
- benefits from the Company Social Benefit Fund.
- death gratuities.

Provisions established are recognized through profit or loss (as operating expenses or finance expenses, respectively – discount unwinding), except for actuarial gains and losses. Gains and losses on actuarial calculations are recognized fully in other comprehensive income.

Provision for long service bonuses

Employees of Group companies are eligible to claim long service bonuses paid out after they have worked for a specific number of years.

Provisions established for long service bonuses are recognized fully through profit or loss (as operating expenses or finance expenses, respectively – discount unwinding).

Provision for employee restructuring

In the previous reporting periods, voluntary departure programs ("PDO") and individual termination rules ("ZIO") were launched in Group companies. As provisions for employee restructuring, the Group recognizes primarily the provisions for benefits for employment termination under a voluntary departure program and other employment restructuring measures, based on the expected number of employees to terminate work for Group companies and estimated value of severance awards or compensation. Provisions are recognized when the interested parties are notified of the main elements of the restructuring plan.

9.17. Other provisions

Provisions are recognized when the Group has an existing obligation (legal or constructive) as a result of a past event and it is probable that settlement of the obligation by the Group will require an outflow of economic benefits and a reliable estimate can be made of the amount of the obligation. Recognized provisions are classified as operating expenses, other expenses, finance expenses, respectively, as required by the circumstances.

If the time value of money is relevant, then the provision is equal to the present value of the expenditures expected to be necessary to fulfill this duty. A pre-tax discount rate is used that reflects the current market assessments of the time value of money and the risks specific to the liability. The discount rate is not burdened with the risk for which the estimates of future cash flows have been adjusted. If a discounting-based method has been used, then an increase in the provision associated with the passage of time is recognized as finance expenses.

Provision for land reclamation and for property, plant and equipment liquidation costs

The provision for land reclamation and future costs of property, plant and equipment liquidation is established in the circumstances where the provisions of law require such assets to be dismantled and removed when they are no longer used and their locations to be restored to their original state. The increase of the provision related to the passage of time (discount unwinding) is recognized in finance expenses. The change in provision resulting from a change of the discount rate or the estimated reclamation/liquidation costs adjusts the value of the property, plant and equipment to which the provision refers.

Provision for liabilities for gas emissions

The provision for gas emission liabilities is created systematically during the annual reporting period on the basis of the volume of actual carbon emissions, taking into account free carbon emission allowances, in accordance with the following principles and in the following order:

- in the part covered by the granted free allowances (pro rata to the total quantity of free emission allowances awarded for the year) – at zero;
- in the part covered by acquired allowances – at purchase price; and
- in the part not covered by allowances held or receivable – based on the contracted allowance purchase prices and then based on market prices of those allowances at the end of the reporting period.

Provision for the redemption of property rights (Article 52 of the Act on renewable energy sources)

The provision for redemption of certificates of origin of electricity generated from renewable energy sources, certificates of origin of electricity generated in the co-generation process and energy efficiency credits, is recognized:

- in the part covered by the certificates of origin held at the end of the reporting period – at the value of certificates held;
- in the part not covered by the certificates of origin held at the end of the reporting period – at the value of contracted property rights and the market value of certificates needed to fulfill the obligation at the end of the reporting period or at the amount of the substitution fee.

Provision for onerous contracts

If the Group is a party to a contract under which the cost of fulfilling an obligation that is directly attributable to the contract outweighs the benefits that will be received under the contract, the Group's present obligation under the contract is recognized and measured as a provision. The costs under the contract consist of at least the net cost of terminating the contract, corresponding to the lesser of the cost of fulfilling the contract and the cost of any damages or penalties resulting from non-performance.

9.18. Leases

Group as a lessee

Lease contracts whereby the right to control the use of an identified asset over a given period of time is conveyed in exchange for consideration are recognized in the statement of financial position as at the commencement date of the lease in the amount of the discounted future lease payments. Leasing fees are allocated between finance expenses and reduction of principal lease debt balance, in the manner that allows us to receive a fixed interest rate on the outstanding debt. Finance expenses are posted directly to profit or loss.

Property, plant and equipment used under the financial lease contracts are amortized/depreciated during the term of lease that includes the irrevocable term of lease and the periods during which the option to extend the lease exists (if it can be reasonably assumed that the company will exercise that option) and the periods during which the option to terminate the lease exists (if it can be reasonably assumed that the company will not exercise that option).

9.19. Lease liabilities

Lease liabilities are labilities arising under lease contracts or contracts comprising a lease.

A contract is a lease or comprises a lease if that contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As at the lease commencement date, lease payments incorporated in the valuation of a lease liability comprise the following fees charged for the right to use the underlying asset during the term of the lease, outstanding at that date:

- fixed lease payments (including basically fixed lease payments) less due lease incentives, if any;
- variable index- or rate-driven lease payments that are initially measured using that index or rate consistently with their value as at the commencement date;
- the amounts whose payment by the Group is expected within the scope of the guaranteed residual value;
- the cost of exercising the purchase option if it can be assumed with reasonable assurance that the Group will exercise that option;
- fines for terminating the lease, if the terms and conditions of the lease stipulate that the Group may exercise the option to terminate the lease.

After the commencement date, the Group measures the lease liability through:

- an increase in the balance sheet value to reflect the interest on the lease liability;
- a decrease in the balance sheet value to reflect the lease payments made;
- an update of the measurement of the balance sheet value to take into account any reassessment of or amendment to the lease or to reflect the updated lease payments.

9.20. Contract liabilities

According to IFRS 15, contract liabilities relate to the Group's obligation to transfer to the customer the goods or services in exchange for which the Group has received consideration (or consideration is receivable) from the customer. If the customer pays consideration or the entity is entitled to the amount of the consideration that is unconditional (i.e. a receivable) before the entity transfers the goods or services to the customer, the entity presents the contract as the contract liability on the execution of the payment or when the payment becomes due (whichever happens first).

9.21. Other liabilities

Other non-financial liabilities include in particular public tax liabilities and advance payments to be settled by deliveries of goods, services or property, plant and equipment. Other non-financial liabilities are recognized at the amount of the required payment.

9.22. Accrued expenses and deferred income

Accrued expenses

Accrued expenses are liabilities payable for goods or services received/provided but not paid for, billed or formally agreed with the supplier, including amounts due to the employees. Even though it is sometimes necessary to estimate the amount or payment term of the accruals, the degree of uncertainty is in general considerably lower than in the case of provisions.

Accrued expenses, measured at the amount of reliably estimated and probable liabilities due in the current reporting period, resulting in particular from benefits provided to the Group by external contractors, are reported in the statement of financial position as trade liabilities.

Deferred income

Deferred income is recorded in keeping with the principle of conservative valuation and of commensurability of income and expenses. The following items are classified as deferred income:

- property, plant and equipment accepted free of charge and intangible assets. These revenues are recorded in other operating income and also in depreciation charges on non-current assets received;
- equivalent of the granted property rights, energy efficiency certificates and carbon emission allowances;
- cash received in the form of a grant to finance a purchase or production of property, plant and equipment. These are settled by gradually increasing other income by an amount corresponding to the depreciation on these assets, in the part financed by the said cash.

Grants are recognized when there is sufficient certainty that the Group will meet the conditions associated with such grants and that the grants will be received.

If the Group receives a government loan or credit on preferential terms then, on initial recognition, such financial instrument is measured at fair value equal to the value of discounted cash flows, using market interest rates for similar instruments. The difference between the valuation amount calculated using this method and at amortized cost is recognized in the statement of financial position as a grant and amortized on a straight-line basis during the repayment period of the liability, charged to other income through profit or loss.

9.23. Financial instruments

9.23.1. Financial assets

The Group identifies the following categories of financial assets:

- measured after the initial recognition at amortized cost;
- measured after the initial recognition at fair value through other comprehensive income;
- measured after the initial recognition at fair value through profit or loss.

Financial assets measured at amortized cost

A financial asset is measured at amortized cost if both conditions below have been fulfilled:

- a financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of the principal amount and interest on the principal amount outstanding.

The principal represents the fair value of a financial asset on initial recognition. Interest covers payment for time value of money, credit risk inherent in the outstanding principal over a specific period of time and for other basic risks and costs associated with granting of credits, as well as the profit margin.

Financial assets measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both conditions below have been fulfilled:

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

The principal represents the fair value of a financial asset on initial recognition. Interest covers payment for time value of money, credit risk inherent in the outstanding principal over a specific period of time and for other basic risks and costs associated with granting of credits, as well as the profit margin. Profits or losses arising from changes in fair value are recognized in other comprehensive income. Impairment profits or losses, profits and losses on account of foreign exchange differences and interest calculated using the effective interest rate method are recognized through profit or loss.

Financial assets measured at fair value through profit or loss

A financial asset is measured at fair value through profit or loss if it is not measured at amortized cost or at fair value through other comprehensive income.

A unit may, upon initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if it thus eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an “accounting mismatch”) that would have otherwise arisen as a result of measurement of assets or liabilities or recognition of related profits or losses according to different principles.

Where instruments are not related to the financing of the Group’s business and investments, but rather to operating activities (e.g., forward electricity sale/purchase contracts), the outcome of their measurement is recognized through operating profit or loss.

These instruments are fair-valued at the at the end of the reporting period. Profit or loss on financial assets classified as portfolio fair-valued through profit or loss is recognized through profit or loss.

9.23.2. Impairment of financial assets

The Group recognizes an allowance for expected credit losses on financial assets measured at amortized cost (except for investments in capital assets). Expected credit losses are credit losses weighted by probability of default.

The Group uses the following approaches to the recognition of loss allowances:

- general approach,
- simplified approach.

General approach

The general approach is used by the Group for financial assets measured at amortized cost – other than trade and other receivables (to which the simplified approach is applied).

Under the general approach, the Group keeps track of changes to the level of credit risk associated with a financial asset and classifies financial assets into one of three stages for determining impairment losses based on observation of the change in the level of credit risk from the initial recognition of the instrument.

Depending on the classification into stages, the impairment loss is estimated over a 12-month horizon (stage 1) or over the life of the instrument (stage 2 and stage 3).

At each closing date of the reporting period, the Group analyzes the occurrence of indications resulting in the classification of financial assets into the various stages of impairment loss determination, such as, amongst others, changes in the debtor's rating, serious financial problems of the debtor, the occurrence of a significant adverse change in its economic, legal or market environment.

The Group incorporates forward-looking information into the parameters used in the expected loss estimation model by calculating probability of default parameters based on current market quotes.

The Group eliminates the risk for receivables in the form of cash and cash equivalents by depositing such assets only in the banks with a short-term rating for deposits at the investment level.

Simplified approach

The Group uses the expected credit loss model for the category of trade receivables in accordance with the simplified approach allowed by IFRS 9. The rationale for the application of the above approach is as follows:

- the receivables held by the Group do not contain a significant financing component within the meaning of the principles set forth in IFRS 15, i.e. there is no significant financing component that could adjust the promised amount of consideration;
- the receivables meet the expectation that they will be repaid in less than a year.

The simplified model permits calculation of credit losses throughout the life of the receivable.

Consequently, in relation to the receivables from buyers, the Group isolated a portfolio of strategic counterparties in respect of whom it is expected that historic collectability data do not constitute full information on the expected credit losses to which the Group may be exposed. The risk of default of strategic counterparties has been assessed based on the ratings awarded to counterparties using the internal scoring model, duly converted to probability of default.

In the case of receivables from other counterparties, it is expected that repayment history data may reflect the credit risk that will be borne in future periods. The expected credit losses for this group of counterparties have been estimated through allocation to individual categories of receivables of percentage indicators permitting estimation of the value of receivables due from buyers that are not expected to be collected.

According to the above methodology of calculation of expected credit losses, the value of receivables may be updated also individually, in particular in relation to:

- receivables due from debtors put into liquidation or declared bankrupt;
- receivables contested by debtors and receivables on the repayment of which the debtor is in arrears and where, based on the debtor's assets and financial situation, the repayment of receivables in the contractual amount is unlikely (in such case, bad debt provision may be established in the amount of 100% of the value of the previously recognized debt);
- other overdue receivables, as well as overdue receivables for which the risk of default is significant according to individual assessment.

The concept of measuring the retail credit risk exposure is based on the determination of exposure to credit risk, the probability of the client's failure to meet their contractual obligations and the size of loss at the time of the client's failure to meet their contractual obligations (Exposure at Default).
Loss in the case of the client's failure to meet their contractual obligations, expressed as percentage (%) of receivables which are non-recoverable in the case of the client's default, is strictly connected with the recovery rate, which shows what percentage of credit risk exposure is recoverable.
The recovery rate of receivables claimed at court is also determined.
The data necessary to estimate the expected credit loss are monitored and updated monthly and quarterly.
Uncollectable receivables in the Group are understood as the value of anticipated loss due to untimely or incomplete repayment of debt by the clients, estimated on a monthly basis, for all receivables and throughout the life of a receivable. The Group defines uncollectable receivables in relation to actual events at the time of the client's failure to meet an obligation after the first day from the receivables' maturity date.

The expected loss is calculated on the basis of the historic receivables repayment ratio with respect to all receivables divided into receivables at the pre-court stage and those claimed at court. The repayment rate is updated at least once a year.

9.23.3. Financial liabilities

The Group identifies the following categories of financial liabilities:

- measured at amortized cost,
- financial liabilities measured at fair value through profit or loss.

Financial liabilities measured at fair value through profit or loss, including derivatives that are liabilities, are measured after initial recognition at fair value.

Upon initial recognition, the entity may irrevocably designate a financial liability as measured at fair value through profit or loss in the following cases:

1) the contract contains one or more embedded derivatives and the host is not an asset within the scope of IFRS 9 unless:

a) the embedded derivative(s) do(es) not significantly modify the cash flows that otherwise would be required by the contract; or
b) it is clear with little or no analysis when a similar hybrid instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortized cost;

2) this results in more relevant information because either:
a) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or
b) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

The liabilities measured at amortized cost include, first of all, trade liabilities, liabilities relating to purchase of property, plant and equipment, bank credits, loans and debt securities.

Upon initial recognition, they are recognized at fair value less transactional costs. After initial recognition, they are measured at amortized cost using the effective interest rate method.

When calculating amortized cost, the cost of obtaining the loan or credit must be taken into account, as well as any discounts and bonuses obtained in connection with the liability.

Revenues and costs are recognized through profit or loss upon derecognition of the liability from the statement of financial position and also as a result of a settlement using the effective interest rate method.

Financial liabilities fair-valued through profit and loss are measured at fair value, taking into account their market value at the end of the reporting period, net of the costs of sale transaction. Changes in the fair value of these instruments are recognized through profit or loss as finance expenses or income.

Where instruments are not related to the financing of the Group's business and investments, but rather to operating activities (e.g., forward electricity sale/purchase contracts), the outcome of their measurement is recognized through operating profit or loss.

The Group uses its professional judgment in determining which of its financial instruments related to operations are required to be measured at fair value through profit or loss.

The Group derecognizes a financial liability from its statement of financial position if the liability has expired, i.e. when the obligation defined in the respective agreement has been performed, has been canceled or has expired. Replacement of an existing debt instrument with an instrument with substantially different terms, made between the same entities, is recognized by the Group as an expiry of the original liability and the recognition of a new financial liability. Similarly, significant modifications of terms and conditions of an agreement relating to the existing financial liability are recognized by the Group as expiry of the original liability and recognition of a new financial liability. The resulting exchange differences arising from the respective carrying amounts are recognized through profit or loss.

9.23.4. Hedge accounting

For hedge accounting purposes, the Group applies IAS 39 on a consistent basis. The Group may decide to designate selected derivatives as hedges under cash flow hedge accounting under any identified hedge relationship. The Group allows the use of cash flow hedge accounting only if certain criteria are met:

- at the inception of the hedge, the Group formally designates and documents the hedging relationship and the risk management objective as well as strategy for undertaking the hedge. The documentation includes the identification of the hedging instrument, the hedged position, the nature of risk and the method for a current assessment of the effectiveness of the hedge in offsetting the risk of changes in cash flows associated with the hedged risk;
- the hedge is expected to be highly effective in offsetting changes in cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship;
- the planned transaction, which is the subject of the hedge, must be highly probable and must be exposed to variations in cash flows that could ultimately affect the statement of profit or loss;
- effectiveness of the hedge can be reliably assessed, i.e. cash flows related to the hedged position resulting from the hedged risk and the fair value of the hedge can be reliably measured; and
- the hedge is assessed on an ongoing basis and determined to have been highly effective throughout the reporting periods for which the hedge was designated.

Accounting principles (policies) applied to derivatives designated as hedges under cash flow hedge accounting

Changes in the fair value measurement of derivative financial instruments designated as cash flow hedges, to the extent they are an effective hedge, are recognized in other comprehensive income, whereas any ineffective portion of the hedge is recognized through profit or loss.

The accumulated amounts of hedging instrument revaluation to fair value, previously recognized in the cash flow hedge reserve, are recognized through profit or loss in the period or periods when the hedged position affects the statement of profit or loss.

The Group ceases to use the cash flow hedge accounting principles in the event of one or more of the following events:

- the hedging instrument expires or is sold, terminated or exercised (for this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the entity's documented hedging strategy). In this case, the cumulative gain or loss on the hedging instrument, which is recognized in other comprehensive income in the period when the hedge was effective remains recognized separately in equity until the planned transaction occurs;
- the hedge no longer meets the hedge accounting criteria. In this case, the cumulative gain or loss on the hedging instrument, which is recognized in other comprehensive income in the period when the hedge was effective, remains recognized separately in equity until the planned transaction occurs;

- the planned transaction is no longer expected to occur, in which case any related cumulative gain or loss on the hedging instrument, which is recognized in other comprehensive income in the period when the hedge was effective, is recognized through profit or loss. A planned transaction, which is no longer highly probable, may still be expected to occur;
- the Group cancels any hedging relationship. For hedges of planned transactions, the cumulative gain or loss on the hedging instrument recognized in other comprehensive income in the period when the hedge was effective remains recognized as a separate equity item until the planned transaction occurs or is no longer expected to occur. If the transaction is no longer expected to occur, the cumulative gain or loss that was recognized directly in equity is recognized through profit or loss.

Presentation

In connection with the use of cash flow hedge accounting, the Group applies the following presentation:

- the effective portion of any change in the valuation of hedges is recognized in other comprehensive income and accumulated in revaluation reserve;
- interest on hedges is presented in the same item of the statement of profit or loss, which presents interest result on the hedged position;
- any revaluation of hedges is presented in the same line of the statement of profit or loss in which the revaluation of the hedged position is presented;
- the ineffective portion of changes in the valuation of hedging instruments is recognized in the gain or loss on financial instruments.

9.24. Income tax

Income tax recognized through profit or loss includes the actual income tax expense for the reporting period and a change in deferred tax assets and deferred tax liabilities which are not recognized in equity or through other comprehensive income.

Current tax

The actual income tax expense for the reporting period is calculated by Group companies according to the applicable provisions of the Act on corporate income tax.

For companies comprising a tax capital group (see Note 12.4), income tax is calculated on income earned in the fiscal year equal to the surplus of aggregated income of all companies comprising the group over their aggregate losses.

Deferred tax

In connection with temporary differences between the value of assets and liabilities carried in accounting ledgers and their tax value and tax loss that may be deducted in the future, the Group calculates and recognizes deferred tax assets and liabilities.

The deferred tax liabilities are established for all positive temporary differences, except for cases where the deferred tax liability follows from:

- initial recognition of goodwill or an asset or liability in a transaction that is not a business combination, not affecting, at the moment of the transaction, either gross financial result before tax or taxable income (loss); and
- positive temporary differences connected with investments in subsidiaries and associates, and interests in joint ventures, in which it is possible to control the reversal of the temporary differences and it is probable that those differences will not reverse in the foreseeable future.

Deferred tax assets are recognized with respect to all deductible timing differences to the extent to which it is probable that there will be sufficient taxable profits against which to deduct the deductible timing differences, except for:

- cases where a deferred tax asset results from an initial recognition of an asset or liability under a transaction other than business combination, which at the moment of the transaction has no effect on financial result before tax or taxable profit (loss); and
- deductible timing differences connected with investments in subsidiaries and associates, and interests in joint ventures, where deferred tax assets are recognized only to the extent that it is probable that those timing differences will be reversed in the foreseeable future and that there will be sufficient taxable profits against which to utilize the benefits of the deductible timing differences.

Deferred tax assets and liabilities are presented in the statement of financial position, after netting at the level of individual entities comprising the Group.

9.25. Revenue from the sale of products, goods and services

Sales revenues are recognized when and to the extent reflecting satisfaction by the Group of an obligation to make a performance (provide a service) or deliver goods. An obligation is performed when the customer takes control of the asset being handed over.

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

The Group only recognizes revenue from contracts with customers where all of the following criteria are met:

- The parties have concluded a contract (in writing, verbally or otherwise consistently with other customary commercial practices) and are bound to perform their respective obligations;
- The Company is capable of identifying the rights of each of the parties relating to the goods or services to be transferred;
- The Company is capable of identifying the terms of payment for the goods or services to be transferred;
- The contract has economic content; and
- It is probable that the company will receive due remuneration in exchange for the goods or services to be transferred to the customer.

Depending on satisfaction of the criteria defined in IFRS 15 Revenue from Contracts with Customers, revenue may be recognized on a one-time basis (as control over goods and services is transferred to the customer) or may be spread over time in the manner depicting execution of the performance, especially in the case of contracts executed over time.

Most of the revenue generated by the Group is recognized over time. See Note 10 for details of the over-time vs. point-in-time revenue breakdown.

The Group presents all unconditional rights to consideration separately as a receivable. Right to consideration is unconditional when the sole condition of maturity of consideration is the lapse of a specific time limit.

Revenue includes specifically:

- amounts due from sale of: electricity, heat, certificates of origin for electricity generated from renewable sources, certificates of generation of electricity in co-generation (CHP), emission allowances, transmission and distribution services and core business services determined on the basis of the net price after adjustments for granted discounts and rebates and excise tax; and
- amounts due from sales of materials and products based on the net price, after adjustments for granted discounts and rebates.

With regard to sales of electricity, heat, and distribution services, the customers are (private and commercial) end users of electricity. Electricity generated within the Group is mostly sold via an electricity exchange. Certificates of origin for electricity are mostly sold within the Group.

The proceeds from compensation due to energy companies for the application of maximum prices in settlements with electricity, heat and gas customers, the level of which is determined by generally applicable laws, are also recognized by the Group as revenue from contracts with customers. An example of such revenue is the compensation received from the Price Difference Payout Fund. The Group treats such compensation as revenue from contracts with customers in accordance with IFRS 15 and recognizes it as income and receivable therefrom.

The moment of sale is considered to be the date of performance in accordance with the sale and purchase contract (shipment or placing at the disposal of the recipient of the supply, receipt of the service), the date of a cash, credit card or cheque payment in the case of retail sales, and the delivery of electricity or heat to the recipient in the case of sales of electricity and heat.

Revenue from the sale of electricity purchased by the companies in the Balancing Market is presented as revenue from the sale of goods.

Revenue from connection fees is recognized in the period in which the connection fees are due. Grid connection services are a separate obligation to perform.

Revenue from provision of an uncompleted service in the period from the date of conclusion of the contract until the end of the reporting period – after the deduction of the revenue that impacted the financial result in the previous reporting periods – is determined on a pro rata basis to the degree of its completion if this degree can be determined reliably.

Rental and operating lease revenue is recognized with the use of straight-line method over the lease term in relation to existing agreements.

Revenue from recharging is recognized as revenue from core operating activity.

Sales revenue adjustments are allocated to the period to which they relate until the approval of the financial statements for publication.

No variable component is identified by the Group in the consideration.

The Group mostly conducts sales on a deferred payment basis. Payment terms of no more than 30 days are typically used in contracts with customers. Contracts with customers do not include a significant financing component.

9.26. Operating expenses

Cost of goods sold includes:

- cost of manufacturing products and providing services incurred in a reporting period, adjusted for a change in product inventories and adjusted by the cost of manufacturing products for own needs;
- value of electricity and materials sold, at purchase prices; and
- recognition/reversal of impairment losses on inventories;
- the value of the granted property rights reducing costs.

Selling and distribution expenses include expenses related to customer service and acquisition, marketing and advertising expenses, and the expense corresponding to the recognition of a provision for the obligation relating to property rights.

General and administrative expenses include expenses related to the governance and administration of the Group as a whole and the companies comprising the Group.

9.27. Other income and expenses

Other income and expenses include in particular items associated with:

- disposals of property, plant and equipment, intangible assets;
- recognition and reversal of provisions, except for provisions tied to financial operations or recognized in operating expenses;
- giving or receiving of assets, including cash, free of charge, also as a donation; and
- damages, penalties and fines, and other expenses not related to ordinary business;
- recognition/reversal of impairment losses on property, plant and equipment, intangible assets, right-of-use assets, trade receivables.

9.28. Finance income and expenses

Finance income and expenses cover, in particular, income and costs pertaining to:

- revenue from profit-sharing in other entities;
- interest;
- changes in the amount of provision resulting from the approaching date of incurring the cost (unwinding discount effect);
- foreign exchange differences resulting from operations performed during the reporting period and book valuation of assets and liabilities at the end of the reporting period, except for exchange differences recognized in the initial value of property, plant and equipment, to the extent they are recognized as adjustment of interest expense; and
- other items related to financing activity.

Interest income and interest expense are recognized gradually as they accrue (taking the effective interest rate method into account) in relation to the net carrying amount of the financial instrument and in line with the materiality principle.

Dividends are recognized as at the time the shareholders' right to receive them is established.

9.29. Net earnings/loss per share

Net earnings/loss per share for each period are/is calculated by dividing the net earnings/loss allocated to shareholders of the Parent Company for the period by the weighted average number of shares in the reporting period.

9.30. Statement of cash flows

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

NOTES ON OPERATING SEGMENTS

10. Business lines (operating segments)

The Group presents segment information in accordance with IFRS 8 Operating Segments for the current and comparative reporting periods. The Group is organized and managed by segment. Segments are distinguished according to the type of products offered. The Group's reporting is broken down into three segments and other activity referred to as business lines, according to the Group's terminology:

- Distribution – distribution of electricity by Energa-Operator SA (Distribution System Operator), as well as operations directly associated with the distribution operations conducted by other Group companies;
- Generation – production of electricity from conventional and renewable sources, production and distribution of heat and maintenance and repair activity, related directly to the production of energy;
- Sales – trading in electricity (wholesale and retail) and lighting services;
- Other – a shared ICT services centre, as well as financial activities, real estate management, logistics and procurement. The Other business line also includes units implementing investment projects in the field of generation infrastructure. The Parent Company's operations are also included in the Other business line.

The key measures used by the Management Board of Energa SA to assess the performance of the business lines are net profit and EBITDA, i.e. operating profit or loss (calculated as the profit or loss before tax adjusted by the share in profit or loss of entities accounted for using the equity method, financial income and finance expenses), plus amortization and depreciation, and impairment losses on non-financial non-current assets.

The rules applied to the determination of business line results and measure the business line's assets and liabilities are consistent with the rules used to prepare the consolidated financial statements. The share in the result of the entities measured using the equity method is recognized in consolidation eliminations and adjustments.

Transactions between business lines are settled on market terms.

The Group does not present information by geographic segment since its operations conducted for international clients and its international assets do not have a significant impact on the Group's business.

The tables below show the breakdown of revenues and expenses for the period from 1 January to 31 December 2023 and of financial assets and liabilities as at 31 December 2023, by reporting segment, together with appropriate comparative information.

31 December 2023 (PLN m)

Year ended 31 December 2023 or as at 31 December 2023	Distribution	Sales	Generation	Other	Consolidation eliminations and adjustments	Total activity
Revenue						
Sales to external customers	6,126	12,736	2,990	229	-	**22,081**
Sales between business lines	88	91	1,046	927	(2,152)	**-**
Revenue from the Price Difference Payout Fund	648	3,347	11	-	-	**4,006**
Total business line revenue	**6,862**	**16,174**	**4,047**	**1,156**	**(2,152)**	**26,087**
EBITDA	**1,956**	**566**	**488**	**(71)**	**(54)**	**2,885**
Amortization and depreciation	965	64	149	30	(14)	**1,194**
Impairment losses on non-financial non-current assets	-	-	(1)	-	-	**(1)**
Operating profit or loss	**991**	**502**	**340**	**(101)**	**(40)**	**1,692**
Net finance income/expenses	(353)	(37)	(89)	82	(206)	**(603)**
Share in profit/(loss) of the entities measured using the equity method	-	-	-	-	9	**9**
Profit or loss before tax	**638**	**465**	**251**	**(19)**	**(237)**	**1,098**
Income taxes	(125)	(313)	(13)	(42)	1	**(492)**
Net profit or loss	**513**	**152**	**238**	**(61)**	**(236)**	**606**
Assets and liabilities						
Cash and cash equivalents	12	65	77	367	-	**521**
Total assets	**17,882**	**5,558**	**4,994**	**16,625**	**(13,380)**	**31,679**
Financial liabilities	6,106	1,943	1,318	5,385	(3,177)	**11,575**
Other business line information						
Capital expenditure	2,261	110	367	1,674	(78)	**4,334**

Consolidated financial statements for the year ended 31 December 2023 (PLN m)

Year ended on 31 December 2022 or as at 31 December 2022	Distribution	Sales	Generation	Other	Consolidation eliminations and adjustments	Total activity
Revenue						
Sales to external customers	4,672	12,320	2,865	238	-	**20,095**
Sales between business lines	65	81	622	622	(1,390)	**-**
Revenue from the Price Difference Payout Fund	-	349	-	-	-	**349**
Total business line revenue	**4,737**	**12,750**	**3,487**	**860**	**(1,390)**	**20,444**
EBITDA	**2,118**	**(317)**	**843**	**(69)**	**(2)**	**2,573**
Amortization and depreciation	916	56	149	28	(15)	**1,134**
Impairment losses on non-financial non-current assets	-	-	72	-	-	**72**
Operating profit or loss	**1,202**	**(373)**	**622**	**(97)**	**13**	**1,367**
Net finance income/expenses	(279)	6	(83)	113	(18)	**(261)**
Share in profit/(loss) of the entities measured using the equity method	-	-	-	-	71	**71**
Profit or loss before tax	**923**	**(367)**	**539**	**16**	**66**	**1,177**
Income taxes	(171)	50	(30)	(16)	(1)	**(168)**
Net profit or loss	**752**	**(317)**	**509**	**-**	**65**	**1,009**
Assets and liabilities						
Cash and cash equivalents	7	141	145	807	-	**1,100**
Total assets	**16,173**	**4,384**	**5,680**	**16,442**	**(15,431)**	**27,248**
Financial liabilities	5,299	23	770	5,640	(4,228)	**7,504**
Other business line information						
Capital expenditure	1,648	77	443	1,109	(17)	**3,260**

Consolidated financial statements for the year ended 31 December 2023 (PLN m)

Year ended 31 December 2023	Distribution	Sales	Generation	Other	Consolidation eliminations and adjustments	Total activity
Revenue on sales of goods, products and materials, including:	**30**	**12,454**	**3,913**	**743**	**(1,696)**	**15,444**
Electricity	27	12,156	3,369	-	(1,114)	**14,438**
Gas	-	276	-	-	(1)	**275**
Other goods for resale, finished goods, and materials	3	97	544	743	(581)	**806**
Excise tax	-	(75)	-	-	-	**(75)**
Revenue from sales of services, including:	**6,184**	**373**	**123**	**413**	**(456)**	**6,637**
Distribution and transit services	5,827	-	28	-	(47)	**5,808**
Customer connection fees	168	-	-	-	-	**168**
Other services	189	373	95	413	(409)	**661**
TOTAL	**6,214**	**12,827**	**4,036**	**1,156**	**(2,152)**	**22,081**
of which:						
Revenue from goods, products and materials transferred or services provided on a continuous basis	5,854	12,357	3,397	-	(1,162)	**20,446**
Revenue from goods, products and materials transferred or services provided at a specific time	360	470	639	1,156	(990)	**1,635**

Year ended 31 December 2022	Distribution	Sales	Generation	Other	Consolidation eliminations and adjustments	Total activity
Revenue on sales of goods, products and materials, including:	**176**	**12,034**	**3,321**	**553**	**(1,023)**	**15,061**
Electricity	173	11,751	2,874	-	(656)	**14,142**
Gas	-	319	-	-	(1)	**318**
Other goods for resale, finished goods, and materials	3	6	447	553	(366)	**643**
Excise tax	-	(42)	-	-	-	**(42)**
Revenue from sales of services, including:	**4,561**	**367**	**166**	**307**	**(367)**	**5,034**
Distribution and transit services	4,403	-	35	-	(53)	**4,385**
Customer connection fees	76	-	-	-	-	**76**
Other services	82	367	131	307	(314)	**573**
TOTAL	**4,737**	**12,401**	**3,487**	**860**	**(1,390)**	**20,095**
of which:						
Revenue from goods, products and materials transferred or services provided on a continuous basis	4,576	12,028	2,909	-	(710)	**18,803**
Revenue from goods, products and materials transferred or services provided at a specific time	161	373	578	860	(680)	**1,292**

Consolidated financial statements for the year ended 31 December 2023 (PLN m)

NOTES TO CONSOLIDATED STATEMENT OF PROFIT OR LOSS

11. Revenues and expenses

11.1. Costs by type

	Year ended 31 December 2023	Year ended 31 December 2022
Depreciation of property, plant and equipment, intangible assets and right-of-use assets	1,194	1,134
Consumption of materials and energy	3,139	1,843
Services	2,393	1,570
Taxes and fees	2,746	2,046
Employee benefit expenses	1,535	1,308
Impairment loss on inventories	1	3
Other costs by nature	101	99
Granted property rights	(41)	(75)
Change in product inventories	(2)	(15)
Self-supply of services	(300)	(330)
Value of goods and materials sold	13,650	11,595
Total operating expenses	**24,416**	**19,178**
of which:		
Cost of sales	21,876	17,798
Selling and distribution expenses	2,034	983
General and administrative expenses	506	397

11.2. The amortization/depreciation costs recognized through profit or loss

	Year ended 31 December 2023	Year ended 31 December 2022
Items included in cost of goods sold:	**1,129**	**1,068**
Depreciation of property, plant and equipment and right-of-use assets	1,093	1,035
Amortization of intangible assets	36	33
Items included in selling and distribution expenses:	**51**	**50**
Depreciation of property, plant and equipment and right-of-use assets	27	27
Amortization of intangible assets	24	23
Items included in general and administrative expenses:	**14**	**16**
Depreciation of property, plant and equipment and right-of-use assets	9	11
Amortization of intangible assets	5	5

11.3. Employee benefit expenses

	Year ended 31 December 2023	Year ended 31 December 2022
Wages and salaries	1,032	966
Social security contributions	201	180
Post-employment benefits and long service bonuses	81	7
Other employee benefit expenses, including:	221	155
Energy tariff – current costs	14	12
Company Social Benefit Fund – charges for the current financial year	35	33

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	Year ended 31 December 2023	Year ended 31 December 2022
Employee Pension Plan	53	48
Employee training	7	6
Expenses related to health and safety	2	3
Other	110	53
TOTAL	**1,535**	**1,308**

11.4. Other operating income

	Year ended 31 December 2023	Year ended 31 December 2022
Profit on disposal of property, plant and equipment / intangible assets / PUA	4	3
Penalties, fines, indemnities received	50	117
Grants	31	28
Reversal of impairment losses on current assets	63	58
Reversed impairment losses on property, plant and equipment	1	6
Reversal of provisions (e.g. court cases)	17	41
Reimbursement of tax	5	4
Reimbursement of costs of court proceedings	8	9
Liabilities written off	1	1
Revenues in connection with illegal energy consumption	13	5
Infrastructure acquired free of charge	20	21
Overpayments	9	3
Exit fee for transfer of processes from wholesale to ORLEN Energia	120	-
Settlement and valuation of financial instruments (operational risk)	144	637
Other	12	12
TOTAL	**498**	**945**

11.5. Other operating expenses

	Year ended 31 December 2023	Year ended 31 December 2022
Loss on disposal/liquidation of property, plant and equipment/intangible assets	-	5
Cost of remedying chance losses	42	166
Donations	18	12
Recognition of impairment losses on current assets	145	128
Recognition of impairment losses on property, plant and equipment	-	78
Recognition of provisions	143	45
Indemnities	6	4
Costs in connection with illegal energy consumption	4	2
Litigation expenses	13	12
Settlement and valuation of financial instruments (operational risk)	84	390
Membership fees	6	-
Written off VAT adjustments	8	-
Other	8	2
TOTAL	**477**	**844**

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11.6. Finance income

	Year ended 31 December 2023	Year ended 31 December 2022
Income on financial instruments, including:	**97**	**129**
Interest income	95	44
Gain on disposal of investments	1	-
Revaluation of financial assets (including reversal of impairment losses)	1	69
Foreign exchange differences	-	16
Other finance income	**20**	**39**
Excess return on hybrid bonds	19	-
Revaluation of investment measured using the equity method	-	34
Other	1	5
TOTAL	**117**	**168**

11.7. Finance expenses

	Year ended 31 December 2023	Year ended 31 December 2022
Costs of financial instruments, including:	**441**	**290**
Interest expense	376	256
Revaluation of financial assets (including recognition of impairment losses)	49	21
Foreign exchange differences	16	13
Other finance expenses, of which:	**279**	**139**
Revaluation of investment measured using the equity method	-	34
Lease interest	48	44
Cash pooling interest, actuarial interest and other interest	187	44
Loss on sale of shares in subsidiaries	25	-
Other	19	17
TOTAL	**720**	**429**

12. Income tax

12.1. Income tax expense

The main items of income tax expense for the year ended 31 December 2023 are as follows:

	Year ended 31 December 2023	Year ended 31 December 2022
Statement of profit or loss		
Current income tax expense	(208)	(315)
Adjustments to income tax for prior years	(36)	(17)
Deferred income tax	(248)	164
Tax burden recognized through profit or loss	**(492)**	**(168)**
Statement of comprehensive income		
Deferred income tax	19	1
Income tax expense/benefit recognized through comprehensive income	**19**	**1**

With regard to income tax, the Group was principally subject to the general regulations in 2023. Except for the ENERGA 2021 Tax Group (see description in Note 12.4), there were no other occurrences that would require calculation of income tax expense using methods different from the general regulations in this respect.

The expiration date of the right to settle a tax loss by Energa Group companies is no later than 31 December 2028.

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The value of the unused tax loss for which no deferred tax asset was created was PLN 2,169 m (in which losses relating to PGK ENERGA 2021 amounts to PLN 1,957 m) as at 31 December 2023 and PLN 437 m as at 31 December 2022.

12.2. Reconciliation of the effective tax rate

Reconciliation of income tax on the gross financial result before tax using the statutory tax rate, with income tax calculated according to the Group's effective tax rate, is as follows:

	Year ended 31 December 2023	Year ended 31 December 2022
Profit or loss before tax	**1,098**	**1,177**
Income tax expense at Poland's statutory rate of 19%	**(209)**	**(224)**
Adjustments to income tax for prior years	(36)	(17)
Income tax expense on permanently non-tax-deductible expenses	(91)	(32)
Income tax expense on permanently non-taxable income	4	25
Income tax expense on profit/(loss)-sharing in entities measured using the equity method	2	13
Tax losses	(181)	(69)
Temporary differences for which no deferred tax asset was recognized	19	136
Income tax expense at the effective tax rate in the statement of profit or loss	**(492)**	**(168)**
Effective tax rate in %	**45**	**14**

The current income tax expense is calculated on the basis of applicable tax regulations. Application of those regulations differentiates between the tax profit (loss) and accounting net profit (loss) in connection with exclusion of non-taxable revenues and non-deductible expenses and items of income or expense which are never taxable. The income tax expense is calculated on the basis of tax rates applicable in the given financial year. A 19% tax rate was applicable in 2023 and 2022. Current regulations do not provide for differentiated tax rates for future periods.

The fiscal year and the period for which these financial statements are prepared correspond to a calendar year.

Consolidated financial statements for the year ended 31 December 2023 (PLN m)

12.3. Deferred income tax

Deferred income tax is derived from the following items:

	As at 31 December 2023	Revision recognized through profit or loss	Revision recognized through comprehensive income/equity	Reclassification to assets classified as held for sale	As at 31 December 2022
Deferred tax assets	**1,068**	**2**	**4**	**(1)**	**1,063**
On the difference between the tax and carrying value of property, plant and equipment, intangible assets and inventories	140	15	-	-	125
On the difference between the tax and carrying value of financial assets and liabilities	255	(21)	-	-	276
On provisions for post-employment benefits	66	(5)	4	-	67
On provisions for long service bonuses	51	10	-	-	41
On provisions for redemption of property rights	82	55	-	-	27
On provisions for land reclamation and cost of liquidation of property, plant and equipment	20	1	-	-	19
On provisions for gas emission liabilities	42	(5)	-	-	47
Unpaid employee salaries and benefits	1	(4)	-	-	5
On other provisions	144	(120)	-	-	264
Accrued expenses	142	-	-	-	142
Other liabilities and deferred income	15	3	-	-	12
Tax losses	71	49	-	-	22
Other	39	24	-	(1)	16
Set-off	**(836)**	**(202)**	**11**	**-**	**(645)**
Deferred tax assets after set-off	**232**	**(200)**	**15**	**(1)**	**418**

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	As at 31 December 2022	Revision recognized through profit or loss	Revision recognized through comprehensive income/equity	Reclassification to assets classified as held for sale	As at 31 December 2021
Deferred tax assets	**1,063**	**314**	**(6)**	**(4)**	**759**
On the difference between the tax and carrying value of property, plant and equipment, intangible assets and inventories	125	7	-	-	118
On the difference between the tax and carrying value of financial assets and liabilities	276	(1)	-	-	277
On provisions for post-employment benefits	67	(1)	(6)	-	74
On provisions for long service bonuses	41	(5)	-	-	46
On provisions for redemption of property rights	27	(4)	-	-	31
On provisions for land reclamation and cost of liquidation of property, plant and equipment	19	-	-	-	19
On provisions for gas emission liabilities	47	2	-	-	45
Unpaid employee salaries and benefits	5	1	-	-	4
On other provisions	264	213	-	(1)	52
Accrued expenses	142	80	-	(3)	65
Other liabilities and Deferred income	12	2	-	-	10
Tax losses	22	10	-	-	12
Other	16	10	-	-	6
Set-off	**(645)**	**(117)**	**(5)**	**(1)**	**(522)**
Deferred tax assets after set-off	**418**				**237**

The total amount of temporary differences with regard to investments in subsidiaries where no deferred income tax liability was recognized is PLN 1,414 m as at 31 December 2023 and PLN 1,498 m as at 31 December 2022, respectively. The reason why no deferred income tax asset was created is that the Group does not intend to sell these investments or does not expect these temporary differences to be reversed in the future.

Consolidated financial statements for the year ended 31 December 2023 (PLN m)

	As at 31 December 2023	Revision recognized through profit or loss	Revision recognized through comprehensive income/equity	Disposal of subsidiary	Reclassification to assets classified as held for sale	As at 31 December 2022
Deferred tax liability	**1,811**	**250**	**(15)**	**-**	**-**	**1,576**
On the difference between the tax and carrying value of property, plant and equipment and intangible assets	1,208	54	-	-	-	1,154
Accrued revenues	55	(4)	-	-	-	59
On the difference between the tax and carrying value of energy certificates	5	-	-	-	-	5
On the difference between the tax- and carrying value of financial assets and liabilities resulting from interest accrued, unrealized exchange differences, measurement of instruments.	131	(53)	(13)	-	-	197
Other receivables and prepaid expenses	32	(1)	-	-	-	33
Other liabilities and deferred income	81	17	-	-	-	64
On provisions for post-employment benefits	4	-	(1)	-	-	5
Other	295	237	(1)	-	-	59
Set-off	**(836)**	**(202)**	**11**	**-**	**-**	**(645)**
Deferred tax liability after set-off	**975**	**48**	**(4)**	**-**	**-**	**931**

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	As at 31 December 2022	Revision recognized through profit or loss	Revision recognized through comprehensive income/equity	Reclassification to assets classified as held for sale	As at 31 December 2021
Deferred tax liability	**1,576**	**150**	**(7)**	**1**	**1,432**
On the difference between the tax and carrying value of property, plant and equipment and intangible assets	1,154	18	-	1	1,135
Accrued revenues	59	16	-	-	43
On the difference between the tax and carrying value of energy certificates	5	(4)	-	-	9
On the difference between the tax- and carrying value of financial assets and liabilities resulting from interest accrued, unrealized exchange differences, measurement of instruments.	197	22	(8)	-	183
Other receivables and prepaid expenses	33	3	-	-	30
Other liabilities and deferred income	64	37	-	-	27
On provisions for post-employment benefits	5	-	1	-	4
Other	59	58	-	-	1
Set-off	**(645)**	**(117)**	**(5)**	**(1)**	**(522)**
Deferred tax liability after set-off	**931**				**910**

The total amount of temporary differences with regard to investments in subsidiaries where no deferred income tax liability was recognized is PLN 5,855 m as at 31 December 2023 and PLN 4,384 m as at 31 December 2022, respectively. The reason why no deferred income tax provision was created is that the Group does not intend to sell these investments, i.e. the temporary differences will not reverse in future.

12.4. ENERGA Tax Group

On 9 November 2020, the Group executed an agreement of Tax Group under the name of PGK ENERGA 2021. The agreement was signed for a term of three fiscal years from 1 January 2021 until 31 December 2023. The agreement was registered by the Head of the Pomorski Tax Authority on 10 December 2020. Contract has not been renewed.

The following companies make up the PGK tax group: Energa SA, Energa-Operator SA, Energa-Obrót SA, Energa Wytwarzanie SA, Energa Informatyka i Technologie Sp. z o.o., Energa Logistyka Sp. z o.o. and Energa Oświetlenie Sp. z o.o.

Energa SA was selected as the company representing the 2021 ENERGA Tax Group in respect to the duties arising from the Act on corporate income tax and the Tax Ordinance Act.

Energa Tax Group charged income tax on the total income generated from two sources of revenue, namely income on capital gains and income on other revenue. The surplus of total income generated by all companies making up Energa Tax Group from a given source of revenue over their total losses incurred on this source of revenue constitutes the income on the source of revenue.

In view of the end of the group's period of operation, an agreement was signed on 26 October 2023 for a new tax group under the name PGK ENERGA 2024. The agreement was signed for a term of three fiscal years from 1 January 2024 until 31 December 2026. The agreement was registered by the Head of the First Mazovian Tax Authority in Warsaw in a decision dated 29 November 2023. The following companies make up the new PGK tax group: Energa SA, Energa-Operator SA, Energa Wytwarzanie SA, Energa Logistyka Sp. z o.o. and Energa Oświetlenie Sp. z o.o.

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NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL POSITION

13. Property, plant and equipment

	Own land	Buildings, premises and civil engineering structures	Plant and equipment	Transport equipment	Other property, plant and equipment	Capital work in progress	Total
Gross value							
As at 1 January 2023	**247**	**16,689**	**8,325**	**409**	**1,298**	**2,704**	**29,672**
Direct purchase	-	-	-	-	-	**4,092**	**4,092**
Settlement of capital work in progress	4	1,286	713	37	214	**(2,254)**	**-**
Sale, disposal	-	-	(1)	(7)	-	**-**	**(8)**
Liquidation	-	(38)	(46)	-	(98)	**(1)**	**(183)**
Received free of charge	-	19	-	-	-	**-**	**19**
Reclassification between groups	-	3	(10)	1	-	**3**	**(3)**
Capitalized financing expenses	-	-	-	-	-	**52**	**52**
Reclassification to assets classified as held for sale	-	-	-	-	-	21	**21**
Provision for land reclamation and liquidation costs	-	4	1	-	-	**-**	**5**
Other changes	-	-	(2)	-	-	**-**	**(2)**
As at 31 December 2023	**251**	**17,963**	**8,980**	**440**	**1,414**	**4,617**	**33,665**
Accumulated amortization (depreciation) and impairment losses							
As at 1 January 2023	**-**	**(6,991)**	**(4,143)**	**(312)**	**(754)**	**(86)**	**(12,286)**
Amortization/depreciation and net liquidation value	(1)	(567)	(327)	(24)	(136)	**(12)**	**(1,067)**
Other increases in impairment losses	-	-	(30)	-	-	**-**	**(30)**
Reversed impairment losses	-	-	1	-	-	**-**	**1**
Other decreases in impairment losses	-	-	3	-	-	**34**	**37**
Sale, disposal	-	-	1	7	-	**-**	**8**
Liquidation	-	38	44	1	97	**-**	**180**
Reclassification between groups	-	(1)	4	-	-	**-**	**3**
Other changes	-	-	2	-	-	**-**	**2**
As at 31 December 2023	**(1)**	**(7,521)**	**(4,445)**	**(328)**	**(793)**	**(64)**	**(13,152)**
Net value as at 1 January 2023	**247**	**9,698**	**4,182**	**97**	**544**	**2,618**	**17,386**
Net value as at 31 December 2023	**250**	**10,442**	**4,535**	**112**	**621**	**4,553**	**20,513**

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	Own land	Buildings, premises and civil engineering structures	Plant and equipment	Transport equipment	Other property, plant and equipment	Capital work in progress	Total
Gross value							
As at 1 January 2022	**113**	**15,840**	**8,048**	**399**	**1,235**	**1,141**	**26,776**
Direct purchase	-	-	-	-	-	3,051	**3,051**
Settlement of capital work in progress	57	889	381	16	177	(1,520)	**-**
Sale, disposal	-	(1)	(7)	(6)	-	-	**(14)**
Liquidation	-	(65)	(91)	-	(114)	-	**(270)**
Received free of charge	-	20	1	-	-	-	**21**
Reclassification between groups	-	-	(5)	-	-	4	**(1)**
Redemption	77	-	-	-	-	-	**77**
Capitalized financing expenses	-	-	-	-	-	22	**22**
Reclassification to assets classified as held for sale	-	-	-	-	-	6	**6**
Provision for land reclamation and liquidation costs	-	6	4	-	-	-	**10**
Other changes	-	-	(6)	-	-	-	**(6)**
As at 31 December 2022	**247**	**16,689**	**8,325**	**409**	**1,298**	**2,704**	**29,672**
Accumulated amortization (depreciation) and impairment losses							
As at 1 January 2022	**(1)**	**(6,493)**	**(3,871)**	**(293)**	**(747)**	**(90)**	**(11,495)**
Amortization/depreciation and net liquidation value	1	(544)	(310)	(25)	(121)	(9)	**(1,008)**
Recognition of impairment losses	-	(24)	(54)	-	-	-	**(78)**
Other increases in impairment losses	-	-	(12)	-	-	-	**(12)**
Reversed impairment losses	-	5	-	-	-	1	**6**
Other decreases in impairment losses	-	5	43	-	-	12	**60**
Sale, disposal	-	-	6	6	-	-	**12**
Liquidation	-	60	49	-	114	-	**223**
Reclassification between groups	-	-	1	-	-	-	**1**
Other changes	-	-	5	-	-	-	**5**
As at 31 December 2022	**-**	**(6,991)**	**(4,143)**	**(312)**	**(754)**	**(86)**	**(12,286)**
Net value as at 1 January 2022	**112**	**9,347**	**4,177**	**106**	**488**	**1,051**	**15,281**
Net value as at 31 December 2022	**247**	**9,698**	**4,182**	**97**	**544**	**2,618**	**17,386**

Impairment tests for property, plant and equipment

In 2023, property, plant and equipment were assessed for any internal and external indications of impairment of recoverable amount.

Since there were indications of impairment of non-current assets of certain companies of the Energa Group in the second half of the year, impairment tests of cash generating units (CGUs) were carried out to determine their value in use. The tests were conducted using the income method, on the basis of the discounted value of estimated cash flows from operating activities, taking into account, among others, the following assumptions:

- The test date is 31 December 2023.
- Macroeconomic assumptions for the Orlen Group are used, including electricity prices by source, prices of coal, natural gas, certificates of origin and carbon emission allowances, based on in-house projections prepared for the Orlen SA and Orlen Group Long-Term Financial Plan for 2023-2033; projections were prepared up to and including the year 2050; projections of Energa Elektrownie Ostrołęka SA for 2024-2031 were used for biomass; the pathways assume a change in the energy mix, including specifically a lower output and phasing out of coal-fired units in the long term.
- The number of free carbon emission allowances for 2021-2025 is as specified on the list published by the Polish Minister for Environment.
- The projected price of carbon emission allowances for 2023 is EUR 99 per tonne. In subsequent years, the projections increase to EUR 179 per tonne in 2033. Projections of carbon emission allowance pricing were substantially impacted by legislative work related to the EU ETS reform under the Fit for 55 package.
- Replacement capital expenditure is at levels allowing for maintenance of the production capacity of the existing non-current assets, including capital expenditures to adjust industrial emission levels to the requirements of Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions and the Commission Implementing Decision (EU) 2021/2326 establishing best available techniques (BAT) conclusions which was published on 30 November 2021.
- Support is maintained for production of energy from the existing renewable sources in the form of revenue from property rights and incorporation for some installations of the won auctions for sale of electricity from renewable energy sources and revenue from the FIT/FIP mechanism, in accordance with the Act of 20 February 2015 on renewable energy sources, as amended (Journal of Laws 2023, items 1436, 1681, 1597, 1762).
- Revenue from the capacity market is in accordance with the provisions of the Act of 8 December 2017 on the capacity market (consolidated text: Journal of Laws 2023, item 2131), with the rates adopted on the basis of the auctions held and won in 2018-2023 and for the years that go beyond the contracted period based on the price paths (prices of multi-year power contracts are adjusted annually in accordance with capacity market regulations).
- Estimated impact of a package of regulations aimed at counteracting excessive increases in electricity prices and introducing a number of solutions, affecting power companies and electricity consumers, such as (i) rules for freezing electricity prices based on the tariffs approved in 2022, (ii) limits on electricity consumption for individual consumers in 2023, (iii) rules for applying so-called maximum prices, (iv) rules for calculating contributions to the Price Difference Payout Fund from electricity generators and trading companies, and (v) rules for granting and settling compensation from the Price Difference Payout Fund to trading companies for the application of so-called maximum prices.

  The key pieces of legislation included in the aforementioned regulatory package are as follows:

  - Act of 7 October 2022 on special solutions for the protection of electricity customers in 2023 in connection with the situation in the electricity market, as amended (Journal of Laws 2022, items 2127, 2243, 2687);
  - Act of 27 October 2022 on urgent measures to cap electricity prices and support certain consumers in 2023, as amended (Journal of Laws 2022, items 2243, 2687);
  - Regulation of the Council of Ministers of 8 November 2023 laying down the rules for calculating the price cap (Journal of Laws 2022, item 2729);
  - Regulation of the Minister of Climate and Environment of 9 September 2023 amending the Regulation setting out the rules of structuring and calculating tariffs and billings in electricity trading (Journal of Laws of 2023, item 1847);

- the length of the financial projections of each CGU has been determined so that the cash flows used to calculate the residual value are as close as possible to the expected flows in future years,
- a growth rate of 2.0%, which does not exceed the average long-term inflation growth rates in Poland, was adopted to extrapolate the cash flow projection for the purpose of calculation of residual value.

Discount rates based on the after-tax weighted average cost of capital (WACC) adopted for the calculation ranged from 6.78% to 10.71% for 2024, and were then adjusted for the expected levels of 10-year bond yields in Poland in each period, reaching a target level in the range of 6.40% to 10.32% in 2029 and subsequent years. Discount rates used in the calculation for 2022 ranged from 8.60% to 12.22% for 2023, and were then adjusted for the expected levels of 10-year bond yields in Poland in each period, reaching a target level in the range of 6.73% to 10.28% in 2028 and subsequent years.

Based on the result of the tests, there was no need to recognize impairment losses on shares held in subsidiaries. Based on the results of the tests, there was no need to recognize impairment losses on property, plant and equipment.

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14. Intangible assets

	Development costs	Software, licenses and patents	Property rights	Other intangible assets	Intangible assets not in use	Total
Gross value						
As at 1 January 2023	**1**	**964**	**1,199**	**74**	**96**	**2,334**
Direct purchase	-	20	470	-	76	**566**
Settlement of intangible assets not in use	-	51	-	4	(55)	**-**
Sale, disposal	-	-	(27)	-	-	**(27)**
Liquidation	-	(32)	-	(22)	-	**(54)**
Donations and free of charge items	-	-	76	-	-	**76**
Redemption of property rights	-	-	(1,052)	-	-	**(1,052)**
As at 31 December 2023	**1**	**1,003**	**666**	**56**	**117**	**1,843**
Accumulated amortization (depreciation) and impairment losses						
As at 1 January 2023	**-**	**(772)**	**-**	**(48)**	**(27)**	**(847)**
Amortization/depreciation and net liquidation value	-	(61)	-	(4)	-	**(65)**
Liquidation	-	32	-	22	-	**54**
As at 31 December 2023	**-**	**(801)**	**-**	**(30)**	**(27)**	**(858)**
Net value as at 1 January 2023	**1**	**192**	**1,199**	**26**	**69**	**1,487**
Net value as at 31 December 2023	**1**	**202**	**666**	**26**	**90**	**985**

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	Development costs	Software, licenses and patents	Property rights	Other intangible assets	Intangible assets not in use	Total
Gross value						
As at 1 January 2022	**1**	**911**	**703**	**71**	**82**	**1,768**
Direct purchase	-	1	1,611	-	76	**1,688**
Settlement of intangible assets not in use	-	57	-	5	(62)	**-**
Sale, disposal	-	-	(11)	-	-	**(11)**
Liquidation	-	(6)	-	(1)	-	**(7)**
Reclassification between groups	-	1	-	(1)	-	**-**
Donations and free of charge items	-	-	71	-	-	**71**
Redemption of property rights	-	-	(1,175)	-	-	**(1,175)**
As at 31 December 2022	**1**	**964**	**1,199**	**74**	**96**	**2,334**
Accumulated amortization (depreciation) and impairment losses						
As at 1 January 2022	**-**	**(719)**	**-**	**(48)**	**(27)**	**(794)**
Amortization/depreciation and net liquidation value	-	(58)	-	(3)	-	**(61)**
Liquidation	-	6	-	2	-	**8**
Reclassification between groups	-	(1)	-	1	-	**-**
As at 31 December 2022	**-**	**(772)**	**-**	**(48)**	**(27)**	**(847)**
Net value as at 1 January 2022	**1**	**192**	**703**	**23**	**55**	**974**
Net value as at 31 December 2022	**1**	**192**	**1,199**	**26**	**69**	**1,487**

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15. Right-of-use assets

	Land	Right of perpetual usufruct of land	Buildings, premises and civil engineering structures	Plant and equipment	Transport equipment	Other property, plant and equipment	Total
Gross value							
As at 1 January 2023	**908**	**210**	**107**	**20**	**18**	**-**	**1,263**
New leases/lease modifications resulting in new assets	72	12	1	-	9	-	**94**
Revaluation – increase	17	10	59	-	1	-	**87**
Leases terminated before initial lease term	-	(4)	(3)	(9)	(6)	-	**(22)**
Revaluation – decrease	(6)	(1)	(6)	-	-	-	**(13)**
As at 31 December 2023	**991**	**227**	**158**	**11**	**22**	**-**	**1,409**
Accumulated amortization (depreciation) and impairment losses							
As at 1 January 2023	**(109)**	**(13)**	**(63)**	**(17)**	**(11)**	**-**	**(213)**
Amortization/depreciation and net liquidation value	(35)	(3)	(17)	(2)	(5)	-	**(62)**
Leases terminated before initial lease term	-	1	2	10	5	-	**18**
As at 31 December 2023	**(144)**	**(15)**	**(78)**	**(9)**	**(11)**	**-**	**(257)**
Net value as at 1 January 2023	**799**	**197**	**44**	**3**	**7**	**-**	**1,050**
Net value as at 31 December 2023	**847**	**212**	**80**	**2**	**11**	**-**	**1,152**

The costs associated with leases of low-value assets stand at PLN 0.2 m as at 31 December 2023, whereas the costs associated with variable lease payments not included in measurement of lease liabilities amount to PLN 0.3 m and the costs associated with short-term leases are PLN 0.8 m.

Total expenditures under leases presented in the statement of cash flows in 2023 amounted to PLN 117 m.

Additional information on lease obligations is presented in Notes 29.4.2 and 34.

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	Land	Rights of perpetual usufruct of land	Buildings, premises and civil engineering structures	Plant and equipment	Transport equipment	Other property, plant and equipment	Total
Gross value							
As at 1 January 2022	**876**	**206**	**104**	**16**	**16**	**-**	**1,218**
New leases/lease modifications resulting in new assets	99	-	2	4	5	-	**110**
Revaluation – increase	12	5	4	-	1	-	**22**
Leases terminated before initial lease term	-	(1)	(4)	-	(4)	-	**(9)**
Redemption	(77)	-	-	-	-	-	**(77)**
Revaluation – decrease	(2)	-	-	-	-	-	**(2)**
Other changes	-	-	1	-	-	-	**1**
As at 31 December 2022	**908**	**210**	**107**	**20**	**18**	**-**	**1,263**
Accumulated amortization (depreciation) and impairment losses							
As at 1 January 2022	**(76)**	**(9)**	**(47)**	**(12)**	**(11)**	**-**	**(155)**
Amortization/depreciation and net liquidation value	(33)	(4)	(19)	(5)	(4)	-	**(65)**
Leases terminated before initial lease term	-	-	3	-	4	-	**7**
As at 31 December 2022	**(109)**	**(13)**	**(63)**	**(17)**	**(11)**	**-**	**(213)**
As at 1 January 2022	**800**	**197**	**57**	**4**	**5**	**-**	**1,063**
As at 31 December 2022	**799**	**197**	**44**	**3**	**7**	**-**	**1,050**

The costs associated with leases of low-value assets stand at PLN 0.2 m as at 31 December 2022, whereas the costs associated with variable lease payments not included in measurement of lease liabilities amount to PLN 0.1 m and the costs associated with short-term leases are PLN 0.2 m.

Total expenditures under leases presented in the statement of cash flows in 2022 amounted to PLN 113 m.

Additional information on lease obligations is presented in Notes 29.4.2 and 34.

Consolidated financial statements for the year ended 31 December 2023 (PLN m)

16. Investments in associates and joint ventures measured using the equity method

The key information about investments in joint ventures and associates is presented in Note 2.2.

Investments measured using the equity method	As at 31 December 2023	As at 31 December 2022
Elektrownia Ostrołęka Sp. z o.o.	-	-
Polimex-Mostostal S.A.	163	153
Total	**163**	**153**

Below we present condensed financial information of the companies measured by the equity method and reconciliation of the financial information to the carrying amount of shares in the companies recognized in the Group's consolidated financial statements. The 2023 data are based on the companies' financial data. 2023 data for Polimex-Mostostal S.A. are based on consolidation package as at and for the 12-month period ended 30 November 2023 (reference data are based on consolidation package as at and for the 11-month period ended 30 November 2022 and final data for the period from 1 October to 31 December 2021). For Elektrownia Ostrołęka Sp. z o.o., the data are based on data as at and for the 12-month period ended 31 December 2023 (reference data are data as at and for the 12-month period ended 31 December 2022).

Condensed statement of comprehensive income	Elektrownia Ostrołęka Sp. z o.o.	Polimex-Mostostal S.A.
	2023	
Revenue	3	3,322
Amortization and depreciation	2	43
Interest income	1	18
Interest expense	8	20
(Loss)/profit before tax from continuing operations	**(7)**	**85**
Income taxes	-	30
Net (loss)/profit from continuing operations	**(7)**	**55**
Net profit on discontinued operations	**-**	**-**
Other comprehensive income	**-**	**6**
Total comprehensive income	**(7)**	**61**
Dividends paid	**-**	**-**

Condensed statement of comprehensive income	Elektrownia Ostrołęka Sp. z o.o.	Polimex-Mostostal S.A.
	2022	
Revenue	5	4,170
Amortization and depreciation	-	44
Interest income	2	14
Interest expense	30	18
(Loss)/profit before tax from continuing operations	**133**	**185**
Income taxes	-	36
Net (loss)/profit from continuing operations	**133**	**149**
Net profit on discontinued operations	**-**	**-**
Other comprehensive income	**-**	**12**
Total comprehensive income	**133**	**161**
Dividends paid	**-**	**-**

Condensed balance sheet	Elektrownia Ostrołęka Sp. z o.o.	Polimex-Mostostal S.A.
	2023	
Cash and cash equivalents	26	241
Other current assets (excl. cash)	-	1,520
Total current assets	**26**	**1,761**
Non-current assets	**76**	**689**
Financial liabilities (excl. trade liabilities)	-	54
Other current liabilities (incl. trade liabilities)	4	1,143
Total current liabilities	**4**	**1,197**

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Condensed balance sheet	Elektrownia Ostrołęka Sp. z o.o.	Polimex-Mostostal S.A.
	2023	
Financial liabilities	-	160
Other liabilities	23	86
Total non-current liabilities	**23**	**246**
Net assets	**75**	**1,008**

Condensed balance sheet	Elektrownia Ostrołęka Sp. z o.o.	Polimex-Mostostal S.A.
	2022	
Cash and cash equivalents	115	747
Other current assets (excl. cash)	1	1,402
Total current assets	**116**	**2,149**
Non-current assets	**77**	**676**
Financial liabilities (excl. trade liabilities)	481	59
Other current liabilities (incl. trade liabilities)	13	1,562
Total current liabilities	**494**	**1,621**
Financial liabilities	-	174
Other liabilities	23	88
Total non-current liabilities	**23**	**262**
Net assets	**(324)**	**942**

Condensed financial information	Elektrownia Ostrołęka Sp. z o.o.	Polimex-Mostostal S.A.
	2023	
Net assets of the joint venture/associate at the beginning of the period	**(324)**	**942**
Net profit/(loss) for the period	(7)	55
Other comprehensive income	-	6
Recapitalization by investors	-	-
Other differences	406	5
Net assets of the joint venture/associate at the end of the period	**75**	**1,008**
Stake held by the Group in the joint venture/associate	50.00%	16.22%
Interest in the joint venture/associate	-	163
Other differences	-	-
Carrying amount of shares	**-**	**163**

Condensed financial information	Elektrownia Ostrołęka Sp. z o.o.	Polimex-Mostostal S.A.
	2022	
Net assets of the joint venture/associate at the beginning of the period	**(482)**	**775**
Net profit/(loss) for the period	133	149
Other comprehensive income	-	12
Recapitalization by investors	-	-
Other differences	25	6
Net assets of the joint venture/associate at the end of the period	**(324)**	**942**
Stake held by the Group in the joint venture/associate	50.00%	16.26%

Condensed financial information	Elektrownia Ostrołęka Sp. z o.o.	Polimex-Mostostal S.A.
	2022	
Interest in the joint venture/associate	-	154
Other differences	-	(1)
Carrying amount of shares	**-**	**153**

In the case of dividend payments to shareholders of Elektrownia Ostrołęka Sp. z o.o., there are no specific restrictions on dividend distributions. However, Polimex-Mostostal S.A. assumed a contractual obligation not to pay any dividend or interim dividend to its shareholders without a prior consent of the creditors (banks and bondholders).

17. Inventories

	31 December 2023			31 December 2022		
	Historical cost	Impairment losses	Net value	Historical cost	Impairment losses	Net value
Materials	372	(5)	**367**	258	(4)	**254**
Semi-finished products and work in progress	13	-	**13**	16	-	**16**
Goods for resale	24	-	**24**	76	-	**76**
TOTAL	**414**	**(5)**	**409**	**350**	**(4)**	**346**

Group companies recognize impairment losses on inventories based on the loss of their economic usefulness determined by aging and turnover, down to the amount of the achievable net sale price.

18. CO_2 emission allowances

CO_2 emission allowances	Year ended 31 December 2023	Year ended 31 December 2022
CO_2 emissions from all installations ('000 tonnes), including:	**1,794**	**2,976**
number of emission allowances granted free of charge	44	45
number of emission allowances paid for	1,750	2,931
Obligation to redeem CO_2 emission allowances (PLN m), including:	**708**	**994**
number of granted emission allowances	19	17
cost of the obligation to redeem emission allowances	689	977

19. Cash and cash equivalents

Cash at bank earns interest at variable interest rates negotiated with the banks, which are driven by the interest rates for overnight deposits. Short-term deposits are made for different periods, from one day to three months, depending on the Group's current cash needs, and earn interest at interest rates negotiated individually with banks.

The Group conducts ongoing monitoring of financial institutions' ratings, depositing funds only in the banks with an investment level rating. The Group does not recognize an impairment loss on funds kept on fixed-term deposits as the related credit risk is deemed negligeable.

The balance of cash and cash equivalents presented in the statement of cash flows comprises the following items:

	As at 31 December 2023	As at 31 December 2022
Cash at bank and in hand	521	520
Short-term deposits up to 3 months	-	580
Total cash and cash equivalents	**521**	**1,100**
including restricted cash	*252*	*271*

Restricted cash presented in the consolidated statement of cash flows constitutes primarily the funds kept in the VAT account (split payment) and the security for settlements with Izba Rozliczeniowa Giełd Towarowych SA [the Commodity Clearing House].

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20. Other assets

20.1. Other non-current assets

	As at 31 December 2023	As at 31 December 2022
Non-current prepayments and accrued expenses	76	75
Investment property	6	11
Advances for capital work in progress and intangible assets	169	614
Non-current receivables	1	2
TOTAL	**252**	**702**

20.2. Other current assets

	As at 31 December 2023	As at 31 December 2022
VAT receivables	220	347
Prepayments for shares in companies	140	-
Advances for deliveries	14	28
Advances for property, plant and equipment	121	-
Deferred costs	123	76
Other tax receivables and receivables from property rights	8	25
Surplus of Company Social Benefit Fund's assets over liabilities	1	-
Other current assets	10	2
TOTAL	**637**	**478**

21. Share capital and other components of equity

21.1. Share capital

As at 31 December 2023, the share capital of Energa SA amounted to PLN 4,522 m and was divided into shares as specified below:

	As at 31 December 2023	As at 31 December 2022
Series AA bearer shares with a par value of PLN 10.92 each	269,139,114	269,139,114
Series BB registered shares with a par value of PLN 10.92 each	144,928,000	144,928,000
Total number of shares	**414,067,114**	**414,067,114**

21.2. Major shareholders

	Year ended 31 December 2023	Year ended 31 December 2022
ORLEN S.A.		
share in capital	90.92%	90.92%
share in voting rights	93.28%	93.28%
Other shareholders		
share in capital	9.08%	9.08%
share in voting rights	6.72%	6.72%

21.3. Shareholders' rights

At the end of the reporting period, ORLEN S.A. owned 376,488,640 shares of the Company constituting 90.92% of its share capital and carrying 521,416,640 votes at the General Meeting, which makes up 93.28% of the total number of votes at the

General Meeting (including 144,928,000 registered series BB shares, voting preferred with one series BB share carrying two votes at the General Meeting).

As a result of resolution of the Extraordinary General Meeting of the Company adopted on 29 October 2020, an application was filed with the Polish Financial Supervision Authority to withdraw the Company's shares from trading on the regulated market operated by the Warsaw Stock Exchange.

On 19 January 2021 the Company learned that on 15 January 2021 the Polish Financial Supervision Authority decided to stay the procedure. The proceedings before the Polish Financial Supervision Authority were stayed due to proceedings then pending before the Regional Court in Gdańsk concerning a demand to repeal resolution of the Extraordinary General Meeting of the Company.

Resolution No 3 of the Company's Extraordinary General Meeting of 29 October 2020 to withdraw 269,139,114 series AA ordinary bearer shares of the Company, designated by Central Securities Depository of Poland as ISIN PLENERG00022, from trading on the regulated market operated by the Warsaw Stock Exchange was challenged in two judicial proceedings.

In the first proceedings (Case No IX GC 1158/20), on 11 May 2022, the Management Board of Energa SA became aware that on the same day the Regional Court in Gdansk, 9th Commercial Department, issued a judgment dismissing the Company's shareholders' claim for revocation of Resolution No 3 of the Company's Extraordinary General Meeting of 29 October 2020 to withdraw 269,139,114 series AA ordinary bearer shares of the Company, designated by Central Securities Depository of Poland as ISIN PLENERG00022, from trading on the regulated market operated by the Warsaw Stock Exchange. The judgment is not final.

On 8 August 2022, the plaintiffs filed an appeal, a copy of which was served on the Company's attorneys on 26 September 2022. On 10 October 2022, a response to the appeal was filed on behalf of the Company. On 27 March 2023, a letter from the Plaintiffs was served on the Company's attorneys, in which the Plaintiffs relied on a judgment of the Regional Court in Gdańsk of 30 November 2022 issued in the second case for the repeal of the same resolution, along with its statement of reasons. On 26 April 2023, a reply to the Plaintiffs' letter was filed on behalf of the Company. On 6 December 2023, a pleading was filed on behalf of the Company.

In the second proceedings (Case No IX GC 1164/20), on 30 November 2022, the Regional Court in Gdansk, 9th Commercial Department, issued a judgement in the case disclosed by the Company in its current reports No 82/2020 of 16 December 2020 and No 7/2021 of 14 April 2021. The court ruled to:

1) dismiss the claim for invalidation of the resolution No 3 of the Company's Extraordinary General Meeting of 29 October 2020 to withdraw 269,139,114 series AA ordinary bearer shares of the Company, designated by Central Securities Depository of Poland as ISIN PLENERG00022, from trading on the regulated market operated by the Warsaw Stock Exchange;

2) revoke the resolution in question;

3) award court costs from the Company to the plaintiffs.

The judgement was delivered in camera and the grounds are not known. The judgment is not final.

As the Company disagrees with the part of the judgment concerning the revocation of the aforementioned resolution, it has requested a written statement of grounds and filed an appeal on 9 March 2023,

On 23 June 2023, a response to the appeal was served on the Company's attorneys, according to which the plaintiffs requested that the appeal be dismissed in its entirety. On 28 June 2023, in a reply to the response to the appeal, a request for permission to file a preparatory document was filed on behalf of the Company (reply to the response to the appeal), pursuant to which the Company's attorneys requested permission to file a preparatory document on behalf of the Company and to set a 30-day period from the service of the aforementioned permission for addressing the arguments put forward in the response to the appeal.

On 8 November 2023, a letter from the Court of Appeal in Gdańsk was delivered, in which the Court communicated its permission to file a reply to the response to the appeal.

On 29 November 2023, a reply to the response to the appeal was sent on behalf of the Company, in which the Company upheld its previous position.

On 8 December 2023, a notice was published in the Common Courts Information Portal, according to which a remote hearing was scheduled on 29 February 2024.

The hearing was held on 29 February 2024. The court postponed the delivery of its judgement until 21 March 2024. On 21 March 2024, the Court of Appeal in Gdańsk dismissed the appeal brought by the Company in its entirety and ordered the Company to pay the costs of the appeal proceedings, including attorneys' fees, to the plaintiffs. The judgement is final on the date of its delivery.

21.4. Reserve capital

Reserve capital was created as a result of the share capital reduction made in connection with the reverse split of the Parent Company's shares in 2013 and upon distribution of the Parent Company's net profit for 2016, 2021 and 2022. Reserve capital may be used only to cover future losses or to raise the Parent Company's share capital.

21.5. Supplementary capital

Supplementary capital was created from allowances from profit generated by the Parent Company in previous reporting periods. Pursuant to the requirements of the Commercial Company Code, joint stock companies are required to create supplementary capital to cover losses. At least 8% of the company's profit for a given financial year presented in the company's financial statements is transferred to supplementary capital until the capital reaches at least one third of the company's share capital. The use of the supplementary capital is decided by the General Meeting, however, the portion of the supplementary capital representing one-third of the share capital may only be used to cover a loss posted in the financial statements and cannot be allocated to other purposes.

21.6. Cash flow hedge reserve

The cash flow hedge reserve follows from the valuation of cross-currency interest rate swap (CCIRS) transactions concluded to hedge the FX risk associated with Eurobonds issued by the subsidiary, Energa Finance AB (publ), and with hybrid bonds issued by Energa SA and IRS interest rate swaps concluded to hedge the interest rate risk associated with the external financing used (see the description in Note 29.6).

21.7. Retained earnings and restrictions on dividend payment

The Group's retained earnings include amounts that are not subject to distribution, or cannot be paid out as dividend by the Parent Company. This refers, in particular, to the retained earnings of subsidiaries (taking into account consolidation adjustments), adjustments resulting from the transition of the Parent Company's financial statements from the Act on accounting to IFRS EU and actuarial gains and losses from the measurement of provisions for post-employment benefits recognized in other comprehensive income.

Other comprehensive income included in the statement of changes in equity consists of the following items:

	Note	Equity attributable to owners of the parent company				Non-controlling interest	Total equity
		Foreign exchange differences from translation of a foreign entity	Cash flow hedge reserve	Retained earnings	Total		
Actuarial gains and losses on defined benefit plans	**24.1**	-	-	(14)	**(14)**	(1)	**(15)**
Foreign exchange differences from translation of foreign entities		(7)	-	-	**(7)**	-	**(7)**
Cash flow hedges	**29.6**	-	(64)	-	**(64)**	-	**(64)**
Share of other comprehensive income of entities measured using the equity method		-	-	1	**1**	-	**1**
Net other comprehensive income for the year ended 31 December 2023		**(7)**	**(64)**	**(13)**	**(84)**	(1)	**(85)**
Actuarial gains and losses on defined benefit plans	**24.1**	-	-	33	**33**	-	**33**
Foreign exchange differences from translation of foreign entities		1	-	-	**1**	-	**1**
Cash flow hedges	**29.6**	-	(32)	-	**(32)**	-	**(32)**
Net other comprehensive income for the year ended 31 December 2022		**1**	**(32)**	**33**	**2**	-	**2**

21.8. Non-controlling interest

As at 31 December 2023, equity attributable to non-controlling interest refer to minority shareholders of companies in the Generation Business Line, in particular Energa Elektrownie Ostrołęka SA and company from Other business line CCGT Ostrołęka Sp. z o.o.

Significant non-controlling interest within the Energa Group is held by the following subsidiary:

Name of subsidiary	CCGT Ostrołęka Sp. z o.o.
Business venue	Ostrołęka
% share in minority shareholders' capital	0.5000
Subsidiary's profit or loss attributable to minority shareholders (PLN m)	(24)
Total interests in subsidiary attributable to minority shareholders (PLN m)	943
Financial information on subsidiary (PLN m)	
Current assets	206
Non-current assets	2,372
Current liabilities	36

Name of subsidiary	CCGT Ostrołęka Sp. z o.o.
Non-current liabilities	655
Revenue	1
Profit/loss	(47)
Total comprehensive income	(47)

22. Net earnings per share

There were no diluting instruments in the Parent Company, therefore net diluted earnings per share are equal to basic earnings per share. The data used to calculate earnings/loss per share are presented below.

	Year ended 31 December 2023	Year ended 31 December 2022
Net profit or loss attributable to owners of the parent	617	967
Net profit or loss attributable to ordinary equity holders of the parent company	**617**	**967**
Number of shares used to calculate earnings per share (millions)	414	414
Earnings or loss per share (basic and diluted) (in PLN)	**1.49**	**2.34**

23. Dividends

By the date of preparation of these financial statements, no decision had been made as to the distribution of profit.

On 15 June 2023, the Annual General Meeting of Energa SA adopted a resolution on the distribution of profit for 2022, which was allocated in whole to the supplementary capital.

24. Provisions

24.1. Provisions for employee benefits

The Group measures provisions for post-employment benefits and for long service bonuses (see description in Note 9.16) using actuarial methods.

The amounts of provisions for employee benefits and the reconciliation of changes to the balances are presented in the tables below.

	Pension and similar benefits	Energy tariff	Company Social Benefit Fund	Long service bonuses	Death gratuities	TOTAL
As at 1 January 2023	**130**	**179**	**18**	**211**	**3**	**541**
Disposal of subsidiary	-	-	-	-	-	-
Current service cost	6	2	-	12	-	20
Past service cost	-	(3)	-	(5)	-	(8)
Actuarial gains and losses, of which arising from changes in assumptions:	45	(49)	21	68	2	87
financial	33	(25)	18	42	1	69
demographic	1	5	1	2	-	9
other	11	(29)	2	24	1	9
Benefits paid	(14)	(18)	(2)	(37)	-	(71)
Interest expense	9	12	1	14	-	36
As at 31 December 2023, including:	**176**	**123**	**38**	**263**	**5**	**605**
Current	**23**	**11**	**1**	**32**	**1**	**68**
Non-current	**153**	**112**	**37**	**231**	**4**	**537**

The impact on other comprehensive income of the actuarial profit and loss on the provisions for Pensions and other benefits, Energy tariff, and the Company Social Benefits Fund is PLN (-)19 m, and it is reflected in the Consolidated Statement of Comprehensive Income.

Consolidated financial statements for the year ended 31 December 2023 (PLN m)

	Pension and similar benefits	Energy tariff	Company Social Benefit Fund	Long service bonuses	Death gratuities	TOTAL
As at 1 January 2022	**149**	**193**	**28**	**235**	**-**	**605**
Disposal of subsidiary	-	-	-	-	-	-
Current service cost	5	2	-	12	-	19
Past service cost	-	-	-	2	3	5
Actuarial gains and losses, of which arising from changes in assumptions:	(20)	(11)	(9)	(17)	-	(57)
financial	(30)	(15)	(9)	(38)	-	(92)
demographic	1	(5)	(1)	2	-	(3)
other	9	9	1	19	-	38
Benefits paid	(10)	(12)	(2)	(29)	-	(53)
Interest expense	6	7	1	8	-	22
As at 31 December 2022, including:	**130**	**179**	**18**	**211**	**3**	**541**
Current	**17**	**20**	**2**	**27**	**-**	**66**
Non-current	**113**	**159**	**16**	**184**	**3**	**475**

The impact on other comprehensive income of the actuarial profit and loss on the provisions for Pensions and other benefits, Energy tariff, and the Company Social Benefits Fund is 40 m, and it is reflected in the Consolidated Statement of Comprehensive Income.

Key assumptions adopted by the actuary to calculate the liability amounts at the end of the reporting period are as follows:

	Year ended 31 December 2023	Year ended 31 December 2022
Discount rate	5.20%	6.70%
Employee turnover rate	2.99%	2.87%
Expected salary growth rate	8.4%*	10.00%
Expected growth rate of the base of the Company Social Benefit Fund charge	25.72%**	5.00%
Expected energy equivalent growth rate	2.33%	1.07%

* 8.4% in 2024, 3.7% in 2025 and 2.5% thereafter.
**25.72% in 2024 and 6% thereafter.

Based on data received from the actuary, the Group estimates that the change in assumptions would affect the amount of provisions for pension and similar benefits, long service bonuses, the Company Social Benefit Fund and the energy tariff as follows:

Actuarial reserves	Carrying amount PLN	Analysis of sensitivity to discount rate changes		Analysis of sensitivity to salary growth rate changes		Analysis of sensitivity to energy equivalent changes	
		deviation in PLN					
		+0.5 p.p.	*-0.5 p.p.*	*+0.5%*	*-0.5%*	*+0.5%*	*-0.5%*
As at 31 December 2023							
Provision for pension and similar benefits	176	(7)	7	6	(6)	-	-
Energy tariff	123	(5)	6	-	-	7	(6)
Company Social Benefit Fund	38	(3)	3	3	(2)	-	-
Jubilee bonuses	263	(8)	9	8	(8)	-	-
Death gratuities	5	-	-	-	-	-	-
TOTAL	**605**	**(23)**	**25**	**17**	**(16)**	**7**	**(6)**
Contribution to profit before tax		*8*	*(9)*	*(8)*	*8*	-	-

Consolidated financial statements for the year ended 31 December 2023 (PLN m)

Actuarial reserves	Carrying amount PLN	Analysis of sensitivity to discount rate changes		Analysis of sensitivity to salary growth rate changes		Analysis of sensitivity to energy equivalent changes	
		deviation in PLN					
		+0.5 p.p.	*-0.5 p.p.*	*+0.5%*	*-0.5%*	*+0.5%*	*-0.5%*
As at 31 December 2022							
Provision for pension and similar benefits	130	(5)	5	4	(4)	-	-
Energy tariff	179	(6)	7	-	-	7	(6)
Company Social Benefit Fund	18	(1)	1	1	(1)	-	-
Jubilee bonuses	211	(6)	6	6	(6)	-	-
Death gratuities	3	-	-	-	-	-	-
TOTAL	**541**	**(18)**	**19**	**11**	**(11)**	**7**	**(6)**
Contribution to profit before tax		6	(6)	(6)	6	-	-

24.2. Other provisions

	Legal claims	Land reclamation and liquidation costs	Liabilities for gas emissions	Obligation relating to property rights	Other provisions	TOTAL
As at 1 January 2023	**264**	**88**	**997**	**142**	**1,160**	**2,651**
Interest expense	-	6	-	-	-	**6**
Discount rate	-	-	-	-	1	**1**
Recognized	150	5	707	422	496	**1,780**
Reversed	(12)	-	-	(38)	(1,075)	**(1,125)**
Utilized	(13)	-	(999)	(96)	(20)	**(1,128)**
Reclassification from provisions to liabilities*	-	-	-	-	(55)	**(55)**
As at 31 December 2023, including:	**389**	**99**	**705**	**430**	**507**	**2,130**
Current	**389**	**-**	**705**	**430**	**499**	**2,023**
Non-current	**-**	**99**	**-**	**-**	**8**	**107**

*Reclassification to liabilities of a positive balance provision – renewable auctions of 47 m and provision for refund to the Price Difference Payout Fund of 8 m.

The amount of the provision for land reclamation and liquidation costs in 2023 arises mainly from a decrease of the discount rate. Variable discount rates were used in the calculations at 2023 year-end, which were as follows for the respective years:

	2024	2025	2026	2027	2028	2029 and beyond
Discount rate	5.05%	4.89%	4.83%	4.91%	5.04%	4.63%

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	Legal claims	Land reclamation and liquidation costs	Liabilities for gas emissions	Obligation relating to property rights	Provision for capital expenditure commitments	Other provisions	TOTAL
As at 1 January 2022	**246**	**80**	**593**	**163**	**46**	**74**	**1,202**
Interest expense	-	4	-	-	-	-	4
Discount rate	-	-	-	-	-	1	1
Recognized	47	16	999	605	-	1,131	2,798
Reversed	(29)	(12)	(5)	-	(46)	(23)	(115)
Utilized	-	-	(590)	(626)	-	(19)	(1,235)
Reclassification to liabilities directly associated with assets held for sale	-	-	-	-	-	(4)	(4)
As at 31 December 2022, including:	**264**	**88**	**997**	**142**	**-**	**1,160**	**2,651**
Current	**178**	**-**	**997**	**142**	**-**	**1,113**	**2,430**
Non-current	**86**	**88**	**-**	**-**	**-**	**47**	**221**

The amount of the reversed provision for land reclamation and liquidation costs in 2022 arises mainly from an increase of the discount rate. Variable discount rates were used in the calculations at 2022 year-end, which were as follows for the respective years:

	2023	2024	2025	2026	2027	2028 and beyond
Discount rate	6.50%	6.90%	7.02%	6.97%	6.84%	4.43%

Provision for land reclamation and liquidation costs

In 2008, Energa Elektrownie Ostrołęka SA recognized the provision for ash landfills reclamation, which will be amortized until 2030. The provision for reclamation of furnace waste sites of ENERGA Kogeneracja Sp. z o. o., to be settled by 2053, is also presented in that line.

This category also presents provisions for the dismantling costs of the following wind farms:

- FW Bystra – provision recognized in 2012 and amortized until 2037;
- FW Karścino – provision recognized in 2009 and amortized until 2034;
- FW Karcino – provision recognized in 2010 and amortized until 2035;
- FW Myślino – provision recognized in 2015 and amortized until 2040; and
- FW Parsówek – provision recognized in 2016 and amortized until 2041.
- FW Przykona – provision recognized in 2020 and amortized until 2045;

Provisions for legal claims

One key purpose of the provisions for legal claims are court cases relating to power infrastructure located on private land without the necessary legal titles. The balance of these provisions was PLN 60 m at the end of 2023 vs. PLN 70 m at the end of 2022.

A provision of PLN 36 m was recognized in 2021 in view of the risk of unfavourable outcome of the dispute with Mostostal. The total value of the provision as at the end of 2023 is PLN 50.7 m.

In 2023, provisions were created for fines imposed on the Group by the President of the Energy Regulatory Office (URE). A PLN 60.7 m provision in connection with a decision of the President of the URE received on 15 December 2023 imposing a fine on the Company in proceedings for violation of obligations under Articles 5(1) and (1a), 6(1) and (2), and 6a of the Act of 28 December 2018 amending the excise tax act and certain other acts, in respect of which the Company has filed an appeal.
A PLN 44.2 m provision in connection with a decision of the President of the URE imposing a PLN 193.7 m fine on the Company in proceedings concerning the fulfilment of the obligation to redeem certificates of origin for 2018, due to the fact that the Company did not fulfil its 2018 obligation as specified in Article 52(1) of the Act of 20 February 2015 on renewable energy sources, i.e. to obtain and present for redemption to the President of the URE certificates of origin or certificates of origin for biogas issued, respectively, for electricity or agricultural biogas generated in renewable energy installations located in the territory of Poland or in the exclusive economic zone by 30 June 2019. The Company, in accordance with Article 52(1) of the Act of 20 February 2015 on renewable energy sources, fulfilled the obligation imposed by this provision for 2018 by paying a substitution fee of PLN 149.5 m to the National Fund for Environmental Protection and Water Management. Since in light of the decision of the President of the URE it was not possible to fulfil the aforementioned obligation in the manner required, this fee should be refunded to the Company as an undue benefit. As a result of the above, the amount of the provision was reduced by the aforementioned substitution fee. The Company exercised its right to appeal against the decision in question.

The remainder of the provisions relate to court cases related to the discontinuation of contracts for the sale of property rights arising from certificates of origin (CPAs).

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Other provisions

A provision of PLN 466 m for onerous contracts, associated with contracts for the sale of electricity, was recognized following the adoption of the Act of 7 December 2023 amending acts of law with a view to supporting electricity, gas and heat customers, which extended the mechanisms applied in settlements with consumers until 30 June 2024, as specified in the Act of 7 October 2022 on special solutions for the protection of electricity customers in 2023 and 2024 in connection with the situation in the electricity market in 2023 and in 2024 in connection with the electricity market situation and the Act of 27 October 2022 on urgent measures to cap electricity prices and support certain consumers in 2023 and 2024, as well as following the decision of the President of the Energy Regulatory Office of 15 December 2023 approving the electricity tariff for group G customers (connected to the network of ENERGA-OPERATOR S.A.), to whom the Company provides the universal service.
The provision value was estimated based on the planned sales volume for 2024, the final price for the G tariff customers in 2024 and the direct unit cost, including the planned electricity purchase price, property rights and excise duty. The provision of 466 m was included in cost of goods sold.

This category includes provisions relating to excise taxes payable on electricity sold to the end users in the amount of PLN 9.8 m, a provision for consideration potentially payable to the State Forests in the amount of PLN 2.3 m, a provision for property tax liabilities in the amount of PLN 8.5 m, a provision related to declared payments to the Polish National Foundation in the amount of PLN 9.8 m and a provision for liabilities in the amount of PLN 3 m created in connection with the position expressed by the Office of Competition and Consumer Protection (UOKiK) in a letter dated 18 July 2023, regarding the terms and conditions of mass offerings relating to the Group’s rules for charging penalties to individual customers for early termination of use of the Group’s offerings. According to the UOKiK, the provisions of the terms and conditions could be potentially regarded as prohibited (due to formulating consumer rights and obligations in a manner that is contrary to good practice and grossly violates consumer interest). In light of the above, the Group has amended its terms and conditions with regard to the contractual penalty provisions challenged by the UOKiK, thereby waiving fines for individual customers, and will refund previously charged fines at the customers’ request.

25. Other liabilities

25.1. Other non-current financial liabilities

	As at 31 December 2023	As at 31 December 2022
Derivative financial instruments	2	-
Other*	35	5
Total	**37**	**5**

* refers in particular to a positive balance resulting from the settlement of the electricity auctioning system and good performance bond, guarantee (cash deposits, bid deposits)

25.2. Other current liabilities

	As at 31 December 2023	As at 31 December 2022
Liabilities on account of taxes, customs duties, social security insurance and others	**350**	**110**
VAT	85	32
Liabilities on account of social security insurance	81	53
Personal income tax	29	17
Environmental and other fees	7	7
Contribution to the Price Difference Payout Fund	139	-
Other	9	1
Other non-financial liabilities	**77**	**135**
Payroll liabilities	53	44
Liabilities from Zarządca Rozliczeń	-	80
Other	24	11
TOTAL	**427**	**245**

31 December 2023 (PLN m)

26. Deferred income and grants

26.1 Deferred income

	As at 31 December 2023	As at 31 December 2022
Accruals for annual bonus and other employee bonuses	124	118
Accruals for annual holiday leaves	36	40
Awards for Management Boards	19	17
Property, plant and equipment received free of charge	1	-
Other prepayments and accruals	1	1
TOTAL, of which:	**181**	**176**
Non-current	1	1
Current	180	175

26.2 Grants

As at 31 December 2023 the Company recognizes grants in the amount of PLN 415 m, while as at 31 December 2022 grants amounted to PLN 352 m. As grants the Group recognizes primarily the valuation effect of the preferential loans from the European Investment Bank (EIB) recognized throughout the loan repayment period (see the description in Note 29.5) in the amount of PLN 35 m and the co-financing of PLN 19 m received to execute the project of construction of a biomass-fired power unit in Elbląg, which is recognized throughout the asset depreciation period until 2054. Additionally, companies from the Generation business line disclose the funding received from the National Fund for Environmental Protection and Water Management in the amount of PLN 22 m for the reconstruction of district heating networks. Energa-Operator SA has secured a grant of PLN 61 m for the purchase of single and three-phase remote read meters with backup GSM modems. In previous years, Energa-Operator SA received approx. PLN 155 m in co-financing for the “Rebuilding of district heating networks to meet Smart Grid standards through installation of intelligent grid metering and automation to mobilize consumers to improve efficient energy consumption and effective management of the electricity and heating system to improve security of supplies” project. Energa Wytwarzanie SA, meanwhile, has received specialized equipment needed to build an energy storage facility worth PLN 23 m from the Japanese government.

27. Social assets and liabilities of the Company Social Benefit Fund

Pursuant to the Act of 4 March 1994 on the Company Social Benefit Fund, as amended, the Company Social Benefit Fund is established by employers (companies) employing more than 20 employees on a full time equivalent basis. Group entities create such funds and make periodic contributions thereto. The funds of Energa SA Group companies contain no property, plant and equipment. The purpose of the Funds is to subsidize the social activity of the individual Group companies, grant loans to employees and subsidize other social expenses, such as co-payments to employee holidays.

Group companies have offset the Fund’s assets with their liabilities towards the Fund on the individual level, because these assets do not constitute separate assets of the companies.

The table below presents the structure of the Funds’ assets, liabilities and expenses.

	As at 31 December 2023	As at 31 December 2022
Loans granted to employees	4	4
Cash	3	2
Other assets of the Fund	1	-
Fund’s liabilities	7	6
Balance after set-off	**1**	**-**
Contributions to the Fund in the period	35	33

28. Assets classified as held for sale

On 31 July 2023, Energa SA and ORLEN Projekt SA entered into a sale agreement, under which the Company sold 100% of the shares held in Energa Invest Sp. z o.o. The title to the shares passed to ORLEN Projekt SA on 1 August 2023.

Energa Invest was classified as a disposal group under IFRS 5 in the period leading up to the sale

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	As at 31 December 2023	As at 31 December 2022
ASSETS		
Property, plant and equipment	-	28
Investment property	-	2
Intangible assets	-	2
Right-of-use assets	-	6
Deferred tax assets	-	5
Trade receivables	-	8
Cash and cash equivalents	-	2
Other current assets	-	5
Assets classified as held for sale	**-**	**58**
LIABILITIES		
Long-term lease liabilities	-	1
Trade liabilities	-	1
Deferred income and grants	-	11
Current provisions	-	7
Other financial liabilities	-	2
Other current liabilities	-	3
Liabilities directly related to assets classified as held for sale	**-**	**25**

NOTES ON FINANCIAL INSTRUMENTS

29. Financial instruments

29.1. Carrying amount of financial instruments by category and class

As at 31 December 2023	Measured at fair value through profit or loss for the period	Hedging derivatives	Measured at amortized cost	Financial instruments excluded from the scope of IFRS 9	TOTAL
Assets					
Trade receivables, of which:	-	-	5,135	-	**5,135**
Cash and cash equivalents	-	-	521	-	**521**
Other financial assets	28	17	1,263	-	**1,308**
Loans granted	-	-	-	-	**-**
Derivative financial instruments	13	17	-	-	**30**
Cash pooling receivables	-	-	1,157	-	**1,157**
Other	15	-	106	-	**121**
TOTAL	**28**	**17**	**6,919**	**-**	**6,964**
Liabilities					
Loans and borrowings	-	-	4,094	-	**4,094**
Preferential loans and borrowings	-	-	871	-	**871**
Loans and borrowings	-	-	3,223	-	**3,223**
Bonds issued	-	-	1,850	-	**1,850**
Trade liabilities	-	-	1,593	-	**1,593**
Contract liabilities	-	-	698	-	**698**
Other financial liabilities	42	-	5,265	957	**6,264**
Liabilities on purchase of property, plant and equipment and intangible assets	-	-	507	-	**507**
Derivative financial instruments	42	-	-	-	**42**

Consolidated financial statements for the year ended 31 December 2023 (PLN m)

As at 31 December 2023	Measured at fair value through profit or loss for the period	Hedging derivatives	Measured at amortized cost	Financial instruments excluded from the scope of IFRS 9	TOTAL
Dividend liabilities	-	-	2	-	**2**
Lease liabilities	-	-	-	957	**957**
Cash pooling liabilities	-	-	4,674	-	**4,674**
Other	-	-	82	-	**82**
TOTAL	**42**	**-**	**13,500**	**957**	**14,499**

As at 31 December 2022	Measured at fair value through profit or loss for the period	Hedging derivatives	Measured at amortized cost	Financial instruments excluded from the scope of IFRS 9	TOTAL
Assets					
Trade receivables, of which:	-	-	3,271	-	**3,271**
Cash and cash equivalents	-	-	1,100	-	**1,100**
Other financial assets	102	257	41	-	**400**
Loans granted	42	-	-	-	**42**
Derivative financial instruments	45	257	-	-	**302**
Other	15	-	41	-	**56**
TOTAL	**102**	**257**	**4,412**	**-**	**4,771**
Liabilities					
Loans and borrowings	-	-	4,068	-	**4,068**
Preferential loans and borrowings	-	-	1,077	-	**1,077**
Loans and borrowings	-	-	2,991	-	**2,991**
Bonds issued	-	-	2,574	-	**2,574**
Trade liabilities	-	-	2,388	-	**2,388**
Contract liabilities	-	-	323	-	**323**
Other financial liabilities	1	-	568	862	**1,431**
Liabilities on purchase of property, plant and equipment and intangible assets	-	-	517	-	**517**
Derivative financial instruments	1	-	-	-	**1**
Dividend liabilities	-	-	2	-	**2**
Lease liabilities	-	-	-	862	**862**
Other	-	-	49	-	**49**
TOTAL	**1**	**-**	**9,921**	**862**	**10,784**

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29.2. Items of income, expenses, profits and losses recognized through comprehensive income, by category of financial instruments

Year ended 31 December 2023	Assets measured at fair value through profit or loss for the period	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Hedging derivatives	TOTAL
Interest income/(expense)	-	92	(325)	(42)	**(275)**
Foreign exchange differences	-	-	148	(164)	**(16)**
Reversed impairment losses	-	65	-	-	**65**
Recognition of impairment losses	-	(154)	-	-	**(154)**
Measurement of derivatives	(27)	-	-	-	**(27)**
Revaluation of investments	(47)	-	-	-	**(47)**
Net profit/(loss)	**(74)**	**3**	**(177)**	**(206)**	**(454)**
Other comprehensive income	-	-	-	(79)	**(79)**
Comprehensive income	**(74)**	**3**	**(177)**	**(285)**	**(533)**

Year ended 31 December 2022	Assets measured at fair value through profit or loss for the period	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Hedging derivatives	TOTAL
Interest income/(expense)	-	44	(214)	(42)	(212)
Foreign exchange differences	-	-	(38)	41	3
Reversed impairment losses	-	61	-	-	61
Recognition of impairment losses	-	(134)	-	-	(134)
Measurement of derivatives	127	-	-	-	127
Revaluation of investments	48	-	-	-	48
Net profit/(loss)	**175**	**(29)**	**(252)**	**(1)**	**(107)**
Other comprehensive income	-	-	-	(40)	(40)
Comprehensive income	**175**	**(29)**	**(252)**	**(41)**	**(147)**

31 December 2023 (PLN m)

29.3. Fair value of financial instruments

29.3.1. Financial instruments measured at fair value on an ongoing basis

Some of the Group's financial assets and liabilities are measured at fair value at the end of each reporting period.

The table below presents an analysis of financial instruments measured at fair value, grouped according to a three-level hierarchy:

- level 1 – fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- level 2 – fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly;
- level 3 – fair value based on unobservable inputs for the asset or liability.

	31 December 2023	31 December 2022
	Level 2	Level 2
Assets		
Hedging derivatives (CCIRS III)	12	114
Hedging derivatives (CCIRS IV)	5	139
Hedging derivatives (IRS)	-	4
Other derivatives	13	45
Liabilities		
Hedging derivatives (IRS)	2	-
Other derivatives	40	1

Cross Currency Interest Rate Swaps (CCIRSs) and Interest Rate Swaps (IRSs) are measured at fair value by discounting future cash flows. The interest rates and the basis spread used in discounting are retrieved from Bloomberg.

The line item Assets – Other derivatives includes options to purchase shares in Polimex-Mostostal SA. The options were purchased from Towarzystwo Finansowe Silesia Sp. z o.o. under the agreement of 18 January 2017 as subsequently annexed and refer to the purchase, in 22 tranches, a total of approx. 7 million shares of Polimex-Mostostal SA, at the nominal price of PLN 2 per share. The options exercise dates were set between 31 August 2021 and 30 November 2026. The fair value measurement of the call options to purchase shares of Polimex-Mostostal SA was carried out using the Black-Scholes model. The measurement considered the current price and historic volatility of the company's share prices. The risk-free rate was determined on the basis of the yield of treasury bonds with maturities similar to the option expiration date.

The item Other financial assets – Derivatives at fair value through profit and loss in year 2022 includes forward transactions entered into by Energa Elektrownie Ostrołęka SA on PEAK contracts listed on the Polish Power Exchange ("POLPX") for the purchase and sale of electricity. Futures transactions concluded via TGE in relation to purchase and sale of electricity constitute transactions with physical delivery, with financial settlement of the transaction usually taking place in the net amount. In 2023, the contracts were realized in the amount of PLN 88 m, while the valuation of open contracts as of the balance sheet date was PLN 0. In 2022, the realized contracts amounted to PLN 121 m, while the balance sheet valuation amounted to PLN 23 m and was recognized in other financial assets.

In the profit and loss account, contract settlements and fair value measurements are posted to other operating activities.

According to the standard, when classifying contracts the Group shall assess primarily whether:

- a given contract was concluded for the purpose of receiving or delivering non-financial assets consistently with the needs expected by the Group, including specifically whether the volume of sold or purchased non-financial assets corresponds to the scale of the Group's normal operations;
- non-financial assets are physically delivered as a result of the performance of the contract;
- the contract cannot be deemed an issued option to buy or sell a non-financial instrument in compliance with IFRS 9.

Fair value of the concluded contracts is determined by setting the contract's price at the time of its conclusion against the current prices of futures contracts calculated on the basis of market data. Those instruments are recognized as assets when their value is positive and as liabilities when their value is negative.

29.3.2. Financial instruments not measured at fair value on a continuing basis

Except for the information given in the table below, the carrying amounts of financial assets and liabilities do not depart in a material way from their fair values.

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Eurobonds and hybrid bonds issued	Carrying amount	Fair value	
		Level 1	Level 2
As at 31 December 2023	**1,850**	**1,246**	**624**
Eurobonds	1,321	1,246	-
hybrid bonds	529	-	624
As at 31 December 2022	**2,574**	**1,222**	**1,270**
Eurobonds	1,423	1,222	-
hybrid bonds	1,151	-	1,270

Fair value measurement of liabilities arising from the bonds issued in the euro was estimated: in the case of Eurobonds on the basis of quotations from the Bloomberg system from 31 December 2023, which are determined based on transactions on the Luxembourg stock exchange and over-the-counter trading, and in the case of hybrid bonds – based on the analysis of future cash flows discounted using the interest rates in effect as at 31 December 2023.

29.4. Significant items by financial instrument category

29.4.1. Financial assets

Assets measured at amortized cost

The main item of the category of financial instruments recognized as assets measured at amortized cost category are trade receivables.

Trade receivables and contract receivables	Not overdue	Overdue (days)					Total
		<30	31–90	91-180	181-360	>360	
As at 31 December 2023							
Before impairment losses	4,741	253	97	42	58	388	**5,579**
Impairment losses	(42)	(10)	(11)	(17)	(36)	(328)	**(444)**
After impairment losses	**4,699**	**243**	**86**	**25**	**22**	**60**	**5,135**
As at 31 December 2022							
Before impairment losses	3,010	145	53	21	30	406	**3,665**
Impairment losses	(36)	(7)	(8)	(13)	(17)	(313)	**(394)**
After impairment losses	**2,974**	**138**	**45**	**8**	**13**	**93**	**3,271**

Hedging derivatives

Hedging derivatives, CCIRS and IRS, are described in detail in Note 29.6.

Financial assets measured at fair value through profit or loss

The Group classifies, in particular, call options on shares of Polimex-Mostostal S.A. and shares in other entities as financial assets measured at fair value through profit or loss (see Note 29.1 for details).

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Impairment losses on financial assets

	Impairment losses on trade receivables	Impairment losses on shares in associates and joint ventures	Impairment losses on shares in associates and joint ventures after adjustment of presentation of data from previous years
Impairment loss as at 1 January 2023	**394**	**534**	**17**
Recognition of impairment losses	154	-	-
Utilization	(39)	-	-
Unused amounts written off (reversal of the allowance)	(65)	-	-
Impairment losses as at 31 December 2023	**444**	**534**	**17**
Impairment losses as at 1 January 2022	**360**	**534**	**534**
Recognition of impairment losses	134	34	34
Utilization	(39)	-	-
Unused amounts written off (reversal of the allowance)	(61)	(34)	(34)
Sale of the joint venture	-	-	(517)
Impairment losses as at 31 December 2022	**394**	**534**	**17**

29.4.2. Financial liabilities

All of the Group's financial liabilities are classified as financial liabilities measured at amortized cost, except for hedging derivatives. In this category of financial instruments, the Group primarily presents loans and borrowings received and bonds issued, as well as lease liabilities.

	Loans and borrowings	Liabilities payable	Lease liabilities	Cash pooling liabilities	Total financing liabilities
As at 31 December 2022	**4,068**	**2,574**	**862**	**-**	**7,504**
Disbursement	3,508	-	-	**6,711**	**10,219**
Repayment/Redemption	(3,440)	(578)	(70)	**(2,056)**	**(6,144)**
Foreign exchange differences	-	(152)	(2)	**-**	**(154)**
Payment of interest	(297)	(73)	(47)	**(110)**	**(527)**
Interest accrued in the period	288	79	48	**129**	**544**
New leases, increase/decrease in leasing fee	-	-	168	**-**	**168**
Other changes	(33)	-	(2)	-	**(35)**
As at 31 December 2023	**4,094**	**1,850**	**957**	**4,674**	**11,575**

The interest paid recognized in the consolidated statement of cash flows includes also amounts related to interest payment hedging instruments related to financial liabilities held in the amount of 94 m.

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	Loans and borrowings	Liabilities payable	Lease liabilities	Total financing liabilities
As at 31 December 2021	**2,704**	**2,532**	**877**	**6,113**
Disbursement	3,980	-	-	**3,980**
Repayment/Redemption	(2,606)	-	(71)	**(2,677)**
Foreign exchange differences	-	50	-	**50**
Payment of interest	(162)	(75)	(42)	**(279)**
Interest accrued in the period	161	67	44	**272**
New leases, increase/decrease in leasing fee	-	-	130	**130**
Other changes	(9)	-	(76)	**(85)**
As at 31 December 2022	**4,068**	**2,574**	**862**	**7,504**

The interest paid recognized in the consolidated statement of cash flows includes also amounts related to interest payment hedging instruments related to financial liabilities held in the amount of 42 m.

Loans and borrowings

	As at 31 December 2023	As at 31 December 2022
Currency – PLN		
Reference rate – WIBOR, rediscount rate		
Loan/credit amount	**4,094**	**4,068**
of which loans maturing in:		
up to 1 year (short-term)	2,551	2,537
1 to 3 years	326	624
3 to 5 years	283	283
over 5 years	934	624

As at 31 December 2023 and 31 December 2022, the credit limits available to the Group were PLN 12,530.9 m (33.0% utilized) and PLN 6,061.0 m (55.4% utilized), respectively.

Detailed information on loans and borrowings is presented in Note 29.5.

Bond payables

	As at 31 December 2023	As at 31 December 2022
Currency – EUR		
Reference rate – Fixed		
Value of the issue		
in a foreign currency	425	549
in PLN	1,850	2,574
of which loans maturing in:		
up to 1 year (short-term)	39	609
1 to 3 years	12	-
3 to 5 years	1,799	1,965

Detailed information on bonds issued is provided in Note 29.5.

29.5. Available external financing

In the current reporting period and as at the last day of the reporting period and as at the date of preparation of these financial statements, there were no events of default on contractual obligations under the terms and conditions of any external funding acquired.

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The external financing available as at 31 December 2023 is presented in the table below:

Financing institution	Type of obligation	Purpose of financing	Date of the agreement	Financing limit/ Contract value	Available financing amount	Nominal debt as at 31 December 2023	Repayment date
European Investment Bank	Loan	Energa-Operator SA CapEx Program	16-12-2009	1,050	-	120	15-12-2025
European Investment Bank	Loan	Energa-Operator SA CapEx Program	10-07-2013	1,000	-	496	15-09-2031
Bondholders	Eurobonds	General corporate purposes	07-03-2017	1,304[1]	-	1,304[1]	07-03-2027
PKO Bank Polski SA	Credit limit	General corporate purposes	20-09-2012	200	-	6[2]	19-09-2022
Nordic Investment Bank	Loan	FW Myślino construction	23-10-2014	68	-	17	15-09-2026
WFOŚiWG	Borrowing	Elektrownia CCGT Gdańsk Sp. z o.o. CapEx program	27-06-2014	7	-	7	30-06-2024
NFOSiGW	Borrowing	Energa Elektrownie Ostrołęka SA CapEx Program	30-08-2018	134	-	87	20-12-2028
European Investment Bank	Hybrid bonds	Energa-Operator SA CapEx Program	04-09-2017	543[3]	-	543[3]	12-09-2037[4]
Syndicate of banks	Revolving loan	Financing of Energa SA corporate objectives, including financing of everyday operations and financing of Energa SA CapEx program, excluding capital expenditure on coal-based energy production	17-09-2019	2,000	2,000	0	17-09-2025[5]
SMBC	Revolving loan	Financing of corporate objectives of Energa SA, including financing of day-to-day operations, financing of the CapEx program, and refinancing of financial debt, excluding capital expenditure on coal-fired energy	28-07-2020	522[6]	522	0	28-07-2025
Orlen S.A.	Borrowing	Financing of general corporate purposes	09-12-2022	3,000	700	2,300	27-09-2024
European Investment Bank	Loan	Energa-Operator SA CapEx Program	16-12-2021	652[7]	-	623	16-12-2038
Syndicate of banks	Loan	CCGT Ostrołęka Sp. z o.o. CapEx Program	29-06-2023	2,640	2,365	275	15-12-2036
Orlen S.A.	Borrowing	CCGT Ostrołęka Sp. z o.o. CapEx Program	28-06-2023	650	650	0	02-01-2037
Orlen S.A.	Borrowing	CCGT Ostrołęka Sp. z o.o. CapEx Program	03-10-2023	325	0	205	02-01-2037

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Financing institution	Type of obligation	Purpose of financing	Date of the agreement	Financing limit/ Contract value	Available financing amount	Nominal debt as at 31 December 2023	Repayment date
Orlen S.A.	Borrowing	CCGT Grudziądz Sp. z o.o. CapEx Program	29-12-2023	1,746	1,746	0	30-09-2028
Orlen S.A.	Borrowing	Energa Wytwarzanie S.A. CapEx Program	29-12-2023	270	270	0	30-09-2028
TOTAL				**16,111**	**8,253**	**5,983**	

[1] liability under Eurobonds in the total amount of EUR 300 m converted using the average NBP exchange rate of 31 December 2023
[2] value of guarantee limits granted to Energa Group companies based on the concluded execution agreements (utilization of the global limit)
[3] EUR 125 m hybrid bond liability converted using the average NBP exchange rate of 31 December 2023
[4] the maturity date of the bonds is 12 September 2037, with a defined first financing period of 10 years from the date of issue
[5] credit granted for a period of 5 years from the date of signing the agreement, with an option to extend it for a one-year period; the designated date is the end date of the agreement's term; the credit is considered short-term
[6] liability of EUR 120 m converted using the average NBP exchange rate of 31 December 2023
[7] liability of EUR 150 m converted using the average NBP exchange rate of 31 December 2023

29.6. Cash flow hedge accounting

FX risk hedging

In 2017, the Group issued Eurobonds in EUR. In order to hedge currency risk under the aforesaid issuance, the Group concluded cross-currency interest rate swaps with the nominal value of EUR 200 m ("CCIRS III") in April 2017. In December 2023, due to the repayment of loan principal of EUR 20 m, the nominal value of CCIRS III was reduced to EUR 180 m.

As a hedged item in the above hedging relationships, the Group designated the foreign exchange risk on the Eurobonds issued by Energa Finance AB.

As the hedge, the Group designated a CCIRS transaction under which the Group receives fixed-rate cash flows in EUR and pays fixed-rate cash flows in PLN. Cash flows received by the Group correspond with the cash flows under the Eurobonds. The Group expects that the hedged cash flows on the Eurobonds will continue until February 2027.

In September 2017, Energa SA issued hybrid bonds for the total amount of EUR 250 m. In order to hedge the currency risk under these bonds, the Group entered into CCIRS transactions ("CCIRS IV").

As a hedged position under the above hedging relationships, the Group designated the foreign currency risk arising from the issue of hybrid bonds denominated in EUR. The foreign currency risk is hedged at the level of 100% of the total nominal amount of the issued bonds.

The Group designated CCIRS transactions under which the Group receives fixed-rate cash flows in EUR and pays fixed-rate cash flows in PLN as the hedging instrument. The cash flow received by the Group corresponds to the cash flow from the bonds issued. The Group expects that the hedged cash flows will continue until September 2027.

Since December 2023, CCGT Ostrołęka Sp. z o.o. has an IRS mechanism to hedge a loan for a plant construction project. The interest rate hedging agreement was concluded between the Company and Orlen and the Bank. The interest rate hedging agreement between the Company and Orlen hedges the risk of changes in interest rates on loans and borrowings. Under this agreement, Orlen enables the Company to enter into transactions on the terms specified in the agreement, and where a transaction is subject to the provisions of the EMIR Regulation – to fulfil the Company's obligations arising from that regulation.
The fair value of hedging instruments was:

	Value (PLN m)	Recognition in the statement of financial position	Change in the fair value of the hedging instrument used as the basis for recognizing hedge ineffectiveness for the period	Nominal amounts of hedging instrument in millions of	
				EUR	PLN
As at 31 December 2023					
CCIRS III	12	Assets – Other financial assets	None	180	-
CCIRS IV	5	Assets – Other financial assets	None	125	-
IRS	2	Liabilities – Other financial liabilities	None	-	215
As at 31 December 2022					
CCIRS III	114	Assets – Other financial assets	None	200	-
CCIRS IV	139	Assets – Other financial assets	None	250	-
IRS	4	Assets – Other financial assets	None	-	150

The Group continued to apply hedge accounting under IAS 39, and no ineffectiveness was identified in the period under review.

Under cash flow hedge accounting, the cash flow hedge reserve (the effective portion of changes in the value of the hedge, less deferred tax) decreased by PLN 64 m in the reporting period and decreased by PLN 32 m in the corresponding period of the previous year.

The table below presents changes in the cash flow hedge reserve in the reporting period:

Change in cash flow hedge reserve during the reporting period	Year ended 31 December 2023	Year ended 31 December 2022
At the beginning of the reporting period	**55**	**87**
Amount recognized in the cash flow hedge reserve in the period, equal to the change in the fair value of hedging instruments	(240)	1
Accrued interest not due transferred from the reserve to finance income/expenses	(3)	-
Revaluation of hedging instruments transferred from the reserve to finance income/expenses	164	(41)
Income tax on other comprehensive income	15	8
At the end of the reporting period	**(9)**	**55**

As at 31 December 2023, no inefficiencies were identified resulting from the applied cash flow hedge accounting.

29.7. Hedges on assets

There were no significant assets pledged as at the end of the reporting period and as at 31 December 2022.

30. Financial risk management principles and objectives

The major financial instruments used by the Group include bank credits, bonds, cash, short-term investments and hedging instruments. The main purpose of these financial instruments is to secure funds to finance the Group's operations or to mitigate financial risks.

Key risks generated by the Group's financial instruments include:

- market risk;
- liquidity risk; and
- credit risk.

The Management Board verifies and agrees on the principles of managing these risks. On 20 December 2017, the Management Board of Energa SA signed with Energa Group companies a Cooperation Agreement, whose integral elements include the Energa Group Liquidity Management Policy and the Energa Group Market Risk Management Policy (for FX risk and interest rate risk). The two documents have been introduced across the Energa Group, which allows the holding company to manage these risk groups effectively. Both documents define financial risk management procedures for individual Group companies and introduce appropriate reporting obligations.

30.1. Market risk

The Group identifies the following major market risks to which it is exposed:

- interest rate risk;

- foreign exchange risk; and
- commodity price risk.

For the purposes of analysis of sensitivity to changes in market risk factors, the Energa Group uses the scenario analysis method, which relies on expert scenarios reflecting the Group's subjective assessment of how individual market risk factors will develop in the future.

Scenario analyses presented in this item aim to analyze the impact of changes in market risk factors on the Group's financial results. Only those items, which satisfy the definition of financial instruments, are subject to analysis.

Interest rate risk

The Energa Group is exposed to interest rate risk in connection with the fact that it holds assets and liabilities for which income and expenses are calculated on the basis of market interest rates, which are subject to change.

Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds came into force on 1 January 2018 ("IBOR Reform"). The regulation, together with its amendment of February 2021, introduced a new standard for determining and applying financial market benchmarks. Amongst others, the approach to the determination of WIBOR and EURIBOR rates was reformed to bring it into line with the new requirements.

In July 2022, the National Working Group on Benchmark Reform was established in Poland to introduce a new interest rate benchmark based on overnight transactions. This benchmark will replace WIBOR. The work of the National Working Group aims to ensure that the development and application of the new benchmark is credible, transparent and reliable. On 1 September 2022, the Steering Committee of the National Working Group decided to select WIRON, which is a Risk-Free Rate based on actual overnight transactions, as an alternative to WIBOR. WIRON will be administered by GPW Benchmark S.A.

In September 2022, the Steering Committee of the National Working Group adopted a "Roadmap" specifying a schedule of steps to be taken. Originally, the Roadmap stipulated that the benchmark reform would be completed by the end of 2024, but in October 2023, the Steering Committee extended the time limit for the final conversion of WIRON contracts and instruments to WIRON until the end of 2027. WIRON is intended to become a key interest rate benchmark to be used in contracts and financial instruments.

The Energa Group has reviewed its existing financial contracts and has not identified any risks related to the lack of adequate provisions specifying the rules for the continuation of these contracts in the event that the benchmark is not published ("fallback clauses").

The current IBOR rates and the alternative benchmarks to be adopted by the Group differ significantly from each other. IBORs concern future periods and are set for a specific period (e.g. three months) at the beginning of such period, taking into account the credit spread in the interbank market. Alternative benchmarks are usually risk-free overnight rates published at the end of the day that do not include a credit spread. These differences will create additional uncertainty regarding interest payments at variable interest rates, but the Group believes they will not have a material impact on liquidity management.

Due to its financial liabilities, the Group uses WIBOR as at 31 December 2023.

Below are details of the non-derivative financial instruments that will be affected by the transition to alternative benchmarks.

Non-derivative financial instrument	Benchmark	Maturity	Par value as at 31.12.2023 (in PLN m)	Advanced transition for non-derivative financial instrument
European Investment Bank loan	WIBOR	2031	496*	Fallback clause in the contract
European Investment Bank loan	WIBOR	2038	623**	Fallback clause in the contract

** including tranches currently based on a fixed rate (which, according to the agreement with the bank, is subject to revision) with a nominal value of PLN 129 m*

*** including tranches currently based on a fixed rate (which, according to the agreement with the bank, is subject to revision) with a nominal value of PLN 444 m*

The Group identifies exposure to the risk of WIBOR interest rate changes, which involves primarily long-term financial debt. The Group's financial policy envisages that the risk of changing interest rates is mitigated by keeping a portion of debt at fixed rates.

In its analyses of sensitivity to the interest rate risk, the Group applies a parallel shift of the interest rate curve by a potential possible change in the reference interest rates during the next year. The levels of reference interest rates on the final day of a reporting period were used for this purpose. The extent of potential changes to interest rates was assessed on the basis of volatility of implied interest rate options quoted on the inter-bank market. In the case of WIBOR, due to the low liquidity of the interest rate option market, the shift of the interest rate curve has been assumed arbitrarily.

In the case of the analysis of sensitivity to interest rate changes, the effect of changes to risk factors would be carried to:

- other comprehensive income for hedging derivatives;
- interest income/expense for the remaining financial instruments.

The table below presents sensitivity of the financial result before tax and other comprehensive income to reasonably possible interest rate changes, assuming that there are no variations in other risk factors for these financial instrument classes that are exposed to the interest rate risk. Interest rate volatility was set based on the average annual volatility of daily historical data for 2023:

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Financial assets and liabilities	31 December 2023		Interest rate risk sensitivity analysis as at 31 December 2023			
	Carrying amount	Value at risk	WIBOR		EURIBOR	
	PLN	PLN	*WIBOR + 100 bp*	*WIBOR -100 bp*	*EURIBOR + 400 bp*	*EURIBOR -400 bp*
Assets						
Cash and cash equivalents	521	521	5	(5)	-	-
Other derivatives	13	13	-	-	-	-
Liabilities						
Preferential loans and borrowings	871	871	9	(9)	-	-
Loans and borrowings granted on market terms	3,223	3,223	32	(32)	-	-
Bonds and debt securities issued	1,850	-	-	-	-	-
Change in profit before tax			**(36)**	**36**	**-**	**-**
Hedging derivatives	17	17	183	117	(127)	151
Change in other comprehensive income			**183**	**117**	**(127)**	**151**

Financial assets and liabilities	31 December 2022		Interest rate risk sensitivity analysis as at 31 December 2022			
	Carrying amount	Value at risk	WIBOR		EURIBOR	
	PLN	PLN	WIBOR +600 bp	WIBOR -600 bp	EURIBOR +450 bp	EURIBOR -450 bp
Assets						
Loans granted	42	42	3	(3)	-	-
Cash and cash equivalents	1,100	1,100	66	(66)	-	-
Other derivatives	45	45	3	(3)	-	-
Liabilities						
Preferential loans and borrowings	1,077	1,077	65	(65)	-	-
Loans and borrowings granted on market terms	2,991	2,991	179	(179)	-	-
Bonds and debt securities issued	2,574	-	-	-	-	-
Change in profit before tax			**(172)**	**172**	**-**	**-**
Hedging derivatives	257	257	490	(20)	(214)	266
Change in other comprehensive income			**490**	**(20)**	**(214)**	**266**

Foreign exchange risk

The Group is exposed to foreign exchange risk on account of trade and financial transactions that it concludes. The risk arises as a result of the Group companies entering into purchase or sale transactions or incurring financial liabilities in currencies other than the valuation currency or holding financial assets in such currencies.

The Group identifies exposure to the risk of changes to EUR/PLN exchange rates.

In the foreign exchange risk sensitivity analysis, the possible fluctuations of currency exchange rates were calculated on the basis of annual variability implied for currency options quoted on the inter-bank market for the given currency pair at the date ending the reporting period.

The table below presents carrying amounts in PLN, including EUR amounts translated to PLN, as well as the sensitivity of the financial result before tax and other comprehensive income to reasonably possible changes of exchange rates, assuming that there are no changes of other risk factors for such classes of financial instruments which are exposed to the exchange rate change risk: Exchange rate volatility was set based on the average annual volatility of daily historical data for 2023:

31 December 2023 (PLN m)

Financial assets and liabilities	31 December 2023		FX risk sensitivity analysis as at 31 December 2023	
	Carrying amount	Value at risk	EUR/PLN	
	PLN	*PLN*	*exchange rate EUR/PLN +15.00%*	*exchange rate EUR/PLN -15.00%*
Assets				
Trade receivables, including contract assets	5,135	-	-	-
Cash and cash equivalents	521	147	22	(22)
Hedging derivatives (assets)	17	1,329	199	(199)
Liabilities				
Trade liabilities	1,593	-	-	-
Bonds and debt securities issued	1,850	1,850	(278)	278
Change in profit before tax			**(45)**	**45**
Change in other comprehensive income*			**(12)**	**12**

* in respect of hedging derivatives

Financial assets and liabilities	31 December 2022		FX risk sensitivity analysis as at 31 December 2022	
	Carrying amount	Value at risk	EUR/PLN	
	PLN	*PLN*	*EUR/PLN rate +15.0%*	*EUR/PLN rate -15.0%*
Assets				
Trade receivables, including contract assets	3,271	-	-	-
Cash and cash equivalents	1,100	134	20	(20)
Hedging derivatives (assets)	257	2,076	311	(311)
Liabilities				
Trade liabilities	2,388	-	-	-
Bonds and debt securities issued	2,574	2,574	(386)	386
Change in profit before tax			**(50)**	**50**
Change in other comprehensive income*			**(5)**	**5**

* in respect of hedging derivatives

With regard to trade transactions, the Group is not exposed, to a material extent, to the exchange rate risk because the Group's cash settlements are mainly in PLN.

With regard to financial transactions, the Group is exposed to foreign exchange risk connected with issued Eurobonds. To hedge that risk, the Group has entered into cross-currency interest rate swap (CCIRS) transactions and has implemented hedge accounting (see the description in Note 29.6).

Commodity risk

The Group is exposed to risks tied to variation in prices of commodities used in the operating activity.

The most significant risk is the risk of changing purchase prices of electricity and certificates of origin on the wholesale market in long-, medium- and short-term contracts executed by Energa-Obrót SA on the Polish market.

Accordingly, it is important to refer the actual risk exposure to the assumed financial result for the year. The above risks are managed by measuring, controlling and recommending actions to reduce risk exposure, which is determined by the Management Board of Energa-Obrót SA. Market risk exposure includes all of the company's open positions, and is mainly mitigated through built tools and models. Measurement and control are based on the concept of measuring the Value at Risk (VaR). The models developed help mitigate market risks, including those related to the volatility of prices for electricity, gaseous fuel, carbon emissions or property rights. According to the methodology used, the company can only bear risk within the allocated VaR limits. The Value at Risk is regularly monitored and reported to make sure that it does not exceed the limits determined by the Management Board of Energa-Obrót SA and takes into account, amongst others, the open position volume (the difference between the volumes sold and purchased), the volatility of product prices and the correlation among the particular products in the portfolio. In addition, in order to mitigate the risks associated with commodity price volatility, the company takes hedging measures, including by minimizing the open position on the electricity portfolio, which involves coordinating and optimizing the buying and selling process so that the difference between volumes purchased and sold does not exceed predetermined values. For diversification purposes, contracts are concluded in specific proportions and for different products. Furthermore, as part of customer bidding, a change in the value of the contract being offered to the customer from the time the bid is submitted to the customer until it is accepted is also subject to risk hedging.

In order to mitigate the risks associated with the volatility of electricity purchase prices in the wholesale market for end-user contracting, the following hedging measures are taken:

- the open position on the electricity portfolio is minimized; this involves coordination and optimization of the purchasing and selling process to ensure that the difference between volumes purchased and sold does not exceed the pre-defined levels;
- contracts are concluded in specific proportions and for different products; and
- volume limits are set for the open position for participation on selected markets, minimizing risk related to large fluctuations of electricity prices on the market.

Furthermore, the significant risk of changes in the prices of commodities such as coal or carbon emission allowances (EUA), is controlled within the framework of market risk management at Energa Elektrownie Ostrołęka SA.

30.2. Credit risk

In the Group, credit risk is defined as the probability that a counterparty defaults on its financial obligations. Minimizing credit risk can be achieved through activities aimed at value-based risk assessment, monitoring the financial condition of counterparties, and securing trade credit with available tools such as bank guarantees, sureties, assignments, mortgages, deposits, prepayments, submission to enforcement in a notarized deed, promissory note, registered pledge, etc.

Guarantees and sureties granted to subsidiaries in favour of third parties amounted to PLN 5,501 m and PLN 5,961.5 m as at 31 December 2023 and 31 December 2022, respectively. They mainly involved a surety granted to Energa Finance AB (publ) for liabilities arising from the issuance of Eurobonds and also security for liabilities arising from the operations of Enspirion Sp. z o.o.

Information on Energa's company surety and guarantee activities as at 31 December 2023

	Date surety or guarantee granted	End date of surety or guarantee	Entity for which surety or guarantee was granted	Entity in favour of which surety or guarantee was granted	Form of surety or guarantee granted	Amount of surety or guarantee (in PLN m)	Amount of liability as at 31.12.2023 covered by surety or guarantee (in PLN m)
1.	2012-11-15	2033-12-31	Energa Finance AB	bondholders	surety agreement*	5,435.0	1,283.6
2.	2018-10-31	2026-01-01	ENSPIRION Sp. z o.o.	Polskie Sieci Elektroenergetyczne SA	surety agreement	10.1	1.5
3.	2019-11-15	2027-01-01	ENSPIRION Sp. z o.o.	Polskie Sieci Elektroenergetyczne SA	surety agreement	10.8	2.1
4.	2020-12-03	2028-01-01	ENSPIRION Sp. z o.o.	Polskie Sieci Elektroenergetyczne SA	surety agreement	17.2	17.2
5.	2020-12-03	2024-12-31	ENSPIRION Sp. z o.o.	Cognor SA	surety agreement	2.0	2.0
6.	2021-01-05	2024-12-31	ENSPIRION Sp. z o.o.	Cognor SA	surety agreement	2.0	2.0
7.			Other Energa Group companies		surety** - guarantee agreement	23.9	1.3
	TOTAL					**5,501.0**	**1,309.7**

** The Euro Medium Term Note (EMTN) programme for up to EUR 1,000,000,000 was established on 15 November 2012. As part of the EMTN Programme, Energa Finance AB (publ), a subsidiary of Energa SA, organized and existing under the laws of Sweden, can issue Eurobonds with maturities of one to ten years. Under a surety agreement dated 15 November 2012, as amended on 16 February 2017, Energa undertook to unconditionally and irrevocably guarantee the Eurobond liabilities of Energa Finance AB (publ) up to EUR 1,250,000,000 up to and including 31 December 2033. On 19 March 2013, Energa Finance AB (publ) issued the first series of Eurobonds totalling EUR 500,000,000 which were redeemed on 19 March 2020; on 7 March 2017, it issued the second series of Eurobonds totalling EUR 300,000,000 and maturing on 7 March 2027.*

*** Civil-law sureties granted by Energa for liabilities of the Energa Group companies arising from bank guarantees granted by Bank PKO BP SA under guarantee facilities dedicated to Energa Group companies. Each facility is available until 19 September 2022. The end dates of guarantees provided under each facility can fall beyond the end date of the facility itself. The repayment of liabilities is secured by a civil-law surety.*

The credit risk is mitigated for counterparties with the largest turnovers or for the portfolio of wholesale accounts and the portfolio of strategic accounts. The following are of special importance in this respect: credit rating, trade limits, special provisions in agreements with counterparties and obtaining security from clients with a low credit rating.

Appropriate procedures have been put in place within the Group to minimize the risk of counterparties' insolvency. For the wholesale energy market, respective procedures determine the limits of possible sales of electricity without requiring securities. For any transactions in excess of the above limit, securities such as a bank guarantee are required.

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For sales to strategic and business clients, the procedures impose the duty to rate clients' creditworthiness. For clients with a low credit rating, the sales may begin on the condition that security acceptable to the seller is obtained.

Moreover, thanks to the ongoing monitoring of the status of receivables, the Group's exposure to the risk of uncollectable receivables is minor.

Uncollectable receivables are understood as the value of anticipated loss due to untimely or incomplete repayment of debt by the customers, estimated on a monthly basis, for all receivables and throughout the life of a receivable. The Group defines uncollectable receivables in relation to actual events at the time of default on an obligation by a contractor after the lapse of the first day from the receivable's maturity date.

Below are disclosures of credit risk by rating and other categories for trade receivables:

	As at 31 December 2023			As at 31 December 2022		
	Weighted average credit loss	Gross value	Impairment loss	Weighted average credit loss	Gross value	Impairment loss
Highest client rating	0.0%	1,233	-	0.0%	846	-
Medium client rating	0.0%	219	-	0.0%	297	-
Lowest client rating	1.4%	54	(1)	0.9%	57	(1)

	As at 31 December 2023			As at 31 December 2022		
	Weighted average credit loss	Gross value	Impairment loss	Weighted average credit loss	Gross value	Impairment loss
Clients with no rating in sales business line	2.2%	1,232	(27)	1.6%	1,082	(17)
Disputed receivables	84.6%	396	(335)	83.8%	358	(300)
Other receivables	3.4%	2,446	(82)	7.5%	1,026	(77)

With respect to the Group's other financial assets, such as cash and cash equivalents and certain derivatives, the Group's credit risk arises when the other party to a contract is unable to make a payment and the maximum exposure to this risk equals the carrying amount of such instruments. At the same time, we deem those to be low credit risk assets.

In the financial area, credit risk is mitigated through ongoing monitoring of the ratings of financial institutions and by limiting the risk of concentrating cash surpluses in a single financial institution. In 2023, the Group invested surplus cash in bank deposits. Decisions on bank deposits aim to maximize the rate of return subject, taking into account the applicable concentration limits for each bank and the current assessment of banks' financial condition that requires each bank to have short-term investment-grade ratings for deposits.

The carrying amount of financial instruments, by category and class, is presented in Note 29.1.

30.3. Liquidity risk

The Group monitors the risk of insufficient funds, which are required to settle the liabilities at maturity dates, using a tool for periodic liquidity planning. This tool is based on projected cash flows from operating, investing and financing activities, which are prepared by all Group companies. Additionally, regular reviews are conducted to test the reliability of the projections.

The Group is exposed to liquidity risk arising from the ratio of current assets to current liabilities. As at 31 December 2023 and 31 December 2022, the current liquidity ratio was 0.6 and 0.6, respectively.

In respect to liquidity risk management, the Group aims at maintaining the balance between continuity and flexibility of financing through the use of various sources of financing, such as limits in cash pooling, overdraft facilities, bank loans, bonds, Eurobonds and lease agreements.

In terms of liquidity risk management, the Group is supported by ORLEN. As part of the progressive integration to optimize the management of surplus funds, the Group's companies have been using the ORLEN Group's cash-pooling mechanism since the second half of 2023. At the same time, as part of the integration, the Group optimizes the available sources of external financing and uses a loan for current operations from ORLEN. The ORLEN's support for the Group is also expressed in terms of providing coverage for some of the Group's significant capital expenditures expressed in bilateral agreements between the Company and ORLEN.

Detailed information on contracted external financing obtained by the Group is set out in Note 29.5.

The table below presents the Group's financial liabilities by maturity dates, based on contractual undiscounted payments (at nominal values, including payments of possible interest).

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	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2023					
Interest-bearing loans and borrowings	2,383	239	798	1,082	**4,502**
Bonds	74	244	1,303	635	**2,256**
Trade liabilities	1,563	30	-	-	**1,593**
Lease liabilities	25	29	141	762	**957**
Other financial liabilities	5,098	172	9	28	**5,307**
TOTAL	**9,143**	**714**	**2,251**	**2,507**	**14,615**
31 December 2022					
Interest-bearing loans and borrowings	540	2,110	1,148	813	**4,611**
Bonds	135	1,004	1,717	796	**3,652**
Trade liabilities	2,382	6	-	-	**2,388**
Lease liabilities	24	21	105	712	**862**
Other financial liabilities	442	120	7	-	**569**
TOTAL	**3,523**	**3,261**	**2,977**	**2,321**	**12,082**

Assets are comprised mainly of cash and cash equivalents and trade receivables. The structure of cash and cash equivalents is presented in note 19. The aging analysis is presented in Note 29.4.1 for trade receivables and in Note 34 for lease liabilities.

30.4. Climate risk

The Group is taking consistent and planned measures to adapt the Energa Group's operations to climate change and mitigate their negative impact on the climate. Climate risks and opportunities are identified and evaluated, taking into account their potential impact, through the ongoing management process. A scenario analysis was conducted in 2023 to update climate risks and assess the resilience of the Energa Group's strategy and business model to climate change risks. The analysis conducted is an appendix to the Energa Group's Climate Policy to 2030.

Furthermore, continuous monitoring of identified climate risks and opportunities makes it possible to take appropriate mitigation measures to minimize the risks concerned and take full advantage of opportunities arising from the energy transition.

In preparing these consolidated financial statements, the Group took into account the impact of climate factors on the value of the assets and liabilities presented, including on the impairment testing of property, plant and equipment (Note 13), on the value of investments in entities measured by the equity method (Note 17), on the value of intangible assets, including carbon emission allowances (Notes 14 and 18), and on the process of establishing provisions for liabilities (Note 24).

The Group also identifies the impact of climate factors on the financial sector and the availability and cost of raising debt financing for ongoing investment projects.

The “Energa Group Strategic Development Plan for 2024-2030" (“SDP”) takes into account key trends affecting the shape and operation of the domestic energy market, including factors related to climate change. The framework for the operation and development of the Energa Group until 2030, as set out in the SDP, includes goals relating to decarbonization, development of new zero-emission generation capacities and expansion of distribution networks. The ongoing process of spinning off coal assets outside the Group's structures is also part of this strategy.

Detailed information on the impact of risks related to climate factors on the Group's operations, as well as a description of the Company's and the Group's ESG management activities are presented in “Report of the Management Board of Energa SA on the operations of the Energa Group and Energa SA in 2023" and “Report on non-financial information of the Energa Group for 2023”.

NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

31. Statement of cash flows

(Profit)/ loss on investing activities

	Year ended 31 December 2023	Year ended 31 December 2022
Result on disposal of property, plant and equipment and intangible assets	(8)	(1)
Impairment losses on property, plant and equipment, intangible assets and investment property	1	85
Revaluation of investments	-	(42)
Settlement and valuation of derivative financial instruments	(12)	(253)
Rental income from investment property	-	(40)
Other	10	(21)
TOTAL	**(9)**	**(272)**

Consolidated financial statements for the year ended 31 December 2023 (PLN m)

Change in provisions

	Year ended 31 December 2023	Year ended 31 December 2022
Change in non-current provisions	(52)	(38)
Change in current provisions	(405)	1,423
Use of the provision for carbon emissions, property rights from the previous year	1,052	1,175
Adjustment by the change in actuarial reserves recognized in other comprehensive income	(18)	39
Adjustment concerning the provision for land reclamation and liquidation costs	(5)	(10)
Adjustment concerning the provision for general contractor	-	46
Other	(7)	5
TOTAL	**565**	**2,640**

Other adjustments

	Year ended 31 December 2023	Year ended 31 December 2022
Settlement of grants for property rights	(61)	(91)
Settlement of other grants	(30)	(27)
Security deposits	7	(11)
Other	57	13
TOTAL	**(27)**	**(116)**

Change in current receivables and current prepaid expenses and accrued income

	Year ended 31 December 2023	Year ended 31 December 2022
Change in trade receivables	(1,864)	(1,197)
Change in assets held for sale	14	(11)
Change in VAT receivables	127	(207)
Change in advances for deliveries	14	(5)
Change in other financial receivables	(1,182)	25
Change in other non-financial receivables	(8)	2
Adjustment for change in cash pooling receivables	1,157	-
Other	(63)	(15)
TOTAL	**(1,805)**	**(1,408)**

Change in current liabilities, excluding loans and borrowings and current accrued expenses and deferred income

	Year ended 31 December 2023	Year ended 31 December 2022
Change in trade liabilities	(795)	1,321
Change in other financial liabilities	4,715	161
Change in liabilities resulting from measurement of hedging derivatives	(39)	98
Change in other current liabilities	182	84
Adjustment for change in cash pooling liabilities	(4,674)	-
Adjustment by the change in the lease balance	(9)	(6)
Adjustment by the change in investment commitments	8	(214)
Other	4	5
TOTAL	**(608)**	**1,449**

Consolidated financial statements for the year ended 31 December 2023 (PLN m)

Purchase of property, plant and equipment and intangible assets

	Year ended 31 December 2023	Year ended 31 December 2022
Purchase of property, plant and equipment and intangible assets	(4,659)	(4,802)
Receipts from settlements of purchases of property, plant and equipment and intangible fixed assets	(8)	214
Advances paid for property, plant and equipment	325	(404)
TOTAL	**(4,342)**	**(4,992)**

OTHER NOTES

32. Investment commitments

As at the end of the current reporting period, the Group's commitments to incur capital expenditure on the purchase of property, plant and equipment and intangible assets, which have not yet been recognized in the statement of financial position, amounted to approx. PLN 3,360.71 m, of which:

- Undertakings covered by the development plan of Energa-Operator SA to satisfy the current and future demand for electricity in the years 2020-2025 (agreed upon with the President of the Energy Regulatory Office) – approx. PLN 978.11 m;
- CCGT Grudziądz – construction of combined-cycle power plants – approx. PLN 1,257.48 m;
- CCGT Ostrołęka – construction of combined-cycle power plants – approx. PLN 978.37 m.

33. Information on related entities

Related party transactions are made based on arm's length prices of goods, products or services delivered resulting from their manufacturing costs.

33.1. Transactions involving parties related to the State Treasury

As at 31 December 2023, the Group's controlling entity was ORLEN S.A. The sales revenues generated by the Group on transactions with the controlling entity amounted to PLN 704 m as at 31 December 2023, while the trade receivables totalled PLN 67 m. The costs of transactions with that entity reached PLN 479 m, while trade liabilities amounted to PLN 75 m.

Energa Group had cash pooling settlements with Orlen S.A. (see Note 29.1). Financial income from Orlen S.A. amounted to PLN 41 m and related mainly to interest on cash pooling, while financial expenses related mainly to interest on loans and interest on cash pooling amounted to PLN 313 m.

As of the balance sheet date Companies CCGT Grudziądz Sp. z o. o., CCGT Ostrołęka Sp. z o. o. and Energa Wytwarzanie S.A. held forward instruments for the purchase of currency relating to the hedging of investment tasks.

On 30 May 2023, Energa SA and ORLEN S.A. executed an annex to the loan agreement of 31 May 2021 extending the loan repayment period until 30 May 2024. The maximum debt under the loan at any time during its term could not exceed PLN 1 billion. The interest rate on the loan was set at market levels and based on the level of net debt/EBITDA ratio. The loan was fully repaid on 29 September 2023 and is no longer available to ENERGA SA.

On 9 December 2022, Energa SA signed a PLN 1 bn loan agreement with ORLEN S.A. On 29 September 2023, Energa SA entered into an agreement with ORLEN S.A. under which the repayment period was extended to 27 September 2024 and the loan amount was increased to PLN 3 bn. The interest rate on the loan is set at the arm's-length level. As at 31 December 2023, the debt value under the rolled-over and increased loan was PLN 2.3 bn.

On 28 June 2023, ORLEN S.A. and ENERGA S.A. entered into Support Loan 1-3 agreement for CCGT Ostrołęka Sp. z o.o. totalling PLN 1.3 bn, with each of the Partners having a 50% share in the loan amount. The interest rate on the loan is set at the arm's-length level. As at 31 December 2023, the loan remained undisbursed.

On 3 October 2023, ORLEN S.A. and ENERGA S.A. entered into Support Loan 4 agreement for CCGT Ostrołęka Sp. z o.o. totalling PLN 650 m, with each of the Partners having a 50% share in the loan amount. The interest rate on the loan is set at the arm's-length level. As 31 December 2023, the loan had been drawn down in the amount of PLN 410.25 m jointly by the two Owners.

On 29 December 2023, ORLEN S.A. signed a PLN 1.745 bn loan agreement with CCGT Grudziądz Sp. z o.o. The interest rate on the loan is set at the arm's-length level. As at 31 December 2023, the loan remained undisbursed.

On 29 December 2023, ORLEN S.A. signed a PLN 270 m loan agreement with Energa Wytwarzanie S.A. The interest rate on the loan is set at the arm's-length level. As at 31 December 2023, the loan remained undisbursed.

The Group concludes transactions also with other parties related to the State Treasury in the ordinary course of business.

Transactions involved mainly the purchase and sale of electricity and property rights, sale of electricity distribution services (including transit), settlements with the transmission system operator on the balancing market, for transmission services, system services and intervention work services, and the purchase of fuels (mainly coal). These transactions are concluded on an arms' length basis and their terms and conditions do not deviate from transactions with other entities. As at 31 December 2023, the Group's sales revenues amounted to PLN 2,221 m, while the costs of transactions with such entities reached PLN 4,073 m.

There were also transactions of financial nature (credits, guarantees, banking fees and commissions) with Bank PKO BP, Bank Pekao S.A. and Bank Gospodarstwa Krajowego (banking fees and commissions).

As regards disclosures relating to transactions with parties related to the State Treasury, the Group applies the exemption defined in paragraph 25 of IAS 24.

Consolidated financial statements for the year ended 31 December 2023 (PLN m)

33.2. Transactions with a joint venture and associate

As at 31 December 2023, the Group held shares in the joint venture Polska Elektrownia Ostrołęka Sp. z o.o. (formerly Elektrownia Ostrołęka SA) and in the associate Polimex-Mostostal S.A.

Energa Group companies' sales to the associate and joint ventures in the period ended 31 December 2023 and in the corresponding period of the previous year were reported at an immaterial level.

As at 31 December 2023, the Group's receivables due from these entities were also immaterial, due to the termination of loan agreements to which Elektrownia Ostrołęka Sp. z o.o. was a party in the first quarter of 2023, as well as the finalization of a sale of fixed assets by that company to its subsidiary, CCGT Ostrołęka Sp. z o.o. Receivables associated with these transactions amounted to PLN 50 m as at 31 December 2022.

In the period ended 31 December 2023 and in the same period of the previous year no purchases from associates or joint ventures were observed. Purchases from the joint venture, Polska Grupa Górnicza S.A. ("PGG"), were reported in 2022 and related specifically to purchases of coal until the sale of PGG.

The Group's liabilities owed to the joint venture as at 31 December 2023 amounted to PLN 24 m, compared to PLN 9 m as at 31 December 2022. These were obligations under an agreement for lease of land (PLN 13 m) and a rail siding (PLN 11 m).

33.3. Transactions with the parent company's Management Board members

During the reporting period, the Parent Company did not enter into any material transactions with Management Board members.

33.4. Remuneration paid or payable to key management and Supervisory Boards of Group companies (including short-term employee benefits and post-employment benefits)

	As at 31 December 2023	As at 31 December 2022
Parent		
Short-term employee benefits	19.5	18.1
Other long-term benefits	-	>1
Termination pay	0.6	-
Subsidiaries		
Short-term employee benefits	74.2	68.1
Post-employment benefits	-	>1
Other long-term benefits	0.5	0.5
Termination pay	1.2	2.6
TOTAL	**96.0**	**89.4**

34. Liabilities under lease agreements

Future lease payments under these agreements and the present value of net lease payments are as follows:

	Lease payments payable as at			
	31 December 2023		31 December 2022	
	Minimum lease payments	Current value of payments	Minimum lease payments	Current value of payments
Up to 1 year	104	54	89	45
Within 1 to 5 years	313	141	255	105
Over 5 years	1,474	762	1,368	712
Total minimum lease payments	**1,891**	**957**	**1,712**	**862**
Less finance expenses	934	-	850	-
Present value of minimum lease payments	**957**	**957**	**862**	**862**

35. Capital management

The Group manages its capital in order to maintain investment-grade credit rating and safe financial ratios to support the Group's operating activity and increase its value for shareholders. This goal is achieved through the internal regulations adopted in the Group. The Parent Company is responsible for managing the Group's debt policy.

The Group monitors its basic debt ratio, that is net debt to EBITDA, estimated on the consolidated basis. As at the reporting date, this ratio was 2.9. Additional information about this ratio is presented in the Report by the Energa SA Management Board on the activities of the Energa Group and Energa SA for the year 2023 in Note 4.3. Structure of assets and liabilities in the consolidated statement of financial position.

The level of the ratio is also regularly monitored by institutions financing the Group and by rating agencies; therefore, it has a significant influence on the evaluation of the Group's credit rating and, consequently, the availability and cost of debt financing.

Consolidated financial statements for the year ended 31 December 2023 (PLN m)

36. Contingent assets and liabilities

36.1. Contingent liabilities

As at 31 December 2023, the Group identifies contingent liabilities of PLN 260 m (PLN 259 m as at 31 December 2022), including the contingent liabilities relating to legal claims filed against Energa Group companies likely to be effectively dismissed by the companies or for which no cash outflow can be reliably estimated and no provision has been recognized for those claims.

Disputes relating to the power infrastructure of Energa-Operator SA located on private land are the largest contingent liability. The Group recognizes provisions for any legal disputes raised. If there is uncertainty as to the validity of a claim amount or legal title to land, the Group recognizes contingent liabilities. As at 31 December 2023, the estimated value of those claims recognized as contingent liabilities is PLN 241 m, compared with PLN 239 m as at 31 December 2022. Based on the available legal opinions, the estimates define the risk of a situation in which a liability arises to be below 50%.

36.2. Contingent assets

As at 31 December 2023, the Group identifies contingent assets in the amount of PLN 982 m (PLN 1,285 m as at 31 December 2022) arising from guarantees received. As at the end of the reporting period and as at 31 December 2022, there were no material contingent assets arising from litigation.

The largest contingent assets are reported by the following companies: CCGT Ostrołęka Sp. z o. o., CCGT Grudziądz Sp. z o.o. and Energa Obrót S.A.

CCGT Ostrołęka Sp. z o.o. and CCGT Grudziądz Spółka Sp. z o.o. report PLN 490 m and PLN 430 m, respectively, in contingent assets for guarantees received. In connection with the ongoing Power Plant Construction Projects, the Companies sign Agreements with contractors, under which they are required to provide relevant bank or insurance guarantees. Advance payment refund guarantee – it occurs when the Company makes an advance payment to the Contractor for future goods and services. The guarantor irrevocably and unconditionally guarantees to the Beneficiary of the guarantee the payment of sums due up to the amount of the guarantee sum. These guarantees secure CCGT Ostrołęka Sp. z o.o.'s claim against the Contractor for reimbursement of all or part of the advance payment under the terms of the Contracts. Performance bonds – they provide security for the Beneficiary's claim against the Obligor for non-performance or improper performance of the Contract by the Contractor, as well as warranty for physical defects in the subject matter of the Agreement and quality guarantee, revealed during the validity period of the guarantee, on the terms and conditions of the Contracts.

Energa Obrót S.A. reports PLN 47.4 m in contingent assets corresponding to the likelihood of obtaining an economic benefit, i.e., a favourable tax ruling from the National Revenue Information System regarding the possibility of reducing the VAT tax base and the amount of output tax for the bonus granted under the transactions conducted by Energa Obrót S.A. involving electricity sales to customers, as well as an adjustment to revenue for CIT purposes.

37. Employment structure

Headcount as at 31 December was as follows:

	Year ended 31 December 2023	Year ended 31 December 2022
Blue collars	3,058	3,064
White collars	5,674	5,717
TOTAL	**8,732**	**8,781**

38. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group

Impact of statutory caps on electricity and gas prices

In 2023, in connection with emergency regulations adopted in 2022 to regulate the energy market and protect consumers, the Group settled the entire PLN 1,068 m provision created in 2022 for onerous contracts associated with the performance of contracts with G tariff group customers.

On 19 September 2023, the Regulation of the Minister of Climate and Environment of 9 September 2023 amending the Regulation setting out the rules of structuring and calculating tariffs and billings in electricity trading became effective (hereinafter: Regulation), introducing an electricity bill reduction for households in the amount of PLN 125.34, calculated as 12% of the product of the average price in the tariffs of suppliers of last resort for the G11 tariff group for 2022 (i.e., 0.4140 PLN/kWh) and the electricity volume of 2,523 kWh.

The reduction (bonus) was available to a household customer (i.e., an end customer who bought electricity solely for household consumption) who met at least one of the conditions set forth in the Regulation. The application of the bonus is the obligation of suppliers and the reduction (bonus) is applicable to each power offtake point in a household.

The reduction is to be made without delay and in any case not later than in the last invoice for 2023. At the same time, no mechanism to compensate suppliers for the bonuses is envisaged.

The effect of the introduction of this mechanism was estimated at PLN 313 m, and the amount was recognized in the Group's statement of financial position for 2023 as a decrease in trade receivables, which translated into a corresponding reduction of net profit.

The ultimate impact of the Regulation on the Company's financial performance will depend on the final number of customers covered by the reduction mechanism, following the verification whether the customers meet the conditions and taking into account potential recoveries effected by adding the bonus amount to invoices for subsequent billing periods of 2024, however, not later than by 31 December 2024.

On 19 September 2023, the Act of 16 August 2023 amending the Act on special solutions for the protection of electricity customers in 2023 in connection with the situation in the electricity market and certain other acts became effective and introduced, *inter alia*, the following modifications to the support system for electricity customers:

- Increase from 2 MWh to 3 MWh of the basic electricity consumption limit subject to the freeze on prices at the 2022 level. The limit applies to household customers.
- Increase of the limits for households with a disabled person from 2.6 MWh to 3.6 MWh, and for households with a Large Family Card and farmers' households from 3 MWh to 4 MWh.
- Reduction of the regulated electricity price for local governments, small businesses, public service entities and other vulnerable customers starting from Q4 2023.

Subsequently, by the Act of 7 December 2023 amending acts of law with a view to supporting electricity, gas and heat customers, amendments were made to:

- the Act of 7 October 2022 on special solutions for the protection of electricity customers in 2023 in connection with the situation in the electricity market, extending the support period for tariff group G customers by freezing electricity prices for those customers up to specified consumption limits and the compensation mechanism for trading companies until 30 June 2024;
- Act of 27 October 2022 on urgent measures to cap electricity prices and support certain consumers in 2023, by extending the mechanisms freezing electricity prices for selected customers at an official price cap until 30 June 2024;
- Act of 15 December 2022 on specific protection for certain gaseous fuel customers in 2023 in connection with the situation in the gas market, extending the gas price freeze mechanism until 30 June 2024.

This Act entered into force on 31 December 2023.

As a result of the above, as well as in connection with the decision of the President of the Energy Regulatory Office of 15 December 2023 to approve the 2024 tariff for electricity sold to tariff group G customers, which sets the selling price for electricity that does not fully cover the reasonable cost of electricity sold, the Group created a provision for onerous contracts in 2023 in the amount of PLN 466 m, which is presented in liabilities under contracts with customers.

At the same time, based on current regulations, the Group presented proceeds from compensation due to the Group as a consequence of applying frozen electricity, heat and gas prices to eligible customers under the "Revenue from the Price Difference Payout Fund" line of the profit and loss account in the amount of PLN 4,006 m.

The Group's contribution to the Price Difference Payout Fund for 2023, in the amount of PLN 1,233 m, was posted to Taxes in fees in costs by nature and to selling and distribution expenses in costs by function.

Impact of armed conflicts on Group operations

The Group monitors the situation in Ukraine and Gaza Strip on an ongoing basis in terms of its impact on business operations. However, the situation is very volatile and forecasting economic consequences of the war is subject to a high risk of making erroneous assumptions. Considering the highly fluid geopolitical and economic situations, and difficulties in developing or obtaining unreserved and highly likely economic and financial forecasts, it is not possible at the moment to measure the potential impact of the conflict on the Group's activities and financial performance.

Further military actions, the scope and effectiveness of sanctions imposed on parties involved and the response from central banks and other financial institutions to the crisis will be of key relevance for a full assessment of the implications of the current situation for the future financial results of the Group.

Bearing in mind the above, the Group has identified the following market risks:

- The risk of the Polish currency's depreciating against major currencies, including specifically against the euro. The Group hedges currency risk to liabilities held in foreign currencies and takes measures aimed at hedging currency risk with respect to planned investment projects,
- The risk of another increase in prices of energy inputs (coal and gas) as a result of their limited availability. It needs to be stressed that the Group no longer purchases fuels from operators based in Russia, Belarus, Ukraine or Israel. The Group monitors the availability and level of prices of that fuel on an ongoing basis for the respective periods and takes actions to secure the supply and prices that allow uninterrupted and profitable operations of the Generation Business Line. The existing production sources of the Group hardly rely on gaseous fuel in their operations (currently, only peak load and reserve boilers in Elbląg are exposed to this risk).
- The liquidity risk of the settlement system under the newly adopted energy market regulations, as a result of which part of the compensation due may potentially not be obtained, with a negative impact on the Group's performance. So far, Group companies have not recorded any significant problems in obtaining the advances and compensation due to them from Zarządca Rozliczeń.
- Risk of increase in prices of electrical engineering materials being purchased as well as other components. Price growth in that area may lead to higher costs of ongoing repairs and higher expenditure on ongoing investment projects of distribution and generation infrastructure; In particular, the Group monitors the situation as regards timely delivery of measuring infrastructure items and takes the relevant adaptive actions to ensure the continuity of its operating activities in terms of the installation of meters in the distribution network.
- Greater risk of attacks against the generation and distribution infrastructure which is required to achieve the Group's main business goals, which necessitates higher expenditure on protection of IT systems and facilities, buildings and civil structures, and the use of more advanced tools, equipment and security systems,
- The risk of growth of inflation and interest rates, and consequently the risk of reduced access to or less favourable terms of external funding, may drive up the Group's borrowing costs.
- In addition, the economic situation (high inflation, worsening GDP forecasts, high borrowing costs) may affect the liquidity situation of businesses and households in Poland, potentially resulting in a deterioration of payment behaviours of the Group's customers. At the time of preparing this report, the Group does not identify risk from delays in the collection of receivables from its customers, however, it takes this possibility into account, and therefore appropriate actions are taken to monitor the payment performance of individual customer groups. Liquidity in the Sales Business Line, related to the arising of compensation receivables from Zarządca Rozliczeń, was significantly affected by the enactment of the Solidarity Shield Act and the Price Cap Act.

On the other hand, the Group has not identified any direct impact of the war in Ukraine and the situation in Gaza Strip on its financial performance in 2023.

The Group companies have no business relations with business operators registered in the territory of Ukraine, Russia, Belarus or Israel.

Investment in new renewable energy sources

In 2023, the construction of a complex of photovoltaic farms in the Warmińsko-Mazurskie Province with a total capacity of nearly 70 MW was completed, and the Gryf PV farm in the Wielkopolskie Province was repowered to approximately 25 MW. The Gryf PV farm was built in the Przykona municipality, on land reclaimed from a lignite open-pit mine, in the vicinity of an Energa Group wind farm.

The goal of the Mitra PV project is to prepare, build and put into service a photovoltaic installation consisting of a complex of photovoltaic power plants with a total installed capacity of approximately 65 MW. In 2023, an agreement was signed with the General Contractor for the project, a Notice to Proceed was issued, and the construction site was handed over.

The purpose of another Group project was to build five photovoltaic farms (Czernikowo+ PV, Samolubie 1 PV, Samolubie 2 PV, Przykona PV, Pierzchały PV) of up to 1 MW each (approx. 4.2 MW in total), and power offtake points. In 2023, four projects were completed, and in early 2024, the Pierzchały PV project was completed. The development of new capacities will increase the share of renewable electricity in the total generation mix of Energa Group's entire fleet.

On 30 June 2023, Energa Wytwarzanie signed a preliminary agreement with Greenvolt for the purchase of a wind farm and four photovoltaic installations with a total capacity of 59 MW for an estimated amount of approximately EUR 107 m (approximately PLN 460 m). The execution of the final agreements and acquisition of shares in SPVs are slated for 2024, once a licence for electricity generation is obtained. The transaction relates to two RES projects which are underway in the Wielkopolskie Province. The first is the Opalenica project, which comprises three photovoltaic farms with a total capacity of 22 MW. The other one is the Sompolno hybrid project, combining 26 MW wind turbines and a 10 MW photovoltaic installation. The assets being acquired can generate 111 GWh of energy in a year, the equivalent of energy consumed by more than 55,000 households. Greenvolt Power, a Greenvolt Group company, is responsible for building and making both projects operational.

The final agreements for the Opalenica portfolio are expected to be concluded in Q2 2024, and for the Sompolno portfolio in Q3 2024, after the construction of the respective RES installations is completed and electricity generation licences are obtained for them.

On 13 October 2023, Energa Wytwarzanie SA signed a preliminary agreement with Lewandpol Holding for the acquisition of a special purpose vehicle for the Kleczew Solar & Wind project to build renewables. The investment project is located in the municipality of Kleczew in the Wielkopolskie Province and will have a total capacity of up to 334 MW. The signing of the final agreement between the companies and the actual completion of the transaction for the acquisition of the SPV will be possible after the fulfilment of the conditions precedent laid down in the preliminary agreement, which is expected in the second half of 2024.

The Kleczew Solar & Wind project of Lewandpol Holding is divided into three stages, the first of which includes the construction of a 193.1 MW photovoltaic installation and a wind farm with a capacity of up to 19.2 MW. The installed capacity of the photovoltaic farm is expected to grow by up to 122 MW in the next two stages.

Administrative court cases involving CCGT Ostrołęka Sp. z o.o.

As at 31 December 2023, CCGT Ostrołęka Sp. z o.o. was a party to two administrative court proceedings in which the complainant was Stowarzyszenie Pracownia na rzecz Wszystkich Istot (Workshop for All Beings Association), Bystra, which involve:

1) the issued environmental decision for the CCGT unit at the Ostrołęka C Power Plant and the associated infrastructure,

2) the issued decision of the Chief Construction Supervision Inspector stating that the time limit for filing an appeal against the approval of the construction project and the granting of the construction and demolition permit had been missed.

The main risk for the company arising from the revocation of the Environmental Decision is the loss of the construction permit for the CCGT unit. In both cases, the decisions of the court of first instance were favourable to the Company. In the course of the aforementioned proceedings, cassation appeals were filed.

The Group is awaiting a decision by the Supreme Administrative Court in the first of the cases. CCGT Ostrołęka estimates that the probability of a favourable dispute outcome exceeds 50%. Nevertheless, the company is taking appropriate steps to ensure that it will be able to proceed with the ongoing gas project regardless of the potential adverse outcome of the case.

In the second case, on 18 April 2024, the cassation appeal of Stowarzyszenie Pracownia na rzecz Wszystkich Istot was dismissed. The dismissal of the cassation appeal means that the construction permit for the CCGT unit is final and binding.

39. Material subsequent events

Purchase of 50% of shares in Elektrownia Ostrołęka sp. z o.o.

On 4 April 2024 Energa SA finalized the purchase of 50% of shares in Elektrownia Ostrołęka sp. z o.o. (EO) from Enea S.A. The Company currently holds 100% of the shares in EO. The acquiree was originally set up to implement a new coal-fired power plant project in Ostrołęka, but due to a change in the project involving a switch from coal to gas, the project is now continued by another SPV. Currently, EO's assets include land, part of which is leased by CCGT Ostrołęka Sp. z o.o., and a railroad siding used by Energa Elektrownie Ostrołęka SA.

The fair value of the consideration transferred was PLN 42 m, which included the purchase of 50% of shares in EO. The aim of the transaction was to take full control of EO in order to leverage its potential and resources, including its real estate, in the implementation of ORLEN Group's strategic investment projects.

Purchase of 100% of shares in Farma Wiatrowa Szybowice sp. z o.o.

In March 2024, Energa Green Development Sp. z o.o. acquired from ONDE (GK Erbud) and Goalscreen Holdings Limited (Neo Energy Group company) 100% of shares in the special purpose vehicle Farma Wiatrowa Szybowice Sp. z o.o., which owns the Szybowice wind farm construction project (Opole Province, Prudnik District). The cost of acquiring 100% of the shares was PLN 58 m (this figure does not include the capital expenditure planned for the project). The Szybowice WF is to consist of 17 Vestas turbines, each with a capacity of 2.2 MW and a height of 180 metres. The construction of the farm is to be completed within 21 months of the issue by the investor of the Notice to Proceed, which took place on 20 March 2024. The total value of the investment (acquisition of shares and the construction project) will be approximately PLN 407 m.

Establishment of Baltic Offshore Service Solution Sp. z o.o.

In February 2024, Energa Wytwarzanie Sp. z o.o. and Northland Power International Holdings BV, a subsidiary of Northland Power, established a joint venture – Baltic Offshore Service Solution Sp. z o.o. (hereinafter: BOSS). BOSS will carry out works in two locations: Łeba and the Tricity area. The new joint venture is the first international consortium in Poland that aims to develop and implement a strategy for managing offshore wind energy assets in the Baltic Sea.

The new company will be able to provide specialized services for the offshore wind energy sector, related to, among others, technical, operational, commercial and contractual aspects of wind farms in the Baltic Sea. The company will also be responsible for operating the 24/7 Offshore Wind Farm Management Centre, which the ORLEN Group plans to launch. The unit will control, monitor and coordinate the activities of offshore assets.

Acquisition of 100% of shares in Wena Projekt 2 Sp. z o.o.

On 12 April 2024, Energa Wytwarzanie SA acquired from Lightsource bp 100% of the shares in the special purpose vehicle Wena Projekt 2 Sp. z o.o., Warsaw, which holds the rights to a photovoltaic installation project with a total capacity of approximately 130 MW. Also on 12 April 2024, Notices to Proceed were issued to the General Contractor. The photovoltaic installation is to be built in the municipality of Kotla, Głogów District, Dolnośląskie Province. The photovoltaic installation is expected to be put into service before the end of 2025.

The fair value of the consideration paid was PLN 117 m, which included the acquisition of the shares and the repayment of the loan granted to the special purpose vehicle by its former shareholders, being a prerequisite for taking control of the SPV.

Signatures of Members of the Management Board of Energa SA:

Michał Perlik ……………………………………………

Acting President of the Management Board,
Vice-President of the Management Board for Finance and Climate

Sławomir Staszak ……………………………………………

Vice-President of the Management Board

Roman Szyszko ……………………………………………

Vice-President of the Management Board

Signature of the person responsible for the preparation of the financial statements:

Łukasz Minuth ……………………………………………

Director of the Finance Department

Bartłomiej Bieńkowski ……………………………………………

Head of the Financial Reporting and Taxes Section

Gdańsk, 23 April 2024