

# MANAGEMENT BOARD'S REPORT

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on activities of PGE Polska Grupa Energetyczna S.A.  
and PGE Capital Group  
for the 12-month period

ended December 31, 2021



*Leading in the green transition*

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Ladies and Gentlemen,

2021 was a very good year for PGE Group. In my view, we managed to achieve the objectives we had set for ourselves. The Polish economy grew dynamically and along with it demand for electricity. Growth in the import of Polish energy by EU economies made it possible for PGE Group to produce nearly 70 TWh of electricity and post solid annual results. Recurring EBITDA for 2021 exceeded PLN 8 billion and was approx. 30% higher than in 2020. 2021 also saw a considerable improvement in operational efficiency, which in combination with the impact of external factors yielded very good results for PGE Group.

Historically high electricity production volumes and revenue from the Capacity Market more than offset the lower margins on generation. These factors had the largest impact on the Conventional Generation segment, which generated PLN 2.6 billion in recurring EBITDA, nearly 40% more than in 2020. The results of this segment, which will soon be carved out from PGE Group together with PGE GiEK S.A., offer an

optimistic look at the profitability of the assets that will become a part of the National Energy Security Agency.

I am satisfied to say that the Renewables segment recorded EBITDA of more than PLN 1 billion for the first time, up by 70% from the previous year. This is a strong signal, especially since the green energy segment is becoming crucial for PGE Group's development, along with distribution. In line with PGE Group's strategy, once the coal assets are carved out, which is scheduled to take place by the end of 2022, renewables and distribution will be PGE Group's two most important areas.

At the start of 2022, it is difficult to talk about the preceding year only. Russia's aggression against Ukraine is causing us to revisit our approach to building energy security. In analysing the current situation, I am certain that the production of energy using the domestic conventional energy resources must remain a major element of the Polish energy landscape. Nuclear units should eventually be built as well. But what is particularly noteworthy is the even greater significance of renewable energy and the need to develop it intensively. We want to lead the renewables drive and consistently build up and support Poland's energy security. The offshore wind capacities that are being developed in the Baltic Sea, including the largest wind farms owned by PGE Group, are a great hope for the Polish economy.

2022 will certainly be a time of work on pursuing numerous challenges that are facing the Polish energy industry in the context of geopolitics, the economic situation, market conditions and dynamic regulatory changes. We are ready for another year, one in which we will open a new chapter in the history of PGE Group following the carve out of our coal assets. This will be a very important year for us, and we are ready for it because we are consistently pursuing our plans and we know where we are heading.



Wojciech Dąbrowski

President of the Management Board

PGE Polska Grupa Energetyczna S.A.



## 2021 CALENDAR

|                  |   |   |
|------------------|---|---|
| <b>FEBRUARY</b>  | <i>Signing of investment agreement with Ørsted</i>  |   |
| <b>MARCH</b>     | <i>Sale of shares of PGE EJ 1 to the State Treasury</i>                                   |   |
| <b>APRIL</b>     | <i>Granting of CfD for PGE's offshore wind farms</i>                                      |   |
| <b>MAY</b>       | <i>Closing of the transaction with Ørsted on offshore wind farms</i>                      | <i>Commissioning of unit no. 7 at Turów power plant</i>     |
| <b>JUNE</b>      | <i>Signing of an agreement for construction of New Czechnica power plant</i>              | <i>Affirmations of Baa1 rating by Moody's</i>               |
| <b>JULY</b>      | <i>Agreement regarding spin-off of coal assets to National Energy Security Agency</i>     |   |
| <b>AUGUST</b>    | <i>Agreement with PGG on coal supplies</i>  | <i>Selection of a financial advisor for Baltica project</i> |
| <b>SEPTEMBER</b> | <i>Sector agreement regarding development of offshore wind</i>                            |   |
| <b>NOVEMBER</b>  | <i>Conditional agreements with Tauron i ENEA for sale of shares in offshore companies</i> |   |
| <b>DECEMBER</b>  | <i>Result of main capacity market auction for the year 2026</i>                           |   |



## KEY FINANCIAL RESULTS OF THE PGE CAPITAL GROUP

| Key financial data                 | Unit           | Period ended<br>December 31, 2021 | Period ended<br>December 31, 2020 | Change<br>% |
|------------------------------------|----------------|-----------------------------------|-----------------------------------|-------------|
| Sales revenues                     | PLN<br>million | 52 730                            | 45 766                            | 15%         |
| EBIT                               | PLN<br>million | 5 123                             | 1 408                             | 264%        |
| EBITDA                             | PLN<br>million | 9 535                             | 5 966                             | 60%         |
| EBITDA margin                      | %              | 18%                               | 13%                               |             |
| Recurring EBITDA                   | PLN<br>million | 8 129                             | 6 184                             | 31%         |
| Recurring EBITDA margin            | %              | 15%                               | 14%                               |             |
| Net profit/loss                    | PLN<br>million | 3 945                             | 148                               | 2 566%      |
| Capital expenditures               | PLN<br>million | 4 662                             | 5 495                             | -15%        |
| Net cash from operating activities | PLN<br>million | 7 456                             | 10 256                            | -27%        |
| Net cash from investing activities | PLN<br>million | -4 367                            | -6 037                            | -28%        |
| Net cash from financial activities | PLN<br>million | -528                              | -1 357                            | -61%        |

| Key financial data                                       |                | As at<br>December 31, 2021 | As at<br>December 31, 2020 | % change    |
|--|----------------|----------------------------|----------------------------|-------------|
| Working capital  | PLN<br>million | 917                        | 71                         | 1 192%      |
| Net debt   | PLN<br>million | <b>4 228</b>               | <b>7 267</b>               | <b>-42%</b> |
| Net debt <sup>1</sup> /LTM reported EBITDA <sup>2</sup>  | x              | 0.44                       | 1.22                       |             |
| Net debt <sup>1</sup> /LTM recurring EBITDA <sup>2</sup> | x              | 0.52                       | 1.18                       |             |

| One offs affecting EBITDA  |                        | Period ended<br>December 31, 2021 | Period ended<br>December 31, 2020 | % change |
|--|------------------------|-----------------------------------|-----------------------------------|----------|
| Change of reclamation provision  | PLN<br>million         | 1 463                             | -306                              | -        |
| Change of actuarial provision  | PLN<br>million         | 64                                | -36                               | -        |
| Voluntary Leave Programme  | PLN<br>million         | 11                                | -28                               | -        |
| Provision for prosumers  | PLN<br>million         | -74                               | 0                                 | -        |
| LTC compensations  | PLN<br>million         | -58                               | 31                                | -        |
| Reversal of provision for the risk of returning the equivalent of EUA received by ZEDO | PLN<br>million         | 0                                 | 121                               | -        |
| <b>Total</b>   | <b>PLN<br/>million</b> | <b>1 406</b>                      | <b>-218</b>                       | <b>-</b> |

<sup>1</sup> In order to standardise the reporting of net debt (adjustment to the method of calculating covenants in loan agreements), starting from the results for H1 2021, there's been a change in the presentation, which also results in a change in the comparable periods (as at December 31, 2020), i.e. restricted cash items include only the funds in PGE Dom Maklerski S.A. clients' accounts as collateral for settlements with IRGiT (the Warsaw Commodity Clearing House).

<sup>2</sup> LTM EBITDA - Last Twelve Months EBITDA.

## 1. PGE Capital Group

### 1.1. Characteristics of activities

Capital Group of PGE Polska Grupa Energetyczna S.A. ("PGE Capital Group", the "Capital Group", "PGE Group", the "Group") is the largest vertically integrated producer of electricity and heat in Poland. With a mix of own fuel sources, generation assets and distribution network, PGE Group provides a safe and reliable supply of electricity to more than five million households, businesses and institutions. Moreover, PGE Group is the largest heat producer in the country.

The parent company of PGE Capital Group is PGE Polska Grupa Energetyczna S.A. (also "PGE S.A.", "PGE", the "Company"). PGE Group organizes its activities in seven operating segments:



#### CONVENTIONAL GENERATION

Core business of the segment includes extraction of lignite, production of electricity and heat from conventional sources.



#### DISTRICT HEATING

The core business of the segment includes production of electricity and heat in cogeneration sources as well as transmission and distribution of heat.



#### RENEWABLES

The core business of the segment includes electricity generation from renewable sources and in pumped-storage power plants and provision of ancillary services.



#### SUPPLY

The core business of the segment includes wholesale trading of electricity on domestic and international market, sale of electricity to final off-takers, trading of CO<sub>2</sub> allowances and energy certificates and fuels and provision of services of the Corporate Centre to companies from the PGE Group.



## DISTRIBUTION

The core business of the segment includes supply of electricity to final off-takers through the grid and HV, MV and LV infrastructure.



## CIRCULAR ECONOMY

The activities of the segment include the provision of comprehensive services in the field of management of combustion by-products ("UPS"), provision of services in auxiliary areas for electricity and heat producers and the supply of materials based on UPS.



## OTHER OPERATIONS

Other operations include provision of services, through the subsidiaries, to PGE Group, which include organisation of capital raising in form of Eurobonds (PGE Sweden), provision of IT, payroll and HR services, transportation, management of investment funds and investing in start-ups.

Additionally, within the segment there are companies responsible for construction of CCGT units at Dolna Odra power plant and planned new low-emission unit at Rybnik power plant.

The composition of the Capital Group is presented in note 1.3 to the consolidated financial statements.

## 1.2. Organisational structure

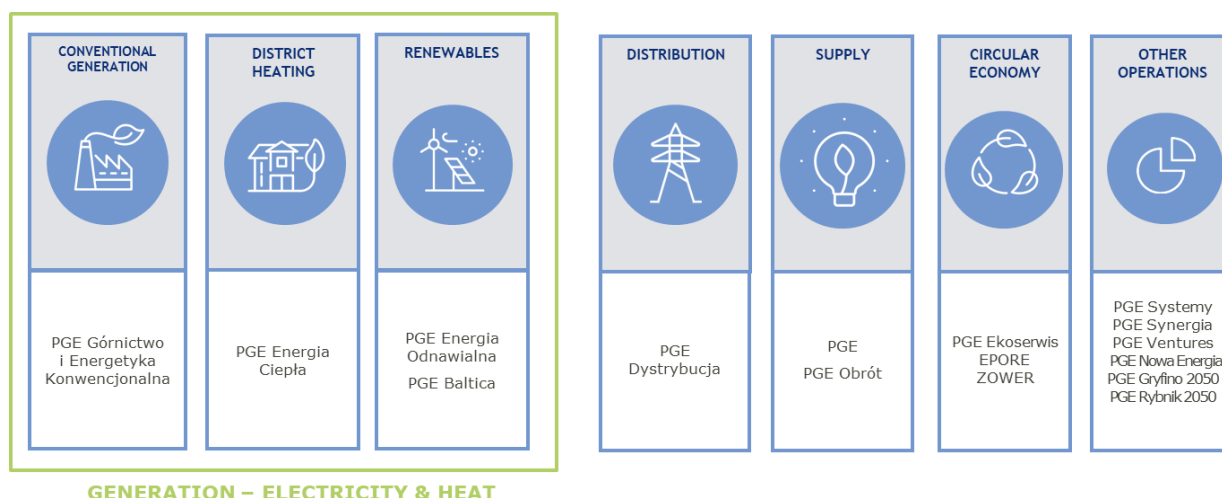
PGE Capital Group as at December 31, 2021 consisted of:

- PGE S.A. - the parent company,
- 77 subsidiaries subject to consolidation,
- 3 associates,
- 2 joint operations,
- 1 jointly controlled entity.

All of PGE Group's companies are organised in main operating segments, i.e. Conventional Generation, District Heating, Renewables, Distribution, Supply, Circular Economy as well as Other operations.

Given its size, internal organisational changes and acquisitions, as well as planned spin-off of coal assets to National Energy Security Agency („NABE”), PGE Group is in the process of streamlining its structures. The following diagram illustrates the Group's structure. A full composition of PGE Group, divided into segments as well as direct and indirect consolidated subsidiaries, is presented in note 1.3 to the Consolidated Financial Statements.

Chart: Structure of PGE Capital Group \*



\* Simplified structure – includes key entities.

From January 2, 2021, a new operating segment – Circular Economy – has been established within the Group's structure. It includes the following companies: PGE Ekoservis S.A., EPORE S.A., ZOWER sp. z o.o. The management of combustion by-products at PGE Group turns waste into high-value substances that are used in other branches of economy (cement industry, construction, road-building, mining) and thus reduces the volume of ultimate waste generated.

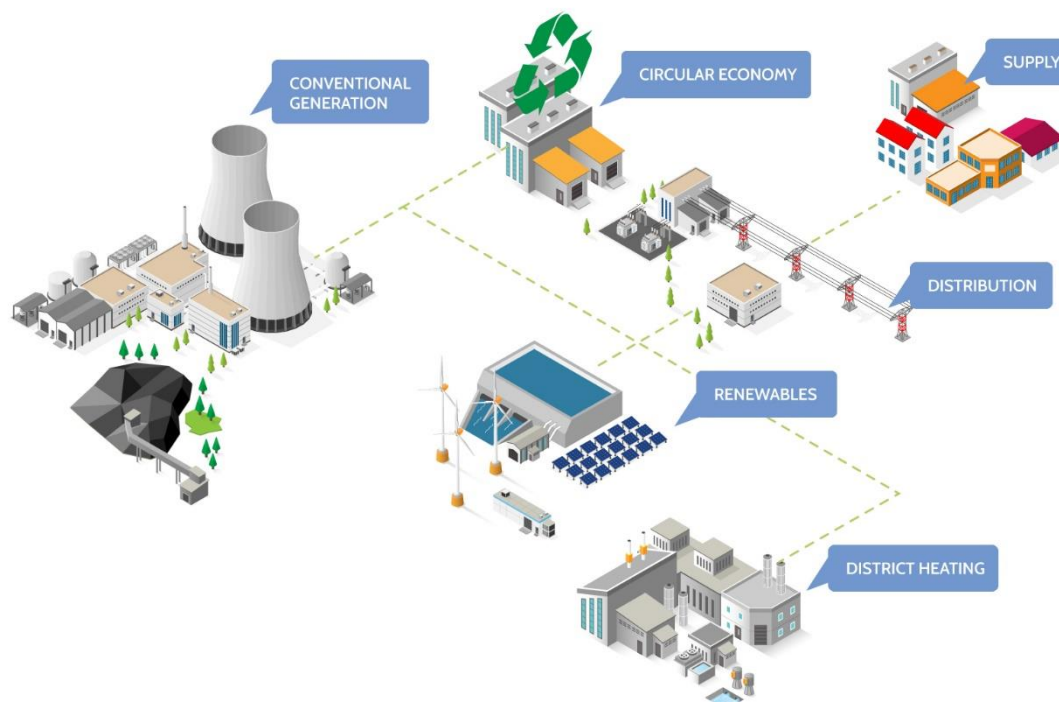
From July 1, 2021 the Szczecin CHP plant and Pomorzany CHP plant and the heat grid in Gryfino, which had been included in the Conventional Generation segment until June 30, 2021, have been incorporated into the structures of District Heating segment.

During 2021, special purpose vehicles were entrusted with carrying out projects in the field of low-emission investments in the Dolna Odra and Rybnik power plants.

### 1.3. Business model

PGE Group is the largest vertically integrated producer and supplier of electricity and the largest producer of district heating in Poland. The Group's activities span the entire value chain: from lignite mining at own mines, through generation of electricity and heat, to distribution and sales.

Chart: Current business mode of PGE Group



PGE Group's generating assets account for approx. 43% of electricity output. Conventional Generation segment approx. 36%, District Heating and Renewables segments' share accounted for 5% and 2% accordingly in Poland with use of a variety of technologies. Conventional installations are based on lignite from PGE Group's own mines as well as hard coal, gas and biomass from external suppliers. Renewable sources are also used in electricity generation: wind energy, hydro energy and solar energy.

Generating units belonging to District Heating segment produce approx. 20% of heat in Poland.

Using its approx. 297 000 km of power lines, PGE Group distributes electricity to customers over an area encompassing approx. 40% of Poland's territory.

With a combination of own lignite resources, generation assets and distribution grids, PGE provides safe and reliable supplies of electricity to approx. 5.5 million customers throughout Poland, including households, businesses and institutions. This means that it supplies a third of electricity consumers in Poland. PGE is also the leader in district heating production.

In 2021, the PGE Capital Group has achieved an reported EBITDA result of approximately PLN 9.5 billion.

The largest share of EBITDA was generated by the Conventional Generation segment (43%). The Conventional Generation segment is also responsible for the largest capital expenditures in the amount of about PLN 1.8 billion. Those were mainly modernization and replacement investments, including increasing the efficiency of existing power plants and environmental upgrades. Within development expenditures, the largest outlays (approximately PLN 0.4 billion) were related to the construction of 490 MW unit no. 7 in power plant in Turów.

Distribution segment is the second business line in terms of share in the result of the PGE Group (29%). The segment's capital expenditures amounted to around PLN 1.4 billion, encompassing mainly upgrades and restoration of the power grid, as well as connecting new customers to the grid.

The Renewables segment generated 11% of the Group's EBITDA. IN 2021 investments were actively made in the development of renewable energy sources. In accordance with the Strategy until, PGE Group is pursuing offshore wind farms project. The Group plans to achieve a capacity of 2.5 GW(within Joint Operation with

Ørsted) by 2030 and 6.5 GW by 2040. An agreement with Ørsted regarding joint realisation of the 2.5 GW projects was finalised in May 2021.

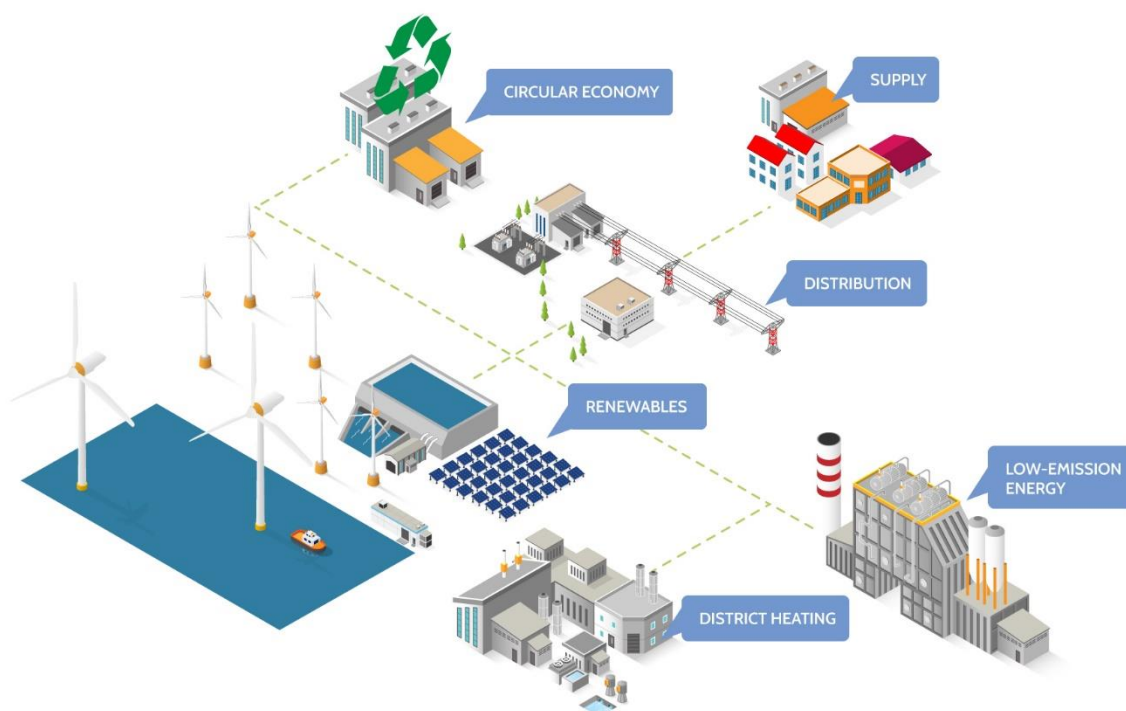
Supply segment is responsible for 9% of the Group's EBITDA. There are no significant capital expenditures in this segment.

The District Heating segment generated 8% of the PGE Group's EBITDA. In this segment, capital expenditures amounted to almost PLN 0.6 billion and were mainly related to modernisation and replacement concerning production assets and district heating networks. In 2021, an agreement was signed for construction of CCGT unit with a total gross capacity of 179.4 MWe and 162.9 MWt (New Czechnica CHP plant) in Siechnice. PGE Energia Ciepła, a managing company of the segment, carried out activities aimed at decarbonisation of heating assets.

The other segments do not have a significant share in the EBITDA of the PGE Capital Group, while the Other Operations segment incurred significant capital expenditure (PLN 0.8 billion) due to the construction of new CCGT units at Dolna Odra Power Plant. Originally, this investment project was implemented within the Conventional Generation Segment.

As PGE Group's strategy is being implemented and the government's plan to carve out coal assets is finalised, PGE's business model is temporarily set to change – from being primarily an electricity producer, PGE will predominately become a distributor of energy. PGE Group's generating potential will be gradually re-built as investments in new generating assets, especially offshore wind farms, are implemented – the diagram below presents the target business model of the PGE Group.

Chart: Target business model of the PGE Group





## 1.4. Competitive advantages of the Group

| Assets   | Strong financials  | Strategy  |
|--|--|---|
| <ul style="list-style-type: none"> <li>▪ Leader in installed capacity and electricity and heat production.</li> <li>▪ Diversified activities conducted throughout the country – generation, distribution, wholesale and retail sale of electricity.</li> <li>▪ RES leader: almost 700 MW in wind.</li> <li>▪ 2020 Regulatory Asset Base in Distribution: PLN 18.9 bn.</li> </ul> | <ul style="list-style-type: none"> <li>▪ Stable and diversified revenues secured by the guaranteed income from the capacity market (from 2021).</li> <li>▪ EBITDA margin - 18% in 2021.</li> <li>▪ Approx. 37% of EBITDA from regulated activities (distribution &amp; co-generation).</li> <li>▪ Strong investment grade credit ratings with stable outlook (Fitch and Moody's).</li> <li>▪ Healthy leverage – net debt/EBITDA at approx. 0.44x at 2020 year end.</li> <li>▪ Financing secured for operational and investing activities.</li> </ul> | <ul style="list-style-type: none"> <li>▪ Strategy until 2030 with 2050 perspective with a goal of achieving climate neutrality and 100% of green Energy for PGE Group customers in 2050.</li> <li>▪ Evolution of generation portfolio towards renewables, with a significant share (6.5 GW) of offshore wind farms.</li> <li>▪ Leader of sustainable energy transformation in Poland.</li> <li>▪ Modern energy services.</li> <li>▪ Efficient and effective organisation – lowering of fixed costs by 25% until 2030.</li> <li>▪ CAPEX of PLN 75 billion in years 2021-2030 focused on renewable energy, decarbonisation of district heating and grid infrastructure with use of support funds at a level of min. 25%.</li> <li>▪ Projected stable EBITDA level (approx. PLN 5-6 billion in period 2025-2030) with evolution towards green and regulated income.</li> </ul> |

## 1.5. Employment structure in PGE Capital Group

PGE Group is one of the largest employers in Poland, providing stable jobs to approximately 38 thousand people. At the same time, it has a responsible policy for improving and optimising processes, resulting in a reduction of staffing levels.

Table: Employment level in PGE Capital Group.

| FTEs                                  | Number of employees |                   | % change   |
|---------------------------------------|---------------------|-------------------|------------|
|                                       | December 31, 2021   | December 31, 2020 |            |
| <b>Total in PGE Group, including:</b> | <b>38 001</b>       | <b>40 141</b>     | <b>-5%</b> |
| Conventional Generation               | 18 609              | 20 610            | -10%       |
| District Heating                      | 3 705               | 4 014             | -8%        |
| Circular Economy*                     | 944                 | -                 | -          |
| Renewables                            | 630                 | 595               | 6%         |
| Distribution                          | 9 636               | 10 038            | -4%        |
| Supply                                | 2 459               | 2 347             | 5%         |
| Other operations                      | 2 018               | 2 537             | -20%       |

\*The table does not present data for 2020, because in that period companies from Circular Economy segment were presented in segments: Conventional Generation, District Heating and Other operations.

The Group announced its goal of achieving climate neutrality by 2050 and being the leader of a sustainable energy transition. One of the pillars of the New Strategy of the PGE Group is an efficient and effective organisation, which also means effective human capital management, adjustment of the employment structure to demographic changes and optimisation of support processes.

At the same time PGE Group approaches the economic and social effects of the transition with great awareness and responsibility. The Group actively participates in preparing and implementing transition plans for coal regions, particularly the Bełchatów and Turoszów region so that they take into account the creation of new jobs for employees of the coal industry, taking into account and respecting the interests of the local community and administration, the natural environment, investors and business.

Thanks to experience and involvement of the employees, we are able to build a values-based organisation that combines social responsibility with business targets.

## 2. Strategy of PGE Group until 2030 with prospects until 2050

### 2.1. Objectives, key directions, mission and vision of the Strategy

#### OBJECTIVES OF THE STRATEGY

The Strategy is a response of the PGE Group to deep changes in the sector that have occurred in recent years, as well as to the social expectations, which will determine the sector's future. PGE Group plans to play a leadership role in the transition and modernisation of the energy sector in Poland and support building a market environment conducive to energy transition. PGE Group's objective is to balance all aspects of the business, maximizing the added value for stakeholders.

#### KEY DIRECTIONS IN DEVELOPMENT AND ACTIVITY RESTRICTIONS AREAS

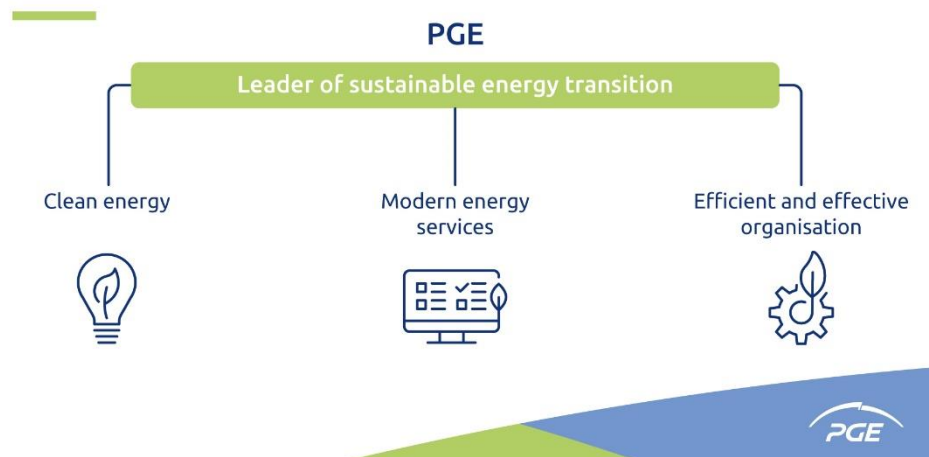
Key directions in development of the PGE Group will be offshore and onshore wind farms, photovoltaics, network infrastructure, low-emission and zero-emission heating and energy services. Divestment areas and activity restrictions include coal energy, nuclear energy program, hard coal trade and support areas outside the core business.

#### MISSION AND VISION

PGE's mission is to provide energy for a safe future. In accordance with its long term vision PGE Group is to become a leader in sustainable energy transition in Poland. Vision of the Group translates into three strategic priorities, including:

- generation of environmentally friendly energy,
- provision of modern energy services,
- efficient and effective functioning of the Group.

#PGE2050

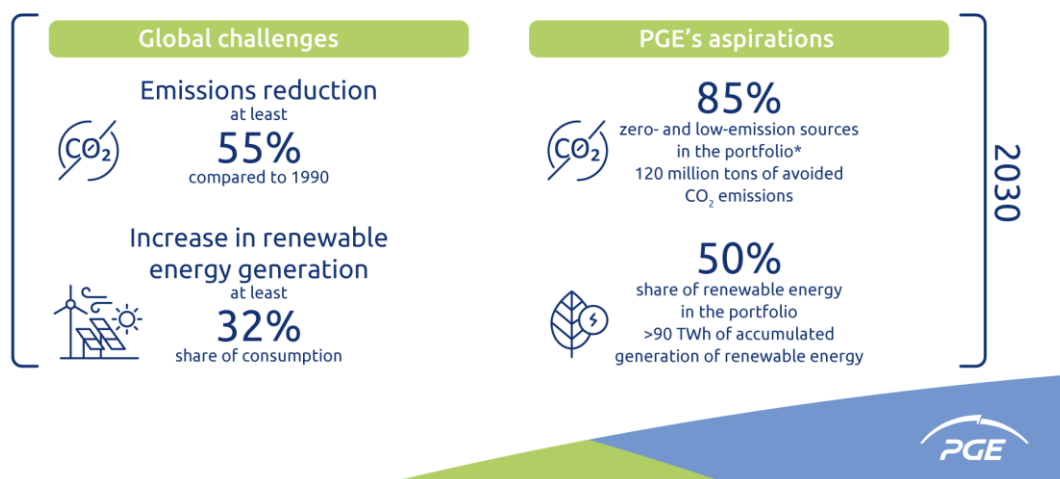


#### ENVIRONMENTALLY FRIENDLY ENERGY

As a leader of transition, PGE Group declares to reduce its impact on the natural environment by achieving climate neutrality by 2050. We plan to reduce the production emissions by changing the technology, expanding the renewable energy portfolio and enabling our clients to participate in the transition thanks to attractive

product offerings. By 2030 zero- and low-emission sources should constitute approx. 85% of the generation portfolio and share of renewable energy should amount to approx. 50% of the total generation.

## #PGE2050

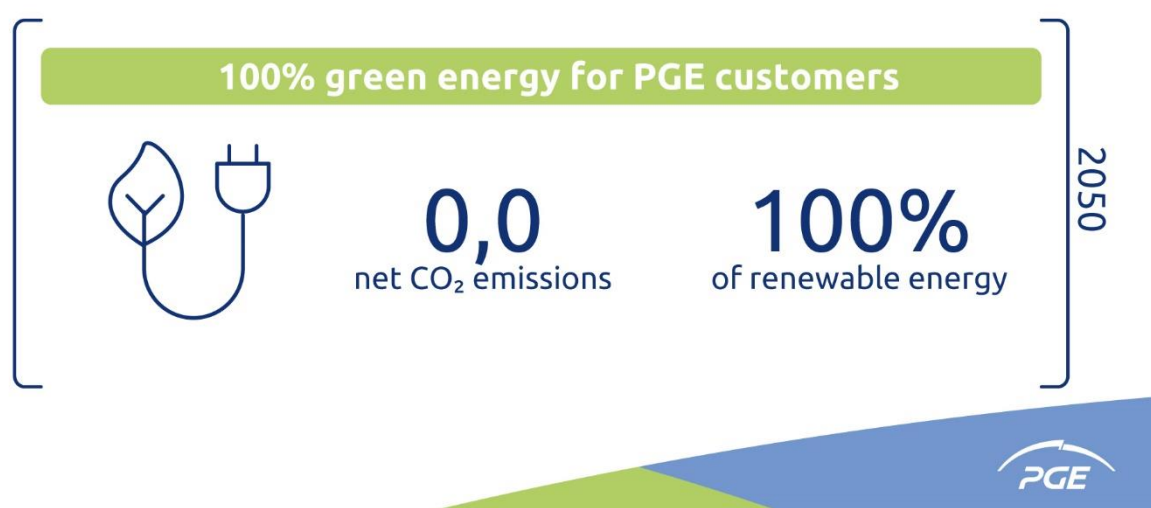


Greenhouse gas emission reduction targets have been set:

- 80% reduction in emissions by 2030 (compared to emissions in 2020),
- 100% reduction in emissions by 2050 (compared to emissions in 2020).

The strategy also sets targets for increasing the waste recirculation rate (> 65% by 2035) and reducing the volume of waste landfilled (10% by 2035).

## #PGE2050



The PGE Group is ready to carry out the transition process of the sector: preparing the conventional electrical power system base to function in a new ownership structure. The PGE Group will be a pioneer in development and exploitation of offshore wind energy sector. Offshore wind capacity installed in the Baltic Sea should amount to 2.5 GW in 2030 and as a result of preparation of further projects in new locations – is to exceed 6.5 GW by 2040. At the same time the programme of building power in onshore wind farms and photovoltaics will be continued and expected new capacity should be increased by 2030 by more than 1 GW and more than

3 GW respectively. In the District Heating segment the Group plans transition of district heating towards low and zero-emission sources (share in heat production should be over 70% in 2030). At the same time PGE will promote connections of individual heat sources or replacement for environmentally friendly installations. Important role in energy transition is performed by implementation of the principles of circular economy in all areas and minimization of the impact on the natural environment.

### MODERN ENERGY SERVICES

Reliable network infrastructure and partnership with customers are the foundation of the energy transition. In Distribution segment the improvement of quality of services in the field of energy supplies is assumed (the time of interruptions in energy supplies will be reduced by 8% in the cities and by 50% in other areas in 2025, cost efficiency, efficiency of performance and transparency of connection processes will be streamlined). Grid modernisation and new energy storage units (planned 800 MW by 2030) are needed for the full use of distributed power sources and ensuring a secure operation of the transmission system. Financial stability and developing a new DSO regulatory model that guarantees meeting the challenges of transition are necessary to pursue those goals, which should improve expected free cash flow by PLN 0.7 billion until 2030. PGE Group wants to maintain the highest in the market customer satisfaction level resulting from the quality of energy offerings and services. The issue is addressed by development of professional energy services and integration of customer contact and service channels. Assumed increase in margin in the retail segment should amount to approx. PLN 0.4 billion (annual average).

The Group plans to build additional value by enabling customers to actively participate in the energy transition offering among other things RES installations for the clients and access energy, capacity and ancillary services markets (1.0 GW in market services). These activities should contribute to 25% rise in EBITDA of retail sales companies by 2030.

### EFFICIENT AND EFFECTIVE ORGANISATION

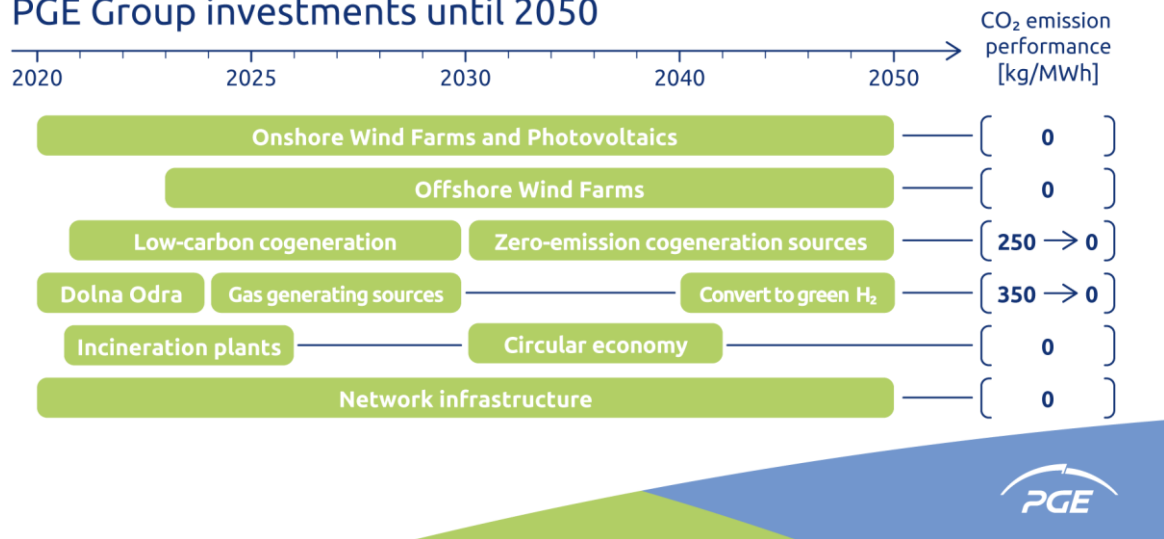
In order to meet the challenges resulting from decarbonisation, decentralisation and competition, PGE Group must improve its operational efficiency. The Group assumes reduction of fixed cost by approx. 15% until 2025 and approx. 25% by 2030 (compared to 2019, the figures do not include the effect in the Conventional Generation segment in case it is separated). The PGE Group's business profile will evolve towards requiring less work and changing key competences. Effective ICT area will be a lever for improving the efficiency of the PGE Group's operations through economic process automation and digitisation. Demographic trends will affect the employment level in the PGE Group and employee career paths. Assumed employment reduction should be at approx. 15% in 2030 and 50% in 2050 compared to 2019. This will require effective implementation of projects in the area of human capital management. Further staff development will be oriented to renewable energy and modern energy services.

### INVESTMENTS

Investments of the PGE Group will be focused on the development of renewable energy, transition of district heating and grid infrastructure. There will be no new coal investments (both mining and generation) and investment decisions on gas sources will be made in 2025 at the latest. Total expected capex in years 2021-2030 will amount to approx. PLN 75bn and approx. 50% will be allocated to renewable energy sources (offshore wind farms, onshore wind farms and photovoltaics). Another key important area of spending is regulated activity, including grid infrastructure and low-emission cogeneration sources.

## #PGE2050

### PGE Group investments until 2050



### EXPECTED FINANCIAL RESULTS OF THE STRATEGY

As a result of the strategy PGE Group wants to build stable EBITDA with the evolution of the structure towards green and regulated directions and limit its exposure to market risks. EBITDA is expected to rise from over PLN 5 billion in 2025 up to over PLN 6 billion in 2030. Implementation of an ambitious transition plan will be pursued while maintaining a stable level of debt and investment grade ratings. The goal of the PGE Group is a full use of dedicated financing options for green investments and off-balance sheet financing. Share of aid funds in the financial needs of the PGE Group until 2030 should amount to at least 25%.



## 2.2. Key actions and indicators related to Strategy implementation

| Strategic priority            | Objectives  | Actions and results in 2021   |
|-------------------------------|---|---|
| <b>CLEAN ENERGY</b>           | Construction of offshore wind farms: 2.5 GW by 2030 and more than 6.5 GW by 2040                                | <ul style="list-style-type: none"> <li>▪ Milestones reached in projects Baltica 2 and 3</li> <li>▪ Launch of individual negotiations with European Commission regarding determining an individual price in a contract for difference</li> <li>▪ Preparation of tender for works project</li> <li>▪ Start of tender for delivery of turbines</li> <li>▪ Signing of letter of intent to establish service hub in the Sea Port in Ustka</li> <li>▪ Execution of agreements on connection to transmission grid</li> </ul>   |
|                               | Development of onshore wind farms: > 1 GW in new capacities by 2030   | <ul style="list-style-type: none"> <li>▪ Capacity of projects in the pipeline: approx. 150 MW</li> <li>▪ Analysis of opportunities for development of own projects at PGE Group's locations: approx. 50 MW</li> <li>▪ Analysis of acquisition projects: approx. 100 MW</li> </ul>   |
|                               | PV development program > 3 GW installed capacity in 2030  | <ul style="list-style-type: none"> <li>▪ Installed capacity in 2021: 4 MW, 18 MW under construction</li> <li>▪ Capacity covered by construction permits: approx. 170 MW</li> <li>▪ Land secured: potential for 2 000 MW</li> <li>▪ Auctions won in 2021: 23 projects with a total capacity of 46 MW</li> </ul>  |
|                               | Construction of 800 MW in energy storage systems by 2030  | <ul style="list-style-type: none"> <li>▪ Entry of Góra Żar energy storage system into operation (500 kW)</li> <li>▪ Development of hybrid energy storage project in Żarnowiec (200 MW)</li> <li>▪ Identification of the potential for energy storage system functioning for the purposes of distribution grids – approx. 8 MW in energy storages reported on the Investment Committee of PGE S.A.</li> <li>▪ Identification of energy storage projects integrated with renewable energy sources – 79 MW</li> <li>▪ Analysis on the possibility of building a pumped-storage facility in Młoty (750 MW)</li> </ul>   |
|                               | District-heating transition: Share of zero- and low-carbon sources in heating production at approx. 70% by 2030 | <ul style="list-style-type: none"> <li>▪ Nowa EC Czechnica: launch of construction on a gas-and-steam unit with a pumped reserve boiler room and heat accumulator</li> <li>▪ EC Gdańsk: entry into operation of new peak sources, conceptual works on building new gas-fired sources</li> <li>▪ EC Gorzów, EC Lublin Wrotków, EC Rzeszów: launch of implementation of project to build peak and reserve boiler rooms as backup for coal-based sources.</li> <li>▪ EC Bydgoszcz: construction of new gas boiler unit and preparation for construction of gas-fired cogeneration source</li> <li>▪ EC Zgierz: preparation for construction of peak load and reserve boiler unit for gas-fired engines and PV installation, which will ensure coverage of demand for heating resulting from the shut-down of old coal units</li> <li>▪ EC Kielce: preparation for construction of new open cycle gas turbine (OCGT) unit intended to make up a capacity deficit caused by the shut-down of old coal units</li> <li>▪ EC Gdynia: construction of new peak load and reserve boiler unit and steam boiler, preparation for construction of new gas-and-steam unit</li> <li>▪ Preparation for construction of waste-to-energy incinerator projects: Rzeszów (2<sup>nd</sup> technological line) and Bełchatów</li> <li>▪ Decarbonisation plan in place for 8 branches</li> </ul> |
| <b>MODERN ENERGY SERVICES</b> | Access to green energy for PGE Group customers  | <ul style="list-style-type: none"> <li>▪ Roll out of PRO-EKO product offering (including photovoltaics for retail customers)</li> </ul>   |

|   |  |  |
|---|--|--|
| <b>EFFICIENT AND<br/>EFFECTIVE<br/>ORGANISATION</b> |  | <ul style="list-style-type: none"> <li>Implementation of a RES energy sales model in the PPA formula (purchase of electricity directly from producers of energy from renewable sources)</li> <li>"Naturally, it's energy" product offering (approx. 2.9 TWh in 2021)</li> </ul>  |
|   | Highest customer satisfaction score on the market maintained             | <ul style="list-style-type: none"> <li>Retention of customer satisfaction indicator score in retail on a y/y basis (tariff G)</li> <li>New sales channel – eBOK (electronic customer service)</li> </ul>   |
|   | Profitability increase in energy services                                | <ul style="list-style-type: none"> <li>Connection of new customers to district heating network (+240 MWt)</li> <li>Expansion of retail product offering, including PV installations for prosumers</li> <li>Increased coverage of operating costs in DSO tariff (92% in 2021 compared to 85% in 2020)</li> </ul>  |
|   | Shorter interruptions in energy supply                                   | <ul style="list-style-type: none"> <li>Achievement of Energy Regulatory Office targets for supply interruption time indicator for 2021</li> <li>Start of training centre in Krasnoblód – training for live working technologies</li> </ul>   |
|   | Reduction of fixed costs   | <ul style="list-style-type: none"> <li>Signed agreement to sell stake in PGE EJ 1</li> <li>Consolidation of district heating assets</li> <li>Sale of Elbest</li> <li>Implementation of electronic procurement processes</li> </ul>   |
|   | Optimisation of asset maintenance costs                                  | <ul style="list-style-type: none"> <li>Transition to gas fuel in district heating</li> <li>Use of autonomous drones and robots for inspection works at wind farms and hydropower plants</li> </ul>   |
|   | Enhanced capability in remote customer service                           | <ul style="list-style-type: none"> <li>Expansion of electronic contact and sales channels (eBOK)</li> <li>Nearly 1 million customers using electronic invoices</li> </ul>  |
|   | 25% of financing for investment program raised from preferential sources | <ul style="list-style-type: none"> <li>Approx. PLN 456 million in financing raised, including PLN 131 million in grants</li> </ul>   |
|   | Unified organisational structure and management system                   | <ul style="list-style-type: none"> <li>Update of internal business procedures and processes to more efficiency implement Strategy, including: <ul style="list-style-type: none"> <li>Cooperation Model – i.e. PGE Group's operating model</li> <li>Investment policy</li> </ul> </li> <li>Selection of key performance indicators (KPIs) based on PGE Group's strategy – direct link between strategic objectives and bonus system</li> <li>Systemising and streamlining coal-based generating assets for the purposes of the carve-out process</li> </ul> |

## 2.3. Prospects for the development in the short and medium term

|   | MAIN DIRECTIONS OF CHANGE  | POTENTIAL IMPACT ON PGE CAPITAL GROUP   |
|---|--|---|
| <b>MACROECONOMIC ENVIRONMENT - GLOBAL</b> | <ul style="list-style-type: none"> <li>GDP in the eurozone in 2021 grew strongly by 5.2%. This was driven by an economic recovery following the global recession of 2020 (GDP down by 6.4%) caused by the COVID-19 pandemic. The EC's forecasts for 2022 and 2023 expect the economic expansion to continue, at 4.3% and 2.4%, respectively.</li> <li>Potential effects in connection with the war in Ukraine and its aftermath (described in p. 5.4 of this report)</li> <li>The strong economic recovery along with supply restrictions and growing prices of fuel and energy led to an increase in inflation to levels not seen in nearly 30 years. At the end of 2021, annual CPI (consumer inflation) was up by 5% in the eurozone. Similar inflationary pressure was seen in other global economies such as the U.S. (7% annual inflation at the end of 2021) and U.K. (5.4%).</li> <li>With inflation targets being exceeded, central banks began to tighten the monetary policy by reducing asset purchase programs (FED and ECB) and raising interest rates, especially in our region (Czech Republic and Hungary).</li> <li>Following a strong rebound in the second quarter of 2021 resulting from a low base in 2020, industrial production in the eurozone decreased to -1.5% y/y in November 2021. The decline mainly resulted from supply chain disruptions during the COVID-19 pandemic, especially visible in the automotive industry.</li> <li>In February 2022, PMI for industry was at 58.2 and for services at 55.5, showing a continued recovery in the nearest future. The key risks to economic growth include how the pandemic situation will develop, tightening the monetary policy and supply restrictions.</li> <li>EU economic growth in the coming years will be supported by a post-pandemic crisis recovery package worth EUR 750 billion.</li> <li>Planned tightening of the EU climate policy, adoption of a CO<sub>2</sub> reduction target of 55% in 2030, including expectations of further instruments to accelerate the decarbonisation of the economy will affect the levels and price relations of energy carriers.</li> </ul> | <ul style="list-style-type: none"> <li>Growth in GDP and industrial production in the eurozone should be supportive of economic activity in Poland, allowing us to expect an increase in demand for energy in the National Power System ("NPS"), although the pace of this growth will depend on both domestic factors and the situation in foreign markets, with particular emphasis on the level of international exchange.</li> <li>A large portion of funding from the recovery plan is earmarked for the decarbonisation of economy, which in combination with a stricter climate policy (increase in prices of CO<sub>2</sub> emission allowances, increase in share of RES, adoption of taxonomy and works on the Fit-for-55 package) will not improve the outlook for coal-based energy generation and in the long term should cause a further decline in demand and pressure on prices. Their level will be determined by the situation in global markets, which during periods of short-term imbalances may give rise to higher market volatility.</li> <li>Meanwhile, the wide availability of financial resources targeted at decarbonisation may facilitate the implementation of investments oriented towards the transformation of the PGE Group.</li> </ul> |
| <b>MACROECONOMIC ENVIRONMENT - POLAND</b> | <ul style="list-style-type: none"> <li>Real GDP growth in Poland in 2021 reached 5.7%, according to estimates from Statistics Poland, as a result of a rebound after the pandemic decline in 2020 (-2.5%).</li> <li>Real GDP growth in Poland in 2021 reached 5.7%, according to estimates from Statistics Poland, as a result of a rebound after the pandemic decline in 2020 (-2.5%).</li> <li>The primary factor driving the strong GDP growth was domestic demand (+7.6%), including consumption in the household sector (+3.4%). The impact of investment demand was lower (+1.3%).</li> <li>As for specific sectors of the economy, the strongest growth was recorded in industry,</li> </ul>  | <ul style="list-style-type: none"> <li>Economic growth in the short and medium term may translate into increased demand for electricity. However, a high pressure on rising electricity costs (CO<sub>2</sub> costs, distribution charges, support schemes), increasing energy efficiency and a rapid reduction of costs of constructing own RES sources will have a negative long-term impact on the demand for energy from conventional generation sources.</li> <li>In the longer term, lower levels of demand and changes to the energy mix may translate into a lower electricity price on the wholesale market and, in particular, a negative impact on the economics of coal-fired power generation. Short-term prices growth cannot be ruled out if the</li> </ul>  |

|  | MAIN DIRECTIONS OF CHANGE   | POTENTIAL IMPACT ON PGE CAPITAL GROUP  |
|--|---|--|
|  | <p>where gross value added grew by 14.1% and in retail (+5.9%). The construction industry grew by 1.2%.</p> <ul style="list-style-type: none"> <li>Industrial PMI has remained above 50 points since July 2020, which shows growth in economic activity in this sector, however the January 2022 read-out (54.5 points) is slightly weaker than the data for December 2021.</li> <li>Given the stronger price pressure, with both supply-side and demand-side causes (including increases in fuel and energy prices), inflation grew strongly in 2021, reaching an annual average of 5.1% and an annual rate of 8.6% in December 2021 for consumer inflation. Core inflation, which excludes food and energy prices, was 4.1%. According to National Bank of Poland surveys taken in January 2022, average annual CPI inflation may rise even more strongly in 2022, to 7.4%, and decline to 4.4% in 2023. Given the anti-inflationary shields introduced by the government, these forecasts are accompanied by an elevated level of uncertainty.</li> <li>Strong inflationary pressure prompted the National Bank of Poland to raise interest rate. The reference rate has increased from 0.1% at the end of 2020 to 2.25% currently. At the same time, yields on debt instruments increased. According to a communication from the National Bank of Poland, further interest rate hikes are possible in order to bring inflation down to the target of 2.5% with a tolerable deviation of 1 percentage point.</li> <li>Forecasts from the European Commission and the National Bank of Poland expect the accelerated GDP growth to continue in the coming years (4.9% in 2022 and 4.4%-4.9% in 2023). This dynamic will depend on the intensity of the pandemic, impact of interest rate hikes, economic growth in Europe and the capacity for increasing investments.</li> </ul> | <p>level of available reserves in generating units declines.</p> <ul style="list-style-type: none"> <li>An increase in interest rates and debt yields will raise the cost of debt financing in the investment program. No changes are expected in PGE Group's credit ratings in local currency and foreign currencies (Moody's Baa1 and Fitch BBB+), which should remain neutral for the availability of financing. In addition, on 18 January 2022, PGE's Management Board passed a resolution on commencing the company's recapitalisation in connection with planned investment projects in the area of renewable energy, decarbonisation and distribution, which may reduce the demand for debt capital.</li> </ul> <p>The Extraordinary General Meeting, which took place on March 7, 2022 did not adopt the proposed resolution due to the break in the proceedings announced until April 6, 2022. Further decisions will be made during the continuation of the General Meeting.</p> <ul style="list-style-type: none"> <li>An increase in the price indices of construction and assembly works, materials, as well as cost pressures in the specialised construction segment may result in higher expenditures for the execution of the planned investment programme and higher costs of external services. In addition, the structural shortage of qualified employees in the construction sector may cause delays in the implementation of investment and overhaul tasks.</li> </ul> |

|   | MAIN DIRECTIONS OF CHANGE   | POTENTIAL IMPACT ON PGE CAPITAL GROUP   |
|---|---|---|
| <b>TRENDS IN<br/>ELECTRICITY<br/>AND FUEL<br/>MARKETS</b> | <ul style="list-style-type: none"> <li>Growth to record levels in domestic electricity consumption in Poland in 2021 (+5.4%) and in generation (+14%) above the figures from before the pandemic.</li> <li>Significant decline in net import from 13.2 TWh in 2020 to 0.8 TWh in 2021 due to growth in energy prices and consumption in European markets.</li> <li>Supply restrictions in European markets in renewable sources. The planned shut-down of nuclear plants in Germany with a capacity of 4 GW in 2021 and a further 4 GW by the end of 2022.</li> <li>Sudden spike in energy prices in global markets in the second half of 2021 caused by a strong economic recovery (growth in the consumption of energy and fuels), lower wind speeds and geopolitical tensions.</li> <li>Natural gas prices on TGE's SPOT market increased from 96 PLN/MWh in the first quarter of 2021 to 450 PLN/MWh in the fourth quarter of 2021. Coal prices in ports ARA grew during that period from approx. 10 PLN/GJ to more than 25 PLN/GJ.</li> <li>On the Polish market, the cost of basic fuel, i.e. hard coal, was stable for power plants and reached approx. 11.5 PLN/GJ.</li> <li>Rise in CO<sub>2</sub> prices – from approx. 37 EUR/t on average in the first quarter of 2021 to approx. 67 EUR/t on average in the fourth quarter of 2021, reaching approx. 90 EUR/t.</li> <li>Growing energy prices in Poland due to the cost of CO<sub>2</sub> and energy prices in European markets. The price of annual BASE contracts on TGE grew to 830 PLN/MWh on average in December 2021, from approx. 275 PLN/MWh on average in the first quarter of 2021.</li> <li>A systematic increase in demand for natural gas in Poland and the region is expected in view of new investments in natural gas-fired power generation units and high-efficiency cogeneration units as well as a gradual change in the fuel mix in Germany.</li> <li>The Development of possibilities to supply natural gas to Poland (the expansion of the LNG terminal, the Baltic Pipe project, infrastructural projects of LNG exporters).</li> <li>Launch by the Ministry of State Assets of the power-sector transition project in Poland and carve-out of coal-based generating assets from companies with a State Treasury shareholding.</li> <li>Changes in the energy market model: <ul style="list-style-type: none"> <li>implementing the capacity market mechanism and RES auctions.</li> <li>introducing changes to the balancing market rules in two phases, at the beginning of 2021 and 2022.</li> <li>introducing changes in establishing energy prices for end users.</li> <li>new settlement model for prosumers.</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>Rising energy consumption in Europe and supply constraints may significantly impact the level of cross-border exchange of electricity, resulting in higher prices on the wholesale market and higher load on PGE Group's units.</li> <li>Persistently high fuel prices, especially for natural gas, in European markets may temporarily have a positive impact on margins generated by PGE Group's generating units, despite risk related to high redemption costs of CO<sub>2</sub> emission allowances.</li> <li>Hard coal-fired generation grew by 30% in 2021 due to high energy demand, lower wind and rising gas prices in European markets. In the short term, this results in increased consumption and upward pressure on coal prices on the Polish market. In the long term, coal consumption and production are expected to be steadily reduced as a result of structural changes in the energy sector, the development of renewable and gas capacities and the phase-out of solid fuels in households.</li> <li>Continued upward pressure on energy prices in Poland in the long term may have a negative impact on energy-intensive users' consumption and the competitiveness of electricity against other energy carriers, and thus on the sales volumes generated by PGE Group.</li> <li>An increase in prices for retail customers may have an adverse effect on margins in PGE Group's Supply segment.</li> <li>New natural gas supply potential (construction of the Baltic Pipe gas pipeline and expansion of the LNG terminal in Świnoujście) will make it possible to develop CCGT generating units and implement investments in high-efficiency gas cogeneration under the support system.</li> <li>PGE Group is participating in a project to carve-out coal-fired generation assets from State Treasury-owned companies. The implementation of this project will significantly change the Group's generation profile into a low-emission one and will reduce risk related to the level of margins and output in coal units.</li> <li>The capacity market is an opportunity for a gradual transformation of the power structure in the NPS towards the construction of highly efficient base-load power generation units, flexible peak sources, and a gradual decommissioning of units which do not meet environmental requirements.</li> <li>Renewable energy auctions allow investors to secure the revenue side of their projects while maintaining a competitive cost of RES development for end users.</li> <li>Changes in the balancing market are intended to enable the market valuation of reserves and system services, strengthen price signals and provide an incentive to invest in flexibility on the part of generators and customers.</li> <li>Causing greater activity on the part of end users will allow the PGE Group to develop its product offer in new cooperation models.</li> <li>Development of offshore wind energy is one of the pillars of PGE Group's transition - PGE Group's</li> </ul> |

## DEVELOPMENT OF NEW TECHNOLOGIES

- implementing regulatory solutions dedicated to distributed power generation.
- implementing the Flow Based Market Coupling mechanism for trade on the synchronous link at the end of 2021. This mechanism enables the best economic use of available transmission capacities between countries.
- Start of process of granting new location permits for offshore wind farms.

long-term development strategy sees the construction of at least 6.5 GW by 2040.

- We observe the growing competitiveness of wind (including offshore) and photovoltaic technologies, which is confirmed by prices achieved in RES auctions and the rising number of micro-installations.
- In some countries, the dynamic dissemination of full-scale, new energy storage technologies, providing, among other things, regulatory services to the electricity systems or enhancing local security of energy supply, is clearly visible.
- The systematic development of prosumer power generation and the dynamic growth in the number of micro-installations.
- The development of electromobility.
- The development of information and telecommunications technologies for new applications in the energy sector.
- Increasing the competitiveness of new RES installations affects the dynamics of their growth and changes the working conditions of conventional units.
- The falling costs of the offshore technology enable it to be used to maintain the PGE Group's leading position in generation with a significantly reduced average level of the portfolio's carbon footprint.
- The commercialisation of energy storage on an industrial scale will enable better use of RES, complementing conventional capacities in the role of system balancing and improving local energy security.
- With the development of prosumer power generation, the variability of network operating conditions at the local level increases, which means the need to invest in infrastructure (connections, modernisations), while limiting the volume of distributed electricity. In the conventional power generation segment, there is a higher demand for highly flexible generation units in order to balance distributed power generation.
- The development of electromobility will increase demand for electricity and change its daily profile, which may slightly alter the operating conditions of some conventional units. However, this development requires investments in the development of grid infrastructure and charging points, as well as a charging management system. It is also possible to use batteries in electric cars as storage facilities for energy produced by RES.
- The PGE Group's use of new technologies and the potential of data resources may allow it to develop in new roles and areas of activity, as well as improve its operational efficiency.



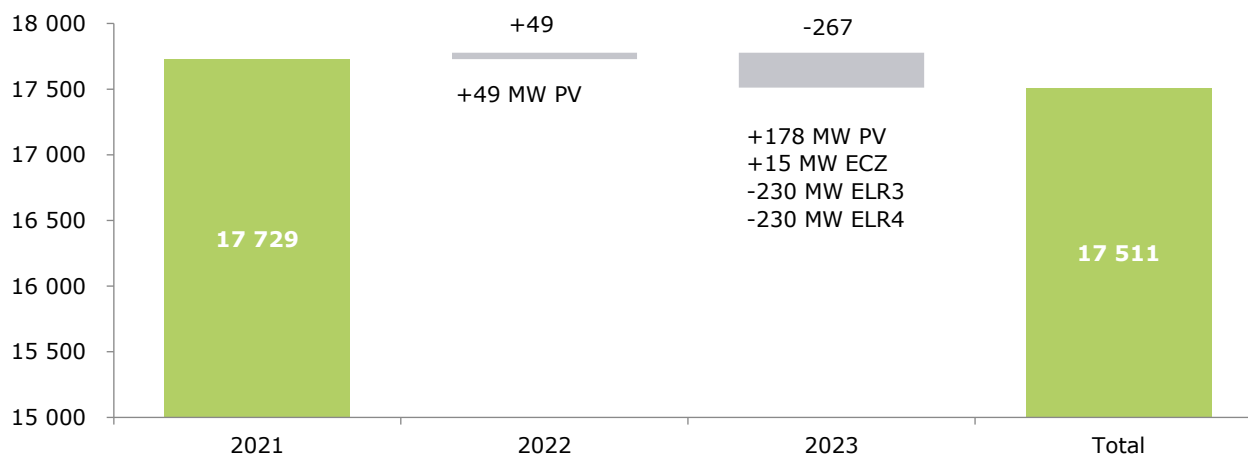
### PROSPECTS FOR GROWTH OF ACHIEVABLE CAPACITIES

In connection with the implementation of the PGE Group's strategy for energy transition and the finalisation of the government plan to separate coal assets, the business model of the PGE Group will change. In the next 2 years, the total achievable capacity is expected to decrease by approx. 220 MW. This decline is due to the abandonment of conventional electricity generation technologies and gradual investment in low-carbon generation sources.

During the transition period, PGE will primarily become an energy distributor. Only with the implementation of investments in new generation sources, especially offshore wind farms, the production potential of PGE will be rebuilt.

Chart presenting the growth of capacity illustrates commissioning and decommissioning of capacity of the PGE Capital Group as at the preparation date of this report. The schedules may change and capacity growth related to investments in renewables installations are dependent on the results of future RES auctions or the possibility of selling electricity under PPA contracts. In addition, the increases do not take into account potential acquisitions of RES installations and projects.

Chart: Prospects for growth of achievable capacities in years 2021-2023 (MW gross).



Explanation:

ELR – Rybnik power plant

ECZ – Zgierz CHP plant

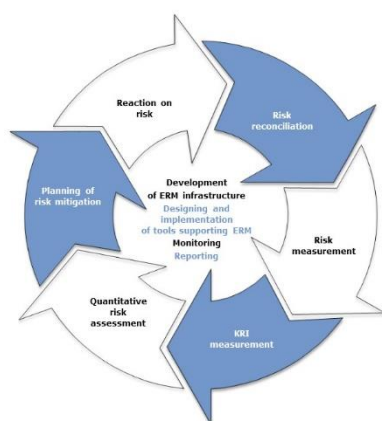
PV – photovoltaic projects

### ASSESSMENT OF INVESTMENT CAPACITIES

On-going and future investments are financed from funds generated by the core activity of the PGE Group, funds obtained from the issue of securities and from other types of external financing, e.g. bank loans and preferential loans.

Some future investments may be made with equity partners and/or project debt financing. Financial results achieved by the PGE Group and available credit limits secure sufficient resources to achieve its mid-term investment goals. The ability to raise new financing and refinance debt maturing in 2022, carve-out of coal portfolio from the PGE Group, development of the Group's efficiency, particularly lowering the operating expenses, as well as realization of substantial investments with equity partners and/or project debt financing, will be significant for the ability to finance the investment program in the long term. In the opinion of PGE, the planning processes in the Company ensure control over the level of investment expenditures and their coverage from available and planned sources of financing.

### 3. Risks in the PGE Group's operations



PGE S.A., as the Corporate Centre managing the Capital Group, creates and implements integrated risk management architecture at PGE Group. In particular, it shapes PGE Group's risk management policies, standards and practices, designs and develops internal IT tools to support these processes, specifies global risk appetite and adequate limits as well as monitors their levels. PGE Capital Group companies, as well as other entities from the electrical and power sector, are exposed to a number of risks and threats resulting from the specific operating activities and operating in specific market and regulatory environment.

In PGE Group risk management process is pursued based on the GRC (Governance - Risk - Compliance) model. It allows adaptation and integration of each of the operational areas at all levels of management. Having established a top-level Risk Committee, which reports directly to the Management Board, supervision over the effectiveness of risk management in the Group is ensured. Function definition within corporate risk management allows an independent assessment of particular risks, their impact on PGE Group and limiting and controlling major risks using dedicated instruments. Formation of a separate compliance function within the Group guarantees that PGE Group's activities are in line with legal conditions and ensures observance of the adopted internal standards.

The PGE Capital Group has consequently developed a comprehensive risk management system. The Group measures and assesses risks in the key companies of the

Group. Mechanism allowing identification of areas exposed to risk and risk level measurement methods are constantly verified and developed. Thanks to that, the significant risks concerning various areas of operations are identified and kept within the assumed limits by reducing negative effects of such risks and by taking preventive or corrective measures, in accordance with the presented cycle.










All identified and assessed risks relating to the Group's current activities are recorded in the risk register (risk books) maintained by the Risk and Insurance Department in PGE S.A. Risk books reflect changes in the value of particular risk parameters along with information on implemented mitigating activities (reducing the probability of occurrence and minimising negative consequences of a risk).









The table below presents the most significant risks identified in the PGE Capital Group together with their assessment in 2022 EOY perspective. A risk level indicates a risk's potential financial impact on the Group's results, and a risk prospect (trend) indicates the probable direction of risk development. Potential events determining risk assessments in the previous report are now partially described in other sections of this report as period events. The assessment of the described risks takes into account the impact of the COVID-19 pandemic that is not analysed as a separate risk.

The current scenario (2022 perspective) does not include the potential carve-out of PGE Group's coal assets (Conventional Generation segment).

## 3.1. Current outlook

The main risks and threats of PGE S.A. and the PGE Group are presented below along with their assessment and outlook for year 2022.

| Risk level  |   |    |      |   | Mitigating actions<br>and main tools used for the management of the risk |
|---|---|---|---|---|--|
| Risk outlook in the next period   |   | low<br>↓  | medium<br>↑   | high<br>↔   |  |
|   |   | decrease  | growth  | stable  |  |
| <b>Low level</b>  |   | Risk does not pose a threat and may be tolerated  |   |   |  |
| <b>Medium level</b>   |   | Risk which needs preparation of the proper reaction based on analysis of costs and benefits   |   |   |  |
| <b>High level</b>   |   | Intolerable risk, which needs immediate and active reaction, leading simultaneously to limitation of possible consequences and of probability of occurrence thereof |   |   |  |
| <b>Market and product risks</b><br>Related to prices and volumes of offered products and services | <b>Gross margin on electricity from the production assets of the PGE Capital Group and on trading in related products</b> – its amount results from the uncertainty as to the future levels and volatility of market prices (electricity prices and the prices of key energy products - CO <sub>2</sub> , fuels, including in particular hard coal, gas and the prices of certificates) |    |    | <b>Most important actions:</b> <ul style="list-style-type: none"><li>▪ Optimization of generation assets - definition of production scenarios for updated market parameters of electricity, CO<sub>2</sub> and fuels.</li><li>▪ Margin-based approach to market risk limits rather than volume-based.</li><li>▪ Using consistent guidance in respect of process organisation in the context of commercial strategy and mid-term planning (strategy for hedging key exposures in the area of electricity and related product trading that correspond to the adopted risk appetite in the mid-term).</li><li>▪ Establishing position hedging levels with consideration given to the results of analysing pricing risk in respect of electricity and related products, VaR-based. Target hedging levels are specified taking into consideration the Group's financial standing, including in particular its strategic objectives.</li><li>▪ Monitoring exposures for individual areas in relation to the set limits and hedging strategies defined by the Risk Committee or the Management Board of PGE S.A. through operational reports prepared by the Department of Risk and Insurance</li><li>▪ Research, monitoring and analysing the electricity markets and sector trends in order to optimally use generation and selling capacities.</li><li>▪ Using the administrative appeal path provided for in the Energy Law and the Code of Civil Procedure.</li><li>▪ Acquiring new customers - diversification of channels to reach final off-takers and diversification of target groups by maintaining an extensive product portfolio and adapting offering to market.</li></ul> |  |
|   | <b>Electricity sales volumes</b> - this risk derives from uncertainty related to the development of macroeconomic indicators affecting the demand for electricity and energy goods, including in the context of the impact of the COVID-19 epidemic and the remedial actions taken  |    |  |   |  |
|   | <b>Tariffs (regulated prices)</b> – resulting from the requirement to approve rates for distribution services and electricity and heat prices for particular groups of entities   |    |  |   |  |















|  |  |  |   |   |
|--|--|--|---|---|
|  | <b>The Capacity Market</b> – resulting from uncertainties related to withholding of payments from the Capacity Market and threats related to compliance with the capacity obligations of Capacity Market Units   |  |  | <ul style="list-style-type: none"> <li>Current clients retention - a diversified portfolio of customer loyalty schemes and special offers dedicated to former clients who moved over to the competitors.</li> <li>Care for a high level of customer service by developing employees' competences and building relations with business and retail clients.</li> <li>Use of tools to supporting customer relations processes allows the Group better sales planning and organisation of sales.</li> <li>Ensuring the expected level of operational readiness of the individual capacity market units.</li> </ul>  |
| Property risks<br>Related to development and maintenance of the assets | <b>Failures and damage to property</b> – connected with the operation and degradation over time of energy equipment and facilities and protection of energy equipment and facilities against destructive factors (including fire, effects of weather phenomena, intentional damage). |  |  | <p>Most important actions:</p> <ul style="list-style-type: none"> <li>Diversification of the current structure of the production sources, Introducing a technology reducing the negative impact of atmospheric factors.</li> <li>Active pursuing of a strategy for building up and modernization of the production capacities.</li> <li>Performing maintenance repairs in line with the highest sector standards.</li> <li>Insurance of the most important production assets in the event of breakdown and property damage. Assets are insured based on an analysis of insurance costs, capabilities of insurance markets for specified risks or for particular types of assets, costs related to asset replacement and potential lost revenue.</li> <li>The reliability of the power supply to the end users has been systematically improved through modernization of the distribution grid.</li> <li>Continuous monitoring of environmental laws and regulations regarding environmental protection, and the energy policy.</li> </ul> |
|  | <b>Investment and development</b> – connected with strategic plans for expanding the generation, distribution and sales potential as well as on-going investments.   |  |  |   |
| Operational risks<br>Related to pursuing of ongoing economic processes | <b>Electricity and heat production</b> – connected with production planning and negative impact of the factors that determine production capacities.   |  |  | <p>Most important actions:</p> <ul style="list-style-type: none"> <li>Optimisation of equipment lifecycles and the availability of key assets.</li> <li>Timely inspections, repairs and modernisation of the existing assets.</li> </ul>  |

The comments concern only those risks that saw a change of level or trend in comparison to the previous presentation.

<sup>1</sup> The change in the level of risk results from a lower threat stemming from the complaint against the Polish capacity market. A decision by the CJEU (ruling issued on October 6, 2021 in the case of Tempus Energy Germany and T Energy Sweden, rejecting the charges and upholding the EC's decision approving the Polish capacity market) legitimised the functioning of the capacity market.

<sup>2</sup> The change in risk outlook results from, inter alia, growing personnel and material costs and the availability of these resources for repairs of machinery and equipment damaged due to breakdowns and failures.













<sup>3</sup> The change in risk outlook is due to, inter alia, the market situation in production fuels. Threats result from limited supplies and rising costs of purchase.

|  |   |   |  |  |
|--|---|---|--|--|
|  | <b>Fuel management</b> – connected with uncertainty regarding the costs, quality, timeliness and volumes of fuel supply (mainly coal) and production raw material as well as the effectiveness of inventory management processes. |  <sup>4</sup> |  <sup>5</sup> | <ul style="list-style-type: none"> <li>Optimisation of costs inter alia through monitoring of fuel prices and reserves and securing supply through long-term contracts with suppliers and through price fixing formulas.</li> <li>Monitoring of legal changes and changes in technical standards in the field of by-products.</li> <li>Investments in improving the efficiency of the combustion process.</li> <li>Constant monitoring of service availability.</li> <li>Creating Business Continuity Plans for critical systems, developing and testing emergency procedures.</li> <li>Ongoing monitoring of changes in legal regulations.</li> <li>Training in regulations preventing money laundering and terrorist financing.</li> <li>Requirement to read Best Procurement Practices and the Code of Conduct for Business Partners of PGE Group companies.</li> <li>The approval path and internal regulations concerning the purchasing process.</li> <li>Control of the work environment.</li> <li>Training of employees in the field of occupational health and safety.</li> <li>Informing about threats, restrictions and rules related to the COVID-19 (dedicated tab on the Intranet).</li> <li>Conducting an intensive and effective dialogue in order to avoid escalation of potential disputes with the social partners and to work out the most favourable solutions with regard to employment and employment costs within PGE Capital Group connected therewith.</li> <li>PGE Group's active participation in internship programmes and cooperation with educational institutions in order to secure a pipeline of qualified personnel.</li> <li>Assessment and training of personnel in order to make optimal use of it within the Group's structures.</li> </ul> |
|  | <b>By-products and services</b> – related to the management of production waste   |               |               |  |
|  | <b>Cybersecurity</b> – the risk of deliberate disruption of the proper functioning of the information processing and exchange space created by IT systems operating at the PGE Capital Group                                      |               |               |  |
|  | <b>Procurement</b> – related to the ineffectiveness and uncorrectness of the purchasing process   |               |               |  |
|  | <b>Employee safety</b> – related to lack of ensuring safe working conditions  |               |  <sup>6</sup> |  |
|  | <b>Human Resources</b> – pertaining to difficulties in provision of personnel with the relevant experience, competences and ability to perform specific tasks   |               |               |  |
|  | <b>Social dialogue</b> – related to the failure to reach an agreement between the Group's management and the social partners, which could lead to strikes / collective disputes   |             |             |  |

<sup>4</sup> The change in risk level derives from risks related to the ability to maintain inventories of fuel and raw materials at an appropriate level, the impact of this on production capacity and potential penalties that may be imposed on the company by the President of the Energy Regulatory Office for this reason.







<sup>5</sup> Aside from the aforementioned market situation (limited supply of fuels and production raw materials), risk outlook is influenced by an adverse situation in the area of transport services and unfavourable delivery terms being imposed.

<sup>6</sup> Change in outlook to stable resulting from continued attention to high standards of workplace safety, including compliance with applicable regulations.

|   |   |   |   |  |
|---|---|---|---|--|
| Regulatory and legal risks<br>Related to compliance with<br>external and internal legal<br>provisions | <b>Legal changes in support systems</b><br>– connected with uncertainty as to the<br>future shape of the support system for<br>production of energy   |    |    | <p>Most important actions:</p> <ul style="list-style-type: none"> <li>Monitoring of the changes being introduced or proposed provides that our operations in key business segments are carried in compliance with the law and that PGE Capital Group has solutions which take into account potential changes in the legal environment.</li> <li>Social dialogue.</li> <li>Exercising operational supervision of planned and ongoing investment and modernisation measures with respect to their compliance with environmental requirements.</li> <li>Improvement of activities aimed at protecting and improving the state of the environment by implementing technological and organisational solutions ensuring efficient and effective management in this area.</li> <li>Reduction in the emission intensity of PGE Group's generating assets, development of low- and zero-carbon energy generation sources.</li> <li>Adaptation of internal regulations and practices to make sure that the activities are in compliance with the power sector regulations and binding law.</li> <li>Monitoring and analysing PGE Group's legal environment at an international level, together with risk assessment.</li> <li>Assessing the impact on PGE Group of proposed regulatory changes at an international level.</li> <li>Issuing opinions and influencing changes with regard to the legal environment at an international level in a strategic dimension.</li> <li>Managing cooperation and contacts with stakeholders as regards international regulations, including through the activities of PGE S.A.'s office in Brussels.</li> <li>Managing PGE Group companies' memberships in industry organisations, including as part of Eurelectric (via the Polish Electricity Association), COGEN Europe, Eurogas, WindEurope and others, and cooperating with Euracoal trade organisations.</li> <li>Effective raising of external financing and public aid for implementing low- and zero-carbon investments by PGE Group.</li> <li>Effective raising of external financing and state aid for the development of planned low- and zero-carbon investments by PGE Group.</li> </ul> |
|   | <b>Environmental protection</b> –<br>resulting from industry regulations<br>specifying which "environmental"<br>requirements energy installations<br>should meet and what are the<br>principles for using the natural<br>environment            |    |    |  |
|   | <b>Climate</b> – commitments on the EU<br>and national level and under strategic<br>objectives arising from the EU's<br>climate and energy policy   |    |    |  |
|   | <b>Concessions</b> – resulting from the<br>statutory requirement to hold<br>concessions with regard to conducted<br>operations (Risk level and outlook<br>based on KWB Turów's current<br>situation)  |    |    |  |
|   | <b>Taxes</b> – related to uncertainty<br>surrounding the future shape of tax<br>regulations and their interpretation  |  |  |  |
| Financial risks<br>Related to finance management  | <b>Credit risk</b> – connected with the<br>counterparty default, partial and/or<br>late payment of receivables or a<br>different type of breach of contractual<br>conditions (for example failure to<br>deliver/collect goods or failure to pay |  |  | <p>Most important actions:</p> <ul style="list-style-type: none"> <li>Prior to executing a transaction, a counterparty assessment is carried out and forms a base for applying credit limits, that are regularly updated and monitored. Exposures that exceed established limits are hedged in accordance with the Group's credit risk management policy.</li> </ul>   |

<sup>7</sup> The change in risk outlook results from, inter alia, credit exposure, rising costs of electricity and heat purchases, posing a threat to timely payments by counterparties, as well as an elevated risk of insolvency.



|  |   |   |   |  |
|--|---|---|---|--|
|  | for any associated damages or contractual penalties)  |   |   |  |
|  | <b>Liquidity risk</b> – connected with the possibility of losing the ability to meet current liabilities and obtaining financing sources for business operations          |  |  <sup>8</sup>  |  |
|  | <b>Interest rate risk</b> – resulting from the negative impact of changes in market interest rates on PGE Group's cash flows  |  |  <sup>9</sup>  |  |
|  | <b>Foreign exchange risk</b> – resulting from negative impact of exchange rate movements on PGE Group's cash flows denominated in currencies other than domestic currency |  |  <sup>10</sup> |  |

The level of utilisation of limits is monitored on a regular basis, payment of receivables is monitored on an ongoing basis and early recovery procedures are in place.

- Applying a central financing model, which assumes – as a rule – that external capital is raised by PGE S.A. PGE Group subsidiaries use a variety of intra-group financing sources and liquidity risk is monitored using periodic planning for operating, investing and financing activities.
- As regards currency risk and interest rate risk, PGE Group has implemented internal management procedures. PGE Group companies execute derivative transactions involving interest rate- and/or currency-based instruments (IRS, CCIRS, FX Forward) only in order to hedge identified risk exposures. Regulations in force at the PGE Group do not allow, with regard to derivative transactions based on interest rates and currencies, to enter into speculative transactions, i.e. transactions which would be aimed at generating additional gains resulting from changes in the level of interest rates and changes in exchange rates, while exposing the Group to the risk of incurring a potential loss on this account.

<sup>8</sup> The change in risk outlook derives from rising costs of electricity and heat generation, which reduce margins in the District Heating segment and Conventional Generation segments, which in turn impacts financial liquidity of the company.

<sup>9</sup> The change in risk outlook is correlated with rising interest rates.

<sup>10</sup> The change in risk outlook is due to a higher exposure to changes in currency exchange rates caused by the geopolitical situation and swings in international markets, which directly impact the cost of CO<sub>2</sub> emission allowances, among other things.

## 3.2. Long-term outlook

The purpose of the assessment is determined by the challenges and threats that will arise for the PGE Group in the next decade. Each of the long-term risks is assessed in terms of its impact on the achievement of business goals, the company's image and business continuity. The presented result is the dominant (value most often appearing in the results) of these three aspects.

GEOPOLITICS - risk stemming from changes in geopolitical factors and trends (e.g. EU politics, diverging interests, war in Ukraine), causing limited access to raw material supply for PGE Group.

MACROECONOMICS - risk resulting from changes in economic situation, causing swings in macroeconomic indicators and commodity and fuels prices that have impact on PGE Group's activities (economic changes that may affect the deterioration of the financial ratios of PGE Group companies).

CLIMATE CHANGE<sup>11</sup> - risk deriving from physical hazards related to the occurrence of extreme weather events and an increase in their frequency, as a result of which the PGE Group's assets may be damaged, as well as climate changes affecting the demand for electricity and heat.

ENERGY GENERATION SOURCES - risk associated with failure to develop generation resources from new energy sources at the expected volume (energy and heat)

ACCESS TO CAPITAL - risk associated with failure by PGE Group to raise capital for planned investments.

LAW AND REGULATIONS - risk associated with changes in the legal system and regulatory uncertainty, including unexpected changes such as the future shape of support systems, regulatory burdens resulting from environmental requirements having an impact on PGE Group.

TECHNOLOGICAL REVOLUTION - risk arising from technological development, which has a considerable impact on the direction of changes on the energy market, including as to the ways of generating energy.

SOCIAL PREFERENCES - risks resulting from an expected further evolution of social preferences towards care for the environment, sustainability and social responsibility, in terms of mass customer expectations, assessment of employer attractiveness and public opinion, which may affect PGE Group.

SECURITY - risk associated with a negative impact of the geopolitical situation on both physical security and cybersecurity to PGE Group's business, including intentional disruption of the correct functioning of information processing and exchange space created by IT systems in place at PGE Group (interference in any element of PGE Group's infrastructure resulting in disruption of work of ICT (Information and Communication Technologies) and OT (Operational Technology) infrastructure and as a consequence - disruption of work of a process supported by this infrastructure).

COMPETITION - risk resulting from structural changes in the energy sector, affecting the competitive environment of PGE Group (e.g. building competitive advantage through distributed sources, development of the prosumer market, development of competitors' product offerings and their structural strengthening on the energy market).

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<sup>11</sup>It concerns only physical phenomena, it does not take into account the EU climate policy. The context of climate risks is described in the next section.

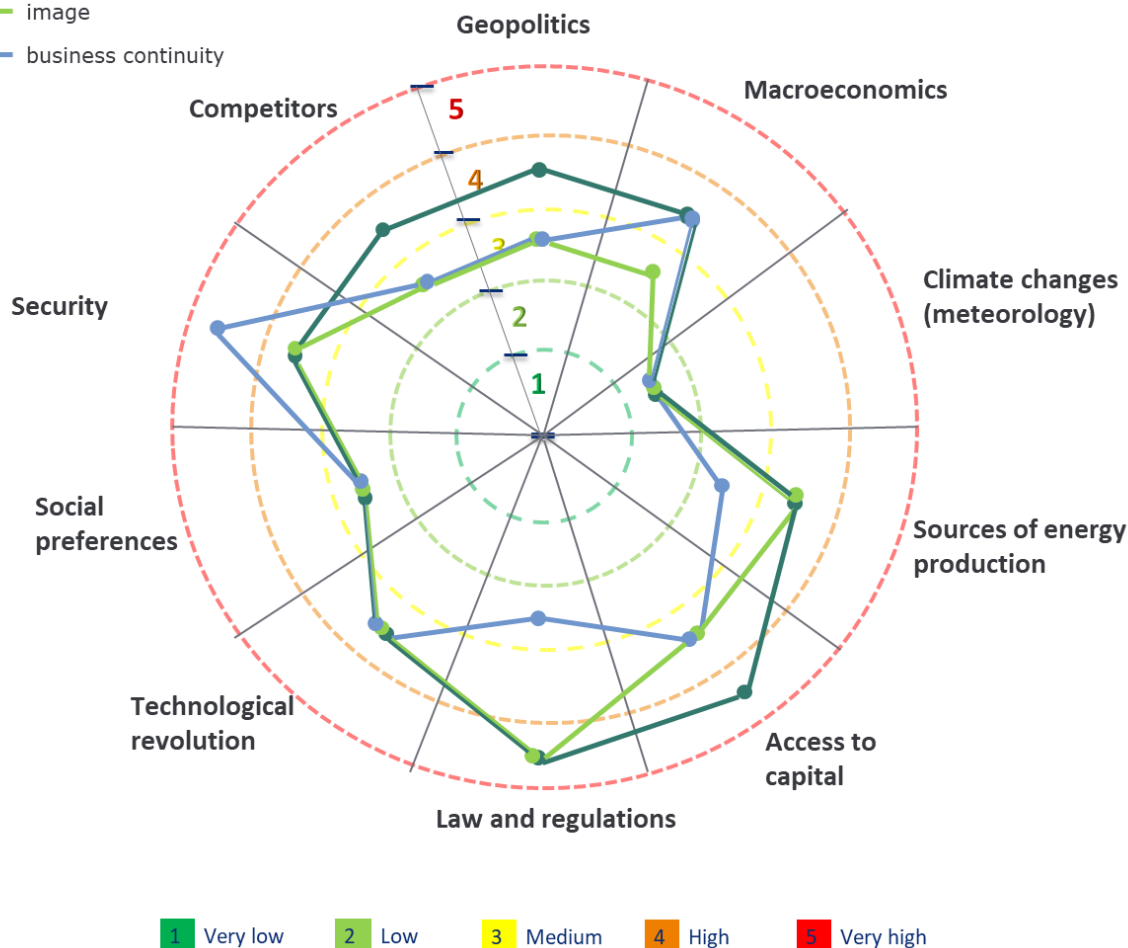
Diagram: Map of long-term risks

**Impact on:**

— achieving objectives

— image

— business continuity



Source: Own work

Contrary to the risks of current operations, The assessment of long-term risks was performed in scenario taking into account the spin-off of coal assets from the PGE Capital Group, assuming the foundation of NABE.

The location on the map based on the assessment (significance level) shows the impact of a given risk for the PGE Capital Group in three different aspects, successively affecting the achievement of business goals, the company's image and business continuity.

The map of long-term risks was prepared based on the elements dominating in the responses, according to the subjective perception of the development of these risks in the assessments of the top management of the PGE Capital Group (Management Board Members and Division Directors).

### 3.3. Climate risks

At PGE Group, climate risk is analysed both in the context of the impact of climate change on business as well as the impact of business on climate change. Impact on climate is managed and minimised by identifying and analysing climate-related risks and continuously improving pre-environmental solutions and control tools, while ensuring financial performance for PGE Group. The solutions developed by PGE Group are aimed at its development and sustainable transition in line with climate requirements and with concern for all stakeholders.

PGE Group defines climate risk across five areas:

- **raising support funds and investment incentives in national regulations** - related to the growing impact of climate requirements relevant to the granting of aid funds and investment incentives in national regulations,
- **international regulations** – related to EU legislation as regards energy and climate policy, in particular the Fit for 55 package,
- **CO2 emissions** – related to the rising costs of emission allowances, which could adversely affect the profitability of generating assets or bring these assets to a halt,
- **operations** – related to extreme weather events or changes in climate conditions, which could negatively influence PGE Group's assets and operating activities,
- **investments** – concerning a failure by PGE Group to fulfill investment commitments aimed at the green transition, at the EU and domestic level and for own strategic purposes, which could adversely influence PGE Group's operational capacity, financial standing and reputation.

Each of these areas of climate risk is assessed on a short, medium and long horizon. The adopted timeframes are aligned with external analyses. The following method was used to determine the overall level of climate risk in each of the above categories: the highest occurring value in the sample was used, and so, in all time frames, this common valuation was estimated to be high.

## 4. Electricity market and regulatory and business environment

### 4.1. Macroeconomic environment

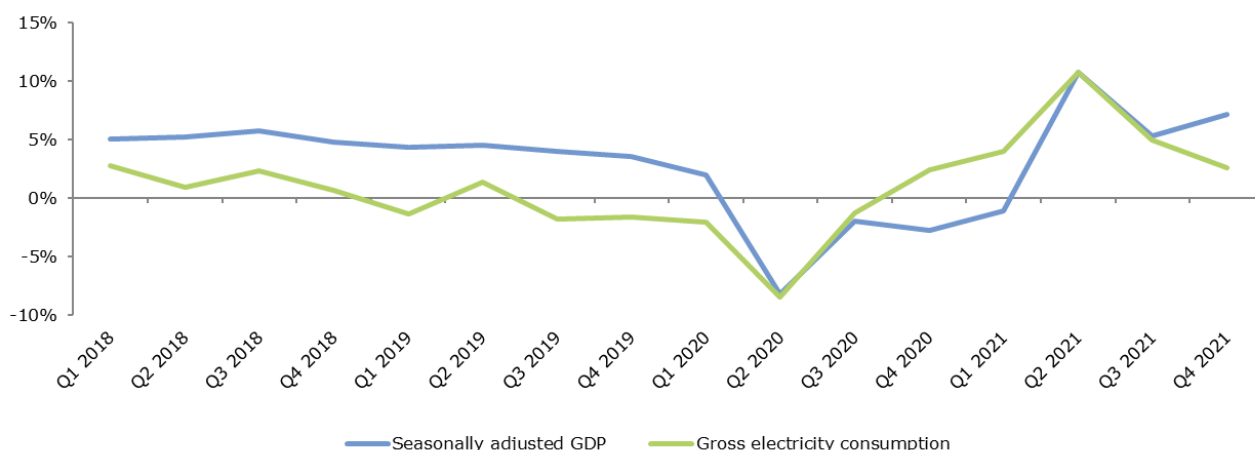
PGE Group's main operating area is Poland, and the domestic macroeconomic backdrop has a substantial impact on Group's results. At the same time, the condition of Poland's economy remains largely tied to the situation across the European Union and in global markets. The Group's financial results are affected by both the situation in specific segments of the economy and the financial markets, which affect the terms of PGE Group's debt financing.

As a rule of thumb, there is a historical correlation between change in electricity demand and change in the rate of economic growth in Poland. Considering PGE Group's position on the Polish power generation market, as well as its substantial share in the electricity sales and distribution market, changes in power and heat demand may have a significant impact on the Group's results.

Gross electricity consumption went up by 5.4% y/y in 2021, reversing the trend from the previous year, when electricity consumption had fallen by 2.3% y/y. The COVID-19 pandemic is a one-off item that is still having an impact on the global and domestic economic situation and thus also on the energy market. The very strong performance of the Polish economy in 2021 was driven by a rapid recovery of activity, particularly visible in industry. Aside from higher industrial activity, the growth in demand for electricity in 2021 was caused by a warm summer and a colder winter, which translated into an increase in demand in the second quarter of 2021 by 10.8% y/y and in the fourth quarter of 2021 by 2.6% y/y.

Economic tendencies in 2021 remained under the influence of pandemic restrictions. However, growth in industrial activity, solid increase in consumption and investments accelerating from quarter to quarter, mostly private, resulted in a 5.7% y/y increase in gross domestic product in 2021 (preliminary estimates from Statistics Poland), compared to a 2.8% y/y decline in the preceding year.

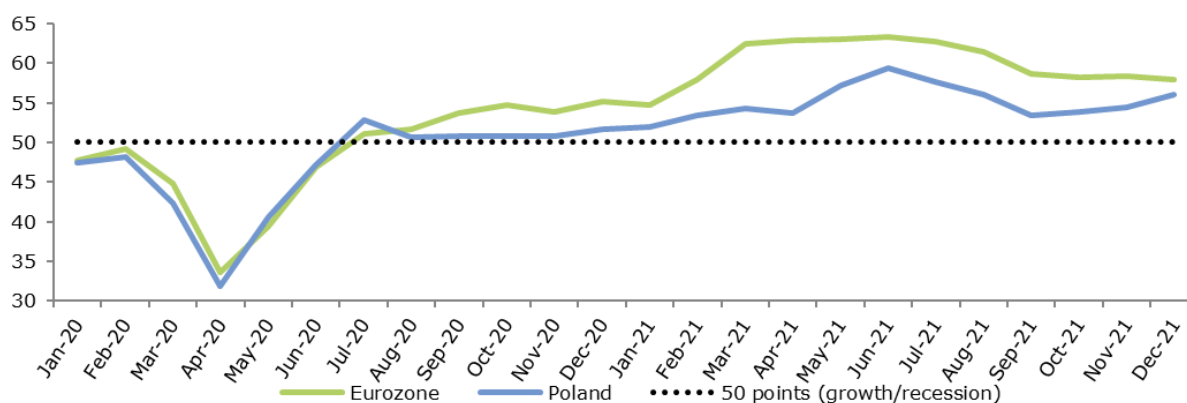
Chart: Seasonally adjusted GDP change vs. change in domestic gross electricity consumption.



Source: Central Statistical Office of Poland, Polskie Sieci Elektroenergetyczne S.A. ("PSE S.A.")

The Purchasing Managers' Index ("PMI") reflects the positive impact of the efforts being undertaken to rebuild the economy following the COVID-19 pandemic. The manufacturing PMI figures for Poland in 2021 showed optimism in the industry and remained above the threshold of 50.0 points throughout the year. A score above 50.0 points means that the surveyed managers expect the situation in the sector to improve. Average PMI for industry in Poland in 2021 was 55.1 points, denoting an increase by 17.0% y/y (2020: 47.1 points). At the same time, logistics and transport difficulties remain the largest challenge for industry, mainly extended component delivery times and pricing pressure, caused largely by growing commodity prices. Polish industry is influenced by the condition of industry in the Eurozone, where PMI in 2021 reached an average of 60.2 points, compared to 48.5 points in the previous year (up by over 24% y/y). Also in the Eurozone, expanding economic activity is being blocked by extended delivery times for raw materials and components, resulting from market shortages due to both strong demand for industrial goods and disruptions in logistics stemming from COVID-19 restrictions.

Chart: Manufacturing PMI in Poland and Eurozone (in points).



Source: Markit Economics

Development in the Polish economy is reflected by inter alia dynamics in overall industrial production. In 2021, industrial production sold was by 15% higher than in the previous year, when a decrease by 1% y/y was noted. Despite problems with raw materials availability and logistics on a global level, industrial production was in a positive trend.

## 4.2. Market environment

### SITUATION IN THE NATIONAL POWER SYSTEM (NPS)

Table: Domestic electricity consumption (TWh).

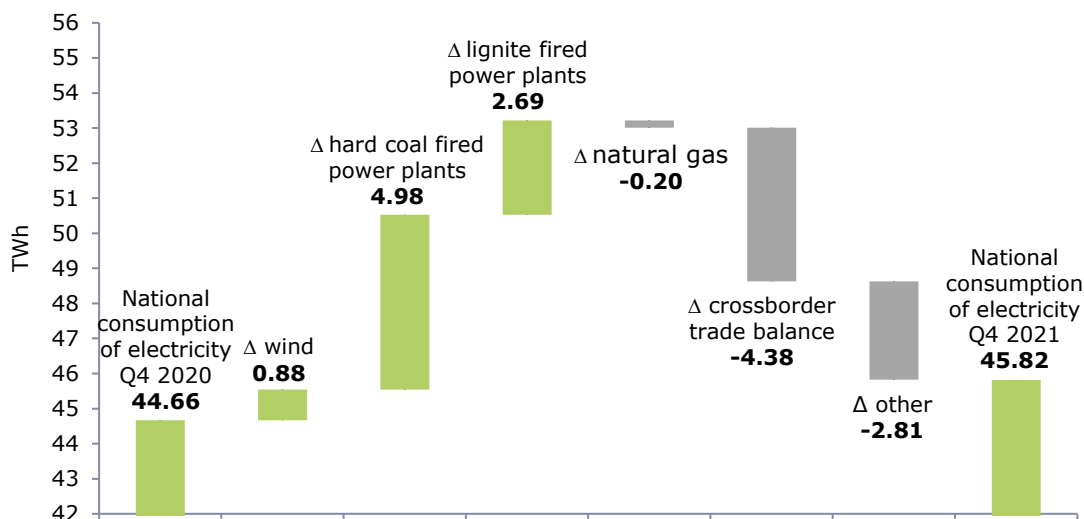
|  | Q4 2021      | Q4 2020      | %<br>change | 2021          | 2020          | %<br>change |
|--|--------------|--------------|-------------|---------------|---------------|-------------|
| Domestic electricity consumption                                       | <b>45.82</b> | <b>44.66</b> | <b>3%</b>   | <b>174.40</b> | <b>165.53</b> | <b>5%</b>   |
| Wind farms   | 4.97         | 4.09         | 22%         | 14.23         | 14.17         | 0%          |
| Industrial thermal hard-coal fired power plants                        | 25.08        | 20.10        | 25%         | 93.04         | 71.55         | 30%         |
| Industrial thermal lignite fired power plants                          | 12.13        | 9.44         | 28%         | 45.37         | 37.97         | 19%         |
| Industrial gas-fired power plants                                      | 3.86         | 4.06         | -5%         | 13.36         | 13.92         | -4%         |
| International trading balance  | -1.43        | 2.95         | -           | 0.82          | 13.22         | -94%        |
| Other (industrial plants, hydro power plants, other RES) <sup>12</sup> | 1.21         | 4.02         | -70%        | 7.58          | 14.70         | -48%        |

Source: PSE S.A. data.

### Q4 2021

Domestic consumption electricity increased in the fourth quarter of 2021 (mainly due to an increase in the Polish economy's energy demand after the period of strong impact of the COVID-19 pandemic and lower temperatures) by 1.2 TWh compared to the base period. Due to increased installed capacity and more favourable wind conditions, wind generation increased by 0.9 TWh y/y. In addition, due to the situation in neighboring countries, net imports decreased by 4.4 TWh y/y (in the fourth quarter of 2021, per saldo Poland was electricity exporter). As a result, more energy produced in utility hard coal-fired power plants (approx. +5.0 TWh) and lignite-fired power plants (approx. +2.7 TWh) was needed to balance the power system.

Chart: Energy balance in the NPS in the fourth quarter of 2021 y/y (TWh)



Source: own work based on data from PSE S.A.

<sup>12</sup>From January 1, 2021, power stations located at industrial complexes are classified as utility thermal power stations. It is not possible to historically classify them this way, which is why 2021 should be treated as a transitional period.

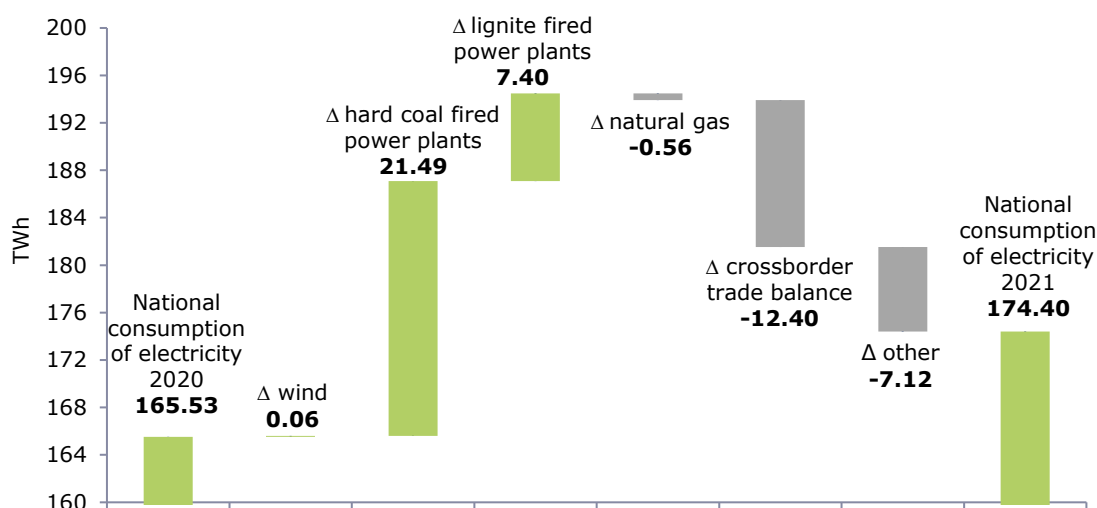
The new classification results from changes introduced to PSE S.A.'s IT systems in connection with the necessity to introduce changes resulting from the following documents approved by the President of the Energy Regulatory Office ("URE"): Amendments no. 1/2020 of Balancing Terms, Update Sheet no. CK/13/2020 for the Transmission Network Code ("IRIESP") – Terms for use, operation and planning of network development, and Update Sheet no. CB/28/2020 IRIESP – System balancing and managing system constraints.



## YEAR 2021

On a cumulative basis, domestic demand for energy grew by 8.9 TWh from the base year. Due to a higher wind capacity installed, which offset the less favourable wind conditions, wind-based generation grew by 0.1 TWh y/y. In addition, due to price differentials at transborder connections, net import decreased by 12.4 TWh in comparison with the previous year. As a result, more energy produced in utility hard coal-fired power plants (21.5 TWh) and lignite-fired power plants (7.4 TWh) was needed to balance the power system.

Chart: Energy balance in the NPS in 2021 (TWh)



Source: own work based on data from PSE S.A.

## ELECTRICITY PRICES – DOMESTIC MARKET

### DAY-AHEAD MARKET (RDN, SPOT MARKET)

| Market/measure       | Unit    | Q4 2021 | Q4 2020 | % change | 2021  | 2020  | % change |
|----------------------|---------|---------|---------|----------|-------|-------|----------|
| RDN – average price  | PLN/MWh | 617     | 246     | 151%     | 398   | 209   | 90%      |
| RDN – trading volume | TWh     | 7.73    | 7.62    | 1%       | 31.06 | 28.73 | 8%       |

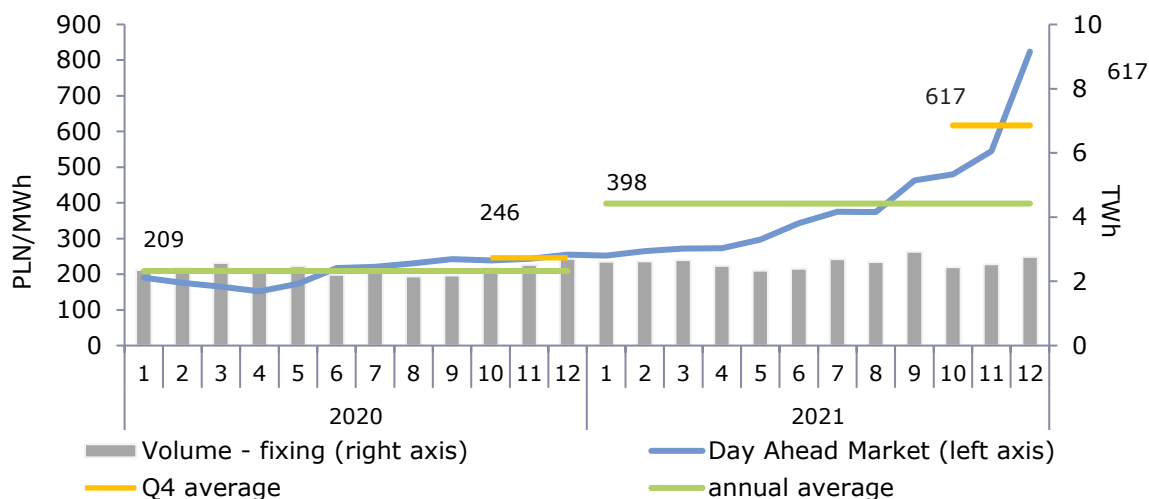
## ANALYSIS – SELECTED PRICE FACTORS AFFECTING RDN QUOTATIONS

| Factor  | Unit   | Q4 2021 | Q4 2020 | % change | 2021  | 2020  | % change |
|---|--------|---------|---------|----------|-------|-------|----------|
| CO <sub>2</sub> emission rights               | EUR/t  | 68.16   | 26.59   | 156%     | 53.87 | 24.14 | 123%     |
| Polish Steam Coal Market Index PSCMI-1        | PLN/GJ | 11.35   | 11.82   | -4%      | 11.42 | 11.91 | -4%      |
| Wind generation NPS                           | TWh    | 4.97    | 4.09    | 22%      | 14.23 | 14.17 | 0%       |
| Ratio: wind generation/ NPS consumption       | %      | 11%     | 9%      |          | 8%    | 9%    |          |
| Ratio: international trading/ NPS consumption | %      | -       | 7%      |          | 0%    | 8%    |          |

In the fourth quarter of 2021, the average electricity price on the day-ahead market was PLN 617/MWh and was higher by 151% than average price (PLN 246/MWh) in the preceding year. The increase in energy prices resulted mainly from lower net import in comparison to the fourth quarter of 2020 (-4.4 TWh). Higher demand for electricity (+ 1.2 TWh y/y) also contributed to the price increase.

In full year 2021, the average price on the day-ahead market was PLN 398/MWh, which is 90% higher than the average price recorded in the preceding year (PLN 209/MWh). The increase in price was connected with the situation on related markets - average price of CO<sub>2</sub> emission rights in 2020 was by 123% higher than in the base year and amounted to EUR 53.87/t. The PSCMI1 index in 2021 averaged PLN 11.42/GJ - down by 4% y/y. On the other hand, price increase pressure was exerted by the net import volume lower by 94% y/y. The prices were also affected by a increase in demand by 8.9 TWh y/y.

Chart: Average monthly prices at the day-ahead market in 2020-2021 (TGE).\*



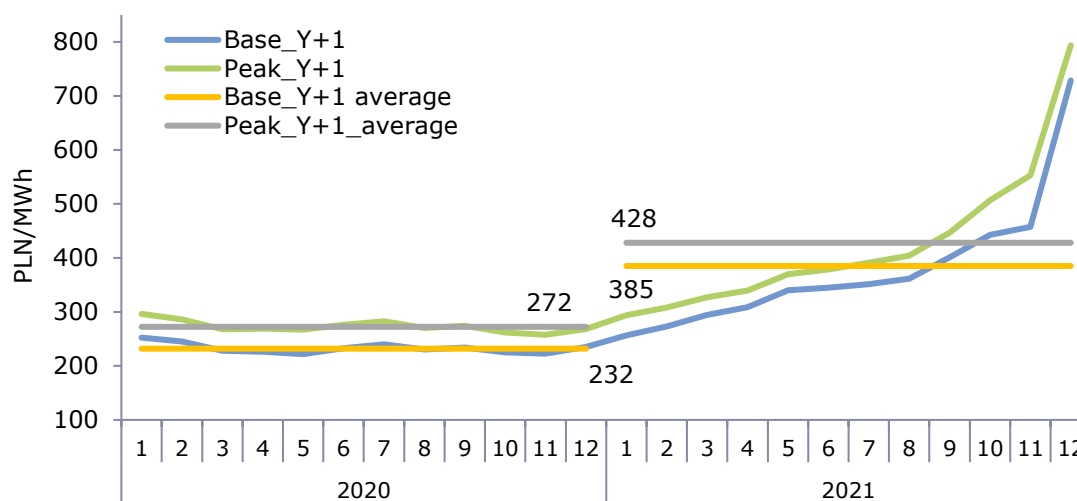
\* Average monthly RDN prices calculated on the base of hourly quotations (fixing).

## FORWARD MARKET

| Market/measure             | Unit    | Q4 2021 | Q4 2020 | % change | 2021   | 2020   | % change |
|----------------------------|---------|---------|---------|----------|--------|--------|----------|
| BASE Y+1 – average price   | PLN/MWh | 515     | 227     | 127%     | 385    | 232    | 66%      |
| BASE Y+1 – trading volume  | TWh     | 28.35   | 29.09   | -3%      | 104.44 | 126.75 | -18%     |
| PEAK5 Y+1 – average price  | PLN/MWh | 567     | 261     | 117%     | 428    | 272    | 57%      |
| PEAK5 Y+1 – trading volume | TWh     | 3.48    | 4.00    | -13%     | 12.38  | 14.07  | -12%     |

Electricity prices on forward market are shaped by the similar fundamental factors, as the prices on the Day-Ahead Market described above. The observed forward market price increase y/y for the whole year for BASE\_Y+1 is related to increased demand for electricity and very high prices of CO<sub>2</sub>.

Chart: Average monthly prices on the forward market in 2020-2021 (TGE).\*

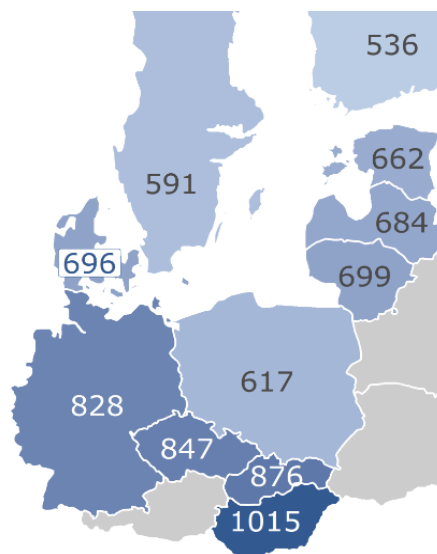


\* Monthly average index level for forward contracts for the next year (Y+1), baseload and peak, weighted by the trading volume.

## ELECTRICITY PRICES - INTERNATIONAL MARKET

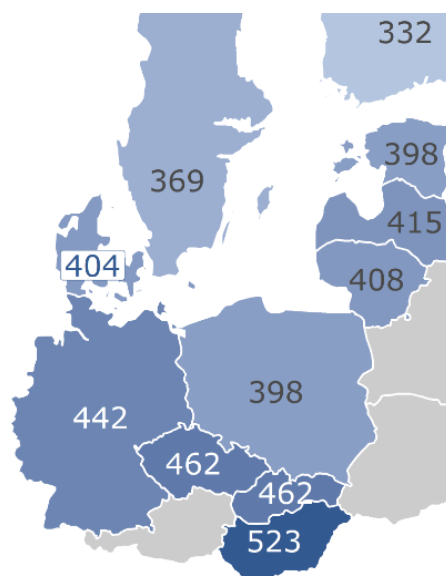
### WHOLESALE MARKET (COMPARISON OF DAY-AHEAD MARKETS)

Chart: Comparison of average electricity prices on Polish market and on European markets in the fourth quarter of 2021 (prices in PLN/MWh, average exchange rate EUR/PLN 4.62).



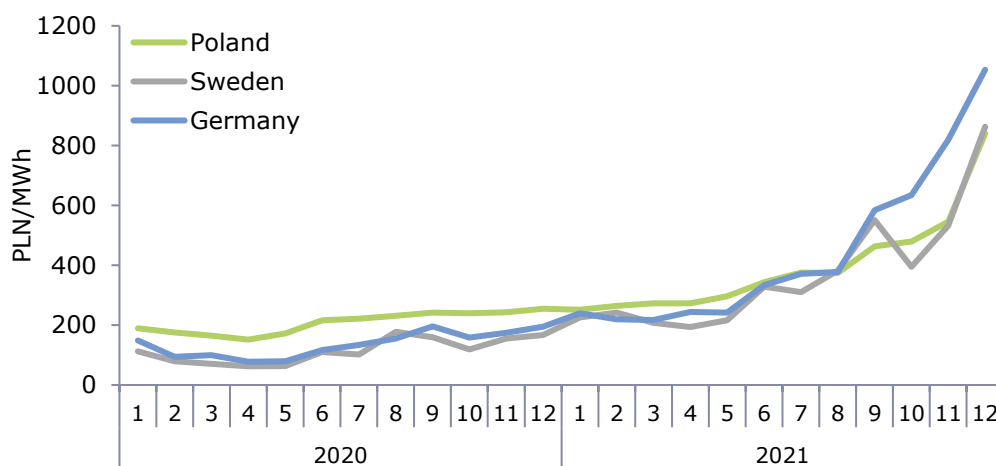
Source: TGE, EEX, Nordpool

Chart: Comparison of average electricity prices on Polish market and on European markets in 2021 (prices in PLN/MWh, average exchange rate EUR/PLN 4.56).



Source: TGE, EEX, Nordpool

Chart: Evolution of spot market prices.

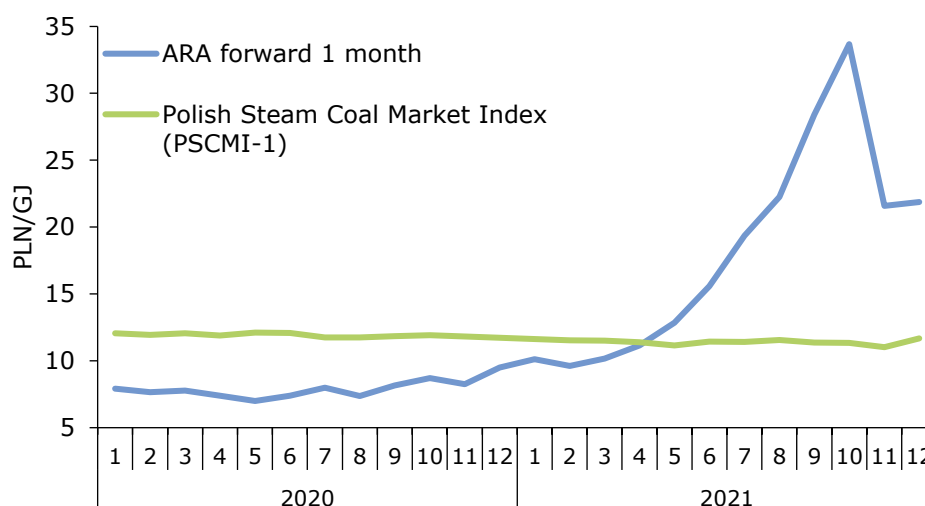


Source: TGE, EEX, Nordpool

In the fourth quarter of 2021, the y/y change in prices on neighbouring markets ranged between PLN 444 and PLN 651/MWh (i.e. approx. 302-370%), whereas in Poland the average price level has increased to a lesser extent, by PLN 371/MWh y/y (increase by approx. 151%). The low correlation of energy prices results from differences in the technological mix (share of renewable energy sources) and the situation on the markets for related products. The price of hard coal in ARA ports rose by 191% y/y, while the domestic pulverised coal price index, PSCMI-1, decreased by 4% over the same period.

On an annual basis, average energy prices on neighbouring markets increased by PLN 254-306/MWh y/y (i.e. by approx. 221-226%), while the average price in Poland increased by PLN 189/MWh y/y (approx. 90%). The price differential between Poland and neighbouring countries was largely attributable to differences in coal and natural gas prices at home and abroad.

Chart: Hard coal indices ARA vs PSCMI-1<sup>13</sup>.

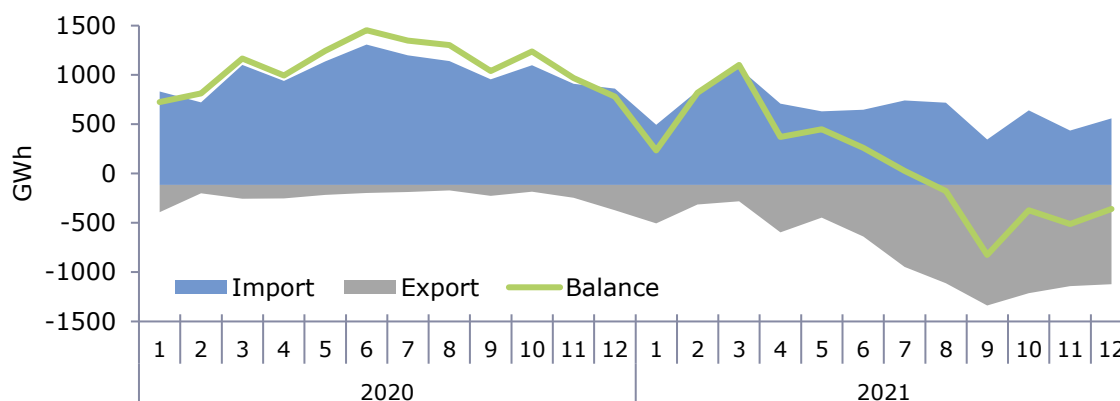


Source: ARP, Bloomberg (API21MON OECD Index), own work.

<sup>13</sup> The comparison is illustrative only. Methodologies of counting the ARA and PSCMI1 indexes are different. Among other things, the ARA index includes insurance and delivery costs. The PSCMI 1 is an ex-mine index without insurance and delivery costs. Standards for calculating the caloric values are also different (ARA – 25.12 GJ/t vs. PSCMI1 caloric value - range 20-24 GJ/t). The aim is to compare the trend and not the absolute level. For illustration purposes ARA index is recalculated from USD/t to PLN/GJ.

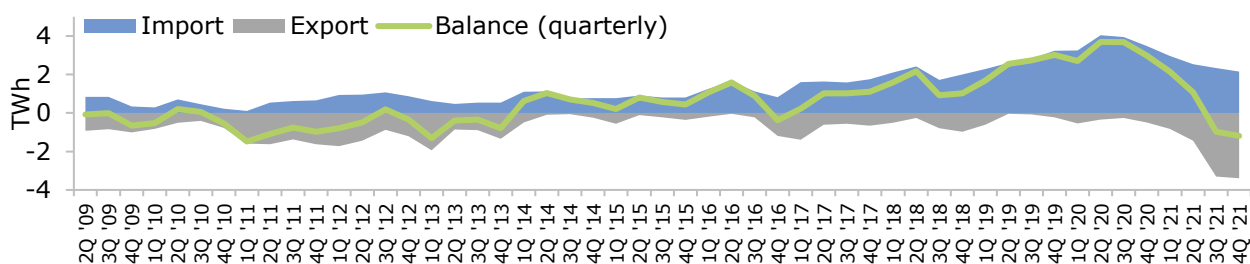
## INTERNATIONAL TRADING

Chart: Monthly imports, exports and cross-border exchange balance in 2020-2021.



Source: own work based on PSE S.A. data.

Chart: Quarterly trading volumes – import, export and international trading balance in years 2009-2021.

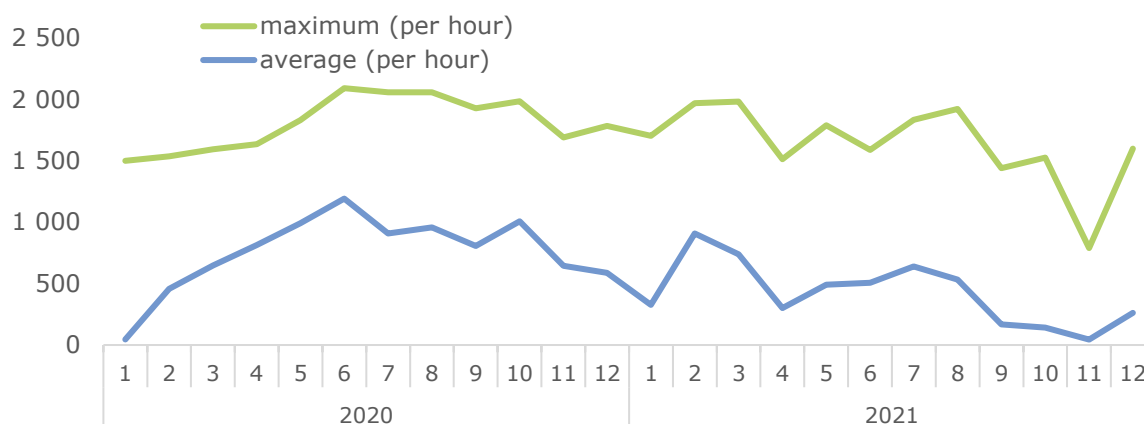


Source: own work based on PSE S.A. data.

In the fourth quarter of 2021, Poland was a net exporter of electricity, and the commercial exchange balance was -1.4 TWh (3.9 TWh import, 5.2 TWh export) and was lower by 4.4 TWh on a y/y basis. Export to Czechia and Slovakia together with import from Germany, Sweden and Lithuania had the largest impact on the balance of commercial exchange.

In 2021, the balance of commercial exchange reached 0.8 TWh (import 15.1 TWh, export 14.3 TWh) and was 12.4 TWh lower on a y/y basis (i.e. by approx. 94% y/y). Export to Czechia and Slovakia together with import from Germany, Sweden, Lithuania and Ukraine had the largest impact on the balance of commercial exchange.

Chart: Parallel exchange balance <sup>14</sup>: average vs. maximum hourly flow in particular months.



Source: own work based on PSE S.A. data.

Global increase in fuel prices (which translate into an increase in the costs of electricity production from natural gas and hard coal) and, additionally, lower windiness translated into an increase in energy prices in neighboring countries, which in turn limited electricity imports to Poland.

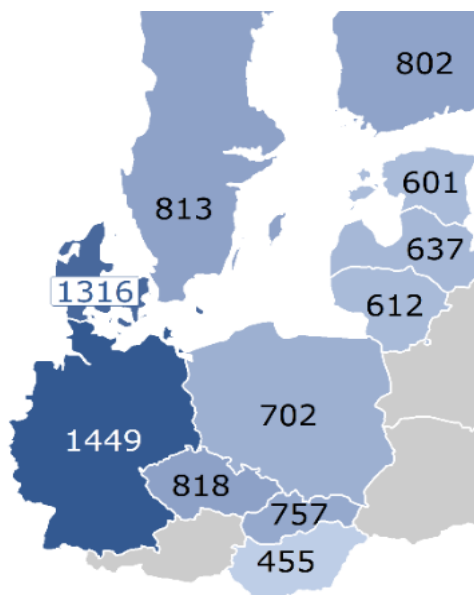
<sup>14</sup> Parallel exchange – exchange between synchronised system on borders with Germany, Czechia and Slovakia



## RETAIL MARKET

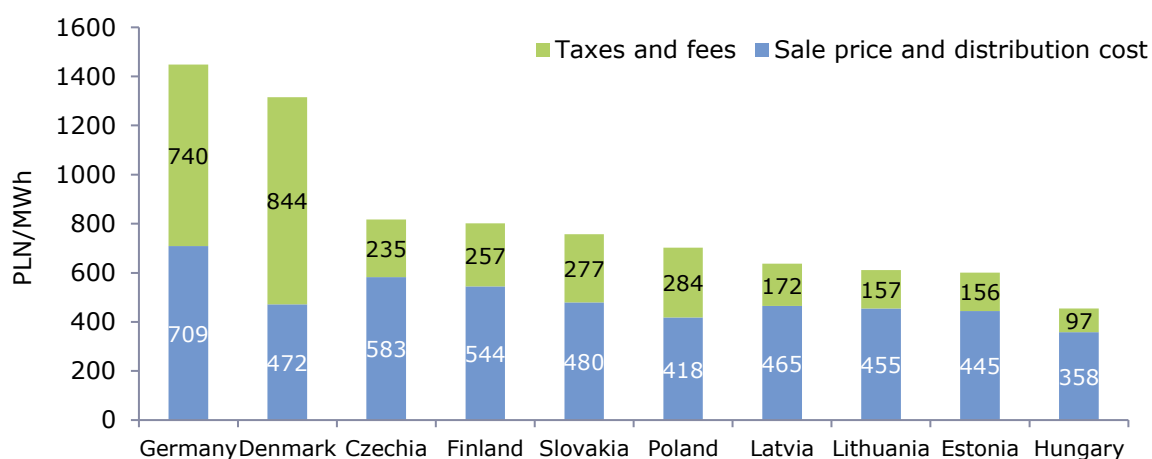
The diversity of electricity prices for retail customers in the European Union depends both on the level of the wholesale prices of electricity and fiscal system, regulatory mechanism and support schemes in particular countries. In Poland in the first half of 2021<sup>15</sup> an additional burden (over sale price and cost of electricity distribution) for individual customers accounted for 41% of the electricity price and in comparison to EU average of 39%. In Denmark and Germany the proportion of additional charges in the price of electricity exceeded 50%.

Chart: Comparison of average prices for individual customers in selected EU countries in the first half of 2021 (prices in PLN/MWh, average exchange rate EUR/PLN 4.47).



Source: own work based on Eurostat data.

Chart: The share of additional charges in electricity prices for the individual customers in selected EU countries in the first half of 2021 (prices in PLN/MWh, average exchange rate EUR/PLN 4.47).



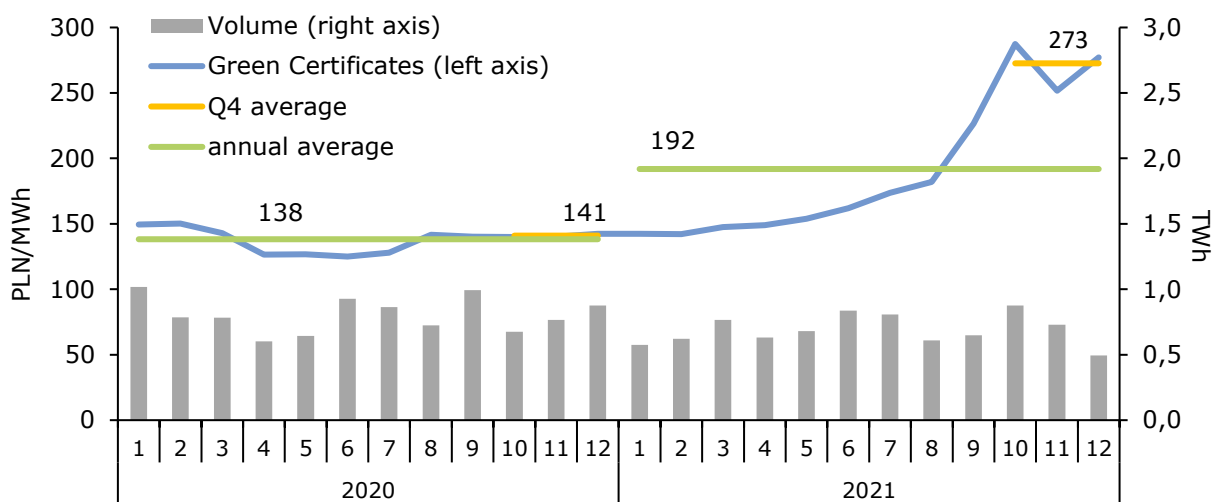
Source: own work based on Eurostat data.

<sup>15</sup> Eurostat data on retail market are published in semi-annual intervals.

## PRICES OF CERTIFICATES

In the fourth quarter of 2021 the average price of green certificates (index TGEoza) reached PLN 273/MWh and was higher by 94% compared to the analogical period of the previous year. An obligation to redeem green certificates has remained unchanged in 2021 as compared to 2020 (19.5%). The average price of green certificates in 2021 was at PLN 192/MWh and was higher by 39% compared to 2020. The closure of a certification system for new units and the upcoming end of a 15-year support period for first installations that had entered the system in 2005 and lower windiness in 2021 resulted in limited supply of certificates on the market, what in consequence led to the prices increase.

Chart: Average quarterly prices of green certificates (TGEoza).



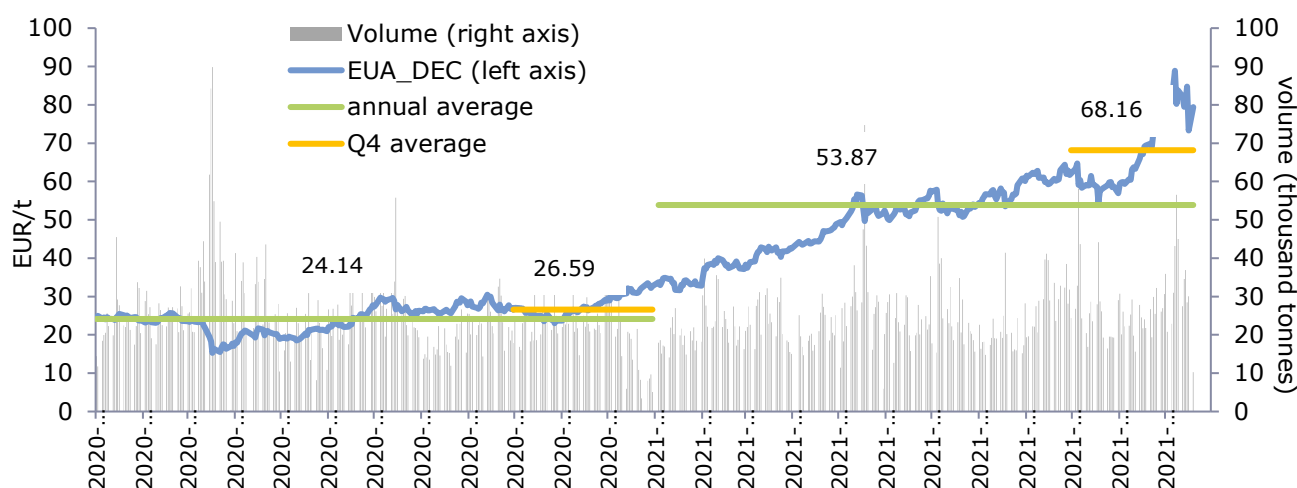
Source: Own work based on TGE quotations.

## PRICES OF CO<sub>2</sub> EMISSION RIGHTS

EUA (European Union Allowances) prices are one of the key factors determining wholesale energy prices and PGE Group's financial results. Installations emitting CO<sub>2</sub> in the process of electricity or heat production bear the expenses for purchasing EUA allowances to cover the deficit (i.e. the difference between CO<sub>2</sub> emissions at PGE Group's generating units and the free-of-charge allowances received under derogation in accordance with the National Investment Plan). Wherein, last allocations granted free of charge were planned for realisation of investment tasks for 2019. It means that the free allocations for electricity generation, in accordance with the currently used method, ended when 2019 allowances were received.

Following a sudden slump caused by the outbreak of the COVID-19 pandemic in mid-March 2020, the prices of CO<sub>2</sub> emission allowances began recovering until reaching dynamic growth from November 2020. In the fourth quarter of 2021, the weighted average price of EUA DEC 21 was EUR 68.16/t and was considerably higher (by 156%) than the average price of EUR 26.59/t for the EUR DEC 20 instrument in the similar period of the previous year. In whole year 2021, the weighted average price of EUA DEC 21 was EUR 53.87/t and was by 123% higher than the average price of EUR 24.14/t for the EUR DEC 20 instrument in the previous year.

Chart: Prices of CO<sub>2</sub> emission rights.



Source: own work based on ICE exchange quotations

## 4.3. CO<sub>2</sub> emission rights granted free of charge

The Group received emission allowance allocations for heat generation for 2020 on April 23, 2021, after verification of asset and financial reports for investments included in the National Investment Plan. Allocations for electricity producers are no longer awarded from 2020.

On July 7, 2021, the climate minister published a list of installations along with the final volume of CO<sub>2</sub> emission allowances allocated for the production of heat for 2021-2025 in accordance with the Act of June 12, 2015 on the ETS scheme.

The publication of this list is the final step in the process of determining the allocation of emission allowances on the basis of reports concerning key data submitted by installation operators by June 30, 2019. The input data for the allocation concerned the period 2014-2018.

The publication of the list completes the process of determining the final volume of emission allowances allocated to installations in accordance with Commission Delegated Regulation (EU) 2019/331 of December

19, 2018 determining transitional Union-wide rules for harmonised free allocation of emission allowances pursuant to Article 10a of Directive 2003/87/EC of the European Parliament and of the Council.

The final volume of emission allowances published is subject to adjustment based on the average level of production in the two years preceding the year for which emission allowances are granted. Data on production levels is provided by March 31 of each year starting from 2021 in ALC reports. Based on this data, emission allowance allocations are either decreased or increased if the average production level in the past two years exceeds the  $\pm 15\%$  threshold (if the threshold is exceeded, the threshold in the following years will be  $\pm 5$  percentage points above 15%). The final volume of emission allowances granted to an installation is determined on this basis. The adjustment will be performed on an annual basis in accordance with rules specified in Commission Delegated Regulation (EU) 2019/1842 of October 31, 2019.

On October 12, 2021, emission allowances were issued to the installation's accounts in the Union registry, in line with the announcement of the Minister of Climate and Environment in the Public Information Bulletin. This issue concerns the final annual number of emission allowances allocated for 2021, resulting from the application submitted in 2019 and approved by the European Commission in June 2021, assuming no changes, resulting from the ALC reports submitted by the end of March 2021. The current issue of emission allowances does not include the adjustment of the allocation of emission allowances in terms of the additional number of allocated emission allowances. In the case of installations where the allocation of emission allowances has been reduced, such issuance has been suspended due to a change in the level of activity. The adjusted final annual number of emission allowances for an installation determined as a result of the adjustment of the allocation of emission allowances will be issued immediately after its approval by the European Commission.

Table: Emission of CO<sub>2</sub> compared to the allocation of CO<sub>2</sub> emission allowances for 2021 (in tonnes).

| Product              | CO <sub>2</sub> emissions in 2021 | Allocation of CO <sub>2</sub> emission rights for 2021 <sup>1</sup> |
|----------------------|-----------------------------------|---|
| Electricity and heat | 70 746 382                        | 638 274   |

<sup>1</sup>Allowances for heat production.

## 4.4. Competitive environment

The electricity sector in Poland comprises four operating segments:

- generation of electricity,
- transmission, responsibility of the TSO – PSE S.A.,
- distribution,
- retail sales.

District heating sector may be also distinguished, within which PGE Group is active in heat generation, distribution and sales.

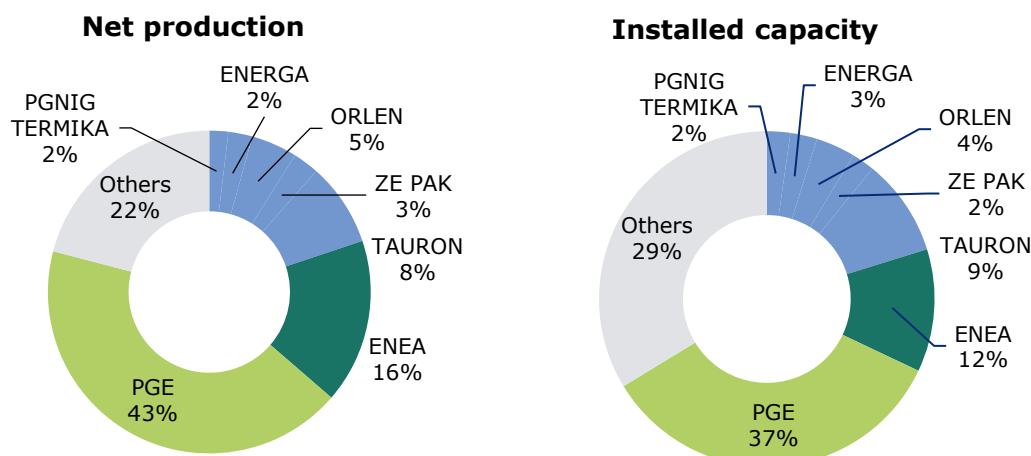
The key participants of the electricity market in Poland are four nationwide, vertically integrated energy concerns: PGE, TAURON Polska Energia S.A., ENEA S.A. and ENERGA S.A., which was acquired by PKN Orlen in 2020.

PGE Group is the undisputed leader in electricity generation with a market share of approx. 43%. The Group produces more electricity than all of the competitors on the consolidated market combined, whilst having the largest achievable capacities, both conventional and renewable. Aside from integrated energy groups, significant producers on the market include PKN Orlen S.A., ZE PAK S.A. ("ZE PAK"), and PGNiG TERMIKA S.A. ("PGNiG"). While ZE PAK's production is based on industrial plants, Orlen's and PGNiG's production is based on cogeneration units generating electricity together with heat.

In 2021 54% of the electricity produced in the country was hard coal-based - and this is a key fuel for PGE Group's competitors.

Approximately 26% of the electricity produced in Poland was lignite-based. Aside from PGE Group, ZE PAK also bases its electricity production on lignite. Wind farms as well as gas units have approx. 8% share in electricity generation. The use of other fuels is of relatively low significance from the viewpoint of the NPS.

Chart: Estimated share of largest Polish electricity generators in installed capacity and net generation after three quarters of 2021.



Source: own work based on information published by the companies and Agencja Rynku Energii S.A. ("ARE").

Energy production from renewable sources is much more dispersed than the conventional generation market. In the previous year wind photovoltaics was the most dynamically developing sector. As of the end of December 2021, this technology had the largest share in total installed RES capacities – 7.7 GW, although the vast majority of installations (5.9 GW) belonged to over 800 thousand prosumers. The development of photovoltaics is an element of PGE Group's investment plan, which sees the construction of approx. 3 GW in capacity by 2030. So far, PGE Energia Odnawialna has secured approx. 3 thousand hectares of land for the purpose of building farms with a capacity of more than 2 GW. Moreover, in 2021 the company received approvals for the implementation of new projects with a total capacity of nearly 200 MW. PGE Group remains the entity with the highest installed wind capacity – 688 MW and has an approx. 10% share in total wind capacity installed in Poland. Other notable wind farm operators include EDP Renewables Polska sp. z o.o., TAURON Ekoenergia sp. z o.o. and PKN Orlen S.A.

Offshore wind farms are an emerging RES segment in Poland. In the system's first phase, support is awarded by way of an administrative decision issued by the President of the Energy Regulatory Office, and from 2025 offshore wind farms projects will be able to participate in the auction system. In 2021, the President of the Energy Regulatory Office awarded support to two offshore projects with a total capacity of 2.5 GW, which are being implemented jointly by PGE and Ørsted (JO 50/50). The European Commission must still confirm compliance with the internal market of the public aid granted to a producer in order to receive support.

Growth in the market prices of energy allows for the development of RES investments also outside the support system, based on PPAs.

In the distribution area, the country is divided into regions, with four large distribution system operators (the "DSO") on the market, who are required to carve out distribution activities from their other business: PGE Dystrybucja S.A., TAURON Dystrybucja S.A., Enea Operator sp. z o.o. and Energa-Operator S.A.

Aside from the above-mentioned energy groups, another significant entities include Stoen Operator sp. z o.o. (company from E.ON Group, previously innogy Stoen Operator sp. z o.o.), responsible for electricity distribution in Warsaw, as well as PKP Energetyka S.A. managing the railway electric network throughout the country.

A historical division of the distribution areas has substantial impact on the operating conditions of the business, and this specific situation is reflected in the distribution tariffs approved by the URE president. PGE Group operates in an area that is less urbanised and industrialised, meaning that it has more than 5.5 million clients throughout an area of approx. 130 ths km<sup>2</sup>. For comparison, TAURON has a similar number of clients in an area nearly twice smaller and distributes a larger amount of energy.

Chart: Areas of operation of Polish distribution system operators.

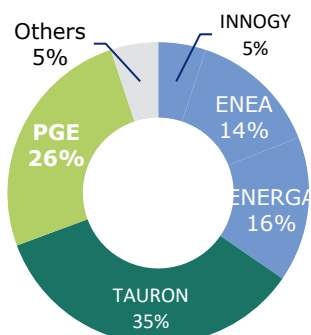


Source: own work.

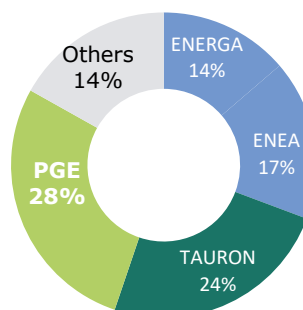


Chart: Share of particular energy groups in volume of energy distributed in 2020 and sales of electricity to final off-takers after three quarters of 2021.

**Volume of electricity  
distribution**



**Sales to final off-takers**



Source: own work based on information published by the companies, ARE and ERO.

In the retail segment, which covers sales to end customers – individual, small and medium enterprises as well as large industrial customers – most of the sales are conducted by the four largest energy groups and E.ON Polska S.A. (formerly innogy Polska S.A.). PGE Group and TAURON remain the leaders, having over 50% of the market. Both PGE and TAURON sell electricity to over five million clients. Despite a growing number of competitors in the segment, including companies for which electricity is not a core product, companies from outside the four largest Polish groups continue to control little market share. The leaders control over 80% of the market, while other significant player is E.ON Polska S.A., based on sales connected with serving as distributor for the Warsaw area, as well as PKP Energetyka S.A.

The district heat production market in Poland is highly dispersed, with the four leading producers accounting for less than 40% of production countrywide. PGE Group is the undisputed leader of this market, too with a share at a level of over 20%. This market is of a local nature and bears the traits of a natural monopoly, with heating prices being set in an administrative procedure – tariffs approved by the President of the Energy Regulatory Office. The dominant producers focus their production activities in different urban areas therefore sector competition is limited and is local in nature. Besides PGE Group, the key producers of heat are PGNiG (focused on production mainly in the Warsaw agglomeration) and Veolia Group (Poznań agglomeration, Łódź).

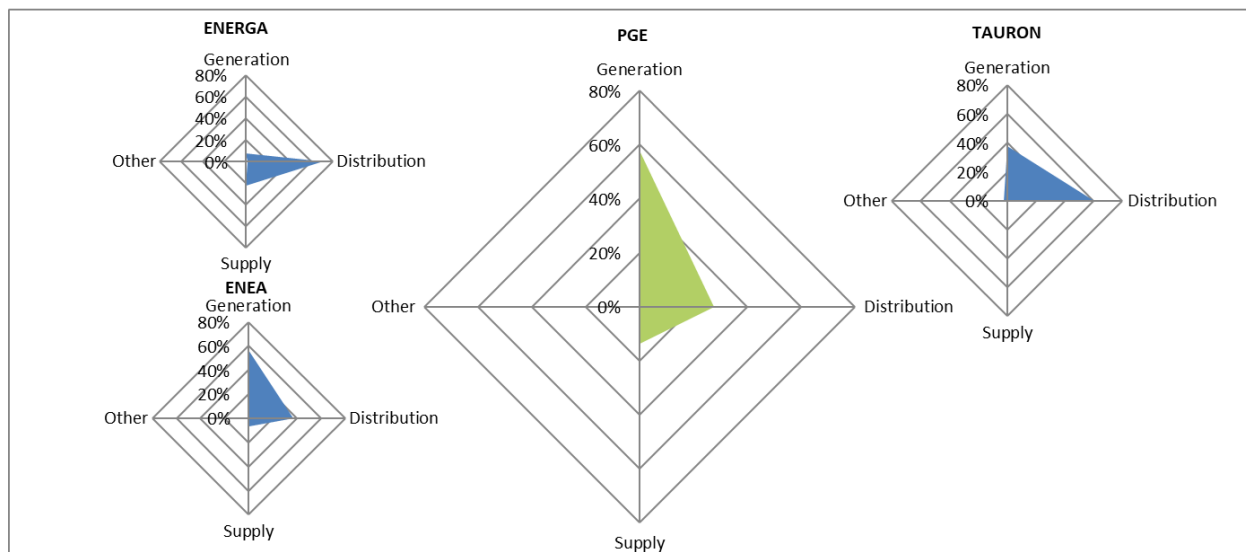
### ENERGY GROUP PROFILES

Podział sektora elektroenergetycznego na segmenty znajduje swoje odzwierciedlenie w segmentach The electricity sector is divided into segments, what is reflected in the operating segments of the respective energy groups. In contrast to the other energy groups in Poland, whose dominant EBITDA driver is the electricity distribution segment, PGE Group derives much of its operating profit from the generation segment, even though the group is the country's second-largest electricity distributor by volume. This allows to optimally deploy its competences and capitalise on opportunities arising in the generation area (both conventional and renewable) as well as in wholesale energy trade, whilst generating high and stable EBITDA on regulated activities.

With acquisitions of the Bogdanka mine and Połaniec power plant and the launch of a new unit at the Kozienice power plant, ENEA increased its share of EBITDA from the generation segment. This brought ENEA's profile closer to that of PGE Group.

A key feature of all the groups is a relatively small contribution of retail sales to operating profit, which is a result of sales margin levels, driven by strong competition in the segment.

Chart: Profiles of Polish energy groups (size of the chart is proportionate to share in the 9M 2021 EBITDA of respective business segments and the amount of total EBITDA).








\* Generation – conventional generation, generation from renewables, mining and heat generation.  
Source: own work based on information published by the companies.


## 4.5. Regulatory environment




PGE Group operates in an environment with a significant impact of domestic and foreign regulations. Presented below is a summary of the most significant decisions, which took place in 2021 and which could have an impact on PGE Group's operations in the coming years.




### DOMESTIC REGULATORY ENVIRONMENT

| Segments  | Regulation   | Regulation objectives   | Latest conclusions   | Next stage   | Impact on PGE Group   |
|---|--|---|--|--|---|
|  | The bill on the amendment to the Energy Law.<br>CM list: UC 17<br>Parliamentary document: 808<br><br>Act of May 20, 2021 on amendment of the act – Energy Law, and certain other acts. | The amendment to the Energy Law contains a number of changes of systemic importance, including: <ul style="list-style-type: none"> <li>comprehensive arrangements concerning the energy storage issue,</li> <li>the introduction of the obligation to install remote reading meters,</li> <li>the appointment of an energy market information operator whose role will be to establish and develop a Central Market Information System („CSIRE”).</li> </ul>  | The act entered into force on <b>July 3, 2021</b> with certain exceptions when the vacatio legis period was extended to 12, 24, 30, 36 months.   | –  | The proposed solutions will affect all operating segments of the PGE Group, in particular the Supply and Distribution segments. The draft prepares the market for the further implementation of directive 2019/944 on common rules for the internal market for electricity.   |
|  | The bill on the amendment to the Energy Law and the Renewable Energy Sources Act.<br><br>GLC list: UC 74   | <ul style="list-style-type: none"> <li>The draft act includes, in particular, proposals for provisions implementing into the Polish legal system Directive (EU) 2019/944 of the European Parliament and of the Council of June 5, 2019 on common rules for the internal market in electricity and amending Directive 2012/27/EU.</li> <li>The draft expands on the directions of changes in regulations initiated in the act of May 20, 2021 on amendment of the act – Energy Law, and certain other acts. These include: <ul style="list-style-type: none"> <li>the technical ability to change electricity supplier within 24 hours, starting from 2026,</li> <li>implementation of civic institutions of energy communities,</li> <li>the customer's right to voluntarily and temporarily reduce electricity consumption („DSR”), aggregation, contracts with dynamic electricity prices,</li> </ul> </li> </ul> | The deadline for submitting comments was <b>June 23, 2021</b> . <b>On January 19, 2022</b> the Ministry of Climate and Environment published a set of responses to the comments submitted. | Publication of draft following consultations, sent to Council of Ministers for further work. | The proposed solutions will have an impact on all of PGE Group's operating segments, especially the Supply and Distribution segments. The draft introduces or applies numerous EU laws addressing the electricity market, including directive 2019/944 on common rules for the internal market for electricity, and grid codes. |



|   |   |  |   |  |  |
|---|---|--|---|--|--|
|   |   | <ul style="list-style-type: none"> <li>▪ definition of the aggregator's function on the electricity market, along with its tasks and authorisations,</li> <li>▪ definition of demand response and active customer on the energy market,</li> <li>▪ allow DSOs and TSOs to own certain energy storage installations,</li> <li>▪ expand the Energy Regulatory Office's authority,</li> <li>▪ regulations concerning system services, flexibility services and changes in balancing,</li> <li>▪ introduction of provisions introducing the separation of transmission and distribution activities from energy storage - (an energy system operator, with the exceptions provided for in the draft, cannot be the owner of and cannot build, operate or manage an energy storage system).</li> </ul> |   |  |  |
|    | <p>The bill on the amendment to the Energy Law and the Renewable Energy Sources Act</p> <p>GLC list: UD 162</p> | <p>The bill includes proposals for legislation to abolish the exchange obligation and to tighten liability for electricity market manipulations. The ERO President will have at their disposal appropriate tools to prevent abuses and attempted abuses in the electricity market. According to the explanatory memorandum to the bill, the abolition of the obligation is included in the Polish Electricity Market Reform Implementation Plan.</p>   | <p>Comments submitted during public consultations were published on <b>April 8, 2021</b>.</p>   | <p>Submitted for further work in the Council of Ministers.</p> | <p>The proposed change to abolish the exchange obligation will have no adverse impact on the PGE Group's operations.</p> |
|    | <p>Act amending the Act on the Capacity Market and certain other acts.</p>                                      | <p>The bill promoter's intention is to align the Act on the capacity market to the provisions of Regulation (EU) 2019/943 of the European Parliament and of the Council of June 5, 2019 on the internal market for electricity and to improve the capacity mechanism taking into account lessons learned from organisation of capacity auctions to date and the associated processes (promulgation of regulations and rules, definition of auction parameters, certification processes).</p>   | <p><b>On August 7, 2021</b>, the law was signed by the President. It entered into force on <b>September 1, 2021</b>, with the exception of Art. 6, (concerning the provision of data and information by the Distribution System Operator via CSIRE), which comes into force <b>on July 1, 2024</b>.</p> | -  | <p>The amendment is of key importance for PGE Group, the holder of a significant stake in the capacity market.</p>       |
|  | <p>Act of December 17, 2020 on promoting electricity</p>  | <p>The Act provides for enabling the development of offshore wind power generation. Offshore wind farms are important for the fulfilment of international commitments</p>  | <p><b>On January 22, 2021</b> the act was signed by the</p>   | -  | <p>The act is of key importance for the development of offshore wind farms and thus</p>                                  |



|   |  |  |  |   |
|---|--|--|--|---|
|   | generation in offshore wind farms.<br>Parliamentary document: 809  | in the field of renewable energy in the long term. The key to these is to create legal regulations that will stimulate the growth of this sector.<br>The Act provides for: <ul style="list-style-type: none"> <li>▪ A support system for the offshore technology, adjusted to its technical and economic conditions, consisting in granting the so-called right to cover the negative balance to be calculated on the basis of the offshore installation's LCOE,</li> <li>▪ modifications of administrative procedures related to the investment process, taking into account the specificity of the project to construct offshore wind farms.</li> </ul>  | President of Poland. It entered into force on <b>February 18, 2021.</b>  | for PGE Baltica sp. z o.o., a company responsible for the implementation of the Offshore Programme at the PGE Group and coordinating preparations for the construction of offshore wind farms.  |
|  | The bill amending the Act on renewable energy sources and certain other acts.<br>GLC list: UD 107<br>Parliamentary document: 1 129 | The bill envisages in particular: <ul style="list-style-type: none"> <li>▪ abolishing the concession obligation for facilities below 1MW,</li> <li>▪ extending the life of the discount/FIT (guaranteed tariff scheme)/FIP (surcharge to the market price) support system by 5 years (possibility to enter the system while retaining a 15 years' period of support),</li> <li>▪ introducing the obligation for the Minister of Climate to publish, in advance, RES energy volumes to be subject to support over the next 4 years,</li> <li>▪ increasing the PV capacity threshold for PV above which it is required to include facilities and protection zones around them in local zoning plans,</li> <li>▪ possibility of executing lease contracts for the State Treasury's agricultural property without a tender between the National Center for Agricultural Support ("KOWR") and capital companies, as referred to in art. 1 sec. 1 of the Act of March 18, 2010 on the special powers of the Minister responsible for state assets and their implementation in certain capital companies or groups operating in the electricity, crude oil and gaseous fuels sectors in order to build, modernise or expand equipment or installations related to generation of electricity, ensuring safety and maintaining the functionality of property disclosed in the uniform list of facilities, installations, devices and services being part of critical infrastructure.</li> </ul> | <b>On October 4, 2021</b> - the act was signed by the President. It entered into force on <b>October 30, 2021.</b> | The bill regards mainly the RES segment, extends the period within which new RES projects may apply for support. It also facilitates planning the development of this segment by introducing the obligation for the Minister of Climate to publish the schedule and capacity volumes for RES which may apply for support in the next 4 years. |



|  |  |  |  |   |  |
|--|--|--|--|---|--|
|   | <p>Draft act on amendment of act on renewable energy sources and certain other acts.<br/>Sejm print no.: 1 382</p>       | <p>The act introduces a change in the settlement method for renewable energy prosumers by replacing the current discount system, which provides for the possibility of storing energy in the grid and consuming it at any other time, with a net billing system, which means that energy is ultimately valued according to the value from the hour of generation and hour of consumption.<br/>Furthermore, the act requires prosumers entering the system from April 1, 2022 to pay a distribution fee (previously paid on behalf of prosumers by energy vendors).<br/>In order to enable vendors to settle with prosumers, the act requires DSOs to provide vendors with detailed metering information. Vendors will be required to provide detailed billing information to prosumers via a dedicated ICT system.<br/>The act also introduces the institution of collective prosumer (effective from April 1, 2022) and virtual prosumer (effective from July 2, 2024).</p> | <p>On December 14, 2021 the President signed the act. The act enters into force on April 1, 2022, with the exception of provisions pertaining to the acquisition of the right to participate in the existing prosumer support system, which went into effect on December 22, 2021 and provisions concerning the virtual prosumer, which will enter into force on July 2, 2024.</p> | <p>-</p>  | <p>The draft is of key importance for the Supply segment, which currently has obligations to settle with prosumers and pay a distribution fee on their behalf to DSOs, and for the Distribution segment, which will be required to collect and compile metering data on prosumers.</p> |
|   | <p>Amendment of the act on investment in wind farms.<br/>GLC ref. no. UD207</p>  | <p>Modification of rule 10H - mitigation by allowing municipalities to define in local spatial development plans (after consultation with local communities) a distance less than the statutory distance for wind farms from residential buildings, but not less than 500 m.</p>   | <p>The deadline for submitting comments to the draft act was June 4, 2021.</p>   | <p>Publication of draft, further consultations or submission of draft to Council of Ministers for further work.</p> | <p>The draft is of significance to the development of the Renewable Energy segment.</p>  |
|  | <p>The Act of April 15, 2021 amending the Act on the greenhouse gas emissions trading scheme and certain other acts.</p> | <p>The Act is meant to transpose Directive (EU) 2018/410 of the European Parliament and of the Council of March 14, 2018 amending Directive 2003/87/EC to enhance cost-effective emission reductions and low-carbon investments, and Decision (EU) 2015/1814 ("Directive 2018/410"), which establishes the so-called Modernisation Fund to operate in 2021-2030 and finance the modernisation of large power facilities as well as smaller-scale projects (insulation of single-family dwellings, modernisation of district heating sources and systems, development of low-carbon dispersed generation).<br/>Although the Act does not prejudice what projects will receive financing, it provides that the function of the national operator of the Modernisation Fund will be held by the National Fund for Environmental Protection and Water Management (<i>Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej</i>, NFOŚiGW). In</p>                               | <p>On April 15, 2021 the bill was passed by the Sejm, aside from exceptions, the Act went into effect on June 25, 2021.</p>  | <p>-</p>  | <p>The Act can open the way to apply for financing for PGE Capital Group investment projects.</p>  |




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|  |  | consequence, the Fund will provide project financing within the framework of the NFOŚiGW's priority programmes.  |   |  |
|   | The bill on amendments to the Electromobility and Alternative Fuels Act and certain other acts.  | Within the scope of its regulations, the bill transposes into Polish law a number of EU directives, including in particular Directive (EU) 2019/944 of the European Parliament and of the Council of 5 June 2019 on common rules for the internal market in electricity and amending Directive 2012/27/EU, as regards the construction of charging stations by DSOs. The act provided for the removal of the so-called intervention mechanism for building the charging infrastructure. According to the proposed act, DSOs will not be responsible for the construction of missing charging points in municipalities that were required by the Act on electromobility to reach a certain number of charging points. | On December 9, 2021 the draft was signed by the President of Poland. The act entered into force on December 24, 2021.   | The act will have no adverse impact on the operations of the PGE Group. The removal of the so-called intervention mechanism is associated with the abolition of obligations imposed on Distribution and Supply segments.   |
|   | Draft act amending the act on maritime safety and the act on maritime areas of the Republic of Poland and maritime administration.<br>Print no. 2 071          | The draft act contains provisions aimed at ensuring safety during the construction and operation of offshore wind farms in the Polish exclusive economic zone of the Baltic Sea and equipment for the off-take of power from these installations. To achieve this goal, the legislation provides for the implementation of appropriate oversight mechanisms over the design, construction and operation of offshore wind farms, including a certification system and oversight activities related to the investment implementation process.  | On December 22, 2022 the draft act was adopted by the Council of Ministers and referred to the Polish parliament. On March 7, 2022 the draft was referred to the Committee on Maritime Affairs and Inland Navigation for first reading. | Consideration of the draft act by the Committee on Maritime Affairs and Inland Navigation. Further proceedings on the draft act in the parliament.<br><br>The draft is of significance to investments in the development of offshore wind farms. The introduction of excessive certification mechanisms may delay the investment and increase the cost of the investment to develop offshore wind farms. |
|  | The regulation of the Council of Ministers on the maximum quantity and value of electricity from renewable energy sources that may be sold by auction in 2021. | The aim of this regulation is to facilitate auctions to take place in 2021, thus continuing the upward trend in the use of renewable energy sources, which will contribute to the fulfilment of new EU obligations.  | The draft regulation was published on December 22, 2020 and, bypassing public consultations, was promulgated on December 28, 2020.<br><br>The regulation entered into force on January 12, 2021.  | The regulations will make it possible to place the Group's photovoltaic projects in auctions scheduled for 2021.   |







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|  | Regulation of the Minister of Climate and Environment on reference price for electricity from renewable sources in 2021 and periods applicable to producers that won auctions in 2021.              | Important parameters for renewables auctions that were held in 2021. Small changes in relation to the 2020 prices.  | Regulation adopted - on <b>April 16, 2021</b> .  | Important from the point of view of planning and development of RES investments in the PGE Capital Group. |
|  | Act amending the Act on disclosure of information about the environment and its protection, public involvement in environmental protection and environmental impact studies and certain other acts. | The Act aims to transpose the EIA Directive (specifying the principles of environmental impact assessment) as regards Article 11(1) and (3), i.e. regulations concerning public access to justice in the area of the environment by granting environmental organisations new powers affecting the possibility to use decisions on environmental conditions of projects significantly affecting the environment and to obtain further investment decisions in the investment and construction process. | Regulation was signed on <b>April 20, 2021</b> by the President of Poland, went into effect on <b>May 13, 2021</b> . | The Act affects all business segments of the PGE Group that implement infrastructural investments.        |

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|  | <p>Regulation of the Minister of Climate and Environment on the change in the volume share of electricity resulting from redeemed certificates of origin confirming the production of electricity from renewable energy sources in 2022.</p> <p>Climate and Environment<br/>Ministry list: 638</p> | <p>The regulation specifies the level of the obligation to redeem certificates of origin for energy from renewable sources ("PM OZE") for the so-called obligated entities in 2022. The regulation reduces the level of the obligation for PM OZE (the so-called green certificates) by 1pp - from 19.5% to 18.5% - compared to the level in effect in 2021. At the same time, the justification to the regulation provides for the possibility of further lowering the level of the obligation in the coming years.</p>  | <p>The regulation was published in the Journal of Laws and went into effect on <b>August 28, 2021</b>.</p>   | <p>The reduced level of the obligation may slow down the growth in Renewables-segment revenue from the sale of PM OZE. At the same time, it reduces the burden on the Supply segment with the need to purchase a certain amount of PM OZE in relation to the volume of electricity traded.</p>  |
|  | <p>Draft regulation of the Minister of Climate and Environment on technical requirements, connection conditions and cooperation of micro-installations with the power system</p> <p>Government Legislation<br/>Centre list: UD 19</p>  | <p>Projekt rozporządzenia jest realizacją upoważnienia zawartego w art. 9 ust. 4a Ustawy – Prawo energetyczne, które nakłada na Ministra właściwego do spraw klimatu obowiązek określenia:</p> <ul style="list-style-type: none"> <li>▪ technical requirements for connecting micro-installations to the grid and the conditions for its cooperation with the power system,</li> <li>▪ conditions for connecting micro-installations to the grid and the mode of: <ul style="list-style-type: none"> <li>▪ issuing connection conditions for this installation ,</li> <li>▪ notifying the connection of the micro-installation.</li> </ul> </li> </ul> <p>In accordance with the guidelines contained in the statutory authorisation, when specifying the above-mentioned elements, the need to increase the share of electricity generated by renewable energy prosumers in micro-installations in the country's energy balance, safety and reliable operation of the power system, as well as requirements for the construction and operation of devices, installations and grids were taken into account.</p> <p>The main purpose of the regulation is to reduce and simplify formalities related to connecting micro-installations, and thus to make the investment process in this type of installation more attractive. The draft introduces, among other things: a standardised form of micro-installation notification, as well as a template of an application for a micro-installation connection conditions.</p> | <p><b>On June 28, 2021</b> following negotiations the draft was sent to be examined by the Legal Committee at the Government Legislation Centre.</p> <p>Examination of the draft by the Legal Committee and submission of the draft for signature by the Minister.</p> | <p>The draft regulation has a significant impact on the Distribution segment as regards the connection of micro-installations to the distribution grid and the Supply segment as regards prosumers' settlements, including for sellers obligated to purchase electricity introduced to the distribution grid from micro-installations.</p> <p>The Distribution segment will be required to register and share metering data on the surplus energy generated in the micro-installation and fed into the distribution grid.</p> <p>Companies in the Supply segment will be required to settle surplus energy generated in micro-installations and fed into the distribution grid under the agreement.</p> |

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|   |   | Detailed technical requirements for connecting micro-installations to the grid and conditions for its cooperation with the power system and detailed conditions for connecting micro-installations to the grid are set out in an appendix to the regulation.  |   |  |  |
|    | <p>Draft regulation of Climate and Environment Minister regarding energy market processes</p> <p>Government Legislation<br/>Centre list: UD 603</p> | <p>Draft regulation of Climate and Environment Minister regarding energy market processes implements the statutory delegation contained in art. 11zh sec. 1 of the act - Energy Law. The draft regulation is to enable the preparation of IT systems (remote reading systems for electricity distribution system operators and the central energy market information system) in connection with new challenges on the electricity market. The definition of a full catalogue of energy market processes is necessary to ensure the transparency of obligations of all energy market participants, both electricity system users obligated to implement energy market processes through the Central Energy Market Information system ("CSIRE"), and for the Energy Market Information Operator ("OIRE") so that it is possible to assess the fulfilment by the above-mentioned entities of the obligations imposed on them.</p> <p>The regulation will define a catalogue of energy market processes, the implementation of which through CSIRE will be obligatory for system users. The catalogue of energy market processes includes the basic processes currently implemented on the electricity market, taking into account the greatest usefulness of CSIRE for system users.</p> | <p>On January 11, 2022 the Minister of Climate and Environment signed the regulation, which went into effect on January 25, 2022.</p> | -  | <p>The regulation will have a significant impact primarily on the Distribution segment, but also on the following segments: Conventional Generation, Renewables and Supply.</p>  |
|  | <p>Draft regulation of Climate and Environment Minister regarding metering system</p> <p>Government Legislation<br/>Centre list: UD 507</p>         | <p>The draft regulation implements the statutory delegation contained in art. 11x sec. 2 of the act - Energy Law, which imposes on the minister responsible for energy the obligation to regulate therein, in consultation with the minister responsible for computerisation, the detailed requirements and standards to be met by the metering system. In addition, the draft regulation satisfies the obligation specified in art. 19 sec. 3 of Directive (EU) 2019/944 of the European Parliament and of the Council of June 5, 2019 on common rules for the internal market in electricity and amending Directive 2012/27 / EU, according to which Member States</p>  | <p>The draft has been referred to the legal committee at the Government Legislation Centre for examination.</p>                       | <p>Recognition of the project by the legal committee at the Government Legislation Centre.</p> | <p>The regulation will have a significant impact primarily on the Distribution segment, but also on the following segments: Conventional Generation, Renewables and Supply.</p> <p>As regards the DSO's activities, it will be necessary to clarify requirements for metering systems, including electricity meters and metering system.</p> |

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|   |  | joining the introduction of smart metering systems adopt and publish minimum requirements functional and technical related to smart metering systems to be introduced in their territories.   |  |   |
|    | Draft regulation of the Minister of Climate and Environment amending the regulation on detailed rules for the formation and calculation of tariffs and settlements for heat supply                               | A one percentage point increase in the possibility for planned revenue growth in tariffs for heat from cogeneration. Guaranteed minimum increase in planned revenue for tariffs shaped on the basis of costs – (generation, transmission and distribution). Additional incentive in the form of higher returns on equity for assets that were created in connection with the development of heat sources constituting renewable energy installations. A condition under which a real possibility needs to be presented for using funds resulting from increased planned revenue as approved by the President of the Energy Regulatory Office in the tariff for heat toward investments relating to the modernisation of infrastructure for environmental protection purposes. The possibility to change the tariff after a change in indicators concerning the minimum increase in planned revenue. | Regulation published in the Journal of Laws on <b>January 10, 2022</b> (Polish Journal of Laws of 2022, item 37). It went into effect on <b>January 25, 2022</b> . | The regulation has a positive impact on the District Heating segment, both on heat generation in heating plants and cogeneration units. Positive changes in the tariff process may become an additional investment impulse. |
|   | Government Legislation<br>Centre list: 641   |   |  |   |
|    | Draft regulation of the Minister of Climate and Environment on the maximum quantity and value of electricity from high-efficiency cogeneration covered by support and unit amounts of guaranteed premium in 2022 | The regulation specifies the maximum quantities and values of electricity covered by support and the unit amounts of guaranteed premiums. These figures are necessary for the operation of the support mechanism for electricity generated in cogeneration in 2022. Regulation issued periodically until October 31.  | The regulation was published in the Journal of Laws and entered into force on <b>October 24, 2021</b> .  | The regulation has a positive impact on the District Heating segment – cogeneration units participating in the cogeneration support in accordance with the Act on support for cogeneration.                                 |
|   | Government Legislation<br>Centre list no.: 653   |   |  |   |
|  | Draft regulation of the Minister of Climate and Environment on reference values for new and significantly modernised cogeneration units in 2022  | The regulation specifies the reference values necessary to conduct auctions and recruitment for the cogeneration bonus for new and significantly modernised cogeneration units in 2022. The regulation is issued regularly until October 31.  | The regulation was published in the Journal of Laws and entered into force on <b>October 24, 2021</b> .  | The regulation has a positive impact on the District Heating segment – cogeneration units participating in the cogeneration support in accordance with the Act on support for cogeneration.                                 |
|   | Government Legislation<br>Centre list no.: 654   |   |  |   |

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|    | Draft regulation of the Minister of Infrastructure on assessment of applications in adjudication proceedings   | The regulation establishes transparent, detailed criteria for assessing applications in the adjudication procedure, clear scores for these criteria and a scope of information and documents allowing for the determination of applicants' compliance with the criteria in this procedure. The regulation addresses the qualifying minimum and the method of determining the most important criterion for evaluating applications in an adjudication procedure.   | On December 1, 2021 the regulation was published in the Journal of Laws.<br>It went into effect on December 15, 2021. | -   | The draft is of significance from the viewpoint of planning and developing offshore wind investments by PGE Group.   |
|    | Draft Regulation of the Minister of Climate and Environment amending the regulation on detailed rules for preparing and calculating tariffs and billing for heat supply<br>RCL register: 795 | The draft amends the reference index, which is an integral part of the tariffing process for heat from cogeneration. The amendments concern:<br>1. definition of the k value, being an element of the formula for calculating the reference index so that the k value can be calculated and published by the President of the Energy Regulatory Office depending on changes in the operating conditions of energy companies that burden the production of heat in cogeneration - for individual types of fuel referred to in art. 23 sec. 2 point 18 letter c of the Energy Law.<br>2. determination of the k value so as to reflect the lack of a full sample of ETS sources in the average heat sale prices published by the President of the Energy Regulatory Office. | On March 3, 2022  | Submission of the draft for signing by the Minister.  | The draft is of significance from the viewpoint of an increase in revenue from the sale of heat.   |
|    | Draft act amending the act on the energy profile of buildings and certain other acts<br>RCL register: UC82   | The update amends the Building Law. From PGE Group's viewpoint, this is an opportunity to tighten the obligation to connect to the district heating network.  | On February 14, 2022 draft was submitted to the Legal Committee.  | Examination of the draft by the Legal Committee and sending the draft for signature by the Minister, if there is no need for substantive modifications. | The draft will tighten the obligation to connect buildings to the district heating network, which will be positive for the district heating segment's financial situation.                     |
|  | Draft act on support allowance<br>RCL register: 1 820  | The draft is intended to provide support to approx. 6.84 million households in Poland, including the most energy-poor households, by covering a part of their energy expenses and the related growing food prices.<br>From PGE Group's viewpoint, additional obligations, including information obligations, are introduced.  | The act, published in the Journal of Laws of 2022 item 1, entered into force on January 4, 2022.                      | -   | The draft is of importance to electricity vendors. The act generates costs for vendors due to new information obligations. Protective obligations for sensitive customers are also introduced. |



Draft regulation of the Minister of Climate and Environment on the rate of cogeneration fee for 2022





The draft regulation implements the statutory delegation contained in the Act on Promotion of Electricity from High Efficiency Cogeneration, which requires the competent minister to set the cogeneration fee rate for year "i" by November 30 of year "i-1."

The draft will have a significant impact on ensuring proper operation of the support mechanism for high-efficiency cogeneration in guaranteeing financing of the support system by determining the cogeneration fee rate for 2022.




Regulation published in Journal of Laws on **November 30, 2021**. Regulation entered into force on **January 1, 2022**.



The draft is of significance to the district heating segment, which can participate in the support system for producers of electricity in high efficiency cogeneration.


## INTERNATIONAL REGULATORY ENVIRONMENT

| Segments  | Regulation  | Regulation objectives  | Latest conclusions  | Next stage  | Impact on PGE Group  |
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| <b>European Green Deal/ Fit for 55 package</b>  |   |  |   |   |  |
|     | <p>Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading within the EU (ETS Directive) as well as implementing and delegated acts, Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme (MSR Decision).</p> | <p>Combating climate change. Development of investment incentives through a CO<sub>2</sub> price signal to develop low-emission sources.</p> | <p><b>On July 14, 2021</b> the European Commission presented a draft reform of ETS and MSR decision (relevant legislative proposals). ENVI is the leading committee on the draft reform of the ETS directive at the European Parliament, and Peter Liese (EPS, DE) is the rapporteur. ENVI is the leading committee on the MSR decision, and Cyrus Engerer (S&amp;D, MT) is the rapporteur. The European Parliament wants to vote on its position on both of the legislative acts in the <b>second quarter of 2022</b>, so as to begin negotiations with the Council and the European Commission on the final shape of the inter-institutional agreement in the second half of the year.</p> <p>Reaching a general agreement in the Council on the revision of the ETS Directive and the Market Stability Reserve decision is a priority for the current French Presidency.</p> | <p>The legislative proposal is being proceeded in accordance with the regular procedure by the European Parliament and Council. The EC expects that negotiations at EU institutions may last until 2023, so that the higher EU targets can be implemented from <b>2024</b>.</p> <p>The deadline to transpose the changes in the ETS directive as stated in the draft is <b>December 31, 2023</b>.</p> | <p>Increased competitiveness of renewable sources and – in short-term- gas units to the detriment of generation assets using high-emission fuels. Increase in operating costs for conventional generation of electricity. Option to obtain direct investment support from 2021 from the Modernisation Fund and Innovation Fund. Another revision of the ETS Directive and MSR decision is likely to cause a further increase in prices of emission allowances.</p> |





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|    | Directive 2018/2001 on the promotion of the use of energy from renewable sources (Renewable Energy Directive). | To adapt legislation related to increased share of renewables in reference to EU's new higher GHG reduction target by 2030.   | <b>On July 14, 2021</b> , as part of Fit for 55, the European Commission presented a legislative proposal that includes a draft amendment to the renewables directive. It proposes a range of measures to achieve a higher binding target of 40% of energy from renewable sources in gross final energy consumption in 2030 at the EU level. ITRE is the leading committee in the European Parliament, and Markus Pieper (EPL, DE) is the rapporteur. | The legislative proposal has been sent for further work at the Council and European Parliament. The legislative proposal is being proceeded in accordance with the ordinary legislative procedure by the European Parliament and Council. The proposed deadline for transposing the proposal into national law is <b>December 31, 2024</b> . | Improvement in the competitiveness of low-emission sources of energy in comparison with high-emission sources. Larger share of renewable sources in the Polish energy mix by 2030.   |
|    | Directive 2012/27/EU on energy efficiency (EED Directive).   | To adapt legislation related to energy efficiency improvements in reference to EU's new higher GHG emission reduction target by 2030.   | <b>On July 14, 2021</b> as part of Fit for 55 the EC presented a legislative proposal concerning a draft amendment of the EED directive. It proposes a set of measures to achieve at EU level a binding target to reduce energy consumption by at least 9% in 2030 in comparison to 2020. ITRE is the leading committee in the European Parliament, and Niels Fuglsang (S&D, DK) is the rapporteur.   | The legislative proposal is subject to further work at the Council and European Parliament. The legislative proposal is being proceeded in accordance with the ordinary legislative procedure by the European Parliament and Council. The published draft does not include a deadline for transposing the directive into national law.       | Improvement in the competitiveness of low-emission sources of energy in comparison with high-emission sources, particularly in heating systems. A faster phase-out of coal-based cogeneration from heating systems in connection with the introduction of a new emission criterion. Need for more extensive development of renewable sources in district heating systems. A higher factor for annual final energy savings will result in an increase in burdens on the energy efficiency certificate system. |
|  | Directive 2010/31/EU on the energy performance of buildings (EPBD)   | Alignment of legislation related to improving the energy performance of buildings in the EU with respect to the 2050 climate neutrality target and the new higher 2030 EU GHG reduction target. | <b>On December 15, 2021</b> , the European Commission, as part of the next stage of the Fit for 55 legislative package, presented a legislative proposal for a draft amendment of the EPBD. The new directive aims to contribute to making all buildings zero-carbon by 2050. The EC proposed a range of mechanisms to improve the energy performance of  | The legislative proposal was sent for further work at the Council and the European Parliament. The legislative proposal is being proceeded according to the ordinary legislative procedure by the European Parliament and the Council.   | Greater competitiveness of renewable energy sources as a heat source in buildings. Reduction in the heat demand of buildings due to improved energy performance. Faster rate of displacement of fossil fuels in the heating sectors, including district heating.   |


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|   |   |   | new and already occupied buildings, including modernisations. Ciarán Cuffe was elected rapporteur for the Lead Committee of ITRE (Green Party, IR).   | The date for transposition of the Directive into national law is not specified in the published draft.   | Potential inhibition of growth of existing district heating systems due to proposed requirements for new and modernised buildings. |
|  | Directive 2003/96/EC restructuring the Community framework for the taxation of energy products and electricity (ETD Directive). | To adapt legislation related to tax on energy products and electricity to the EU's new higher GHG emission target by 2030.  | <b>On July 14, 2021</b> as part of Fit for 55 the EC presented a legislative proposal that includes a draft revision of the ETD directive. ECON is the leading committee in the European Parliament, and Johan van Overtveld (EKR, BE) is the rapporteur. | The legislative proposal is subject to further work at the Council and European Parliament. The legislative proposal is being proceeded in accordance with the consultation procedure by the European Parliament and Council.<br><br>The proposal deadline for transposing the directive is <b>January 1, 2023</b> . | Increase in the minimum tax rates for energy products.   |
|  | Alternative Fuels Infrastructure Regulation (AFIR Regulation).  | The aim of the new regulation, which repeals Directive AFID, is to ensure faster development of charging infrastructure and implement targets for charging station locations, including targets concerning distances between charging points throughout the trans-European TEN-T network. | <b>On July 14, 2021</b> as part of Fit for 55 the EC presented a legislative proposal covering the AFIR Regulation. TRAN is the leading committee at the European Parliament, and Ismail Ertug (S&D, DE) is the rapporteur.                               | The legislative proposal is subject to further work at the Council and European Parliament.  | The necessity to prepare the power grid to perform obligations resulting from the AFIR Regulation in the distribution area.        |

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|  | <p>Regulation on guidelines for trans-European energy infrastructure (revision of the TEN-E Regulation ).</p> | <p>Establishing guidelines for the development of trans-European energy infrastructure and new criteria for projects of common interests ("PCI").</p> | <p>After the publication by the EC in <b>December 2020</b> of a legislative proposal to revise the TEN-E regulation, on <b>June 11, 2021</b>, the Transport, Telecommunications and Energy Council adopted a general approach, while on <b>September 28, 2021</b> the ITRE committee at the EP approved amendments to the draft regulation and the mandate to begin tri-partite negotiations, ultimately adopted as the EP's negotiation position.</p> <p>Trilogues between the EP, EC and the Council took place on <b>October 13, October 25, November 23 and December 14, 2021</b>, when a preliminary agreement was reached .</p> <p>The text of the regulation agreed in the course of the trilogues included a new category of radial infrastructure for offshore wind farms and new, more liberalised criteria for smart grid projects.</p> | <p>Approval of the agreement by the Council and EP in the <b>first or second quarter of 2022</b>, followed by publication of the regulation in the EU Official Journal .</p> | <p>The definition of rules for implementing PCI is a potential opportunity for certain PGE Group investments to apply for the status of PCI projects that may receive financial support from the Connecting Europe Facility.</p> |
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#### The regulations concerning the financial perspective 2021-2027 and financing for sustainable economic growth

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|  | <p>The Regulation 2020/852 on the establishment of a framework to facilitate sustainable investment, changing the regulation (EU) 2019/2088 (the Taxonomy Regulation) and delegated act to this regulation determining</p> | <p>Facilitation of funding for sustainable economic growth in EU.</p> | <p><b>On April 21, 2021</b> the European Commission initially adopted delegated act establishing detailed technical screening criteria on the basis of which economic activities will be assessed to determine whether an activity is environmentally sustainable in relation to climate change prevention and adaptation. This act does not contain technical screening criteria for gas and nuclear power.</p> <p><b>On June 4, 2021</b> the EC published the above-mentioned delegated act in the national languages. Neither the</p> | <p>Publication by the Platform on Sustainable Finance of a report on the taxonomy of harmful activities and activities having no significant environmental impact, report on social taxonomy and report on technical screening criteria for further environmental objectives – <b>Q1 2022</b>.</p> <p>Expiry of the time-limit for raising objections to the delegated act on nuclear</p> | <p>Impact on availability and cost of funding obtained by PGE Group companies for investments. Direct impact on raising external capital for investments in condensation and high-efficiency gas-fired cogeneration, depending on the specified locations and meeting criteria established by an additional delegated act.</p> <p>The obligation to include information on the share in the trade, CAPEX and OPEX of environmentally sustainable</p> |
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| technical screening criteria.   | <p>EP nor the Council objected to this delegated act within the deadline.</p> <p><b>On July 6, 2021</b> the EC published a delegated act under art. 8 of the taxonomy regulation, specifying rules for reporting participation in trade, CAPEX and OPEX of environmentally sustainable activities. Neither the EP nor the Council objected to this delegated act within the deadline. On <b>December 9, 2021</b> a delegated act was published in the EU Official Journal, specifying detailed technical screening criteria, which will be the basis for assessment of economic activity in order to determine whether a given activity is conducted in a sustainable manner in environmental terms. The act entered into force on <b>December 29, 2021</b> and is applied from <b>January 1, 2022</b>.</p> <p>A delegated act under art. 8 of the taxonomy regulation was published in the EU Official Journal on <b>December 10, 2021</b>. The act went into force on <b>December 30, 2021</b> and is applied from <b>January 1, 2022</b>.</p> <p>On <b>February 2, 2022</b> the EC unveiled a delegated act setting out detailed technical screening criteria for the use of nuclear power and gas. On <b>March 9, 2022</b>, the European Commission officially adopted this delegated act.</p> | energy and gas – <b>Q2/Q3 2022</b> .   | activities in the statement on non-financial information or consolidated statement on non-financial information.   |
|  | <p>European Commission Revised Climate, Energy and Environmental Aid Guidelines 2022 (CEEAG).</p>  | <p>Definition of new rules for award of state aid, adapted to EU's new reduction targets resulting from the Climate Law.</p> <p><b>On June 7, 2021</b> the EC published a draft of new CEEAG guidelines, which are to replace the existing guidelines. Public consultations ended on <b>August 2, 2021</b>.</p> <p><b>On October 20, 2021</b> the European Parliament adopted a resolution that includes its position on the wording of the CEEAG guidelines proposed by the EC.</p> | A change in conditions for obtaining state aid in PGE Group's segments. Some of the provisions introduce stricter criteria for obtaining state aid, others clarify rules for obtaining it. |

|   |   |   |   |  |  |
|---|---|---|---|--|--|
|   |   |   | <p>On <b>December 21, 2021</b>, the CEEAG Guidelines were approved by the College of Commissioners.</p> <p>On <b>January 27, 2022</b>, the CEEAG Guidelines were formally adopted by the European Commission and went into effect.</p>  |  |  |
|  | <p>Revision of Regulation 651/2014 of 17 June 2014 declaring certain types of aid compatible with the internal market pursuant to Art. 107 and 108 of the Treaty (GBER regulation).</p> | <p>The regulation is intended to facilitate the implementation of state aid measures by Member States without prior notification in the area of:</p> <ul style="list-style-type: none"> <li>• regional aid,</li> <li>• risk finance aid,</li> <li>• aid for research, development and innovation,</li> </ul> <p>aid for environmental protection and energy purposes.</p> | <p>On <b>October 6, 2021</b>, the European Commission launched public consultations on the draft revision of GBER.</p> <p>The draft amendment extends the set of measures exempted from prior notification and raises notification thresholds for climate, environmental and energy measures where objectively justified. It is also intended to provide additional flexibility by taking into account higher aid intensities, in particular where the aid is awarded on the basis of a competitive bidding process. Consultations were completed on <b>December 8, 2021</b>.</p> | <p>A meeting with the State Aid Advisory Committee (composed of experts and the European Commission) will be held in the <b>first half of 2022</b>. It will take place after the European Commission has analysed the comments received during the public consultation. The regulation is expected to be adopted and published in <b>mid-2022</b>.</p> | <p>Change in the terms for notifying public aid in PGE Group's segments. Some provisions tighten the criteria for obtaining public aid, others specify the rules for obtaining public aid.</p> |

#### Additional information with regard to international regulatory environment

| Segments   | Proceeding  | Objective of the action brought   | Key events  | Next stage  | Impact on PGE Group  |
|--|---|---|---|---|--|
| <b>Action brought against the European Commission's decision not to raise objections to the Polish Capacity Market (SA 46100), case file no T-167/19</b> |   |   |   |   |  |
|   | <p>Proceedings brought by Tempus Energy Germany and T Energy Sweden against the European Commission (case file no. T-167/19).</p> | <p>The objective of the action is to annul the European Commission's Decision not to raise objections to the Polish Capacity Market (SA 46100) issued as part of the aid procedure.</p> | <p><b>On September 2, 2021</b>, the Court ruled in favour of the European Commission, which overruled the judgement of the EU Court in the first instance and dismissed the appeal of Tempus Energy and Tempus Energy Technology against EC in case regarding the British Capacity Market (case file no. C-57/19 P).</p> <p><b>On October 6, 2021</b> the EU General Court ruled favourably for the EC regarding the Polish capacity market (case T-167/19), which was Poland's side, questioning the validity of the accusations and in consequence rejecting the action brought by Tempus Energy Germany and T Energy Sweden.</p> <p>Tempus had until <b>December 16, 2021</b> to appeal the Polish capacity market ruling to the CJEU. No appeal against the first-instance verdict was filed.</p> | <p>The court proceedings have been completed. The EC decision remains in force.</p> | <p>In connection with the ruling, the provision of the capacity obligation or revenue from the capacity market are settled on the current terms.</p> |

## Complaint against Poland lodged by Czechia (Case C-121/21) including an application for interim measures



Proceeding in  
the case Czechia  
vs. Poland (Case  
C-121/21).

On **February 26, 2021** Czechia lodged an interstate complaint against Poland with the Court of Justice concerning the prolongation of the mining concession for KWB Turów. The complaint was accompanied by an application for interim measures in the form of an immediate half of KWB Turów's operation.

A summary of the complaint and key arguments was published in the Official EU Journal on **April 19, 2021**.

On **May 21, 2021** the Vice-President of the Court of Justice of the European Union issued an order on an interim measure as follows: "Poland must immediately cease lignite extraction activities in the Turów mine until a judgment of the Court brings case C-121/21 to an end. An interim measure does not rule on the merits of the case.

The request to repeal the decision of the Vice-President of the Court of Justice of May 21, 2021 was dismissed. Pursuant to a decision issued on **September 20, 2021**, by the Vice-President of the Court of Justice, the Republic of Poland was obligated to pay to the European Commission a periodic penalty payment in the amount of EUR 500 000 per day, starting from the date of service of this order to the Republic of Poland until the time when the Member State complies with the order (C - 121/21 R). The hearing at the EU Court of Justice took place on **November 9, 2021**.

On **February 3, 2022**, the Advocate General issued an opinion on the complaint and found some of the Czech side's allegations to be legitimate.

On **February 3, 2022** the prime ministers of the Polish and Czech governments initialled a bilateral agreement setting out the terms for withdrawal of the Czech Republic's case from the Court of Justice of the European Union. On **February 4, 2022** the Czech Republic informed the Court that, pursuant to art. 147 § 1 of the Rules of Procedure, as a result of the settlement of the present dispute concluded with the Republic of Poland, it waives all claims. Accordingly, on **February 4, 2022** the President of the Court of Justice issued an order removing the case from the register.

Impact on the operation of the Turów energy complex, pursuant to the bilateral agreement.

## 4.6. Supply markets - fuels

Lignite, hard coal, natural gas and biomass are key fuels used to generate electricity and heat by power plants and heat and power plants belonging to the PGE Group. The cost of fuel procurement constitutes a major share in electricity generation costs. PGE S.A., on the ground of Agreement for Commercial Management of Generation Capacities, secures supplies of raw materials (fuels and sorbents), their transport and related services to the Branches of Conventional Generation segment and to District Heating segment.

Lignite supplies to Bełchatów power plant and Turów power plant are carried out within a framework of regular cooperation between branches operating in the structure of Conventional Generation segment.

Lignite supplies to Zgierz CHP are provided under the framework agreement with KWB Bełchatów lignite mine and transport agreement with PTS Betrans sp. z o.o. (company belonging to PGE Capital Group).

Biomass was obtained via procurement procedures from suppliers operating on the Polish biomass market

The main supplier of the hard coal for the electricity and heat production needs in Conventional Generation and District Heating segments was Polska Grupa Górnicza S.A. Following mediation proceedings in August 2021, PGG S.A. and PGE S.A. reached an agreement on the implementation of coal deliveries in 2021-2023 and on unclaimed volumes from 2019-2020.

According to the existing laws, an energy company dealing with the generation of electricity or heat is required to maintain fuel reserves in a volume ensuring the continuity of electricity or heat supply to customers. In October 2021, there was a breach of the minimum reserve levels in all of PGE GiEK S.A.'s hard coal-fired generating units (branch Elektrownia Opole, branch Elektrownia Dolna Odra, branch Elektrownia Rybnik). By the end of 2021, the hard coal reserve levels were below the minimum volumes defined for a given month. The President of the Energy Regulatory Office approved these branches' applications submitted in November 2021 and issued three separate administrative decisions extending the deadline for rebuilding the hard coal reserves until February 28, 2022.

By the end of February 2022, the coal reserve at the Elektrownia Dolna Odra branch was re-built and exceeded the minimum level indicated in regulations, while reserves at the Elektrownia Opole and Elektrownia Rybnik branches were not re-built. Failure to observe the deadlines may result in penalties.

The failure to maintain the minimum levels of hard coal stock and the problems in rebuilding these stocks at the Opole plant and the Rybnik plant were considerably affected by a range of factors beyond the Group's control, including primarily:






- unforeseen coal supply constraints from September 2021 to January 2022, the main reasons for which were problems on the part of the rail carriers as well as a lack of sufficient coal supply from the major domestic suppliers,
- blockade of railway tracks for several days due to a protest at PGG S.A.,
- lack of full performance of contractual obligations by certain suppliers of hard coal,
- an accumulating backlog of rail shipments and untimely coal loading on the part of the mines,
- lack of PSE S.A.'s consent for all requested limitations of electricity generation,
- high (higher than planned) demand from the TSO for electricity from PGE GiEK S.A.'s generating units,
- limitations in coal availability from domestic miners as well as restriction of coal supply to system power plants due to priority treatment of fuel supplies to CHP plants,
- limitations in coal transport to the aforementioned generating units caused by repair and modernisation works and damages to railway lines in the Upper Silesia region.



A detailed description of the obligation to maintain fuel reserves is available in note 28.2 to the consolidated financial statements.

## 5. Activities of PGE Capital Group

### 5.1. Main business segments

|  | <br><b>Conventional<br/>Generation</b>                                | <br><b>District Heating</b> | <br><b>Renewables</b>  | <br><b>Distribution</b> | <br><b>Supply</b> |
|--|--|---|---|--|--|
| <b>Key assets of the segment</b>               | 5 conventional power plants<br>2 lignite mines   | 16 CHP plants   | 17 wind farms<br>5 photovoltaic power plants<br>29 run-of-river hydro power plants<br>4 pumped-storage power plants,<br>including 2 with natural flow | 297 029 kms<br>of distribution lines   | -  |
| <b>Installed capacity<br/>electricity/heat</b> | 12 852 MWe/844 MWt   | 2 608 MWe/6 842 MWt   | 2 331 MWe/-   | -  | -  |
| <b>Electricity volumes</b>                     | Net electricity generation<br>57.42 TWh <sup>1</sup>   | Net electricity generation<br>8.76 TWh <sup>1</sup>   | Net electricity generation<br>2.59 TWh <sup>1</sup>   | Electricity distribution<br>volume<br>37.74 TWh  | Sales to final off-takers<br>37.32 TWh <sup>2</sup>  |
| <b>Heat volumes</b>                            | Heat production (net)<br>5.13 PJ   | Heat production (net)<br>51.64 PJ   | -   | -  | -  |
| <b>Market position</b>                         | PGE Group is the leader of<br>lignite mining in Poland (91%)<br><br>PGE Group is also a national leader<br>in electricity and district heat generation | -   | PGE Group is the largest electricity<br>producer from RES with market<br>share of approx. 10% (excluding co-<br>combustion of biomass and bio-gas)    | Second domestic<br>electricity distributor with<br>regard to number of<br>customers                        | Leader in wholesale and<br>retail trading in Poland  |

<sup>1</sup> A detailed breakdown of electricity production is presented in the table below.

<sup>2</sup> Data for PGE Obrót S.A.

Table: Gross and net production of electricity (MWh).

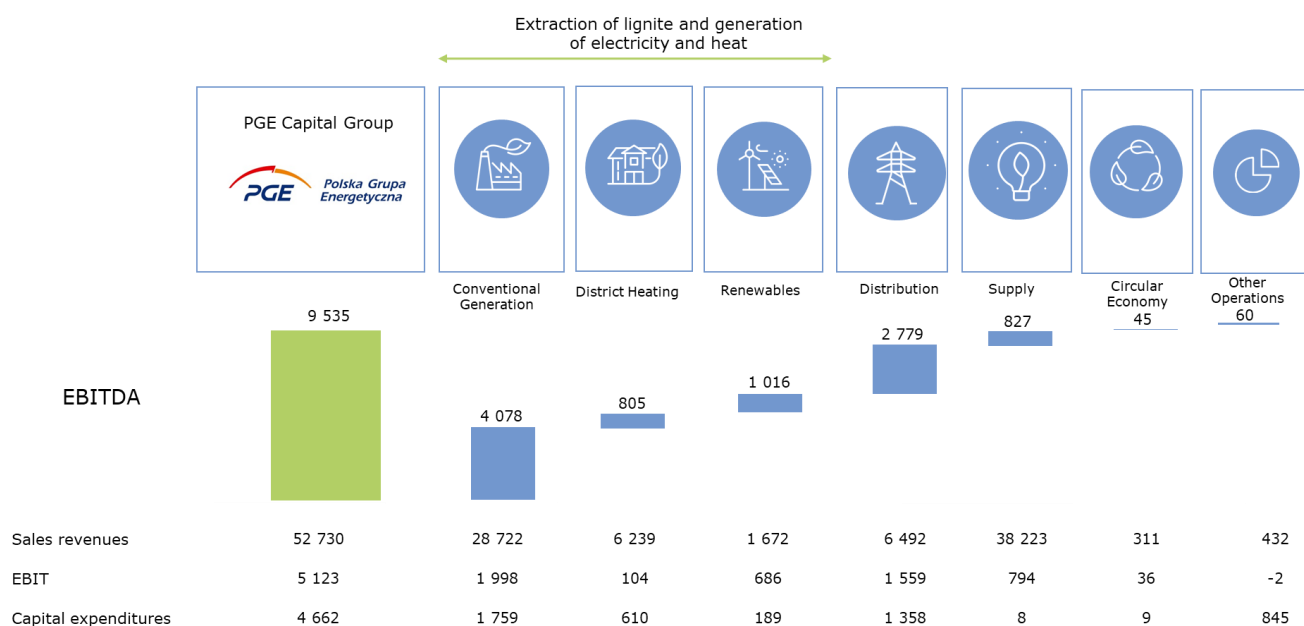
|  | 2021                 | 2020                 | % change   |
|--|----------------------|----------------------|------------|
| <b>GROSS ENERGY PRODUCTION, INCLUDING:</b>         | <b>75 953 684.66</b> | <b>64 325 973.97</b> | <b>18%</b> |
| <b>RES</b>   | <b>2 492 835.88</b>  | <b>2 485 149.90</b>  | <b>0%</b>  |
| Lignite-fired power plants and CHP plants          | 41 268 231.73        | 33 211 523.51        | 24%        |
| Hard coal-fired power plants and CHP plants        | 27 143 039.55        | 22 677 894.24        | 20%        |
| Gas-fired CHP plants                               | 4 355 564.20         | 5 191 919.30         | -16%       |
| Wind power plants                                  | 1 537 336.18         | 1 579 283.28         | -3%        |
| Pumped-storage power plants                        | 694 013.30           | 759 487.02           | -9%        |
| Run-of-river hydroelectric plants                  | 452 715.58           | 420 695.72           | 8%         |
| Biomass-fired CHP plants and biomass co-combustion | 451 139.80           | 434 850.19           | 4%         |
| Communal waste-fired CHP plants                    | 46 966.13            | 49 262.88            | -5%        |
| PV plants  | 4 678.19             | 1 057.83             | 342%       |
| <b>NET ENERGY PRODUCTION, INCLUDING:</b>           | <b>68 771 004.34</b> | <b>58 134 330.78</b> | <b>18%</b> |
| <b>RES</b>   | <b>2 327 340.08</b>  | <b>2 334 881.38</b>  | <b>0%</b>  |
| Lignite-fired power plants and CHP plants          | 37 189 874.37        | 29 787 637.92        | 25%        |
| Hard coal-fired power plants and CHP plants        | 24 337 765.65        | 20 205 207.06        | 20%        |
| Gas-fired CHP plants                               | 4 224 985.78         | 5 050 413.12         | -16%       |
| Wind power plants                                  | 1 448 272.08         | 1 489 070.79         | -3%        |
| Pumped-storage power plants                        | 691 038.46           | 756 191.30           | -9%        |
| Run-of-river hydroelectric plants                  | 445 777.63           | 414 555.97           | 8%         |
| Biomass-fired CHP plants and biomass co-combustion | 389 864.65           | 389 815.46           | 0%         |
| Communal waste-fired CHP plants                    | 38 757.00            | 40 381.33            | -4%        |
| PV plants  | 4 668.72             | 1 057.83             | 341%       |

## 5.2. PGE Group's key financial results

The best way to measure the profitability of energy companies is EBITDA. This is a result before depreciation, amortization, income tax and financial activities, including interest from drawn debt. EBITDA makes it possible to compare the results of companies regardless of the value of their assets, level of debt and existing income tax rates.

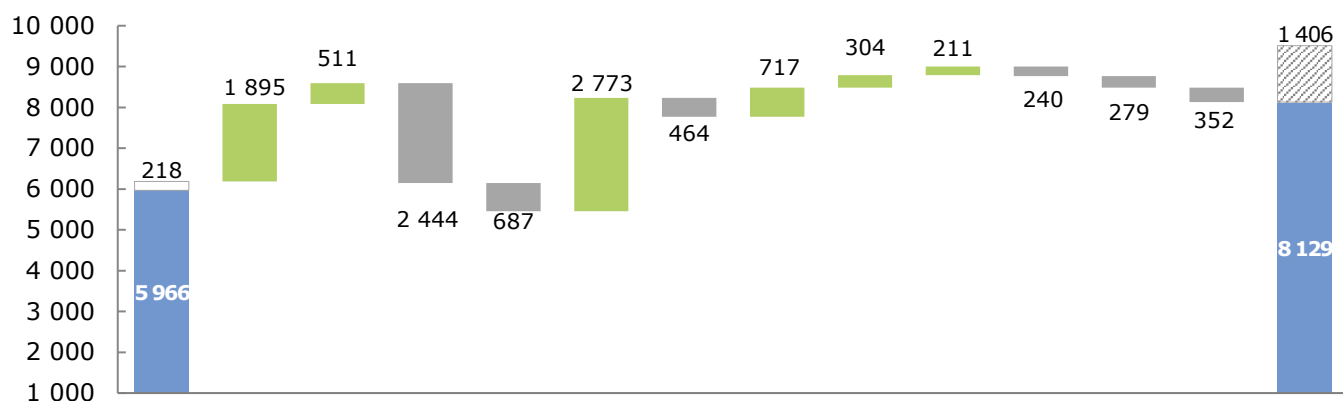
PGE Group's consolidated results are composed of the financial results of each of its operating segments. The the Conventional Generation segment and Distribution segment made the largest contribution to the Group's result for 2021, participating respectively in 43% and 29% of the Group's EBITDA. The Renewables segment contributed 11%, Supply segment 9% and District Heating segment contributed 8% to the Group's EBITDA.

Chart: Main financial dat of PGE Capital Group (PLN million).

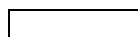


## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Chart: Key factors affecting EBITDA in PGE Capital Group (in PLN million).



|                       | EBITDA 2020  | Result on the sale of electricity at producers <sup>1</sup> | Revenues from heat sales | CO <sub>2</sub> emission rights <sup>2</sup> | Fuel costs  | Capacity Market <sup>3</sup> | Revenues from ancillary services | Result on the sale of electricity to final customers <sup>4</sup> | Margin on distribution services <sup>5</sup> | Personnel costs <sup>6</sup> | Capitalised costs | Significant provisions for potential claims from contractors | Other <sup>7</sup> | EBITDA 2021  |
|-----------------------|--------------|---|--------------------------|--|-------------|------------------------------|----------------------------------|---|--|------------------------------|-------------------|--|--------------------|--------------|
| <b>Change</b>         |              | <b>1 895</b>  | <b>511</b>               | <b>-2 444</b>                                | <b>-687</b> | <b>2 773</b>                 | <b>-464</b>                      | <b>717</b>  | <b>304</b>                                   | <b>211</b>                   | <b>-240</b>       | <b>-279</b>  | <b>-352</b>        |              |
| Reported EBITDA 2020  | <b>5 966</b> |   |                          |  |             |                              |                                  |   |  |                              |                   |  |                    |              |
| One-offs 2020         | <b>-218</b>  |   |                          |  |             |                              |                                  |   |  |                              |                   |  |                    |              |
| Recurring EBITDA 2020 | <b>6 184</b> | 16 322  | 2 207                    | 5 954  | 4 144       | 0                            | 725                              | 127   | 4 133  | 5 385                        | 818               | 0  | 2 664              |              |
| Recurring EBITDA 2021 |              | 18 217  | 2 718                    | 8 399  | 4 831       | 2 773                        | 261                              | 844   | 4 437  | 5 174                        | 578               | 279  | 3 016              | <b>8 129</b> |
| One-offs 2021         |              |   |                          |  |             |                              |                                  |   |  |                              |                   |  |                    | <b>1 406</b> |
| Reported EBITDA 2021  |              |   |                          |  |             |                              |                                  |   |  |                              |                   |  |                    | <b>9 535</b> |



Reversal of impact of total one-offs reducing the reported result.



Reversal of impact of total one-off and temporary items increasing the reported result.

<sup>1</sup> Revenue from the sale of electricity reduced by the purchase cost of electricity.

<sup>2</sup> Adjusted for result on resale of CO<sub>2</sub> emission rights, that was caused due to reductions by PSE S.A. and trading activities on forward contracts.

<sup>3</sup> Managerial perspective.

<sup>4</sup> Including margin adjustment on certificates at PGE Group.

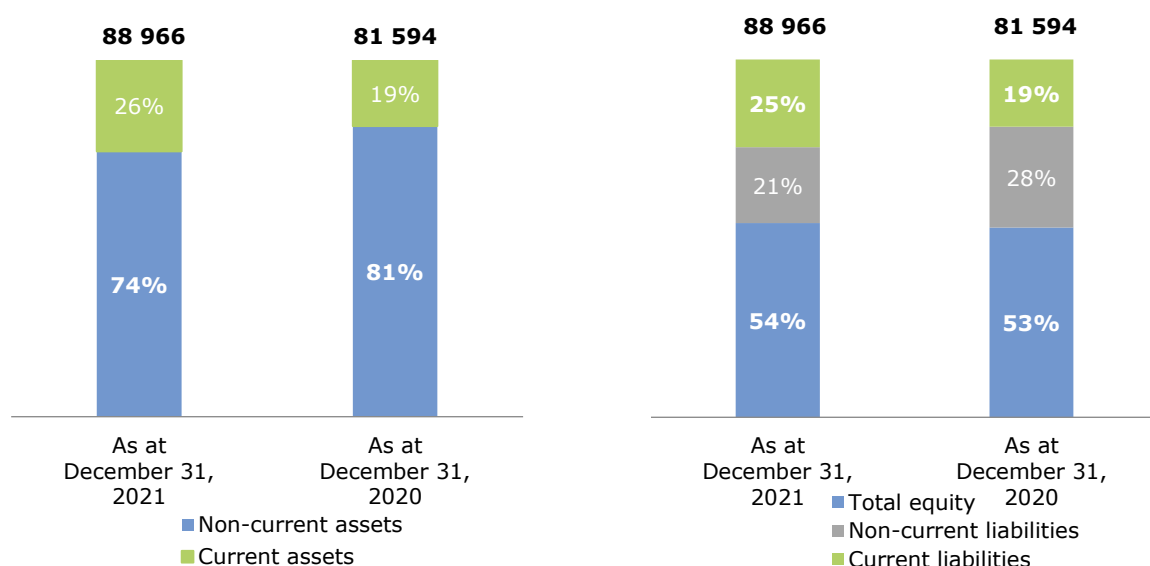
<sup>5</sup> Including revenues from distribution services, transmission services (TSO), balance of transferred fees and costs of electricity purchased to cover balancing difference.

<sup>6</sup> Personnel costs without including the impact of change in actuarial provision and VLP provision reversal (one-offs).

<sup>7</sup> Other without including the impact of change in reclamation provision and LTC compensations (one-offs).

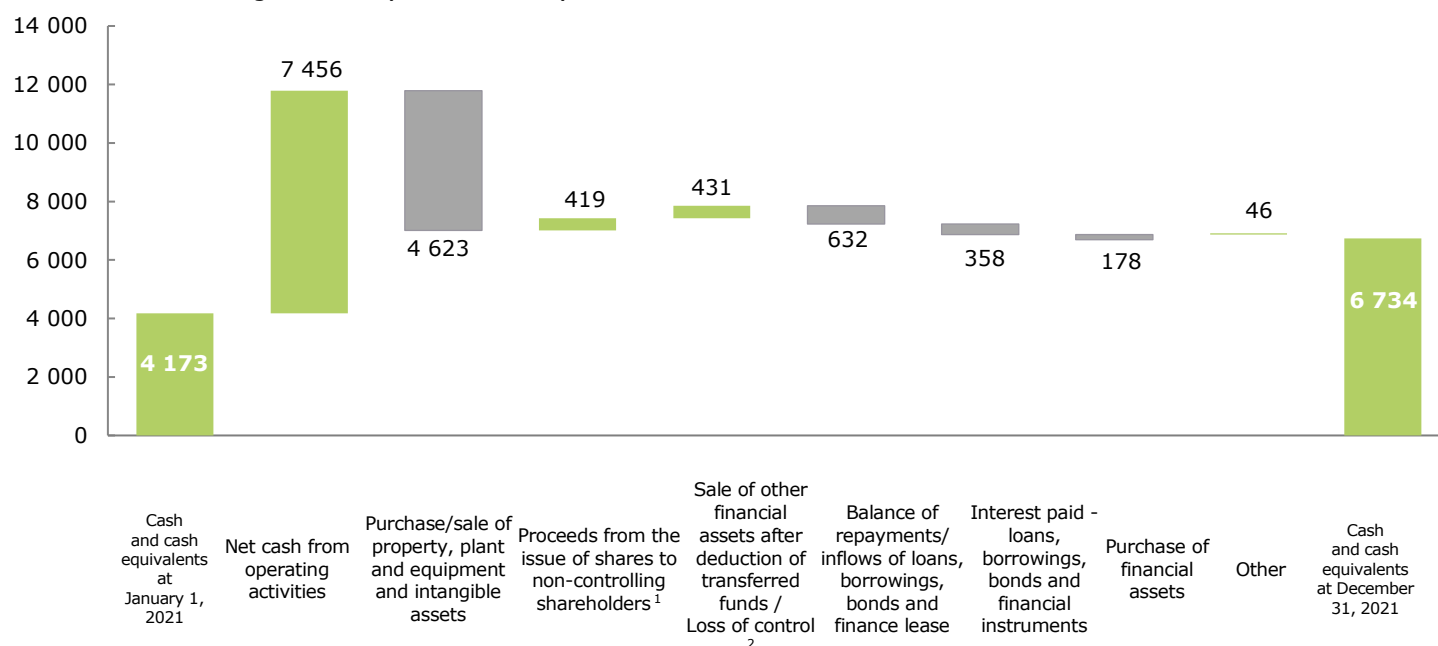
## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Chart: Structure of assets and equity and liabilities (in PLN million).



## CONSOLIDATED STATEMENT OF CASH FLOWS

Chart: Net change in cash (in PLN million).

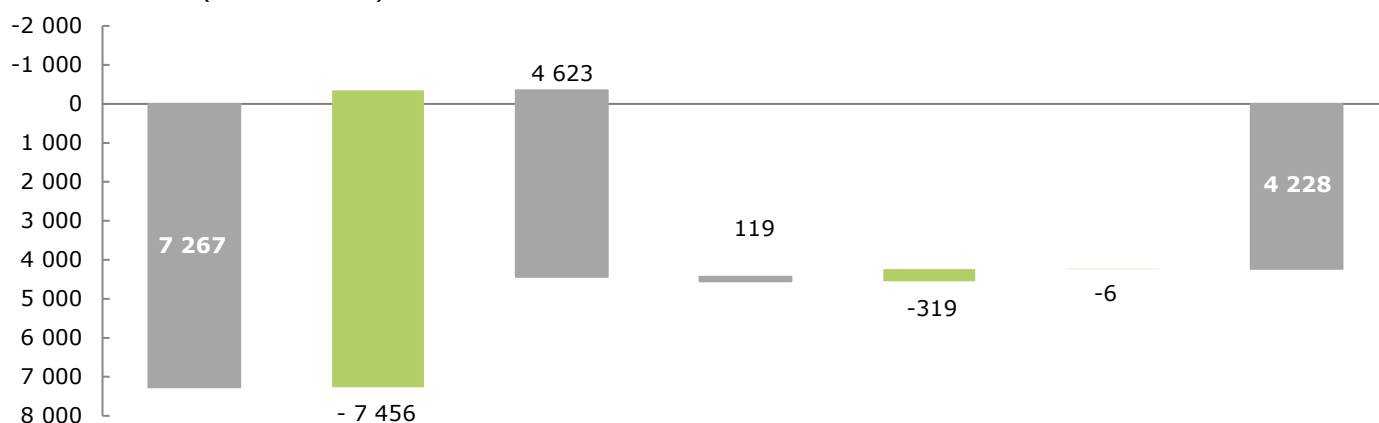


| Impact on level of cash   | 7 456 | -4 623 | 419 | 431 | -632 | -358 | -178 | 46 |       |
|---------------------------|-------|--------|-----|-----|------|------|------|----|-------|
| Cash and cash equivalents | 4 173 |        |     |     |      |      |      |    | 6 734 |

<sup>1</sup> 50% of funds, which Elektrownia Wiatrowa Baltica-2 sp. z o.o. ("EWB2") and Elektrownia Wiatrowa Baltica-3 sp. z o.o. ("EWB3") received from Ørsted for the capital increase.

<sup>2</sup> Mainly sale of shares in PGE EJ 1 (value reduced by cash and cash equivalents of the sold company), bonds of PGE EJ 1 and consequence of loss of control and deconsolidation.

Chart: Net debt (in PLN million).



**Impact on  
level of net  
debt**

Financial net  
debt

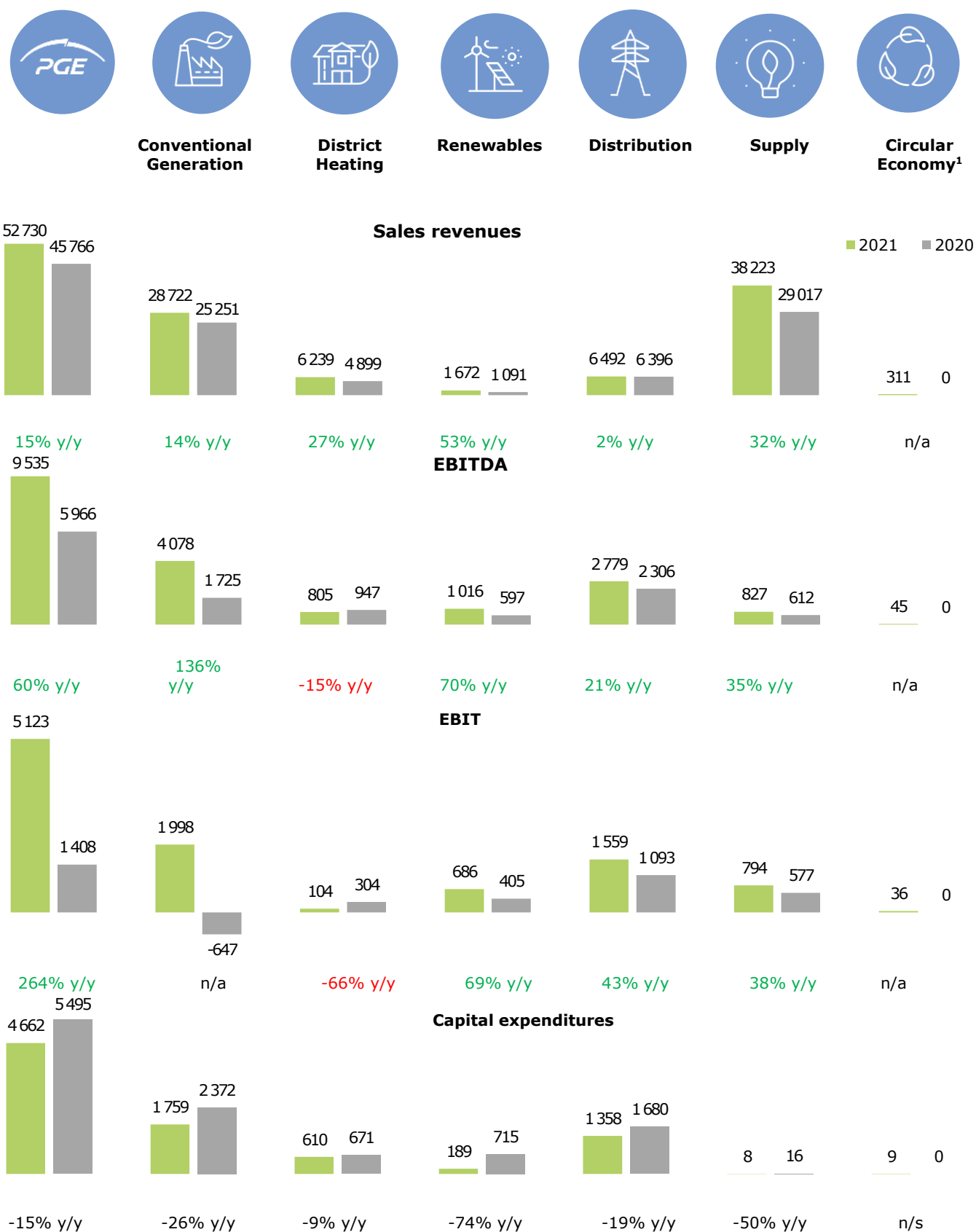
**7 267**

**4 228**

<sup>1</sup>In order to standardise the reporting of net debt (adjustment to the method of calculating covenants in loan agreements), starting from the results for the first half of 2021, there has been a change in the presentation, which also results in a change in the comparable periods (as at December 31, 2020), i.e. restricted cash items include only the funds in PGE Dom Maklerski S.A. clients' accounts as collateral for settlements with IRGiT (the Warsaw Commodity Clearing House).

<sup>2</sup>Funds from sale of PGE EJ1 (PLN 372 million) reduced by cash and cash equivalents of the sold company (PLN 53 million).

KEY RESULTS IN BUSINESS SEGMENTS (IN PLN MILLION)



<sup>1</sup> The charts do not show data for 2020, because in that period companies from the Circular Economy segment were presented in Conventional Generation, District Heating and Other Operations.



## BALANCE OF ENERGY OF PGE CAPITAL GROUP

Table: Sales, purchase, production and consumption of electricity in the PGE Capital Group (TWh).

| Volume  | 2021          | 2020          | % change    |
|---|---------------|---------------|-------------|
| <b>A. Sales of electricity outside the PGE Capital Group:</b>                             | <b>107.63</b> | <b>115.80</b> | <b>-7%</b>  |
| Sales to end-users <sup>1</sup>   | 37.48         | 41.17         | -9%         |
| Sales on the wholesale and balancing market   | 70.15         | 74.63         | -6%         |
| B. Purchases of electricity from outside of PGE Group<br>(wholesale and balancing market) | 42.83         | 62.23         | -31%        |
| C. Net production of electricity in units of PGE Capital Group                            | 68.77         | 58.13         | 18%         |
| <b>D. Own consumption DSO, lignite mines, pumped-<br/>storage power plants (D=C+B-A)</b>  | <b>3.97</b>   | <b>4.56</b>   | <b>-13%</b> |

<sup>1</sup> Sale mainly by PGE Obrót S.A. and PGE Energia Ciepła S.A.

The total volume of purchased and generated electricity is higher than the volume of electricity sold. The difference presented in point D results from the necessity to cover grid losses in the distribution business (Distribution System Operator), consumption of energy at lignite mines and consumption of energy at pumped-storage power plants.

The lower purchases and sales in wholesale market results from a lower level of contracted purchases and sales in forward transactions. The Capital Group to a lesser degree pursued market purchase for the due to decreased sale on the bilateral market.

Decrease in volume of sales to end-users is a consequence of lower sales of electricity in the corporate customers segment.

Table: Net production of electricity (TWh).

| Production volume                                | 2021         | 2020 <sup>1</sup> | % change   |
|--|--------------|-------------------|------------|
| <b>ELECTRICITY PRODUCTION IN TWh, including:</b> | <b>68.77</b> | <b>58.13</b>      | <b>18%</b> |
| Lignite-fired power plants                       | 37.12        | 29.72             | 25%        |
| including co-combustion of biomass               | 0.00         | 0.00              | -          |
| Coal-fired power plants                          | 19.87        | 16.10             | 23%        |
| including co-combustion of biomass               | 0.02         | 0.03              | -33%       |
| Coal-fired CHP plants                            | 4.56         | 4.20              | 9%         |
| including co-combustion of biomass               | 0.00         | 0.00              | -          |
| Gas-fired CHP plants                             | 4.22         | 5.05              | -16%       |
| Biomass-fired CHP plants                         | 0.37         | 0.36              | 3%         |
| Communal waste-fired CHP plants                  | 0.04         | 0.04              | 0%         |
| Pumped-storage power plants                      | 0.69         | 0.76              | -9%        |
| Hydroelectric plants                             | 0.45         | 0.41              | 10%        |
| Wind power plants                                | 1.45         | 1.49              | -3%        |
| including RES generation                         | 2.33         | 2.33              | 0%         |

<sup>1</sup> The data for 2020 have been adjusted to the current division of production into the indicated categories.

Higher generation volume y/y mainly results from increased demand for electricity in Polish NPS and lower net imports.

Higher generation at lignite-fired power plants (+7.4 TWh) results from higher average load factors per unit at the Turów power plant by 73 MW, i.e. by 55% and at the Bełchatów power plant by 27 MW, i.e. by 9%. In

addition, the units at Turów power plant were in overhauls shorter by 3 332 h. In 2021 the production from a new unit no. 7 at Turów power plant of 1.3 TWh was recognised.

Higher production in hard coal-fired power plants (up by 3.8 TWh) results from increased generation at Rybnik power plant and Opole power plant, what is a consequence of shorter reserve downtime of the units: by 14 236 h of units 3-8 at Rybnik power plant and by 3 811 h at Opole power plant.

Production at coal-fired CHP plants, biomass plants, waste-to-energy plants, hydro power plants and wind farms remained at similar level as in the base period.

Lower generation from gas-fired CHP plants is a consequence of lower generation at Lublin Wrotków CHP plant due to a unit failure in December 2021 and lower profitability of production due to market conditions.

### HEAT PRODUCTION

Table: Net production of heat (PJ).

| Production volume                               | 2021         | 2020         | %<br>change |
|---|--------------|--------------|-------------|
| <b>Net production of heat in PJ, including:</b> | <b>56.77</b> | <b>50.12</b> | <b>13%</b>  |
| Lignite-fired power plants                      | 2.82         | 2.66         | 6%          |
| Coal-fired power plants                         | 0.68         | 0.62         | 10%         |
| Coal-fired CHP plants                           | 40.94        | 36.06        | 14%         |
| Gas-fired CHP plants                            | 9.99         | 9.65         | 4%          |
| Biomass-fired CHP plants                        | 1.95         | 0.84         | 132%        |
| CHP plants fuelled by municipal waste           | 0.11         | 0.12         | -8%         |
| Other CHP plants                                | 0.28         | 0.17         | 65%         |

External temperatures contributed more than any other factor to higher net generation of heat in 2021 (y/y). The average temperatures in 2021 were by 1.8°C lower y/y, which translated into increased production of heat.

### HEAT SALES

In 2021 the heat sales volume in PGE Capital Group totalled 55.07 PJ and was higher by 6.49 PJ y/y. The above result was caused mainly by higher demand for heat due to the lower average outside temperatures than in 2020.

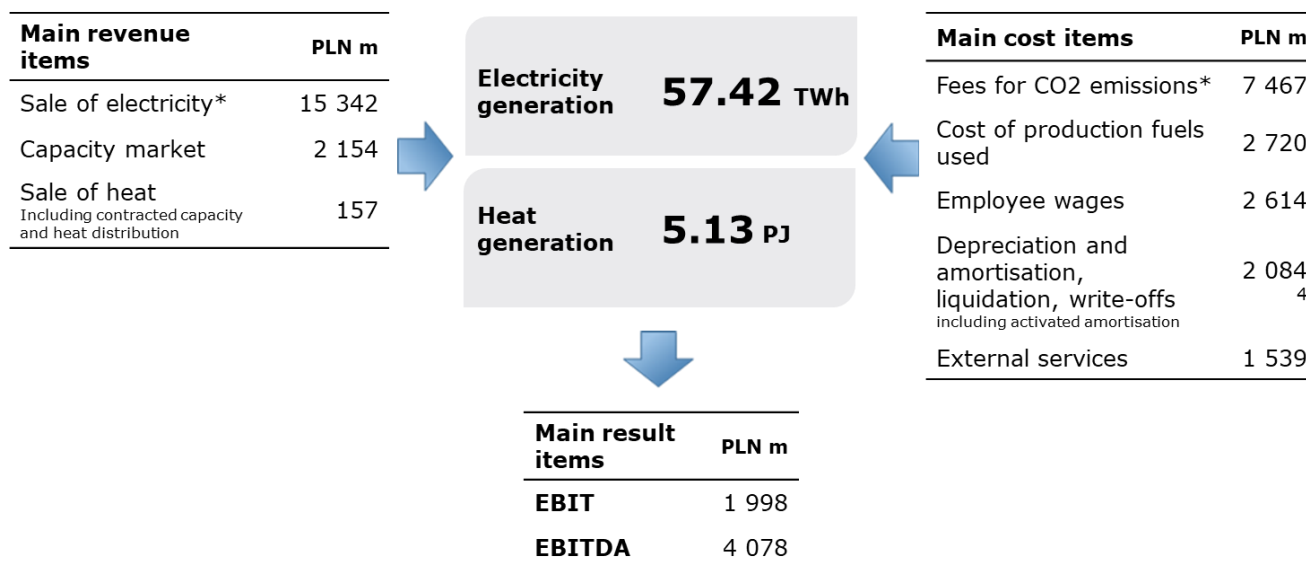
## 5.3. Operational segments

### CONVENTIONAL GENERATION

#### SEGMENT DESCRIPTION AND ITS BUSINESS MODEL

This segment includes lignite mining and generation of electricity in conventional sources.

### Conventional Generation



\* managerial perspective

The main source of revenue in the Conventional Generation segment is **revenue from the sale of electricity** on the wholesale market, based on electricity prices that are shaped by supply and demand mechanisms, taking into account the variable costs of generation. At the same time, the segment's key cost items, given their size and volatility, and thus their impact on operating results, are the **fees for CO<sub>2</sub> emissions** and **cost of production fuels**, mainly hard coal. Lignite-based production, which is of key significance for the Group, is based on own mines, therefore its cost is relatively stable and reflected mainly in fixed-cost items, i.e. personnel costs, third-party services and depreciation.

Revenue from the Capacity Market, a mechanism introduced to prevent electricity shortages in the NPS, constitutes a significant item in the segment's revenue in 2021. PGE GiEK S.A.'s power plants receive fees for performing the capacity obligation (a Capacity Market entity being on standby to supply electricity to the system and the obligation to supply specified capacity to the system when the system is under threat). Capacity Market revenue compensated for revenue from ancillary services. The cold intervention reserve and operational capacity reserve services were discontinued, while revenue from capacity reallocation remained.

In addition, this segment generates revenues from sales of heat produced at industrial plants. From July 1, 2021 the Szczecin CHP plant and Pomorzany CHP plant and the heat grid in Gryfino have been incorporated into the structures of District Heating segment.

## ASSETS

Conventional Generation segment consists of: 2 lignite mines and 5 conventional power plants.

Conventional Generation is the leader of lignite mining (its share in the extraction market of this raw material accounting for 91%<sup>16</sup> of domestic extraction), it is also the largest generator of electricity as it generates approx. 36%<sup>17</sup> of domestic gross electricity production. The generation is based on lignite extracted from mines owned by the company as well as hard coal and biomass.

Diagram: Main assets of the Conventional Generation segment with their installed capacity.

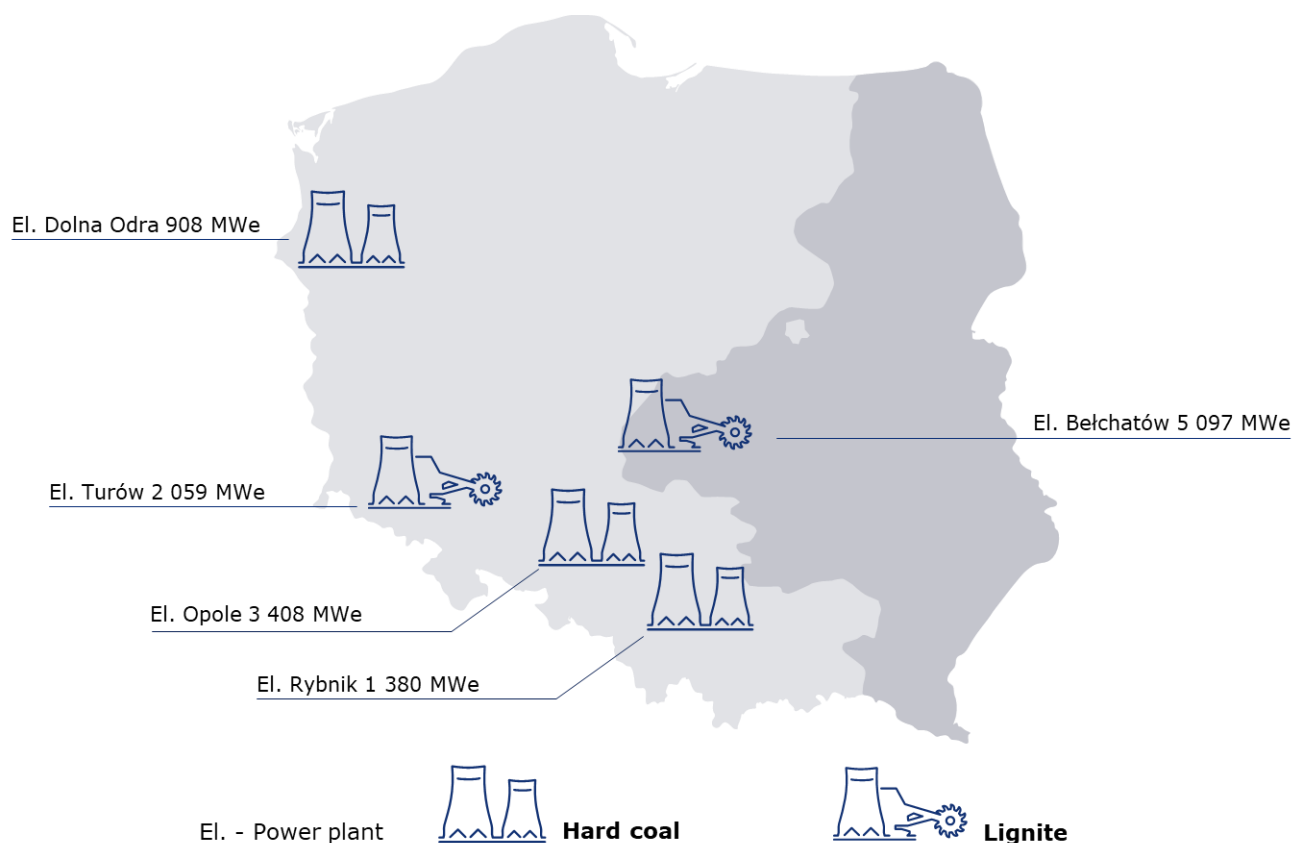


Table: Installed capacity and production in Conventional Generation segment

| Main fuel types | Annual electricity generation (TWh) |                   | Annual heat generation (PJ) |             | Installed capacity (MWe) | Installed capacity (MWt) |
|-----------------|-------------------------------------|-------------------|-----------------------------|-------------|--------------------------|--------------------------|
|                 | 2021                                | 2020 <sup>1</sup> | 2021                        | 2020        | 2021                     | 2021                     |
| Hard coal       | 20.17                               | 16.69             | 1.69                        | 2.39        | 5 696                    | 251                      |
| Lignite         | 37.12                               | 29.72             | 2.82                        | 2.66        | 7 156                    | 593                      |
| Biomass         | 0.13                                | 0.33              | 0.62                        | 0.36        | -                        | -                        |
| <b>Total</b>    | <b>57.42</b>                        | <b>46.74</b>      | <b>5.13</b>                 | <b>5.41</b> | <b>12 852</b>            | <b>844</b>               |

<sup>1</sup> The data for 2020 have been adjusted to the current division of production into the indicated categories.

<sup>16</sup> Own calculations based on data from Central Statistical Office of Poland.

<sup>17</sup> Own calculations based on data from PSE S.A.

Table: Availability and capacity factors in Conventional Generation.

|                                    | 2021  | 2020  | 2019  | 2018  | 2017  |
|------------------------------------|-------|-------|-------|-------|-------|
| <b>Availability<sup>1</sup></b>    |       |       |       |       |       |
| Power plants - lignite             | 82.7% | 82.2% | 78.4% | 82.9% | 86.9% |
| Power plants - hard coal           | 78.2% | 80.2% | 81.4% | 84.8% | 81.0% |
| <b>Capacity factor<sup>1</sup></b> |       |       |       |       |       |
| Power plants - lignite             | 70.8% | 58.3% | 62.4% | 75.5% | 75.3% |
| Power plants - hard coal           | 42.6% | 34.2% | 38.2% | 52.0% | 47.4% |

<sup>1</sup> Without units no. 1-2 in Dolna Odra power plant, unit no. 1 in Bełchatów power plant and units no. 1-2 in Rybnik power plant from 2018 (peak reserve units).

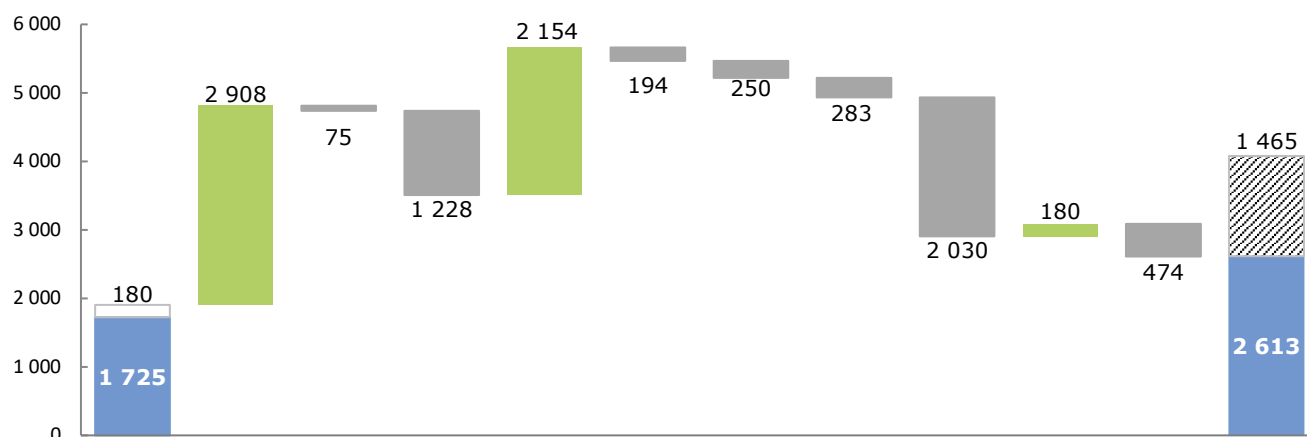
## LIGNITE MINING

Table: Lignite resources data as at the end of 2021 and lignite output in 2021.

| Deposit                     | Resources - as at the end of<br>2021 (Mg million) | Output in 2021<br>(Mg million) |
|-----------------------------|---|--------------------------------|
| Bełchatów – Field Bełchatów | Industrial  | 14.07                          |
| Bełchatów – Field Szczerców | Industrial  | 552.10                         |
| Turów                       | Industrial  | 270.81                         |
| <b>Total</b>                | <b>Industrial</b>                                 | <b>836.98</b>                  |
|                             |   | <b>47.18</b>                   |

## KEY FACTORS FOR THE RESULTS OF THE SEGMENT

Chart: Key changes of recurring EBITDA in Conventional Generation (in PLN million) – managerial perspective.



|                       | EBITDA 2020  | Electricity production difference in volume | Electricity production difference in price | Result on the optimization of the electricity trade | Capacity Market¹ | Result on sale of CO₂ | Revenues from agreement with TSO | Costs of fuel | Costs of CO₂² | Personnel expenses³ | Other⁴      | EBITDA 2021  |
|-----------------------|--------------|---|--|---|------------------|-----------------------|----------------------------------|---------------|---------------|---------------------|-------------|--------------|
| <b>Change</b>         |              | <b>2 908</b>                                | <b>-75</b>                                 | <b>-1 228</b>                                       | <b>2 154</b>     | <b>-194</b>           | <b>-250</b>                      | <b>-283</b>   | <b>-2 030</b> | <b>180</b>          | <b>-474</b> |              |
| Reported EBITDA 2020  | <b>1 725</b> |   |  |   |                  |                       |                                  |               |               |                     |             |              |
| One-offs 2020         | <b>-180</b>  |   |  |   |                  |                       |                                  |               |               |                     |             |              |
| Recurring EBITDA 2020 | <b>1 905</b> | 12 384                                      |  | 1 353   | 0                | 255                   | 482                              | 2 437         | 5 437         | 2 813               | 1 882       |              |
| Recurring EBITDA 2021 |              | 15 217                                      |  | 125   | 2 154            | 61                    | 232                              | 2 720         | 7 467         | 2 633               | 2 356       | <b>2 613</b> |
| One-offs 2021         |              |   |  |   |                  |                       |                                  |               |               |                     |             | <b>1 465</b> |
| Reported EBITDA 2021  |              |   |  |   |                  |                       |                                  |               |               |                     |             | <b>4 078</b> |

Reversal of impact of total one-offs reducing the reported result.

Reversal of impact of total one-offs increasing the reported result.

<sup>1</sup> Managerial perspective.

<sup>2</sup> Costs reduced by resale of CO<sub>2</sub> emission rights, that was caused due to reductions by PSE S.A. and trading activities.

<sup>3</sup> Personnel costs without including the impact of change in actuarial provision (one-off).

<sup>4</sup> Other without including the impact of change in reclamation provision (one-off).

Table: Data on one-offs in Conventional Generation (PLN million).

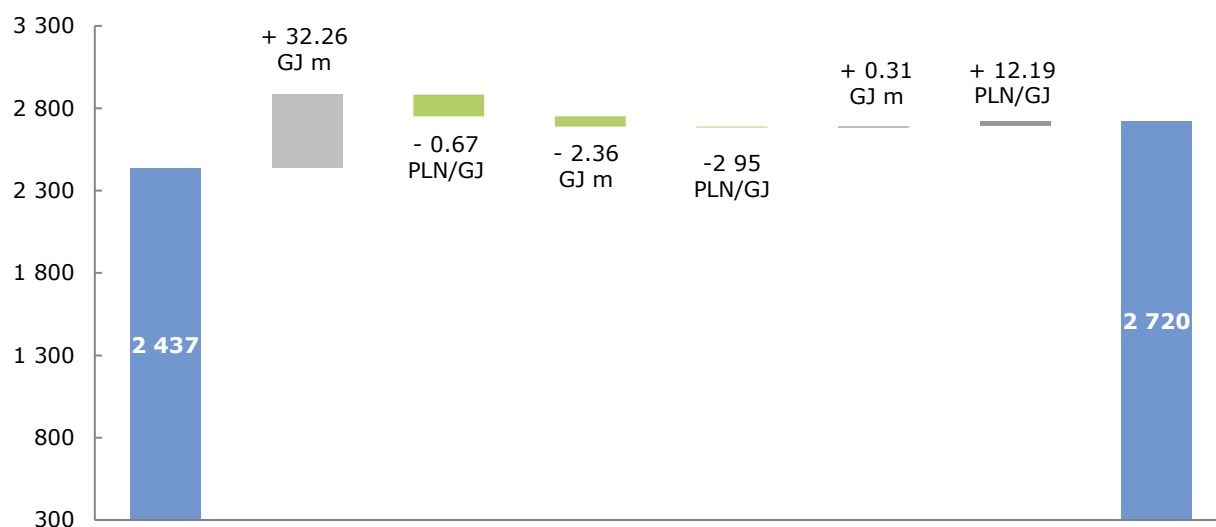
| One-offs  | 2021         | 2020        | % change |
|---|--------------|-------------|----------|
| Change of reclamation provision¹  | 1 446        | -295        | -        |
| Change of actuarial provision   | 19           | -6          | -        |
| Release of the provision for the risk of returning the equivalent of the received CO <sub>2</sub> emission allowances in Dolna Odra power plant | -            | 121         | -        |
| <b>TOTAL</b>  | <b>1 465</b> | <b>-180</b> | <b>-</b> |

<sup>1</sup> Including the change in the reclamation provision due to the change in the discount rate in amount of PLN 2 837 million and as a result of changing other assumptions in amount of PLN-1 391 million (see Note 21.1 to the consolidated financial statements).

Key factors affecting the EBITDA result of Conventional Generation segment on y/y basis included:

- **Higher net electricity production volume** in PGE GiEK by 10.7 TWh due to increased degree of use of units by PSE S.A. resulting from high demand and significantly lower net import (see p. 4.2 of this report).
- **Decrease in electricity prices** due to falling energy prices on forward market (much of the contracting for 2021 took place in 2020, when prices were in decline due to the escalating pandemic).
- **Lower result on optimisation of electricity portfolio** due to decreased volume of electricity trading by 20.2 TWh in view of the high demand resulting in a high load factor on the generating units, with lower margin realized on electricity trading.
- **Capacity Market**, a mechanism, which was not present in the base period.
- **Lower result on sale of CO<sub>2</sub>**, mainly as an effect of sale of allowances granted free of charge for Opole and Rybnik power plants in the comparable period.
- **Lower revenues from ancillary control services**, mainly as a result of lack of revenues from the Operational Capacity Reserve.
- **Higher fuel consumption costs** mainly hard coal, due to increased generation based on this fuel (see p. 4.2 of this report). Lower costs of biomass consumption result from the inclusion of the Szczecin CHP Plant in the District Heating segment's structures from July 1, 2021. Main changes on different types of fuel are presented in the chart below.
- **Higher CO<sub>2</sub> costs** as a result of higher CO<sub>2</sub> emissions volume by 10.0 million tons due to generation higher by 10.7 TWh and higher average cost of CO<sub>2</sub> by PLN 15.6/t. Main changes are shown in the chart below.
- **Lower personnel expenses** due to ongoing optimisation process.
- **The decrease in the item 'other'** is mainly caused by the lack of capitalisation of costs at mines due to a lower amount of overburden removed in relation to coal extracted and a lower level of cost capitalisation for in-house implementation of investments due to the smaller scope of tasks performed. In addition, due to the higher volume of electricity generation, the costs of production materials, environmental charges and combustion by-product management services increased.

Chart: Costs of production fuels consumption in Conventional Generation (in PLN million).



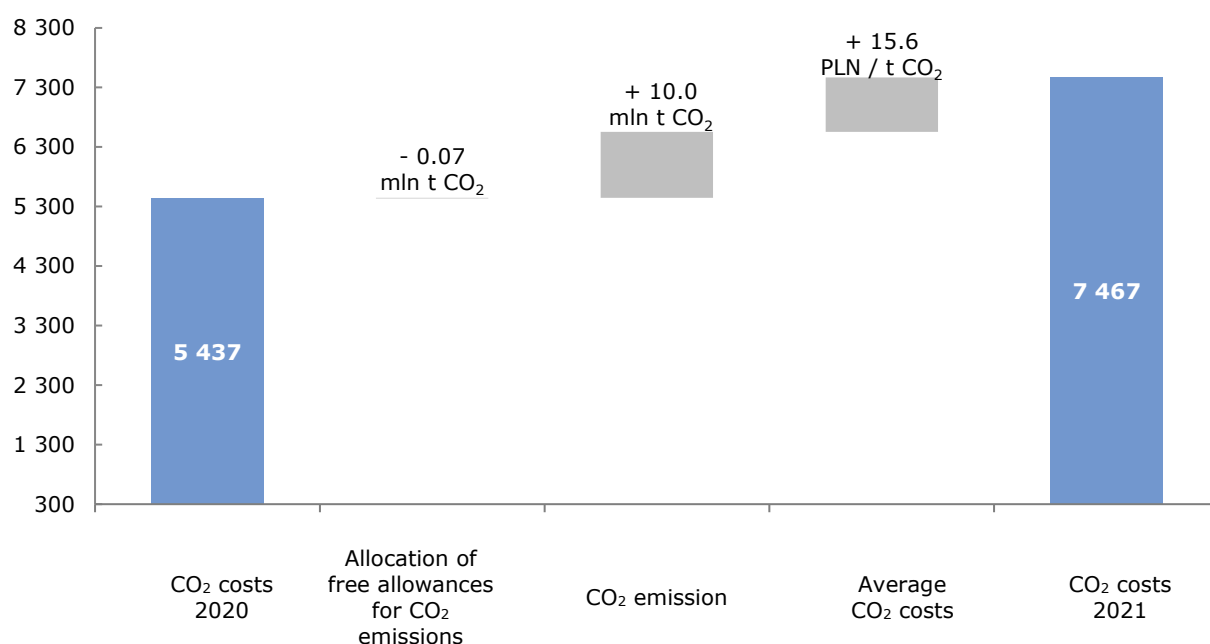
|                       | Cost of<br>fuels<br>2020 | Hard coal<br>volume | Hard coal<br>price | Biomass<br>volume | Biomass price | Light and<br>heavy oil<br>volume | Light and<br>heavy oil<br>price | Cost of<br>fuels<br>2021 |
|-----------------------|--------------------------|---------------------|--------------------|-------------------|---------------|----------------------------------|---------------------------------|--------------------------|
| <b>Change</b>         |                          | <b>446</b>          | <b>-132</b>        | <b>-62</b>        | <b>-6</b>     | <b>11</b>                        | <b>26</b>                       |                          |
| Cost of fuels<br>2020 | <b>2 437</b>             | 2 260               |                    |                   | 113           | 64                               |                                 |                          |
| Cost of fuels<br>2021 |                          | 2 574               |                    |                   | 45            | 101                              |                                 | <b>2 720</b>             |

Table: Data on use of production fuels consumption in Conventional Generation.

| Fuel type                  | 2021                 |                       | 2020                 |                       |
|----------------------------|----------------------|-----------------------|----------------------|-----------------------|
|                            | Volume<br>(tons ths) | Cost<br>(PLN million) | Volume<br>(tons ths) | Cost<br>(PLN million) |
| Hard coal                  | 8 759                | 2 574                 | 7 173                | 2 260                 |
| Biomass                    | 223                  | 45                    | 456                  | 113                   |
| Fuel oil – light and heavy | 52                   | 101                   | 45                   | 64                    |
| <b>Total</b>               |                      | <b>2 720</b>          |                      | <b>2 437</b>          |



Chart: CO<sub>2</sub> costs in Conventional Generation segment (in PLN million).



| Change                     | 8     | 1 066 | 956   |
|----------------------------|-------|-------|-------|
| CO <sub>2</sub> costs 2020 | 5 437 |       |       |
| CO <sub>2</sub> costs 2021 |       |       | 7 467 |

Table: Data on CO<sub>2</sub> costs in Conventional Generation.

| Data regarding CO <sub>2</sub>                                      | 2021       | 2020       | % change |
|---|------------|------------|----------|
| Allocation of free allowances for CO <sub>2</sub> emissions (tons)  | 83 839     | 158 682    | -47%     |
| CO <sub>2</sub> emission (tons)                                     | 61 431 598 | 51 384 937 | 20%      |
| Average CO <sub>2</sub> costs (PLN/t CO <sub>2</sub> ) <sup>1</sup> | 121.7      | 106.1      | 15%      |

<sup>1</sup> Managerial perspective.

### CAPITAL EXPENDITURES

Table: Capital expenditures incurred in Conventional Generation segment in 2021 and 2020.

| PLN m   | 2021 <sup>1</sup> | 2020         | % change    |
|---|-------------------|--------------|-------------|
| Investments in generating capacities, including:          | 1 678             | 2 114        | -21%        |
| Development   | 588               | 796          | -26%        |
| Modernisation and replacement                             | 1 090             | 1 318        | -17%        |
| Other   | 81                | 113          | -28%        |
| <b>Total</b>  | <b>1 759</b>      | <b>2 227</b> | <b>-21%</b> |
| Capitalised costs of overburden removal in mines          | 0                 | 145          | -           |
| <b>Total with capitalized costs of overburden removal</b> | <b>1 759</b>      | <b>2 372</b> | <b>-26%</b> |

<sup>1</sup> The data for 2021 does not include the value of capital expenditure on the project to build two gas and steam units at the Dolna Odra Power Plant and a low-emission unit at the Rybnik Power Plant, which are shown in the Other Operations segment.

## KEY EVENTS IN THE CONVENTIONAL GENERATION SEGMENT<sup>18</sup>

### Key development investments:

- On February 25, 2021 syndicate of Mitsubishi Hitachi Power Europe GmbH, Tecnicas Reunidas S.A., Budimex S.A. signed an Annex no. 10 with PGE GiEK S.A. to the contract for construction of unit no. 7 in the Turów power plant. The annex included prolongation of the contract realization by 6 months until April 30, 2021 and change in the Contractor's remuneration. On March 31, 2021 PGE GiEK S.A. and the consortium signed a regulatory run completion protocol for unit 7 at Turów power plant. A 720-hour test run for unit 7 began. On April 30, 2021 information was taken on another delay in commissionings of the unit. The unit was officially, by protocol, put into operation on May 14, 2021.
- Final handover and commissioning on a carburising system at the new unit of the Turów power plant was carried out on May 31, 2021.

### Key modernisation investments aimed at reducing emissions to the environment:

- Final handover and commissioning of modernised electrostatic precipitator no. 5 at Turów power plant took place on January 26, 2021.
- Final handover of modernised electrostatic precipitator at unit 2 of Opole power plant took place on February 5, 2021.
- A modernised flue-gas desulphurisation system for units 9 and 10 at Bełchatów power plant was put into operation on February 10, 2021.
- Construction of the 3rd catalytic layer in the SCR reactor (selective catalytic reduction – system for converting nitrogen oxide particles into water and nitrogen) for unit 8 at Rybnik power plant began on February 19, 2021.
- An agreement was signed with ELTUR-Serwis Sp. z o.o. on March 3, 2021 for the modernisation of the electrostatic precipitator at Turów's unit 6.
- A test run for an SCR system at Dolna Odra's unit 5 was launched on March 9, 2021.
- The electrostatic precipitator of units 7 and 6 at Rybnik plant was put into operation on March 25, 2021.
- The final handover of the SNCR system (reducing NOx via selective non-catalytic reduction) for unit 2 at Opole plant took place on March 30, 2021.
- On April 15, 2021, as part of a contract for the modernisation of the spraying levels of FGD absorbers for units 2-4 at the Opole power plant, an acceptance protocol for the stage involving the completion of works on the absorber of unit 3 was signed.
- The SCR installation of unit 5 at the Dolna Odra power plant was commissioned on April 28, 2021.
- The FGD systems at units 5 and 6 of the Bełchatów power plant were put into operation on May 31, 2021.
- The SCR installation of unit 8 at the Dolna Odra power plant was commissioned on June 11, 2021.
- An electrostatic precipitator at unit 8 of the Rybnik power plant was handed over for regulatory operation on June 21, 2021.
- The handover and commissioning of an OPII ash settling tank at the Turów power plant was carried out on June 24, 2021.

<sup>18</sup> Description of key events in the task "Construction of two gas-steam units in the Branch Dolna Odra Power Plant" division is included in the Other Operations segment

- Works on the assembly of a facility installation to reduce Hg emissions for units 7–12 at the Bełchatów power plant were completed on June 30, 2021.
- An SCR system for unit 8 at the Rybnik power plant was commissioned for initial operation after the installation of the third catalyst layer on June 30, 2021.
- A final acceptance protocol for the installation of bypass tight flaps at the flue gas desulphurisation system at unit 3 in the Opole power plant was signed on July 29, 2021.
- On July 29, 2021, modernisation works were completed and a dust emission reduction installation on unit 6 at the Turów power plant was synchronised.
- A final acceptance protocol was signed on July 30, 2021 regarding the replacement of control and measurement apparatus at the Turów plant.
- Modernisation of the electrostatic precipitator at unit 5 in the Rybnik plant began on July 30, 2021.
- On August 31, based on an agreement with REMAK, absorber IOS 7-8 was put into service as part of the task "Program for the adaptation to BAT conclusions of Dolna Odra power plant's generating units".
- The SCR at unit 8 in the Rybnik plant following the construction of the catalyser's third layer was put into final operation on September 7, 2021.
- A modernised electrostatic precipitator for unit 3 at the Opole plant was put into service on September 9, 2021.
- On October 11, 2021 the parties signed a final handover and entry into operation protocol for a preliminary waste treatment installation at the Turów plant.
- On October 13, 2021 a mercury emissions reduction system was put into operation at the Bełchatów plant.
- On October 15, 2021 an entry into operation protocol was signed for absorber no. 12 at the Bełchatów plant following its modernisation.
- On October 21, 2021 a selective catalytic reduction (SCR) system was put into operation at the Dolna Odra plant.
- On October 29, 2021 a mercury emissions reduction system was put into operation at the Bełchatów plant.
- On November 10, 2021 agreements were signed for the "Expansion of concentrated NaOH (sodium hydroxide) storage system at sewage treatment plant with a Flue Gas Desulphurisation system for units 1-4 at PGE GiEK's Opole plant" and "Expansion of technological system at sewage treatment plant with a Flue Gas Desulphurisation system for units 1-4 of PGE GiEK S.A.'s Opole plant." The scope of the agreements covers modernisation of the existing sewage treatment plant.
- On November 17, 2021 Annex 1 to an agreement to expand the sewage treatment plant at the Turów plant was signed, addressing all present delays resulting from COVID-19, expanding the work to include expansion of node D up to 125 m<sup>3</sup>/h and introducing a treated wastewater reclamation system.
- On November 29, 2021 the final modernised cooling tower (no. 3) was put into operation at the Turów power plant.
- On December 14, 2021, under the agreement "Construction of tight by-pass dampers for flue gas desulphurisation systems at units 1-4 at PGE GiEK S.A.'s Opole plant," a handover protocol was signed for the stage "Final handover of installation after warranty measurements at unit no. 4."

- On December 14, 2021, under the agreement "Modernisation of flue gas emissions monitoring systems in units 1-4, adapting them to BAT requirements as regards dust concentration measurements at PGE GiEK S.A.'s Opole plant," a handover protocol was signed concerning the assembly of dust measurement systems at unit no. 4.
- On December 16, 2021 an electrostatic precipitator at unit 5 of the Rybnik plant was put into preliminary operation.
- On December 16, 2021 a flue gas desulphurisation system at unit 11 in the Bełchatów plant was put into service following a modernisation.

#### KEY PROJECT IN CONVENTIONAL GENERATION

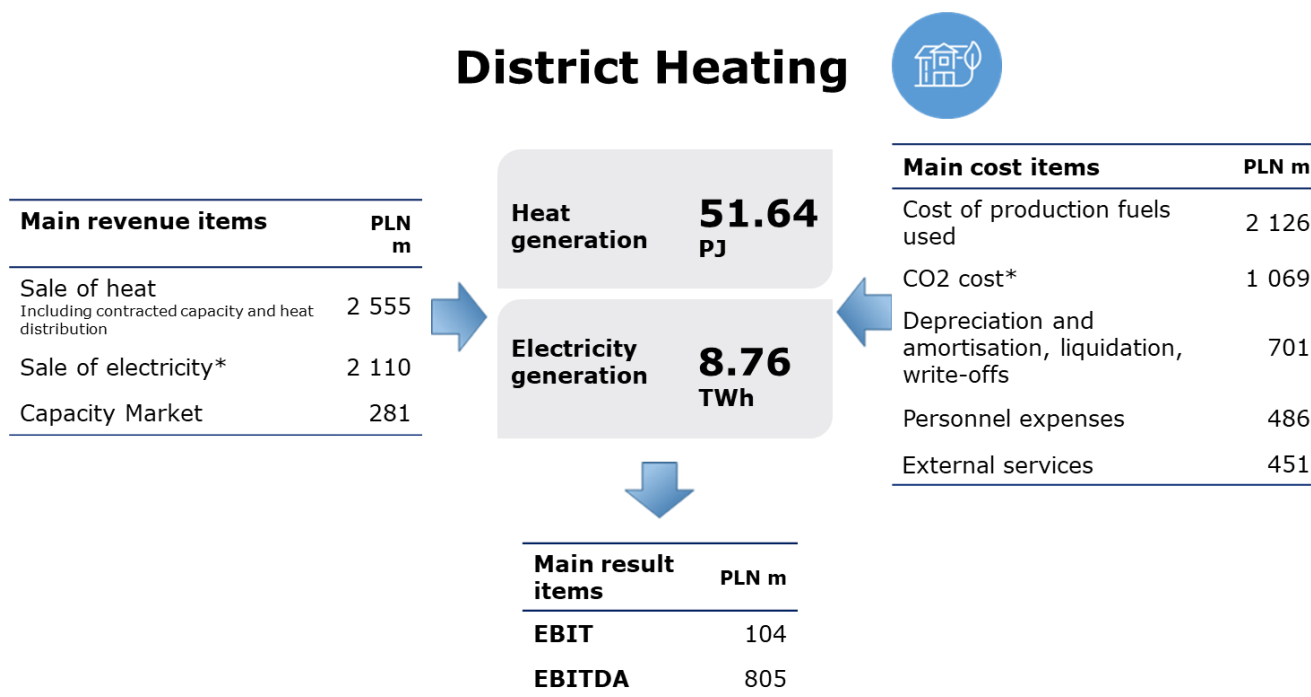
| Aim of the project  | Budget <sup>1</sup> | Capital expenditures incurred so far <sup>1</sup> | Capital expenditures in 2021 <sup>1</sup> | Fuel/ Net efficiency | Contractor   | Date of completion | Status  |
|---|---------------------|---|---|----------------------|--|--------------------|---|
| Construction of power unit no. 7 with a capacity of 490 MW in Turów power plant | PLN 4.4 billion     | PLN 4.3 billion                                   | PLN 543 million                           | Lignite / 43%        | Syndicate of companies: MHPSE, Budimex and Tecnicas Reunidas | Q2 2021            | The unit no. 7 was officially, by protocol, commissioned on May 14, 2021. The warranty period is currently in progress. |

<sup>1</sup> Capital expenditures do not include costs of financing.

## DISTRICT HEATING

### SEGMENT DESCRIPTION AND ITS BUSINESS MODEL

Core business of the District Heating segment includes production of electricity and heat from cogeneration sources as well as distribution of heat.



\* managerial perspective

As in the case of Conventional Generation, this segment's significant revenues are **revenues from electricity sales**, however, they are usually directly related to generation of heat which in turn depends on demand that is highly seasonal and depends on external temperatures. This is why, in contrast to industrial power plants in Conventional Generation, as a rule, CHP plants do not have any considerable impact on the development of prices for electricity on the wholesale market.

**Revenues from the sale and distribution of heat** are regulated revenues. Energy companies independently set tariffs and present them to the President of the Energy Regulatory Office (the "ERO President") for approval. Heat production at PGE Group takes place in cogeneration units, which tariffs for heat are calculated using a simplified approach (compared to tariffs based on a full cost structure), based on reference prices, conditioned on average sales prices for heat generated in units with specific fuel other than cogeneration units. They are published each year by the ERO President. Tariffs for heat production for cogeneration units in a given tariff year thus reflect changes in the costs of heat-generation units (not cogeneration units) in the previous calendar year. The cost approach is applied in the case of tariffs for heat distribution, which allows to cover justified costs (mainly the costs of heat losses and property tax) and a return on invested capital, in line with guidelines from the ERO President. Distribution tariffs for heat are in place at branches in Gorzów and Zgierz, as well as by Kogeneracja S.A., PGE Toruń and Zielona Góra CHP.

Generation of heat and electricity is directly related to key variable costs of the segment, i.e. **the cost of production fuel used** (in particular, hard coal and gas) and **the cost of fees for CO<sub>2</sub> emissions**.

Electricity production in high-efficiency cogeneration is additionally remunerated. Until 2018, CHPs generated **revenue from the sale of energy origin certificates**, i.e. cogeneration certificates (yellow and red). From 2019, due to a change in support model, they receive support at a level covering increased operating costs related to production. The support mechanism in the form of certificates is in place also for biomass-fired generating assets. This type of production is additionally remunerated by awarding origin certificates, i.e.

green certificates, the sale of which generates additional revenue. Within the segment such revenues is obtained at biomass unit in Kielce CHP and Szczecin CHP.

Revenue from the Capacity Market, a mechanism introduced to prevent electricity shortages in the National Power System, constitutes a significant item in the segment's revenue, starting from 2021. CHP plants receive fees for performing the capacity obligation (a Capacity Market entity being on standby to supply electricity to the system and the obligation to supply specified capacity to the system when the system is under threat).

Weather conditions substantially affect the segment's results. Temperatures directly shape the level of heat demand. Simultaneously, the level of heat production determines the level of electricity production in co-generation, which is an additional source of revenues that decisively affects the CHP plant's profitability.

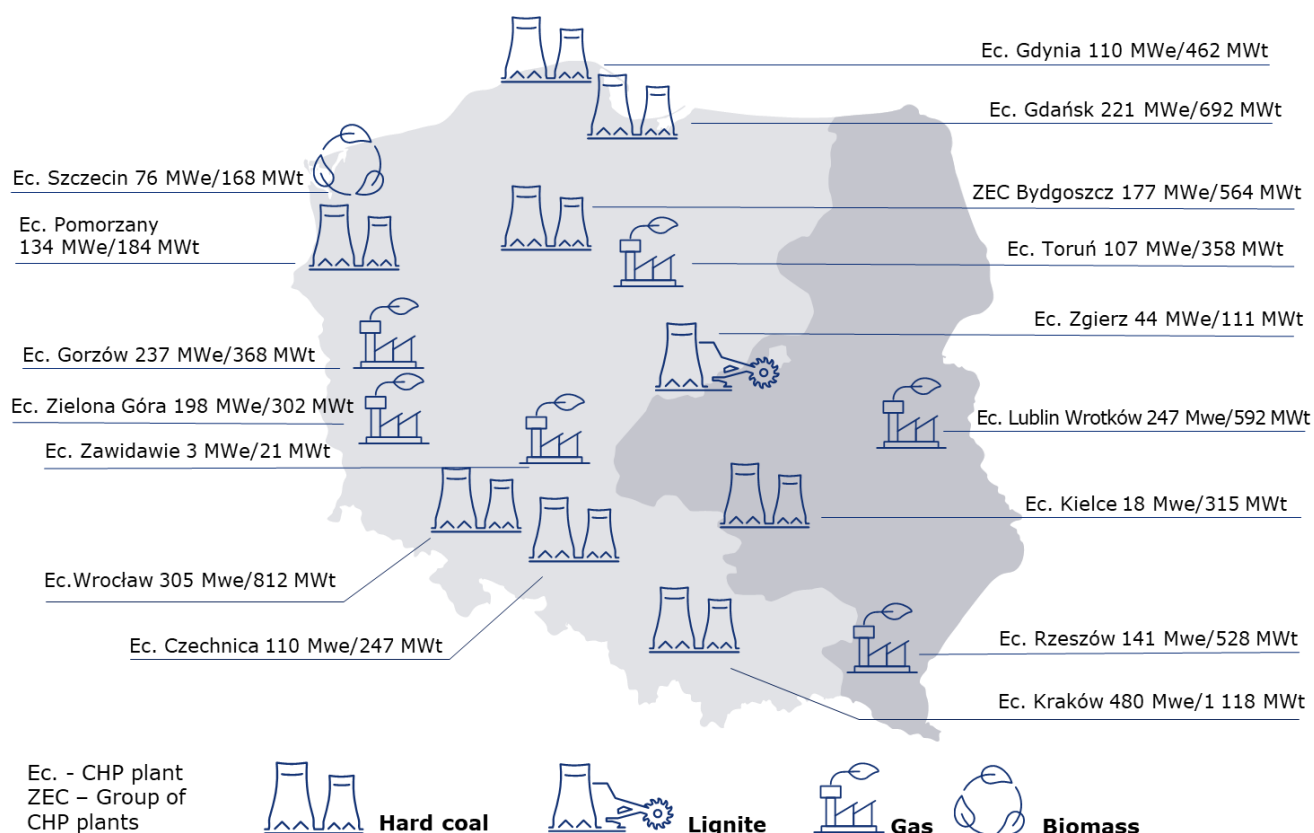
## ASSETS

District Heating within PGE Capital Group combines CHP plants separated from the EDF Polska assets acquired on November 14, 2017 and CHP plants separated from PGE GiEK. Since January 2, 2019 the following companies has been included in the segment.: PGE EC S.A., KOGENERACJA S.A., Elektrociepłownia Zielona Góra S.A., PGE Toruń S.A., PGE Gaz Toruń sp. z o.o., PEC Zgierz sp. z o.o. oraz MEGAZEC sp. z o.o. In addition, from July 1, 2021, Szczecin CHP, Pomorzany CHP and the district heating network in Gryfino, recognised until June 30, 2021 as part of the Conventional Generation segment, were included in the structures of the District Heating segment.

Currently, the segment includes 16 combined heat and power plants.

District Heating is the largest heat producer in Poland. Generation is based mainly on hard coal and natural gas.

Diagram: Main assets of the District Heating segment and their installed capacity.

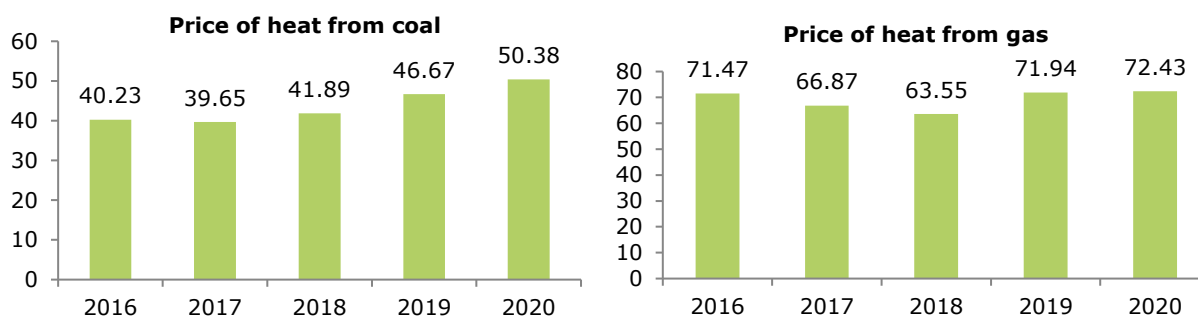


## TARIFFS IN DISTRICT HEATING

### DESCRIPTION OF TARIFFS IN THE SEGMENT

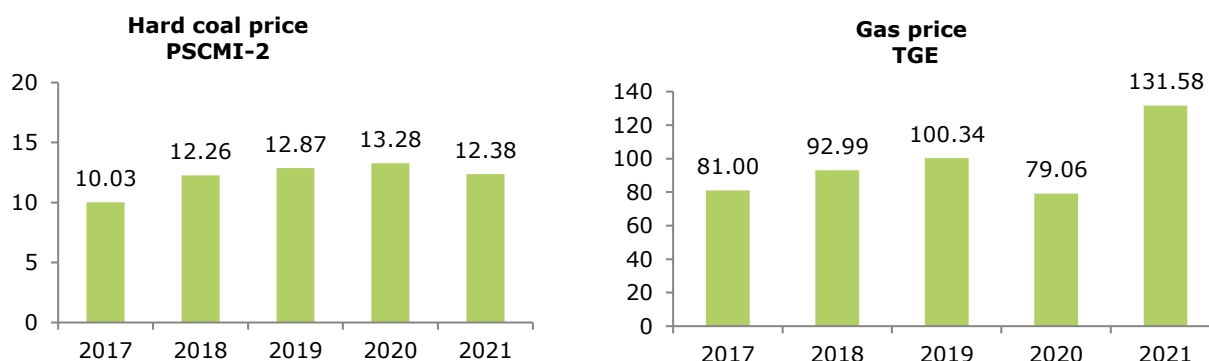
Due to the fact that the income on heat sales for CHP plant are tarified as part of the so-called simplified method, they are characterised by a relative delay in the transfer of costs (annual or two-year). They are based on the year-to-year dynamics of average costs (including fuels used) incurred by entities that are not co-generation entities for the year preceding the time of tariff setting.

Charts: Changes in the reference price of heat for hard coal and natural gas (PLN/GJ).



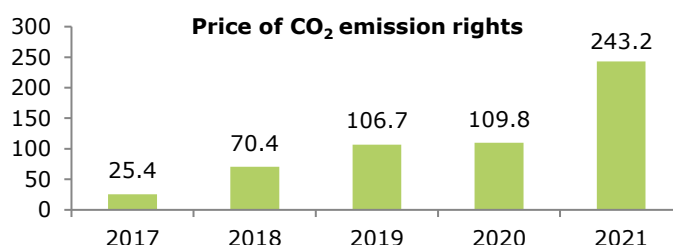
Source: ERO.

Charts: Changes in costs of fuels – hard coal (PLN/GJ) – PSCMI 2<sup>19</sup> and gas (PLN/MWh) -TGE.



Source: ARP, TGE.

Chart: Changes in price of CO<sub>2</sub> emission rights <sup>20</sup> (PLN/t).



Source: ICE.

<sup>19</sup> PSCMI-2 Polish Steam Coal Market Index 2 - The average prices for pulverised coals sold to industrial and municipal heat plants, other industrial customers and other domestic customers in Poland.

<sup>20</sup> Arithmetic average of the daily and monthly records in a given period (spot price).

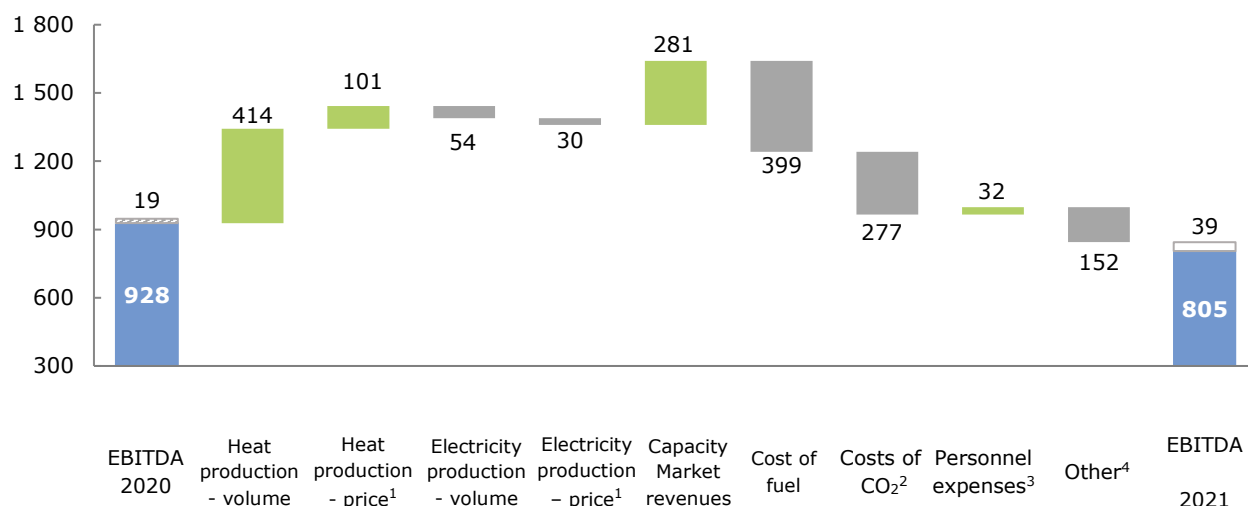


Reflecting previous cost increases, the reference price of heat produced from hard coal increased by 8% in 2020. It is a base to the increase in heat prices for co-generation entities establishing the tariff during 2021. In the 2021 the average market price of coal decreased by 7%, while the average price of CO<sub>2</sub> emission rights increased by 121%.

Tariffs for the production of heat from gas in 2021 are set based on an increase in the reference price (+1%), whereas in 2021 gas prices are already higher than in previous periods. Prices stand at approx. PLN 132/MWh and are largely due to forward contracts.

### KEY FACTORS FOR THE RESULTS OF THE SEGMENT

W Chart: Key changes of EBITDA in District Heating (in PLN million) – managerial perspective.



| Change                | 414        | 101   | -54 | -30   | 281 | -399  | -277  | 32  | -152 |            |
|-----------------------|------------|-------|-----|-------|-----|-------|-------|-----|------|------------|
| Reported EBITDA 2020  | <b>947</b> |       |     |       |     |       |       |     |      |            |
| One-offs 2020         | <b>19</b>  |       |     |       |     |       |       |     |      |            |
| Recurring EBITDA 2020 | <b>928</b> | 2 030 |     | 2 194 | 0   | 1 727 | 792   | 521 | 256  |            |
| Recurring EBITDA 2021 |            | 2 545 |     | 2 110 | 281 | 2 126 | 1 069 | 489 | 408  | <b>844</b> |
| One-offs 2021         |            |       |     |       |     |       |       |     |      | <b>-39</b> |
| Reported EBITDA 2021  |            |       |     |       |     |       |       |     |      | <b>805</b> |



Reversal of impact of total one-offs reducing the reported result.



Reversal of impact of total one-offs increasing the reported result.

<sup>1</sup> Adjusted for costs of certificates redemption.

<sup>2</sup> Adjusted for result on resale of CO<sub>2</sub> emission rights, assigned to a given period.

<sup>3</sup> Personnel costs without including the impact of change in actuarial provision (one-off).

<sup>4</sup> Other without including the impact of change in reclamation provision and LTC compensations (one-offs).

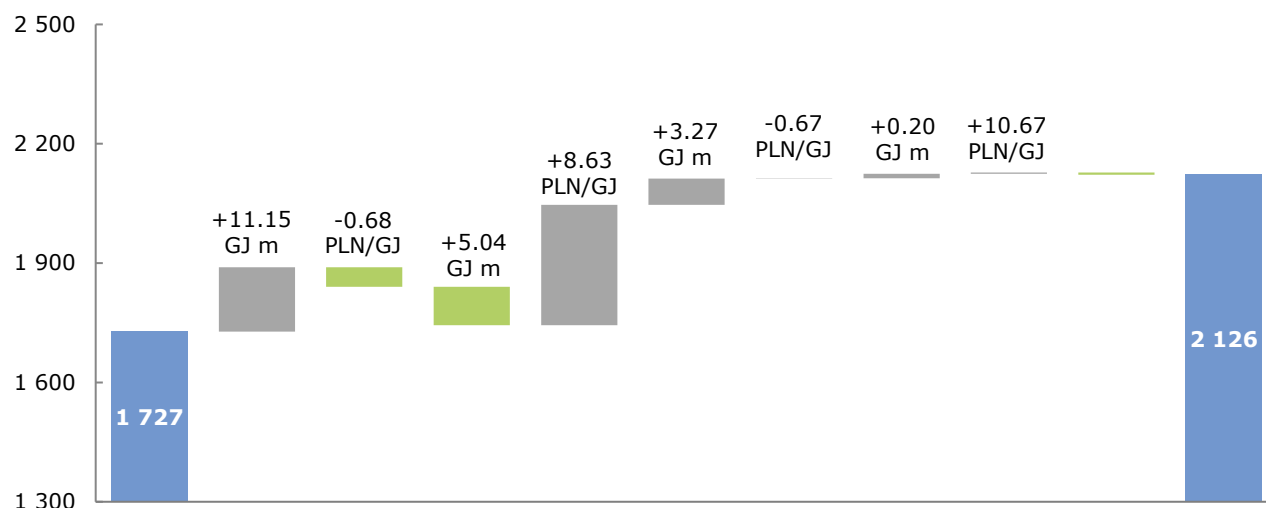
Table: Data on one-offs in District Heating (PLN million).

| One-offs                        | 2021       | 2020      | % change |
|---------------------------------|------------|-----------|----------|
| Change of reclamation provision | 16         | -11       | -        |
| Change of actuarial provision   | 3          | -1        | -        |
| LTC compensations               | -58        | 31        | -        |
| <b>TOTAL</b>                    | <b>-39</b> | <b>19</b> | <b>-</b> |

Key factors affecting the EBITDA result of District Heating segment on y/y basis included:

- **Higher volume of net heat production** in 2021 y/y is a result of lower outside temperatures compared to 2020. The average temperatures were by 1.8° C lower, what translated into increased heat production (by 6.9 PJ).
- **Increase of heat sale price** is a result of increased tariffs for heat for the CHP plants following the publication by the ERO of new reference prices for heat production in units not being co-generation units.
- **Lower net electricity production volume** in the segment as a result of lower electricity generation from gas, due to significantly higher gas prices on the wholesale market.
- **Decrease of electricity sale prices** due to lower forward contracts with 2021 delivery as compared to the contracts with 2020 delivery.
- **Capacity Market**, a mechanism, which was not present in the base period.
- **Higher fuel consumption costs** which are caused by increased volume of hard coal consumption and higher gas prices. Additionally, due to the inclusion of CHP Pomorzany in the structures of the District Heating segment, the consumption of biomass increased. The details are shown in the chart below.
- **Higher CO<sub>2</sub> costs** are mainly a result of higher price of allowances and lower allocation of allowances granted free of charge. The details are shown in the chart below.
- **Lower personnel expenses** result mainly from decreased employment y/y.
- The **lower level in item 'other'** is primarily caused by lower revenue from the sale of services and higher costs of repairs and operations. In addition, due to the higher volume of heat production the cost of production materials and combustion by-product management services went up.

Chart: Consumption costs of production fuels in District Heating (in PLN million).

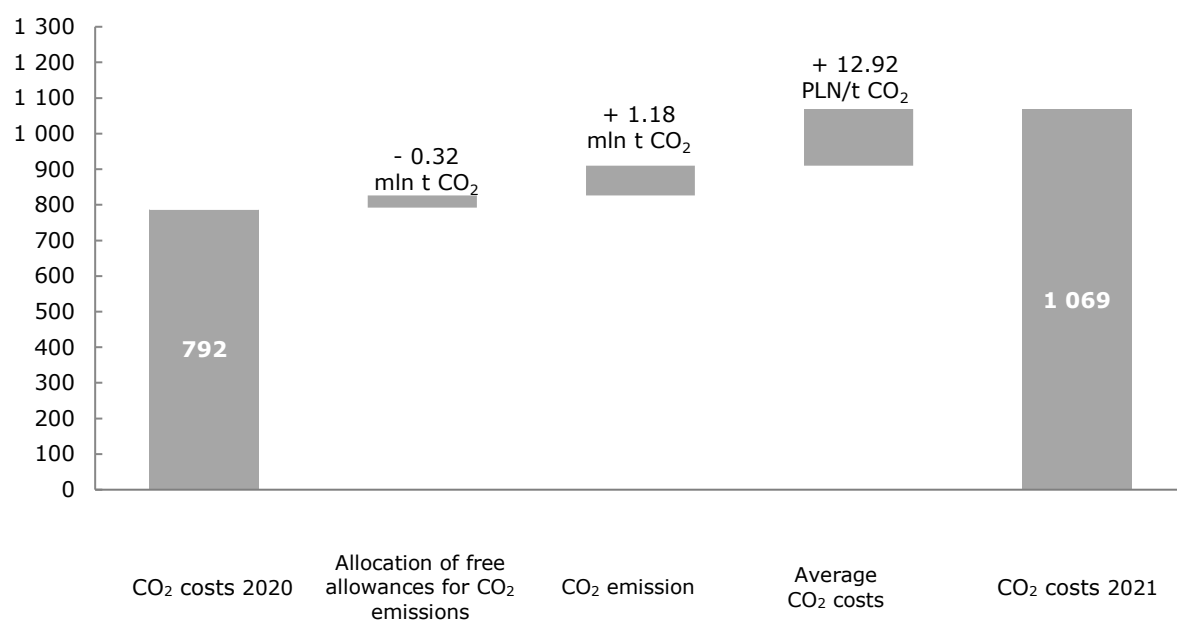


|                    | Costs 2020   | Hard coal volume | Hard coal price | Gas volume | Gas price  | Biomass volume | Biomass price | Light and heavy oil volume | Light and heavy oil price | Other raw materials | Costs 2021   |
|--------------------|--------------|------------------|-----------------|------------|------------|----------------|---------------|----------------------------|---------------------------|---------------------|--------------|
| <b>Change</b>      |              | <b>162</b>       | <b>-49</b>      | <b>-97</b> | <b>303</b> | <b>68</b>      | <b>1</b>      | <b>13</b>                  | <b>3</b>                  | <b>-5</b>           |              |
| Costs of fuel 2020 | <b>1 727</b> | 894              |                 | 774        |            | 26             |               | 16                         |                           | 17                  |              |
| Costs of fuel 2021 |              | 1 007            |                 | 980        |            | 95             |               | 32                         |                           | 12                  | <b>2 126</b> |

Table: Data on use of production fuels consumption in District Heating.

| Fuel type                        | 2021              |                    | 2020              |                    |
|----------------------------------|-------------------|--------------------|-------------------|--------------------|
|                                  | Volume (tons ths) | Cost (PLN million) | Volume (tons ths) | Cost (PLN million) |
| Hard coal                        | 3 224             | 1 007              | 2 736             | 894                |
| Gas (cubic metres ths)           | 1 173 402         | 980                | 1 305 773         | 774                |
| Biomass                          | 486               | 95                 | 125               | 26                 |
| Fuel oil and other raw materials | -                 | 44                 | -                 | 33                 |
| <b>Total</b>                     |                   | <b>2 126</b>       |                   | <b>1 727</b>       |

Chart: CO<sub>2</sub> costs in District Heating (PLN million).



| Change                     | 35           | 129 | 113 |
|----------------------------|--------------|-----|-----|
| CO <sub>2</sub> costs 2020 | <b>792</b>   |     |     |
| CO <sub>2</sub> costs 2021 | <b>1 069</b> |     |     |

Table: Data on CO<sub>2</sub> costs in District Heating.

| Data regarding CO <sub>2</sub>                                      | 2021      | 2020      | % change |
|---|-----------|-----------|----------|
| Allocation of free allowances for CO <sub>2</sub> emissions (tons)  | 554 435   | 875 413   | -37%     |
| CO <sub>2</sub> emission (tons)                                     | 9 314 784 | 8 133 828 | 15%      |
| Average CO <sub>2</sub> costs (PLN/t CO <sub>2</sub> ) <sup>1</sup> | 122.03    | 109.11    | 12%      |

<sup>1</sup> Managerial perspective.

## CAPITAL EXPENDITURES

Table: Capital expenditures incurred in District Heating segment in 2021 and 2020.

| PLN m  | 2021       | 2020       | % change   |
|--|------------|------------|------------|
| Investments in generating capacities, including: | 552        | 616        | -10%       |
| • Development                                    | 289        | 253        | 14%        |
| • Modernisation and replacement                  | 263        | 363        | -28%       |
| Other  | 58         | 55         | 5%         |
| <b>Total</b>                                     | <b>610</b> | <b>671</b> | <b>-9%</b> |

## KEY EVENTS IN THE DISTRICT HEATING

On June 23, 2021 an agreement was concluded with syndicate of companies Polimex Mostostal S.A. (Consortium leader) and Polimex Energetyka sp. z o.o. (Consortium partner) for construction of gas and steam CHP plant in Siechnice for KOGENERACJA S.A. (New Czechnica CHP plant). Subject matter of the agreement is realisation by the Contractor of turn-key construction of CCGT unit with a total gross capacity of 179.4 MWe and 162.9 MWt, heat accumulator and four water boilers with total capacity of 152 MWt.

As part of the works, the construction site was handed over to the General Contractor. The construction of the container town was completed and the earthworks related to the foundations of the main building and gas and steam turbine sets commenced.

New units will replace currently existing hard coal-fired CHP plant.

The project schedule provides for the commissioning of the CCGT unit in the second quarter of 2024.

### KEY PROJECT IN 2021

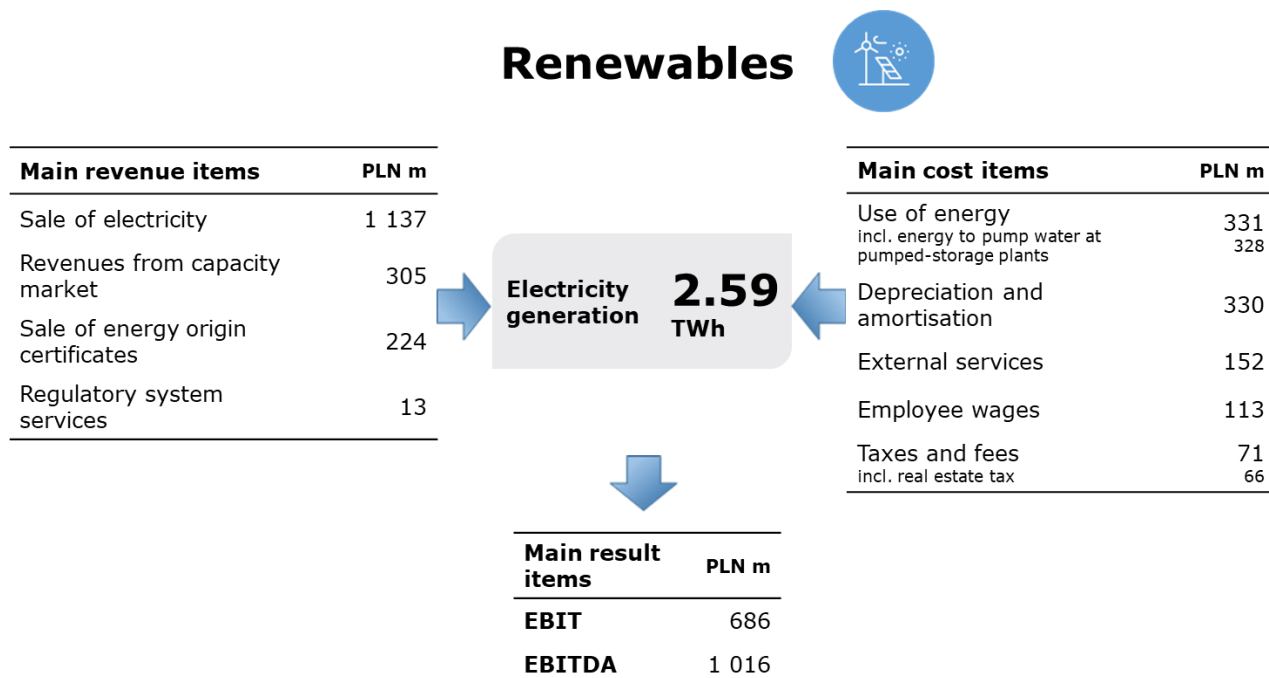
| Aim of the project                      | Budget <sup>1</sup> | Expenditures incurred <sup>1</sup> | Capital expenditures in 2021 <sup>1</sup> | Fuel/ Net efficiency             | Contractor   | Investment completion date |
|---|---------------------|------------------------------------|---|----------------------------------|--|----------------------------|
| Construction of New Czechnica CHP Plant | PLN 1.2 bn          | approx. PLN 40m                    | PLN 26m                                   | Natural gas/ 85% in cogeneration | Syndicate of: Polimex Mostostal S.A. (Lider) / Polimex Energetyka sp. z o.o. | Q2 2024                    |

<sup>1</sup> Expenditures incurred do not include financing costs and expenses in the form of advances paid to the General Contractor for the Project and to the other contractors.

## RENEWABLES

### SEGMENT DESCRIPTION AND ITS BUSINESS MODEL

This segment is involved in the generation of electricity from renewable sources and in pumped storage power plants.



The Renewables segment is based mainly on revenues from the sale of electricity, however contrary to production at industrial plants within the Conventional Generation segment, this revenue is subject to a larger degree to changes in weather conditions and prices on the spot market due to the renewables sales model in place. Electricity output volume translates into property rights (green certificates) and revenue from the sale of energy origin certificates obtained by the segment's assets, excluding hydropower plants over 5 MWe.

Revenue from the Capacity Market, a mechanism introduced to prevent electricity shortages in the National Power System, constitutes a significant item in the segment's revenue, starting from 2021. Selected power plants in the Renewables segment receive fees for performing the capacity obligation (a Capacity Market Entity being on standby to supply electricity to the system and the obligation to supply specified capacity to the system when the system is under threat). Capacity Market revenue compensated for revenue from ancillary services. The readiness intervention reserve service was discontinued.

On the cost side, the most important items include: depreciation of segment assets, use of energy to pump water at pumped-storage plants and third-party services, mainly the repair services. Property tax and employee wages also constitute a significant cost item in this segment.

## ASSETS

The PGE Capital Group's operations in renewable energy are managed by the PGE Energia Odnawialna S.A. Due to the profile of operations, the segment includes PGE Baltica sp. z o.o. This company is responsible for all activities related to off-shore wind farms.

Assets in the segment include:

- 17 wind farms,
- 5 photovoltaic power plants,
- 29 run-of-river hydro power plants,
- 4 pumped-storage power plants, including 2 with natural flow.

Diagram: Main assets of the Renewables segment and their installed capacity.

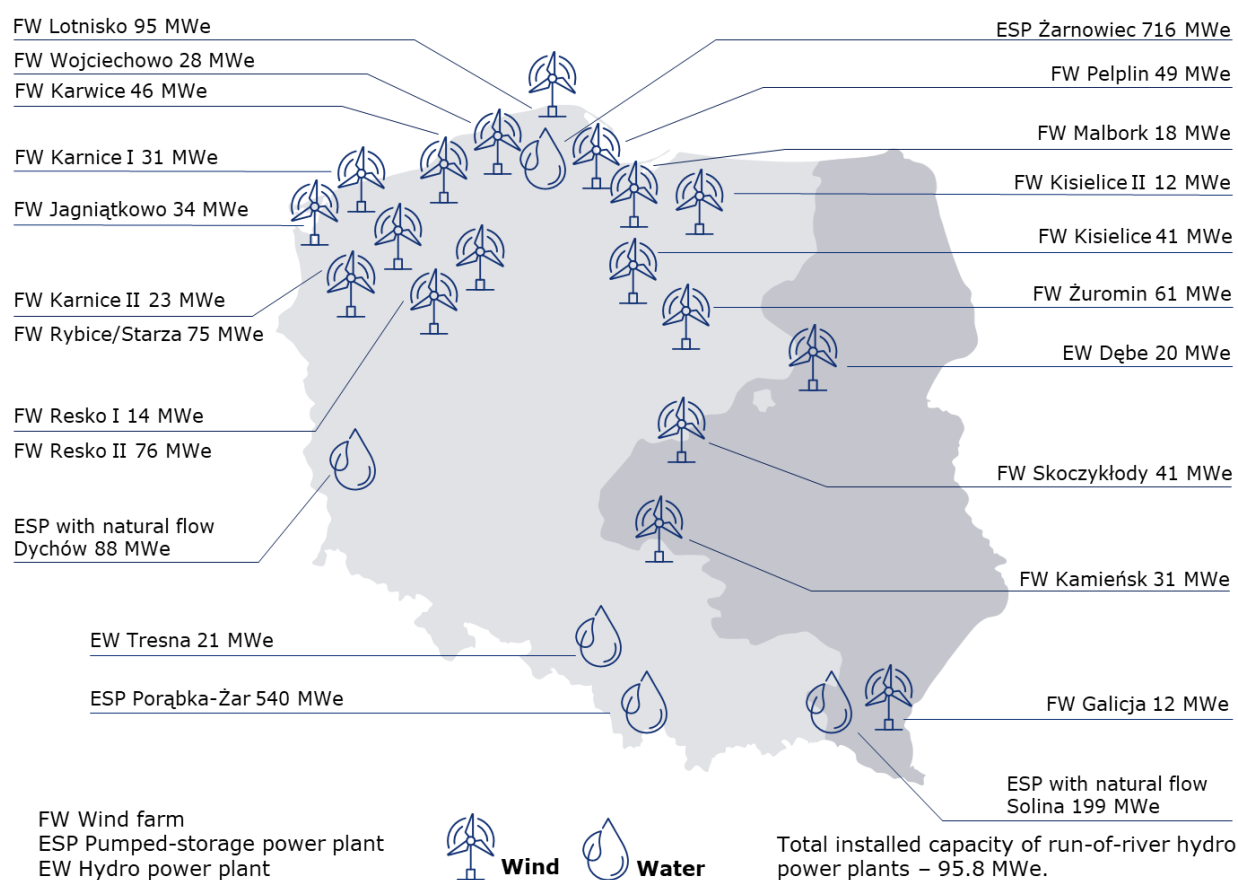


Table: Installed capacity and production in power plants of Renewables segment.

| Types of power plants                                      | Annual energy generation (GWh) |          | Installed capacity (MWe) |
|--|--------------------------------|----------|--------------------------|
|  | 2021                           | 2020     | 2021                     |
| Run-of-river hydro power plants                            | 290.32                         | 261.14   | 95.76                    |
| Pumped-storage power plants                                | 674.82                         | 748.30   | 1 256.00                 |
| Pumped-storage power plants with natural flow <sup>1</sup> | 171.67                         | 161.32   | 286.64                   |
| Wind farms   | 1 448.27                       | 1 489.07 | 688.16                   |
| PV   | 4.67                           | 1.04     | 4.70                     |

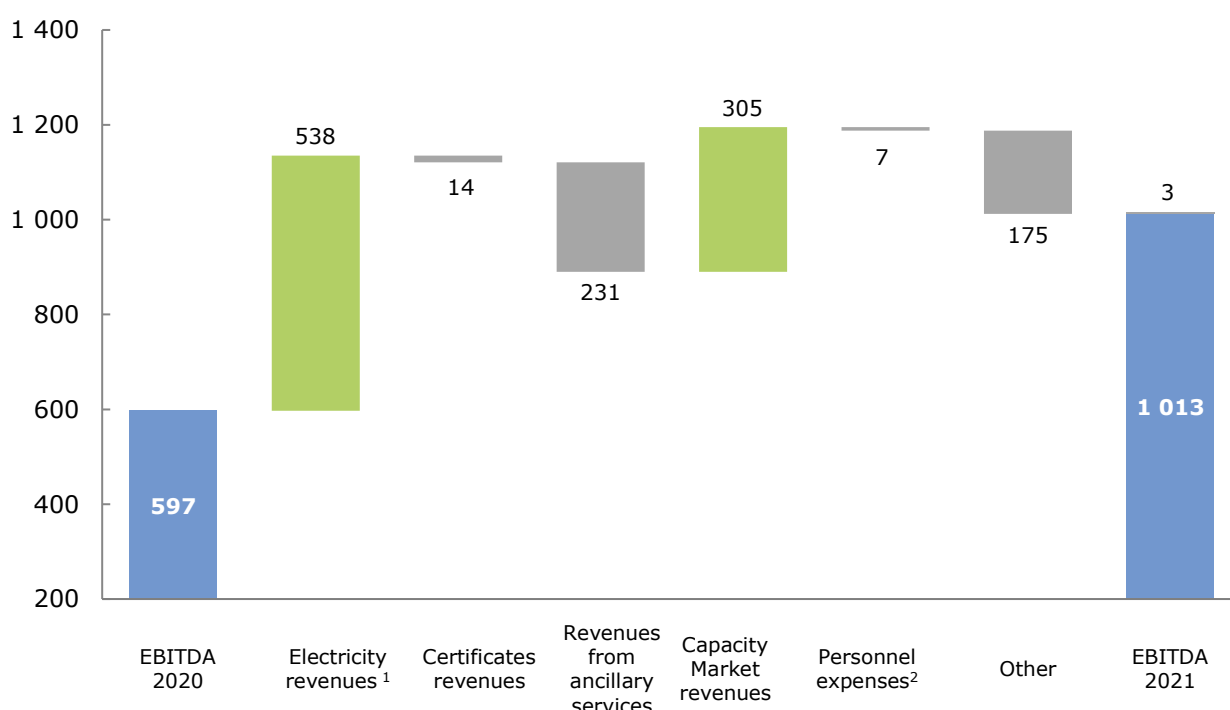
<sup>1</sup> including generation from pump-storage cycle of 16.2 GWh and generation from natural flow of 155.4 GWh. Total generation from pump-storage cycle in 2021 amounted to 691.0 GWh, and generation from water totalled 445.7 GWh.

Table: Availability and capacity factors in Renewables.


|                                 | 2021  | 2020  | 2019  | 2018  | 2017  |
|---------------------------------|-------|-------|-------|-------|-------|
| <b>Availability</b>             |       |       |       |       |       |
| Run-of-river hydro power plants | 88.6% | 90.1% | 91.8% | 86.2% | 92.0% |
| Wind farms                      | 97.2% | 97.0% | 97.3% | 97.4% | 97.4% |
| <b>Capacity factor</b>          |       |       |       |       |       |
| Run-of-river hydro power plants | 35.3% | 31.7% | 30.2% | 29.5% | 38.1% |
| Wind farms                      | 25.7% | 28.0% | 28.0% | 23.7% | 29.4% |

### KEY FACTORS FOR THE RESULTS OF THE SEGMENT

Chart: Key changes of EBITDA in Renewables (in PLN million) – managerial perspective.



| Change                | 538        | -14   | -231 | 305 | -7  | -175 |              |
|-----------------------|------------|-------|------|-----|-----|------|--------------|
| Reported EBITDA 2020  | <b>597</b> |       |      |     |     |      |              |
| One-offs 2020         | <b>0</b>   |       |      |     |     |      |              |
| Recurring EBITDA 2020 | <b>597</b> | 599   | 238  | 244 | 0   | 108  | 376          |
| Recurring EBITDA 2021 |            | 1 137 | 224  | 13  | 305 | 115  | 551          |
| One-offs 2021         |            |       |      |     |     |      | <b>3</b>     |
| Reported EBITDA 2021  |            |       |      |     |     |      | <b>1 016</b> |

 Reversal of impact of total one-offs improving the reported result

<sup>1</sup> The sum of electricity revenues includes revenues from main generation technologies (wind, water, PV, pumped storage).

<sup>2</sup> Personnel costs without including the impact of change in actuarial provision (one-off).



Table: Data on one-offs in Renewables (PLN million)

| One-offs                        | 2021     | 2020     | % change |
|---------------------------------|----------|----------|----------|
| Change of actuarial provision   | 2        | -        | -        |
| Change of reclamation provision | 1        | -        | -        |
| <b>TOTAL</b>                    | <b>3</b> | <b>-</b> | <b>-</b> |

Key factors affecting the y/y results of Renewables included:

- **Increase in revenues from electricity sales** results from: higher average electricity sale price by PLN 210/MWh y/y, what translated into increase of revenues by approx. PLN 567 million; lower sales volume by 138 GWh, what caused revenues decrease of approx. PLN 29 million.
- **Decreased revenues from sales of certificates** resulting mainly from lower generation volume due to end of support for 12 small hydro power plants as from the end of September 2020.
- **Lower sales revenues from ancillary services** result mainly from change in agreement for provision of services and withdrawal in 2021 of Readiness Interventional Reserve among others.
- **Capacity Market**, a mechanism, which was not present in the base period.
- **Decrease in other** results mainly from higher operating costs - in connection with new assets commissioned gradually in 2020: 3 wind farms and 4 PV plants. Additionally, from the beginning of 2021 pumped-storage units are obligated to pay grid fees in full in order to pump water that is used to generate electricity. The change in model was caused by the discontinuation of certain ancillary services.

## CAPITAL EXPENDITURES

Table: Capital expenditures incurred in Renewables segment in 2021 and 2020.

| PLN m  | 2021       | 2020       | % change    |
|--|------------|------------|-------------|
| Investments in generating capacities, including: | 174        | 708        | -75%        |
| • Development                                    | 88         | 649        | -86%        |
| • Modernisation and replacement                  | 86         | 59         | 46%         |
| Other  | 15         | 7          | 114%        |
| <b>Total</b>                                     | <b>189</b> | <b>715</b> | <b>-74%</b> |

## KEY EVENTS IN RENEWABLES

In 2021, building permits were obtained for large solar farm projects with a total capacity of 166 MW, including PV Augustynka (25 MW), PV Gutki (12 MW), PV Huszlew (13 MW), PV Jeziórko (100 MW) and a dozen or so small installations with a capacity of up to 1 MW each.

In June 2021, after winning the RES auction, support was granted to 19 projects with a total capacity of approximately 18 MW. In the third quarter of 2021, executive contracts for the implementation of these projects were concluded. After the design stage, at the end of the year, deliveries of components began at individual locations. The installation will be put into operation in 2022.

In December 2021, as a result of the won RES auction, support was granted to the PV Augustynka project and 3 projects in the basket of installations up to 1 MW. At the turn of 2021 and 2022, tender procedures were launched for the selection of contractors for the above-mentioned installations. Their commissioning is scheduled for 2023.

As part of offshore investments, 8 applications for a new location permit for an offshore wind farms in the Baltic Sea was submitted to the Ministry of Infrastructure.

Currently, PGE is implementing investments in the Baltic Sea with a total capacity of approx. 3.5 GW (including 2.5 GW in JO with Ørsted) on the basis of three location permits secured in 2012. Works carried out in these areas are on schedule. Important administrative decisions concerning, among others, environmental permits for onshore infrastructure related to power evacuation and subsequently construction permits are expected to be secured in the coming months. Tenders for individual investment stages are in progress.

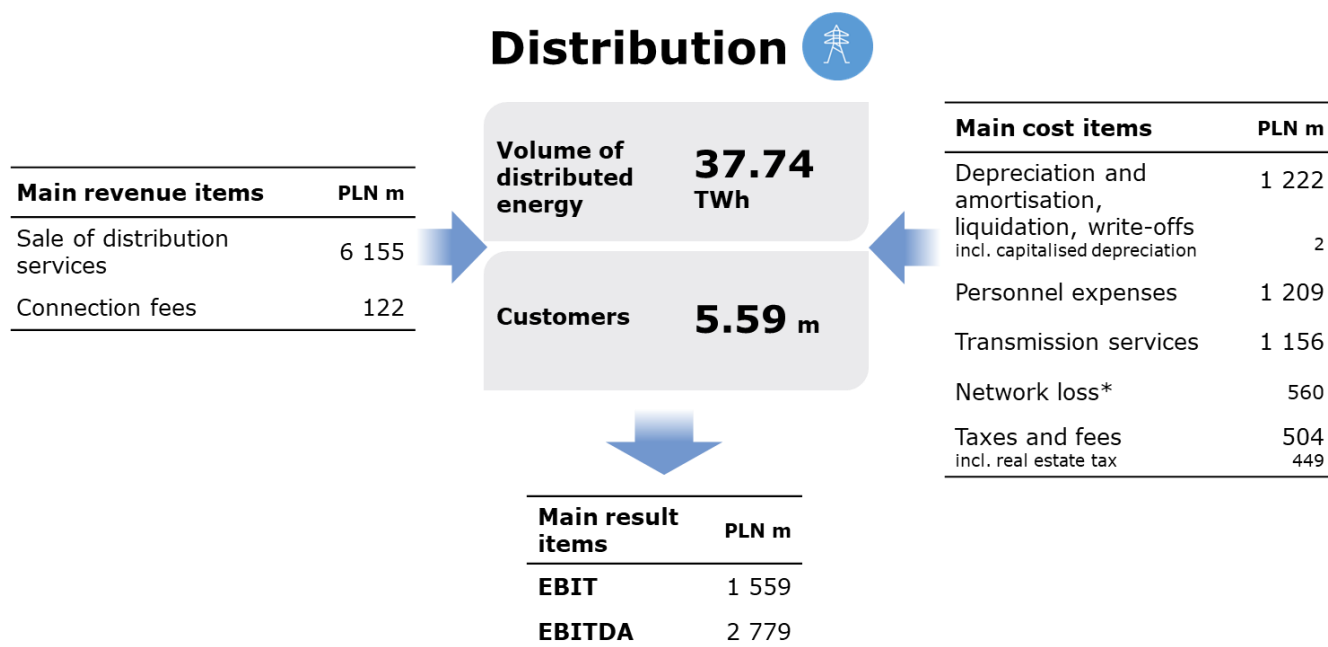
The strategic goal of the PGE Group in the offshore energy area is to build at least 6.5 GW of capacity by 2040. According to government assumptions included in PEP2040, offshore wind farms in the Polish zone of the Baltic Sea in 2040 will have a capacity of approx. 8-11 GW.

There are currently 11 reservoirs available in the Baltic Sea, under which PGE and other entities will be able to apply for permits to build and use artificial islands.

## DISTRIBUTION

### SEGMENT DESCRIPTION AND ITS BUSINESS MODEL

Core business of the segment includes supply of electricity to final off-takers through the grid and HV, MV and LV infrastructure.



\* managerial perspective.

**Segment revenue is based on a tariff for electricity distribution services**, which is approved by the ERO President every year at company request and is regulated. The tariff allow costs related to the distribution system operator's on-going activities to be transferred. These are both justified operating costs, depreciation, as well as costs related to the necessity to cover grid losses on electricity distribution or the purchase of transmission services from the TSO. At the same time, the tariff reflects the **costs transferred in fees** such as the RES fee, the transition fee, the co-generation fee and – from 2021 – the capacity fee.

The key element shaping the Distribution segment's result is **return on company's invested capital**. This is based on the Regulatory Asset Base ("RAB"), which is established on the basis of completed investments and taking into account asset depreciation. The Regulatory Asset Base serves as the basis for calculating return on capital, using weighted average cost of capital, which is published by the ERO President in accordance with a set formula and using as the risk free rate the average yield on 10-year State Treasury bonds with the longest maturity during the 36-month period preceding the tariff application submission, quoted on the Treasury BondSpot market. In addition, return on capital depends on the achievement of individual quality targets set by the ERO President for performance indicators including: interruption time, interruption frequency, connection time and (not yet included) time to provide metering and settlement data.

## VOLUME, CUSTOMERS AND OPERATING DATA

PGE Dystrybucja S.A. operates in the area of 129 829 sq. km and delivers electricity to approximately 5.59 million customers.

Diagram: Area of PGE distribution grid.



Table: Volume of distributed energy and number of customers in 2021 and 2020.

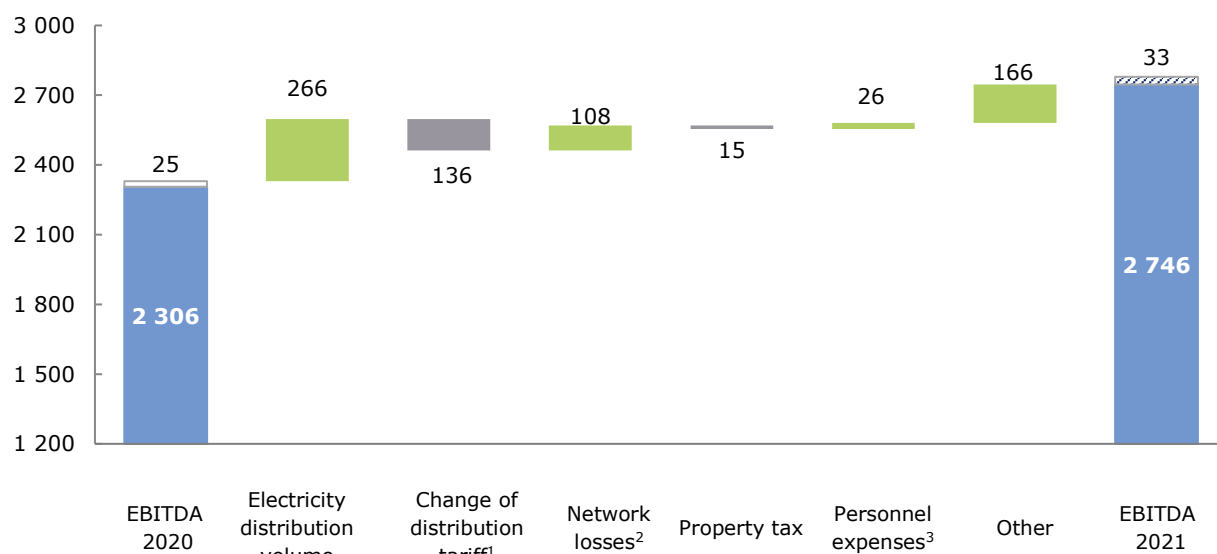
| Tariff            | Volume (TWh)* |              | Number of customers according to power take-off points |                  |
|-------------------|---------------|--------------|--|------------------|
|                   | 2021          | 2020         | 2021   | 2020             |
| A tariff group    | 5.40          | 5.16         | 118  | 111              |
| B tariff group    | 14.96         | 13.99        | 13 029   | 12 504           |
| C+R tariff groups | 6.84          | 6.50         | 488 553  | 486 272          |
| G tariff group    | 10.54         | 10.02        | 5 089 033  | 5 030 101        |
| <b>Total</b>      | <b>37.74</b>  | <b>35.67</b> | <b>5 590 733</b>                                       | <b>5 528 988</b> |

Table: Key operational data.

| Operational data               | Unit         | 2021    | 2020    | 2019    | 2018    | 2017    |
|--------------------------------|--------------|---------|---------|---------|---------|---------|
| Number of stations, including: | pieces       | 95 987  | 95 603  | 95 014  | 94 203  | 93 488  |
| number of transformer stations | pieces       | 95 455  | 94 955  | 94 326  | 93 684  | 93 031  |
| MVA power                      | MVA          | 32 956  | 32 663  | 32 347  | 31 696  | 31 096  |
| Total length of power lines    | km           | 297 029 | 295 613 | 293 825 | 291 002 | 287 992 |
| HV lines                       | km           | 10 383  | 10 336  | 10 317  | 10 284  | 10 281  |
| MV lines                       | km           | 115 049 | 114 539 | 113 856 | 112 418 | 111 568 |
| LV lines                       | km           | 171 597 | 170 738 | 169 652 | 168 300 | 166 143 |
| Grid loss ratio                | %            | 4.7     | 5.2     | 4.8     | 5.1     | 5.4     |
| SAIDI, including:              | minutes      | 368     | 251     | 261     | 299     | 557     |
| Planned                        | minutes      | 33      | 40      | 58      | 87      | 95      |
| Unplanned with catastrophic    | minutes      | 334     | 211     | 203     | 212     | 462     |
| SAIFI, including:              | per customer | 4.28    | 3.67    | 3.88    | 3.92    | 5.48    |
| Planned                        | per customer | 0.19    | 0.24    | 0.31    | 0.47    | 0.48    |
| Unplanned with catastrophic    | per customer | 4.09    | 3.43    | 3.57    | 3.45    | 5.00    |
| Connection time                | days         | 267     | 206     | 199     | 211     | 215     |

## KEY FACTORS FOR THE RESULTS OF THE SEGMENT

Chart: Key changes of EBITDA in Distribution (in PLN million) – managerial perspective.



| Change                | 266   | -136  | 108 | -15 | 26    | 166 |       |
|-----------------------|-------|-------|-----|-----|-------|-----|-------|
| Reported EBITDA 2020  | 2 306 |       |     |     |       |     |       |
| One-offs 2020         | -25   |       |     |     |       |     |       |
| Recurring EBITDA 2020 | 2 331 | 4 576 | 668 | 434 | 1 268 | 125 |       |
| Recurring EBITDA 2021 |       | 4 706 | 560 | 449 | 1 242 | 291 | 2 746 |
| One-offs 2021         |       |       |     |     |       |     | 33    |
| Reported EBITDA 2021  |       |       |     |     |       |     | 2 779 |



Reversal of impact of total one-off items increasing the reported result.

Reversal of impact of total one-off items decreasing the reported result.

<sup>1</sup> Excluding cost of transmission services from PSE S.A.

<sup>2</sup> Adjusted for revenues from the Balancing market.

<sup>3</sup> Personnel costs without including the impact of change in actuarial provision (one-off).

Table: Data on one-offs in Distribution (PLN million).

| One-off                       | 2021      | 2020       | % change |
|-------------------------------|-----------|------------|----------|
| Change of actuarial provision | 33        | -25        | -        |
| <b>TOTAL</b>                  | <b>33</b> | <b>-25</b> | <b>-</b> |

Key factors affecting results of Distribution segment y/y included:

- **Increased volume of distributed energy** by 2.1 TWh resulting mainly from higher demand.
- **Decrease in rates in tariff for 2021** by PLN 9.6/MWh compared to the tariff for the previous year, that translated into an decrease in revenues from the sale of distribution services.
- **Lower costs of electricity purchases to cover network losses** mainly as a result of a decrease in the electricity purchase price to cover the losses.
- **Increase of costs of tax on real estate** in connection with an increase of: grid assets value as a result of investments; tax rates on land and buildings.
- **Decrease in personnel expenses** due to ongoing process to optimise costs.

- **Change in other** resulting from higher revenues from sale of other distribution services, mainly in the field of collecting subsidies and release of provisions related to claims concerning non-contractual use of properties as a result of a significant increase in the number of court cases being ruled in favour of the company.

## CAPITAL EXPENDITURES

Table: Capital expenditures incurred in Distribution segment in 2021 and 2020.

| PLNm                                      | 2021         | 2020 <sup>1</sup> | % change    |
|---|--------------|-------------------|-------------|
| Development investments                   | 665          | 791               | -16%        |
| Modernisation and replacement investments | 692          | 874               | -21%        |
| Other                                     | 1            | 15                | -93%        |
| <b>Total</b>                              | <b>1 358</b> | <b>1 680</b>      | <b>-19%</b> |

<sup>1</sup> Data for 2020 have been adjusted to the current division of capital expenditures into the indicated categories.

## KEY EVENTS IN DISTRIBUTION

In 2021 the largest expenditures in amount of PLN 626 million were incurred for connection of new off-takers.

PGE also continued implementing another stage of its investment at the Czosnów node in 2021. The 110/15 kV substation in Czosnów along with the HV power lines currently under construction will enhance the security of electricity supply and make it possible to connect new facilities to the grid. The Czosnów node is the most expensive and largest grid investment in the Mazowsze region being implemented by PGE Dystrybucja. The Main Electrical Substation Czosnów has already been built along with two tracks of a 110 kV cable line with the length of 14.8 km, which connects the existing substation in Łomianki with the new 110/15 kV substation in Czosnów and is the longest HV cable line owned by PGE Dystrybucja. Another 110 kV HV line was built this year, connecting Legionowo, Nowy Dwór Mazowiecki, Czosnów and Łomianki. The new overhead and cable line with the length of approx. 9.1 km was connected to the existing 110 kV line Legionowo – Nowy Dwór Mazowiecki. The final, fourth stage of the investment, i.e. construction of two HV cable lines from the 400/110 kV Mościska substation, owned by PSE S.A., to the 110/15 kV substation in Łomianki and the 110/15 kV Czosnów substation will make it possible to close this energy ring, referred to as the Czosnów node.

At the same time, a tender procedure for the purchase and deployment of CORE LTE450 core network components was announced. The subject of the tender is to be completed by the end of 2023, and warranty and maintenance of the network is to be provided by the contractor until August 2033.

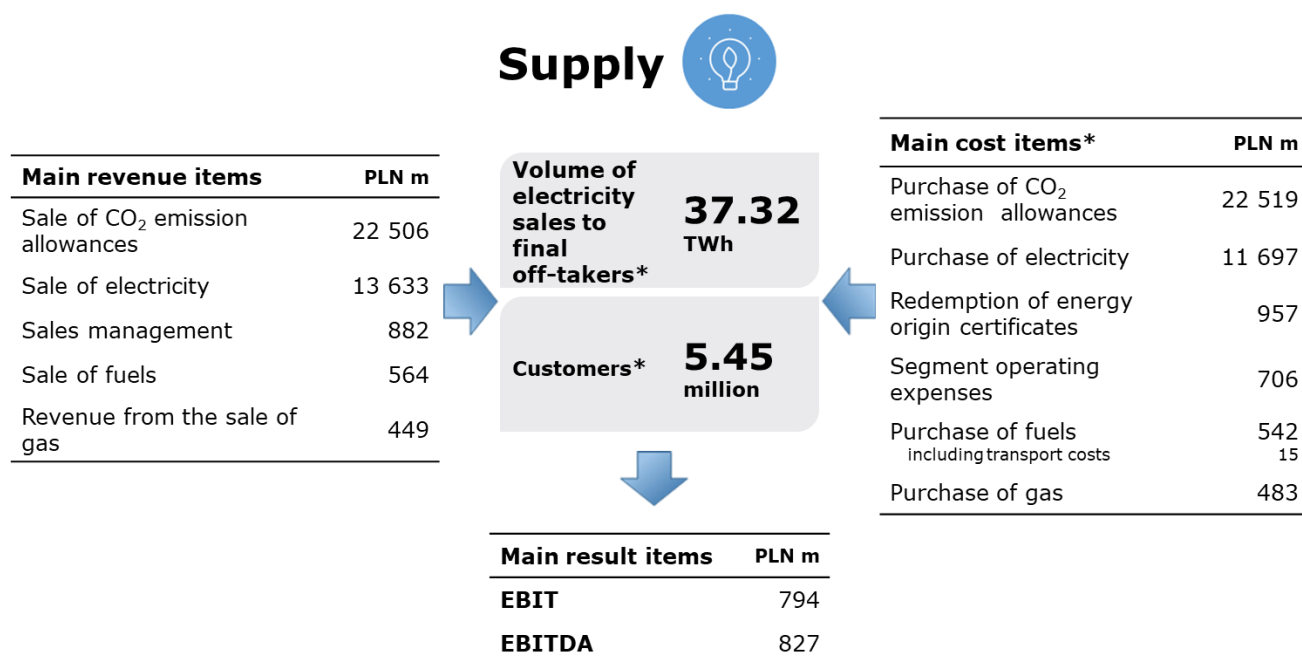
The LTE450 communications network is one of PGE Group's most important investments. The LTE technology provides voice broadband communications, which is indispensable in modern times. The modern LTE450 network and the telecommunications system under construction will support the integration of renewable energy sources, distributed generation and energy storage, as well as ensure reliable dispatcher communication and remote communication with energy meters.

PGE Group's action plan for the coming years sees the implementation and launch of basic services on the LTE450 network by 2025, successive expansion of its coverage, provision of basic communications services, and development of new services dedicated to the power sector. The scope of deployment also provides for work to be carried out outside PGE Group, in particular for other entities in the energy sector. The modern LTE450 network and the telecommunications system under construction will support the integration of renewable energy sources, distributed generation and energy storage, as well as ensure reliable dispatcher communication and remote communication with energy meters.

## SUPPLY

### SEGMENT DESCRIPTION AND ITS BUSINESS MODEL

Supply segment activities include Group's wholesale and retail trading of electricity. Wholesale trading includes mainly electricity trading on behalf of and for Conventional Generation segment, District Heating segment and Renewables segment.



\* Data for PGE Obrót S.A.

As part of retail-market activities, the key source of **segment's revenue is sale of electricity** to final customers. This is sale to business and institutional clients, which constitutes more than 70% of the sales volume, and to retail clients. The segment's revenue also includes the **sale of fuels**, mainly: pulverised coal and coarse coal, which is sold by PGE Paliwa sp. z o.o., and **sale of natural gas**.

Electricity sales are matched by the **costs to purchase electricity on the wholesale market** and **costs to redeem certificates** as part of the support system for renewable sources and energy efficiency.

The Supply segment also incurs costs related to the Group's corporate centre.

### VOLUME, CUSTOMERS AND OPERATING DATA

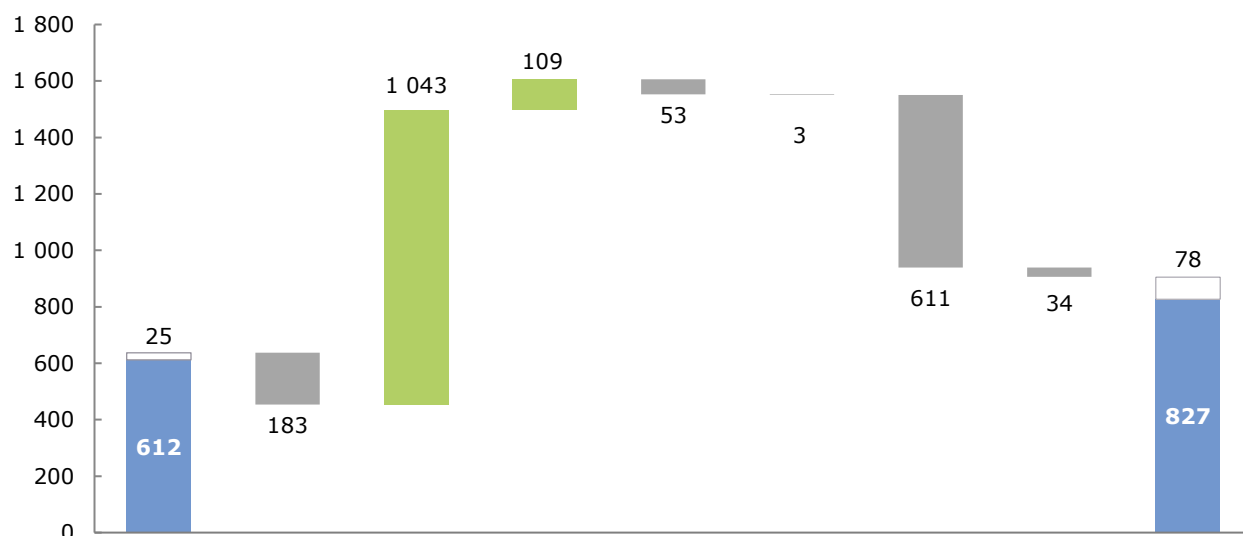
Table: Volume of electricity sales to final off-takers and number of customers in 2021 and 2020.

| Tariff            | Volume (TWh) <sup>1</sup> |              | Number of customers according to power take-off points <sup>1</sup> |                  |
|-------------------|---------------------------|--------------|---|------------------|
|                   | 2021                      | 2020         | 2021  | 2020             |
| A tariff group    | 7.29                      | 9.35         | 139   | 142              |
| B tariff group    | 13.68                     | 14.79        | 11 877  | 12 575           |
| C+R tariff groups | 6.31                      | 6.75         | 421 164   | 446 253          |
| G tariff group    | 10.04                     | 9.75         | 5 021 702   | 4 954 863        |
| <b>Total</b>      | <b>37.32</b>              | <b>40.64</b> | <b>5 454 882</b>  | <b>5 413 833</b> |

<sup>1</sup> Data for PGE Obrót S.A.

## KEY FACTORS FOR THE RESULTS OF THE SEGMENT

Chart: Key changes of EBITDA in Supply (in PLN million) – managerial perspective.



|                       | EBITDA 2020 | Result on electricity - volume | Result on electricity - margin | Revenues from services provided to other segments of the PGE Group | Result on sale of gas | Personnel expenses <sup>1</sup> | Balance of provisions for onerous contracts and potential claims | Other <sup>2</sup> | EBITDA 2021 |
|-----------------------|-------------|--------------------------------|--------------------------------|--|-----------------------|---------------------------------|--|--------------------|-------------|
| <b>Change</b>         |             | <b>-183</b>                    | <b>1 043</b>                   | <b>109</b>   | <b>-53</b>            | <b>-3</b>                       | <b>-611</b>  | <b>-34</b>         |             |
| Reported EBITDA 2020  | <b>612</b>  |                                |                                |  |                       |                                 |  |                    |             |
| One-offs 2020         | <b>-25</b>  |                                |                                |  |                       |                                 |  |                    |             |
| Recurring EBITDA 2020 | <b>637</b>  | 64                             |                                | 877  | 19                    | 362                             | 332  | 294                |             |
| Recurring EBITDA 2021 |             | 924                            |                                | 986  | -34                   | 365                             | -279   | 328                | <b>905</b>  |
| One-offs 2021         |             |                                |                                |  |                       |                                 |  |                    | <b>-78</b>  |
| Reported EBITDA 2021  |             |                                |                                |  |                       |                                 |  |                    | <b>827</b>  |

Reversal of impact of total one-offs reducing the reported result.

<sup>1</sup> Personnel costs without including the impact of change in actuarial provision (one-off).

<sup>2</sup> Item Other without including the impact of provision for prosumers (one-off)

Table: Data on one-offs in Supply (PLN million).

| One-offs                             | 2021       | 2020       | % change    |
|--------------------------------------|------------|------------|-------------|
| Change of actuarial provision        | 6          | -4         | -           |
| Voluntary Leave Program              | 11         | -21        | -           |
| Provision for prosumers <sup>1</sup> | -95        | -          | -           |
| <b>TOTAL</b>                         | <b>-78</b> | <b>-25</b> | <b>212%</b> |

<sup>1</sup>In connection with the amendment of the Act on Renewable Energy Sources of October 29, 2021, introducing changes in settlements with prosumers and specifying the period of support for existing prosumers, it was considered that the conditions for creating provisions for onerous contracts within the meaning of IAS 37 were met. The provision was created for contracts for 2022.



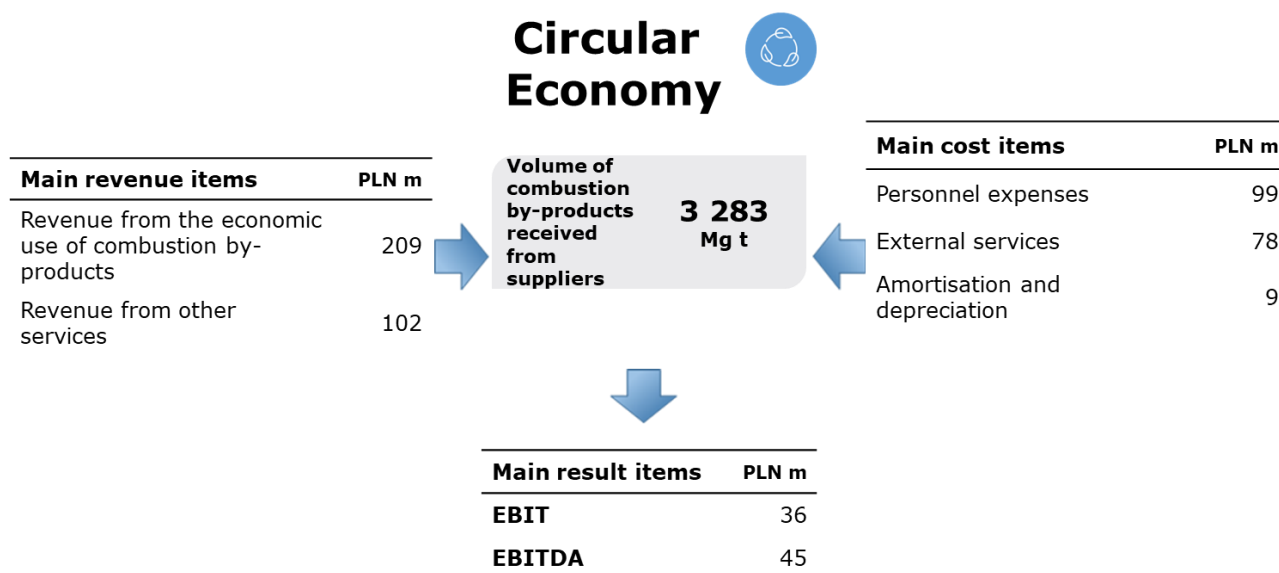
Key factors affecting EBITDA of Supply segment y/y included:

- **Higher result on electricity**, due to lowered base in the sale of tariffed products in previous year – the ERO President set the prices for households at a level which did not cover actual costs of electricity purchase. The last year's low base was also an effect of lower demand due to COVID-19, what resulted in re-selling certain volumes on the spot market below purchase prices in forward transactions.
- **Increase of revenues from services performed within the Group** resulting mainly from higher revenues from the Agreement for Commercial Management of Generation Capacities as a consequence of increased trading value of electricity under management.
- **Lower result on gas sales**, as a result of higher portfolio balancing costs in connection with a significant increase in prices on the wholesale market.
- **Higher personel expenses** as a result of organisational changes and due to ongoing proces of salaries optimisation.
- **Negative impact of balance of provisions for onerous contracts and potential claims from customers** resulting from reversal of provision for onerous contracts in 2020, that mainly related to lack of coverage of part of justified operating costs in the tariff for households approved by the ERO President. In turn, in 2021 a provision was created for potential claims from customers in connection with the termination of unfavorable contracts for the supply of electricity and natural gas.

## CIRCULAR ECONOMY

### SEGMENT DESCRIPTION AND ITS BUSINESS MODEL

The activities of the segment include the provision of comprehensive services in the field of management of combustion by-products ("UPS"), provision of services in auxiliary areas for electricity and heat producers and the supply of materials based on UPS.



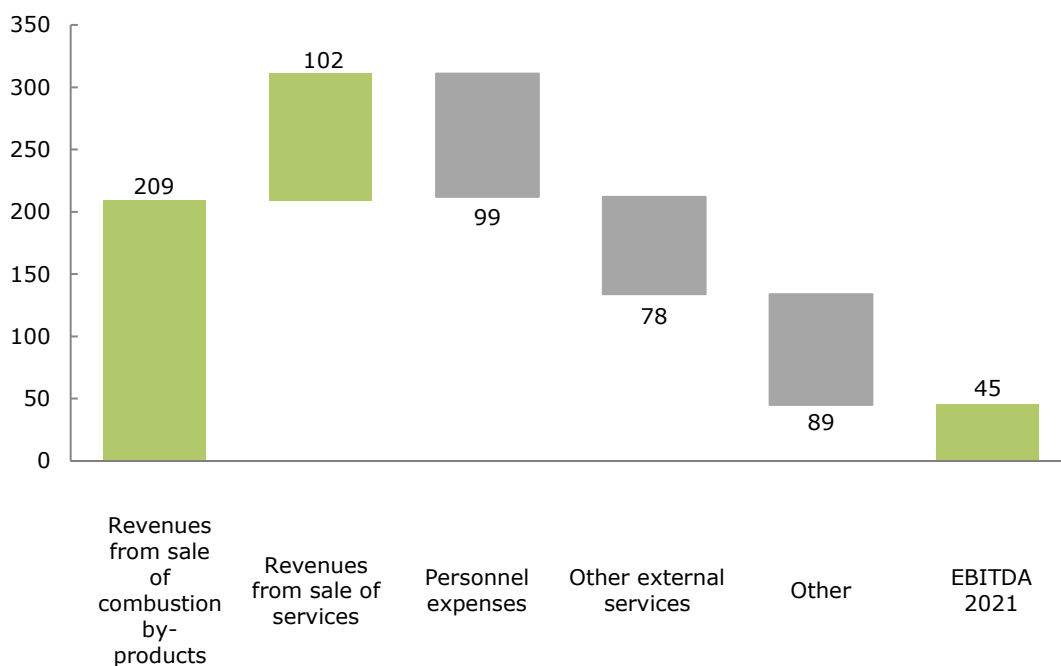
From the beginning of 2021, PGE Group reports a new operating segment – Circular Economy, which includes the following companies: PGE Ekoserwis S.A., EPORE S.A., ZOWER sp. z o.o. The management of combustion by-products at PGE Group turns waste into high-value substances that are used in other branches of economy (cement industry, construction, road-building, mining) and thus reduces the volume of ultimate waste generated.

The main revenue source in the Circular Economy segment is **revenue from the economic use of combustion by-products**, which includes revenue from the sale of products manufactured on the basis of combustion by-products in internal production processes and the sale of services related to the management of combustion by-products. The level of revenue depends on multiple factors, including commercial potential for selling combustion by-products, in processed and unprocessed form, seasonality of industries purchasing combustion by-products, seasonality of suppliers of combustion by-products (power plants, combined heat-and-power plants), volumes collected, efficiency of production infrastructure, capabilities for storing combustion by-products as materials inventories intended for production, as well as market conditions.

**Revenue from other services** includes revenue from the sale of continuous and ad hoc services provided to electricity and heat producers, including the operation of ash handling systems and equipment, operation of technological lines, operation of mill facilities and operation of fuel and combustion by-product storage sites.

## KEY FACTORS FOR THE RESULTS OF THE SEGMENT

Chart: Key factors affecting EBITDA in Circular Economy segment (in PLN million) – managerial perspective.



| Factors affecting EBITDA <sup>1</sup> | 209 | 102 | -99 | -78 | -89 |    |
|---------------------------------------|-----|-----|-----|-----|-----|----|
| EBITDA 2021                           |     |     |     |     |     | 45 |

<sup>1</sup> The chart does not show data for 2020, because in that period companies from the Circular Economy segment were presented in Conventional Generation, District Heating and Other Operations.

Key factors affecting EBITDA of Circular Economy segment included:

- **Revenue from sale of combustion by-products:** ash, slag, gypsum obtained in the process of hard coal and lignite combustion.
- **Revenue from sale of services,** concerning services in the field of coal storage site operations and heavy equipment rentals, mainly to PGE Group companies.
- **Personnel costs** necessary for the proper functioning of the segment.
- **Third-party service costs,** mainly concerning services in the field of transporting waste from production units.
- **Others,** including material and energy costs.

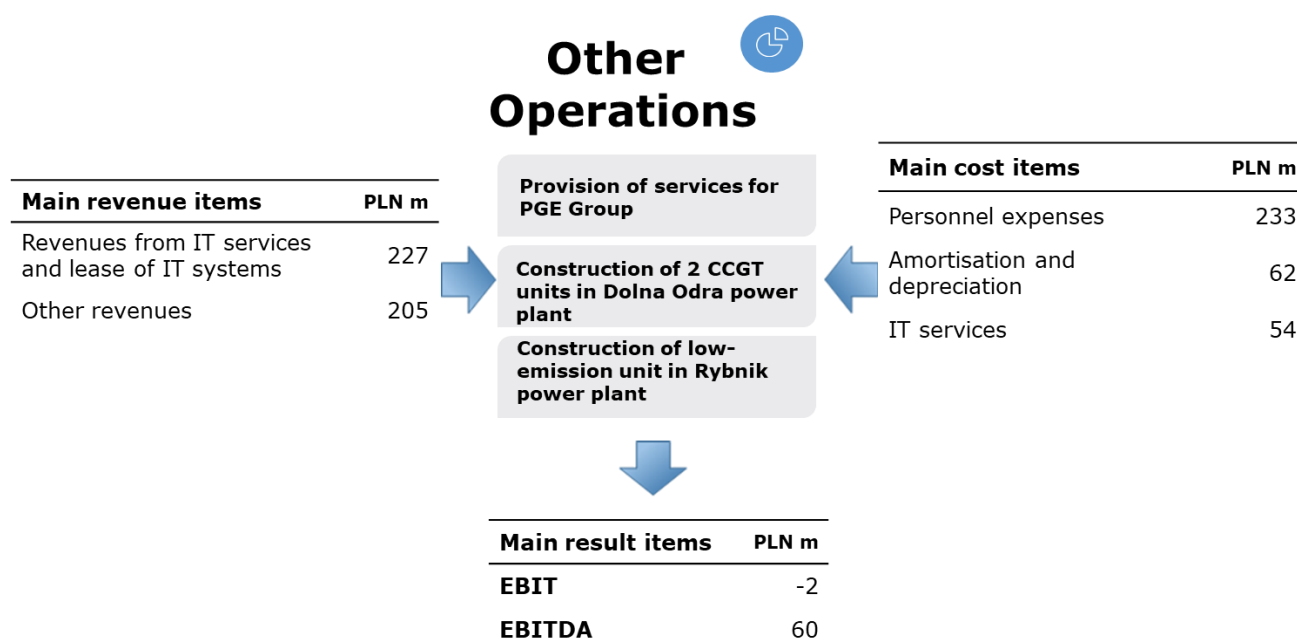
## OTHER OPERATIONS

### SEGMENT DESCRIPTION AND ITS BUSINESS MODEL

Core activities include provision of services, through the subsidiaries, to PGE Group, inter alia organisation of capital raising in form of Eurobonds (PGE Sweden), provision of IT, payroll and HR services, transportation, management of investment funds and investing in start-ups.

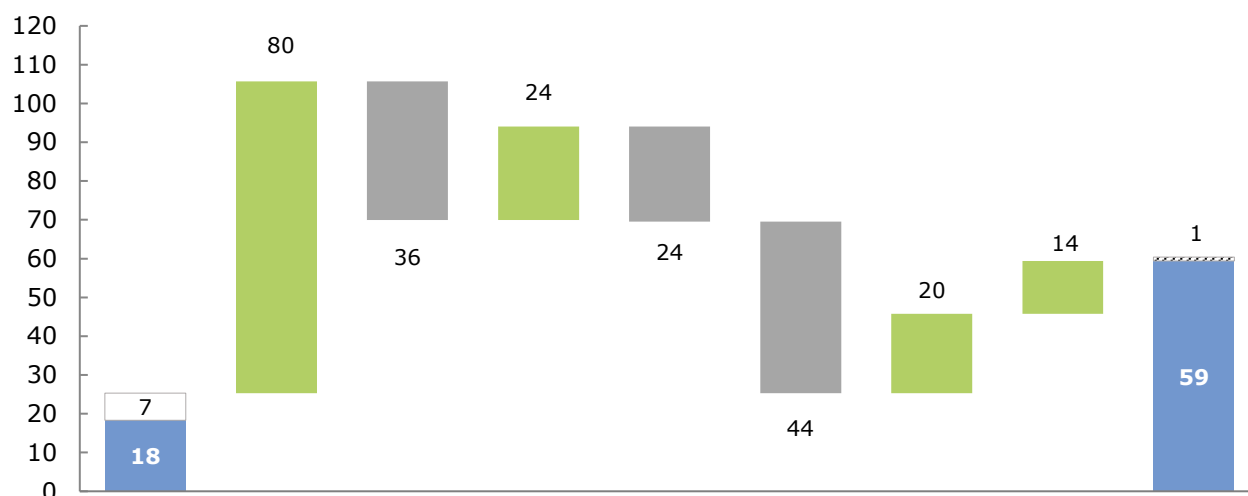
In addition, on October 1, 2021 a project was separated from PGE GiEK S.A. (Dolna Odra Power Plant), constituting an organized part of the enterprise, in the scope including the construction of gas and steam units. The project was transferred to company PGE Inwest 8 sp. z o.o. (current name: PGE Gryfino 2050 sp. z o.o.). The company operates within Other operations segment.

The structure of the Other Operations also includes a company PGE Rybnik 2050 sp. z o.o., which is responsible for construction of low-emission unit in Rybnik power plant.



## KEY FACTORS FOR THE RESULTS OF THE SEGMENT

Chart: Key factors affecting EBITDA in Other operations segment (in PLN million) – managerial perspective.



|                       | EBITDA 2020 | Personnel expenses <sup>1</sup> | Capitalised costs | External services and use of materials | Revenues from IT services and lease of IT systems | Other revenues | Result on other operating activities | Other     | EBITDA 2021 |
|-----------------------|-------------|---------------------------------|-------------------|--|---|----------------|--------------------------------------|-----------|-------------|
| <b>Change</b>         |             | <b>80</b>                       | <b>-36</b>        | <b>24</b>                              | <b>-24</b>  | <b>-44</b>     | <b>20</b>                            | <b>14</b> |             |
| Reported EBITDA 2020  | <b>18</b>   |                                 |                   |  |   |                |                                      |           |             |
| One-offs 2020         | <b>-7</b>   |                                 |                   |  |   |                |                                      |           |             |
| Recurring EBITDA 2020 | <b>25</b>   | 314                             | 50                | 125                                    | 251   | 249            | -8                                   | 77        |             |
| Recurring EBITDA 2021 |             | 234                             | 14                | 101                                    | 227   | 205            | 12                                   | 63        | <b>59</b>   |
| One-offs 2021         |             |                                 |                   |  |   |                |                                      |           | <b>1</b>    |
| Reported EBITDA 2021  |             |                                 |                   |  |   |                |                                      |           | <b>60</b>   |



Reversal of impact of total one-off items increasing the reported result .

Reversal of impact of total one-off items decreasing the reported result .

<sup>1</sup> Personnel costs without including the impact of change in actuarial provision and voluntary leave program (one-offs).

Table: Data on one-offs in Other operations (PLN million).

| One-offs                      | 2021     | 2020      | % change |
|-------------------------------|----------|-----------|----------|
| Change of actuarial provision | 1        | 0         | -        |
| Voluntary Leave Program       | 0        | -7        | -        |
| <b>TOTAL</b>                  | <b>1</b> | <b>-7</b> | <b>-</b> |

Key factors affecting EBITDA of Other Operations segment included:

- **Lower personnel expenses** in connection with employment optimisation proces and sale of shares in PGE EJ1.
- **Lower capitalized costs** as a result of a significantly higher cost allocation to assets in 2020 due to projects carried out by PGE Systemy
- **Lower costs of external services and use of materials** mainly as a result of transfer of company ZOWER to the Circular Economy segment

- Lower revenues from IT services and lease of IT systems due to a change in price lists by PGE Systemy
- **Lower other revenues**, resulting from transfer of company ZOWER to the Circular Economy segment and lower revenues achieved by PGE Synergia in 2021 due to the takeover of customer service by PGE Obrót.
- **Higher result on other operating activities** due to recognition in 2020 of a impairment on projects carried out by PGE Systemy

## CAPITAL EXPENDITURES

Table: Capital expenditures incurred in Other operations segment in 2021 and 2020.

| PLN m        | 2021 <sup>1</sup> | 2020       | % change    |
|--------------|-------------------|------------|-------------|
| <b>Total</b> | <b>845</b>        | <b>170</b> | <b>397%</b> |

<sup>1</sup> The data for 2021 include the full value of capital expenditures on the project to build two gas and steam units at the Dolna Odra Power Plant and a low-emission unit at the Rybnik Power Plant.

## KEY ACTIVITIES IN OTHER OPERATIONS

- Annex no. 1 to the contract to build a capacity offtake system for units 9 and 10 as part of the investment "Construction of two gas-and-steam units at PGE GiEK S.A.'s Dolna Odra branch" was signed on January 5, 2021.
- An agreement was signed with Energoprojekt Katowice S.A. on February 2, 2021 to draft an environmental impact report and obtain a decision on environmental conditions for the project "Construction of new low-emission unit at Rybnik power plant," and work began on an application to PSE S.A. for issue of conditions for connecting to the National Power System.
- Installing piles for machinery building at unit 10 and for a boiler room chimney for units 9 and 10 was completed on March 29, 2021 as part of the investment "Construction of two gas-and-steam units at PGE GiEK S.A.'s Dolna Odra branch".
- On June 17, 2021 PSE S.A. obtained a final decision on a building permit for PSE S.A. investments enabling the connection of units 9 and 10 at the Dolna Odra power plant that are currently under construction, along with a backup transformer to the transmission network.
- On June 23, 2021, the Management Board of PGE GiEK adopted a resolution to transfer to Rybnik 2050 sp. z o.o. rights to the construction project for a new low-emission unit at the Rybnik power plant and accepted the content of the proposed agreement for the sale of rights to the project and the obligation to sell the right of perpetual usufruct of land properties intended for the Project.
- Annex no. 2 to the Contract for the "Construction of two gas-and-steam units at branch Zespół Elektrowni Dolna Odra" was signed on July 8, 2021, amending the material and financial schedule in connection with a change in the form of collateral for due performance of the Contract and a change in the provision of Appendix no. 2 to the Contract regarding technical requirements. The value of the Contract did not change with the signing of Annex no. 2.
- On July 8, 2021 the Company made an advance payment of PLN 6.6 million net to PSE S.A. for a final decision on a construction permit for works that are to be performed by PSE S.A. as part of the task "Construction of two gas-and-steam units at branch Zespół Elektrowni Dolna Odra".
- An agreement with Rybnik 2050 to sell rights to the Project and an agreement on support for Rybnik 2050 from PGE GiEK S.A.'s project team were signed on August 8, 2021.
- The final notarial deed for an agreement pursuant to which PGE GiEK S.A. sold to Rybnik 2050 Sp. z o.o. perpetual usufruct rights to land parcels for the construction of a New Low-Emission Unit at the Rybnik power plant was signed on August 30, 2021.
- An agreement for the "Performance of division and cooperation after division" between PGE GiEK S.A. and PGE INWEST 8 Sp. z o.o. was signed on September 28, 2021. The agreement sets out technical

and operational rules for cooperation between the parties in a Division procedure and in order to carry out the Division in accordance with the Division Plan, along with operational rules for the parties following the carve-out date, under the project "Construction of two gas-and-steam units at branch Zespół Elektrowni Dolna Odra".

- On October 1, 2021, the task "Construction of two gas-and-steam units at branch Zespół Elektrowni Dolna Odra" was transferred from PGE GiEK S.A.'s branch Zespół Elektrowni Dolna Odra to PGE Inwest 8 Sp. z o.o (currently PGE Gryfino 2050 sp. z o.o.).

## KEY PROJECT IN OTHER OPERATIONS

| Aim of the project   | Budget <sup>1</sup> | Expenditures incurred <sup>1</sup> | Capital expenditures in 2021 <sup>1</sup> | Fuel/ Net efficiency | Contractor  | Investment completion date | Status   |
|--|---------------------|------------------------------------|---|----------------------|---|----------------------------|--|
| <b>Construction of two CCGT units no. 9 and 10 in Dolna Odra power plant PLN 4.3 billion</b> | PLN 4.3 bn          | PLN 812 m                          | PLN 751 m                                 | Natural gas/ 63%     | Syndicate of companies: General Electric (lider konsorcjum) i Polimex Mostostal | December 2023              | At the December 31, 2021, the progress of work under the Project was estimated at approx. 56%. Works at the construction site are progressing as planned. The foundations of the main building of unit 10 have been completed. The construction of the main buildings is in progress and the installation of the technological - recovery boilers for the units has started. |

<sup>1</sup> Expenditures incurred do not include expenses in the form of advances paid to the General Contractor for the Project and to the other contractors.



## 5.4. Significant events of the reporting period and subsequent events

### IMPACT OF WAR IN UKRAINE ON PGE GROUP'S ACTIVITIES

PGE is the largest energy company in Poland. PGE's units meet approx. 43% of the country's electricity demand and serve over 5.5 million customers, while PGE's distribution area covers over 40% of Poland's territory, including areas on the border with Ukraine and Belarus. The Group's activities are therefore of exceptional importance for the country's energy security. It is crucial for PGE Group to secure the continuity of operation of power plants and CHPs and distribution infrastructure so as to ensure uninterrupted supplies of electricity and heat to residents, institutions and businesses.

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

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

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

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

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

### KEY AREAS IN PGE GROUP AFFECTED BY THE WAR IN UKRAINE

- fuel availability and prices,
- supply chain,
- cybersecurity,
- geopolitics,
- macro-economy (including exchange rates and interest rates),
- prices of CO<sub>2</sub> emission allowances,
- foreign regulatory environment,
- counterparties.

### PGE'S KEY OPERATING RISKS RELATED TO THE WAR IN UKRAINE

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

### RISKS RELATED TO GAS SUPPLIES

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

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

### IMPACT OF FUEL AVAILABILITY CONSTRAINTS ON ELECTRICITY GENERATION

- In the case of gaseous fuel, due to the lack of stock-holding possibilities, reduced availability translates into an immediate disruption in electricity and heat production. However, if there are reserve coal-fuelled water boilers at a given CHP plant, heat production is possible until stocks are exhausted (concerns locations Branch Lublin-Wrotków, Branch Rzeszów, in the case of Branch Gorzów Wielkopolski the production reserve is the coal-fuelled OP-140 steam boiler). At the EC Zielona Góra location, the reserve for heat production is constituted by oil boilers.
- The main suppliers of hard coal for electricity and heat production are Polish mining companies. The generating units have reserves of hard coal to enable uninterrupted production of electricity and heat.

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

### IMPACT OF WAR ON COMMODITY AND FINANCIAL MARKETS:

The war in Ukraine has contributed to dynamic volatility in the commodity, CO<sub>2</sub> emission rights and financial (e.g. currency) markets, affecting margin levels and capital raising possibilities (interest rates). At this point, it is difficult to estimate the scale of the impact of these factors on PGE Group. The markets are under exceptional pressure and, depending on how the situation develops, how long the war lasts, the direction it takes, an equilibrium will be sought. However, at this time it is difficult to discuss any scenario, and this is what will determine attempts to value the risks described. Nonetheless, PGE mitigates risks by continuing its policy of hedging electricity generation costs together with energy sales on the wholesale market, which is

reflected both in hedging CO<sub>2</sub> emission allowances and foreign currencies for transaction purposes. At the date on which these financial statements are approved, the Company has adequate liquidity to carry on its business without material disruption.

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

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

#### IMPACT OF THE COVID-19 PANDEMIC ON PGE GROUP'S OPERATIONS

PGE Group identifies, on an ongoing basis, the risk factors that affect the Group's performance in connection with the COVID-19 pandemic. In 2021, the impact of the pandemic on financial performance remained limited. The nature and scale of possible further effects are difficult to estimate. The occurrence and reach of subsequent waves of the disease, the possibility of introducing restrictions and their impact on economic activity in Poland will be of importance. At the same time, the accuracy of estimates remains difficult in view of a number of other factors affecting the power market, including the level of demand for electricity.

The outbreak of the pandemic caused an economic slowdown in 2020 due to economies being frozen, with GDP declining by 2.5% in Poland and 6.4% in the Eurozone. GDP and industrial production rebounded sharply in 2021 as the subsequent waves of the pandemic did not reduce economic activity in a significant manner. In real terms, GDP grew 5.7% in Poland and 5.2% in the Europe.

Nevertheless, another implementation of restrictions may result in the reduced level of economic activity, which may create risk that the lower level of domestic electricity consumption will continue periodically, what may have impact on the decrease in revenues and margins from energy generation, distribution and sales in the Conventional Generation, Distribution, Supply, as well as in District Heating segment. PGE Group largely contracts the sale of electricity produced for the next years in advance, which allows to hedge itself in this respect against the potential effects of a recurrence of the epidemic or economic recession.

If the pandemic situation were to deteriorate, the Supply segment would face the risk of a decline in demand for electricity, which could result in lower sales to end users and a higher cost to balance electricity. Also in the Distribution segment, a lower volume of deliveries made to final off-takes would directly translate into lower revenues earned on this account.

As at December 31, 2021, the impact of the expected increase in payment congestion, especially regarding receivables from small and medium-sized enterprises, was not significant. The Group created additional write-offs on receivables in the amount of PLN 12 million. On the other hand, depending on the further epidemiological and economic situation, the risk of deteriorated liquidity of PGE Group and increased impairment losses on overdue receivables still exists and is monitored on an ongoing basis. Currently, the Group does not expect the occurrence to be more material and does not identify any liquidity risk.

PGE Group's plants are of strategic importance for maintaining undisturbed production and supply of electricity and heat in Poland. The COVID-19 pandemic has affected the change of work organisation, especially with respect to PGE Group's generation units. In many cases, this involves additional costs resulting from, for example, the purchase of protective materials for employees. Since the beginning of the pandemic, the Group has introduced work rules that aim to reduce, as much as possible, the health risk for employees. As one of the largest employers in Poland, with approx. 38 thousand employees, PGE Group takes a number of measures related to the organisation of work to ensure business continuity, protect the health and life of its employees, including the implementation of teleworking and rotational work, raising awareness of, in particular, the basic principles of protection against coronavirus, prevention and quarantine. Due to the introduction of appropriate countermeasures at the early stage of the pandemic, PGE Group has been continuously producing electricity and heat and ensuring their uninterrupted supply.

PGE Group additionally conducts communication activities aimed at employees, to build awareness of the positive effects of vaccinations - both individual and social. In addition, internal communication is carried out related to the course of the pandemic and encouraging to minimise the risk of infection - that is, keeping a distance, washing hands frequently or using office spaces in a safe way. PGE has established a Crisis Team to collect information from all Group companies, monitor the situation in individual companies on an ongoing basis and take appropriate steps. The production branches also have plans for operation with increased absenteeism that are developed and verified on an ongoing basis, and as plants of strategic importance from the point of view of maintaining undisturbed production and supply of electricity and heat, they are in constant contact with local authorities responsible for monitoring the situation in the country in all locations of PGE Group entities.

In the area of retail customer service, PGE Group focused primarily on expanding remote service channels.

#### IMPAIRMENT TESTS ON PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND GOODWILL

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

At June 30, 2021, the Group analysed impairment indications and identified factors that could result in changes to the asset values in the Conventional Generation and Renewables segments. The tests showed no need to recognise an impairment loss for the Conventional Generation segment and the necessity to reverse the impairment loss for the Renewables segment. An analysis of the indications for conducting impairment tests in the District Heating segment did not show the need to conduct these tests.

In the fourth quarter of 2021 the Group once again analysed impairment indications in order to identify factors that could result in changes to the asset values. In the Conventional Generation and Renewables segments no such factors were identified. In the case of the District Heating segment, tests for impairment were carried out due to the adopted Decarbonization Plan until 2050, the purpose of which is to meet the regulatory requirements for the energy sector and to maintain the current generation potential in the long term in order to meet the needs of customers. The tests performed showed no need to make an impairment for the District Heating segment.

The results of the impairment tests are described in Note 3 to the consolidated financial statement.

The impairment test results were disclosed in the current report of PGE S.A.:

[Information on the result of impairment tests](#)

#### ACTIVITIES RELATED TO NUCLEAR ENERGY

##### BUSINESS PARTNERSHIP AND SALE OF 100% SHARES IN PGE EJ 1 TO THE STATE TREASURY

Until the end of the first quarter of 2021, company PGE EJ 1 (set up in 2010) was part of the PGE Capital Group. In 2014, a shareholder agreement was signed, pursuant to which ENEA S.A., KGHM Polska Miedź S.A. and TAURON Polska Energia S.A. each purchased from PGE a 10% stake in PGE EJ1 (30% in total).

In the first quarter of 2021, talks regarding the acquisition by the State Treasury of 100% shares in PGE EJ1 from PGE and other partners continued. The intention to conclude such transaction was expressed in the Letter of Intent signed on October 1, 2020 between PGE, KGHM Polska Miedź S.A., TAURON Polska Energia S.A., ENEA S.A. and the State Treasury.

The business model for Polish nuclear power plants envisaged in the Nuclear Power Programme updated in October 2020, provides for the State Treasury's acquisition of 100% of shares in the special purpose company responsible for investments in nuclear power in Poland, i.e. PGE EJ1 Sp. z o.o.

On March 26, 2021 PGE, KGHM Polska Miedź S.A., TAURON Polska Energia S.A., ENEA S.A. and the State Treasury concluded an agreement to sell 100% shares in PGE EJ 1 to the State Treasury. In accordance with the provisions of the agreement, PGE sold to the State Treasury 3 727 661 shares of PGE EJ1, constituting 70% of the share capital of PGE EJ1 and representing 70% of votes at the Assembly of Partners. The sale price for all shares amounted to PLN 531 362.0 thousand, out of which PGE received PLN 371 953.4 thousand.

In accordance with the provisions of the agreement, the transfer of ownership of shares took place on the payment date by the State Treasury what was made on March 31, 2021. On that day, PGE ceased to be the parent company of PGE EJ 1 sp z o.o. within the meaning of the Commercial Companies Code.

Following the transaction, PGE EJ1 is no longer a company of the PGE Capital Group.

Sale of shares in PGE EJ1 constitutes the implementation of one of the activities provided in the PGE Group's Strategy until 2030 announced on October 19, 2020.

The sale of shares in PGE EJ 1 was described in the current report of PGE S.A.:

[Signing of the agreement for the sale of PGE EJ 1 shares](#)

#### COMPENSATIONS FROM WORLEYPARSONS

On March 26, 2021 PGE, KGHM Polska Miedź S.A., TAURON Polska Energia S.A. and ENEA S.A. signed with PGE EJ1 an annex to the agreement dated April 15, 2015 regarding WorleyParsons, according to which PGE, KGHM Polska Miedź S.A., TAURON Polska Energia S.A. and ENEA S.A. are proportionally responsible for liabilities or are proportionally entitled to claims that may potentially arise as a result of resolution of a dispute with WorleyParsons, up to the level of claims together with accrued interest as at March 26, 2021.

Detailed information are described in note 28.1 to the consolidated financial statements.

#### LEGAL ASPECTS

##### THE ISSUE OF COMPENSATION REGARDING THE CONVERSION OF SHARES

Information on the issue of compensation regarding the conversion of shares are described in note 28.3 to the consolidated financial statements.

##### INFORMATION CONCERNING PROCEEDINGS IN FRONT OF COURT, BODY APPROPRIATE FOR ARBITRATION PROCEEDINGS OR IN FRONT OF PUBLIC ADMINISTRATION AUTHORITIES

Significant proceedings pending in front of courts, competent arbitration authority or public administration authority are described in note 28.3 to the consolidated financial statements.

##### TERMINATION BY ENEA S.A. OF AGREEMENTS FOR SALE OF CERTIFICATES

Information on termination by ENEA S.A. of agreements for sale of certificates are described in note 28.3 to the consolidated financial statements.

##### INFORMATION CONCERNING THE GUARANTEES FOR LOANS GRANTED BY THE COMPANY OR A SUBSIDIARY

Within the Group, as at December 31, 2021 PGE S.A. and subsidiaries did not grant guarantees to other entities or to a subsidiary, where a value of guarantees constitutes at least 10% of the Company's equity.

##### INFORMATION ON ISSUE, REDEMPTION AND REPAYMENT OF DEBT SECURITIES AND OTHER SECURITIES

Information on issue, redemption and repayment of debt securities and other securities is described in p. 7.1 of the foregoing report and in note 1.3 to the consolidated financial statements.

## TRANSACTIONS WITH RELATED ENTITIES

Information about transactions with related entities is presented in note 31 to the consolidated financial statements.

### SUBMITTING OF AN INITIAL NON-BINDING OFFER FOR ACQUISITION OF SHARES IN FORTUM GROUP'S ASSETS BY A CONSORTIUM WITH PARTICIPATION OF PGE

On October 27, 2020, an investment consortium, a part of which was PGE, has submitted an initial, non-binding offer to purchase district heating and cooling businesses in Estonia, Lithuania, Latvia and Poland from Fortum Holding B.V. The participants of the consortium are: PGE, Polskie Górnictwo Naftowe i Gazownictwo S.A., PFR Inwestycje FIZ (Closed-end investment fund) which is managed by Polski Fundusz Rozwoju S.A. (Polish Development Fund) and IFM Investors Pty Ltd.

On November 16, 2020 PGE and Polskie Górnictwo Naftowe i Gazownictwo S.A. (the "Partners"), submitted a revised, initial non-binding offer to acquire assets owned by Fortum Holding B. V.

Under the revised Offer, the Partners were bidding for the district heating business operated by Fortum Holding B.V. exclusively in Poland. PGE further announces that the Partners abandoned their original intention to purchase the Fortum Group's assets operating in Estonia, Lithuania and Latvia, and decided they would not participate in the investment consortium with PFR Inwestycje FIZ and IFM Investors Pty Ltd.

On December 21, 2021, PGE received a statement of Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG) on withdrawal from participation in acquisition of Polish assets of Fortum Group and from co-operation with PGE conducted for the purposes of the transaction process.

Regardless of the Partner's decision, PGE expressed interest in acquiring Fortum Group's assets in Poland, in particular the heating network in Wrocław. However, in March 2022, the Company learned that Fortum has completed a review of strategic options for selected business segments, including, inter alia, for heating assets in Poland, and decided to continue their development within Fortum Group. Thus, the above process is no longer carried out.

Current reports of PGE S.A.:

[Submitting of an initial non-binding offer for acquisition of shares in Fortum Group's assets](#)

[Submitting of an initial non-binding offer for acquisition of shares in Fortum Group's assets - p.2](#)

[Submitting of an initial non-binding offer for acquisition of shares in Fortum Group's assets - p.3](#)

### SUBMITTING OF AN INITIAL NON-BINDING OFFER FOR ACQUISITION OF SHARES IN ASSETS OF ČEZ GROUP BY A CONSORTIUM WITH PARTICIPATION OF PGE

On December 11, 2020 PGE and PGNiG jointly submitted a non-binding offer to ČEZ a.s. („ČEZ”) to acquire Polish assets of ČEZ Group.

On February 10, 2021 PGE received a statement of PGNiG on withdrawal from participation in acquisition of Polish assets of ČEZ Group and from co-operation with PGE conducted for the purposes of the transaction process.

Regardless of the Partner's decision, PGE expressed interest in acquiring selected Polish assets of ČEZ Group. However, in November 2021, the Company learned that ČEZ stopped the process of selling its energy assets in Poland. Thus, the above process is no longer carried out.



### APPROVAL OF THE ENERGY POLICY OF POLAND UNTIL 2040 ("PEP2040")

On February 2, 2021, the Council of Ministers approved the Energy Policy of Poland until 2040. PEP2040 is a vision for Poland's energy transition strategy, presenting inter alia, a proposed structure of electricity generating units. According to PEP2040, the share of zero-emission units will grow and the share of coal units will decrease. The full text of PEP2040 was published on March 10, 2021.

The pace of energy transition and trends assumed in PEP2040 have recently accelerated and strengthened significantly. In July 2021, the European Commission published the Fit for 55 legislative package, aimed at, inter alia, achieving the reduction of greenhouse gas emissions in the EU by 55% (previously 40%) by 2030 compared to 1990. As expected by market participants, the reform of the EU ETS included in the package should result in a significant increase in the price of CO<sub>2</sub> emission allowances, which in practice took place in the first half of the current year. As a result, the current level of prices of CO<sub>2</sub> emission allowances significantly differs from the assumptions of PEP2040. Another important element that differs significantly from the assumptions of the Policy is the dynamic increase in photovoltaic capacity as a result of the operation of numerous co-financing programs, a discount system for prosumers and RES auctions. As a result, the level of installed capacity assumed for 2030 has already been achieved.

In view of the above, to assess the recoverable amount of its generation assets, PGE Group adopted assumptions that take into account the current market and regulatory situation. Possible future differences compared to the adopted assumptions may lead to changes in the financial situation and financial results of the PGE Group and will be included in future financial statements.

### SIGNING OF AN INVESTMENT AGREEMENT WITH ØRSTED REGARDING OFFSHORE WIND PROJECTS

On February 10, 2021, entities from PGE and Ørsted group concluded an agreement, according to which the parties determined their share at 50% in two offshore projects developed until now by PGE Group: Baltica-2 (through SPV named EWB2 with potential capacity of approximately 1.5 GW) and Baltica 3 (through SPV named EWB3 with potential capacity of approximately 1 GW).

The Investment Agreement constitutes a legal framework for the establishment of a joint venture dedicated to the development, construction and operation of the Baltica-2 and Baltica-3 offshore wind power farms.

On May 6, 2021, following the fulfilment of the conditions precedent the transaction was finalised. As part of the transaction the Ørsted group subscribed for the shares representing 50% of the share capital of EWB2 and EWB3 – the companies developing two offshore windfarms: Baltica-2 and Baltica-3. Upon the registration of the share capital increase, Ørsted and PGE became 50/50 partners in the joint ventures.

The total subscription price for 50% of the shares in Baltica-2 and Baltica-3 amounted to the equivalent of approx. PLN 686 million. Upon the fulfilment of certain assumptions, the relevant investors from Ørsted group will be required to provide EWB2 and EWB3 with additional cash contributions which may amount in total up to PLN 1 024 million.

At the closing of the transaction the entities from both Ørsted and PGE groups entered into a number of documents separately for each EWB2 and EWB3, including notably:

- the shareholders' agreements regulating, inter alia, the corporate governance of the joint ventures, functioning of integrated project teams, obligations of the parties related to the funding of and providing for other support to the joint ventures, restrictions regarding the transfer of interest on the joint ventures as well as the consequences of any events of default and change of control;
- the development services agreements regulating the provision of development services to the joint ventures by the respective affiliates of both parties;
- the resource provisions agreements based on which both parties will delegate personnel to the joint venture;
- the shareholder loan agreements under which the shareholders will provide debt financing (in addition to equity financing) to the joint ventures;

- the corporate guarantees issued by both PGE and Ørsted Wind Power A/S under which both parties guarantee the commitments of their respective subsidiaries in the development stage of the projects.

Current reports of PGE S.A.:

[Signing of an investment agreement with Ørsted regarding offshore wind projects](#)

[Closing of the transaction regarding offshore wind projects](#)

#### COMMISSIONING OF UNIT NO. 7 IN TURÓW POWER PLANT

On February 25, 2021 PGE GiEK, after detailed analysis of the Consortium's proposal for change in the schedule and price of the contract with regard to methodic accuracy of assumptions taken, reasons for delay and planned methods of further management of the project execution, concluded a settlement agreement in front of the mediator that concerns designing and turn-key construction of power unit in Turów power plant, being realized by consortium including companies: Mitsubishi Hitachi Power System GmbH (Consortium leader), Tecnicas Reunidas S.A. and Budimex S.A. The value of the Agreement was increased by approx. PLN 108 million net, i.e. to PLN 3 755 million net. The commissioning date of the unit was postponed by 6 months i.e. until April 30, 2021.

On April 30, 2021 the Management Board of PGE had taken about the another postponement of the completion of the investment, resulting in changing the commissioning date of the unit no. 7 to May 14, 2021.

A scheduled standstill of unit 7 at the Turów plant, resulting from contractual provisions, began on June 19, 2021. During that time, the Consortium made a technical inspection of the equipment after the first month of the unit's operation. Optimisation and maintenance work was carried out. All activities carried out by the Consortium on the new generating unit are standard and are aimed at ensuring its stable operation in the future. On July 24, 2021, unit 7 was re-integrated into the national power system.

In the following months, shutdowns were also made to eliminate the identified malfunctions. The works were carried out by the general contractor of the investment, who under the signed "turnkey" contract for the construction of a unit was obliged to eliminate faults that were not caused by the fault of the investor.

All works carried out by the general contractor are aimed at further, stable operation of the new generation unit in Turów.

Current reports and press releases of PGE S.A.:

[Signing of the settlement agreement regarding the unit in Turów](#)

[Delay of the commissioning of the unit no. 7 in Turów power plant](#)

[Unit No. 7 at Turów Power Plant at full disposal for PSE](#)

#### CZECHIA'S COMPLAINT AGAINST POLAND REGARDING PROLONGATION OF MINING CONCESSION FOR KWB TURÓW MINE

On September 30, 2020 the Czech Republic lodged a letter with the European Commission pursuant to art. 259 of the Treaty on the Functioning of the European Union initiating a proceeding against Poland for alleged violations of EU law in connection with the extension of the term of the concession for lignite mining for 6 years for KWB Turów (Turów lignite mine). The case was given a reference number C-121/21.

On December 17, 2020 the European Commission issued a reasoned opinion in which it agreed with some of the infringements alleged by Czechia, at the same time indicating that the prolongation of KWB Turów's functioning did not infringe on the provisions of the water framework directive. The European Commission also emphasised that some of the other infringements alleged by Czechia were unfounded.

On February 26, 2021 the Czech government lodged a complaint against Poland with the Court of Justice of the European Union. A summary of the complaint and key arguments were published in the EU Official Journal



on April 19, 2021. The Member States are parties to the proceedings, which excludes the possibility of participation of natural and legal persons, even if the case is directly connected with their activities.

On May 21, 2021 the Vice-President of the Court of Justice of the European Union issued an order on an interim measure as follows: "Poland must immediately cease lignite extraction activities in the Turów mine until a judgment of the Court brings case C-121/21 to an end." An interim measure does not rule on the merits of the case.

On June 9, 2021, the European Commission joined the main proceedings as an intervener supporting some of the claims of the Czech side. In the interim measure procedure, the Czech Republic additionally demanded a fine for each day of non-compliance with the decision to immediately cease lignite mining. At the same time, the Republic of Poland applied for annulment of the decision on interim measures due to a change in circumstances within the meaning of art. 163 of the Rules of the Court of Justice. In accordance with the decision of September 20, 2021, the Vice-President of the Court of Justice dismissed the request to revoke the interim measure and ordered Poland to pay the European Commission a fine in the amount of EUR 500 000 per day, starting from the date of delivery to Poland of the decision until that Member State complies with the decision of May 21, 2021. In the opinion of the Company, it is not possible to transfer the above-mentioned penalties onto PGE Group companies.

A hearing at the EU Court of Justice was held on November 9, 2021.

On February 3, 2022, the Advocate General issued an opinion on the complaint and found some of the Czech side's allegations to be legitimate.

On February 3, 2022 the prime ministers of the Polish and Czech governments initialled a bilateral agreement setting out the terms for withdrawal of the Czech Republic's case from the Court of Justice of the European Union. On February 4, 2022 the Czech Republic informed the Court that, pursuant to art. 147 § 1 of the Rules of Procedure, as a result of the settlement of the present dispute concluded with the Republic of Poland, it waives all claims. Accordingly, on February 4, 2022 the President of the Court of Justice issued an order removing the case from the register.

On February 7, 2022, an Agreement was executed between PGE GiEK S.A., PGE S.A. and the State Treasury defining rules for cooperation in executing the Agreement executed on February 3, 2022 between the Government of the Czech Republic and the Government of the Republic of Poland on cooperation in respect of the impact on the territory of the Czech Republic of KWB Turów's operations.

Pursuant to this Agreement, PGE GiEK S.A. undertook to build an earth embankment, monitor noise, monitor air quality, drill four boreholes to monitor water aquifer levels, complete the construction of an anti-filtration screen, carry out land displacement measurements and replace the lighting system at KWB Turów.

PGE GiEK S.A. further pledged to undertake activities for the donation of EUR 10 million by the PGE Foundation for the Liberec Region in the Czech Republic. The donation was made in February 2022.

#### CONSTRUCTION OF GAS AND STEAM CHP PLANT IN SIECHNICE (NEW CZECHNICA CHP PLANT)

On March 1, 2021 the Management Board of KOGENERACJA S.A. decided on:

- conditional approval of selection of the offer by consortium consisting of Polimex Mostostal S.A. (Consortium Leader) and Polimex Energetyka sp. z o.o. (Consortium Partner) submitted in the procurement procedure titled „Turn-key construction of CCGT combined heat and power plant for Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. in Siechnice”,
- giving consent for conditional signing of the agreement with the above mentioned consortium.

On March 5, 2021 the Supervisory Board of the company adopted resolution on giving consent to pursue the above investment, in connection with which new fixed assets will be created with a value exceeding PLN 10 million, provided that the Energy Regulatory Office (ERO) President grants a co-generation individual premium to the Company for unit New Czechnica CHP plant, on the ground of the Act of December 14, 2018 on promotion of electricity from highly-efficient co-generation.

On March 12, 2021 the company received a co-generation individual premium for unit New Czechnica CHP plant, by the decision by the ERO President.

On April 1, 2021, the Extraordinary General Meeting of the company adopted resolution on giving consent to acquisition of non-current assets, within the meaning of the Accounting Act of September 29, 1994, exceeding PLN 10 million through giving consent to pursue agreement for construction of CCGT combined heat and power plant in Siechnice, on the ground of agreements with a syndicate of: Polimex Mostostal S.A. and Polimex Energetyka sp. z o.o. with a value of approx. PLN 1.2 billion net and the corresponding LTSA with a value of approx. PLN 118 million net.

Thus, on April 1, 2021 the last condition was fulfilled with regard to the acceptance of the selection of the consortium.

On June 23, 2021 an agreement (the "Agreement") was concluded with syndicate of companies Polimex Mostostal S.A. and Polimex Energetyka sp. z o.o. for construction of gas and steam CHP plant in Siechnice for KOGENERACJA S.A.

Subject matter of the Agreement is realisation by the contractor of turn-key construction of CCGT unit with a total gross capacity of 179.4 MWe and 162.9 MWt, heat accumulator and four water boilers with total capacity of 152 MWt. New units will replace currently existing hard coal-fired CHP plant. The value of the Agreement for construction of CHP (EPC agreement) amounts to PLN 1 159 million net.

In connection with the EPC agreement, a LTSA (Long-Term Service Agreement) was also signed with regard to service for 103 months starting from the commissioning date of the units. The value of the LTSA amounts to PLN 25 million net and EUR 21 million net. The total value of all concluded contracts amounts to approx. PLN 1 278 million net (according to the average EUR/PLN exchange rate on June 21, 2021).

The project schedule provides for the commissioning of the CCGT unit in the second quarter of 2024.

Current reports of PGE S.A.:

[Conditional approval of offer for construction of New Czechnica CHP plant.](#)

[Fulfilment of conditions necessary to sign a contract for construction of gas New Czechnica CHP plant.](#)

[Signing of a contract for construction of gas and steam CHP plant Czechnica.](#)

#### GRANTING OF CONTRACTS FOR DIFFERENCE FOR PGE GROUP'S OFFSHORE WIND FARMS

On April 7, 2021, the ERO President awarded right to cover negative balance of electricity (the "Contract for Difference", "CfD") to the Baltica-2 and Baltica-3 offshore wind farms with a total capacity of up to 2.5 GW. The right to the CfD guarantees a price at a maximum of PLN 319.60/MWh in accordance with the Decree of the Minister of Climate and Environment of Poland and the Act of December 17, 2020 on promoting electricity generation in offshore wind farms. The CfD award, including the final price, is subject to final approval from the European Commission.

The PGE Group and Ørsted have started a process of individual negotiations with the European Commission regarding the determination of an individual price in the Contract for Difference. A set of documents - required for the so-called offshore act - was filed. They documents were verified by the ERO and the Office of Competition and Consumer Protection ("UOKiK") and then at the beginning of February 2022, they were submitted to the European Commission.

The decision of the European Commission is expected in 2022.

Current report of PGE S.A.:

[Granting of contracts for difference for PGE's offshore wind farms.](#)

### RECOMMENDATION NOT TO PAY DIVIDEND FOR 2020

On April 27, 2021, the Management Board of PGE decided on the recommendation not to pay dividend for 2020 to the PGE's shareholders. Decision was taken in accordance with the dividend policy, particularly following the analysis of the Company's indebtedness in the context of the implementation of the investment program, in line with the assumptions of the PGE Group's Strategy until 2030.

During a General Meeting on June 29, 2021, the shareholders of PGE S.A. decided to allocate all of the 2020 profit to supplementary capital.

Current report of PGE S.A.:

[Recommendation not to pay dividend for 2020.](#)

### PROLONGATION OF COAL MINING CONCESSION FOR KWB TURÓW TO 2044

On April 28, 2021 the Minister of Climate and Environment prolonged the existing concession for the mining of lignite and associated minerals at the "Turów" deposit to 2044.

According to the Minister of Climate and Environment, the continued mining of lignite and accompanying minerals at the "Turów" deposit is compliant with the rational deposit management concept therefore the issue of the decision making it possible for the mining facility to continue operating was justified.

Complaints and requests for reconsideration were filed with regard to the decision to extend the concession.

In both cases, the proceedings are pending, but - also based on legal opinions - in the opinion of the PGE Group, there is no significant risk that the license will not be extended until 2044.

### SHUT-DOWN OF 10 UNITS AT BEŁCHATÓW POWER PLANT

On May 17, 2021, 10 units of Bełchatów power plant with a total capacity of approx. 3 900 MW were shut down as a result of reasons at the side of PSE S.A. All units were put back to operation on May 18, 2021. The shutdown did not result in interruptions in electricity supplies and was not felt by consumers. The reason for the shutdown was a disturbance at the Rogowiec power station, to which 11 units of the Bełchatów Power Plant are connected.

### PLANNED TRANSFER OF COAL ASSETS TO THE NATIONAL ENERGY SECURITY AGENCY

July 23, 2021 PGE S.A., ENEA S.A., TAURON Polska Energia S.A. and ENERGA S.A. concluded an agreement with the State Treasury regarding cooperation in the process of separating off coal energy assets and their integration into NABE.

On March 1, 2022, the Council of Ministers adopted a resolution on accepting the document: "Transformation of the electricity sector in Poland. Separation of generation coal assets from companies with State Treasury shareholding ". According to the document, the asset spin-off process will be pursued through acquisition by the State Treasury from PGE S.A., ENEA S.A., TAURON Polska Energia S.A. and ENERGA S.A. all assets related to the generation of energy in hard coal-fired and lignite-fired power plants, including service companies providing services to them. Due to the inseparability of lignite-fired energy complexes, lignite mines will also be among the acquired assets. Assets related to hard coal mining will not be transferred to the entity dealing with generation of electricity in coal units. CHP plants will not be subject to this transaction, as they are planned to be modernized towards low and zero-emission sources. The assets may be carved out from the energy groups through the following:

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

NABE will operate as a holding company, with PGE GiEK S.A. as the parent company, and the companies being acquired from ENEA, TAURON and ENERGA as subsidiaries in its group.

NABE will be a fully self-sufficient entity, capable of procuring all internal and external functions, i.e. HR, IT, procurement, trading, to ensure seamless operations either independently or – in the transition period – based on contracts signed with external entities, including companies from which the assets are being carved out.

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

The method of settlement of the transaction, due to the indebtedness of the generation companies towards parent entities in their capital groups, will be subject to detailed arrangements between the State Treasury and the current owners and creditors.

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

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

According to the framework schedule for the carve out of the coal-fired energy assets and their integration into NABE, the commencement of the due diligence process is scheduled for Q3/Q4 2022, and the valuation of the carved-out companies for Q4 2022. The sale of assets to NABE is planned for Q4 2022.

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

Current report of PGE S.A.:

[Agreement regarding co-operation in spin-off of coal assets to National Energy Security Agency.](#)

#### [AFFIRMATION OF PGE'S RATING AT BAA1 WITH STABLE OUTLOOK](#)

On June 30, 2021 Moody's Investors Service affirmed rating for PGE S.A. at Baa1 and its stable outlook.

According to the opinion issued by this institution, the rating affirmation reflects PGE's currently strong financial risk profile, which provides the Company with some flexibility to absorb a large investment program and withstand potential changes in Poland's electricity market.

According to Moody's, the Polish government's plan to transform the domestic utility sector will be supportive of PGE's credit risk profile. A spin-off of the coal assets would strengthen the company's business risk profile since PGE would be able to implement its corporate strategy, focused on increasing already high share of regulated earnings from distribution grid operations and district heating and growth of generation from renewable energy sources.

#### [AGREEMENT BETWEEN PGE S.A. AND POLSKA GRUPA GÓRNICZA S.A. \("PGG"\) REGARDING COAL SUPPLIES](#)

On August 27, 2021 PGE S.A. and PGG signed an agreement concerning hard coal supply contracts. This agreement regulates rules for further cooperation until 2023 under existing multiannual contracts. Most importantly, issues related to coal supplies that could not have been collected by PGE S.A. as a result of decreased demand for electricity in connection with the COVID-19 pandemic were addressed.

The agreement guarantees the continuity of cooperation and allows PGG to function without interruptions, while for PGE S.A. it provides market-based conditions for receiving the contracted hard coal.

PGE's press release:

[Coal supply agreement.](#)

#### CONSTRUCTION OF OFFSHORE WIND FARMS BY PGE S.A., TAURON POLSKA ENERGIA S.A. AND ENEA S.A.

PGE S.A. signed conditional agreements with TAURON Polska Energia S.A. and ENEA S.A. for the sale of shares in 4 project companies, whose task will be to obtain location permits for the construction of offshore farms in the Polish Exclusive Economic Zone in the Baltic Sea.

The agreements are conditional. The Office of Competition and Consumer Protection's consent is the only condition precedent for both preliminary agreements. The application to the President of the UOKiK for the concentration of PGE with Enea was filed on July 5, 2021, while the consent to the concentration was issued on December 23, 2021. The application to the President of the UOKiK for PGE's concentration with Tauron Polska Energia was filed on October 28, 2021. The consent for the concentration was issued on January 10, 2022.

PGE's press release:

[Construction of offshore wind farms.](#)

#### SALE OF ELBEST SP. Z O.O. HOTELS AND FACILITIES TO POLSKI HOLDING HOTELOWY SP. Z O.O. (PHH)

On December 15, 2021 PHH signed a conditional agreement with PGE S.A. to purchase ten hotels and facilities owned by Elbest Sp. z o.o. On March 4, 2022, the share sale transaction was completed.

The acquisition of Elbest sp. z o.o.'s hotels and facilities by PHH is yet another step in PHH's consolidation of State Treasury-owned hotel businesses while for the PGE Group it is an element of streamlining the structure and carrying out tasks aimed at focusing on the core business.

PGE's press release:

[Sale of Elbest hotels to PHH.](#)

#### RESULT OF MAIN CAPACITY MARKET AUCTION FOR THE YEAR 2026

On December 20, 2021 PSE S.A. published preliminary results of the main capacity auction for year 2026, including the clearing price of 400.39 PLN/kW/year. The price of capacity obligation in multi-year contracts will be adjusted every year with the annual average consumer price index.

Total capacity obligation of 1 739.51 MW was ultimately contracted for units owned by PGE Group, including:

- 329.01 MW for new units with 17-years capacity contract,
- 536.24 MW for modernized units with 7-years capacity contract,
- 824.27 MW for existing units with 1-year capacity contract, and
- 50.00 MW for DSR units with 1-year capacity contract.

Final results were published by the President of Energy Regulatory Office on its website (in the section Biuletyn Informacji Publicznej) on the first business day following 21st day after the close of capacity auction.

Total capacity obligation contracted for units owned by PGE Group for the year 2026, including long-term obligations contracted in the auctions for the years 2021-2025, amounts to 9 155 MW.

Current report of PGE S.A.:

[Result of main capacity market auction for the year 2026](#)

[Result of main capacity market auction for the year 2026 - p.2](#)

### PGE'S MANAGEMENT BOARD DECISION ON COMMENCEMENT OF THE RECAPITALIZATION OF THE COMPANY BY WAY OF SHARES ISSUE

On January 18, 2022 the Management Board of PGE adopted the resolution on commencement of the recapitalization of the Company in connection with planned investment projects in the area of renewable energy, decarbonisation and distribution.

The resolution provides for a proposal to the Extraordinary General Meeting of the Company to adopt a resolution on lowering the share capital by way of reducing the par value of shares and simultaneously increasing the share capital by way of issuing series E shares under the private subscription procedure, depriving the existing shareholders entirely of the preemptive right to all series E shares, applying for admission and introduction of series E shares or rights to series E shares to trading on the regulated market of Giełda Papierów Wartościowych w Warszawie S.A. [Warsaw Stock Exchange], dematerialising series E shares or rights to series E shares, as well as amending the Company Statutes.

The intention of the Management Board of the Issuer is to obtain from investors an amount exceeding PLN 3 billion in the course of the capital increase process.

The issue proceeds are intended to support PGE's investments in three areas:

- development of renewable energy sources;
- decarbonisation through development of low-carbon sources;
- development of distribution.

The Extraordinary General Meeting on March 7, 2022 did not adopt a resolutions due to the break in the the proceeding announced until April 6, 2022. Current reports of PGE S.A.:

[Commencement of recapitalisation of the Company](#)

[Convening of the Extraordinary General Meeting](#)

[Draft resolutions for the Extraordinary General Meeting](#)

### SUBMISSION OF APPLICATION FOR A LOCATION PERMIT FOR OFFSHORE WIND FARMS IN THE BALTIC SEA

An application was submitted on February 9, 2022 to the Ministry of Infrastructure for the issue of a new location permit for an offshore wind farm in the Baltic Sea. This is the eighth such application filed by PGE Group. The area covered by the application (14.E.2) is located at Ławica Odrzana.

PGE is currently implementing investments in the Baltic Sea with a total capacity of approx. 3.5 GW on the basis of three location permits secured in 2012. Works carried out in these areas are on schedule. Important administrative decisions concerning, among others, environmental permits for onshore infrastructure related to power evacuation and subsequently construction permits are expected to be secured in the coming months. Tenders for individual investment stages are in progress.

PGE Group's strategic objective in offshore is to develop at least 6.5 GW in capacity by 2040. According to the governmental assumptions stated in Poland's Energy Policy 2040, offshore wind farms in the Polish zone of the Baltic Sea will reach approx. 8-11 GW in capacity by 2040.

There are currently 11 areas available in the Baltic Sea where PGE and other entities may try to secure permits to build and use artificial islands.

PGE's press releases:

[Applications for a location permit for offshore wind farms](#)

[Applications for a location permit for offshore wind farms - p.2](#)

[Applications for a location permit for offshore wind farms - p.3](#)

### AFFIRMATION OF PGE'S RATING BY FITCH AT BBB+ WITH STABLE OUTLOOK

On January 28, Fitch affirmed rating of PGE S.A. at BBB+ with stable perspective. Rating by Fitch reflects PGE's business profile as the largest Polish integrated electric utility with large electricity generation and distribution businesses, and moderate financial leverage. The key positive factors include PGE Group's Strategy, intending transition of the Group's profile towards renewables and low-emission sources, stable revenues from regulated businesses like distribution and capacity market. In addition, the divestment of PGE's coal assets to National Agency for Energy Security, would likely be positive for PGE's credit profile. The potential risk include margin levels in supply segment and a temporary increase in debt related to a high level of investment expenditures.

Moreover, Fitch positively assessed the planned new issue of shares, from which the proceeds are to be spent on development in distribution, renewables and low-emission sources.

PGE's press release:

[Affirmation of rating at BBB+](#)

### EXTENSION OF NON-FINANCIAL REPORTING

The non-financial statements of the PGE Capital Group are prepared in accordance with the requirements of the Accounting Act and based on the best practices and standards in this area. In 2021, in order to meet the expectations of the recipients of the report and the new requirements, the document was enriched with the following issues:

- recognition of the EU environmental taxonomy,
- PGE Group's carbon footprint in three scopes,
- ESG area management,
- management of the Circular Economy,
- approach to climate risk management,
- approach to managing conflicts of interest.



## 5.5. Management of financial resources and financial liquidity

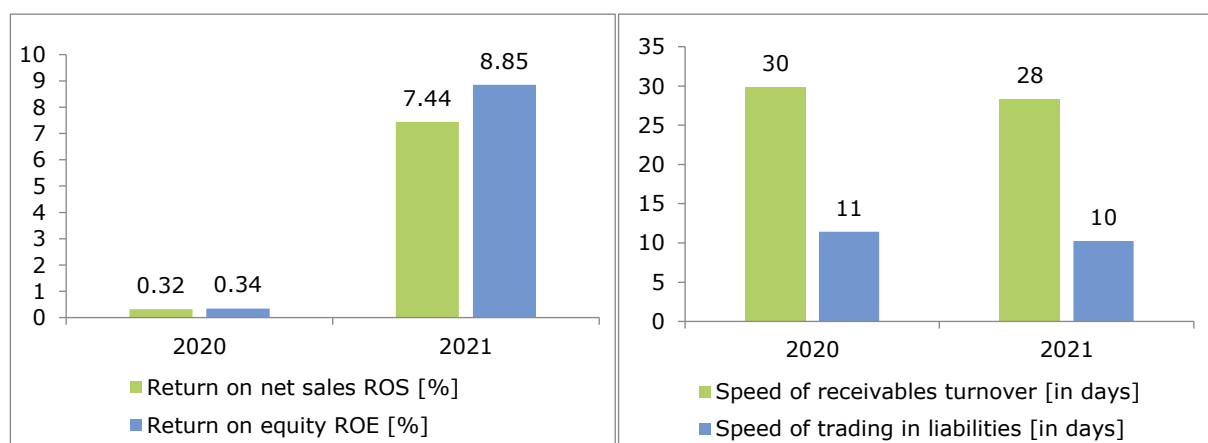
### NET DEBT OF THE GROUP AND MAIN FINANCIAL RATIOS

Table: Group's net debt as at December 31, 2021 and December 31, 2020.

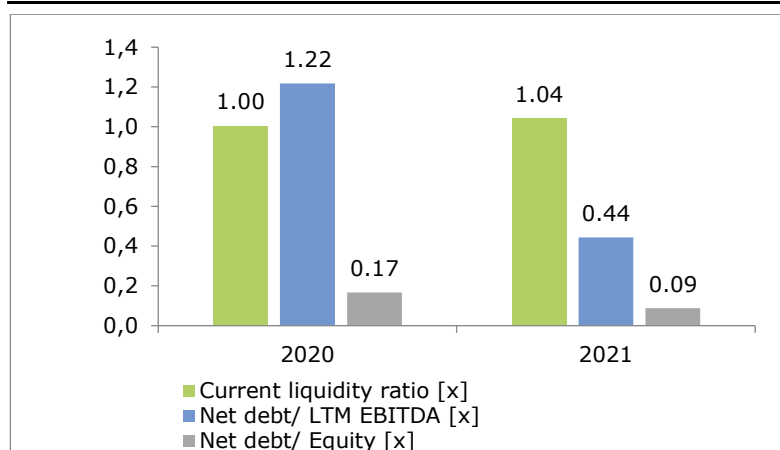
| PLN million   | As at<br>December 31, 2021 | As at<br>December 31, 2020 |
|---|----------------------------|----------------------------|
| Cash on hand and cash at bank                                 | 5 059                      | 1 415                      |
| Overnight deposits  | 5                          | 309                        |
| Short-term deposits   | 1 124                      | 1 423                      |
| VAT - Split payment   | 545                        | 1 042                      |
| <b>Cash and cash equivalents</b>                              | <b>6 733</b>               | <b>4 189</b>               |
| Adjustment for restricted cash <sup>1</sup>                   | -212                       | -93                        |
| Investments held until maturity date<br>(short-term deposits) | 77                         | 46                         |
| <b>Cash at PGE Group's disposal</b>                           | <b>6 598</b>               | <b>4 142</b>               |
| Current loans and borrowings                                  | 2 099                      | 1 318                      |
| Bonds issued - current  | 13                         | 10                         |
| Current lease   | 48                         | 56                         |
| Non-current loans and borrowings                              | 5 757                      | 7 105                      |
| Bonds issued - non-current                                    | 2 033                      | 2 035                      |
| Non-current lease   | 876                        | 885                        |
| <b>Gross financial debt (short and long-term)</b>             | <b>10 826</b>              | <b>11 409</b>              |
| <b>Net financial debt</b>                                     | <b>4 228</b>               | <b>7 267</b>               |

<sup>1</sup>In order to standardise the reporting of net debt (adjustment to the method of calculating covenants in loan agreements), starting from the results for the first half of 2021, there has been a change in the presentation, which also results in a change in the comparable periods (as at December 31, 2020), i.e. restricted cash items include only the funds in PGE Dom Maklerski S.A. clients' accounts as collateral for settlements with IRGiT (the Warsaw Commodity Clearing House).

Charts: Key financial ratios.







#### MANAGEMENT OF FINANCIAL RESOURCES AND FINANCIAL LIQUIDITY

PGE Group's existing financing model takes into account the use of funds from its core activities, debt financing in the form of commercial bank credit facilities and bond programmes, credit facilities from Bank Gospodarstwa Krajowego ("BGK"), credit facilities from multilateral institutions such as the European Investment Bank ("EIB") or the European Bank for Reconstruction and Development ("EBRD") as well as in the form of preferential financing. In order to effectively manage liquidity, within the Group we have introduced a cash-pooling system, with participation of 31 Group companies.

The most important available external financing sources for PGE Group are as follows:

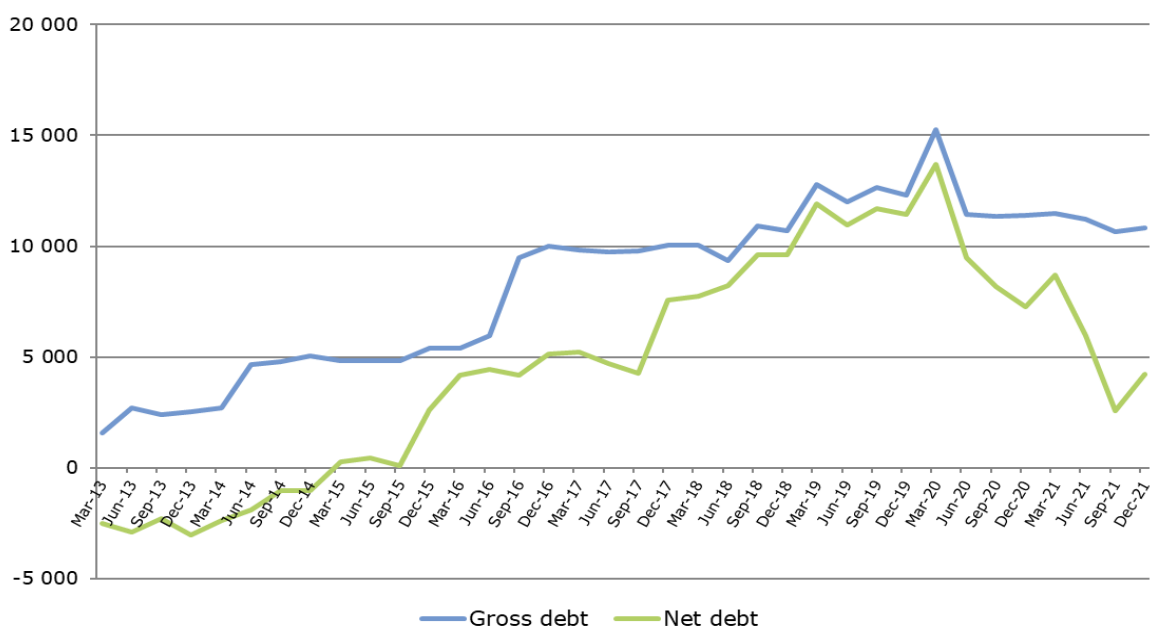
- Domestic bond programme of up to PLN 5.0 billion.
- Euro Medium Term Note (EMTN) bond programme of up to EUR 2.0 billion.
- 2 credit facilities from BGK as part of the "Inwestycje polskie" ("Polish investments") programme, amounting to PLN 1.5 billion in total – amount withdrawn: PLN 1.2 billion.
- Syndicated loan - term facility of PLN 3.6 billion – amount withdrawn: PLN 2.9 billion.
- PLN 2.0 billion credit facilities from the EIB - PLN 1.5 billion will be used for projects related to distribution network modernisation and expansion, while PLN 0.5 billion for financing and re-financing of the construction of cogeneration units.
- Green facility loan of PLN 273 million from EIB for financing of "green projects".
- PLN 500 million credit facility from the EBRD to support implementation of a long-term programme for distribution network development and modernisation – amount withdrawn: PLN 438 million.
- Syndicated revolving loan of PLN 4.1 billion intended for financing of the ongoing operations, financing of the investment and capital expenses and refinancing of the financial liabilities.
- Current-account overdraft facilities.

PGE Group's financing policy features diverse maturities for specific financial instruments, which along with the diversification of financing sources, helps the Group to optimise its financing costs. The Group aspires to implement a responsible financial policy, which entails maintaining its net debt to EBITDA ratios at a level that makes it possible to retain investment-grade ratings.

Diagram: Currency profile of the Group's debt (including hedging transactions) and the Group's debt breakdown by fixed and floating rate (including hedging transactions).

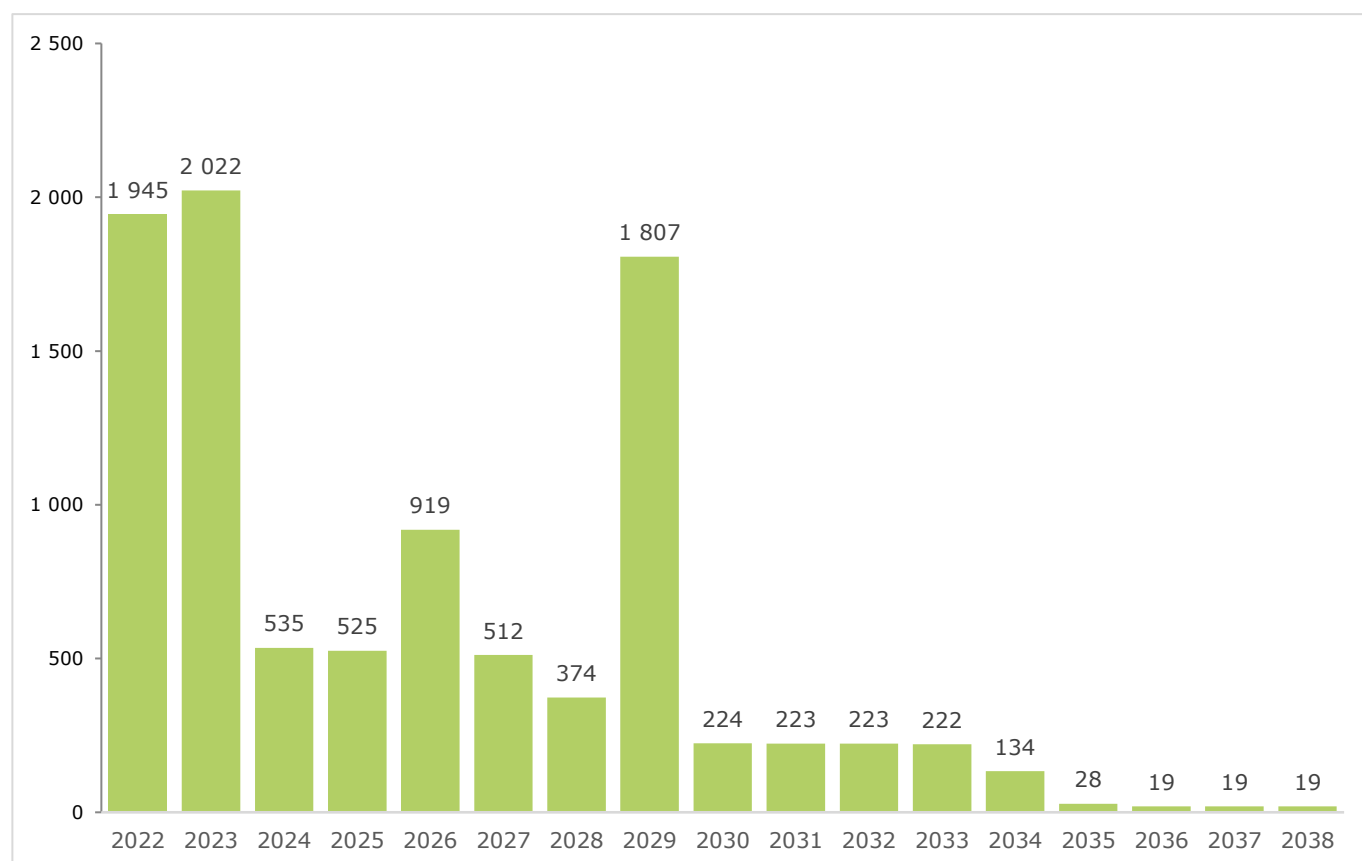


Diagram: Gross debt and net debt (PLN million).



External long-term debt is mainly drawn by PGE S.A. and PGE Sweden AB (Swedish SPV for Eurobonds issues). Companies from the PGE Group have long-term debt under the preferential financing from institutions like National Fund for Environmental Protection and Water Management and Voivodship Fund for Environmental Protection and Water Management. In addition, historical investments loan from Nordic Investment Bank exists in PGE GiEK.

Diagram: Debt maturity profile (PLN million) as at December 31, 2021.



### BONDS ISSUED

| Company (Issuer) | Party of the agreement  | Type of financing     | Signing date of the program (yyyy-mm-dd) | Maturity date of the program (yyyy-mm-dd) | Maximum value of the program (million) | Utilisation (million) | Currency |
|------------------|---|-----------------------|--|---|--|-----------------------|----------|
| PGE S.A.         | Bank Polska Kasa Opieki S.A. and ING Bank Śląski S.A.   | Domestic market bonds | 2011-08-29                               | -   | 5 000                                  | 1 400                 | PLN      |
| PGE Sweden AB    | BNP Paribas, CITIGROUP Global Markets Ltd., ING Bank N.V., London Branch, Nordea Bank Danmark A/S, Powszechna Kasa Oszczędności Bank Polski S.A. and Societe Generale | Eurobonds             | 2015-05-22                               | -   | 2 000                                  | 138                   | EUR      |

### INTRA-GROUP BONDS

| Company (Issuer) | Party of the agreement                        | Type of financing | Signing date of the program (yyyy-mm-dd) | Maturity date of the program (yyyy-mm-dd) | Maximum value of the program (million) | Utilisation (million) | Currency |
|------------------|---|-------------------|--|---|--|-----------------------|----------|
| PGE GiEK S.A.    | ING Bank Śląski S.A.                          | Intra-group bonds | 2011-06-20                               | 2025-12-31                                | 11 558                                 | 5 820                 | PLN      |
| PGE GiEK S.A.    | ING Bank Śląski S.A.                          | Intra-group bonds | 2010-09-13                               | 2025-12-31                                | 4 091                                  | 0                     | PLN      |
| PGE GiEK S.A.    | Powszechna Kasa Oszczędności Bank Polski S.A. | Intra-group bonds | 2009-11-30                               | 2025-12-31                                | 3 700                                  | 3 310                 | PLN      |

### BANK LOANS AND ADVANCES

Table: Information about the most significant bank loans and advances signed in 2021.

| Company (Lender) | Party of the agreement  | Type of financing | Signing date (yyyy-mm-dd) | Maturity date (yyyy-mm-dd) | Liability limit (million) <sup>1</sup> | Currency | Fixed/ floating rate |
|------------------|---|-------------------|---------------------------|----------------------------|--|----------|----------------------|
| KOGENERACJA S.A. | National Fund for Environmental Protection and Water Management | Advance           | 2021-12-10                | 2036-03-31                 | 300.0                                  | PLN      | floating             |

<sup>1</sup> Values over PLN 100 million.

## LOANS GRANTED

Tabela: Advances granted by PGE S.A. and PGE Capital Group companies in 2021.

| Company<br>(Borrower) | Party of the<br>agreement              | Type of<br>financing | Signing date<br>(yyyy-mm-dd) | Maturity date<br>(yyyy-mm-dd) | Liability limit<br>(million)* | Currency | Fixed/ floating rate |
|-----------------------|--|----------------------|------------------------------|-------------------------------|-------------------------------|----------|----------------------|
| PGE S.A.              | PGE GIEK S.A.                          | Advance              | 2021-12-28                   | 2022-12-28                    | 3 000                         | PLN      | floating             |
| PGE S.A.              | PGE Dystrybucja<br>S.A.                | Advance              | 2021-11-08                   | 2022-11-08                    | 700                           | PLN      | floating             |
| KOGENERACJA S.A.      | Elektrociepłownia<br>Zielona Góra S.A. | Advance              | 2021-12-17                   | 2024-12-16                    | 450                           | PLN      | floating             |
| PGE S.A.              | PGE Systemy S.A.                       | Advance              | 2021-10-20                   | 2026-10-20                    | 380                           | PLN      | floating             |
| PGE S.A.              | PGE Obrót S.A.                         | Advance              | 2021-03-16                   | 2023-04-15                    | 350                           | PLN      | floating             |
| PGE S.A.              | PGE Obrót S.A.                         | Advance              | 2021-06-22                   | 2024-06-21                    | 250                           | PLN      | floating             |

\* Values over PLN 100 million.

## GUARANTEES

In connection with the establishment of the EMTN Programme, on May 22, 2014 Deed of guarantee was issued by PGE for the liabilities of PGE Sweden AB (publ). Guarantee amounts to EUR 2 500 million and refers to liabilities of PGE Sweden AB (publ) arising from the issue of the Eurobonds under the Programme up to EUR 2 000 million. Guarantee will be valid until December 31, 2041. Financial terms of the guarantee will depend on the terms of Eurobonds issued by PGE Sweden AB (publ) and the remuneration for the guarantee will be reflected in the interest rates applied to loans granted to PGE S.A.

In 2019, PGE S.A. conducted a public procurement procedure concerning guarantee lines, under which requests for the issue (or annexation) of guarantees are submitted to banks in order to secure transaction deposits and deposits to secure transactions carried out by PGE Dom Maklerski S.A. on the Polish Power Exchange to the account of customers, i.e. PGE S.A. and companies from the PGE Group or transactions carried out by PGE S.A. and companies from the PGE Group on the Polish Power Exchange, whose clearing entity is IRGIT. In addition, the guarantees issued may constitute security for agreements related to the offsetting of security deposits within power groups established for the benefit of the PGE Group companies or the related surety agreements concluded with IRGIT. Agreements concerning guarantee lines are in effect until June 2023.

In December 2020, an agreement was concluded between PGE S.A. and BGK for establishment of a guarantee line in the amount of PLN 250 million. Under the agreement, PGE S.A. may request issuance of bank guarantees for the liabilities of PGE S.A. and selected companies from the PGE Group for a period of 36 months from January 2021 with the guarantee validity period of up to 5 years.

In December 2020, a deed of guarantee was issued for Citigroup Global Markets Europe AG (as beneficiary) for the liabilities of PGE Dom Maklerski S.A. (as obligee) for up to EUR 150 million. The deed of guarantee constitutes collateral for clearing transactions executed on The Ice Futures Europe ("ICE") and European Energy Exchange ("EEX"), in which the clearing agent is Citigroup Global Markets Europe AG. The deed of guarantee is valid until December 16, 2022.

In December 2021, a surety agreement was executed with Izba Rozliczeniowa Giełd Towarowych S.A. (as beneficiary) and PGE Górnictwo i Energetyka Konwencjonalna S.A. (as obligee) for up to PLN 5 billion. The surety agreement serves as non-monetary collateral for transaction deposits and security deposits for transactions carried out by PGE Górnictwo i Energetyka Konwencjonalna S.A. on the Polish Power Exchange (POLPX), where the clearing agent is Izba Rozliczeniowa Giełd Towarowych S.A. The surety agreement is valid until the end of July 2022.

Table: Main guarantees granted by the PGE Group companies as at December 31, 2021.

| Company  | Beneficiary   | Entity for whose liabilities<br>a guarantee was issued<br>(Debtor)               | Form of security                     | Validity of guarantee<br>(yyyy-mm-dd) |            | Value of<br>guarantee<br>(million) | Currency |
|----------|---|--|--------------------------------------|---------------------------------------|------------|------------------------------------|----------|
|          |   |  |                                      | Beginning                             | End        |                                    |          |
| PGE S.A. | IRGiT   | PGE GIEK S.A.  | Corporate Guarantee                  | 2021-12-28                            | 2022-07-31 | 5 000                              | PLN      |
| PGE S.A. | Bondholders   | PGE Sweden AB  | Guarantee of financial<br>instrument | 2014-05-22                            | 2041-12-31 | 2 500                              | EUR      |
| PGE S.A. | IRGiT   | PGE Dom Maklerski S.A. for<br>transactions executed by PGE<br>S.A., ECZG, PGE EC | Corporate Guarantee                  | 2019-09-30                            | 2023-09-30 | 2 000                              | PLN      |
| PGE S.A. | Citigroup Global Markets<br>Europe AG                                 | PGE Dom Maklerski S.A.   | Corporate Guarantee                  | 2020-12-16                            | 2022-12-16 | 150                                | EUR      |
| PGE S.A. | National Fund for<br>Environmental Protection<br>and Water Management | PGE GIEK S.A.  | Guarantee                            | 2020-08-12                            | 2035-12-31 | 270                                | PLN      |
| PGE S.A. | National Fund for<br>Environmental Protection<br>and Water Management | PGE GIEK S.A.  | Guarantee                            | 2020-08-12                            | 2035-03-31 | 261                                | PLN      |

The total amount of guarantees granted by the companies of the PGE Capital Group and mandatory on December 31, 2021 amounted to approx. EUR 2 685 million, approx. PLN 10 969 million and USD 63 million.

Table: Main guarantees in PLN received by the PGE Group companies and valid as at December 31, 2020.

| Company                     | Guarantee issuer       | Entity for whose liabilities a<br>guarantee was issued<br>(Debtor) | Form of security | Validity of guarantee<br>(yyyy-mm-dd) |            | Value of<br>guarantee<br>(million) <sup>1</sup> | Currency |
|-----------------------------|------------------------|--|------------------|---------------------------------------|------------|---|----------|
|                             |                        |  |                  | Beginning                             | End        |   |          |
| PGE Gryfino 2050 sp. z o.o. | Intesa Sanpaolo S.p.A. | General Elektric Global Services GmbH                              | Guarantee        | 2020-03-02                            | 2023-02-15 | 386.3   | PLN      |
| PGE Gryfino 2050 sp. z o.o. | Societe Generale S.A.  | General Elektric Global Services GmbH                              | Guarantee        | 2020-01-29                            | 2024-01-11 | 262.1   | PLN      |
| PGE Gryfino 2050 sp. z o.o. | Societe Generale S.A.  | General Elektric Global Services GmbH                              | Guarantee        | 2020-12-16                            | 2022-10-30 | 200.5   | PLN      |
| KOGENERACJA S.A.            | Intesa Sanpaolo S.p.A. | Polimex Mostostal S.A.   | Performance bond | 2021-07-22                            | 2024-06-30 | 140.4   | PLN      |
| PGE Gryfino 2050 sp. z o.o. | Intesa Sanpaolo S.p.A. | Polimex Mostostal S.A.   | Guarantee        | 2021-02-11                            | 2024-01-11 | 135.3   | PLN      |

<sup>1</sup> Values over PLN 100 million.

The total amount of guarantees received by the companies of the PGE Capital Group and mandatory on December 31, 2021 amounted to more than PLN 2 092 million, EUR 5.7 million and USD 1.7 million. Guarantees were received in connection with investments being pursued and day-to-day operations and include mainly: advance payments guarantees and performance bonds.

#### DESCRIPTION OF STRUCTURE OF MAIN CAPITAL DEPOSITS OR MAIN CAPITAL INVESTMENTS MADE WITHIN THE ISSUER'S CAPITAL GROUP IN A GIVEN FINANCIAL YEAR

Information on PGE Group's structure are presented in note 1.3 to the consolidated financial statements. Investments in associates and entities jointly controlled valued using the equity method are presented in note 13 to the consolidated financial statements. Changes in the Capital Group's structure which took place in 2021 and capital investments related thereto are described in p. 7.1 of this report.

## 6. Parent company of PGE Group – PGE S.A.

Pursuant to art. 55 section 2a of the Accounting Act and § 71 section 8 Regulation of the Minister of Finance on current and periodic information, the Company has prepared the report on activities of PGE S.A. and of the Capital Group in form of one document. Other required elements of the report on activities of the Companies which are not included in chapter 6, are identical with the ones in the report on activities of PGE Capital Group.

### 6.1. Key financial results of PGE S.A.

| Key financial data                 | Unit | Year ended<br>December 31, 2021 | Year ended<br>December 31, 2020 | %<br>change |
|------------------------------------|------|---------------------------------|---------------------------------|-------------|
| Sales revenues                     | PLNm | 35 917                          | 27 541                          | 30%         |
| EBIT                               | PLNm | 601                             | 712                             | -16%        |
| EBITDA                             | PLNm | 613                             | 724                             | -15%        |
| EBITDA margin                      | %    | 2%                              | 3%                              |             |
| Recurring EBITDA                   | PLNm | 602                             | 745                             | -19%        |
| Recurring EBITDA margin            | %    | 2%                              | 3%                              |             |
| Net profit                         | PLNm | 1 734                           | 1 744                           | -1%         |
| Capital expenditures               | PLNm | 2                               | 4                               | -50%        |
| Net cash from operating activities | PLNm | 953                             | 2 035                           | -53%        |
| Net cash from investing activities | PLNm | 1 887                           | 2 642                           | -29%        |
| Net cash from financial activities | PLNm | -1 016                          | -1 403                          | -28%        |

| Key financial data                          |             | December 31, 2021 | December 31, 2020 | % change |
|---|-------------|-------------------|-------------------|----------|
| Working capital                             | PLNm        | 11 517            | 8 985             | 28%      |
| Shares in subsidiaries                      | PLNm        | 29 532            | 29 770            | -1%      |
| <b>Net debt</b>                             | <b>PLNm</b> | <b>-5 337</b>     | <b>-397</b>       | -        |
| Net debt /LTM reported EBITDA <sup>1</sup>  | x           | -8.71             | -0.55             | -        |
| Net debt /LTM recurring EBITDA <sup>1</sup> | x           | -8.87             | -0.53             | -        |

| One-offs affecting EBITDA                         |             | Period ended<br>December 31, 2021 | Period ended<br>December 31, 2020 | % change |
|---|-------------|-----------------------------------|-----------------------------------|----------|
| Release of provision<br>- Voluntary Leave Program | PLNm        | 11                                | -21                               | -        |
| <b>Total</b>                                      | <b>PLNm</b> | <b>11</b>                         | <b>-21</b>                        | -        |

<sup>1</sup>LTM EBITDA – Last Twelve Months EBITDA.

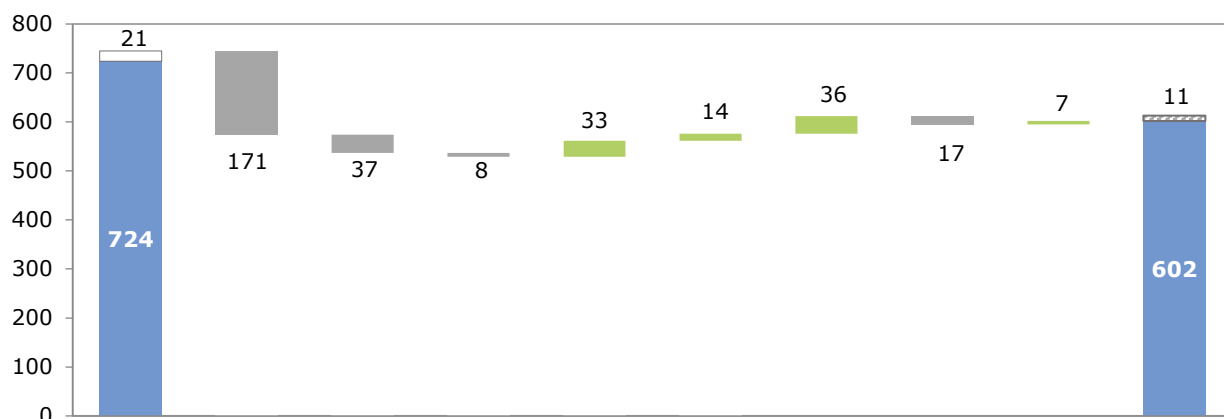


## REVENUES BY GEOGRAPHICAL AREAS

PGE S.A. earns revenues mostly on domestic market (85%).

## KEY FACTORS AFFECTING EBITDA OF PGE S.A.

Chart: Key changes of EBITDA in PGE S.A. (in PLN million).



|                       | EBITDA 2020 | Result on electricity sales | Result on trading of CO2 emission rights | Result on sale of gas | Capacity Market | Revenues from ZHZW and ZDEE | Revenues from Corporate Center services | Cost of organisation's activity <sup>1</sup> | Result on other operations | EBITDA 2021 |
|-----------------------|-------------|-----------------------------|--|-----------------------|-----------------|-----------------------------|---|--|----------------------------|-------------|
| <b>Change</b>         |             | <b>-171</b>                 | <b>-37</b>                               | <b>-8</b>             | <b>33</b>       | <b>14</b>                   | <b>36</b>                               | <b>-17</b>                                   | <b>7</b>                   |             |
| Reported EBITDA 2020  | <b>724</b>  |                             |  |                       |                 |                             |   |  |                            |             |
| One-offs 2020         | <b>-21</b>  |                             |  |                       |                 |                             |   |  |                            |             |
| Recurring EBITDA 2020 | <b>745</b>  | -33                         | 24                                       | 4                     | 0               | 970                         | 67                                      | 291  | 4                          |             |
| Recurring EBITDA 2021 |             | -204                        | -13                                      | -4                    | 33              | 984                         | 103                                     | 308  | 11                         | <b>602</b>  |
| One-offs 2021         |             |                             |  |                       |                 |                             |   |  |                            | <b>11</b>   |
| Reported EBITDA 2021  |             |                             |  |                       |                 |                             |   |  |                            | <b>613</b>  |

Reversal of impact of total one-offs reducing the reported result.

Reversal of impact of total one-offs improving the reported result.

<sup>1</sup> Cost of organisation's activity excluding the provision for Voluntary Leave Program (one-off)

Key factors affecting the results of PGE S.A. on y/y basis included:

- **The lower result on sales of electricity** is attributable to lower unitary margin on sales of electricity by PLN 3.9/MWh. It results from increase in electricity prices in 2021, when average price of base contract on spot market rose by 91% compared to 2020. The need for PGE S.A. to balance the demand and supply of electricity for retail trade purposes on the Day Ahead Market, given such a large y/y increase in prices, decreased the result.
- The **lower result on trading in CO<sub>2</sub> emission allowances** was driven by valuation of forward transactions and the result of clearing transactions for the sale of free CO<sub>2</sub> emission allowances outside PGE Group in 2020.
- **Capacity Market**, a mechanism that was not present in the comparable period.
- **Increased revenues from the Group companies** from the services of ZHZW and ZDEE result mainly from higher unitary margin, what was partly compensated by lower value of electricity trading under management on behalf of PGE Group companies, as a consequence of electricity volume lower by 6.6 TWh.
- **The increase in revenue from the provision of Corporate Centre services** resulted from an increase in revenue generated in support agreements, mainly from the centralisation of the legal area (from January 2021) and audit (from October 2021), as well as an increase in revenue from licensing agreements, which was mainly driven by an increase in revenue from PGE GiEK S.A.
- The **growth in the organisation's operating costs** was primarily driven by higher costs of sponsoring and advertising activities.

#### FINANCIAL OPERATIONS

Table: Financial operations.

| PLN million                                | Year ended<br>December 31,<br>2021 | Year ended<br>December 31,<br>2020 | %<br>change |
|--|------------------------------------|------------------------------------|-------------|
| <b>Financial revenues/costs</b>            |                                    |                                    |             |
| Dividends from PGE Capital Group companies | 1 252                              | 1 464                              | -14%        |
| Interest                                   | 141                                | 150                                | -6%         |
| Profit/(Loss) on disposal of investments   | -36                                | -11                                | -           |
| Revaluation of financial instruments       | -33                                | 15                                 | -           |
| Reversal/creation of impairment losses     | -7                                 | -515                               | -           |
| Foreign exchange translations              | -4                                 | -4                                 | -           |
| Other                                      | -                                  | -2                                 | -           |
| <b>Result on financial operations</b>      | <b>1 313</b>                       | <b>1 097</b>                       | <b>20%</b>  |

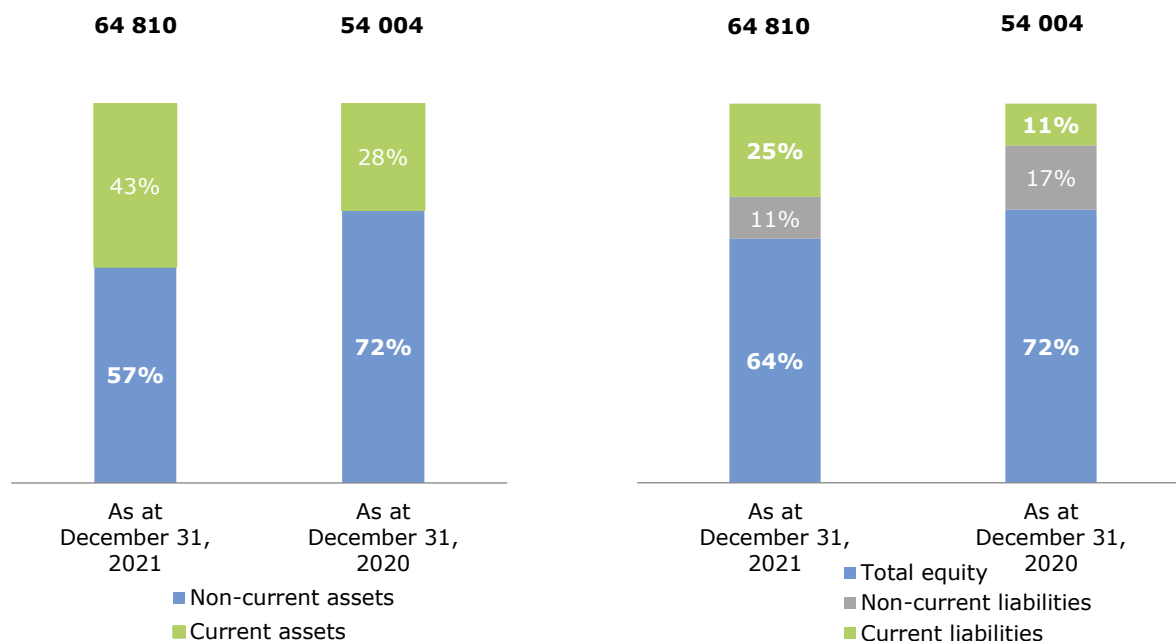
Key factors affecting the financial results of PGE S.A. on y/y basis included:

- **Decreased revenues from dividends** mainly as a result of lower dividends from PGE Energia Odnawialna S.A. by PLN 301 million, with simultaneously higher revenue from dividend from PGE Energia Ciepła S.A. by PLN 91 million.
- **Gain / loss on sale of investment:** in 2021, a PLN 39 million loss was recorded on the sale of PGE EJ1 sp. z o.o., while in 2020 certificates of FIZAN Eko-Inwestycje and PGE Ventures were redeemed. That loss amounted to PLN 11 million.
- **Revaluation of financial instruments:** in 2021, the valuation of forward transactions hedging exchange rates and interest rates (CCIRS) is adjusted by PLN -31 million, with the remaining part of the divergence stemming from the valuation of call options for Polimex-Mostostal S.A. shares, amounting to PLN -11 million.

- **Change on impairment loss** results from high impairment losses created in 2020 on value of shares of PGE Obrót S.A., PGE Systemy S.A., TFI Energia S.A. and in companies PGE EJ1 sp. z o.o., Elbest sp. z o.o., PGE Nowa Energia sp. z o.o., PGE Ventures sp. z o.o. and PGE Trading GmbH. In 2021 write-off on shares of Elbest sp. z o.o. in amount of PLN 22 million was partly reversed.

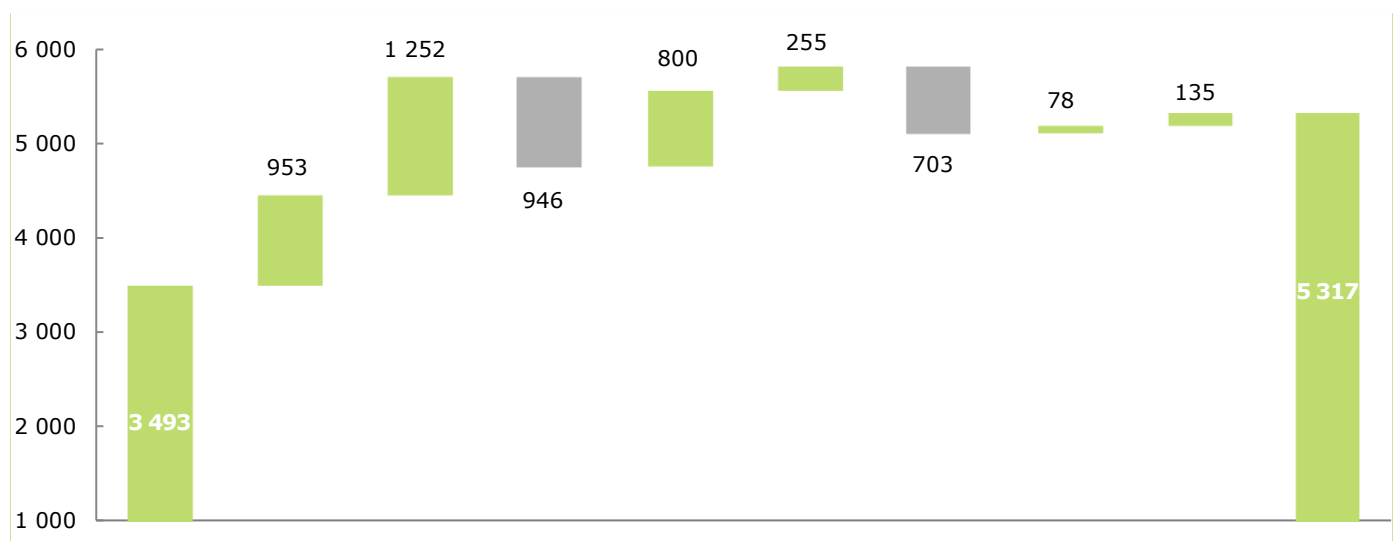
#### STATEMENT OF FINANCIAL POSITION

Chart: Structure of assets and equity and liabilities (PLN million).



## STATEMENT OF CASH FLOWS

Chart: Net change in cash (in PLN million).



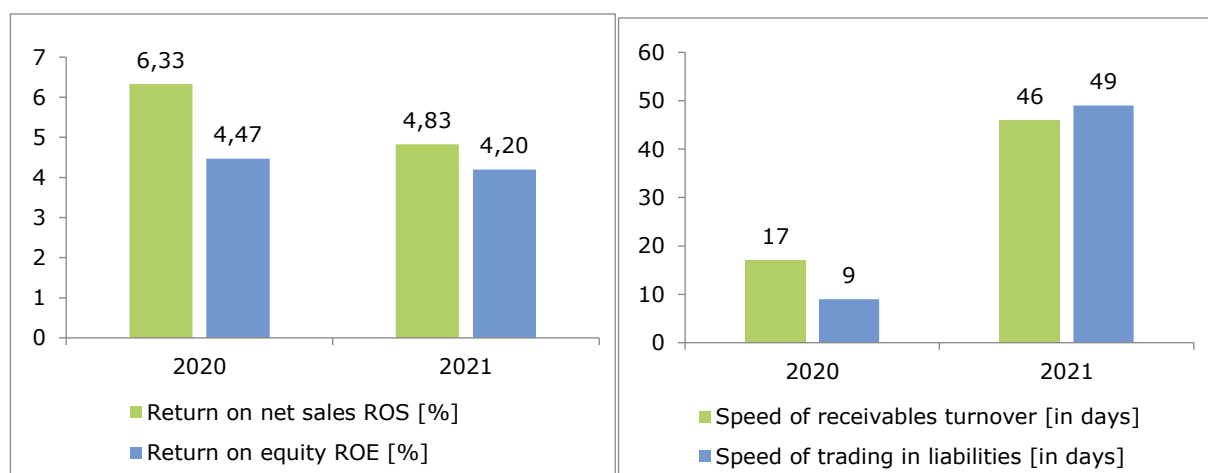
|                       | Cash at January 1, 2021 | Net cash from operations | Dividends received | Granting advances / repayment of granted advances | Purchase/ buy-out of bonds issued by PGE Group companies | Purchase of shares in subsidiaries | Drawing / repayment of loans and bonds | Cash pooling-related income and expenses | Other | Cash at December 31, 2021 |
|-----------------------|-------------------------|--------------------------|--------------------|---|--|------------------------------------|--|--|-------|---------------------------|
| <b>Impact on cash</b> |                         | 953                      | 1 252              | -946  | 800  | 255                                | -703                                   | 78                                       | 135   |                           |
| <b>Cash</b>           | <b>3 493</b>            |                          |                    |   |  |                                    |  |  |       | <b>5 317</b>              |

### NET DEBT OF PGE S.A. AND MAIN FINANCIAL RATIOS

Table: Company's net debt as at December 31, 2021 and December 31, 2020.

| PLN million                                       | As at<br>December 31, 2021 | As at<br>December 31, 2020 |
|---|----------------------------|----------------------------|
| Cash on hand and cash at bank                     | 3 858                      | 849                        |
| Overnight deposits                                | 0                          | 300                        |
| Short-term deposits                               | 1 100                      | 1 399                      |
| Funds on VAT accounts                             | 358                        | 959                        |
| <b>Cash and cash equivalents</b>                  | <b>5 316</b>               | <b>3 507</b>               |
| Short-term loans and debt securities (PGE Group)  | 9 820                      | 7 312                      |
| Loans and receivables - cash pooling              | 449                        | 330                        |
| <b>Cash at the Company's disposal</b>             | <b>15 585</b>              | <b>11 149</b>              |
| Current loans and borrowings                      | 1 812                      | 998                        |
| Short-term bonds (interest)                       | 5                          | 2                          |
| Short-term liabilities - cash pooling             | 1 346                      | 1 149                      |
| Lease liabilities (short-term and long-term)      | 20                         | 20                         |
| Non-current loans and borrowings                  | 5 666                      | 7 184                      |
| Bonds issued - non-current                        | 1 399                      | 1 399                      |
| <b>Gross financial debt (short and long-term)</b> | <b>10 248</b>              | <b>10 752</b>              |
| <b>Net financial debt</b>                         | <b>-5 337</b>              | <b>-397</b>                |

Charts: Key financial ratios.



## 6.2. Key operational figures of PGE S.A.

Table: Volume of electricity sales (in TWh).

| Sales volume  | 2021         | 2020         | % change    |
|---|--------------|--------------|-------------|
| Sale of electricity to the Group companies  | 42.02        | 51.75        | -19%        |
| Sale of electricity on the power exchange and in bilateral transactions outside the Group | 1.57         | 4.07         | -61%        |
| Sale within the balancing group and on the balancing market                               | 1.39         | 1.26         | 10%         |
| <b>Total electricity sales</b>  | <b>44.98</b> | <b>57.08</b> | <b>-21%</b> |

PGE S.A. acts as a wholesale trading competence centre for the PGE Capital Group. The y/y decline in electricity sales volumes to PGE Group companies in 2021 primarily resulted from a decrease in trading with PGE Obrót S.A. in order to secure retail-customer demand for electricity and due to a decrease in excess electricity unsold by PGE S.A. to PGE Obrót S.A. back to the producer, PGE GiEK S.A. The decline in electricity sales volumes to retail customers is mainly the result of lower sales to large customers from the professional segment. The decrease in electricity sales volumes to entities from outside PGE Group is due to the decline in exchange trade and the loss of a customer.

Table: Volume of natural gas sales [in TWh].

| Sales volume                          | 2021        | 2020        | % change  |
|---------------------------------------|-------------|-------------|-----------|
| Sale of natural gas to the Group      | 3.09        | 3.21        | -4%       |
| Sale of natural gas outside the Group | 0.79        | 0.60        | 32%       |
| <b>Total natural gas sales</b>        | <b>3.88</b> | <b>3.81</b> | <b>2%</b> |

The y/y larger volume of natural gas sales results from a higher volume of gas sold on the exchange, partially compensated by lower sales to entities from the PGE Capital Group and other external entities.

## 6.3. Ownership structure

State Treasury is a main shareholder of PGE S.A. State Treasury holds 1 072 984 098 Company's ordinary shares with nominal value of PLN 10.25 each, representing 57.39% of company's share capital and entitling to perform 1 072 984 098 votes at the general meeting of the Company. State Treasury stake represents 57.39% of the total number of votes.

State Treasury is the only shareholder holding at least 5% of the Company's shares (more information on the ownership structure in p. 8.4 of this report).

## 6.4. Dividend policy

In May 2017 the Management Board decided to recommend to suspend dividend payment from the profit for years 2016, 2017 and 2018 facing the need to finance an ambitious development program and limitation of the debt level increase.

After that period, the Management Board of the Company intends to make a recommendation to the General Meeting of the Company of dividend payment for shareholders at the level of 40-50% of the consolidated net profit attributable to the equity holders adjusted by the value of impairment loss on property, plant and equipment and intangible fixed assets. The dividend policy is subject to reservation that the amount for each individual dividend distribution will depend, in particular, on the Company's overall indebtedness, expected capital expenditures and prospective acquisitions.

The dividend policy will be periodically verified by the Management Board of the Company.

In line with the dividend policy, in particular as a result of the analysis of the Company's debt in the context of the implementation of the investment program (in line with the assumptions of the PGE Group's Strategy until 2030) and potential acquisitions, as well as taking into account market uncertainty, e.g. as a result of the recession caused by the COVID-19 pandemic, the PGE Management Board recommended not to pay dividends for 2019 and 2020. Ordinary General Meetings in 2020 and 2021 adopted resolutions in accordance with the recommendations of the PGE Management Board.

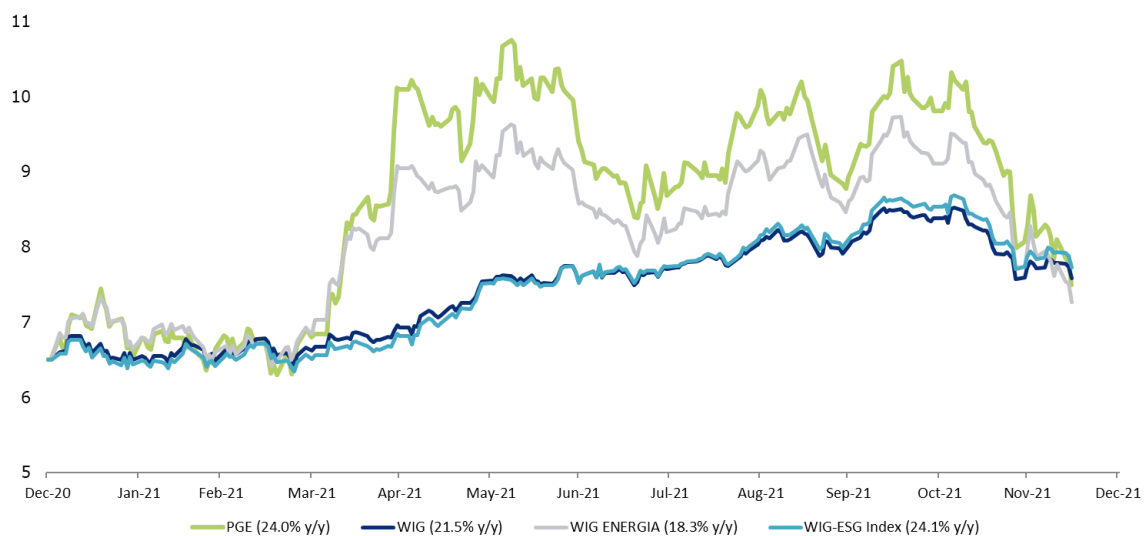
## 6.5. PGE S.A. shares on the stock exchange

PGE shares are listed in the continuous trading system on the Main Market of Warsaw Stock Exchange ("WSE"). PGE has the largest market capitalization among Polish companies from power sector listed on WSE. PGE shares are included in the most important WSE indexes: WIG20 – the index of the largest and most liquid

companies, WIG – the index of all companies from the Main Market, and WIG Energia – the index of power sector companies. On September 3, 2019, the WSE started to publish the WIG-ESG (Environment, Social, Governance) index which includes companies from WIG20 and mWIG40 indices.

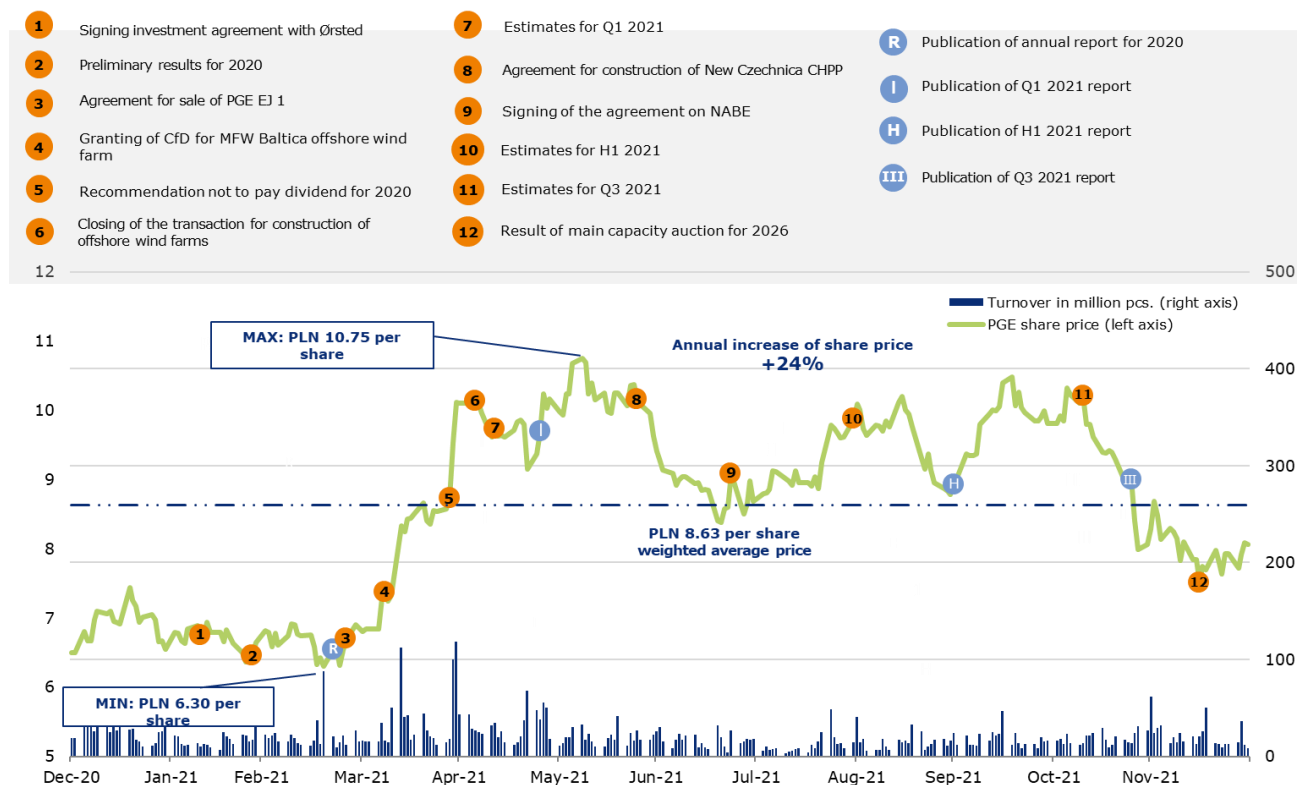
In 2021 PGE shares quotation were in range PLN 6.3000-10.7500. Average market capitalisation (value of all shares of the Company) in 2021 amounted to approx. PLN 16.1 billion. Average trading volume amounted to 2.5 million shares per session and average trading amount reached approx. PLN 21.3 million.

Chart: Quotes of PGE share price in relation to the WIG, WIG - ENERGY and WIG - ESG Index (PLN).



Source: Bloomberg.

Chart: Key events on the background of stock quotes of PGE in 2021 (PLN).



Source: Bloomberg, Company's data.

Table: Key data on PGE shares.

|  | 2021          | 2020          |
|--|---------------|---------------|
| Turnover value (PLN)                             | 5 527 399 798 | 5 327 887 309 |
| Average turnover volume (pcs)                    | 2 528 725     | 3 669 253     |
| Maximum price during the year (PLN) <sup>1</sup> | 10.75         | 8.27          |
| Minimum price during the year (PLN) <sup>1</sup> | 6.30          | 2.80          |

<sup>1</sup> Stock prices relate to closing.

Source: Bloomberg.

All Company shares are bearer shares. Shares are not privileged, however the Company's Statute provides for special rights for the State Treasury, e.g. with respect to the appointment of members of the Supervisory Board. (more information on special powers for the State Treasury in section 8.4 of this report).

## 6.6. Rating

PGE S.A. holds ratings assigned by two rating agencies: Fitch Ratings Ltd. ("Fitch") and Moody's Investors Service Limited ("Moody's").

|  | Moody's           | Fitch Ratings     |
|--|-------------------|-------------------|
| Long-term company rating               | Baa1              | BBB+              |
| Rating outlook                         | stable            | stable            |
| Date of rating assignment              | September 2, 2009 | September 2, 2009 |
| Date of the latest rating confirmation | June 30, 2021     | January 28, 2022  |
| Poland long-term rating                | A2                | A-                |
| Rating outlook                         | stable            | stable            |



In 2021 and at the beginning of 2022 rating agencies: Moody's and Fitch affirmed long-term rating of PGE S.A. at investment grade respectively at Baa1 and BBB+, both with stable outlook. Both agencies underline affirmation results from strong market position of PGE in the Polish electricity sector.

In its latest release of January 2022, Fitch indicates that rating reflects PGE's business profile as the largest Polish integrated electric utility with large electricity generation and distribution businesses, and moderate financial leverage. The key positive factors include PGE Group's Strategy, intending transition of the Group's profile towards renewables and low-emission sources, stable revenues from regulated businesses like distribution and Capacity Market. In addition, the divestment of PGE's coal assets to National Agency for Energy Security, would likely be positive for PGE's credit profile. The potential risk include margin levels in supply segment and a temporary increase in debt related to a high level of investment expenditures.

Moreover, Fitch positively assessed the planned new issue of shares, from which the proceeds are to be spent on development in distribution, renewables and low-emission sources.

Moody's analytics affirmed rating for PGE S.A. at Baa1 and its stable outlook in June 2021. According to the opinion issued by this institution, the rating affirmation reflects PGE's currently strong financial risk profile, which provides the Company with some flexibility to absorb a large investment program and withstand potential changes in Poland's electricity market.

According to Moody's, the Polish government's plan to transform the domestic utility sector will be supportive of PGE's credit risk profile. A spin-off of the coal assets would strengthen the company's business risk profile since PGE Group would be able to implement its corporate strategy, focused on increasing already high share of regulated earnings from distribution grid operations and district heating and growth of generation from renewable energy sources.

Moreover, in January 2022 Moody's positively assessed the planned new issue of shares, stating in a comment that this would be to the benefit of the company's credit profile.

Ratings assigned by both agencies confirm PGE's long-term credibility on the capital and credit market.

## 7. Other elements of the report

### 7.1. Significant changes in organisation of the Capital Group

Changes which occurred in the PGE Capital Group's structure in the period from January 1, 2021 until the publication date of this report, are presented in note 1.3 to consolidated financial statements and described below.

#### ESTABLISHMENT OF COMPANIES

| Segment                        | Entity  | Date of establishment/<br>registration in<br>the National<br>Court Register<br>(NCR) | Comment   |
|--------------------------------|---|--|---|
| <b>Renewables</b>              | Elektrownia Wiatrowa Baltica-6 sp. z o.o.   | February 25, 2021  | On December 17, 2020 PGE S.A. set up an one-person limited liability company with headquarters in Warsaw. Current name of the company is: Elektrownia Wiatrowa Baltica-6 sp. z o.o. The share capital of the company is PLN 1 250 000.  |
| <b>Conventional Generation</b> | Rybnik 2050 sp. z o.o.  | May 31, 2021   | On February 1, 2021 PGE S.A. set up an one-person limited liability company with headquarters in Rybnik. Current name of the company is: Rybnik 2050 sp. z o.o. The share capital the company was PLN 50 000 at the company's set-up, currently it's PLN 22 564 000.  |
| <b>Renewables</b>              | Elektrownia Wiatrowa Baltica 9 sp. z o.o.<br>Elektrownia Wiatrowa Baltica 10 sp. z o.o.<br>Elektrownia Wiatrowa Baltica 11 sp. z o.o.<br>Elektrownia Wiatrowa Baltica 12 sp. z o.o. | December 1, 2021<br>February 18, 2022<br>December 17, 2021<br>December 17, 2021      | On October 4, 2021 PGE S.A. set up 4 one-person limited liability companies with headquarters in Warsaw with names: Elektrownia Wiatrowa Baltica 9 sp. z o.o., Elektrownia Wiatrowa Baltica 10 sp. z o.o., Elektrownia Wiatrowa Baltica 11 sp. z o.o. and Elektrownia Wiatrowa Baltica 12 sp. z o.o. The share capital of Elektrownia Wiatrowa Baltica 9 sp. z o.o. is PLN 981 000, and share capital of other companies - PLN 25 000 each. |

## ACQUISITION OR DISPOSAL OF SHARES BY THE COMPANIES

| Segment                 | Shares of the company   | Date of transaction/<br>registration in the<br>NCR                            | Comment  |
|-------------------------|---|---|--|
| <b>Other Operations</b> | PGE EJ 1 sp. z o.o. ("PGE EJ 1") – sale by PGE S.A. of all shares of PGE EJ 1 (the share sale agreement)  | March 31, 2021  | On March 26, 2021 PGE S.A., Enea S.A., TAURON Polska Energia S.A. and KGHM Polska Miedź S.A. (as the sellers) and the State Treasury (as the buyer) signed an agreement for sale of all possessed shares in PGE EJ 1, i.e. 5 325 230 shares of this company, with a total nominal value of PLN 750 857 430, representing 100% of the share capital. Transfer of ownership of shares to the State Treasury took place on March 31, 2021. PGE S.A. held 3 727 661 shares representing 70% of the share capital of PGE EJ 1. As a result of the share purchase agreement, PGE ceased to be the parent company of PGE EJ 1 sp z o.o. within the meaning of the Commercial Companies Code, thus PGE EJ 1 is no longer part of PGE Group.  |
| <b>District Heating</b> | Przedsiębiorstwo Energetyki Ciepłej S.A. with seat in Bogatynia ("PEC Bogatynia") – sale by PGE GiEK S.A. of all shares of PEC Bogatynia (the share sale agreement)         | April 15, 2021/<br>May 5, 2021<br>(entry in the register of shareholders)     | On April 15, 2021 PGE GiEK as a seller and PGE EC as a buyer concluded an agreement for the sale of all held by PGE GiEK S.A. inscribed shares in PEC Bogatynia, i.e. 101 036 shares, with a total nominal value of PLN 10 103 600, representing 34.93% of the share capital. Transfer of ownership of shares to PGE EC took place on May 5, 2021 (upon entry in the register of PEC Bogatynia shareholders indicating PGE EC as the buyer of these shares, under the above-mentioned share sale agreement).   |
| <b>District Heating</b> | „Przedsiębiorstwo Energetyki Ciepłej” sp. z o.o. with seat in Bełchatów ("PEC Bełchatów") – sale by PGE GiEK S.A. of all shares of PEC Bełchatów (the share sale agreement) | April 15, 2021  | On April 15, 2021 PGE GiEK as a seller and PGE EC as a buyer concluded an agreement for the sale of all held by PGE GiEK S.A. inscribed shares in PEC Bełchatów, i.e. 14 411 shares, with a total nominal value of PLN 7 205 500, representing 17.05% of the share capital. Transfer of ownership of shares to PGE EC took place on April 15, 2021.  |
| <b>Other Operations</b> | PGE Ekoserwis S.A. with seat in Wrocław ("PGE Ekoserwis") – acquisition by PGE S.A. all shares held by minority shareholders (compulsory buyout)                            | April 30, 2021<br>August 19, 2021 –<br>entry in the register of shareholders. | On April 30, 2021 the Extraordinary General Meeting of PGE Ekoserwis adopted resolution on compulsory buyout of shares held by minority shareholders, referred to in Art. 418 of the Polish Commercial Companies Code. The compulsory buy-out covered 11 525 shares representing 4.92% of the share capital of the company, i.e. all shares owned by other shareholders of PGE Ekoserwis. On July 12, 2021 PGE S.A. paid the full buyout price of the minority shareholders' shares referred to above, and on July 13, 2021, the company's Management Board decided to buy back the shares of minority shareholders of the company and transfer the acquired shares to the shareholder PGE S.A. and make appropriate changes to the register of the company's shareholders. As a result of the compulsory buyout of shares, PGE S.A. became the sole shareholder of PGE Ekoserwis. |
| <b>Other Operations</b> | ZOWER sp. z o.o. with seat in Rybnik ("ZOWER")  | July 7, 2021  | On July 7, 2021 PGE EC as a seller and PGE Ekoserwis as a buyer concluded an agreement for the sale of all held by PGE Energia Ciepła S.A. shares in ZOWER, i.e. 8 000 shares, with a total nominal value of PLN 4 000 000, representing 100% of the share capital. Transfer of ownership of shares to PGE Ekoserwis took place on July 7, 2021.   |

| Segment                 | Shares of the company  | Date of transaction/<br>registration in the<br>NCR   | Comment   |
|-------------------------|--|--|---|
| <b>Other Operations</b> | ElectroMobility Poland S.A. with seat in Warsaw ("ElectroMobility Poland") – increasing the share capital of ElectroMobility Poland and taking up all new shares by a new shareholder, i.e. by the State Treasury  | September 30, 2021   | <p>On August 19, 2021 the Extraordinary General Meeting of ElectroMobility Poland adopted resolution on decrease of the share capital of the company from PLN 70 000 000 to PLN 52 300 500, i.e. by PLN 17 699 500, by reducing the nominal value of all the company's shares from the PLN 7 000 to a new nominal value of PLN 5 230.05 each. The purpose of reducing the share capital is to transfer funds from the share capital to the supplementary capital, therefore the amounts obtained from the reduction of the share capital will increase the company's supplementary capital.</p> <p>In addition, On August 19, 2021 the Extraordinary General Meeting of ElectroMobility Poland adopted resolution on increase of the share capital of the company from PLN 52 300 500 to PLN 302 296 890, i.e. by PLN 249 996 390, by issuing through private subscription 47 800 series B shares numbered from B-00001 to B-47800, with a nominal value of PLN 5 230.05 each. The Extraordinary General Meeting of the company decided to deprive the existing shareholders of the right to acquire new shares in full and offer all new shares to be taken up by the State Treasury in exchange for a cash contribution. Until the share capital increase, shareholders of ElectroMobility Poland, holding 25% share in the share capital were PGE S.A., ENEA S.A., ENERGA S.A. and TAURON Polska Energia S.A. As a result of the State Treasury joining ElectroMobility Poland by acquiring all new shares in the increased share capital of ElectroMobility Poland, the share of PGE S.A. in the share capital of this company decreased from 25% to 4.33%.</p> |
| <b>Renewables</b>       | Elektrownia Wiatrowa Baltica-4 sp. z o.o. („EWB 4”), Elektrownia Wiatrowa Baltica-5 sp. z o.o. („EWB 5”) and Elektrownia Wiatrowa Baltica-6 sp. z o.o. („EWB 6”) – sale by PGE S.A. of 33.8% shares in EWB 4, EWB 5 i EWB 6 (conditional share sale agreement) | November 18, 2021<br>As at the date of preparation of this report, conditions precedent have not been met. | On November 18, 2021 a conditional agreement was signed between PGE S.A. as vendor and ENEA S.A., based in Poznań ("ENEA"), as buyer to sell some of the shares held by PGE S.A. in EWB 4, EWB 5 and EWB 6, i.e. 95 shares of EWB 4, 95 shares of EWB 5 and 422 shares of EWB 6, with a total nominal value of PLN 95 000 in the case of EWB 4, PLN 95 000 in the case of EWB 5 and PLN 422 000 in the case of EWB 6, constituting 33.8% of the share capital of EWB 4, EWB 5 and EWB 6, respectively. The entry of this conditional share sale agreement into force and transfer of ownership to ENEA are subject to compliance with conditions precedent.   |
| <b>Renewables</b>       | PGE Baltica 4 sp. z o.o. with its seat in Warsaw („PGE Baltica 4”) – sale by PGE S.A. of 44.96% shares in PGE Baltica 4 (conditional share sale agreement)   | November 18, 2021<br>As at the date of preparation of this report, conditions precedent have not been met. | On November 18, 2021 a conditional agreement was signed between PGE S.A. as vendor and TAURON Polska Energia S.A. based in Katowice ("TAURON") as buyer to sell some of the shares held by PGE S.A. in PGE Baltica 4, i.e. 526 shares, with a total nominal value of PLN 526 000, constituting 44.96% of the share capital. The entry of this conditional share sale agreement into force and transfer of ownership to TAURON are subject to compliance with conditions precedent.  |
| <b>Other Operations</b> | Elbest sp. z o.o. with its seat in Bełchatów („Elbest”) – sale by PGE S.A. of 100% shares in Elbest (conditional share sale agreement)   | December 15, 2021  | On December 15, 2021 a conditional agreement was signed between PGE S.A. as vendor and Polski Holding Hotelowy sp. z o.o. based in Warsaw as buyer to sell all the shares held by PGE S.A. in Elbest, i.e. 116 812 shares, with a total nominal value of PLN 116 812 000, constituting 100% of the share capital. The entry of this conditional share sale agreement into force and transfer of ownership to PHH WAS subject to compliance with conditions precedent. After meeting the conditions precedent, on March 4, 2022, the ownership of the above-mentioned Elbest shares was transferred to PHH.  |

| Segment                 | Shares of the company  | Date of transaction/<br>registration in the<br>NCR | Comment  |
|-------------------------|--|--|--|
| <b>Other Operations</b> | 4Mobility S.A. with its seat in Warsaw („4Mobility”) – increase of the share capital of 4Mobility and acquisition of all new shares by another shareholder, i.e. by EFF B.V. (the Netherlands) | January 14, 2022<br>Not yet registered in the NCR. | On January 14, 2022 the Extraordinary General Meeting of 4Mobility adopted resolutions to: <ul style="list-style-type: none"> <li>increase share capital from PLN 364 316 to PLN 494 316, i.e. by PLN 130 000, through the issue of 1 300 000 ordinary shares series H, with a nominal value of PLN 0.10 each. All of the new shares were offered by way of a private subscription to EFF B.V., based in Maastricht (Netherlands) – the existing shareholder of 4Mobility. As a result of the share capital increase, PGE Nowa Energia sp. z o.o.'s stake in this company decreased from 51.47% to 37.93%, meaning that PGE Nowa Energia sp. z o.o. is no longer the parent company of 4Mobility,</li> </ul> |

### INCREASE OF SHARE CAPITAL OF SUBSIDIARIES

| Segment           | Entity                                    | Date of registration<br>in the NCR | Comment   |
|-------------------|---|------------------------------------|---|
| <b>Renewables</b> | Elektrownia Wiatrowa Baltica-1 sp. z o.o. | January 25, 2021                   | On October 28, 2020 the Extraordinary Assembly of Partners of the company adopted resolution on a share capital increase from PLN 20 700 000 to PLN 22 545 000, i.e. by PLN 1 845 000. The share capital increase was taken up and paid by PGE S.A. in cash. PGE S.A. holds 100% in the share capital.  |
| <b>Renewables</b> | PGE Baltica 5 sp. z o.o.                  | March 22, 2021                     | On February 11, 2021 the Extraordinary Assembly of Partners of the company adopted resolution on a share capital increase from PLN 2 778 000 to PLN 46 768 000, i.e. by PLN 43 990 000. The share capital increase was taken up and paid by PGE S.A. in cash. PGE S.A. held 100% in the share capital. Currently PGE Baltica 3 sp. z o.o. is the sole shareholder of PGE Baltica 5 sp. z o.o.   |
| <b>Renewables</b> | Elektrownia Wiatrowa Baltica-3 sp. z o.o. | March 15, 2021                     | On February 11, 2021 the Extraordinary Assembly of Partners of the company adopted resolution on a share capital increase from PLN 83 900 000 to PLN 127 422 000, i.e. by PLN 43 522 000. The share capital increase was taken up and paid by PGE Baltica 5 sp. z o.o. in cash. PGE Baltica 5 sp. z o.o. held 100% in the share capital. Currently PGE Baltica 5 sp. z o.o. and Ørsted Baltica 3 Holding sp. z o.o. hold the same amount of shares in the company, representing 50% of its share capital. |
| <b>Renewables</b> | Elektrownia Wiatrowa Baltica-1 sp. z o.o. | March 11, 2021                     | On February 18, 2021 the Extraordinary Assembly of Partners of the company adopted resolution on a share capital increase from PLN 22 545 000 to PLN 32 545 000, i.e. by PLN 10 000 000. The share capital increase was taken up and paid by PGE S.A. in cash. PGE S.A. holds 100% in the share capital.  |
| <b>Renewables</b> | PGE Baltica 6 sp. z o.o.                  | March 15, 2021                     | On February 18, 2021 the Extraordinary Assembly of Partners of the company adopted resolution on a share capital increase from PLN 1 344 000 to PLN 36 516 000, i.e. by PLN 35 172 000. The share capital increase was taken up and paid by PGE S.A. in cash. PGE S.A. held 100% in the share capital. Currently PGE Baltica 2 sp. z o.o. is the sole shareholder of PGE Baltica 6 sp. z o.o.   |

|                   |  |                   |  |
|-------------------|--|-------------------|--|
| <b>Renewables</b> | Elektrownia Wiatrowa<br>Baltica-2 sp. z o.o. | April 28, 2021    | On February 18, 2021 the Extraordinary Assembly of Partners of the company adopted resolution on a share capital increase from PLN 65 200 000 to PLN 99 947 500, i.e. by PLN 34 747 500. The share capital increase was taken up and paid by PGE Baltica 6 sp. z o.o. in cash. After this transaction, PGE Baltica 6 sp. z o.o. held 100% in the share capital. Currently PGE Baltica 6 sp. z o.o. and Ørsted Baltica 2 Holding sp. z o.o. hold the same amount of shares in the company, representing 50% of its share capital.   |
| <b>Renewables</b> | Elektrownia Wiatrowa<br>Baltica-3 sp. z o.o. | July 19, 2021     | On May 6, 2021 the Extraordinary Assembly of Partners of Elektrownia Wiatrowa Baltica-3 sp. z o.o. adopted resolution on a share capital increase from PLN 127 422 000 to PLN 254 844 000, i.e. by PLN 127 422 000, through issue of new 254 844 shares of the company with a nominal value of PLN 500 each. In addition, the Extraordinary Assembly of Partners of the company decided to exclude the pre-emptive right of the former sole partner of the company, i.e. PGE Baltica 5 sp. z o.o., to acquire all newly created shares in the increased share capital and decided that all newly created shares of the company would be acquired by the new partner, i.e. Ørsted Baltica 3 Holding sp. z o.o. with seat in Warsaw. In connection with the above resolution, the increase in the company's share capital was covered by a cash contribution by the new partner of the company: EUR 19 727 173 , DKK 158 934 766 and PLN 200 721 000, with part of the contribution in amount of PLN 127 422 allocated to cover the nominal value of the new shares, and the remaining part of the cash contribution constituting the surplus over the nominal value of the new shares in the amount of PLN 73 299 000, EUR 19 727 173 and DKK 158 934 766 was allocated to the company's reserve capital. As a result of increasing the company's share capital and taking up its new shares, PGE Baltica 5 sp. z o.o. and Ørsted Baltica 3 Holding sp. z o.o. have the same number of shares in the company, each representing 50% of its share capital, and the company became a jointly controlled entity.       |
| <b>Renewables</b> | Elektrownia Wiatrowa<br>Baltica-2 sp. z o.o. | August 18, 2021   | On May 6, 2021 the Extraordinary Assembly of Partners of Elektrownia Wiatrowa Baltica-2 sp. z o.o. adopted resolution on a share capital increase from PLN 99 947 500 to PLN 199 895 000, i.e. by PLN 99 947 500, through issue of new 199 895 shares of the company with a nominal value of PLN 500 each. In addition, the Extraordinary Assembly of Partners of the company decided to exclude the pre-emptive right of the former sole partner of the company, i.e. PGE Baltica 6 sp. z o.o., to acquire all newly created shares in the increased share capital and decided that all newly created shares of the company would be acquired by the new partner, i.e. Ørsted Baltica 2 Holding sp. z o.o. with seat in Warsaw. In connection with the above resolution, the increase in the company's share capital was covered by a cash contribution by the new partner of the company: EUR 15 499 922 , DKK 124 877 316 and PLN 156 913 750, with part of the contribution in amount of PLN 99 947 500 allocated to cover the nominal value of the new shares, and the remaining part of the cash contribution constituting the surplus over the nominal value of the new shares in the amount of PLN 56 966 250, EUR 15 499 922 and DKK 124 877 316 was allocated to the company's reserve capital. As a result of increasing the company's share capital and taking up its new shares, PGE Baltica 6 sp. z o.o. and Ørsted Baltica 2 Holding sp. z o.o. have the same number of shares in the company, each representing 50% of its share capital, and the company will become a jointly controlled entity. |
| <b>Renewables</b> | PGE Baltica 2 sp. z o.o.                     | September 9, 2021 | On July 1, 2021 the Extraordinary Assembly of Partners of PGE Baltica 2 sp. z o.o. adopted resolution on a share capital increase from PLN 20 000 to PLN 606 216 000, i.e. by PLN 606 196 000, through issue of new 606 196 shares of the company with a nominal value of PLN 1 000 each. The share capital increase was taken up by the sole partner, i.e. by PGE S.A., in return for an in-kind contribution (in-kind contribution) in for of 36 516 shares in the share capital of PGE Baltica 6 sp. z o.o. constituting 100% in it share capital, what means that PGE Baltica 2 sp. z o.o. became the sole partner of PGE Baltica 6 sp. z o.o. On July 13, 2021 transfer of ownership of shares to PGE Baltica 2 sp. z o.o. took place, on the ground of the in-kind agreement concluded on that day between PGE S.A. and PGE Baltica 2 sp. z o.o.   |

|                                |  |                  |     |   |
|--------------------------------|--|------------------|-----|---|
| <b>Renewables</b>              | PGE Baltica 3 sp. z o.o.   | August 26, 2021  |     | On July 1, 2021 the Extraordinary Assembly of Partners of PGE Baltica 2 sp. z o.o. adopted resolution on a share capital increase from PLN 20 000 to PLN 774 491 000, i.e. by PLN 774 471 000, through issue of new 774 471 shares of the company with a nominal value of PLN 1 000 each. The share capital increase was taken up by the sole partner, i.e. by PGE S.A., in return for an in-kind contribution (in-kind contribution) in for of 46 768 shares in the share capital of PGE Baltica 5 sp. z o.o., constituting 100% in it share capital, what means that PGE Baltica 3 sp. z o.o. became the sole partner of PGE Baltica 5 sp. z o.o. On July 13, 2021 transfer of ownership of shares to PGE Baltica 3 sp. z o.o. took place, on the ground of the in-kind agreement concluded on that day between PGE S.A. and PGE Baltica 3 sp. z o.o. |
| <b>Conventional Generation</b> | Rybnik 2050 sp. z o.o.   | September 2021   | 15, | On August 17, 2021 the Extraordinary Assembly of Partners of Rybnik 2050 sp. z o.o. adopted resolution on a share capital increase from PLN 50 000 to PLN 22 564 000, i.e. by PLN 22 514 000, through issue of new 22 514 471 shares of the company with a nominal value of PLN 1 000 each. The share capital increase was taken up and paid by PGE S.A. in cash. PGE S.A. holds 100% in the share capital.   |
| <b>Renewables</b>              | PGE Baltica 4 sp. z o.o.   | October 20, 2021 |     | On August 25, 2021 the Extraordinary Assembly of Partners of PGE Baltica 4 sp. z o.o. adopted resolution on a share capital increase from PLN 20 000 to PLN 1 170 000, i.e. by PLN 1 150 000, through issue of new 1 150 shares of the company with a nominal value of PLN 1 000 each. The share capital increase was taken up and paid by PGE S.A. in cash. PGE S.A. holds 100% in the share capital.  |
| <b>Renewables</b>              | PGE Baltica 1 sp. z o.o.<br>(currently: Elektrownia Wiatrowa Baltica-8 sp. z o.o.) | January 12, 2022 |     | On November 4, 2021 the Extraordinary Assembly of Partners of PGE Baltica 1 sp. z o.o. adopted resolution on a share capital increase from PLN 20 000 to PLN 986 000, i.e. by PLN 966 000, through issue of new 966 shares of the company with a nominal value of PLN 1 000 each. The share capital increase was taken up and paid by PGE S.A. in cash. PGE S.A. holds 100% in the share capital.   |



## ADDITIONAL PAYMENTS FOR COMPANIES SHARES

| Segment                        | Entity  | Transaction date        | Comment   |
|--------------------------------|---|-------------------------|---|
| <b>Conventional Generation</b> | PGE Inwest 8 sp. z o.o. (currently: PGE Gryfino 2050 sp. z o.o.)  | January 13 – 15, 2021   | On January 13, 2021, the Extraordinary Assembly of Partners of the company adopted a resolution to obligate the sole shareholder of the company, i.e. PGE S.A., to make an additional payment to its shares, within the meaning of Article 177 of the Commercial Companies Code, in the total amount of PLN 50 000, i.e. in the amount of PLN 1 000 to each share held by PGE S.A., by January 18, 2021. In accordance with the above resolution of the Extraordinary Assembly of Partners, the additional payment was made by PGE S.A. on January 15, 2021.  |
| <b>Renewables</b>              | PGE SOLEO 1 sp. z o.o.<br>PGE SOLEO 2 sp. z o.o.<br>PGE SOLEO 3 sp. z o.o.<br>PGE SOLEO 4 sp. z o.o.<br>PGE SOLEO 5 sp. z o.o.<br>PGE SOLEO 6 sp. z o.o.<br>PGE SOLEO 7 sp. z o.o.<br>(„Companies PGE SOLEO”) | February 4, 2021        | On February 4, 2021 the Extraordinary Assemblies of Partners of the Companies PGE SOLEO adopted resolutions to obligate the sole shareholder of the Companies PGE SOLEO, i.e. PGE Energia Odnawialna S.A., to make additional payments to its shares, within the meaning of Article 177 of the Commercial Companies Code. Amount of the additional payment in case of PGE SOLEO 1 sp. z o.o. and PGE SOLEO 5 sp. z o.o. is the amount of PLN 200 000 for each one, and in case of PGE SOLEO 2 sp. z o.o., PGE SOLEO 3 sp. z o.o., PGE SOLEO 6 sp. z o.o. and PGE SOLEO 7 sp. z o.o. is the amount of PLN 50 000 for each one. |
| <b>Conventional Generation</b> | PGE Inwest 8 sp. z o.o. (currently: PGE Gryfino 2050 sp. z o.o.)  | March 2 – 5, 2021       | On March 2 2021 the Extraordinary Assembly of Partners of the company adopted a resolution to obligate the sole shareholder of the company, i.e. PGE S.A., to make an additional payment to its shares, within the meaning of Article 177 of the Commercial Companies Code, in the total amount of PLN 820 000, i.e. in the amount of PLN 16 400 to each share held by PGE S.A., by March 5, 2021. In accordance with the above resolution of the Extraordinary Assembly of Partners, the additional payment was made by PGE S.A. on March 5, 2021.   |
| <b>Renewables</b>              | PGE SOLEO 1 sp. z o.o.  | April 21-22, 2021       | On April 21, 2021 the Extraordinary Assembly of Partners of the company adopted a resolution to obligate the sole shareholder of the company, i.e. PGE Energia Odnawialna S.A., to make an additional payment to its shares, within the meaning of Article 177 of the Commercial Companies Code, in the total amount of PLN 1 500 000, i.e. in the amount of PLN 15 000 to each share held by PGE Energia Odnawialna S.A., by April 22, 2021. The additional payment has been made.   |
| <b>Other Operations</b>        | PGE Inwest 14 sp. z o.o.  | April 22-27, 2021       | On April 22, 2021 the Extraordinary Assembly of Partners of the company adopted a resolution to obligate the sole shareholder of the company, i.e. PGE S.A., to make an additional payment to its shares, within the meaning of Article 177 of the Commercial Companies Code, in the total amount of PLN 2 381 058, i.e. in the amount of PLN 537 to each share held by PGE S.A., by April 28, 2021. In accordance with the above resolution of the Extraordinary Assembly of Partners, the additional payment was made by PGE S.A. on April 27, 2021.  |
| <b>Renewables</b>              | PGE SOLEO 4 sp. z o.o.  | September 10 – 13, 2021 | On September 10, 2021 the Extraordinary Assembly of Partners of the company adopted a resolution to obligate the sole shareholder of the company, i.e. PGE Energia Odnawialna S.A., to make an additional payment to its shares, within the meaning of Article 177 of the Commercial Companies Code, in the total amount of PLN 7 000 000, i.e. in the amount of PLN 70 000 to each share held by PGE Energia Odnawialna S.A., by September 13, 2021. The additional payment was made on September 13, 2021.  |
| <b>Renewables</b>              | PGE SOLEO 5 sp. z o.o.  | September 10 – 13, 2021 | On September 10, 2021 the Extraordinary Assembly of Partners of the company adopted a resolution to obligate the sole shareholder of the company, i.e. PGE Energia Odnawialna S.A., to make an additional payment to its shares, within the meaning of Article 177 of the Commercial Companies Code, in the total amount of PLN 7 000 000, i.e. in  |



the amount of PLN 6 500 000, i.e. in the amount of PLN 65 000 to each share held by PGE Energia Odnawialna S.A., by September 13, 2021. The additional payment was made on September 13, 2021.

## MERGERS

| Segment                 | Acquiring company/acquired company  | Date of transaction/ registration in the National Court Register | Comment   |
|-------------------------|---|--|---|
| <b>Renewables</b>       | PGE Energia Odnawialna S.A./<br>ECO – POWER sp. z o.o.  | March 31, 2021/<br>April 30, 2021<br>(merger date)               | On March 31, 2021 the Extraordinary General Meeting of PGE Energia Odnawialna S.A. (Acquiring company) and the Extraordinary Assembly of Partners ECO - POWER sp. z o.o. (acquired company) adopted resolutions on the merger of the companies in mode of art. 492 § 1 p. 1 of the Polish Commercial Companies Code (merger through acquisition), through transferring of all assets of the acquired company to the acquiring company without issue of new shares in exchange for the shares in the share capital of the acquired company pursuant to art. 516 of the Polish Commercial Companies Code and dissolution of the acquired company without its liquidation. PGE Energia Odnawialna S.A. was the sole shareholder of ECO – POWER sp. z o.o.  |
| <b>Supply</b>           | PGE Obrót S.A. /<br>PGE Centrum sp. z o.o.  | September 20, 2021/<br>October 1, 2021<br>(merger date)          | On September 20, 2021 the Extraordinary General Meeting of PGE Obrót S.A. (Acquiring company) and the Extraordinary Assembly of Partners of PGE Centrum sp. z o.o. (acquired company) adopted resolutions on the merger of the companies in mode of art. 492 § 1 p. 1 of the Polish Commercial Companies Code (merger through acquisition), through transferring of all assets of the acquired company to the acquiring company, in exchange for the shares of the acquiring company, which the acquiring company granted to PGE S.A. as the sole partner of the acquired company. As a result of the merger, the Extraordinary General Meeting of PGE Obrót S.A. adopted resolution on increase of the share capital of the acquiring company by PLN 37 283 500 to PLN 529 923 900 in way of issue of 372 835 inscribed shares of I series with a nominal value of PLN 100 each. In addition, the Extraordinary General Meeting of PGE Obrót S.A. decided to assign the company PGE S.A. all new shares of PGE Obrót S.A. referred to above. |
| <b>District Heating</b> | PGE Energia Ciepła S.A. -<br>/Przedsiębiorstwo<br>Energetyki Ciepłej<br>sp. z o.o. with its seat in<br>Zgierz | November 3,<br>2021/<br>January 3, 2022<br>(merger date)         | On November 3, 2021 the Extraordinary General Meeting of PGE Energia Ciepła S.A. (Acquiring company) and the Extraordinary Assembly of Partners of Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. with its seat in Zgierz (acquired company) adopted resolutions on the merger of the companies in mode of art. 492 § 1 p. 1 of the Polish Commercial Companies Code (merger through acquisition), through transferring of all assets of the acquired company to the acquiring company without issue of new shares in exchange for the shares in the share capital of the acquired company pursuant to art. 516 § 6 of the Polish Commercial Companies Code and dissolution of the acquired company without its liquidation. PGE Energia Ciepła S.A. was the sole shareholder of Przedsiębiorstwo Energetyki Ciepłej sp. z o.o.   |

## DE-MERGERS

| Segment                        | Spun off company /acquiring company   | Date of transaction/ registration in the NCR   | Comment   |
|--------------------------------|---|--|---|
| <b>District Heating</b>        | PGE GiEK S.A./<br>PGE Energia Ciepła S.A.   | April 15, 2021/<br>May 24, 2021 decrease of the share capital of PGE GiEK S.A. was registered in NCR.<br>July 1, 2021 increase of the share capital of PGE Energia Ciepła S.A. was registered in NCR (spin-off date).      | On April 15, 2021 the Extraordinary General Meetings of PGE GiEK S.A. and PGE Energia Ciepła S.A. adopted resolutions to divide PGE GiEK S.A. (divided company) through partial division pursuant to art. 529 § 1 point 4 of the Polish Commercial Companies Code by transferring to PGE Energia Ciepła S.A. (acquiring company) certain assets of the divided company in the form of a part of a branch of this company, i.e. branch ZEDO, in the scope covering the Szczecin CHP plant, Pomorzany CHP plant and the district heating system in Gryfino, constituting an organised part of enterprise, functionally related to the generation of electricity as well as electricity and heat in cogeneration and the distribution of heat. The transfer of the organised part of enterprise to the acquiring company was performed through a reduction in the divided company's supplementary capital and an increase in the acquiring company's share capital by PLN 120 347 940 to PLN 2 501 281 240 as a result of the issue of 12 034 794 registered shares of the acquiring company, with a nominal value of PLN 10 each. As the sole shareholder of the divided company, PGE acquired all of the newly-issued shares in the increased share capital of the acquiring company.                      |
| <b>Conventional Generation</b> | PGE GiEK S.A. /<br>PGE Inwest 8 sp. z o.o. (currently: PGE Gryfino 2050 sp. z o.o.) | July 15, 2021<br>The decrease of the share capital of PGE GiEK S.A. was registered on September 9, 2021<br>The increase of the share capital of PGE Inwest 8 sp. z o.o. was registered on October 1, 2021 (spin-off date). | On July 15, 2021 the Extraordinary General Meeting of PGE GiEK S.A. and the Extraordinary Assembly of Partners of PGE Inwest 8 sp. z o.o. adopted resolutions to divide PGE GiEK S.A. (divided company) through partial division pursuant to art. 529 § 1 point 4 of the Polish Commercial Companies Code by transferring to PGE Inwest 8 sp. z o.o. (acquiring company) certain assets of the divided company in the form of a part of a branch of this company, i.e. PGE GiEK S.A. – Branch Zespół Elektrowni Dolna Odra, in the scope covering the construction of gas-fired units constituting an organized part of the enterprise („OPE”), functionally related to the construction of new units and the generation of electricity in the future. Transfer of OPE to the acquiring company took place by reducing the share capital of the divided company by the amount of PLN 27 543 770 to PLN 6 450 307 050 and an increase in the share capital of the acquiring company by the amount of PLN 32 314 000 to PLN 32 364 000 as a result of the issue of 32 314 shares of the acquiring company, with a nominal value of PLN 1 000 PLN each. As the sole shareholder of the divided company, PGE acquired all of the newly-issued shares in the increased share capital of the acquiring company. |

## TRANSFORMATION OF COMPANIES

| Segment                 | Company in transformation/<br>transformed company                              | Date of transaction/<br>registration in the NCR | Comment   |
|-------------------------|--|---|---|
| <b>Other Operations</b> | PGE Ekoserwis sp. z o.o.<br><i>after transformation:</i><br>PGE Ekoserwis S.A. | December 2, 2020/<br>February, 5 2021           | On December 2, 2020 the Extraordinary Assembly of Partners of PGE Ekoserwis sp. z o.o. adopted resolution on transformation of the company into a joint stock company under name PGE Ekoserwis S.A. PGE Ekoserwis S.A. was established on February 5, 2021 as a result of an entry into the register of entrepreneurs of the National Court Register. At the date of entry into the NCR, PGE S.A. held 222 850 shares, constituting 95.08% in the share capital of PGE Ekoserwis S.A. Currently PGE S.A. holds 100% in the share capital. |
| <b>Other Operations</b> | EPORE sp. z o.o.<br><i>after transformation:</i><br>EPORE S.A.                 | December 21, 2020/<br>January 13, 2021          | On December 21, 2020 the Extraordinary Assembly of Partners of EPORE sp. z o.o. adopted resolution on transformation of the company into a joint stock company under name EPORE S.A. EPORE S.A. was established on January 13, 2021 as a result of an entry into the register of entrepreneurs of the National Court Register. PGE GiEK S.A. is the sole shareholder of the company, holding 100% in the share capital of EPORE S.A.  |

## LIQUIDATION OF COMPANIES

| Segment       | Company in liquidation                                     | Date of transaction/<br>registration in the<br>National Court<br>Register  | Comment  |
|---------------|--|--|--|
| <b>Supply</b> | PGE Trading GmbH with<br>seat in Berlin ("PGE<br>Trading") | March 1, 2021/<br>PGE Trading has not been<br>removed from the<br>commercial register kept by<br>the District Court in Berlin-<br>Charlottenburg | On March 1, 2021 the Extraordinary Assembly of Partners of PGE Trading, in which PGE holds 100% of the share capital, adopted resolution on dissolution of PGE Trading and appointment of a liquidator to carry out liquidation activities of PGE Trading. |

## 7.2. Publication of financial forecasts

PGE S.A. did not publish financial forecasts.

## 7.3. Significant off-balance sheet items

Significant off-balance sheet items are described in notes 28 and 29 to the consolidated financial statements.

## 7.4. Entity authorised to audit of financial statements

An entity authorised to audit stand-alone financial statements of PGE S.A. and consolidated financial statements of PGE Capital Group for 2021 is Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp. k. on the ground of the agreement signed on April 26, 2019. More information regarding the co-operation of PGE Capital Group with the auditor is presented in note 32 to the consolidated financial statements.

## 7.5. Information on entity authorised to audit financial statements

Based on a statement from the Supervisory Board, the Management Board of PGE S.A. announces that the entity authorised to audit separate financial statements and consolidated financial statements, carrying out the audit of the annual financial statements: separate and consolidated, was selected in accordance with the provisions of law, especially as regards audit firm selection and selection procedure:

- the audit firm and members of the team performing the audit met the conditions for preparing an impartial and independent report on audit of annual financial statements in accordance with the existing regulations, professional standards and professional ethics rules,
- the existing regulations concerning audit firm and lead statutory auditor rotation and mandatory grace periods are being observed,
- PGE S.A. has a policy for selecting audit firms and a policy for provision of additional non-audit services to the issuer by the audit firm, entity related to the audit firm or a member of its network, including services conditionally exempt from the prohibition to provide by the audit firm.

## 8. Statement on implementation of Corporate Governance

This Statement on implementation of corporate governance in PGE S.A. in 2021 was prepared on the basis of § 70 section 6 point 5 of the Regulation of the Minister of Finance dated March 29, 2018 on current and periodic information published by issuers of securities and on conditions under which such information may be recognized as being equivalent to information required by the regulations of law of a state which is not a member state.

### 8.1. Corporate governance principles which the Company was obliged to follow in 2021

In 2021 PGE S.A. was obliged to follow the corporate governance principles described in "Best Practices of WSE Listed Companies 2016" (further: Best Practices 2016) and "Best Practices of WSE Listed Companies 2021" (further: Best Practices 2021). Best Practices 2016 were adopted with the Resolution of the Board of the WSE no. 26/1413/2015 on October 13, 2015, came into force on January 1, 2016 and were obeyed by PGE starting from that date until June 30, 2021. Best Practices 2021 were adopted with the Resolution of the Board of the WSE no. 13/1834/2021 on March 29, 2021 and are obeyed by PGE starting from July 1, 2021. The Best Practices constitute a set of corporate governance principles and rules of conduct affecting relations between companies listed on the stock exchange and their market environment. The content of the document is the result of the work of experts who are members of the WSE Corporate Governance Consultative Committee representing the interests of various groups of capital market participants.

Companies that apply the set of Good Practices are required to report on their application – PGE prepared the relevant report on the application of Good Practices 2021 and published it on July 30, 2021.

For the full text of the Best Practices, see the official corporate governance website of the WSE: <https://www.gpw.pl/best-practice2021>

#### INFORMATION ON EXCEPTIONS IN APPLICATION OF THE CORPORATE GOVERNANCE PRINCIPLES

In the first half of 2021 the Company was applying the Best Practices with the exception of recommendation IV.R.2.

Recommendation IV.R.2 in Chapter IV „General Meeting, Shareholder Relations” on enabling its shareholders to participate in a General Meeting using electronic communication means.

The Management Board of PGE twice proposed to shareholders introduction to the Statute and to the Regulations of the General Meeting provisions enabling organization of general meetings in the way prescribed in Code of Best Practices. Such proposal was not approved by shareholders during Ordinary General Meeting of May 30, 2012 and during Extraordinary General Meeting of June 27, 2013. The Management Board of PGE does not exclude adoption of the above-mentioned rule in future.

In opinion of PGE's Management Board, non-compliance with the above rule will not affect the reliability of the information policy and does not cause a risk of limitations or difficulties for shareholders to participate in general meetings. The Company provides real-life broadcast of the general meeting.

#### INFORMATION ABOUT THE DIVERSITY POLICY

The Ordinary General Meeting held on June 26, 2020 adopted resolution no. 24, which clarified the rules for the appointment of persons to managerial positions by introducing the following provision into the Company Statutes: "Members of the Management Board shall be appointed for a joint term of office which lasts 3 years. A member of the Management Board shall meet the conditions specified in Article 22 of the State Property Management Act."

PGE S.A. had not developed a diversity policy applicable to the Company's governing bodies and key managers. Recruitment process for the managing positions includes such elements as proper education, professional experience, qualifications and competences of the candidates and does not disqualify any candidates in terms of elements of the diversity policy that are indicated in the principle.

Elements of the diversity policy are described in the Code of Ethics of the PGE Capital Group. Each employee is obliged to follow the principles resulting from the Code of Ethics. It contains regulations on the equal treatment of people, the use of their potential irrespective of age, gender, religion, marital status, type of contract, experience or any other factors. Regular training events are held for all employees on the application of the principles resulting from the Code of Ethics. The PGE Capital Group has also implemented an Age Management Strategy.

From July 1, 2021 the Company applied the Good Practices 2021, except for the rules indicated below (1.3.2, 1.4.2, 2.1, 2.2, 2.11.6, 3.5, 3.7, 3.8, 4.1 and 6.4):

- **1.3.2** „Companies integrate ESG factors in their business strategy, including in particular social and employee factors, including among others actions taken and planned to ensure equal treatment of women and men, decent working conditions, respect for employees' rights, dialogue with local communities, customer relations”.

In its business strategy, the company takes into account broadly understood social and employee factors. However, the strategy does not cover issues related to the actions taken and planned to ensure equal treatment of women and men.

- **1.4.2** „To ensure quality communications with stakeholders, as a part of the business strategy, companies publish on their website information concerning the framework of the strategy, measurable goals, including in particular long-term goals, planned activities and their status, defined by measures, both financial and non-financial. ESG information concerning the strategy should among others present the equal pay index for employees, defined as the percentage difference between the average monthly pay (including bonuses, awards and other benefits) of women and men in the last year, and present information about actions taken to eliminate any pay gaps, including a presentation of related risks and the time horizon of the equality target”.

Currently, the company does not present information about actions taken or planned in order to ensure the wages equality with regard to gender. Along with the progress in the implementation of the strategy, the company will present the equal pay index.

- **2.1** „Companies should have in place a diversity policy applicable to the management board and the supervisory board, approved by the supervisory board and the general meeting, respectively. The diversity policy defines diversity goals and criteria, among others including gender, education, expertise, age, professional experience, and specifies the target dates and the monitoring systems for such goals. With regard to gender diversity of corporate bodies, the participation of the minority group in each body should be at least 30%”.

PGE Polska Grupa Energetyczna S.A. has not yet developed a diversity policy applicable to the company's governing bodies. Recruitment process for the managerial positions includes such elements as proper education, professional experience, qualifications and competences of the candidates and does not disqualify any candidates in terms of elements of the diversity policy that are indicated in the principle.

- **2.2** „Decisions to elect members of the management board or the supervisory board of companies should ensure that the composition of those bodies is diverse by appointing persons ensuring diversity, among others in order to achieve the target minimum participation of the minority group of at least 30% according to the goals of the established diversity policy referred to in principle 2.1”

PGE Polska Grupa Energetyczna S.A. has not yet developed a diversity policy applicable to the company's governing bodies. Recruitment process for the managerial positions includes such elements as proper education, professional experience, qualifications and competences of the candidates and does not disqualify any candidates in terms of elements of the diversity policy that are indicated in the principle.

- **2.11.6** „In addition to its responsibilities laid down in the legislation, the supervisory board prepares and presents an annual report to the annual general meeting once per year. Such report includes at least the following: information regarding the degree of implementation of the diversity policy applicable to the management board and the supervisory board, including the achievement of goals referred to in principle 2.1.”

The company has no formal diversity policy applicable to the Management Board and the Supervisory Board.

- **3.5** „Persons responsible for risk and compliance management report directly to the president or other member of the management board”.

In accordance with the current organisational structure, the person responsible for risk management reports to the Managing Director of Finance, who reports directly to the member of the Management Board.

- **3.7** „Principles 3.4 to 3.6 apply also to members of the company's group which are material to its activity if they appoint persons to perform such tasks”.

Principle is not applied in relation to principle 3.5 in case of persons responsible for risk management in some group's companies, which are material to the group's activity.

- **3.8** „The person responsible for internal audit or the management board if such function is not performed separately in the company reports to the supervisory board at least once per year with their assessment of the efficiency of the systems and functions referred to in principle 3.1 and tables a relevant report”.

Currently, information about assessment of the efficiency of the systems and functions referred to in principle 3.1, are presented to the Supervisory Board by the directors of particular departments and the president of the Management Board. The company's authorities will take steps to implement this principle, entrusting this task to the unit responsible for internal audit.

- **4.1** „Companies should enable their shareholders to participate in a general meeting by means of electronic communication (e-meeting) if justified by the expectations of shareholders notified to the company, provided that the company is in a position to provide the technical infrastructure necessary for such general meeting to proceed”.

The Management Board of PGE Polska Grupa Energetyczna S.A. twice proposed to shareholders introduction to the Statute and to the Regulations of the General Meeting provisions enabling organisation of general meetings in the way prescribed in Code of Best Practices. Such proposal was not approved by shareholders during Ordinary General Meeting of May 30, 2012 and during Extraordinary General Meeting of June 27, 2013. The Management Board of PGE does not exclude adoption of the above-mentioned principle in future. In opinion of PGE's Management Board, non-compliance with the above principle will not affect the reliability of the information policy and does not cause a risk of limitations or difficulties for shareholders to participate in general meetings. The Company provides real-life broadcast of the general meeting.

- **6.4** „As the supervisory board performs its responsibilities on a continuous basis, the remuneration of supervisory board members cannot depend on the number of meetings held. The remuneration of members of committees, in particular the audit committee, should take into account additional workload on the committee”.

The remuneration of Supervisory Board members does not depend on the number of meetings held, but the work in committees is not remunerated additionally.



## DESCRIPTION OF THE BASIC CHARACTERISTICS OF INTERNAL CONTROL SYSTEMS AND RISK MANAGEMENT SYSTEMS USED IN THE COMPANY DURING PREPARATION OF THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The Company applies the following mechanisms of internal control and risk management during preparation of the financial statements:

### PRINCIPLES OF SUPERVISION OVER PREPARATION OF FINANCIAL STATEMENTS.

To ensure the application of uniform accounting principles in the PGE Capital Group, an EU IFRS-compliant accounting policy of the PGE Capital Group has been developed. Policy is binding for the companies using IFRS for preparation of their statutory financial statements and at preparation of the IFRS-compliant reporting packages for the consolidation. The accounting policy is updated in the event of changes in regulations or in the event of significant events not described previously in the Policy. The Management Board of the parent company is responsible for developing and updating the Policy.

Before every reporting period the companies subject to consolidation receive detailed guidelines from PGE S.A. with regard to method and closing date of the accounting books, preparation and submitting the reporting packages and template updated for a given period.

### MANAGEMENT MECHANISMS FOR INFORMATION SYSTEM USED FOR FILING AND FINANCIAL REPORTING WITH PROTECTION MECHANISMS.

The Company keeps accounting books in the integrated information system. The system ensures division of competencies, coherent entries in the books and control between the general ledger and subsidiary ledgers. The system can be modified to ensure adequacy of the technical solutions to the changing accounting principles and legal standards. The adopted IT solutions ensure access control and protection against unauthorized interference. The rules for archiving financial and accounting data are also implemented.

Consolidation of the financial statements is performed in the dedicated financial program. The program ensures consistency of reporting for the purposes of consolidation for all companies of the Capital Group, regardless of the accounting system used for statutory purposes. All companies of the Capital Group enter data in the same system.

Data for the consolidation program are partly entered automatically from accounting systems and the rest is completed manually. The functionality of the program ensures verification of internal data consistency, reconciliation of turnover, settlements and flows between the companies of the Capital Group and the automation of repeated consolidation adjustments. Ultimately, the program generates reports that are the basis for the preparation of consolidated financial statements.

There is also access control and rights to edit and approve financial data entered into the consolidation program.

### PRINCIPLES OF VERIFICATION AND EVALUATION OF REPORTS.

The management of the particular companies are responsible for preparation of the reporting packages under consolidation. Management is responsible for the preparation and approval of the data. In addition, the reporting packages of significant subsidiaries are verified by the reporting team in the parent company and by an independent auditor. The reporting data of the subsidiaries are also analysed by the parent company in terms of deviations from financial plans and comparable periods.



Director of the Reporting and Tax Department of the Company is responsible for the preparation of stand-alone and consolidated financial statements. Statutory auditors perform an independent assessment of reliability and correct preparation of the financial statements of PGE S.A. and financial statements of companies subject to consolidation.

The auditor selection procedure and the policy of cooperation with the auditor ensure his independence from the Company and the Capital Group. In accordance with the policy adopted by the Audit Committee, updated in 2020, the maximum uninterrupted duration of engagements for audits of financial statements, carried out by the same audit firm or an audit firm associated with this audit firm or any member of the network operating in the European Union countries to which these audit firms, may not exceed 10 years, provided that the key statutory auditor may not audit the financial statements for a period longer than 5 years and that the key statutory auditor may re-audit the financial statements after at least 3 years from the end of the last auditing financial statements

The PGE Group has implemented a multi-stage process of approving financial statements with the participation of Supervisory Boards of the companies under consolidation. Stand-alone and consolidated financial statements of PGE S.A. are evaluated by the Supervisory Board. The Audit Committee operates within the Supervisory Board and is responsible, among others, for: monitoring the independence of the statutory auditor, monitoring the effectiveness of internal control systems, reviewing interim and annual financial statements of the. Stand-alone financial statements of the companies subject to consolidation are evaluated by the Supervisory Boards of such companies. The financial statements are approved by the General Meetings of the companies.

#### INTERNAL AUDIT, CORPORATE RISK MANAGEMENT AND OTHER ELEMENTS OF CONTROL.

The Company has an internal audit that covers all areas of activity of the PGE Capital Group, excluding protection of classified information, which is regulated by the act. The aim of internal audit is to perform independent and objective assessments of business processes at PGE Group companies as regards implementing effective and adequate risk management, control and corporate governance systems. Internal audit is based on the Internal Audit Regulations, which are aligned with the International Standards for the Professional Practice of Internal Auditing and encompasses both planned and ad hoc audits at the parent and other Group companies. Internal audit provides support to PGE Group in achieving its objectives by delivering information to the corporate bodies and management of PGE and PGE Group companies on the effectiveness of risk management, control and corporate governance processes and by providing advisory in this area. Audit results are also reported to the Audit Committee.

As part of the controlling activities, periodical management reporting is evaluated for reasonable information, in particular in the context of analysis of deviations from objectives in the financial plans.

#### SHAREHOLDERS WITH A SIGNIFICANT STAKE

Shareholders holding directly or indirectly by subsidiaries at least 5% of the total votes at Company's General Meeting are presented in p. 8.4 of the foregoing report.

#### SHAREHOLDERS WITH SPECIAL CONTROL POWERS

Company shares are ordinary, bearer shares listed at the regulated market of the Warsaw Stock Exchange. Company shares are not privileged.

Despite the fact that the Company shares are not privileged, the Statutes provides for special powers for the State Treasury as long as it is the shareholder of the Company. In accordance with statutory provisions, the State Treasury may demand in writing that the Management Board convene the General Meeting, demand that certain matters be placed on the agenda, submit draft resolutions pertaining to matters placed on the agenda of the General Meeting or matters which may be placed on the agenda.

The State Treasury is authorised to appoint one member of the Supervisory Board by means of a written statement submitted to the Management Board of the Company. Such nomination or dismissal takes effect from the date on which the relevant notification is delivered to the Management Board and does not require a General Meeting resolution. The State Treasury may exercise this power regardless of the voting right when appointing other members of the Supervisory Board.

On the ground of the Statutes, the State Treasury holds special right with regard to selection of the Supervisory Board members. Selection of half of members of the Supervisory Board, appointed by the General Meeting, shall be elected from among persons indicated by the State Treasury. The Supervisory Board selects the Chairperson of the Supervisory Board from among its members wherein the Chairperson of the Supervisory Board shall be elected from among persons indicated by the State Treasury. This State Treasury's right is valid until its stake in the Company falls below 20%.

#### LIMITATIONS REGARDING EXERCISE OF THE VOTING RIGHTS FROM THE EXISTING SHARES

As from June 29, 2011 the Statutes of the Company provide the limitations regarding exercise of the voting rights in shares. The voting right of shareholders shall be limited in such manner that at the General Meeting, none of them may exercise more than 10% of the total number of votes existing in the Company as at the date of holding the General Meeting, subject to the provision that for the purposes of determining the obligations of entities acquiring considerable blocks of shares as provided for in the Act on public offerings, conditions for introducing financial instruments to an organised trading system and public companies of July 29, 2005, such limitation of the voting right shall be regarded as non-existent.

The above limitation does not apply to the State Treasury and shareholders acting with the State Treasury on the basis of agreements concerning the joint exercise of the voting right related to shares.

In addition, for the purposes of limiting the voting right, votes belonging to shareholders between whom there exists a relationship of domination or dependence (Shareholders Group) shall be cumulated; in the event that the cumulated number of votes exceeds 10% (ten per cent) of the total number of votes in the Company, it shall be subject to reduction.

The accumulation of votes shall consist in the summing of the number of votes remaining at the disposal of shareholders belonging to a Shareholders Group.

The reduction of votes shall consist in decreasing the total number of votes in the Company to which shareholders belonging to a Shareholders Group are entitled at the General Meeting to the threshold of 10% (ten per cent) of the total number of votes in the Company.

The accumulation and reduction of votes together with the detailed description of the shareholders between whom there exists a relationship of domination or dependence are governed by the principles included in the Company's Statutes.

Moreover, each shareholder who intends to participate in the General Meeting, directly or by proxy, shall be obliged, without a separate call, to notify the Management Board or the Chairperson of the General Meeting of the fact that he holds, directly or indirectly more than 10% (ten per cent) of the total number of votes in the Company. This obligation does not apply to the State Treasury. A person who has failed to comply or has complied improperly with that obligation to provide information may exercise the voting right exclusively from one share until the remedy of such failure to. The exercise of the voting right from the other shares by such person shall be ineffective.

Irrespective of the above provision, in order to establish a basis for the accumulation and reduction of votes, a shareholder, the Management Board, the Supervisory Board and the particular members of these bodies may demand that a shareholder provide information whether he is a person having the status of a dominant or dependent entity with respect to another shareholder. The right referred to in

the preceding sentence shall also cover the right to demand that a shareholder disclose the number of votes that such shareholder holds independently or together with other shareholders.

At the time when the share of the Company's share capital held by the State Treasury falls below 5%, the limitation of the above voting right shall expire.

#### LIMITATIONS REGARDING THE TRANSFER OF OWNERSHIP OF THE COMPANY'S SECURITIES

There are no limitations regarding the transfer of ownership of the Company's securities, that the Company is aware of, apart from the limitations regarding the shares of the Company that belong to the State Treasury, resulting from the Act of December 16, 2016 on rules of management of the state assets. Disposal of shares in violation of this prohibition is invalid.

## 8.2. Rules for amendments to the Company's Statutes

In accordance with provisions of the Code of Commercial Companies, any amendments to the Company's Statutes require a resolution to be passed by the General Meeting and an entry to the register of entrepreneurs. A resolution on amendments to the Company's Statutes is made with a majority of three fourth votes. The General Meeting of the Company may authorise the Supervisory Board to agree on the uniform text of the amended Company's Statutes or introduce other editing changes as specified in the resolution of the General Meeting. Amendments to the Company's Statutes shall be valid from the day an entry is made to the register of entrepreneurs.

#### MODE OF OPERATION OF THE GENERAL MEETING OF THE COMPANY, ITS KEY POWERS AND THE RIGHTS OF SHAREHOLDERS AND THE MANNER OF THEIR EXECUTION

Rules of the General Meeting are determined in the Code of Commercial Companies and the Company's Statutes. The additional issues related to the activities of the General Meeting are regulated by the Rules of the General Meeting approved on March 30, 2010 by the Extraordinary General Meeting.

The Company's Statutes and the Rules of the General Meeting are available on the PGE's website at:

<https://www.gkpge.pl/Investor-Relations/PGE-Group/Corporate-Governance/Statute>

<https://www.gkpge.pl/Investor-Relations/PGE-Group/Corporate-Governance/Regulations>

#### CONVENING AND CANCELLING THE GENERAL MEETING

The General Meeting is convened in the manner and in circumstances described in the Code of Commercial Companies and the Company's Statutes. The detailed method of convening and cancelling the General Meeting is defined in the Rules of the General Meeting.

Pursuant to the Statutes of the Company, the Management Board shall convene the General Meeting on its own initiative, at the written demand of the Supervisory Board or demand of the shareholder or shareholders representing at least one twentieth of the share capital or at the written demand of the State Treasury as long as the State Treasury remains a shareholder of the Company.

The General Meeting should be convened within two weeks of the demand, by the Supervisory Board, shareholder or the State Treasury. If the General Meeting is not convened within two weeks of the demand, the registry court may authorise the shareholder or shareholders making such a demand to convene the Extraordinary General Meeting. Announcement about the convening of the general Meeting of the Company and Materials issued to shareholders in connection with the General Meeting, in particular draft resolutions proposed for voting by the General Meeting and other essential materials are provided by the Company at least 26 days before the date of the General Meeting of the Company on the corporate website [www.gkpge.pl](http://www.gkpge.pl), in the manner specified for submitting current information

pursuant to regulations on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies.

Cancelling of the General Meeting or changing the date of the Meeting supervenes through announcement on the company's website. The Company makes efforts to ensure that cancelling of the General Meeting or changing the date of the Meeting creates the least negative results for the Company and the shareholders.

Cancelling of the General Meeting is possible only on the petitioners' permission or when holding of the meeting faces extraordinary obstacles or is nonrepresentational.

Cancelling of the General Meeting and changing the date of the Meeting shall occur promptly after occurrence of rationale justifying the cancelling or change of date, but not later than seven days before the date of the General Meeting, except when it is not possible or excessively difficult under the given circumstances, then the cancelling or change of date may occur at any time before the General Meeting date.

### COMPETENCIES OF THE GENERAL MEETING OF THE COMPANY

According to the provisions of the Code of Commercial Companies and Company's Statutes the General Meeting's main competences include adoption of resolutions on the following matters:

- review and approval of the report of the Management Board on the activities of the Company, financial statements and the consolidated financial statements for the past financial year,
- granting approval of fulfilment of duties by the Members of the Supervisory Board and Members of the Management Board,
- decision on the distribution of profit or covering the loss,
- appointment and recall of Members of the Supervisory Board and determination of rules of remuneration for the Members of the Supervisory Board,
- acquisition and lease of the undertaking or its organised part and placing a limited material right thereon,
- concluding credit, loan, suretyship or similar agreement with a member of the Management Board, Supervisory Board, proxy, liquidator or in the name of any of such persons,
- increase and reduction of the share capital of the Company,
- issue of convertible bonds or preferential bonds, issue of subscription warrants,
- decisions regarding claims for repair of damage caused during founding of the company and management or supervision over the Company,
- merger, transformation and division of the Company,
- redemption of shares,
- amendment to the Statutes and change of the subject of activities of the Company,
- dissolution and liquidation of the Company,
- the PGE's disposal of shares/interests in a company with respect to which frequencies from the ranges 452.5-457.5 MHz and 462.5-467.5 MHz have been reserved pursuant to a decision on frequency reservation to be issued, after consultations with the minister competent for energy-related matters, by the President of the Electronic Communication Office,
- the determination of the manner of voting at the General Meeting of a company with respect to which frequencies from the ranges 452.5-457.5 MHz and 462.5-467.5 MHz have been reserved

pursuant to a decision on frequency reservation to be issued, after consultations with the minister competent for energy-related matters, by the President of the Electronic Communication Office, on matters concerning amendments to such a company's statutes / agreement.

The sale and purchase of real property, perpetual usufruct or share in real properties does not require a resolution of the General Meeting.

The General Meeting of Shareholders may vote on resolutions pertaining only to matters included on the detailed agenda, with reservation to art. 404 of the Code of Commercial Companies.

#### PARTICIPATION IN THE GENERAL MEETING OF THE COMPANY

The right to participate in the General Meeting is available only to persons who are shareholders of the Company sixteen days before the date of the General Meeting (date of registration of participation in the General Meeting). Lienors and users, who have the voting right, may participate in the General Meeting, if they are registered in the stockholders' ledger as at the date of registration of participation in the General Meeting.

A shareholder may participate in the General Meeting provided that the shareholder presents a personal certificate confirming the right to participate in the General Meeting issued by the entity which keeps the securities account.

A shareholder participates in the General Meeting and exercises the right to vote in person or through the Proxy. Proxy to participate in the General Meeting and exercise the right to vote must be granted in writing or in electronic form. Proxy granted in electronic form should be sent to the e-mail address of the Company stated in the announcement on the General Meeting. From the date the General Meeting is convened, the Company provides a form with a specimen of proxy in electronic form on its website. The Proxy of a shareholder exercises all the rights of the shareholder unless proxy provides otherwise. If the shareholder has shares recorded in more than one securities account, the shareholder may appoint a Proxy to exercise rights in shares recorded in each account.

#### VOTING AT THE GENERAL MEETING OF THE COMPANY

Resolutions of the General Meeting are passed with the absolute majority of votes, subject to other provisions of the Code of Commercial Companies and the Company's Statutes. One Company share carries the right to one vote at the General Meeting of Shareholders.

Subject to governing provisions of the law and of the Statutes, the voting shall be open. A secret voting is administered during appointments of members of Company's authorities or liquidators, and motions for recalling or prosecuting and during voting on personal matters. A secret voting should be also administered when requested by at least one of the shareholders present or represented at the General Meeting. The General Meeting may pass a resolution to override secret voting for matters pertaining to founding of a commission appointed by the General Meeting.

## 8.3. Composition and the description of operations of the management and supervisory bodies and its committees

### MANAGEMENT BOARD

#### MANAGEMENT BOARD MEMBERS

From January 1, 2021 till March 31, 2021 the Management Board worked in following composition:

| Name and surname of the Management Board | Position                              |                        |
|--|---------------------------------------|------------------------|
| Wojciech Dąbrowski                       | President of the Management Board     | from February 20, 2020 |
| Wanda Buk                                | Vice-President for Regulatory Affairs | from September 1, 2020 |
| Paweł Cioch                              | Vice-President for Corporate Affairs  | from February 24, 2020 |
| Paweł Strączyński                        | Vice-President for Finance            | from February 24, 2020 |
| Paweł Śliwa                              | Vice-President for Innovations        | from February 20, 2020 |
| Ryszard Wasilek                          | Vice-President for Operations         | from February 20, 2020 |

On March 31, 2021 Mr Paweł Strączyński - Vice-President for Finance – submitted his decision to resign from the position. The resignation took effect on April 1, 2021.

After a competitive procedure, on June 8, 2021 the Supervisory Board adopted resolution no. 396/XI/2021 on appointing Mr Lechosław Rojewski to the Management Board of PGE Polska Grupa Energetyczna S.A. entrusting him the position of the Vice-President for Finance as from June 9, 2021.

As at December 31, 2021 and at the publication date of this report, the Management Board has worked in following composition:

| Name and surname of the Management Board | Position                              |                        |
|--|---------------------------------------|------------------------|
| Wojciech Dąbrowski                       | President of the Management Board     | from February 20, 2020 |
| Wanda Buk                                | Vice-President for Regulatory Affairs | from September 1, 2020 |
| Paweł Cioch                              | Vice-President for Corporate Affairs  | from February 24, 2020 |
| Lechosław Rojewski                       | Vice-President for Finance            | from June 9, 2021      |
| Paweł Śliwa                              | Vice-President for Innovations        | from February 20, 2020 |
| Ryszard Wasilek                          | Vice-President for Operations         | from February 20, 2020 |



**Wojciech Dąbrowski** – President of the Management Board



Mr Wojciech Dąbrowski was appointed to the Management Board of PGE of the 11th term on February 20, 2020. He graduated from the Faculty of Law and Administration at the University of Warsaw. He later completed postgraduate studies at the Warsaw University of Technology, in the Faculty of Power and Aeronautical Engineering, in the area of steam exploitation, gas and steam-gas power plants, combined heat and power plants. Moreover, he is a graduate of the Leon Kozminski Academy and the University of Warsaw, in Management in Public Administration.

Mr Dąbrowski has been working as a manager in the energy sector for ten years. From November 2017 to February 2020, he was the President of the Management Board of the PGE EC, where he completed the process of Polish heat industry assets integration, acquired by PGE from the French company EDF. From January 2016 to November 2017, he was President of the Management Board of the PGNiG Termika S.A., where he completed the process of acquisition in PEC Jastrzębie and SEJ Jastrzębie, strengthening the market position of PGNiG Termika. Between 2011 and 2016, he was Vice-President of the Municipal Heat Energy Company in Wołomin Ltd.

**Wanda Buk** – Vice-President for Regulatory Affairs



Wanda Buk was appointed to the Management Board of the eleventh term of office as from September 1, 2020. She is an attorney, she graduated from the Faculty of Law and Administration at the University of Łódź, as well as the Faculty of French Business Law at the Université de Poitiers in France. She also graduated International Military Relations at the War Studies Academy, European Academy of Diplomacy, postgraduate studies at the Warsaw School of Economics and the prestigious Leadership Academy for Poland programme organised by the Center for Leadership in cooperation with Harvard University.

Ms. Wanda Buk has held position of the Undersecretary of State at the Ministry of Digital Affairs since July 2018. She has been managing Telecommunications Department, Legal Department, International Policy Department and Office of the Minister. At the same time she has been a member of the Committee for European Union, the Standing Committee of the Council of Ministers and the Joint Central Government and Local Government Committee. From January 2016, Wanda Buk was the director of the Digital Poland Project Centre. She managed the institution responsible for implementation of European funds earmarked for the digitisation of the country. She was responsible for the implementation of EU-funded projects with a total value of PLN 10 billion, including: building IT and telecommunications infrastructure providing access to fast broadband, development of high availability and quality electronic services, digitisation in public administration and culture, building digital skills on a national scale with particular emphasis on coding, as well as promoting basic computer science knowledge in various social groups. She worked in a number of law firms, where she implemented infrastructure projects, including ones financed from public funds. She also advised entities operating on the regulated market.



**Paweł Cioch** – Vice-President for Corporate Affairs

Mr Paweł Cioch was appointed to the Management Board of PGE of the 11th term on February 24, 2020. Doctor of Law, a graduate of the Faculty of Law, Canon Law and Administration of the Catholic University of Lublin in 2003. In 2006 he completed a judicial apprenticeship completed with a judicial exam at the Court of Appeal in Rzeszów, as well as obtained a PhD in legal sciences at KUL and was registered on the roll of attorneys-at-law.

He specializes in providing legal services to commercial law companies and public finance sector entities. For many years, he provided legal services to capital companies in the manufacturing, transport and construction industries, as well as local government units and organizational units of the State Treasury. Mr Cioch has experience in the implementation of corporate governance in capital companies. Since 2007, the owner of the Law Firm of Attorney-at-Law - dr Paweł Cioch, and since 2016 the Managing Partner of the law firm Cioch & Partnerzy. At the same time, since 2018 he has been the Legal Advisor of the Marshal of the Lublin Province.



**Lechosław Rojewski** - Vice-President for Finance

Mr. Lechosław Rojewski is a graduate of Gdynia Maritime University, AGH University of Science and Technology in Kraków and doctoral studies at the Institute of Economics at the Polish Academy of Sciences in Warsaw. He completed numerous training and courses in accounting, taxes, controlling, IAS, IFRS and finances. Entitled to provide services consisting in maintenance of accounting ledgers. He was a participant of Controlling and Management Accounting Academy. Certified European Fund advisor. Worked as an assistant professor in Kotarbiński University of Information Technology and Management in Olsztyn. He collaborated with WSB University (Wyższa Szkoła Bankowa) in Gdańsk and Gdynia as well as with the University of Business and Administration in Gdynia.

In the years 2019-2021 he was the Vice-President of the Management Board for finance at Węglukoks S.A. From 2016 to 2019, he was associated with Port Gdański Eksploatacja S.A., where he first served as the Vice-President of the Management Board for finance and then the President of the Management Board. Moreover, he gained experience while working in production, service and commercial companies and on the positions of an expert, coordinator and moderator of EU projects concerning the implementation of strategic planning in a company and the introduction of innovative technical and organisational solutions ensuring effective competitiveness in the national and foreign markets. He has broad experience in restructuring of companies, optimisation of financial and accounting processes, planning and budgeting, management of financial flows and mitigation of foreign exchange risk. He also implemented integrated IT systems (ERPs).





**Paweł Śliwa** – Vice-President for Innovations

Mr Paweł Śliwa was appointed to the Management Board of PGE of the 11th term on February 20, 2020. Mr. Paweł Śliwa graduated from Law and Administration Faculty at the Maria Curie-Skłodowska University in Lublin, branch in Rzeszów. He completed PhD studies on the Cardinal Stefan Wyszyński University in Warsaw. Completed attorney apprenticeship in Regional Bar Council in Rzeszów.

From March 1, 2016 till March 22, 2016 he held a position of the Supervisory Board member of PGE. Since November 2011 he has been a judge of the Tribunal of State. From 2002 Mr. Paweł Śliwa has run a Law Firm in Gorlice. Since October 2010 a councilor in the legislative assembly of Małopolskie voivodship. In years 2005-2012 ran a Solicitor's Partnership in Gorlice. In years 2006-2007 he held the position of the Vice-Chairman of the Supervisory Board of Ruch S.A.



**Ryszard Wasilek** – Vice-President for Operations

Mr Ryszard Wasilek was appointed to the Management Board of PGE of the 11th term on February 20, 2020. He graduated from the Faculty of Mechanical Engineering at the Szczecin University of Technology, and completed postgraduate studies District Heating and Heating of the Warsaw University of Technology, Faculty of Environmental Engineering.

From 2003 till 2016 he was the President of the Management Board of a district heating company Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. in Stargard. In years 1990-1994 Mr. Ryszard Wasilek served as the Deputy President of Stargard, responsible for economic policy and in years 1994-2003 worked at KielArt Sp. z o.o. in Szczecin as CEO – Chairman.

He's been a Member of the Council of the Stargard Chamber of Commerce (since 2004), a Member of the Regional Council of the Polish Chamber of District Heating – North-Western Region (since 2010) and a Member of the National Council of the Polish Chamber of District Heating (since 2014). In years 1993-1994 Ryszard Wasilek was also the President of the Western Pomerania Municipal Community "Euroregion Pomerania".

### RULES OF APPOINTING AND RECALLING THE MANAGEMENT PERSONNEL

The Management Board of the Company consists of from one to seven members, including President. The remaining members fulfil the functions of Vice-Presidents. Members of the Management Board are appointed for a joint three-year term of office.

The Management Board or individual members of the Management Board are appointed and recalled by the Supervisory Board, following a competitive procedure intended to test and evaluate the candidates' qualifications and to select the best candidate for the position of Management Board member, with the stipulation that candidates for this post must meet the conditions specified in § 15 sec. 3 and 4 of PGE's Statutes. In addition, each member of the Management Board may be recalled or suspended by the General Meeting or, for major reasons, suspended by the Supervisory Board. A resolution of the Supervisory Board on the suspension of a member of the Management Board must include a justification. The Supervisory Board may delegate members of the Supervisory Board to perform activities of the members of the Management Board on a temporary basis. A member of the Management Board submits his/her resignation in writing to the Supervisory Board at the address of the registered office of the Company.

### COMPETENCIES OF THE MANAGEMENT BOARD

The Management Board administers affairs of the Company and represents the Company in all court and out-of-court affairs. The Management Board deals with all the matters related to managing the affairs of the Company, not reserved by the law or Statutes for the General Meeting or the Supervisory Board.

Co-operation of two Members of the Management Board or one member of the Management Board with a proxy is required to make statements on behalf of the Company. In the event that the Management Board comprises one member, declarations of intent on behalf of the Company may be made by the sole Management Board member.

The modus operandi of the Management Board and internal division of competence among Management Board members as regards managing the Company's affairs are specified in regulations of the Management Board.

Pursuant to the Statutes of the Company, resolutions of the Management Board are required for all matters that go beyond the scope of ordinary acts of the Company. In the case of a voting tie, the President of the Management Board has the casting vote.

In accordance with the PGE's Statutes, resolutions of the Management Board are required particularly for the following:

- the Company's acquisition or disposal of the following components of assets: real property, perpetual usufruct, interest in real property or perpetual usufruct, shares, interests or other participation rights,
- incurring credits and loans,
- granting sureties and guarantees by the Company and issuance of promissory notes,
- making donations and releasing from debts,
- concluding agreements not related to the Company's business activities specified in § 3 clause 1 of the Statutes,
- appointing commercial proxies,
- appointing Company proxies authorised to incur liabilities with a value exceeding PLN 400 000, excluding (i) the powers of attorney to conclude agreements or incur liabilities

related to trade in electricity and gas, related products and rights related thereto, and related to the purchase and sale of fuels and raw materials (ii) powers of attorney ad litem,

- adopting the Regulations of the Management Board,
- approving the Company's Organisational Regulations,
- establishing and closing branches,
- establishing of another company,
- adopting the Company's yearly and long-term financial plans, including investment, marketing and sponsorship plans,
- approving the rules of conducting sponsorship activity,
- adopting the Company's development Strategy,
- determining the method of exercising the voting right at general meetings or general meetings of the companies in which the Company holds shares or interests,
- making advanced payments towards planned dividends,
- approving the materials submitted by the Management Board to the Supervisory Board.

Regardless of the above mentioned matters, resolutions of the Management Board are required for any matter referred by the Management Board to the Supervisory Board or the General Meeting.

The Statutes do not provide for detailed regulations which authorise Members of the Management Board to decide on the issue or buy-out of shares.

#### ACTIVITIES AND ORGANISATION OF WORK OF THE MANAGEMENT BOARD

The Management Board manages Company's affairs in a transparent and effective manner based on and within the limits of the governing provisions of the law, including the Code of Commercial Companies, provisions of the Company's Statutes, Rules of the Management Board and other internal regulations governing in the Company.

The works of the Management Board are headed by the President of the Management Board. Meetings of the Management Board are convened by the President of the Management Board on his/her own initiative or on the motion of a member of the Management Board. Management Board meetings may take place without having been formally called, provided that all Management Board members were effectively notified about the meeting and none of the Management Board members object to the meeting taking place and to the proposed meeting agenda.

Minutes are taken for each meeting of the Management Board and signed by the members of the Management Board, not excluding persons who filed a dissenting opinion or were temporarily absent when adopting any of the resolutions. The minutes are stored in the Book of Minutes. Resolutions of the Management Board are passed with an absolute majority of votes in an open voting. In case of voting parity, the President of the Management Board has the decisive vote. A secret voting is administered by a member of the Management Board. All members of the Management Board must be properly notified of the scheduled meeting for the resolutions to be valid. A member of the Management Board may present an opposing opinion with a justification to be included in the minutes.

Resolutions may be made in writing or using means of direct remote communications.

Competencies of members of the Management Board regarding the ordinary management to operating areas in which individual members of the Management Board perform the leading role. For the functions performed, each member of the Management Board is assigned appropriate scope of responsibilities for the Company's affairs, as presented below.

**Mr Wojciech Dąbrowski – President of the Management Board** is authorised and responsible for managing the activities of PGE S.A. in area covering the following organisation units: Security Department, Mergers and Acquisitions Department, Corporate Communication and Marketing Department, Compliance Department, Audit Department, Internal Supervision Department, Department of Law and Corporate Governance, Office of Services for Company's Authorities, and in the field of supervision over subsidiaries of PGE S.A. is entrusted substantive supervision over the following companies and their subsidiaries: PGE Energia Ciepła S.A., PGE Baltica sp. z o.o. along with other companies engaged in the Offshore Wind Farm Construction Program and supervision over PGE Foundation.

**Mrs Wanda Buk** - Vice-President for Regulations is authorised and responsible for managing the activities of PGE S.A. in area covering the following organisation units: Regulations Department, Bureau for Supporting Instruments, International Relations, and in the field of supervision over subsidiaries of PGE S.A. is entrusted substantive supervision over PGE Obrót S.A. and its subsidiaries.

**Mr Paweł Cioch** – Vice-President for Corporate Affairs is authorised and responsible for managing the activities of PGE S.A. in area covering the following organisation units: Administration Department, Human Capital Management and Organisational Culture Department, Procurement Department, Occupational Health and Safety Office, Market Analysis Department, and in the field of supervision over subsidiaries of PGE S.A. is entrusted substantive supervision over the following companies and their subsidiaries: PGE Dystrybucja S.A., PGE Inwest 2 sp. z o.o., PGE Inwest 9 sp. z o.o., PGE Inwest 10 sp. z o.o., PGE Inwest 11 sp. z o.o., PGE Inwest 13 S.A., PGE Inwest 20 sp. z o.o., PGE Inwest 21 sp. z o.o., PGE Inwest 22 sp. z o.o., PGE Inwest 23 sp. z o.o., PGE Inwest 4 sp. z o.o., PGE Inwest 25 sp. z o.o.

**Mr Lechosław Rojewski** – Vice-President for Finance is authorised and responsible for managing the activities of PGE S.A. in area covering the following organisation units: Controlling Department, Reporting and Tax Department, Risk and Insurance Department, Treasury Department, IT Strategy Department, and in the field of supervision over subsidiaries of PGE S.A. is entrusted substantive supervision over the following companies and their subsidiaries: PGE Systemy S.A., PGE Synergia sp. z o.o., Towarzystwo Funduszy Inwestycyjnych Energia S.A., PGE Sweden AB.

**Mr Paweł Śliwa** – Vice-President for Innovations is authorised and responsible for managing the activities of PGE S.A. in area covering the following organisation units: Department of Integration and Internal Advisory, Department of Development and Innovation, Department of Offshore Wind Energy, Department of Circular Economy, and in the field of supervision over subsidiaries of PGE S.A. is entrusted substantive supervision over the following companies and their subsidiaries: PGE Nowa Energia sp. z o.o., PGE Ekoserwis S.A., PGE Energia Odnawialna S.A., PGE Ventures sp. z o.o., PGE Inwest 14 sp. z o.o., ElectroMobility Poland S.A.

**Mr Ryszard Wasilek** – Vice-President for Operations is authorised and responsible for managing the activities of PGE S.A. in area covering the following organisation units: Operational Management and Investments Department, Department of Production Material Supplies, Department of Trading, Department of Conventional Energy Trading, Dialogue and Social Relations Department, and in the field of supervision over subsidiaries of PGE S.A. is entrusted substantive supervision over the following companies and their subsidiaries: PGE GiEK S.A., PGE Dom Maklerski S.A., PGE Trading GmbH, RAMB sp. z o.o., ELTUR-SERWIS sp. z o.o., ELMEN sp. z o.o., BESTGUM POLSKA sp. z o.o., BETRANS sp. z o.o., ELBIS sp. z o.o., MegaSerwis sp. z o.o., Elbest sp. z o.o., Elbest Security sp. z o.o., MEGAZEC sp. z o.o., PGE Gryfino 2050 sp. z o.o., Rybnik 2050 sp. z o.o.

## SUPERVISORY BOARD

### SUPERVISORY BOARD MEMBERS

From January 1, 2021 till January 14, 2021 the Supervisory Board worked in following composition:

| Name and surname   | Position   |
|--------------------|--|
| Anna Kowalik       | Chairman of the Supervisory Board                    |
| Artur Składanek    | Vice-Chairman of the Supervisory Board – independent |
| Grzegorz Kuczyński | Secretary of the Supervisory Board - independent     |
| Janina Goss        | Supervisory Board Member - independent               |
| Tomasz Hapunowicz  | Supervisory Board Member - independent               |
| Mieczysław Sawaryn | Supervisory Board Member - independent               |
| Jerzy Sawicki      | Supervisory Board Member - independent               |
| Radosław Winiarski | Supervisory Board Member                             |

On January 14, 2021 the Company received the written statement of Minister of State Assets (representing the State Treasury) appointing Mr Marcin Kowalczyk to the Supervisory Board as from January 14, 2021.

From January 14, 2021 till November 15, 2021 the Supervisory Board worked in following composition:

| Name and surname   | Position   |
|--------------------|--|
| Anna Kowalik       | Chairman of the Supervisory Board                    |
| Artur Składanek    | Vice-Chairman of the Supervisory Board – independent |
| Grzegorz Kuczyński | Secretary of the Supervisory Board - independent     |
| Janina Goss        | Supervisory Board Member - independent               |
| Tomasz Hapunowicz  | Supervisory Board Member - independent               |
| Marcin Kowalczyk   | Supervisory Board Member                             |
| Mieczysław Sawaryn | Supervisory Board Member - independent               |
| Jerzy Sawicki      | Supervisory Board Member - independent               |
| Radosław Winiarski | Supervisory Board Member                             |

On November 15, 2021 the Extraordinary General Meeting dismissed Mr Jerzy Sawicki from the Supervisory Board, and then appointed Mr Zbigniew Gryglas to the Supervisory Board as from November 15, 2021.

From November 15, 2021 till January 18, 2022 the Supervisory Board worked in following composition:

| Name and surname   | Position   |
|--------------------|--|
| Anna Kowalik       | Chairman of the Supervisory Board                    |
| Artur Składanek    | Vice-Chairman of the Supervisory Board – independent |
| Grzegorz Kuczyński | Secretary of the Supervisory Board - independent     |
| Janina Goss        | Supervisory Board Member - independent               |
| Zbigniew Gryglas   | Supervisory Board Member                             |
| Tomasz Hapunowicz  | Supervisory Board Member - independent               |
| Marcin Kowalczyk   | Supervisory Board Member                             |
| Mieczysław Sawaryn | Supervisory Board Member - independent               |
| Radosław Winiarski | Supervisory Board Member                             |

As at the date of publication of this report the Supervisory Board works in following composition:

| Name and surname              | Position   |
|-------------------------------|--|
| Anna Kowalik                  | Chairman of the Supervisory Board                    |
| Artur Składanek               | Vice-Chairman of the Supervisory Board – independent |
| Grzegorz Kuczyński            | Secretary of the Supervisory Board - independent     |
| Janina Goss                   | Supervisory Board Member - independent               |
| Zbigniew Gryglas <sup>1</sup> | Supervisory Board Member - independent               |
| Tomasz Hapunowicz             | Supervisory Board Member - independent               |
| Marcin Kowalczyk              | Supervisory Board Member                             |
| Mieczysław Sawaryn            | Supervisory Board Member - independent               |
| Radosław Winiarski            | Supervisory Board Member                             |

<sup>1</sup>On January 18, 2022, Zbigniew Gryglas submitted a statement regarding the independence criteria.

From January 1, 2021 till January 14, 2021 the committees worked in following compositions:

| Name and surname of the member of the Supervisory Board | Audit Committee | Corporate Governance Committee | Strategy and Development Committee | Appointment and Remuneration Committee |
|---|-----------------|--------------------------------|------------------------------------|--|
| Janina Goss   | Member          |                                |                                    | Member                                 |
| Tomasz Hapunowicz                                       |                 | Chairman                       | Member                             |  |
| Anna Kowalik  | Member          |                                | Member                             | Member                                 |
| Grzegorz Kuczyński                                      | Chairman        | Member                         |                                    |  |
| Mieczysław Sawaryn                                      |                 |                                | Member                             | Chairman                               |
| Jerzy Sawicki   |                 | Member                         | Member                             | Member                                 |
| Artur Składanek   | Member          |                                | Chairman                           |  |
| Radosław Winiarski                                      | Member          |                                | Member                             |  |

From February 16, 2021 til November 15, 2021 the committees worked in following compositions.

| Name and surname of the member of the Supervisory Board | Audit Committee | Corporate Governance Committee | Strategy and Development Committee | Appointment and Remuneration Committee |
|---|-----------------|--------------------------------|------------------------------------|--|
| Janina Goss   | Member          |                                |                                    | Member                                 |
| Tomasz Hapunowicz                                       |                 | Chairman                       | Member                             |  |
| Marcin Kowalczyk  |                 |                                | Member                             |  |
| Anna Kowalik  | Member          |                                | Member                             | Member                                 |
| Grzegorz Kuczyński                                      | Chairman        | Member                         |                                    |  |
| Mieczysław Sawaryn                                      |                 |                                | Member                             | Chairman                               |
| Artur Składanek   | Member          |                                | Chairman                           |  |
| Radosław Winiarski                                      | Member          |                                | Member                             |  |

From November 30, 2021 until the publication date of this report, the committees have worked in following compositions.

| Name and surname of the member of the Supervisory Board | Audit Committee | Corporate Governance Committee | Strategy and Development Committee | Appointment and Remuneration Committee |
|---|-----------------|--------------------------------|------------------------------------|--|
| Janina Goss   | Member          |                                |                                    | Member                                 |
| Zbigniew Gryglas  |                 | Member                         | Member                             |  |
| Tomasz Hapunowicz                                       |                 | Chairman                       | Member                             |  |
| Marcin Kowalczyk  |                 |                                | Member                             |  |
| Anna Kowalik  | Member          |                                | Member                             | Member                                 |
| Grzegorz Kuczyński                                      | Chairman        | Member                         |                                    |  |
| Mieczysław Sawaryn                                      |                 |                                | Member                             | Chairman                               |
| Artur Składanek   | Member          |                                | Chairman                           |  |
| Radosław Winiarski                                      | Member          |                                | Member                             |  |

#### **Anna Kowalik – Chairwoman of the Supervisory Board**

She is a graduate of the Faculty of Law and Administration at the University of Warsaw. A legal counsel (after completing the legal adviser apprenticeship in Warsaw) with many years of experience in corporate supervision over companies with State Treasury shareholding, including companies of significant importance to the state economy in the Ministry of State Treasury. She was the director of the Legal Office at the Ministry of Energy and the Deputy Director of Legal Department at the Ministry of State Assets. Participant of many trainings in the field of commercial law, public companies and economy. Lecturer in commercial law at trainings for managerial staff and for candidates for a supervisory board member in companies with the Treasury shareholding. Member of supervisory boards in the following companies: Polskie Linie Lotnicze LOT S.A., Kombinat Koksochemiczny Zabrze S.A., Pabianickie Zakłady Farmaceutyczne Polfa S.A., Inowrocławskie Zakłady Chemiczne Soda Mątwy S.A., Zakłady Chemiczne Rudniki S.A., Metalplast Złotów S.A. and the function of the Partner's Proxy at Fabryka Obrabiarek do Drewna sp. z o.o. in Bydgoszcz.

According to the submitted statement, Mrs. Anna Kowalik is affiliated with a shareholder holding shares representing not less than 5% of all voting rights at General Meeting i.e. with State Treasury through employment at the Ministry of State Assets.

#### **Janina Goss – Member of the Supervisory Board**

Ms. Janina Goss is a graduate of Law Faculty at the University of Łódź. A legal counsel.

Since 2012 Ms. Janina Goss has held a position of Management Board member in Srebrna Sp. z o.o. In years 2009-2010 she was a Supervisory Board member in Polskie Radio S.A. In years 2006-2009 she was a Supervisory Board member in TVP S.A., including approx. 2 years at the position of the Chairman of the Supervisory Board.

In years 1990-2003 Member of the Local Government Appeal Council in Łódź, in years 1991-2003 she was employed as legal counsel in Provincial Inspectorate of Environmental Protection in Łódź.

In years 1968 – 1990 she worked in the Management Board of Społem, including 20 years as a legal counsel.



In accordance with the submitted statement, Ms. Janina Goss meets the independence criteria of a supervisory board member.

#### **Zbigniew Gryglas – Member of the Supervisory Board**

Mr. Zbigniew Gryglas is a graduate of the National School of Public Administration, ART Olsztyn and the Warsaw School of Economics. He has over a dozen years of experience in the ownership supervision over companies with State Treasury shareholding, gained at the Ministry of the Treasury (1996-2006) and the Ministry of State Assets (2019-2021). He completed an internship at the European Commission - Directorate-General for Energy. Member of the Sejm Committee on Energy and the State Treasury of the 8th parliamentary term. Chairman of the Parliamentary Offshore Wind Energy Group (OWE) 2016-2019, and in the years 2020-2021 Plenipotentiary of the Minister of State Assets for OWE. He has been a member of the Management Board of Polski Holding Hotelowy since January 2022. One of the co-authors of the act on support for electricity generation in offshore wind farms. Many years of experience in working in the bodies of commercial law companies, including the energy sector ones, among others: Chairman of the Supervisory Board of Nafta Polska S.A. in the years 2000-2005, Chairman of the Supervisory Board of Naftoport Sp. z o.o. in the years 2005-2006. Member of the Supervisory Boards of the following companies: H. Cegielski Poznań S.A., Polpharma S.A., RPBI S.A., SSSE S.A. In the years 2009-2015, he ran a business activity in the field of mergers and acquisitions as well as investment project evaluations. One of the co-authors of the Power Sector Restructuring Programme of 2006 establishing the currently existing four Energy Groups (PGE, TAURON, ENEA, ENERGA).

In accordance with the submitted statement, Mr. Zbigniew Gryglas meets the independence criteria of a supervisory board member.

#### **Artur Składanek – Vice-Chairman of the Supervisory Board**

Mr. Artur Składanek holds Master Engineer degree obtained from Institute of Chemistry at the Warsaw University of Technology in 1983. During years 1983 – 1985 he was taking individual studies at the Faculty of Power and Aeronautical Engineering at the Warsaw University of Technology. In 2008 Mr. Artur Składanek took course and passed the national exam for candidates to supervisory boards of the State Treasury companies.

Since January 2008 Mr. Artur Składanek held a position of Director of Production at Finpol Rohr sp. z o.o., where he started to work in June 2007 as a Production Specialist. During years from 1994 to 2007 Mr. Artur Składanek was running his own business activity - AWI – Przedsiębiorstwo Wielobranżowe. Since January 2018 a chief specialist for business development in Radpol S.A. and since 2020 he heads the research and development department at Radpol S.A.

In accordance with the submitted statement, Mr. Artur Składanek meets the independence criteria of a supervisory board member.

#### **Grzegorz Kuczyński – Secretary of the Supervisory Board**

Mr. Grzegorz Kuczyński Ph. D. is a graduate of the Faculty of Law and Administration at the University of Gdańsk. PhD in civil law. Before training as a lawyer he trained as a judge.

Since 2007 a partner of Gotkowicz Kosmus Kuczyński & Partners Law Firm.

He was an assistant professor of the Chair of Civil Law at the Department of Law and Administration of the University of Gdańsk in years 2005-2013 and an assistant in years 1997-2005.

Grzegorz Kuczyński has performed and serves on the Supervisory Boards of capital companies, including companies listed on the Warsaw Stock Exchange.



In accordance with the submitted statement, Mr. Grzegorz Kuczyński meets the independence criteria of a supervisory board member.

#### **Marcin Kowalczyk – Member of the Supervisory Board**

Mr. Marcin Kowalczyk is a graduate of the Faculty of Law and Administration at the University of Warmia and Mazury in Olsztyn. He completed post-graduate studies at the National Defense University in Warsaw. He holds an MBA from the Warsaw Management University. He started his professional career as an assistant in the political office of the Minister of National Defense and a representative for the protection of classified information in the Chancellery of the President of the Republic of Poland. He was also the deputy president of the Military Property Agency and sat on the Supervisory Board of the Military Property Agency. He worked in a managerial position at PGE Energia Odnawialna S.A. In 2018-2020 he was the vice-president of Wojskowe Przedsiębiorstwo Handlowe Sp. z o.o. From May 2020, he had been associated with PGE Dystrybucja S.A., first as the Vice-President of the Management Board, and from September 2020 as the President of the Management Board. Currently, he is the Head of the Political Cabinet of the Minister of State Assets.

#### **Tomasz Hapunowicz – Member of the Supervisory Board**

Mr. Tomasz Hapunowicz graduated from Faculty of Humanities at Podlasie University in Siedlce and Post graduate studies of local government and local development at the University of Warsaw. Since 2010 he has held position of Zbuczyn Commune head. Since November 2016, he has been a member of the Supervisory Board of Torpol S.A. Previously, he was a manager of cultural institute and was a specialist in external funds. He is experienced in execution of investments financed from EU funds. Author and coordinator of several dozen projects financed from EU funds.

Mr. Tomasz Hapunowicz has a diploma confirming the passing of an exam for candidates for members of supervisory bodies of State Treasury companies.

In accordance with the submitted statement, Mr. Tomasz Hapunowicz meets the independence criteria of a supervisory board member.

#### **Mieczysław Sawaryn – Member of the Supervisory Board**

Mr. Mieczysław Sawaryn is a graduate of history and a graduate of law studies, having finished legal practice in Bar Association of Szczecin. Since 2014 he has been the Mayor of Town and Community Gryfino. In years 2011-2014 and 1999-2007 he run his own Legal Office. In years 2006-2011 Mr. Mieczysław Sawaryn was employed in ZEDO S.A., at first as the CEO and then as the Director of Human Resources and Law, being responsible for consolidation of ZEDO S.A. within PGE Capital Group.

In years 1998-2014 Mr. Mieczysław Sawaryn was a Councillor of the Gryfino Town Council, in years 2006-20014 being the President of the Council. In years 2006-2007 Mr. Mieczysław Sawaryn served as a Board Member of ZEDO S.A. in Nowe Czarnowo. In years 2002-2004 he was a Member of the Regional Bar Council in Szczecin at the Bar Association of Szczecin, in years 1998-1999 Management Board Member of Gryfino Commune and in years 1996-1998 a Member of the Supervisory Board of a heating company Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. in Gryfino. Member of the Supervisory Board of Regional Hospital in Gryfino in years 2012-2014.

In accordance with the submitted statement, Mr. Mieczysław Sawaryn meets the independence criteria of a supervisory board member.

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### **Radosław Winiarski – Member of the Supervisory Board**

Mr. Radosław Winiarski graduated from Faculty of Management at the University of Warsaw. Since 2001 he has been working as a researcher at the above faculty in the Department of Economy's Financial Systems, within the Unit of Banking and Financial Markets. In 2007 he earned PhD in Economics, at his alma mater – in the field on management.

Since 2019, he has been associated with the Ministry of State Assets, where he is the head of the Department in the Department of Analysis and Reporting. In years 2016-2019 employed at the Ministry of Energy while in years 2007-2016 he was employed in the Ministry of State Treasury. Since September 2017 Mr. Radosław Winiarski has been a member of supervisory board of Lotos Upstream sp. z o.o. Previously he used to be a member of supervisory boards of inter alia: ENEA S.A., H. Cegielski S.A. and Polfa Tarchomin S.A

According to the submitted statement, Mr. Radosław Winiarski is affiliated with a shareholder holding shares representing not less than 5% of all voting rights at General Meeting i.e. with State Treasury through employment at the Ministry of State Assets.

### RULES OF APPOINTING AND RECALLING OF THE SUPERVISORY PERSONNEL

According to the valid Statutes, Members of the Supervisory Board are appointed for a joint term of office of three years. The Supervisory Board consists of five to nine members appointed and recalled by the General Meeting. The Supervisory Board elected by way of group voting shall consist of five members. Member of the Supervisory Board may be appointed and dismissed by the General Meeting at all times, with the exception of the Supervisory Board member appointed by the State Treasury by way of a written declaration submitted to the Management Board (State Treasury's entitlement is valid until it remains a shareholder). Moreover, a half of members of the Supervisory Board (except the Supervisory Board member mentioned in the previous sentence), shall be elected from among persons identified by the State Treasury, until its stake in the share capital falls below 20%. At the time when this right of the State Treasury expires, another shareholder with the highest stake in the Company's share capital acquires that right, provided that he holds at least 20% in the Company's share capital.

According to the provisions of the Statutes, the Supervisory Board shall include at least one person appointed by the General Meeting from among persons meeting the criteria of independence specified in the principles of corporate governance adopted by the Board of the Warsaw Stock Exchange. Proposing a candidate for this position a shareholder nominating such candidate shall be obliged to submit to the minutes of the General Meeting such candidate's written declaration confirming his/her independency.

The State Treasury's failure to appoint one member of the Supervisory Board or the General Meeting's failure to elect members of the Management Board meeting the criteria of independence or the absence of such persons in the composition of the Supervisory Board shall not prevent the Supervisory Board from adopting valid resolutions.

### ACTIVITIES AND ORGANISATION OF THE SUPERVISORY BOARD

The operating procedure of the Supervisory Board is described in the Statutes of the Company and in the Rules of the Supervisory Board. The Supervisory Board performs its obligations collectively, however, it may delegate individual members for temporary and independent performance of certain supervisory activities. The Supervisory Board meets as required, not less often than once every two months.

Meetings of the Supervisory Board are convened by the Chairman of the Supervisory Board or the Vice-Chairman in the absence of the Chairman. The meeting of the Supervisory Board is convened by sending out a written invitation to all members of the Supervisory Board at least seven days before the schedule date of the meeting.

This period of seven days may be shortened to two days in justified cases. The Meeting of the Supervisory Board may be also convened on demand of each member of the Supervisory Board or the motion of the Management Board (the person filing the motion proposes the agenda). Then the meeting should be convened within two weeks. If the Chairman of the Supervisory Board fails to convene the meeting within that period, the person filing the motion may convene the meeting on his/her own, stating the date, place and proposed agenda. The agenda may be changed if all members of the Supervisory Board are present at the meeting and no one objects to the change.

Supervisory Board meetings may take place without having been formally called, provided that all Supervisory Board members are present at the meeting and none of the Supervisory Board members object to the meeting taking place and to the proposed meeting agenda.

The Supervisory Board passes resolutions if at least half of the members of the Supervisory Board are present at the meeting and all the members have been invited. The Supervisory Board passes resolutions in an open voting. A secret voting is administered when requested by a member of the Supervisory Board, and during voting on personal matters. Resolutions of the Supervisory Board may be made in writing or using means of direct remote communications. The latter cannot be used for resolutions on the appointment or recalling of the Chairman, Vice-Chairman and Secretary of the Supervisory Board, and appointment, recalling or

suspending a member of the Management Board and determining the remuneration and other contractual terms and executing agreements with Management Board members, except for competences reserved for the Company's General Meeting resulting from mandatory provisions of law.

Moreover, in 2020 the Ordinary General Meeting by the resolution no. 9 of June 26, 2020 adopted the "Remuneration Policy for the Management Board and Supervisory Board members of PGE S.A."

### COMPETENCIES OF THE SUPERVISORY BOARD

The Supervisory Board maintains a continuous supervision over activities of the Company in all areas of the Company's activities pursuant to the provisions of the Statutes. In 2019, the Ordinary General Meeting of Shareholders, by Resolution no. 27 of May 15 on amendments to § 18 of the Company's Statutes, clarified the provisions related to the amendment of the Act of December 16, 2016 on Principles of Management of State Property. The said resolution of the Ordinary General Meeting introduces amendments to § 18(2) of the PGE's Statutes with respect to the disposal of fixed assets, extending the powers of the Supervisory Board.

The competencies of the Supervisory Board include inter alia:

- review of the report of the Management Board on the activities of the Company and the separate financial statements for the past financial year for compliance with the books, documents and the actual status. This also applies to the report of the Management Board on the activities of the Capital Group and consolidated financial statements of the Capital Group if prepared,
- review of the motions of the Management Board on the division of profit or covering the loss,
- presenting the General Meeting with a written report on the results of activities referred to in the aforementioned two points,
- appointing the statutory auditor to audit the unit financial statements and the consolidated financial statements of the Capital Group if any,
- approval of the annual and long-term financial plans of the Company, including investment, marketing and sponsoring plans, as well as specifying the scope and dates of presentation of such plans by the Management Board,
- giving opinions on the principles of conducting sponsorship activities and assessing the effectiveness of the sponsoring activities carried out by the Company,
- approval of the development strategy of the Company,
- approval of the rules which lays down detailed operating procedure of the Supervisory Board,
- approval of the rules of the Management Board of the Company,
- establishing the uniform text of the Company's Statutes,
- setting remuneration and other terms of agreements and concludes agreements with the members of the Management Board (including the President of the Management Board), subject to competencies of the General Meeting resulting from the binding laws,
- giving opinions on the Management Board's reports on expenses on representation, legal services, marketing services, public relations services, social communication services and legal advisory connected with management as well as report on compliance with the best practices, referred to in Art. 7 sec. 3 of the Act of December 16, 2016 on the principles of state property management,
- giving opinions on the change in the rules of disposal of fixed assets, determined in § 41(1) of the Company's Statutes,
- approval of the remuneration policy for the Capital Group,
- providing opinions on all the motions for resolutions submitted by the Management Board to the General Meeting.

In addition, the Supervisory Board's competencies particularly include:

- delegating members of the Supervisory Board to perform, on a temporary basis, activities of the members of the Management Board who cannot fulfill their duties,
- granting consent for the members of the Management Board to hold positions in authorities of other companies.

Documents that in detail regulate the competences of the Supervisory Board i.e. the Statutes of the Company and the Rules of the Supervisory Board are available on the corporate website at:

<https://www.gkpge.pl/Investor-Relations/PGE-Group/Corporate-Governance/Statute>

<https://www.gkpge.pl/Investor-Relations/PGE-Group/Corporate-Governance/Regulations>

### COMMITTEES

In accordance with the Company's Statutes, the Rules of the Supervisory Board or a resolution of the General Meeting may provide for establishment of committees within the Supervisory Board, in particular the audit committee and the appointment and remuneration committee. The current Rules of the Supervisory Board provide that the Supervisory Board may appoint standing or ad hoc committees, acting as collective advisory and opinion-making bodies of the Supervisory Board. The particular goal of the committees is to provide the Supervisory Board with opinions and recommendations on matters within the competencies of the committees. The committees are established by the Supervisory Board out of its members. The committee appoints a chairman out of its members. The chairman convenes meetings of the committee, manages works of the committee and represents the committee in relations with the authorities and employees of the Company. The mandate of a committee member expires with the expiry of the mandate of the member of the Supervisory Board, resignation from membership in the committee or recalling from the committee by the Supervisory Board. Each Member of the Supervisory Board may participate in committee meetings. The committee chairman may invite to the meetings members of the Management Board, Company employees and other persons whose participation is advisable. Decisions of the committee are made on a consensus basis, unless the regulations of a given committee state otherwise. The following standing committees are currently part of the Supervisory Board: the Audit Committee, the Strategy and Development Committee, the Appointment and Remuneration Committee, and the Corporate Governance Committee.

Range of competencies of particular Committees of the Supervisory Board is presented in details in the Rules of the Supervisory Board that is available on the corporate website at <https://www.gkpge.pl/>.

#### The Audit Committee

The task of the Audit Committee is assessment of the correctness and effectiveness of internal control at PGE S.A. and PGE Group and cooperation with the statutory auditors of the Company. The Audit Committee's tasks include in particular defining the rules for selecting an audit firm to audit the Company's financial statements and monitoring the Company's financial reporting.

The Supervisory Board Audit Committee had the following members in 2021:

- meeting statutory independence criteria: Janina Goss, Grzegorz Kuczyński, Artur Składanek,
- having knowledge and skills in accounting or auditing financial statements due to their education and experience : Radosław Winiarski,
- having knowledge and skills in the industry in which the company operates due to their education and professional experience: Artur Składanek and Anna Kowalik.

The CVs of Supervisory Board Audit Committee Members, containing details on their education and professional experience are available above and at the website of PGE S.A.:

<https://www.gkpge.pl/Investor-Relations/PGE-Group/Management>

Details on the composition of the Audit Committee in 2021 are presented in a further part of this report.

The Audit Committee at PGE S.A. held 11 meetings in 2021. At its meetings, the Audit Committee analysed, among other things, the Company's separate financial statements, the consolidated financial statements of the PGE Capital Group, and the Management Board's report on the activities of the Company and the PGE Capital Group for the year 2020. The Audit Committee held also regular meetings with the representatives of the auditors – the company Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp.k.

Furthermore, the Audit Committee analysed the Company's separate financial statements for the first half of 2021, as well as the consolidated financial statements of the PGE Capital Group for the same period.

In 2021, the Audit Committee recommended to the Supervisory Board to select the best bid from PKF Consult sp. z ograniczoną odpowiedzialnością sp.k. to audit the separate and consolidated financial statements of PGE Polska Grupa Energetyczna S.A. for 2022-2024.

In 2021 the Audit Committee approved the compliance programme of PGE Group for the year 2021.

The Audit Committee issued its positive opinion on the audit plan of the PGE Capital Group for the year 2021.

The Audit Committee became also acquainted with the following documents:

- the information concerning the financial plan of PGE Polska Grupa Energetyczna S.A. for the year 2021 and information on PGE Group's Financial Plan for 2021, covering PGE Group's Consolidated Investment Plan with outlook to 2050,
- Long-Term Audit Plan in 2021-2024,
- the report on the functioning of the internal audit system within the PGE Capital Group for the year 2020 and the first half of the year 2021,
- the specification of the audit tasks carried out by the Company's Audit Department in 2021,
- the report on the review of the compliance system in the PGE Capital Group for the year 2020,
- the assessment of regulatory compliance of PGE Polska Grupa Energetyczna S.A. and the PGE Capital Group for the fourth quarter of 2019 and particular quarters of 2020,
- the compliance programme of the PGE Capital Group for the year 2021,
- the information concerning the proceedings being conducted by the Company's Audit Department,
- Information on an update of PGE Group's Code of Ethics, Anti-Corruption Policy and Anti-Corruption Procedure.

Given the need to determine detailed tasks and operational rules for the Audit Committee as a consequence of new tasks being assigned to audit committees following entry into force of the act of May 11, 2017 on statutory auditors, audit firms and public oversight ("Act on statutory auditors"), Regulations for the Audit Committee at the Supervisory Board of PGE S.A. were adopted in 2017. What more, the Audit Committee at the Supervisory Board of PGE S.A. adopted a Policy and Procedure for selecting audit firms to conduct audits and a Policy for providing services unrelated to audit by the audit firm performing the audit, its related parties and members of this audit firm's network. The Policy and Procedure for the selection of an audit firm to conduct an audit was updated on March 20, 2018 and October 13, 2020.

In accordance with the adopted Policy for providing services unrelated to audit by the audit firm performing the audit, its related parties and members of this audit firm's network, a statutory auditor or audit firm conducting a statutory audit at PGE S.A. or any of its network members may not provide any prohibited non-audit services directly or indirectly to PGE S.A. and PGE Group companies.

The aforesaid prohibited non-audit services include:

- services indicated in Regulation (EU) No 537/2014 of the European Parliament and of the Council of April 16, 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC ("Regulation no. 537/2014") (in 5 section 1 of the Regulation no. 537/2014),
- other non-financial revision services.

On the other hand, prohibited services that are not auditing financial statements are not:

- services: conducting economic and financial due diligence, issuing of comfort letters in connection with prospectuses issued by the audited entity, conducted in compliance with the national standard for related services and consisting of agreed procedures
- assurance services as regards pro forma financial information, earnings forecasts or estimated results published in a prospectus of the audited entity,
- auditing of historic financial information for the prospectus referred to in Commission Regulation (EC) No 809/2004 of April 29, 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements,
- verification of consolidation packages,
- confirming compliance with conditions included in credit agreements based on analysis of financial information from financial statements audited by the audit firm,
- assurance services concerning reporting on corporate governance, risk management and corporate social responsibility,
- services consisting of evaluating the compliance of information disclosed by financial institutions and investments firms with information disclosure requirements concerning capital adequacy and variable pay components,
- assurances concerning financial statements or other financial information intended for supervision authorities, supervisory board or other supervisory body of the company or owners, exceeding the scope of statutory audit and intended to help these entities in compliance with their statutory obligations,
- open workshops, thematic conferences, industry meetings or other events that are open in nature and are not prepared for or adapted to the needs of PGE S.A., PGE Group companies or their employees.

The provision of these services by an audit firm performing a statutory audit of PGE S.A. and by members of the network for PGE S.A. and PGE Group companies is possible only in as far as this is not linked to tax policy after the Audit Committee at PGE S.A.'s Supervisory Board carries out an assessment of independence threats and precautions as referred to in the Act on statutory auditors. In the case of the aforesaid open training sessions, thematic conferences, industry meetings and other events, the assessment of threats and safeguards for independence referred to in the Act on Statutory Auditors is carried out by the Audit Committee of PGE S.A. only if, in a given financial year, the value of these services, provided jointly by PGE S.A. and the PGE Group Companies to a statutory auditor or audit firm carrying out statutory audits of PGE S.A. or a member of the network to which the statutory auditor or audit firm belongs, reaches the limit set in the Policy. The Policy sets out the manner in which a PGE Group Company may request the Audit Committee of PGE S.A. to carry out the aforesaid assessment. The Audit Committee provides its position in writing within 14 calendar days of receipt of the request for assessment.

In accordance with the Policy and Procedure for selecting audit firms to conduct audits, selecting audit firms to audit the Company's financial statements and PGE Group's consolidated financial statements takes place in accordance with the rules specified in this Policy and Procedure, with observance of the laws, especially the Act on statutory auditors, the Accounting Act and the Regulation no. 537/2014, and taking into account



guidelines from the Prime Minister, concerning the rules and procedures for selection of statutory auditors to audit financial statements, who exercises rights attached to the shares held by the State Treasury.

The Supervisory Board selects the audit firm to conduct an audit of financial statements.

The first agreement concerning the audit of financial statements with an audit firm is executed for a period not shorter than two years, with an option to extend it for subsequent two-year periods.

The maximum time for continuous financial statement audit commissions by the same audit firm or an audit firm linked to this audit firm or any member of a network operating in EU member states to which these audit firms belong may not exceed ten years, with the stipulation that the lead statutory auditor may not audit financial statements for a period longer than five years and that the lead statutory auditor may audit financial statements again after at least three years from the end of the most recent audit of financial statements.

The separate and consolidated financial statements for 2020 were audited by an audit firm – Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp.k. selected in the public procurement procedure by way of competitive negotiations with publication of a contract notice, pursuant to the following legal acts:

- Act on Statutory Auditors, in particular Article 130(3)(2) thereof,
- Public Procurement Law (consolidated text: Journal of Laws of 2019, item 1 843 as amended, "PPL",
- General Procurement Procedure of the PGE Group,
- Procurement Instructions of PGE S.A.,
- Policy and Procedure for selecting audit firms to conduct audits adopted by the PGE Supervisory Board's Audit Committee on October 10, 2017, updated on March 20, 2018 and October 13, 2020,
- Guidelines for selecting and cooperating with audit firms auditing the annual financial statements of companies with a State Treasury shareholding of September 2017.

### Corporate Governance Committee

The Corporate Governance Committee evaluates the implementation of the corporate governance principles in the Company and presents the Supervisory Board with initiatives in this area, provides opinions on normative acts and other documents of the Company presented to the Supervisory Board, which considerably affect the corporate governance, initiates and prepares proposals of changes for normative acts of the Supervisory Board.

### Strategy and Development Committee

The Strategy and Development Committee provides opinions and recommendations to the Supervisory Board regarding planned investments which considerably affect the Company's assets. In particular, the duties of the Strategy and Development Committee include provision of opinions on strategies and strategic plans submitted to the Supervisory Board by the Management Board.

The Strategy and Development Committee discussed issues related to:

- projects and initiatives being implemented in the area of research, development and innovation at PGE Group,
- the coal asset spin-off project;
- operationalisation of PGE Group's Strategy;
- implementation of PGE Group's Energy Storage Program;
- implementation of IT systems programs at PGE Group: new CRM Billing and LTE450;
- implementation of the Offshore Wind Program.



### Appointment and Remuneration Committee

The Appointment and Remuneration Committee is responsible for facilitating achievement of strategic goals of the Company by presenting the Supervisory Board with opinions and motions on the development of the management structure, including remuneration system and selection of properly qualified personnel.

In 2020, the Appointment and Remuneration Committee worked on the basis of the plan and tasks formulated by the Supervisory Board. The Nomination and Remuneration Committee worked on a proposal to set management objectives for Management Board members for 2021 and analysed the achievement of Management Objectives by members of the Management Board of PGE Polska Grupa Energetyczna S.A. for 2020 and the award of variable remuneration to members of the Company's Management Board for the same period. The Nomination and Remuneration Committee also worked on a draft Report on Remuneration of the Company's Management Board and Supervisory Board Members for 2019-2020 and recommended its adoption to the Supervisory Board. The Committee members discussed and recommended to the Supervisory Board the adoption of an update of a resolution on determining the remuneration of members of the Company's Management Board and the authorisation of the Chairperson of the Supervisory Board to conclude the relevant annexes to the management services contracts with members of the Management Board.

## REMUNERATION OF THE MANAGEMENT OF PGE S.A.

### RULES WITH RESPECT TO THE DETERMINATION OF REMUNERATION FOR THE MANAGEMENT BOARD MEMBERS OF PGE S.A.

On September 9, 2016, the Act of June 9, 2016 on the principles of determining the amount of remuneration for persons managing certain companies – so called new Public Sector Salary Cap Act – came into force. The new Public Sector Salary Cap Act determines, inter alia, principles for determining remuneration in companies with a stake of the State Treasury (for example PGE), in particular determines the way in which the remuneration of the members of the Management Board and Supervisory Board is set (rules for determining remuneration of the Management Board and Supervisory Board are adopted by the General Meeting and the Supervisory Board adopts resolutions on specific conditions of the management board remuneration). The act also determines select provisions of management services agreements executed with management board members.

On December 14, 2016, the Company's Extraordinary General Meeting, convened at the request of the Minister of Energy representing the State Treasury, adopted resolution 4 on determining the rules for remuneration for members of the Management Board of PGE S.A., subsequently changed through resolution 37 of the Company's Ordinary General Meeting of June 27, 2017. According to this resolution, remuneration for Management Board members consists of a fixed component in the form of a monthly base salary, and a variable component constituting supplementary pay for the Company's financial year, depended on progress in achieving management objectives. In accordance with the above-mentioned resolutions of the General Meetings, the Supervisory Board of PGE Polskiej Grupy Energetycznej S.A. in 2017 adopted resolutions regarding conclusion with members of the Management Board of contracts for the provision of management services in accordance with the principles set out in the new Public Sector Salary Cap Act. In 2018, the Supervisory Board set Management goals and indicators for their performance.

Table: Remuneration and benefits received in 2021 by the Members of the Management Board of PGE S.A. from PGE S.A.

| Name and surname of the Management Board member | Remuneration and benefits achieved by the Management Board members in PGE S.A. in 2021 (PLN) |
|---|--|
| Wojciech Dąbrowski                              | 1 147 723.79 <sup>1</sup>  |
| Wanda Buk                                       | 881 336.14 <sup>1</sup>  |
| Paweł Cioch                                     | 1 067 788.15 <sup>2</sup>  |
| Lechosław Rojewski                              | 415 129.72   |
| Paweł Strączyński                               | 512 979.43 <sup>1</sup>  |
| Paweł Śliwa                                     | 1 124 549.26 <sup>2</sup>  |
| Ryszard Wasilek                                 | 1 124 549.26 <sup>2</sup>  |

<sup>1</sup>Item includes remuneration for the period of service at the Management Board i.e. basic and variable remuneration for 2020 and reimbursement of overpaid social security contributions.

<sup>2</sup>Item includes remuneration for the period of service at the Management Board i.e. basic and variable remuneration for 2020.

The total remuneration achieved by the Management Board members in 2021 amounted to PLN 6.27 million (according to PIT11). In cost perspective (including mark-ups and provisions), in 2021 the remuneration of all persons who acted as Management Board members of PGE S.A., amounted to PLN 5.87 million (the lower total remuneration figure results from the reversal of provision for bonuses for 2015 paid in 2021).

## RULES WITH RESPECT TO THE DETERMINATION OF REMUNERATION FOR THE SUPERVISORY BOARD MEMBERS OF PGE S.A.

The amounts of remuneration of the Supervisory Board Members of PGE S.A. were determined by the resolution no. 5 of the Extraordinary General Meeting of December 14, 2016 concerning the principles of determining the amount of remuneration for members of the Supervisory Board of PGE S.A., pursuant to which the monthly remuneration of members of the Supervisory Board was set as a product of the average remuneration in the business sector exclusive of profit-based bonuses in the fourth quarter of the previous year as announced by the President of the Central Statistical Office of Poland and the following factor: 1.7 (for the chairperson of the Supervisory Board), 1.5 (for the other members of the Supervisory Board). The remuneration paid to members of the Supervisory Board of PGE complied with the rules set out in the new Public Sector Salary Cap Act.

Table: Remuneration received by the Supervisory Board Members of PGE S.A. who in 2021 performed their functions in PGE S.A.

| Name and surname of the Supervisory Board member | Remuneration achieved by the Supervisory Board members in PGE S.A. in 2021 (PLN) |
|--|--|
| Janina Goss                                      | 81 099.58 <sup>1</sup>   |
| Zbigniew Gryglas                                 | 10 128.69  |
| Tomasz Hapunowicz                                | 79 268.04  |
| Marcin Kowalczyk                                 | 78 330.90 <sup>1</sup>   |
| Anna Kowalik                                     | 91 993.14 <sup>1</sup>   |
| Grzegorz Kuczyński                               | 79 268.04  |
| Mieczysław Sawaryn                               | 80 646.55 <sup>1</sup>   |
| Jerzy Sawicki                                    | 70 829.15 <sup>1</sup>   |
| Artur Składanek                                  | 81 805.85 <sup>1</sup>   |
| Radosław Winiarski                               | 80 708.65 <sup>1</sup>   |

<sup>1</sup> This item includes remuneration for the period of fulfilling the duties of a member of the Supervisory Board, i.e. the basic salary and reimbursement of overpaid social security contributions.

Total remuneration earned in 2021 by the members of the Supervisory Board in PGE S.A. amounted to PLN 734 thousand. In cost perspective (including mark-ups), the remuneration of all persons who acted as Supervisory Board members amounted to PLN 8170 thousand in 2021.

## 8.4. Information about shares and other securities

### SHARE CAPITAL AND OWNERSHIP STRUCTURE

As at December 31, 2015 the share capital of PGE S.A. amounted to PLN 18 697 608 290 and split into 1 869 760 829 shares with a nominal value of PLN 10 each.

On September 5, 2016, the Extraordinary General Meeting of PGE („EGM”), convened on request of the State Treasury – majority shareholder of PGE, adopted resolution on the increase of the share capital from the Company's own funds (resolution no. 4 of the EGM) and resolution on the change to the Statutes of the Company and authorising the Supervisory Board to determine the consolidated text of the Company Statutes, including the change in amount of the share capital (resolution no. 5 of the EGM of PGE).

On November 25, 2016 the District Court of the City of Warsaw, XII Commercial Division of the National Court Register (the “Register Court”) registered the change in share capital amount and the changes to the Company's Statutes, made on the ground of resolutions no. 4 and 5 of the EGM of September 5, 2016.

The Register Court registered the increase of share capital of the Company from the amount of PLN 18 697 608 290 to PLN 19 165 048 497.25 i.e. by PLN 467 440 207.25 by increasing the nominal value of the shares in series A, B, C and D from PLN 10 to PLN 10.25. The total number of shares and votes resulting from all issued shares, after the registration of the changes in the amount of the share capital of PGE, amounts to 1 869 760 829.

As at December 31, 2021 the share capital of PGE S.A. amounted to PLN 19 165 048 497.25 PLN and split into 1 869 760 829 shares with a nominal value of PLN 10.25 each.

Table: Share capital of the Company.

| Series/<br>issue | Type of<br>shares | Type of privilege | Number of<br>shares  | Value of series/issue<br>at nominal value | Capital payment<br>method       |
|------------------|-------------------|-------------------|----------------------|---|---------------------------------|
| "A"              | ordinary          | n/a               | 1 470 576 500        | 15 073 409 125.00                         | contribution in kind/cash       |
| "B"              | ordinary          | n/a               | 259 513 500          | 2 660 013 375.00                          | cash                            |
| "C"              | ordinary          | n/a               | 73 228 888           | 750 596 102.00                            | merger with PGE<br>GiE          |
| "D"              | ordinary          | n/a               | 66 441 941           | 681 029 895.25                            | merger with PGE<br>Energia S.A. |
| <b>Total</b>     |                   |                   | <b>1 869 760 829</b> | <b>19 165 048 497.25</b>                  |                                 |

Table: Ownership structure of the Company's share capital as at December 31, 2021<sup>1</sup>.

|                               | State Treasury                      |  | Other shareholders                  |   | Total                               |   |
|-------------------------------|-------------------------------------|--|-------------------------------------|---|-------------------------------------|---|
|                               | nominal value of<br>shares<br>(PLN) | % share<br>in the<br>share<br>capital<br>and votes | nominal value<br>of shares<br>(PLN) | % share in<br>the share<br>capital and<br>votes | nominal value of<br>shares<br>(PLN) | % share in<br>the share<br>capital and<br>votes |
| Shares at<br>Dec. 31,<br>2021 | 10 998 087 004.50                   | 57.39  | 8 166 961 492.75                    | 42.61   | 19 165 048 497.25                   | 100.00  |

<sup>1</sup> Ownership structure presented on the basis of information available to the Company.

All of the Company shares have been paid.

Although the Company's shares are not privileged, the Statutes of the Company provide for special rights of the State Treasury until it remains a shareholder of the Company, what was described in details in p. 8.1 of this report.

#### SHAREHOLDERS WITH A SIGNIFICANT STAKE

According to the best knowledge, on the ground of the letter from the Ministry of the State Treasury of April 27, 2016, the State Treasury holds 1 072 984 098 ordinary shares of the Company, representing 57.39% of the Company's share capital and entitling to 1 072 984 098 votes on the General Meeting of the Company, constituting 57.39% of total votes.

Table: Shareholders holding directly or indirectly by subsidiaries at least 5% of the total votes at the General Meeting of PGE S.A.

| Shareholder    | Number of shares     | Number of votes      | % in total votes on<br>General Meeting |
|----------------|----------------------|----------------------|--|
| State Treasury | 1 072 984 098        | 1 072 984 098        | 57.39%                                 |
| Others         | 796 776 731          | 796 776 731          | 42.61%                                 |
| <b>Total</b>   | <b>1 869 760 829</b> | <b>1 869 760 829</b> | <b>100.00%</b>                         |

#### TREASURY SHARES

As at December 31, 2021 PGE S.A. and subsidiaries did not hold any treasury shares.

## SHARES OF THE PARENT COMPANY OWNED BY THE MEMBERS OF MANAGEMENT AND SUPERVISORY AUTHORITIES

According to the best knowledge of the Management Board of the Company, none of the members of management and supervisory authorities of the Company as of December 31, 2021 and as of the date of publishing of the consolidated report for 2021 did not hold shares of the parent company.

Table: PGE S.A. shares held by the persons acting on behalf of material direct subsidiaries of PGE S.A as at December 31, 2021.

| Shareholder                                  | Position                                  | Number of shares as<br>at December 31,<br>2021 | Nominal value of<br>shares as at December<br>31, 2021<br>(PLN) |
|--|---|--|--|
| <b>Management Board of PGE<br/>GIEK S.A.</b> |   | <b>1 674</b>                                   | <b>17 159</b>  |
| Andrzej Legeżyński                           | President of the<br>Management Board      | 463  | 4 746  |
| Andrzej Kopertowski                          | Vice-President of the<br>Management Board | 1 211  | 12 413   |

## 9. Statement on non-financial data

A separate report on non-financial data of PGE Polska Grupa Energetyczna S.A. and PGE Group for 2021, drafted in accordance with art. 49b sec. 9 of the Accounting Act, was published together with the Management Board's report on activities of PGE Polska Grupa Energetyczna S.A. and PGE Group for 2021 and is available at PGE Group's website in the section dedicated to financial data for 2021: [www.gkpge.pl](http://www.gkpge.pl).

## 10. Statement on the reliable preparation of the financial statements

To the best knowledge of the Management Board of PGE S.A., the annual separate financial statements and consolidated financial statements and comparable data were prepared in accordance with the governing accounting principles, present a fair, true and reliable view of the material and financial situation as well as financial result of the parent company and of PGE Capital Group.

The report of the Management Board on the activities of PGE Polska Grupa Energetyczna S.A. and PGE Capital Group presents a true view of the development, achievements and situation of PGE Polska Grupa Energetyczna S.A. and the PGE Capital Group, and provides a description of the basic risks and threats.

## 11. Approval of the Management Board's Report

The foregoing Management Board's Report on activities of PGE Polska Grupa Energetyczna S.A. Capital Group was approved for publication by the Management Board of the parent company on March 21, 2022.

Warsaw, March 21, 2022

Signatures of members of the Management Board of PGE Polskiej Grupy Energetycznej S.A.

**President  
of the  
Management  
Board**

**Wojciech Dąbrowski**

**Vice-  
President  
of the  
Management  
Board**

**Wanda Buk**

**Vice-  
President  
of the  
Management  
Board**

**Paweł Cioch**

**Vice-  
President  
of the  
Management  
Board**

**Lechosław Rojewski**

**Vice-  
President  
of the  
Management  
Board**

**Paweł Śliwa**

**Vice-  
President  
of the  
Management  
Board**

**Ryszard Wasilek**

## Glossary

|                                    |   |
|------------------------------------|---|
| AKPiA                              | Control, measurement and automation apparatus area  |
| Ancillary control services (ACS)   | services provided to the transmission system operator, which are indispensable for the proper functioning of the National Power System and ensure the keeping of required reliability and quality standards.  |
| Achievable capacity                | the maximum sustained capacity of a generating unit or generator, maintained continuously by a thermal generator for at least 15 hours or by a hydroelectric generator for at least five hours, at standardized operating conditions, as confirmed by tests.  |
| ARA                                | USD hard coal price index in EU. Loco in harbours Amsterdam-Rotterdam-Antwerp   |
| Balancing market                   | a technical platform for balancing electricity supply and demand on the market. The differences between the planned (announced supply schedules) and the actually delivered/off-taken volumes of electricity are settled here. The purpose of the balancing market is to balance transactions concluded between individual market participants and actual electricity demand. The participants of the balancing market can be the generators, customers for electricity understood as entities connected to a network located in the balancing market area (including off-takers and network customers), trading companies, electricity exchanges and the TSO as the balancing company. |
| Base, baseload                     | standard product on the electricity market: a constant hourly power supply per day in a given period, for example week, month, quarter or year.   |
| BAT                                | Best Available Technology   |
| Best Practices                     | Documents „Best Practice for WSE Listed Companies 2016” adopted by the resolution of the WSE Supervisory Board of October 13, 2015 and effective from January 1, 2016 until June 30, 2021 and „Best Practice for WSE Listed Companies 2016 2021” adopted by the resolution of the WSE Supervisory Board of March 29, 2021 and effective from July 1, 2021.  |
| Biomass                            | solid or liquid substances of plant or animal origin, subject to biodegradation, obtained from agricultural or forestry products, waste and remains or industries processing their products as well as certain other biodegradable waste in particular agricultural raw materials.  |
| Black energy                       | popular name for energy generated as a result of combustion of black coal or lignite.   |
| CCGT                               | Combined Cycle Gas Turbine  |
| Circular economy                   | system that minimises the consumption of resources and the level of waste as well as emissions and energy losses by creating a closed loop of processes in which waste from one process is used as resources in other processes so as to maximally reduce the quantity of production waste  |
| Co-combustion                      | the generation of electricity or heat based on a process of combined, simultaneous combustion in one device of biomass or biogas together with other fuels; part of the energy thus generated can be deemed to be energy generated with the use of renewable sources.   |
| Co-generation                      | the simultaneous generation of heat and electricity or mechanical energy in the course of one and the same technological process.   |
| Constrained generation             | the generation of electricity to ensure the quality and reliability of the national power system; this applies to generating units in which generation must continue due to the technical limitations of the operation of the power system and the necessity of ensuring its adequate reliability.  |
| CVC fund                           | Corporate Venture Capital; in the CVC model, portfolio companies, aside from financial support, receive the opportunity to verify their ideas in a corporate setting  |
| Distribution                       | transport of energy through distribution grid of high (110 kV), medium (15kV) and low (400V) voltage in order to supply the customers.  |
| Distribution System Operator (DSO) | a power company engaging in the distribution of gaseous fuels or electricity, responsible for traffic in the gas or electricity distribution systems, current and long-term security of operation of the system, the operation, maintenance, repairs and  |



indispensable expansion of the distribution network, including connections to other gas or power systems.

|                           |   |
|---------------------------|---|
| Energy cluster            | civil-law arrangement that may include natural persons, legal entities, scientific units, research institutes or local government units, concerning the generation, distribution or trade in energy and energy demand balancing, with this energy being from renewable sources or other sources or fuels, within a distribution grid with nominal voltage below 110 kV, within the operational area of the given cluster, not exceeding the area of one district (powiat) in the meaning of the act on district authorities) or 5 municipalities (gmina) in the meaning of the act on municipal authorities; an energy cluster is represented by a coordinator, which is a cooperative, association, foundation appointed for this purpose or any member of the energy cluster indicated in the civil-law arrangement |
| ERO                       | Energy Regulatory Office (pol. URE).  |
| EUA                       | European Union Allowances: transferable CO <sub>2</sub> emission allowances; one EUA allows an operator to release one tonne of CO <sub>2</sub> .   |
| EU ETS                    | European Union Greenhouse Gas Emission Trading Scheme) EU emission trading scheme. Its operating rules are set out in the ETS Directive, amended by the Directive 2009/29/EC of the European Parliament and of the Council of April 23, 2009 (OJ EU L. of 2009, No. 140, p. 63–87).   |
| EV                        | Electric vehicle  |
| FIT/FIP                   | Feed-in-Tariff (FIT) and Feed-in-Premium (FIP): system of subsidies to the market price of electricity performed by Zarządca Rozliczeń S.A.   |
| Generating unit           | a technically and commercially defined set of equipment belonging to a power company and used to generate electricity or heat and to transmit power.  |
| GJ                        | Gigajoule, a unit of work/heat in the SI system, 1 GJ = 1000/3.6 kWh = approximately 278 kWh.   |
| GPZ                       | main power supply point, a type of transformer station used for the processing or distribution of electricity or solely for the distribution of electricity.  |
| Green certificate         | popular name for energy generated from renewable energy sources.  |
| GW                        | gigawatt, a unit of capacity in the SI system, 1 GW = 10 <sup>9</sup> W.  |
| GWe                       | one gigawatt of electric capacity.  |
| GWt                       | one gigawatt of heat capacity.  |
| HCl                       | hydrogen chloride.  |
| Hg                        | mercury.  |
| HICP                      | Harmonised Index of Consumer Prices   |
| High Voltage Network (HV) | a network with a nominal voltage of 110 kV.   |
| IED                       | Industrial Emissions Directive  |
| IGCC                      | Integrated Gasification Combined Cycle.   |
| Installed capacity        | the formal value of active power recorded in the design documentation of a generating system as being the maximum achievable capacity of that system, confirmed by the acceptance protocols of that system (a historical value, it does not change over time).  |
| IRiESP                    | the Transmission Network Operation and Maintenance Manual required to be prepared by a transmission system operator pursuant to the Energy Law; instructions prepared for power networks that specify in detail the terms and conditions of using these networks by system users as well as terms and conditions for traffic handling, operation and planning the development of these networks; sections on transmission system balancing and system limitation management, including information on comments received from system users and their consideration, are submitted to the ERO President for approval by way of a decision.  |
| IRZ                       | Cold Intervention Reserve Service – service consisting of maintaining power units ready for energy production. Energy is produced on request of PSE S.A.  |
| KRI                       | Key Risk Indicator  |

|                                    |  |
|------------------------------------|--|
| KSE                                | the National Power System, a set of equipment for the distribution, transmission and generation of electricity, forming a system to allow the supply of electricity in the territory of Poland.  |
| KSP                                | the National Transmission System, a set of equipment for the transmission of electricity in the territory of Poland.   |
| kV                                 | kilo volt, an SI unit of electric potential difference, current and electromotive force; 1kV= 103 V.   |
| kWh                                | kilowatt-hour, a unit of electric energy in the SI system defined as the volume of electricity used by the 1 kW equipment over one hour. 1 kWh = 3,600,000 J = 3.6 MJ.   |
| kWp                                | a power unit dedicated to determining the power of photovoltaic panels, means the amount of electricity in the peak of production.   |
| Low Voltage Network (LV)           | a network with a nominal voltage not exceeding 1 kV.   |
| LTC                                | long-term contracts on the purchase of capacity and electricity entered into between Polskie Sieci Elektroenergetyczne S.A. and electricity generators in the years 1994-2001.   |
| Medium-voltage network (MV)        | an energy network with a nominal voltage higher than 1 kV but lower than 110 kV.   |
| MEV                                | Minimum Energy Volumes.  |
| MSR                                | Market Stability Reserve (relating to CO <sub>2</sub> )  |
| MW                                 | a unit of capacity in the SI system, 1 MW = 10 <sup>6</sup> W.   |
| MWe                                | one megawatt of electric power.  |
| MWt                                | one megawatt of heat power.  |
| NAP                                | National emissions Allocation Plan, prepared separately for the national emission trading system and for the EU emission trading system by the National Administrator of the Emission Trading System.  |
| NAP II                             | National CO <sub>2</sub> emissions Allocation Plan for the years 2008-2012 prepared for the EU emission trading system adopted by the Ordinance of the Council of Ministers of July 1, 2008 (Dz. U. of 2008, No. 202, item 1248).  |
| NH <sub>3</sub>                    | ammonia  |
| Nm <sup>3</sup>                    | normal cubic meter; a unit of volume from outside the SI system signifying the quantity of dry gas in 1 m <sup>3</sup> of space at a pressure of 101.325 Pa and a temperature of 0°C.  |
| NO <sub>x</sub>                    | nitrogen oxides.   |
| N:W ratio                          | Ration of volume of overburden removed in m <sup>3</sup> to the mass of extracted coal in tons   |
| OTF                                | Organised Trading Facilities   |
| Operational Capacity Reserve (ORM) | ORM constitutes of generation capacities of active Production Scheduling Units (JGWa) in operation or layover, representing excess capacity over electricity demand available to the TSO under the Energy Sale Agreements and on the Balancing Market in unforced generation   |
| Peak, peakload                     | a standard product on the electricity market; a constant power supply from Monday to Friday, each hour between 7:00 a.m. and 10:00 p.m. (15-hour standard for the Polish market) or between 8:00 a.m. and 8:00 p.m. (12-hour standard for the German market) in a given period, for example week, month, quarter or year.  |
| Peak power pumped storage plants   | special type of hydro-power plant allowing for electricity storage. It uses the upper reservoir, to which water is pumped from the lower reservoir using electricity (usually excessive in system). The pumped storage facilities provide ancillary control services for the national power system. In periods of increased demand for electricity, water from the upper reservoir is released through the turbine. This way, electricity is produced. |
| PJ                                 | Petajoule, a unit of work/heat in the SI system, 1 PJ = approx. 278 GWh  |

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| Property rights               | negotiable exchange-traded rights under green and co-generation certificates  |
| Prosumer                      | end customer who purchases electricity under a comprehensive agreement and generates electricity only from renewable sources at a micro-installations for own purposes, unrelated to economic activities  |
| PSCMI1                        | Polish Steam Coal Market Index 1 - average level of prices of coal dust sold to industrial-scale power plants in Poland   |
| RAB                           | Regulatory Asset Base.  |
| Red certificate               | a certificate confirming generation of electricity in co-generation with heat.  |
| Red energy                    | popular name for electricity co-generated with heat.  |
| Regulator                     | the President of ERO, fulfilling the tasks assigned to him in the energy law. The regulator is responsible for, among others, giving out licenses for energy companies, approval of tariffs for energy companies, appointing Transmission System Operators and Distribution System Operators.   |
| Renewable Energy Source (RES) | a source of generation using wind power, solar radiation, geothermal energy, waves, sea currents and tides, flow of rivers and energy obtained from biomass, landfill biogas as well as biogas generated in sewage collection or treatment processes or the disintegration of stored plant or animal remains.   |
| RIG                           | Readiness Interventional Reserve - the power plant's readiness to provide the active power generation service or its consumption at the request of PSE.   |
| SAIDI                         | System Average Interruption Duration Index - index of average system interruption time (long, very long and disastrous), expressed in minutes per customer per year, which is the sum of the interruption duration multiplied by the number of consumers exposed to the effects of this interruption during the year, divided by the total number of off-takers. SAIDI does not include interruptions lasting less than three minutes and is determined separately for planned and unplanned interruptions. It applies to breakdowns in the low (LV), medium (MV) and high voltage (HV), wherein SAIDI in quality tariff does not include interruptions on low voltage. |
| SAIFI                         | System Average Interruption Frequency Index - index of average system amount of interruptions ( long, very long and disastrous ), determined as number of off-takers exposed to the effects of all such interruptions during the year divided by the total number of off-takers. SAIFI does not include interruptions lasting less than three minutes and is determined separately for planned and unplanned interruptions. It applies to breakdowns in the low (LV), medium (MV) and high voltage (HV), wherein SAIFI in quality tariff does not include interruptions on low voltage .  |
| SCR                           | Selective catalytic reduction   |
| SNCR                          | Selective non-catalytic reduction   |
| Start-up                      | early-stage company established in order to build new products or services and characterised by a high level of uncertainty. The most common features of start-ups are: short operational history (up to 10 years), innovativeness, scalability, higher risk than in the case of traditional businesses but also potential higher returns on investment   |
| Tariff                        | the list of prices and rates and terms of application of the same, devised by an energy enterprise and introduced as binding on the customers specified therein in the manner defined by an act of parliament.  |
| Tariff group                  | a group of customers off-taking electricity or heat or using services related to electricity or heat supply to whom a single set of prices or charges and terms are applied.  |
| TGE                           | Towarowa Giełda Energii S.A. (Polish Power Exchange), a commodity exchange on which trading can take place in electricity, liquid or gas fuels, extraction gas, emission allowances and property rights whose price depends directly or indirectly on electric energy, liquid or gas fuels and emission allowances, admitted to commodity exchange trading.   |
| TPA, TPA rule                 | Third Party Access, the owner or operator of the network infrastructure to third parties in order to supply goods/services to third party customers.  |
| Transmission of electricity   | transport of electricity through high voltage (220 and 400 kV) transmission network from generators to distributors.  |

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| Transmission System Operator (TSO) | a power company engaging in the transmission of gaseous fuels or electric energy, responsible for traffic in a gas or power transmission system, current and long-term security of operation of that system, the operation, maintenance, repair and indispensable expansion of the transmission system, including connections with other gas or power systems. In Poland, for the period from July 2, 2014 till December 31, 2030 Polskie Sieci Elektroenergetyczne S.A. was chosen as a TSO in the field of electricity transmission. |
| TWh                                | terawatt hour, a multiple unit for measuring of electricity unit in the system SI. 1 TWh is $10^9$ kWh.  |
| Ultra-high-voltage network (UHV)   | an energy network with a voltage equal to 220 kV or higher.  |
| V (volt)                           | electrical potential unit, electric voltage and electromotive force in the International System of Units (SI), $1 \text{ V} = 1\text{J}/1\text{C} = (1 \text{ kg} \times \text{m}^2) / (\text{A} \times \text{s}^3)$ .   |
| W (watt)                           | a unit of power in the International Systems of Units (SI), $1 \text{ W} = 1\text{J}/1\text{s} = 1 \text{ kg} \times \text{m}^2 \times \text{s}^{-3}$ .  |
| Yellow certificate                 | a certificate confirming generation of energy in gas-fired power plants and CCGT power plants.   |
| Yellow energy                      | popular name for energy generated in gas-fired power plants and CCGT power plants.   |