# MANAGEMENT BOARD'S REPORT

on activities of PGE Polska Grupa Energetyczna S.A.
and PGE Capital Group
for year 2023

ended December 31, 2023

Leading in the green transition

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# LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD

Ladies and Gentlemen,

PGE Polska Grupa Energetyczna S.A. is the key group in the energy sector in Poland, responsible for the generation and supply of electricity and heat to millions of customers. As in previous years, in 2023 the PGE Group, as well as the economy as a whole, had to face the challenges of rising and volatile fossil fuel prices and the cost of $CO_2$ emission allowances, which is one of the key costs of energy production from conventional sources. For another year, the ongoing war across our eastern border remained an important factor destabilising the situation of the energy industry in Poland and worldwide. Its consequences are visible on the fuel market and in the disruptions of trade routes and supply chains. Despite the many challenges, the PGE Group continued to implement its investment projects aimed at developing low- and zero-carbon energy sources, as well as decarbonising district heating networks.

In March 2024, the Supervisory Board of PGE S.A. decided to appoint me as President of the Management Board of PGE S.A. Simultaneously, Mr Marcin Laskowski was appointed as Vice-President of the Management Board for Regulatory Affairs. As the Management Board of the twelfth term of office, we will ensure the ongoing execution of the main task of the PGE Group, which is invariably first and foremost to ensure energy security for Poland and Poles. We also aim to work towards climate neutrality to ensure access to clean energy for all our customers.

In 2024, we will continue to pursue the PGE Group's energy transformation objectives. Ahead of us there are a number of investments that will ensure the zero-carbon status for our power generation base. In particular, these will include large-scale expenditures on low- and zero-carbon generation sources, as well as the modernisation and expansion of distribution networks to increase their potential necessary to accommodate new RES capacities, while ensuring the stability and security of energy supply for consumers. We are digitising our networks and, through the implementation of the Remote Meter Reading Installation Programme, we are improving the quality of services provided to our customers.

Through the measures we are taking, we will continue to build an efficiently operating Energy Group using state-of-the-art solutions in energy and heat generation as well as offering its customers high-quality services.

# 2023 CALENDAR

| | | |
|---|---|---|
| **JANUARY** | *Credit ratings affirmed by Fitch (BBB+) and Moody's (Baa1)* | |
| **FEBRUARY** | *Signing of a PLN 1.4 bn loan with European Investment Bank (EIB)* | *Signing of the agreement for construction of the gas unit in Rybnik* |
| **MARCH** | *Signing of a syndicated loan PLN 2.33 bn* | *Agreement with ZEPAK on creation of SPV for the realisation of nuclear power plant construction project* |
| **APRIL** | *Closing of the transaction of acquisition of PKP Energetyka* | *Agreement with Siemens Gamesa for supply of offshore wind turbines for Baltica 2 project* |
| **JULY** | *Navantia-Windar & Orient Cable as suppliers of foundations and internal cables for Baltica 2 project* | |
| **AUGUST** | *5 decisions for maritime areas with a offshore capacity potential of 3,9 GW* | *Preliminary credit decision of EUR 1.4 bn by EIB for Baltica project* |
| **SEPTEMBER** | *Acquisition of Zalesie wind farm 25 MW* | |
| **NOVEMBER** | *Signing of a term loan agreement with Bank Gospodarstwa Krajowego PLN 2.5 bn* | *Issue of a decision in principle on the construction of a nuclear power plant* |
| **DECEMBER** | *Result of main capacity market auction for the year 2028* | *Agreement with PGG for hard coal supplies* |

# KEY FINANCIAL DATA

| Key financial data | Unit | Q4 2023 | Q4 2022 | % change | 2023 | 2022 | % change |
|---|---|---|---|---|---|---|---|
| Sales revenues | PLN m | 24 889 | 21 455 | 16% | 95 964 | 73 435 | 31% |
| EBIT | PLN m | -8 186 | -760 | 977% | -3 431 | 4 299 | - |
| EBITDA | PLN m | 1 698 | 339 | 401% | 10 028 | 8 657 | 16% |
| EBITDA margin | % | 7% | 2% | | 10% | 12% | |
| Recurring EBITDA | PLN m | 2 067 | 580 | 256% | 10 722 | 7 120 | 51% |
| Recurring EBITDA margin | % | 8% | 3% | | 11% | 10% | |
| Net profit/loss | PLN m | -8 023 | -536 | 1 397% | -4 902 | 3 390 | - |
| Capital expenditures | PLN m | 3 453 | 3 219 | 7% | 10 088 | 7 053 | 43% |
| Net cash from operating activities | PLN m | -6 262 | 3 070[1] | - | 3 269 | 11 609 | -72% |
| Net cash from investing activities | PLN m | -3 256 | -2 654 | 23% | -11 451 | -7 296 | 57% |
| Net cash from financial activities | PLN m | 2 588 | -336 | - | 2 328 | 841 | 177% |

| Key financial data | | December 31, 2023 | December 31, 2022 | % change |
|---|---|---|---|---|
| Working capital | PLN m | -7 107 | -1 250[1] | 469% |
| **Net debt** | PLN m | **11 121**[2] | **-2 656** | **-** |
| Net debt /LTM reported[3] | x | 1.11 | -0.31 | |
| Net debt /LTM recurring EBITDA[3] | x | 1.04 | -0.37 | |

| One off items affecting EBITDA | | Q4 2023 | Q4 2022 | % change | 2023 | 2022 | % change |
|---|---|---|---|---|---|---|---|
| Change of reclamation provision | PLN m | -196[4] | -17[5] | 1 053% | -527 | 1 721 | - |
| Change of actuarial provision | PLN m | -86 | -54 | 59% | -138 | -73 | 89% |
| LTC compensations | PLN m | -81 | -1 | 8 000% | -109 | 2 | - |
| Adjustment of estimated contribution to the Price Difference Payment Fund for 2022 | PLN m | -6 | 0 | - | 80 | 0 | - |
| Provision for prosumers | PLN m | 0 | 18 | - | 0 | 74 | - |
| Provision for one-time benefit – carve-out of NABE | PLN m | 0 | -187 | - | 0 | -187 | - |
| **Total** | PLN m | **-369** | **-241** | **53%** | **-694** | **1 537** | - |

*[1] The restatement of comparative data in order to ensure greater consistency of the presented financial data.*
*[2] Estimated economic financial net debt (taking into account future payments for CO2 emission rights) amounts to PLN 21 960 million.*
*[3] LTM EBITDA - Last Twelve Months EBITDA counted from the balance sheet date.*
*[4] Including effect of discount rate change PLN -245 million and and the effect of changing technical assumptions PLN +49 million.*
*[5] Including effect of discount rate change PLN -46 million and and the effect of changing technical assumptions PLN +29 million.*

# 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 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 eight 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.

### DISTRIBUTION

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

### RAILWAY ENERGY SERVICES

The segment's main activities are the distribution and sale of electricity to railway operators and customers functioning within the railway system, the sale of fuels, as well as the maintenance and modernisation of overhead contact line network, together with other auxiliary 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 $CO_2$ allowances, and energy certificates and fuels and provision of services of the Corporate Centre to companies from the PGE Group.

## 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 Capital Group, which include organisation of capital raising in form of Eurobonds (PGE Sweden), provision of IT, transportation and investing in start-ups.

Additionally, within the segment there are companies responsible for construction of CCGT units in Gryfino (PGE Gryfino 2050 sp. z o.o.), new low-emission unit in Rybnik (Rybnik 2050 sp. z o.o.) and other project companies of the Group.

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

# 1.2. Organisational structure

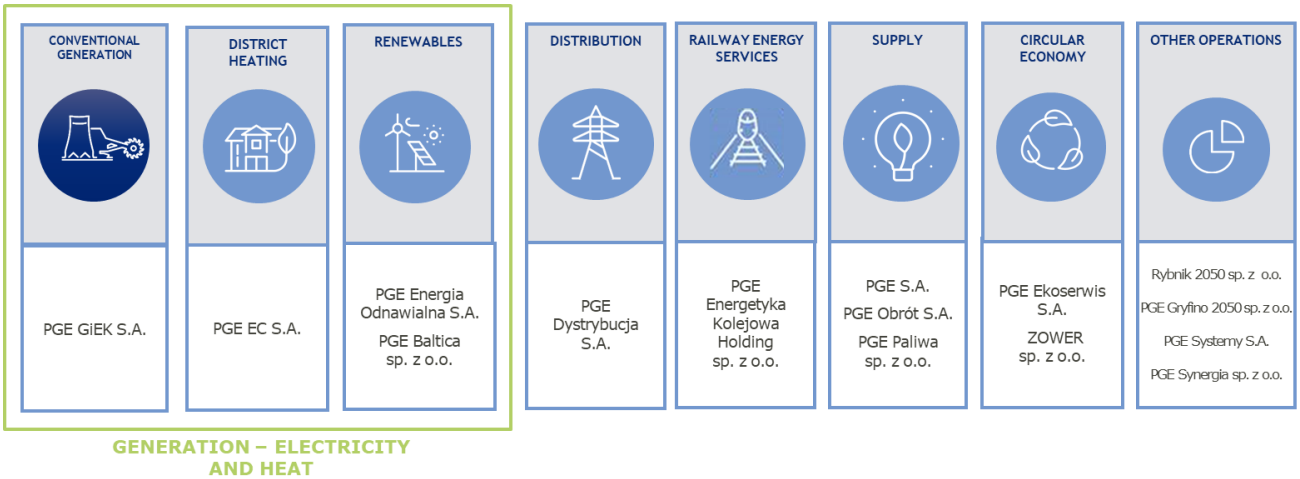
PGE Capital Group as at December 31, 2023 consisted of:

- PGE S.A. - the parent company,
- 80 subsidiaries subject to full consolidation,
- 2 joint operations,
- 6 associates and joint subsidiaries.

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

Given its size, internal organisational changes, construction of new low-emission generation units and acquisitions, as well as planned sale 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[1]

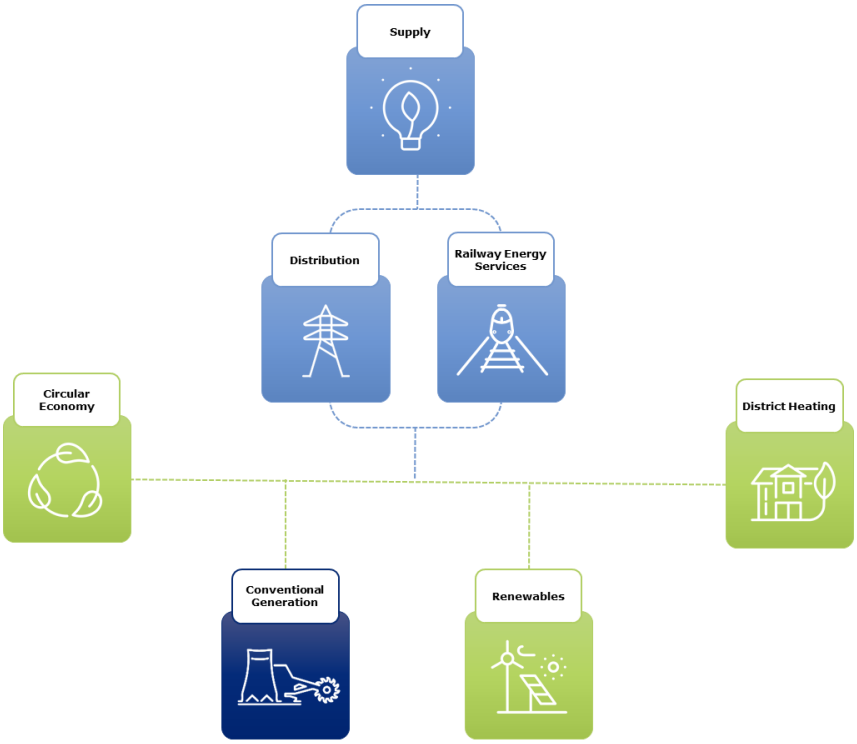



[1] *Simplified structure – includes key entities.*

## 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 thereof.

Chart: Current business model of PGE Capital Group.




PGE Group's generating assets account for approx. 39% of electricity output in Poland in 2023. Conventional Generation segment approx. 31%, District Heating and Renewables segments' share accounted respectively for 6% and 2% of electricity 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. 320 000 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 Group provides safe and reliable supplies of electricity to approx. 5.7 million customers in Supply and Railway Energy Services segments, including households, businesses and institutions. This means that it supplies a third of electricity consumers in Poland. PGE Group is also the leader in district heating production.

In 2023, the PGE Capital Group achieved a recurring EBITDA result of approximately PLN 10.7 billion.

The largest share of recurring EBITDA was generated by the Distribution segment (37%). The Distribution segment is also responsible for the largest capital expenditures in the amount of about PLN 4.2 billion, mainly connecting new customers to the grid and upgrades and restoration of the power grid.

The District Heating segment generated 19% of the recurring EBITDA of the Group. At the same time, in this segment, capital expenditures were significant and amounted to PLN 1.5 billion and were mainly related to development related to construction of CCGT unit in Czechnica CHP plant.

Conventional Generation segment generated 19% of the Group's recurring EBITDA. The Conventional Generation segment is also responsible for the capital expenditures in the amount of about PLN 1.5 billion. Those were mainly modernization and replacement investments, including increasing the efficiency of existing power plants and environmental upgrades.

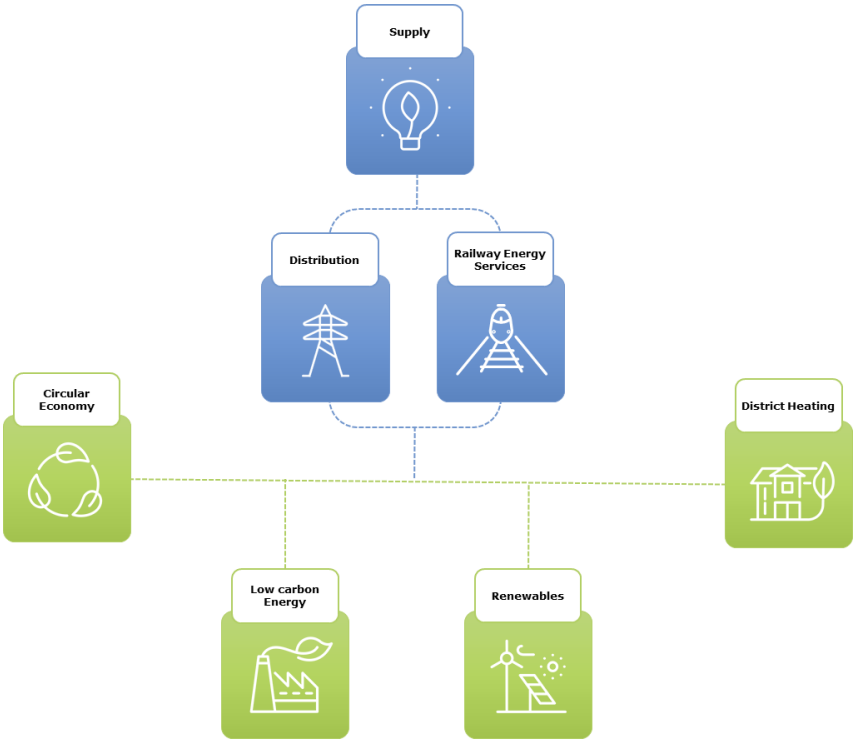
The Railway Energy Segment, which was incorporated into the PGE Group from the second quarter of 2023, generated a 12% share in the recurring EBITDA. Capital expenditures of almost PLN 1.1 billion were also incurred, mainly for the modernisation and construction of traction substations in accordance with the concluded connection agreements. Moreover, a significant amount was spent on connecting new customers.

The Renewables segment generated 10% of the Group's recurring EBITDA. In 2023 investments were actively made in the development of renewable energy sources (PLN 1.2 billion). In accordance with the Strategy, PGE Group was 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.

The other segments do not have a significant share in the recurring EBITDA of the PGE Capital Group, while the Other Operations segment incurred significant capital expenditures (PLN 0.8 billion) due to the construction of new CCGT units by PGE Gryfino 2050 sp. z o.o. and Rybnik 2050 sp. z o.o.

According to the binding PGE Group's strategy, a change to the PGE Group's business model is planned, including the carve-out of coal assets from the Group. However, the continuation of the project, as well as its final shape and work schedule depend on government decisions. As at the date of preparation of this report, no further arrangements have been made regarding coal assets and their place within the PGE Capital Group.

Chart: Planned target business model of the PGE Group in accordance with the current Group's Strategy[1].




[1] *The target business model of the PGE Capital Group depends on future government decisions.*

## 1.4. Employment in PGE Capital Group

PGE Group is one of the largest employers in Poland, providing stable jobs to more than 42 thousand people. It is thanks to their experience and involvement that we are able to build an organization based on values that combines social responsibility with business objectives.

Main goal of the Group is achieving climate neutrality by 2050 through leading a sustainable energy transition. One of the pillars of the 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 standardisation of support processes.

At the same time, the PGE Capital Group approaches the economic as well as social consequences of changes with awareness and responsibility. The PGE Group actively participates in the preparation and implementation of plans to transform coal and lignite regions, taking into account and respecting the interests of local communities and administration bodies, the natural environment, investors as well as business entities.

Table: Employment level in PGE Capital Group (in FTEs)[1]

| | December 31, 2023 | December 31, 2022 | % change |
|---|---|---|---|
| **Total in PGE Group, including:** | **42 552** | **38 013** | **12%** |
| Conventional Generation | 19 816 | 19 574 | 1% |
| District Heating | 3 409 | 3 628 | -6% |
| Circular Economy | 777 | 713 | 9% |
| Renewables | 9 737 | 9 703 | 0% |
| Railway Energy Services | 3 889 | - | - |
| Supply | 3 172 | 2 702 | 17% |
| Circular Economy | 991 | 970 | 2% |
| Other operations | 761 | 723 | 5% |

[1] *without suspended employees*

The increase in the number of employees in the PGE Group as at December 31, 2023 compared to December 31, 2022 was mainly due to the 2023 acquisition of shares in PKP Energetyka Holding sp. z o.o. (PKPE Holding sp. z o.o.), which supervises a number of entities with activities centred around PKP Energetyka S.A.. In connection with the acquisition, PGE established a new Railway Energy Services segment, which employs almost 4 000 people.

The changes in the size of the workforce in the District Heating and Supply segments were mainly due to intra-group migration of employees between the two segments due to the project of transferring accounting, communication, marketing and human resources services to PGE S.A., which was completed in 2023. Simultaneously, the company PGE Obrót S.A. recruited new employees in the area of sales support and direct customer service due to the development of new products.

Furthermore, the increase in employment in the Renewables segment was related to the development of projects in the area of Offshore Wind and the takeover of the operation of wind and photovoltaic farms through by PGE CG companies' own maintenance service teams.

Table: Employment structure in the PGE Group in persons (in %)

| | December 31, 2023 | December 31, 2022 |
|---|---|---|
| **Employment by gender:** | | |
| Women | 20% | 20% |
| Men | 80% | 80% |
| **Employment by age:** | | |
| Under 30 years old | 8% | 8% |
| 30 - 50 years old | 47% | 48% |
| Over 50 years old | 45% | 44% |

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

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

### 2.1.1 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 the social, economic and environmental aspects of the business, maximizing the added value for Shareholders.

### 2.1.2 Key directions in development and activity restrictions areas

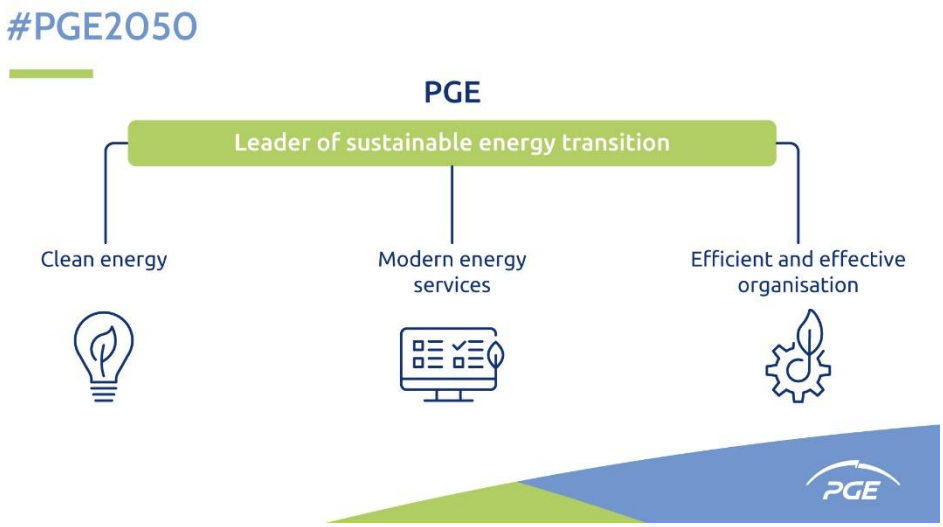
Key directions in development of the PGE Group will be offshore and onshore wind farms, photovoltaics, network infrastructure, low-emission and zero-emission district heating and energy services. Divestment areas and activity restrictions include coal energy and support areas outside the core business.

### 2.1.3 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.

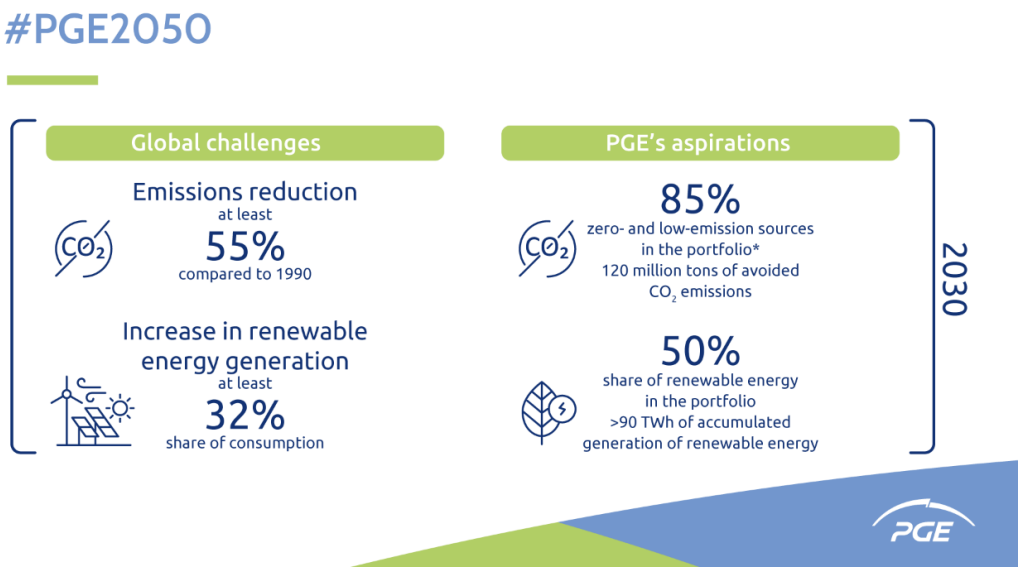
Chart: Strategic priorities




### 2.1.4 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.

Chart: Transformation challenges

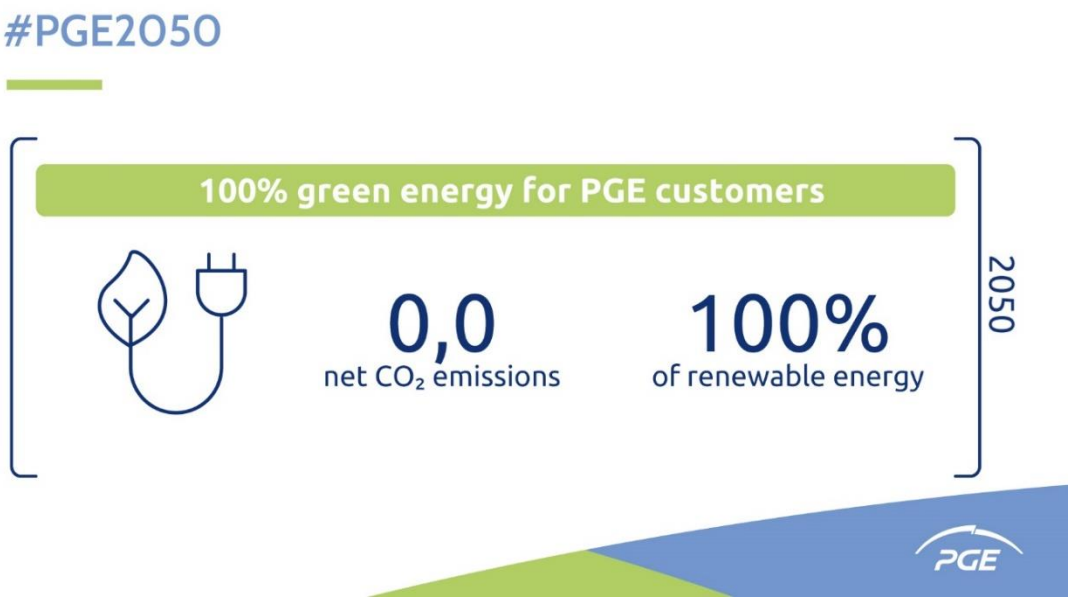



Greenhouse gas emission reduction targets have been set:

- 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).

Chart: Transformation goals




The PGE Group is ready to carry out the transition process of the sector and prepare 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 – should exceed 6.5 GW by 2040. At the same time the programme of building capacities 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 100% 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.

### 2.1.5 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 by 2025) and 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 purse 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.

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 to energy, capacity and ancillary services markets (planned 1.0 GW in market services). These activities should contribute to 25% rise in EBITDA of retail sales companies by 2030 compared to the 2019.

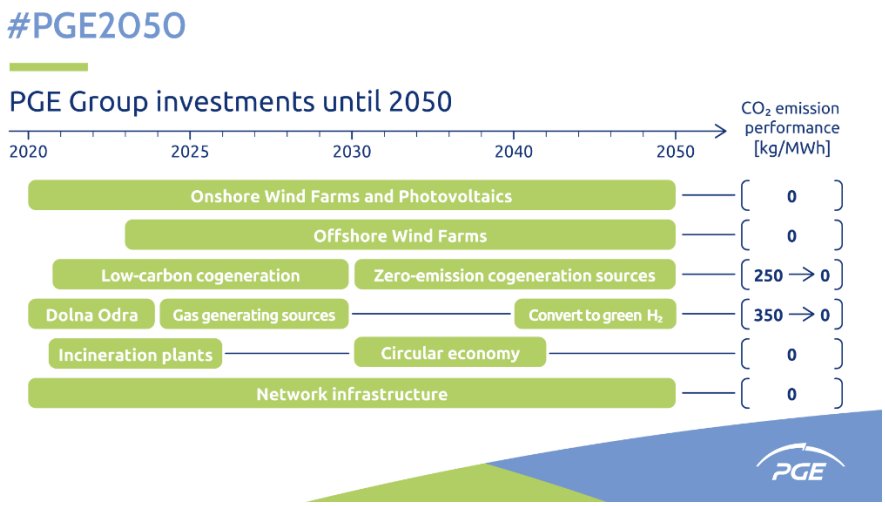
### 2.1.6 Efficient and effective organisation

In order to meet the challenges resulting from trasition and competition, PGE Group will improve its operational efficiency. 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.

### 2.1.7 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 final 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.

Chart: PGE Group investments until 2050.




### 2.1.8 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 changes. Implementation of an ambitious investment 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

The implementation of the Strategy took into account the activities of the companies acquired within the newly established Railway Energy Services segment. The acquisition of PKPE Holding sp. z o.o. (currently PGE Energetyka Kolejowa Holding sp. z o.o.) together with entities controlled by the holding company was in line with the Strategy of the PGE Group. As a result of the transaction, the PGE Group gained access to the distribution network throughout the country.

Table: Key activities and results related to the implementation of the Strategy in 2023

| Strategic priority | Objectives | Actions and results in 2023 |
|---|---|---|
| CLEAN ENERGY | Construction of offshore wind farms: 2.5 GW by 2030 and more than 6.5 GW by 2040 | Completed works at Baltica 1:<br>▪ An interim report on environmental studies was received.<br>▪ The first year of studies, including measurements of windiness, sea waves and currents, was completed and an application for an environmental decision was submitted to the Regional Environmental Protection Directorate.<br>▪ An application for an environmental decision for an offshore wind farm connection area was submitted to the Regional Environmental Protection Directorate. A decision on the scope of an Environmental Impact Assessment (EIA) report for the offshore wind farm area is pending.<br>▪ A decision on the scope of an EIA report for power evacuation was obtained.<br>▪ The Ministry of Climate and Environment approved the Geological Works Project for land-sea drilling operations.<br>▪ The contracting of geotechnical and geological works is underway.<br>Completed works at Baltica 2:<br>▪ Suppliers of the main components of the offshore wind farm (foundations, cables, turbines, offshore energy station) were selected; supply contracts and first installation contracts for cable laying were signed.<br>▪ The contracting of the General Contractor for the onshore part, the chartering of installation vessels for offshore wind turbines and the installation of foundations and offshore substations.<br>▪ Due diligence reports needed to initialize so called Bank Launch (what took place in January 2024) and to carry out credit process leading to an investment decision are being prepared.<br>▪ Works are underway to sign final agreements with the strategic partner Ørsted on the terms of cooperation during the construction and operation phases.<br>Completed works at Baltica 3:<br>▪ Construction permits for the onshore transformer station and the onshore section of the cable bench were received.<br>▪ The geological and engineering documentation for the power generation evacuation area was submitted to the Ministry of Climate and Environment.<br>▪ All expert opinions on the impact of the offshore wind farm in terms of operational safety were approved.<br>▪ The final construction permit for the offshore part of the power evacuation system (export cable, interlinks) was received, thus providing a complete set of construction permits for the evacuation of power from the project in both the offshore and onshore areas.<br>Completed offshore wind farm development works:<br>▪ The companies in the Offshore Power Generation area received valid and final permits for the construction of artificial islands in the following sea areas: 43.E.1, 44.E.1, 45.E.1, 60.E.3 and 60.E.4.<br>▪ Total potential capacity of wind farms planned for construction in the new areas: approximately 3.9 GW. |
| | Development of onshore wind farms:<br>> 1 GW in new capacities by 2030 | ▪ Capacity of projects in the pipeline: approximately 500 MW.<br>▪ The acquisition of the Zalesie wind farm with a capacity of 25 MW in the Warmińsko-Mazurskie Province with an average annual generation of 75 GWh. |

| Strategic priority | Objectives | Actions and results in 2023 |
|---|---|---|
| | | ▪ Analysis of acquisition projects: approx. 300 MW. |
| | PV development program<br>> 3 GW installed capacity in 2030 | ▪ Installed capacity in 2023: approx. 45 MW.<br>▪ Approximately 355 MW under development.<br>▪ Land secured: approx. 4 000 ha.<br>▪ Analysis of acquisition projects: approx. 1.9 GW |
| | Construction of 800 MW in energy storage systems by 2030 | ▪ Signing of a connection agreement for a hybrid energy storage facility in Żarnowiec.<br>▪ Expected non-refundable EUR 200 million support under the National Recovery and Resilience Enhancement Plan adopted by the EU Council in December 2023 and the energy storage system measure for a large-scale energy storage facility in Żarnowiec.<br>▪ Award of a PLN 43 million grant for PGE Dystrybucja S.A. from the Modernisation Fund for 3 grid storage facilities with a power of 7 MW and capacity of 19 MWh.<br>▪ Acquisition of conditions for a 400 MW connection to an energy storage facility in Gryfino.<br>▪ Achievement of approximately 90 MW in distributed energy storage facilities.<br>▪ Development of approx. 20 hybrid energy storage projects with a capacity of over 500 MW.<br>▪ Development of an energy storage project at the Kraków CHP plant with a capacity of approx. 90 MW.<br>▪ Analysis of the possibility of using energy storage facilities to support the reliable and safe supply of green energy to the Polish railways.<br>Completed works on the development of the Młoty pumped storage power plant project:<br>▪ Acceptance of the feasibility study, which demonstrates the technical and economic viability of the construction of a pumped storage power plant.<br>▪ Completion of a full 12-month natural inventory.<br>▪ Signing of an investment agreement with the National Environmental Protection and Water Management Fund to finance the construction of the Młoty pumped storage power plant.<br>▪ Submission of an application to PSE S.A. for determination of grid connection conditions.<br>▪ Conducting a survey among residents regarding support for the investment project (almost 60% of the participants support further implementation of the investment).<br>▪ Signing of voluntary property valuation agreements for the planned Młoty investment project with more than half of the residents. |
| | District-heating transition: Share of zero- and low-carbon sources in heating production at approx. 70% by 2030 | ▪ Development of a decarbonisation plan for the District Heating segment by 2050.<br>▪ New Czechnica CHP plant: commissioning of the reserve and peak load boiler plant. Continued construction of the CCGT unit.<br>▪ Gdańsk CHP plant: further works on the construction of a heat pump and heat accumulator.<br>▪ Gorzów CHP plant: completion of the installation of a steam and water boiler. Initiation of the hot start-up of the boilers. Acquisition of an operation permit for the reserve and peak load boiler house and an integrated permit for the new boiler plant.<br>▪ Zgierz CHP plant: the commissioning of the new CHP plant.<br>▪ Gdynia CHP plant: the opening of bids in the tender for the General Contractor responsible for engines and the construction of a gas pipeline. Continuation of the construction works on water boilers.<br>▪ Kraków CHP plant: further works on the construction of a heat pump and cogeneration units. Continuation of preparatory works relating to a gas pipeline.<br>▪ Lublin Wrotków CHP plant: further works on the construction of the reserve and peak boiler plant, the commencement of preparatory works on the construction of a large-scale heat storage facility. |

| Strategic priority | Objectives | Actions and results in 2023 |
|---|---|---|
| | | ▪ Rzeszów CHP plant: the continued construction of the reserve and peak load boiler plant, the continuation of the works on the construction of the second line of the thermal waste processing with energy recovery (TWPER) installation. Conclusion of the procedure for the selection of a contractor for the construction of a photovoltaic farm.<br>▪ Wrocław CHP plant: the purchase of new investment land at the Wrocław Kiełczowska site. Continuation of works relating to a heat pump, a heat accumulator and cogeneration units at the Wrocław Łowiecka site. Investment analyses for an air heat pump and electrode boilers at the Wrocław Kiełczowska site. |
| MODERN ENERGY SERVICES | Access to green energy for PGE Group customers | ▪ Sale of PV installations up to 50 kWp with a total volume of 12.6 MWp; 310 sales agreements.<br>▪ Supplementing the "Photovoltaics with PGE" offer with a referral programme.<br>▪ Introduction of a new offer: "PV for a tenner" based on the "own payment + 0% instalments" model.<br>Completed works in the Railway Energy Services segment:<br>▪ Commissioning of an on-grid hydrogen storage facility based on an electrolyser, pressure storage facility and a fuel cell system.<br>▪ Cooperation with the Łukasiewicz-Poznański Institute of Technology and launch of a project for the modernisation of the railway system service vehicle (WM-15A), including the introduction of elements of a hydrogen supply system.<br>▪ Implementation of the Green Railways programme, under which 101 GWh of renewable energy was sold. In addition, a letter of intent was signed with the largest passenger carrier PKP Intercity for the implementation of the Green Railways programme.<br>▪ Support for end users in the utilisation of RES - conclusion of agreements for the collection of surplus electricity from RES installations owned by end users with a total installed capacity of 1.2 MW (installations outside the prosumer model). |
| | Highest customer satisfaction score on the market maintained | ▪ PGE Obrót S.A. took the first place in the Consumer Satisfaction Index ranking in both the G tariff - 89.1% and the C tariff - 84.2%.<br>▪ Maintained leading position in the customer service process with the following results:<br>  ▪ 1st place in the G tariff - category: overall satisfaction with the Contact Centre,<br>  ▪ 2nd place of the Customer Service Office in the G tariff - category: overall contact satisfaction. |
| | Profitability increase in energy services | Completed works in the District Heating segment:<br>▪ Nearly 1 000 buildings with a total thermal power demand of 210 MWt in 16 cities were connected to district heating networks.<br>Completed works in the Railway Energy Services segment:<br>▪ "The Strategy for the Implementation of the Charter for the Efficient Transformation of the Distribution Network in PGE Energetyka Kolejowa S.A." was submitted to the President of the Energy Regulatory Office.<br>▪ 1,500 documents determining conditions for connection to the distribution network were issued, 840 customer connection agreements were concluded for the combined capacity of 87 MW and 35 generator connection agreements were concluded for the combined capacity of 60 MW.<br>▪ Sales were maintained at a level of 100% of the energy consumed by rail operators for transport purposes. |
| | Shorter interruptions in energy supply | Completed works in the Distribution segment:<br>▪ Achievement of the set targets for the reduction of the duration of supply interruptions specified in minutes for the following areas: cities with district rights (40.52), cities (91.76), countryside (351.49), and the frequency of interruptions for the area of cities with district rights (0.81). Only two indexes were not improved: frequency of interruptions in the areas of countryside (6.42) and cities (1.77).<br>▪ Work support activities: purchase of insulated boom lifts and mobile poles for works on live wires - medium voltage power lines. |

| Strategic priority | Objectives | Actions and results in 2023 |
|---|---|---|
| | | ▪ Organisation of training courses for personnel involved in works on live wires - medium voltage power lines (including the method of electro-insulating gloves).<br>▪ Introduction of revised and new instructions for works on live wires. |
| | Development of activities in the individual segment (district heating sector) | ▪ Introduction of a sales offer for the supply, installation and commissioning of heat pumps within the PRO-EKO product portfolio entitled: "Heat Pumps from PGE". |
| EFFICIENT AND EFFECTIVE ORGANISATION | Optimisation of asset maintenance costs | **Completed works in the Distribution segment:**<br>▪ Unification of the principles of asset maintenance planning and preparation of a detailed operating plan for the specialist departments in the Branches.<br>▪ Development and implementation of guidelines aimed at concluding tree felling contracts in the year prior to felling, in order to optimise asset operation. |
| | Enhanced capability in remote customer service | ▪ Maximisation of customer self-service in the Contact Centre and increased automation of processes - the possibility for the customer to self-check their balance and confirm contractual details in the Interactive Voice Response (IVR) system.<br>▪ Simplification of the offer acceptance process in remote channels. Acceptance of offers in the first contact with the customer.<br>▪ More than 2 million customers receiving eInvoices.<br>▪ Development of electronic sales channels with traction customers (65% of customers using the eInvoice). |
| | 25% of financing for investment program raised from preferential sources | ▪ Acquisition of approximately PLN 354 million in preferential funding, including approximately PLN 276 million in subsidies for PGE Dystrybucja S.A.: the supply of power to the Stalowa Wola Euro-Park site for the development of electromobility (PLN 148 million); the Remote Reading Meters Programme (PLN 84 million); the construction of three energy storage facilities: Warta, Jeziorsko and Cisna, to stabilise grid operation (PLN 43 million). |
| | Unified organisational structure and management system | **Completed works in the Railway Energy Services segment:**<br>▪ Updating of the principles of developing internal regulations and process model documents in line with the requirements of the Integration Programme.<br>▪ Adjustment of the principles of the Integrated Management System to changes resulting from integration with the PGE Capital Group.<br>▪ Updating of the Integrated Management System Policy. |
| | IT | **Completed works in the Distribution segment:**<br>▪ Further works within the Technical Programme for Distribution Assets Management - works related to the Geographical Information System (GIS) and Enterprise Asset Management (EAM) components.<br>▪ Completion of procurement procedures under the LTE450 Programme - the performance of the agreements signed under already completed procedures; the planned launch of the service in November 2024 with subsequent successive expansion of coverage in subsequent months.<br>▪ Completion of the procedure for the building of the Central Power Management headquarters together with internal and external infrastructure. |

# 2.3. Prospects for the development of PGE Group

## 2.3.1 Main directions of changes in the environment and their impact on the PGE Group

Table: Main directions of changes in the environment and their impact on the PGE Group

| | Main directions of change | Potential impact on PGE Group |
|---|---|---|
| **MACROECONOMIC ENVIRONMENT - WORLD** | ▪ After a significant increase in fuel and electricity prices during 2022, the situation calmed down in 2023 and prices returned to slightly higher than historical averages.<br>▪ There was a significant drop in demand for electricity and gas in Europe, which allowed inventories of raw materials to remain at high levels. No risk of shortages was noted.<br>▪ A reduction in inflationary pressures was evident in 2023, which initially translated into an improvement in economic sentiment, but the weakening global economy resulted in recessionary sentiment in Europe.<br>▪ The Eurozone manufacturing PMI fell from 48.8 points in January 2023 to 47.4 points in December 2023. On a quarterly basis, the PMI averaged 46.9 points and for the whole of 2023 it averaged 46.2 points. According to expert forecasts, the Polish economy may rebound in 2024.<br>▪ Industrial production in the Eurozone recorded a significant decline in the second half of 2023 compared to 2022. There was a large variation between individual sectors, including a markedly sharper decline in production in energy-intensive enterprises. Only a slight rebound is expected in 2024.<br>▪ In 2023, there was an elevated level of core inflation, which translated into further interest rate increases. However, in the last months of 2023, the level of core inflation declined so much that the prospect of a return to the limits of the acceptable range of the inflation rate seems imminent. Interest rate cuts in the Eurozone and the US are anticipated in 2024. | ▪ The downturn in the Eurozone was also followed by a decline in industrial production in Poland, which translated into a significant drop in energy demand in the NPS.<br>▪ The reduction in gas and coal prices on the European market translated into a significant reduction in electricity prices, which resulted in a change in Poland's cross-border exchange balance from export to import, which in turn influenced a further reduction in generation from domestic sources.<br>▪ Falling prices on raw material markets and freight costs translated into a reduction in the capital intensity of RES investments. This effect is offset by the high level of interest rates.<br>▪ The high level of core inflation translates into the need to maintain increased interest rate levels, which in turn raises financing costs in PGE Group. |
| **MACROECONOMIC ENVIRONMENT - POLAND** | ▪ Poland's gross domestic product grew by 0.2% y-o-y in 2023, which was weaker than forecast. The elements slowing down GDP growth were the low level of domestic demand and reliance on inventories accumulated in 2021 and 2022. Investments and the level of net exports had a positive effect.<br>▪ The average level of inflation recorded in 2023 was 11.4%. The core inflation rate oscillated around 10.2%.<br>▪ The reference rate of the National Bank of Poland remained unchanged at 6.75% from January to September 2023. In September and October 2023, the Monetary Policy Council decided to cut interest rates. At the end of 2023, the reference rate was 5.75%. | ▪ The reported slowdown in economic growth translated into reduced demand for electricity. Price pressures (high costs of obtaining energy fuels, $CO_2$ emission allowances, distribution charges) reduced energy consumption in households, as well as the industrial and service sectors. High energy prices particularly affected the profitability of energy-intensive industries. It can be expected that high energy prices and the availability of support schemes are likely to drive consumers to install RES.<br>▪ It is estimated that some refugees from the Ukraine have settled in Poland. Additional residents increased the demand for electricity in 2023. Over the course of the year, further re-emigration |

| | | |
|---|---|---|
| | ▪ The rating agencies maintained Poland's high creditworthiness ratings. They also stressed that the outlook for the near future was stable.<br>▪ Yields on 10-year treasury bonds fell from 6.7% recorded in January 2023 to 5.2% in December 2023.<br>▪ The market is beginning to adjust to the uncertainty surrounding the ongoing conflict across Poland's eastern border.<br>▪ In 2023, the PMI was at levels heralding a crisis in the manufacturing sector. The index recorded some rebound in Q4 relative to previous quarters.<br>▪ The continued population growth due to migration from Ukraine.<br>▪ The European Commission raised its forecast for Poland's economic growth for 2024 from 2.5% to 2.7%. | of Ukrainian residents to Western European countries was evident.<br>▪ 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, negatively impact the economics of coal-based power generation.<br>▪ No change is expected in Poland's long-term credit risk rating in PLN and foreign currencies, which, with other factors unchanged, should remain neutral for the cost of financing the PGE Group's investment programmes. It can be expected that in the coming years the current values of inflation and interest rates will return to the levels indicated in the targets of the National Bank of Poland.<br>▪ An increase in the price indices of construction and assembly works 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. A structural shortage of skilled workers may cause delays in the implementation of investment and overhaul tasks. |
| **TRENDS IN ELECTRICITY AND FUEL MARKETS** | ▪ In 2023, demand for electricity in Poland fell by 5.96 TWh.<br>▪ At the end of 2023, the average price of natural gas purchased in EU countries was EUR 31.43 per MWh. Lower consumption, high storage fills and supplies of liquefied natural gas (LNG) contributed to the price decline. Over the course of 2023, the average SPOT price of natural gas on the Dutch exchange (TTF) was around EUR 40.73 per MWh.<br>▪ Greater stability in the global hard coal market. Prices returned to levels below PLN 20 per GJ.<br>▪ Hard coal inventory levels had been increasing since September 2022 and reached 12.2 million tonnes in December 2023, of which approximately 5.1 million tonnes were located at power plants, 2.8 million tonnes at CHP plants and 4.3 million tonnes at mines.<br>▪ The dynamic development of renewable energy sources and stabilised gas supply chains led to a reduction in coal consumption in Europe.<br>▪ The weighted average BASE price on the Day-Ahead Market was PLN 533.62 per MWh in 2023, a decrease of PLN 262.55 per MWh compared to 2022.<br>▪ The weighted average price of the BASE_Y-24 annual contract was PLN 642.19 per MWh in 2023, a decrease of PLN 467.85 per MWh from the price quoted for the BASE_Y-23 contract in 2022.<br>▪ The average price of $CO_2$ in 2023 was around EUR 83/t.<br>▪ In 2023, Poland was a net importer of energy – 3.9 TWh. | ▪ The further continuation of the trend of declining demand for electricity may have a negative impact on the sales volumes achieved by the PGE Group.<br>▪ In 2023, as in previous years, there was an increase in RES capacity in Europe, which translated into reduced power generation from fossil fuels. After the uncertainties of 2022 related to the availability of coal for generation sources, in 2023, coal inventories were replenished in both Poland and Europe. The dynamic development of RES will continue to put pressure on reducing generation from coal-fired units.<br>▪ As households move away from coal, electrification and interest in RES solutions such as photovoltaics, heat pumps and energy storage will increase. Electrification of transport and the growing popularity of electric cars may provide an additional impetus for the development of domestic RES.<br>▪ Electricity will also become increasingly important in heat generation and distribution. The development of "power to heat" technologies – electrode boilers, heat pumps, daily as well as seasonal heat storage facilities – will have a positive impact on the decarbonisation of these sectors. The PGE Group's intention is to maximise the potential of these new technologies.<br>▪ The restoration and stabilisation of natural gas and LNG supply chains will enable the development of CCGT generating units, the realisation of investments in high-efficiency gas cogeneration systems under the support system and the abandonment of coal combustion. |

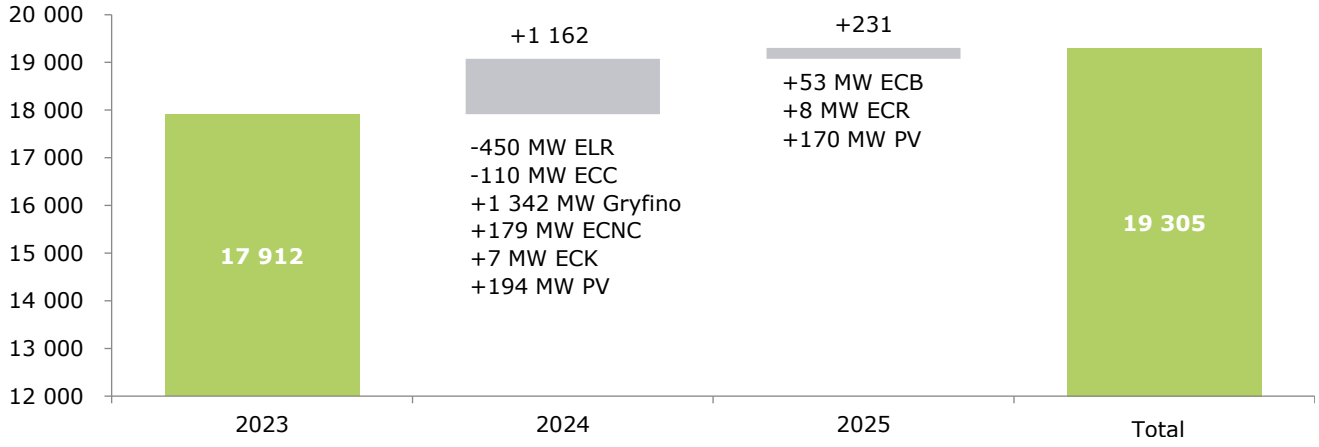
| | | |
|---|---|---|
| | ▪ Dynamic development of photovoltaics - in 2023, the number of prosumers in Poland exceeded 1.4 million and the total capacity of prosumer installations exceeded 10 GW. Throughout 2023, the number of prosumers in Poland increased by 190 thousand.<br>▪ LNG imports to Poland amounted to approximately 5.9 bcm. The main importer of LNG to Poland was the United States, which accounted for about 58% of the volume. Qatar was in the second place, with a share of about 38%.<br>▪ Natural gas imports via Baltic Pipe amounted to 6.72 bcm in the whole of 2023.<br>▪ At the end of December 2023, natural gas storage facilities in Europe were filled in approximately 87% and in Poland in approximately 95%. Reduced demand and high LNG supplies to Europe contributed to such high filling levels. | |
| **DEVELOPMENT OF NEW TECHNOLOGIES** | ▪ Increasing interest in nuclear power in Europe. At the United Nations Climate Summit COP28, a declaration was formally signed on the pivotal role of nuclear power to achieve net-zero emissions in 2050 and the aspiration to triple energy production from this technology by 2050. The declaration on tripling power generation from nuclear sources was signed by more than 20 countries (including Poland).<br>▪ Increased interest in Small Modular Reactors (SMR), which could be used for both electricity and heat generation. Companies in the US and Canada are planning to launch pilot projects even before 2030. Commercial installations of this type are not yet available in Europe.<br>▪ The importance of battery-based energy storage is growing. More than 1.7 GW of energy storage appeared in the December capacity market auction.<br>▪ PGE PAK Energia Jądrowa S.A., a special purpose company, was established to participate in the construction of a nuclear power plant in Konin/Pątnów in the Wielkopolska region.<br>▪ Development of hybrid installations that combine the potential of wind and photovoltaic farms – so-called cable pooling – a combination of two technologies at a single connection point. This allows for the utilisation of the connection capacity of two RES installations with variable but complementary power generation characteristics.<br>▪ Developments in information, telecommunication and artificial intelligence technologies in the energy sector.<br>▪ New projects for green hydrogen plants and hydrogen solutions for transport. | ▪ 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.<br>▪ The PGE Group emphasises the relevance of the cable pooling solution and continues to work on this technology.<br>▪ The development of the green hydrogen production technology can allow the use of surplus energy from RES but also the decarbonisation of sectors and the replacement of fossil fuels with hydrogen. The PGE Group has started cooperation with GE Wind France SAS and GE Power sp. z o.o. on the development of a project to test green hydrogen production using an offshore wind turbine.<br>▪ The PGE Group's utilisation 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.<br>▪ The development of electromobility will influence an increase in demand for electricity and a change in the daily electricity consumption profile, which may slightly alter the operating conditions of some conventional units. However, this development requires investments in the network infrastructure and charging points, as well as a charging management system. It is also possible to use batteries in electric cars as RES energy storage units. |

## 2.3.2 Prospects for change in achievable capacities

In connection with the implementation of the PGE Group's strategy for energy transition the business model of the PGE Group will change. Within the next years, it is planned to develop low-emission gas-based and renewable (photovoltaic) capacities. The largest investment to be commissioned in 2024 will be 2 CCGT units at the PGE Gryfino 2050 power plant.

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 and the possibility of selling electricity under PPA contracts[2]. In addition, the increases do not take into account potential acquisitions of RES installations and projects.

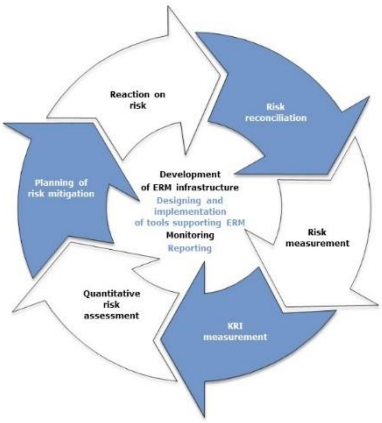
Chart: Prospects for change in achievable capacities in years 2023-2025 (MW gross)




ELR – Rybnik power plant
ECC – Czechnica CHP plant
Gryfino – PGE Gryfino 2050 power plant
ECNC – New Czechnica CHP plant
ECK – Kielce CHP plant
PV – photovoltaic projects
ECB – Bydgoszcz CHP plant
ECR – Rzeszów CHP plant

[2] *PPA - Power Purchase Agreement; long-term contract consisting in the direct purchase of electricity by the end user from RES generators.*

# 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 i.e. the concept of 3 lines of defence (Business - Risk - Audit). 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) and its operational efficiency. The effectiveness of the mitigating actions implemented is denoted by the following three categories:

- effective,
- to be improved,
- to be changed.

Among the most significant risks for PGE Group (presented in p 3.1 of this report) approx. 86% are mitigating actions from the effective category and approx. 14% from the category to be improved, while there were no mitigating actions from the category to be changed.

The table in p. 3.1 presents the most significant risks identified in the PGE Capital Group together with their assessment in 2024 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 current scenario (2024 EOY perspective) assumes the leaving coal assets (Conventional Generation segment) in the PGE Group.

## 3.1. Risks - 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 2024.

| Risk area | Risk name | Risk level/outlook | Mitigating actions and tools used for the management of the risk |
|---|---|---|---|
| MARKET AND PRODUCT RISKS<br><br>Related to prices and volumes of offered products and services | **Gross margin on electricity from the production assets of the PGE Capital Group and on trading in related products** – its amount is exposed to risks arising from the uncertainty as to the future levels and volatility of market prices (electricity prices and the prices of key energy products - $CO_2$, fuels, including in particular hard coal, gas, the prices of certificates and guarantees of origin) and regulatory issues concerning electricity, EUA and fuel price levels. | ■■■ ↔ | **Most important actions:**<br>▪ Optimization of generation assets - definition of production scenarios for updated market parameters of electricity, $CO_2$ and fuels.<br>▪ Defining and implementing a margin hedging strategy by hedging revenues brought in by the generation assets of the PGE Capital Group (electricity sales) and costs (EUA, currencies and fuel purchases), monitoring limits relating to the level of hedged margin expected at a given point in time in accordance with the hedging strategy approved by the Risk Committee.<br>▪ Determining risk appetite and 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, in particular its strategic objectives.<br>▪ Monitoring risk exposure 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.<br>▪ Research, monitoring and analysing the electricity markets and sector trends and the regulatory environment with regard to changes in the electricity sector and related products in order to optimally use generation and selling capacities.<br>▪ 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 demand (including the development of the offer for products such as PPAs - Power Purchase Agreements).<br>▪ Current clients retention - a diversified portfolio of customer loyalty schemes and special offers dedicated to former clients who moved over to the competitors.<br>▪ Care for a high level of customer service by developing employees' competences and building relations with business and retail clients.<br>▪ Use of tools to supporting customer relations processes allows the Group better sales planning and organisation of sales. |
| | **Electricity and heat production** – related to production planning and the negative impact of factors determining production capacities. | ■■□ ↙[3] | |
| | **Electricity sales volumes** - this risk being derived from the uncertainty surrounding the margin levels of the generation assets held and the risk of deterioration in the economic efficiency of the coal assets due to regulatory policies relating to the energy sector, macroeconomic indicators affecting the demand for electricity and energy goods, including inter alia the level of economic prosperity, the direction of the energy market development (e.g. changes in the energy mix), war in Ukraine and undertaken countermeasures. | ■■■ ↔ | |
| | **Tariffs (regulated prices)** – resulting from the requirement to approve rates for distribution services and electricity and heat prices for particular groups of entities, as well as from delays in compensation payments by the Settlement Administrator. | ■■■ ↔ | |

■□□ *Low level of risk; does not pose a threat and may be tolerated*

■■□ *Medium level of risk; needs preparation of the proper reaction based on analysis of costs and benefits*

■■■ *High level of risk; Intolerable risk, which needs immediate and active reaction, leading simultaneously to limitation of possible consequences and of probability of occurrence thereof*

↙ *decrease*

↔ *stable*

↗ *growth*

[3] *The decrease in the risk level and the change in outlook result from the stabilization of the situation on the fuel market.*

| Risk area | Risk name | Risk level/outlook | Mitigating actions and tools used for the management of the risk |
|---|---|---|---|
| | **The Capacity Market** – consequence of threats related to non-compliance with the capacity obligations of Capacity Market Units. | ↔ | ▪ Ensuring the expected level of operational readiness of the individual capacity market units.<br>▪ Close cooperation with the ERO throughout the tariff year, adapting the strategy for securing tariff sales to the expected approach of the ERO with regard to determining tariff prices for electricity.<br>▪ Close cooperation with the Settlement Administrator and the ERO President on settlements related to the Extraordinary Measures in 2023 Act aimed at limiting electricity prices and providing support for certain consumers in 2023 (Act on Extraordinary Measures in 2023). |
| PROPERTY RISKS<br>Related to development and maintenance of the assets | **Failures and damage to property** – 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). | ↗ | **Most important actions:**<br>▪ Diversification of the current structure of the production sources, Introducing a technology reducing the negative impact of atmospheric factors.<br>▪ Active pursuing of a strategy for building up and modernization of the production capacities.<br>▪ Performing maintenance repairs in line with the highest sector standards.<br>▪ 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.<br>▪ The systematic improvement of reliability of the power supply to the end users through modernization of the distribution grid.<br>▪ Continuous monitoring of environmental laws and regulations regarding environmental protection, and the energy policy. |
| | **Tangible investments –** related to the strategic development directions of the PGE Capital Group and limited possibilities of obtaining financing for these projects. | ↙ | |
| | **Asset management and maintenance investment** - related to risks arising from the maintenance of production assets in good condition. | ↗[4] | |
| OPERATIONAL RISKS<br>Related to pursuing of ongoing economic processes | **Fuel management** – 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. | ↔[5] | Most important actions:<br>▪ Optimisation of equipment lifecycles and the availability of key assets.<br>▪ Timely inspections, repairs and modernisation of the existing assets.<br>▪ 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.<br>▪ Monitoring ICT networks due to increased activity of criminal groups in connection with the war in Ukraine.<br>▪ Monitoring of legal changes and changes in technical standards in the field of by-products.<br>▪ Investments in improving the efficiency of the combustion process.<br>▪ Constant monitoring of service availability.<br>▪ Creating Business Continuity Plans for critical systems, developing and testing emergency procedures. |
| | **Cybersecurity** – 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. | ↔ | |
| | **Oversight of insurance policies** - risks arising from the failure to tailor insurance policies to the needs or the Company's failure to comply with the terms of insurance policies which may result in lack of receiving a claim in whole or in part. | ↔ | |

[4] *The increasing trend is due to the increase in prices of goods and services.*
[5] *The decrease in the risk level and the change in outlook result from the stabilization of the situation on the fuel market.*

| Risk area | Risk name | Risk level/outlook | Mitigating actions and tools used for the management of the risk |
|---|---|---|---|
| | **Reputation** – risk associated with the negative perception of the entity's image by its customers, counterparties, investors, Shareholders as well as the general public. | ↔[6] | ▪ Continuous contact and cooperation with the Risk and Insurance Department and the Company's other deppartments with regard to identified new risks or gaps in current insurance policies.<br>▪ Commencement of the internal broker's operational activity - PGE Asekuracja S.A.<br>▪ Centralisation of the claims handling process.<br>▪ Ongoing monitoring of changes in legal regulations.<br>▪ Training in regulations preventing money laundering and terrorist financing.<br>▪ Conducting a responsible media policy regarding the Turów Mine dispute.<br>▪ Requirement to read Best Procurement Practices and the Code of Conduct for Business Partners of PGE Group companies.<br>▪ Operating the Central Supplier Survey System.<br>▪ The proper approval path and internal regulations concerning the purchasing process.<br>▪ Control of the work environment.<br>▪ Training of employees in the field of occupational health and safety.<br>▪ PGE Group's active participation in internship programmes and cooperation with educational institutions in order to secure a pipeline of qualified personnel.<br>▪ Assessment and training of personnel in order to make optimal use of it within the Group's structures.<br>▪ 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. |
| | **Procurement** - related to the ineffectiveness and incorrectness of the purchasing process. | ↔ | |
| | **Human Resources** – pertaining to difficulties in provision of personnel with the relevant experience, competences and ability to perform specific tasks. | ↔ | |
| | **Social dialogue** – related to the failure to reach an agreement between the PGE Group's management and the social partners, which could lead to strikes / collective disputes. | ↔ | |
| REGULATORY AND LEGAL RISKS<br>Related to compliance with external and internal legal provisions | **Environmental protection** – resulting from industry regulations specifying which "environmental" requirements energy installations should meet and what are the principles for using the natural environment, including uncertainty about their final form and level of limits and ESG reporting. | ↔ | **Most important actions:**<br>▪ Monitoring of the changes being introduced or proposed provides that our operations in key operational 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.<br>▪ Social dialogue.<br>▪ Operational supervision in terms of investment and modernisation measures with respect to their compliance with environmental requirements.<br>▪ 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.<br>▪ Monitoring national regulations concerning the Act on Extraordinary Measures in 2023.<br>▪ Reduction in the emission intensity of PGE Group's generating assets, development of low- and zero-carbon energy generation sources.<br>▪ Adaptation of internal regulations and practices to make sure that the activities are in compliance with the power sector regulations and binding law. |
| | **The Solidarity Shield** – the risk related to the need to make contributions to the PDP Fund and submitting reports on its implementation. | ↔ | |
| | **Employee safety** – associated with failures to provide safe working conditions. | ↔ | |
| | **Climate** – commitments on the EU and national level and under strategic objectives arising from the EU's climate and energy policy and reporting on ESG issues. | ↔ | |

[6] *The decrease in the risk level and the change in trend are related to the stabilization of the issue related to the environmental permit for the Turów Mine.*

| Risk area | Risk name | Risk level/outlook | Mitigating actions and tools used for the management of the risk |
|---|---|---|---|
| | **Concessions** – resulting from the statutory requirement to hold concessions with regard to conducted operations. | ↔ | ▪ Monitoring and analysing PGE Group's legal environment at an international level, together with risk assessment.<br>▪ Assessing the impact on PGE Group of proposed regulatory changes at an international level.<br>▪ Issuing opinions and influencing changes with regard to the legal environment at an international level in a strategic dimension.<br>▪ Managing cooperation and contacts with stakeholders as regards international regulations, including through the activities of PGE S.A.'s office in Brussels.<br>▪ Managing the PGE Capital Group's membership and cooperation within the industry organisation called the Polish Electricity Committee.<br>▪ Preparing for the fulfilment of new reporting obligations resulting from the new European Union legislation (CSRD/ESRS Directive, taxonomy, CSDD).<br>▪ Monitoring internal regulations implementing EU environmental directives into the national legal system.<br>▪ Participating in ESG ratings and foreign investor surveys.<br>▪ Effective raising of external financing and state aid for the development of planned low- and zero-carbon investments by PGE Group. |
| | **Reporting and Taxes** – related to changes in tax regulations and their interpretation as well as their practical, correct implementation. | [7] ↔ | |
| FINANCIAL RISKS<br>Related to finance management | **Credit risk** – connected with the counterparty default, partial and/or late payment of receivables or a different type of breach of contractual conditions (for example failure to deliver/collect goods or failure to pay for any associated damages or contractual penalties). | ↔ | Most important actions:<br>▪ A counterparty assessment is carried out and forms a base for applying internal rating and credit limits, that are regularly monitored and updated. Exposures that exceed established limits are hedged in accordance with the rules of the credit risk management procedure. 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.<br>▪ 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. Liquidity risk is monitored using periodic planning for operating, investing and financing activities. Liquidity planning is related to the cyclical mid-term and long-term preparation and updating of the PGE Capital Group's financial forecasts and plans, allowing for the long-term planning of its cash flows and liquidity. This allows the PGE Group's investment plans and costs to be adjusted in advance to the expected and planned values. In addition, in order to minimise the possibility of cash flow disruptions and liquidity risk, PGE S.A. diversifies its financing sources and their acquisition with regard to its future financial settlements of the PGE Capital Group.<br>▪ As regards currency risk and interest rate risk, PGE Group has implemented internal management procedures. PGE Group companies execute derivative transactions |
| | **Liquidity risk** – connected with the possibility of losing the ability to meet current liabilities and obtaining financing sources for business operations. | ↔ | |
| | **Interest rate risk** – resulting from the negative impact of changes in market interest rates on PGE Group's cash flows. | ↙ | |

[7] *The decrease in the risk level results from the completed implementation of previous legislative changes (so called Polish Order).*

| Risk area | Risk name | Risk level/outlook | Mitigating actions and tools used for the management of the risk |
|---|---|---|---|
| | **Foreign exchange risk** – resulting from negative impact of exchange rate movements on PGE Group's cash flows denominated in currencies other than domestic currency. | ↔ | involving interest rate- and/or currency-based instruments (IRS, CCIRS, FX Forward) only in order to hedge identified risk exposures. Regulations in force 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. |

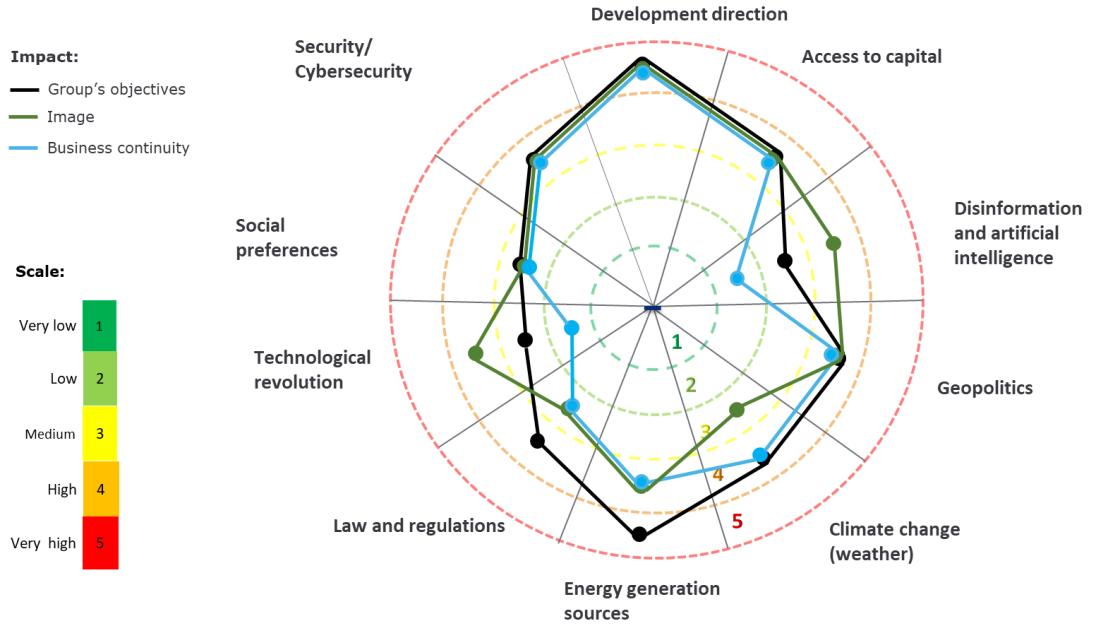
## 3.2. Risks - long-term outlook

Challenges and threats are assessed, 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.

*AREAS OF LONG-TERM RISKS*

- **Development directions** – the risk that the PGE Group will not be able to maintain its leading position if the National Agency for Energy Security (NABE) is not established.
- **Access to financing** – the risk that the PGE Group will not obtain financing necessary to realise planned investments.
- **Disinformation and artificial intelligence** – the risk that the use of "fake news" and artificial intelligence creating an alternative reality will threaten the functioning of the PGE Group.
- **Geopolitics** – the risk of changing geopolitical factors (EU policy, divergence of interests, political conflicts, wars) resulting in limited access to raw materials used by the PGE Group.
- **Climate change** – the physical climate risk associated with the frequency of extreme weather conditions that may result in damage to the PGE Group's assets and climate change affecting demand for electricity and heat.
- **Generation sources** – the risk that new energy sources will not deliver the expected energy volumes and expected EBITDA levels.
- **Law and regulations** – the risk related to changes in the legal system and uncertainty in the regulatory environment, including the future shape of support schemes and regulatory burdens resulting from environmental requirements affecting the PGE Group.
- **Technological evolution** – the risk that technological changes will be so significant that the energy market will be adjusted (e.g. ways of generating energy).
- **Social preferences** – the risk that social preferences in terms of mass customer expectations, employer attractiveness ratings and public opinion will have a negative impact on the PGE Group.
- **Security/cybersecurity** – the risk that the international situation will negatively affect the physical security and cybersecurity of the PGE Group's assets.

Diagram: Map of long-term risks




*Source: own work*

The location on the map based on the assessment of significance level shows the impact of a given risk for the PGE Capital Group in three different aspects:

- the achievement of business goals,
- the company's image,
- business continuity.

The map of long-term risks was prepared based on the elements dominating in the responses, according to the subjective perception of these risks in the assessments of the top management of the PGE Capital Group (Management Board Members and Division Directors) during the strategic workshop held on January 30, 2024.

## 3.3. Climate risk

The PGE Capital Group is aware of the impact of its operations on the climate, as well as the threats resulting from climate change for the Group's operations. This interdependence generates both risks and opportunities for development. Therefore, the expectations of stakeholders in terms of reporting the impact of activities on the environment are understandable, recognising climate risk management as a key element of strategic management, with a direct impact on financial aspects.

Therefore, the PGE Capital Group focuses not only on risks, but also on opportunities to ensure resilience to threats and increase the Group's sustainable revenues. PGE Capital Group undertook a number of actions aimed at achieving climate neutrality in 2050, which were indicated in the PGE Group's Strategy until 2030, and continues to work on the implementation of the PGE Group's ESG Strategy, focusing on 4 areas:

- competitiveness in the financial market,
- leading in the green transition,
- corporate culture supporting sustainable development,
- active communication on sustainable development with all stakeholders.

The Group has also stepped up its efforts to meet the expectations of financial institutions, investors, customers and regulatory requirements, both national and European. This applies in particular to the EU Environmental Taxonomy Directive[8], which aims to publish disclosures indicating to what extent the company's activities are considered environmentally sustainable. PGE Group is preparing the relevant disclosures from 2021. In addition, the Group is preparing to comply with the requirements resulting from the CSRD[9] on corporate sustainability reporting, which has been in force since 2024.

In order to meet the requirements of the new regulations, work to align PGE Group's reporting with the principles set out in the CSRD and to build a new reporting system (including ESG risks) commenced in 2023 and will continue in 2024.

Issues related to climate risk are subject to the rigors and guidelines resulting from the corporate risk management process. The body responsible for overseeing the corporate risk management process in the PGE Group, including climate risk, is the Risk Committee. The establishment of a Risk Committee at the highest management level, reporting directly to the Management Board, ensures supervision over the effectiveness of risk management in the Group. Such a location of the risk function allows for an independent assessment of individual risks and their impact on the PGE Group as well as mitigation and control of significant risks using dedicated instruments.

The assessment of climate and environmental risks is carried out on the basis of the General Procedure for Corporate Risk Management. In the PGE Group, climate-related risk is analysed both in the context of the impact of climate change on the business and the impact of business on these changes. Identification and analysis of climate-related risk and continuous improvement of pro-environmental solutions as well as control tools allow for effective management and minimisation of climate impact, while caring for the PGE Group's financial results. The solutions developed by the PGE Group are aimed at its development and sustainable transformation in accordance with climate requirements and care for all stakeholders.

Climate issues are assessed centrally at PGE S.A. taking into account all types of activities of the entities included in the Capital Group. This means that the result of the assessment is provided at the PGE Capital Group level.

The approach to the issue of climate risks is inspired by the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), however, the adopted method for the inventory and assessment of risks is an internal concept of PGE S.A..

In 2023 PGE Group once again participated in the Carbon Disclosure Project - CDP (https://www.cdp.net/en), an international study on corporate environmental impact. The Group responded to enquiries from global investors about the impact of its operations on climate and water resources and identified both risks and opportunities related thereto.

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

- **physical risk**, related to the physical effects of climate change i.e. real threats in the form of extreme weather events, drought, flooding;

[8] *Regulation 2020/852 of June 18, 2020 on establishing a framework to facilitate sustainable investments, amending Regulation 2019/2088 and with the Delegated Regulations on establishing a framework to facilitate sustainable investments.*

[9] *CSRD- Corporate Sustainability Reporting Directive; Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU.*

- **risks associated with the transition** (so called transition risks) to a low-carbon and climate-resilient economy, which relate to meeting regulatory requirements, implementing new technologies or impact on the reputation of a business.

The changing climate and efforts to combat climate change, i.e. to mitigate and adapt to its effects, provide at the same time new opportunities and chances to develop business. This is why PGE Group focuses not only on risks but also on opportunities so as to ensure resilience to risks and to increase sustainable earnings.

Climate-related opportunities in the PGE Group:

- **effective resource management** - e.g. in the form of work on solutions in the field of waste management and recovery of valuable products from wind turbine blades;
- **new sources of electricity** - through investments in offshore and onshore wind farms and photovoltaic farms, construction of electricity storage;
- **new products** - such as expansion of the product portfolio with PRO EKO initiatives - products that fit into low-emission heating systems, development of products / offers promoting low-emission activities, following changes in consumer preferences.

Climate risks in the PGE Group:

- **difficulties in raising support funds and investment incentives** - related to the growing impact of climate requirements relevant to the granting of aid funds and investment incentives in domestic regulations;
- **requirements related to international regulations** – related to EU legislation as regards energy and climate policy, in particular the Fit for 55 package;
- **CO2 emissions** - related to the price volatility of emission allowances, which could adversely affect the profitability of generating assets or bring these assets to a halt 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 fulfil investment commitments aimed at the green transition, at the EU and domestic level and for own strategic purposes.

Each of these areas of climate risk is assessed on a short, medium and long horizon. The adopted timeframes are aligned with external analyses.

*ASSESSMENT OF THE IMPACT OF PHYSICAL CLIMATE RISKS ON THE OPERATIONS OF THE PGE GROUP*

Global warming, changing precipitation patterns, rising sea levels and extreme weather events are increasingly challenging the resilience of power systems, increasing the likelihood of disruption. Climate change directly affects every segment of the power system:

- production potential and efficiency,
- demand for heating and cooling,
- resilience of transmission and distribution networks,
- demand patterns.

Being aware of the threats arising from climate change, as part of the climate risk management process in 2023, the PGE Group once again carried out an assessment of significant physical (material) climate risks that may have a negative impact on its operations, supporting adaptation to climate change and increasing resistance to climate threats . The following climatic factors were assessed: temperature, precipitation and wind and their negative impact on the Group's key activities.

The assessment of the risk related to climatic physical threats in PGE Capital Group in 2023 was carried out in the current and long-term perspective using scientific models describing possible climate scenarios i.e.:

- **RCP 4.5** - an optimistic scenario, which assumes the introduction of new technologies in order to achieve a higher reduction of greenhouse gas emissions than at present, assuming that the increase in the average global temperature will be approx. 2.5°C at the end of the 21st century compared to the pre-industrial era,

- **RCP 8.5** - pessimistic scenario, which assumes that the current growth rate of greenhouse gas emissions will be maintained, in the "business as usual" formula, assuming that the average temperature of the earth will increase by 4.5°C at the end of the 21st century compared to the pre-industrial era.

The assessment carried out showed a low or medium impact of risks related to physical climatic hazards on the key activities of the Capital Group in 2022. In accordance with the adopted criterion, risks whose assessment showed a high impact were tested. An important role in the impact assessment process is played by e.g. implementation of adaptive measures developed in the PGE Capital Group, increasing the stability of power systems by applying solutions more resistant to weather conditions, e.g. a cabling program (replacement of overhead transmission networks with cables placed in the ground), preventive management of key infrastructure elements affecting business continuity, insurance in the event of events related to weather phenomena or precise analyzes of areas for new investments.

*IMPACT OF TRANSITIONAL CLIMATE RISKS ON OPERATIONS*

Transformational climate risks in the PGE Capital Group relate primarily to areas affecting the change towards achieving climate neutrality planned by 2050, i.e., among others: requirements and regulations of existing products and services (policy and law), replacement of existing products and services their low-emission counterparts (technology area) and stakeholder concerns/negative opinions (reputation area).

Examples of risks from the above areas by category:

- **Politics and law**

Binding climate regulations have a direct impact on energy companies. PGE Capital Group companies, like other entities in the energy sector, are exposed to risks and threats resulting from the nature of their operations and functioning in a specific market and regulatory and legal environment. The PGE Capital Group operates in an environment that is significantly influenced by domestic and foreign regulations. The risk of current regulations is particularly important in the context of raising capital, subsidies and support from aid funds.

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

The arising regulations are important from the point of view of implementing the Strategy and supporting the effective transition to low- and zero-emission technologies. The PGE Capital Group strives to fully use the available financing options for green investments. Emerging regulatory changes, such as support for sustainable investments, the inclusion of lack of financing, penalties for climate-negative transactions, may raise significant risks. These changes will affect the credit risk and may affect the financial flows generated by assets belonging to the PGE Capital Group and thus affect their income value.

The risk of rising costs of greenhouse gas emission allowances, including the reduction of the limit of free emission allowances for the heating sector, reduces the ability to finance low- and zero-emission investments.

The PGE Capital Group systematically takes steps to reduce greenhouse gas emissions. Decarbonisation of generation assets will accelerate along with the implementation of the Strategy of the PGE Capital Group. As a result, the Group's contribution to avoiding $CO_2$ emissions by 2030 will amount to 120 million tonnes. At the same time, pro-environmental investments are the core of the PGE Capital Group's investment activities. In addition, the Group invests in the modernisation of assets and development investments, including the optimisation of combustion processes and the introduction of solutions aimed at improving production efficiency, higher efficiency of fuel and raw material consumption, and reducing the energy intensity of production processes and internal needs.

- **Technology**

A permanent reduction in emission intensity is to be achieved in the PGE Capital Group by changing the generation technology, investing in new technologies, expanding the portfolio of renewable energy sources, developing the circular economy and enabling customers to participate in the energy transformation. Technological risk also includes the selection of optimal and effective new technologies, the use of the potential by the PGE Capital Group. By 2030, the share of low- and zero-emission sources in the Group's production portfolio is to reach 85%, and renewable energy sources will constitute 50% of the energy produced. PGE Capital Group strives to achieve climate neutrality by 2050.

- **Reputation**

Reputation risk in the case of the PGE Group is very important, because the energy sector plays an important role in supporting the effective transition to a low-carbon economy, and ultimately a zero-carbon one. As a transformation leader, the PGE Group focuses on reducing its impact on the natural environment. A permanent reduction in emission intensity is to be achieved by changing the generation technology, expanding the

portfolio of renewable energy sources and enabling customers to participate in the energy transformation by offering them attractive products.

# 4. Electricity market and regulatory and business environment

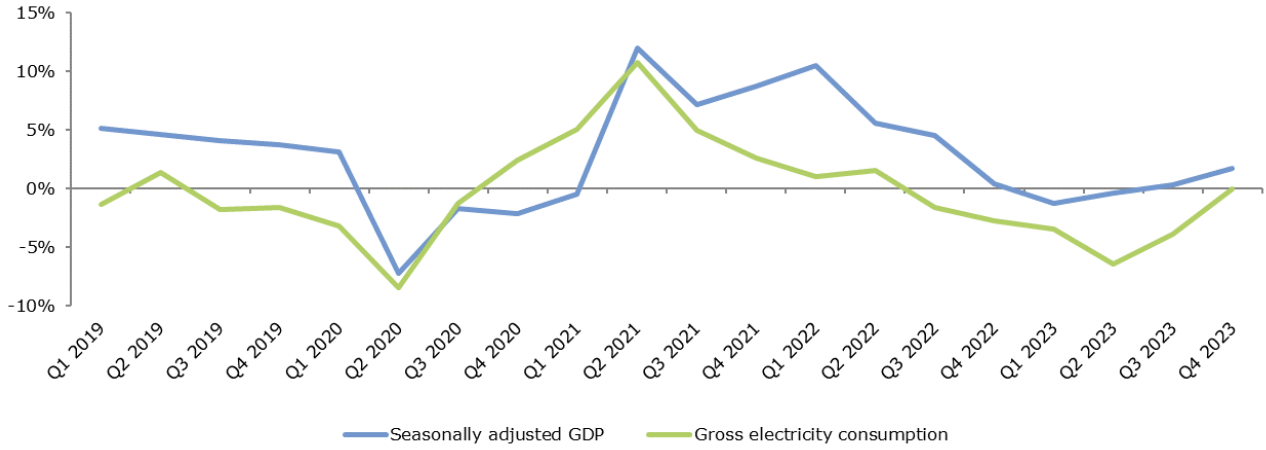
## 4.1. Macroeconomic environment

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 determine the terms of PGE Group's debt financing.

In Poland there is a dependence between change in electricity demand and change in the rate of economic growth. 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 electricity and heat demand may have a significant impact on the Group's results.

In 2023, gross electricity consumption decreased by 3.4% y/y. Lower demand for electricity in Poland is due to lower economic activity in this period y/y.

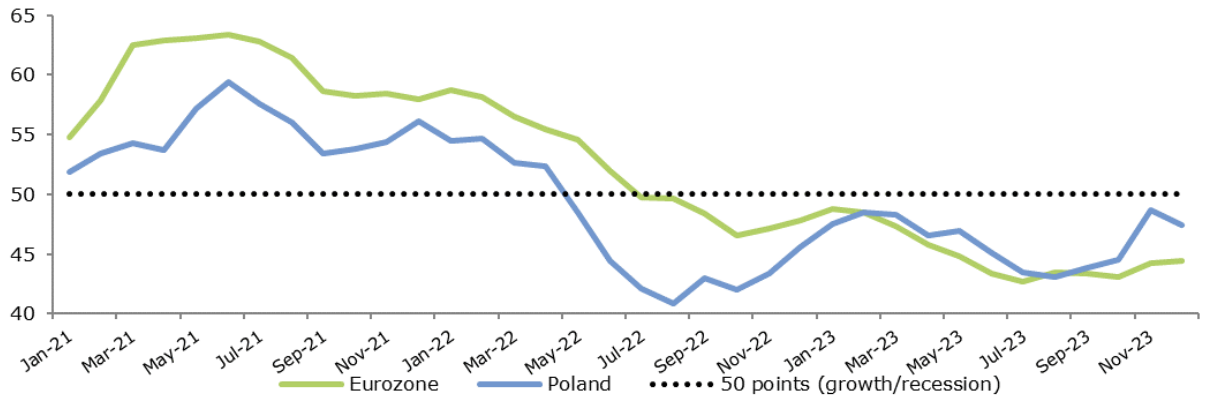
Chart: Seasonally adjusted GDP change vs. change in domestic gross electricity consumption.




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

Poland ended 2023 with the Purchasing Managers Index (PMI) at 47.4 points – a slight decline after November's sharp rise (48.7 points – the highest result in 2023). The latest reading signalled the twentieth consecutive monthly deterioration in business conditions for manufacturers and a PMI below the 50-point threshold. On a quarterly basis, the PMI averaged 46.9 points and for the whole of 2023 it averaged 46.2 points, which was worse than the 2022 PMI (the average of 47.0 points). December 2023 also brought the twenty-second consecutive monthly decline in the volume of new orders received by Polish manufacturers, a drop in production and employment volumes. On the positive side, stable supply chains persist, which translates into a decrease in average input prices. According to expert forecasts, the Polish industry and economy may rebound in 2024, mainly due to increased household consumption and falling inflation. In December 2023, the performance of the Polish economy was better than in other European countries and it was a successive month with a higher PMI than in the Eurozone. The Eurozone PMI was 44.4 points in December 2023 and 43.9 points for the whole of 2023, which continues to signal a mild recession. In the Czech Republic, the PMI was only 41.8 points in December 2023 against weak expectations of 43.5 points. Germany's December 2023 PMI was 43.3 points, compared to 42.6 points in November 2023 (43.1 points were forecast). The PMI for the French manufacturing sector fell to 42.1 points in December 2023, one of the lowest readings on record.

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




*Source: Market Economics*

At the end of December 2023, due to the industrial recession, the condition of the Polish industrial sector continues to be weak. In December 2023, sold industrial production was 3.9% lower y/y, while it decreased by 9.8% compared to November 2023. The drop in production output was driven by a weaker performance in the dynamics of sold production for mining and quarrying, down 14.3% compared to November 2023, and the performance of the industrial processing sector, which fell 11.9% in December 2023 compared to the previous month. Among the selected industrial divisions, the manufacturing of electrical equipment (down 22.8%) and chemical products (down 15.3%) showed the largest decreases compared to December 2022. For 2023 as a whole, industrial output sold was 1.5% lower than in 2022. The production of electrical equipment (22.8%) and chemicals and chemical products (15.3%) saw the largest annual decrease, while the production of transport equipment increased by 47.8%.

# 4.2. Market environment

## 4.2.1 Situation in the National Power System (NPS)

Table: Domestic electricity consumption (TWh).

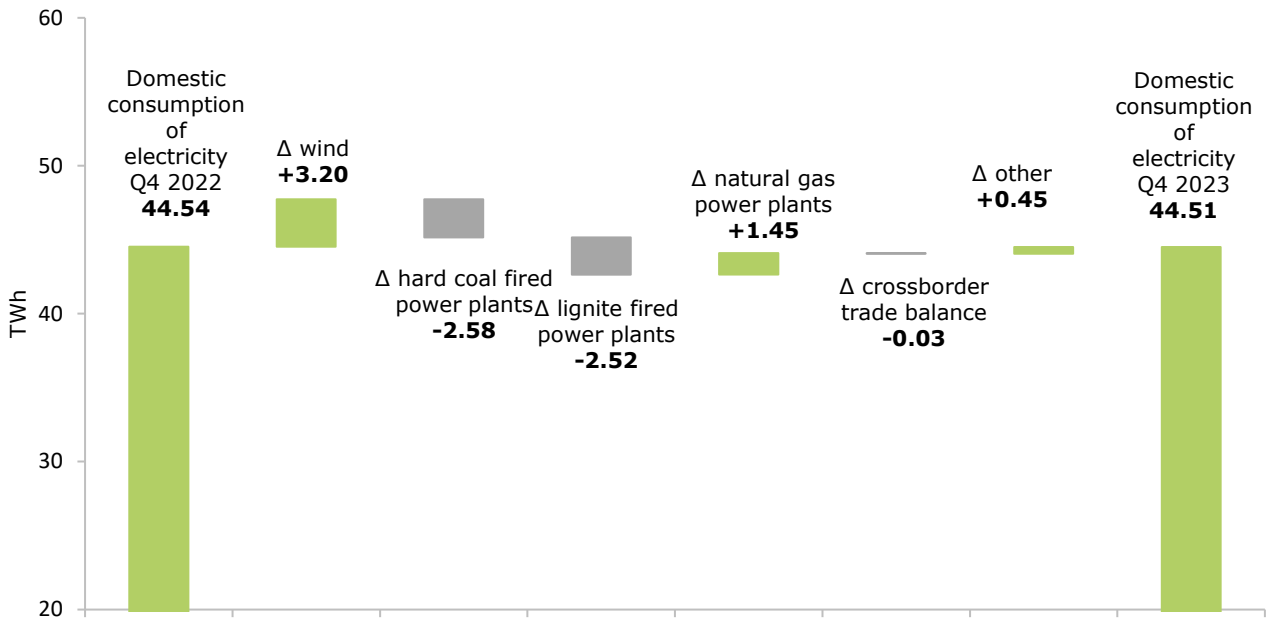
| | Q4 2023 | Q4 2022 | % change | 2023 | 2022 | % change |
|---|---|---|---|---|---|---|
| Domestic electricity consumption, including: | **44.51** | **44.54** | **0%** | **167.52** | **173.48** | **-3%** |
| Wind farms | 7.93 | 4.73 | 68% | 22.00 | 18.31 | 20% |
| Industrial thermal hard-coal fired power plants | 21.41 | 23.99 | -11% | 76.61 | 87.76 | -13% |
| Industrial thermal lignite fired power plants | 8.90 | 11.42 | -22% | 34.57 | 46.98 | -26% |
| Industrial gas-fired power plants | 4.17 | 2.72 | 53% | 13.65 | 10.00 | 37% |
| International exchange balance | -0.21 | -0.18 | - | 3.89 | -1.68 | - |
| Other (hydro power plants, other RES) | 2.31 | 1.86 | 24% | 16.80 | 12.11 | 39% |

*Source: PSE S.A. data.*

*Q4 2023*

In the fourth quarter of 2023, domestic electricity consumption practically maintained at the same level as in the base period (-0.03 TWh y/y). Due to the increase in installed capacity and more favorable wind conditions, wind generation increased by 3.2 TWh compared to the same period last year. In the fourth quarter of 2023, just like a year ago, per balance Poland was an energy exporter (change by -0.03 TWh). A decrease in production was recorded in hard coal-fired power plants (-2.6 TWh) and in lignite-fired power plants (-2.5 TWh) due to increased generation from wind. In addition, the fall in natural gas prices resulted in an increase in production based on this type of fuel (+1.5 TWh). There was also an increase in generation from other electricity sources (+0.5 TWh), most notably photovoltaic plants, due to an increase in installed capacity.

Chart: Energy balance in the NPS (TWh).

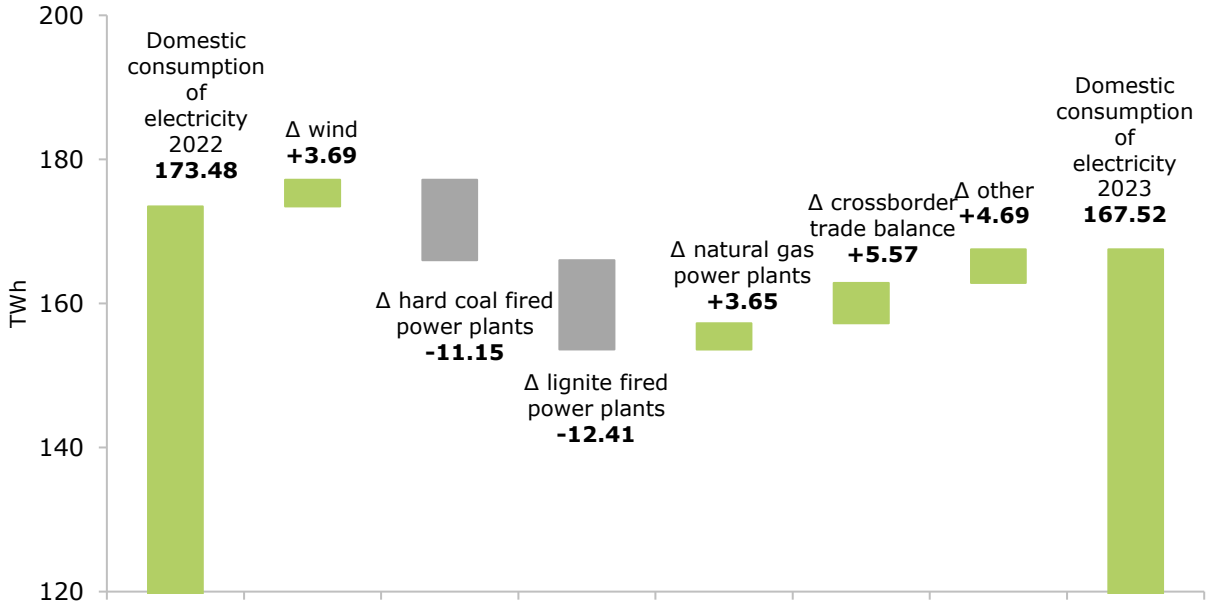



*Source: own work based on data from PSE S.A.*

*Year 2023*

Cumulatively domestic electricity consumption decreased by 6.0 TWh compared to the base period, mainly due to slower pace of economic growth and higher self-consumption by prosumers. Wind generation increased by 3.7 TWh y/y. Due to the price difference on cross-border connections, net imports increased by 5.6 TWh compared to the previous year. Thus, the direction of exchange changed from net exports in the previous year to net imports in 2023. A decrease in production was recorded in hard coal-fired power plants (-11.2 TWh) and in lignite-fired power plants (-12.4 TWh) due to lower domestic electricity consumption. In addition, the fall in natural gas prices resulted in an increase in production based on this type of fuel (+3.7 TWh). There was also an increase in generation from other electricity sources(+4.7 TWh), most notably photovoltaic plants, due to an increase in installed capacity.

Chart: Energy balance in the NPS (TWh).




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

### 4.2.2 Electricity prices – domestic market

Table: Day-Ahead market (RDN, SPOT market)[1]

| Market/measure | Unit | Q4 2023 | Q4 2022 | % change | 2023 | 2022 | % change |
|---|---|---|---|---|---|---|---|
| RDN – average price | PLN/MWh | 437 | 776 | -44% | 534 | 796 | -33% |
| RDN – trading volume | TWh | 16.63 | 7.93 | 110% | 58.40 | 31.05 | 88% |

[1] *Data from TGE, include weighted average monthly BASE prices.*

Table: Selected price factors affecting RDN quotations

| Factor | Unit | Q4 2023 | Q4 2022 | % change | 2023 | 2022 | % change |
|---|---|---|---|---|---|---|---|
| $CO_2$ emission rights [1] | EUR/t | 76.07 | 77.38 | -2% | 83.16 | 80.85 | 3% |
| Polish Steam Coal Market Index PSCMI-1 | PLN/GJ | 31.06 | 25.26 | 23% | 32.67 | 19.77 | 65% |
| Wind generation NPS | TWh | 7.93 | 4.73 | 68% | 22.00 | 18.31 | 20% |
| Ratio: wind generation/ NPS consumption | % | 18% | 11% | | 13% | 11% | |
| Ratio: international trading/ NPS consumption | % | - | - | | 2% | - | |

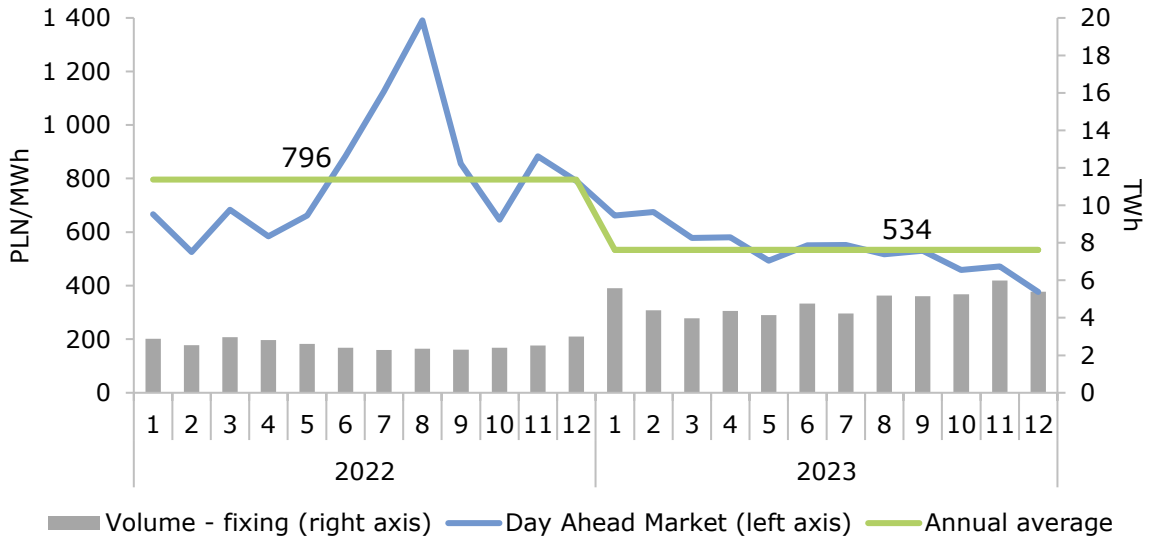
[1] *Source: own work based on ICE quotations.*

In the fourth quarter of 2023, the average electricity price on the day-ahead market was PLN 437/MWh and was lower by 44% than average price (PLN 776/MWh) in the analogical period of the previous year. Lower costs of $CO_2$ emission rights and lower demand for electricity contributed to the price drop.

Throughout 2023, the average price on the day-ahead market stood at 534 PLN/MWh, i.e. 33% below the average price (PLN 796/MWh) recorded during the previous year. The price decrease was associated with a significant increase in wind generation (20% increase y/y) and a decrease in demand for electricity (-3% change).

Average level of PSCMI-1 in 2023 was PLN 32.67/GJ, i.e. higher by 65% than in the base year.

Chart: Average monthly prices on the day-ahead market in 2022–2023 (TGE).[1]



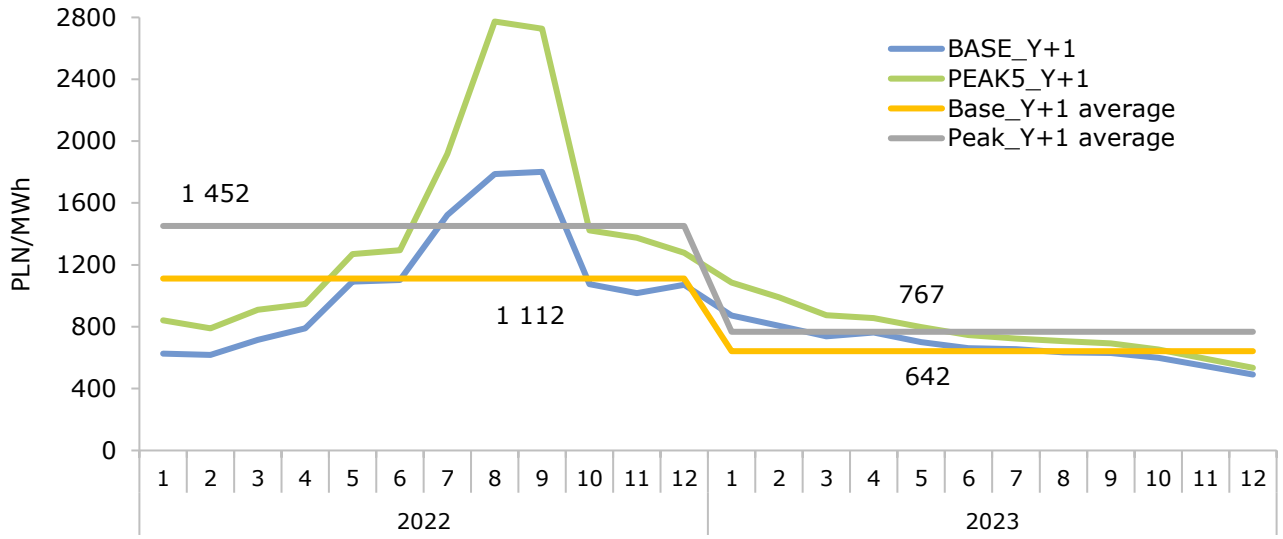

[1] *Data from TGE, include weighted average monthly BASE prices.*

Table: Forward market (RTT)

| Market/measure | Unit | Q4 2023 | Q 2022 | % change | 2023 | 2022 | % change |
|---|---|---|---|---|---|---|---|
| BASE Y+1 – average price | PLN/MWh | 549 | 1 057 | -48% | 642 | 1 112 | -42% |
| BASE Y+1 – trading volume | TWh | 11.45 | 9.22 | 24% | 33.40 | 61.36 | -46% |
| PEAK5 Y+1 – average price | PLN/MWh | 570 | 1 339 | -57% | 767 | 1 452 | -47% |
| PEAK5 Y+1 – trading volume | TWh | 0.89 | 0.87 | 2% | 3.53 | 5.81 | -39% |

Energy prices on the forward market in 2023 fell significantly for both BASE and PEAK5 contracts in comparison to the analogical period of the previous year. The decrease was due to the high base of the previous year, when increases were influenced by the market situation related to the limited supply of hard coal and natural gas due to the ongoing conflict in Ukraine.

Chart: Average monthly prices on the forward market in 2022–2023 (TGE).[1]

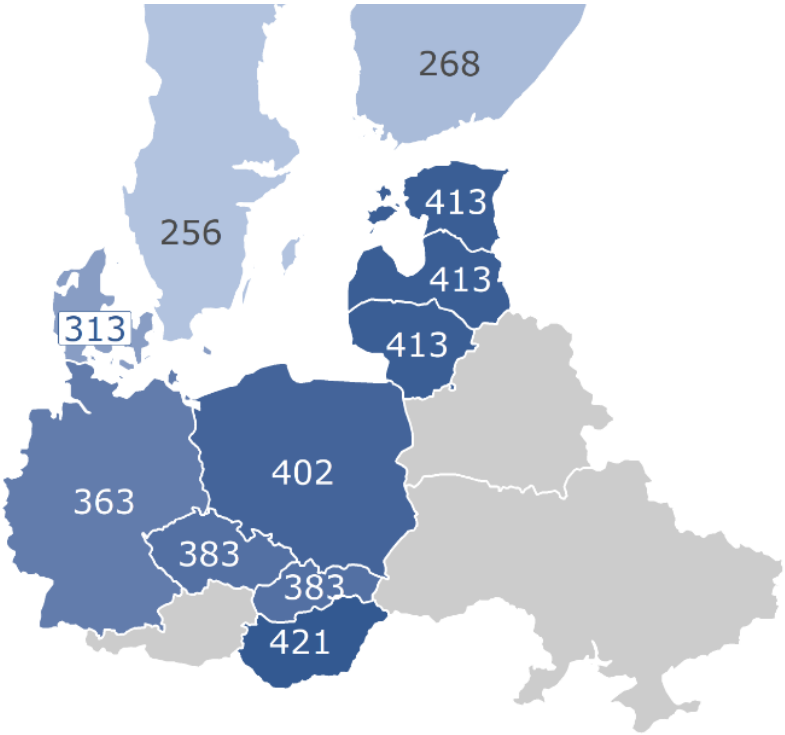



[1] *Monthly average index level for forward contracts for the next year (Y+1), baseload and peak, weighted by the trading volume.*

## 4.2.3 Electricity prices - international market

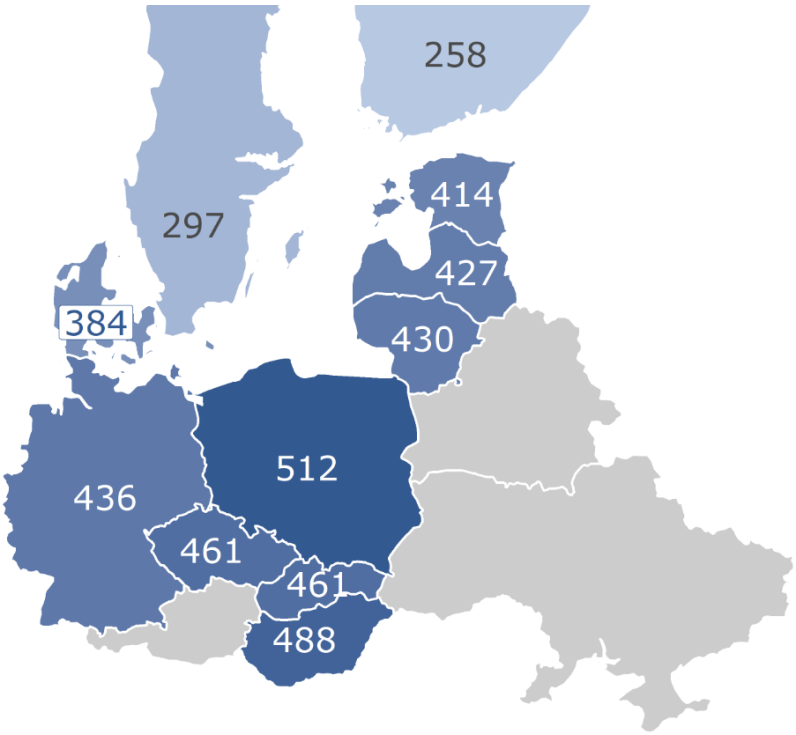
*WHOLESALE MARKET (COMPARISON OF SPOT MARKETS)*

Chart: Comparison of average electricity prices on Polish market and on European markets in the fourth quarter of 2023 (prices in PLN/MWh, average exchange rate EUR/PLN 4.41).



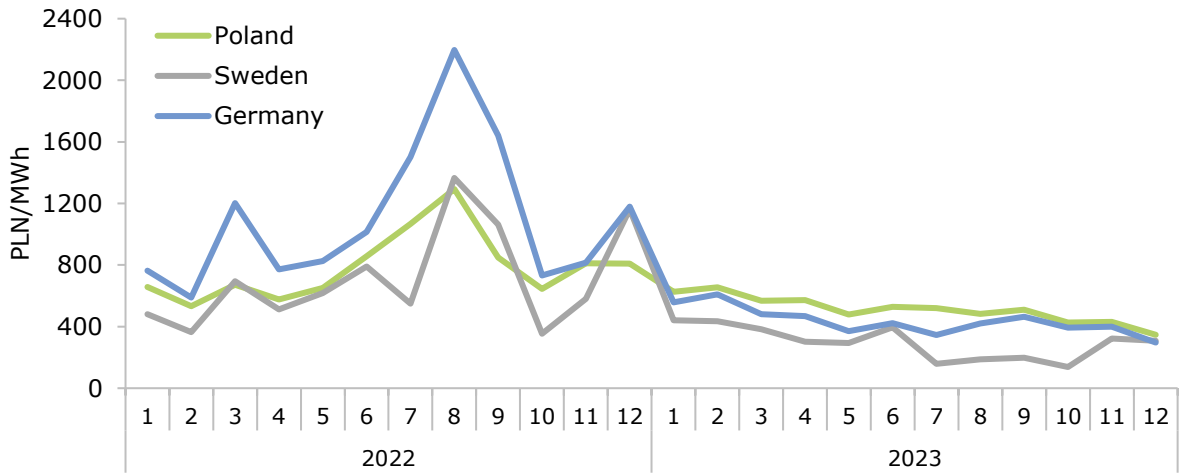

*Source: TGE - RDN price level calculated on the basis of hourly quotations (fixing), EEX, Nordpool*

Chart: Comparison of average electricity prices on Polish market and on European markets in 2023 (prices in PLN/MWh, average exchange rate EUR/PLN 4.54).




*Source: TGE - RDN price level calculated on the basis of hourly quotations (fixing), EEX, Nordpool*

Chart: Evolution of spot market prices.

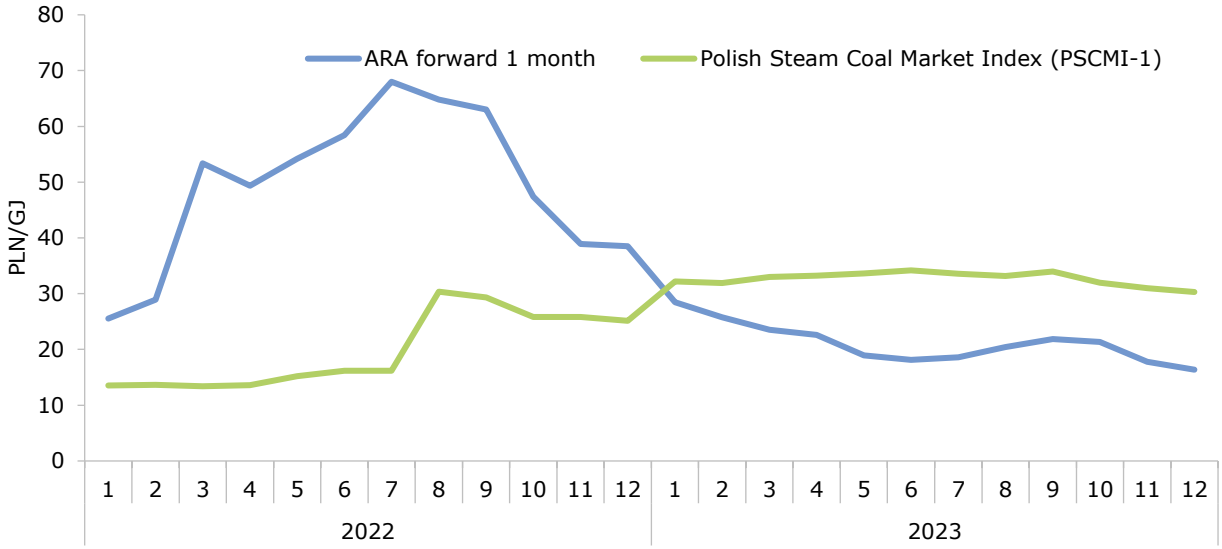



*Source: TGE, EEX, Nordpool*

There was a year-on-year fall in prices in neighbouring markets in the fourth quarter of 2023. The largest y/y declines were recorded in Lithuania (PLN -656/MWh), and the smallest in Sweden (PLN -443/MWh). The differentiation of energy prices results from a different level of share of renewable energy sources in the technological mix and from the situation on the markets for related products. The price spread between Poland and its neighbouring countries is also due to differences in realised coal prices and also to prices of natural gas at home and abroad.

On an annual basis, there was also a decrease in average energy prices on neighbouring markets in the range of PLN 414-785/MWh y/y. The reason for the decrease in prices was the high base of the previous year, when increases were influenced by the market situation related to the limited supply of hard coal and natural gas due to the ongoing conflict in Ukraine.

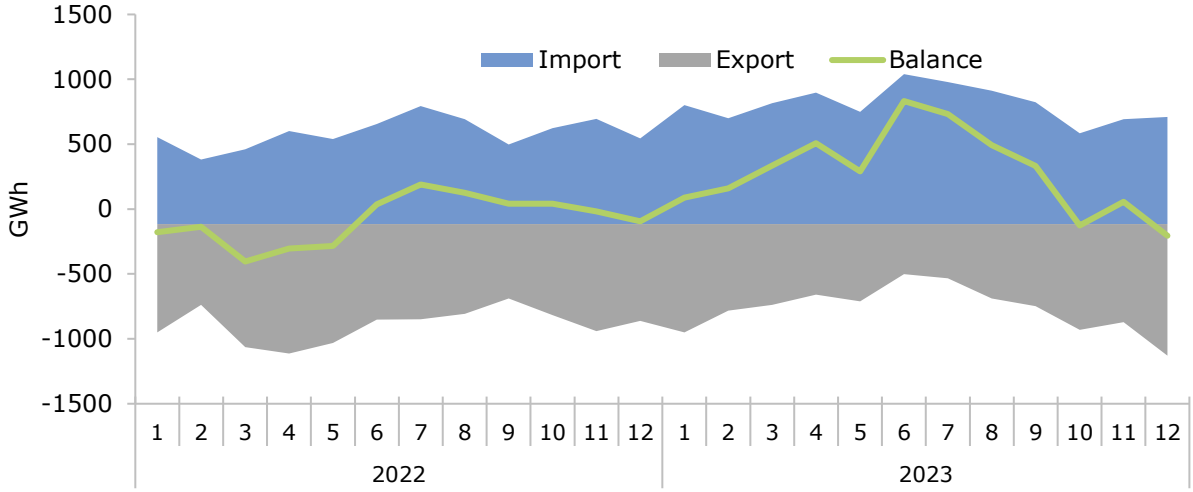
Chart: Hard coal indices ARA vs PSCMI-1[10].




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

*INTERNATIONAL TRADING*

Chart: Monthly imports, exports and cross-border exchange balance in 2022 - 2023.

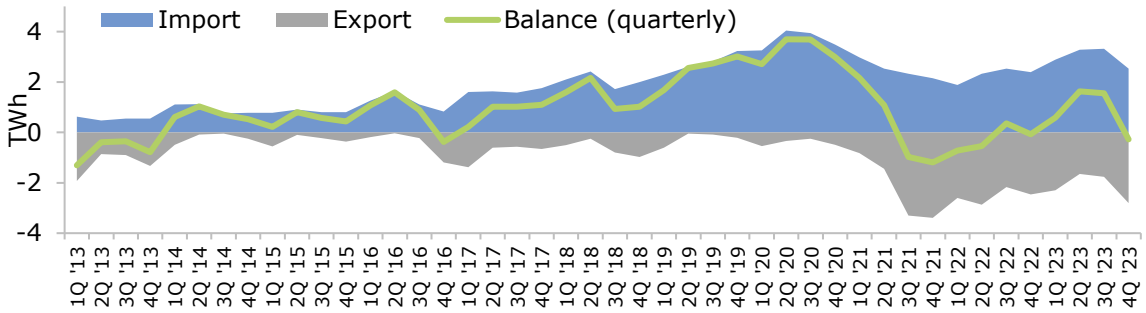



*Source: own work based on data from PSE S.A.*

Global decline in fuel prices (which translate into a decrease in the costs of electricity production from natural gas and hard coal) translated into a decrease in energy prices in neighbouring countries, which in turn increased electricity import to Poland from neighbouring countries in 2023.

[10] *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.*

Chart: Quarterly trading volumes – import, export and international trading balance in years 2013 - 2023.




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

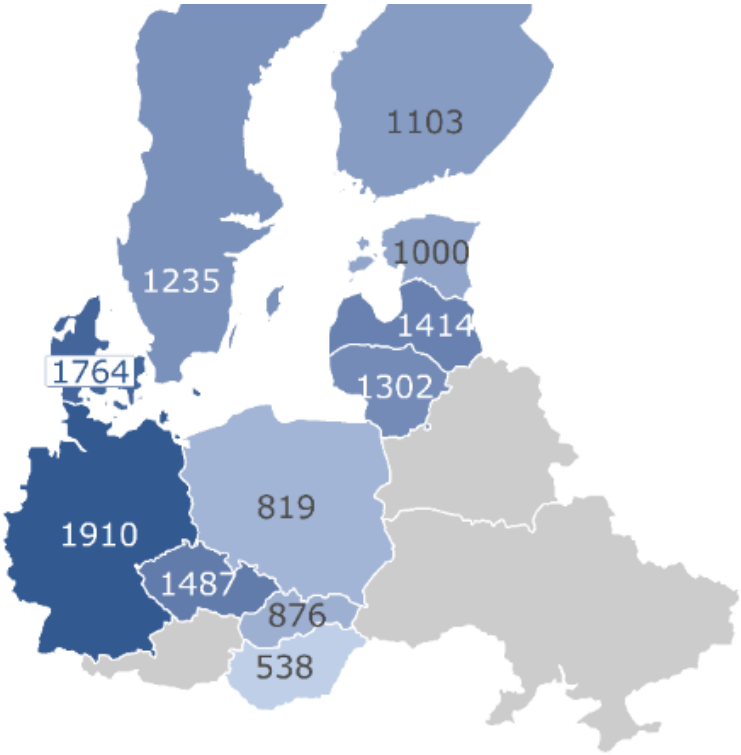
In the fourth quarter of 2023, Poland was a net importer of electricity, with a negative trade balance of -0.3 TWh (import 2.5 TWh, export 2.8 TWh) down y/y by -0.2 TWh. Exports to Slovakia (1.1 TWh), Germany (0.6 TWh) and Lithuania (0.5 TWh) had the greatest impact on the trade balance. At the same time, we imported the most electricity from Germany (1.0 TWh) and Sweden (0.7 TWh).

In 2023 the international trade balance amounted to +3.5 TWh (import 12.0 TWh, export 8.5 TWh) up y/y by +4.5 TWh. Imports from Sweden (4.1 TWh), Germany (3.2 TWh, and export at 2.6 TWh) had the greatest impact on the trade balance.

*RETAIL MARKET*

The diversity of electricity prices for retail customers in the European Union depends mainly on the level of the wholesale prices of electricity, fiscal system (taxes and fees), regulatory mechanism and support schemes in particular countries. In Poland in the first half of 2023[11] an additional burden (over sale price and cost of electricity distribution) for individual customers accounted for 49% of the electricity price. The Germans paid the most for electricity, for whom additional charges also accounted for 28% of the final price.

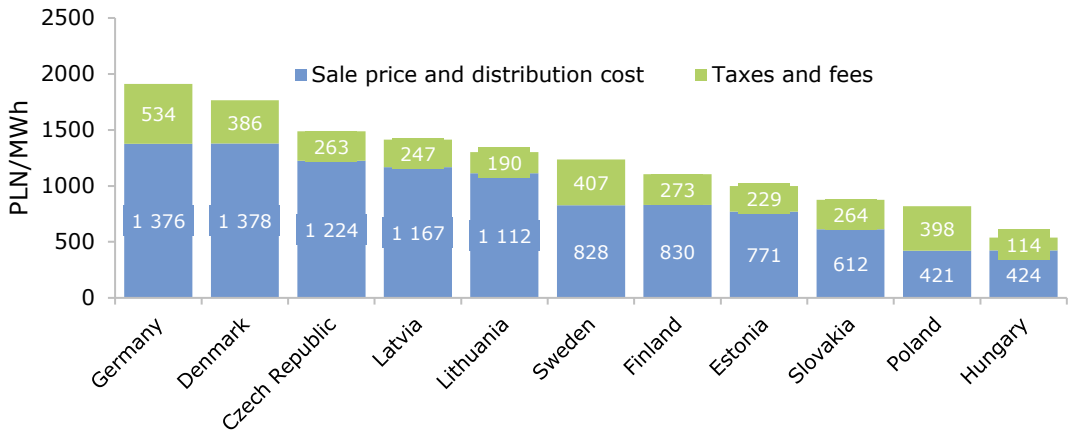
Chart: The share of additional charges in electricity prices for the individual customers in selected EU countries in the first half of 2023 (prices in PLN/MWh, average exchange rate EUR/PLN 4.63).




*Source: own work based on Eurostat data.*

[11] *Eurostat data on retail market are published in semi-annual intervals.*

Chart: The share of additional charges in electricity prices for the individual customers in selected EU countries in the first half of 2023 (prices in PLN/MWh, average exchange rate EUR/PLN 4.63).

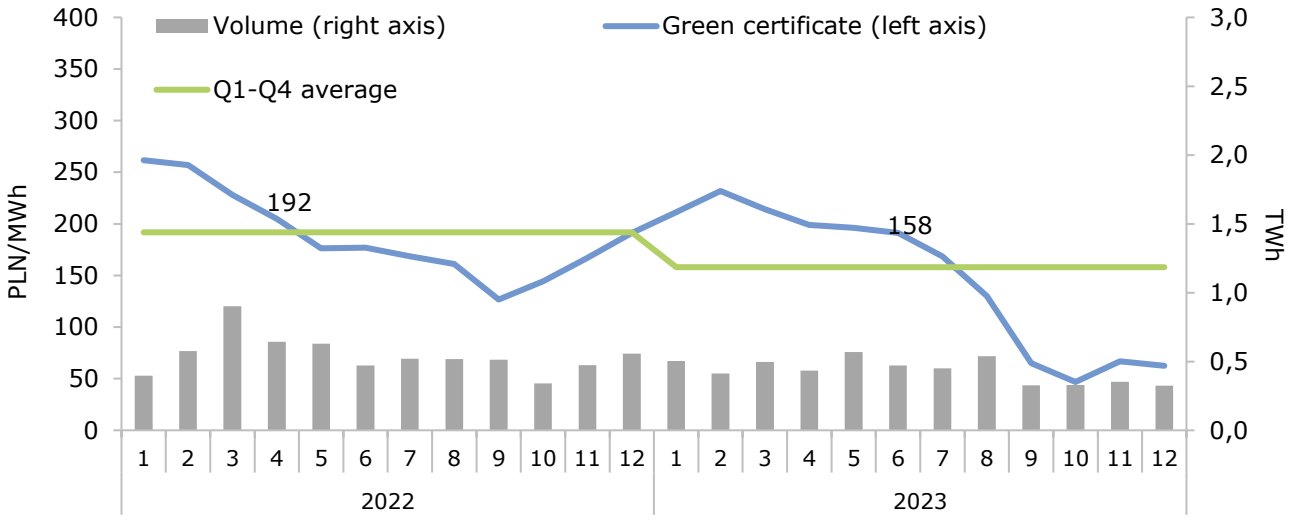



*Source: own work based on Eurostat data.*

## 4.2.4 Prices of certificates

In 2023 the average price of green certificates (index TGEozea) reached PLN 158/MWh and was lower by 18% compared to the previous year. An obligation to redeem green certificates changed as compared to 2022 (18.5%) and stands at 12% for 2023.

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



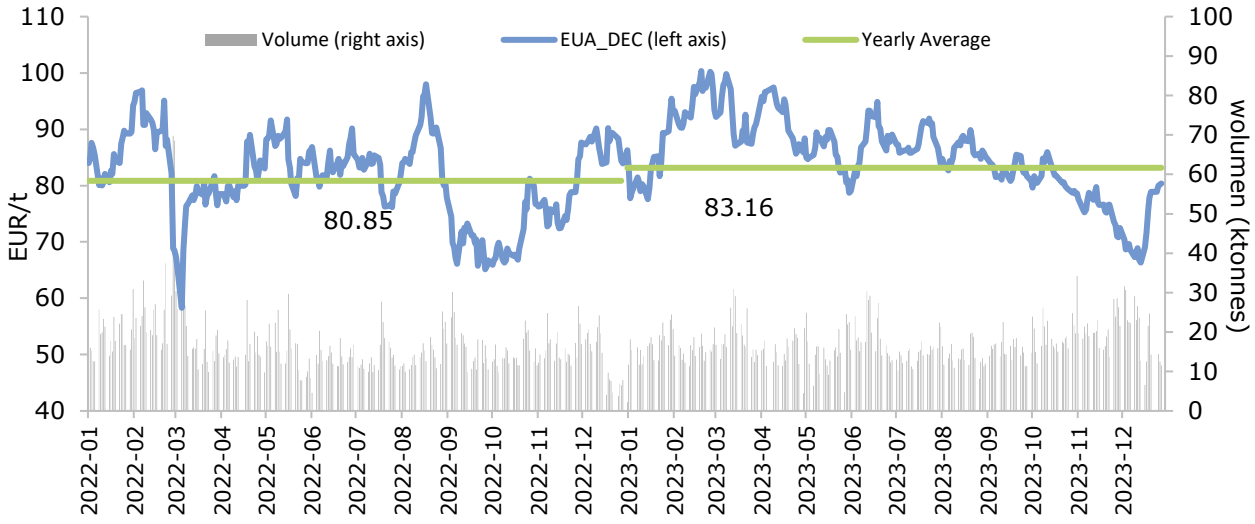

*Source: Own work based on TGE quotations.*

## 4.2.5 Prices of $CO_2$ 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 $CO_2$ in the process of electricity or heat production bear the expenses for purchasing EUA allowances to cover the deficit (i.e. the difference between $CO_2$ 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.

In the fourth quarter of 2023 the weighted average price of EUA DEC 23 was EUR 76.07/t and was lower (by approx. 2%) than the average price of EUR 77.38/t in the similar period of the previous year. For the full year 2023, the weighted average quotation was EUR 83.16/t, 3% higher y/y than the average price of EUR 80.85/t in the previous year.

Chart: Prices of $CO_2$ emission rights.




*Source: own work based on ICE exchange quotations*

## 4.3. $CO_2$ emission rights granted free of charge

In accordance with Commission Implementing Regulation (EU) 2019/1842 of October 31, 2019 laying down rules for the application of Directive 2003/87/EC of the European Parliament and of the Council as regards further arrangements for adjustment of the allocation of free $CO_2$ emission allowances due to changes in activity levels, the competent authority may suspend the issuance of free emission allowances to an installation until it is determined that there is no need to adjust the allocation to that installation or the Commission has adopted a decision concerning adjustments to the allocation to that installation.

In national legislation, the Act on the Greenhouse Gas Emission Trading Scheme introduced an additional condition for the issuance of emission allowances to installations. According to the general rules, allowances are issued by February 28 each year, however, in the case of installations, the issue of emission allowances takes place after the submission of an activity level report and the publication of information in the Public Information Bulletin on the website of the office serving the Minister of Climate and Environment. According to the European Commission Regulation, activity level reports are submitted by March 31 each year, thus on April 12, 2023 emission allowances were issued to the accounts of the operators of installations in the Union Registry in accordance with the publication in the Public Information Bulletin of the Ministry of Climate and Environment on April 7, 2023.

Table: Emission of $CO_2$ (in tonnes).

| | 2023 | 2022 | % change |
|---|---|---|---|
| Electricity and heat | 56 950 618 | 70 010 418 | -19% |

Table: Allocation of $CO_2$ emission allowances (in tonnes).

| | 2023 | 2022 | % change |
|---|---|---|---|
| Heat | 641 296 | 638 546[1] | 0% |

[1] *Data adjusted on the basis of the final settlement in 2023.*

## 4.4. 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 Conventional Generation segment companies and to District Heating segment companies.

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.

Biomass is 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. (PGG). The deliveries of coal from PGG were carried out on the basis of mediation proceedings conducted in August 2021.

On December 13, 2023, a new coal supply agreement was signed with PGG. As part of the Agreement, the parties specified the estimated volumes of hard coal deliveries for the years 2023-2028 for PGE GiEK S.A., KOGENERACJA S.A. and PGE Energia Ciepła S.A. The estimated total value of hard coal deliveries for 2023-2028 is PLN 13.5 billion. The price for 2024 was agreed in negotiations and does not deviate from the conditions prevailing on the domestic market and is a price comparable to quotations on international markets. Price conditions for subsequent years of supply will be determined by negotiation by the end of the preceding year. As at the effective date of the agreement, the existing agreements with PGG are terminated.

In addition, significant coal suppliers are companies Węglokoks S.A., Weglokoks Kraj sp. z o.o. and Jastrzębska Spółka Węglowa. Supplies from domestic producers are supplemented with imported coal.

Supplies of gas to PGE Energia Ciepła S.A., PGE Toruń S.A., Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. (KOGENERACJA S.A.) are carried out on the basis of contracts with Orlen group companies.

## 4.5. 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.

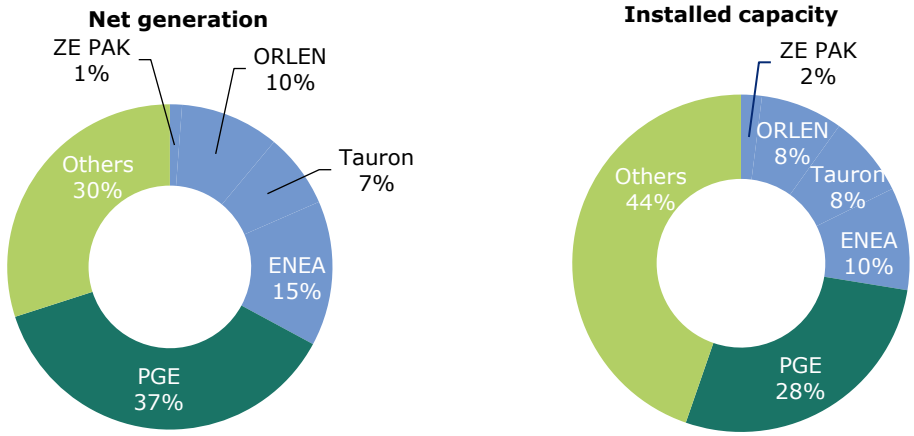
District heating sector may be also distinguished, within which PGE Group is active in heat generation, distribution and sales.

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 is part of the Orlen Group.

PGE Group is the undisputed leader in electricity generation. 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 Orlen Group (comprising major energy producers, i.e. ENERGA S.A. i PGNiG Termika S.A.) and ZE PAK S.A.

In 2023 46% of the electricity produced in the country was hard coal-based. Approximately 21% of the electricity produced in Poland was lignite-based. Aside from PGE Group, ZE PAK also bases its electricity production on lignite. The market share of renewable energy sources increased. Wind farms as well as photovoltaic installations have respectively approx. 13% and 8% share in electricity generation.

Chart: Estimated share of largest Polish electricity generators in installed capacity and net generation after three quarters of 2023.




*Source: own work based on information published by the companies and Agencja Rynku Energii (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 November 2023, this technology had the largest share in total installed RES capacities – 16.5 GW, although the vast majority of installations (10.5 GW) belonged to approx. 1.4 million 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 S.A. has secured approx. 3.5 thousand hectares of land for the purpose of building farms with a capacity of almost 2 GW. At the end of 2023, the capacity of PV farms in operation was 126 MW and the PGE Group was one of the largest investors in terms of installed capacity. In addition, projects with a total capacity of 357 MW were under development. PGE Group remains the entity with the highest installed wind capacity – 797 MW and has over 9% share in total wind capacity installed in Poland. Other notable wind farm operators include EDP Renewables Polska sp. z o.o., RWE Renewables Poland sp. z o.o., Polenergia S.A., TAURON Ekoenergia sp. z o.o. andGrupa Orlen.

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 December 2022, the President of the Energy Regulatory Office issued decision in case of individual prices in contracts for difference for two offshore projects Baltica 2 and Baltica 3 with a total capacity of 2.5 GW which are being implemented jointly by PGE and Ørsted (JO).

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), responsible for electricity distribution in Warsaw, as well as PGE Energetyka Kolejowa S.A. (previously PKP Energetyka S.A.) managing the railway electric network throughout the country (as of April 2023, the company is part of the PGE Group).

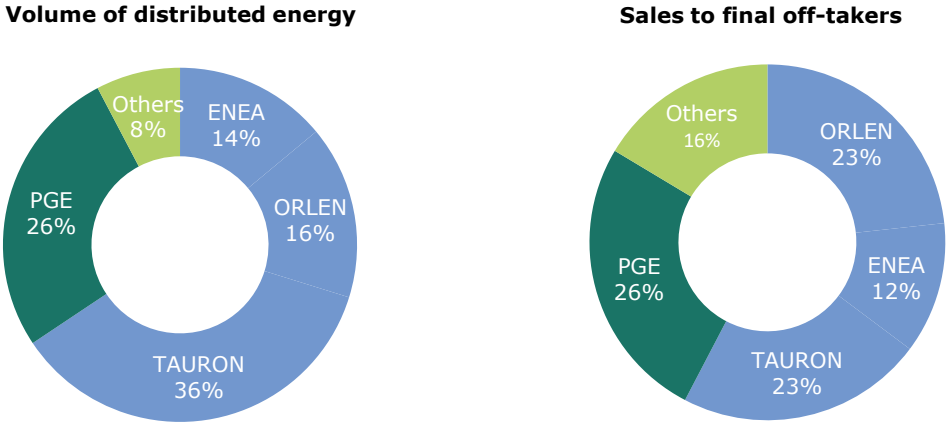
A historical division of the distribution areas has substantial impact on the operating conditions of the business, and this specific situation is reflected in the distribution tariffs approved by the URE president. PGE Group operates in an area that is less urbanised and industrialised, meaning that it has approx. 5.7 million clients throughout an area[12] of approx. 130 ths km$^2$ in the Distribution segment. For comparison, TAURON has a similar number of clients in an area nearly twice smaller and distributes a larger amount of energy.

[12] *Area of municipalities in which PGE Dystrybucja S.A. operates*

Chart: Areas of operation of Polish distribution system operators.

*Source: own work.*

Chart: Share of particular energy groups in volume of energy distributed and sales of electricity to final off-takers after three quarters of 2023.




*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 (including PGE Energetyka Kolejowa), TAURON, Orlen Group and ENEA remain the leaders, collectively concentrating around 85% of the market. Other significant player is E.ON Polska S.A., based on sales connected with serving as distributor for the Warsaw area.

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 approx. 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 Termika S.A. from Orlen Group - Warsaw agglomeration,
- Grupa Veolia - Poznań agglomeration, Łódź.

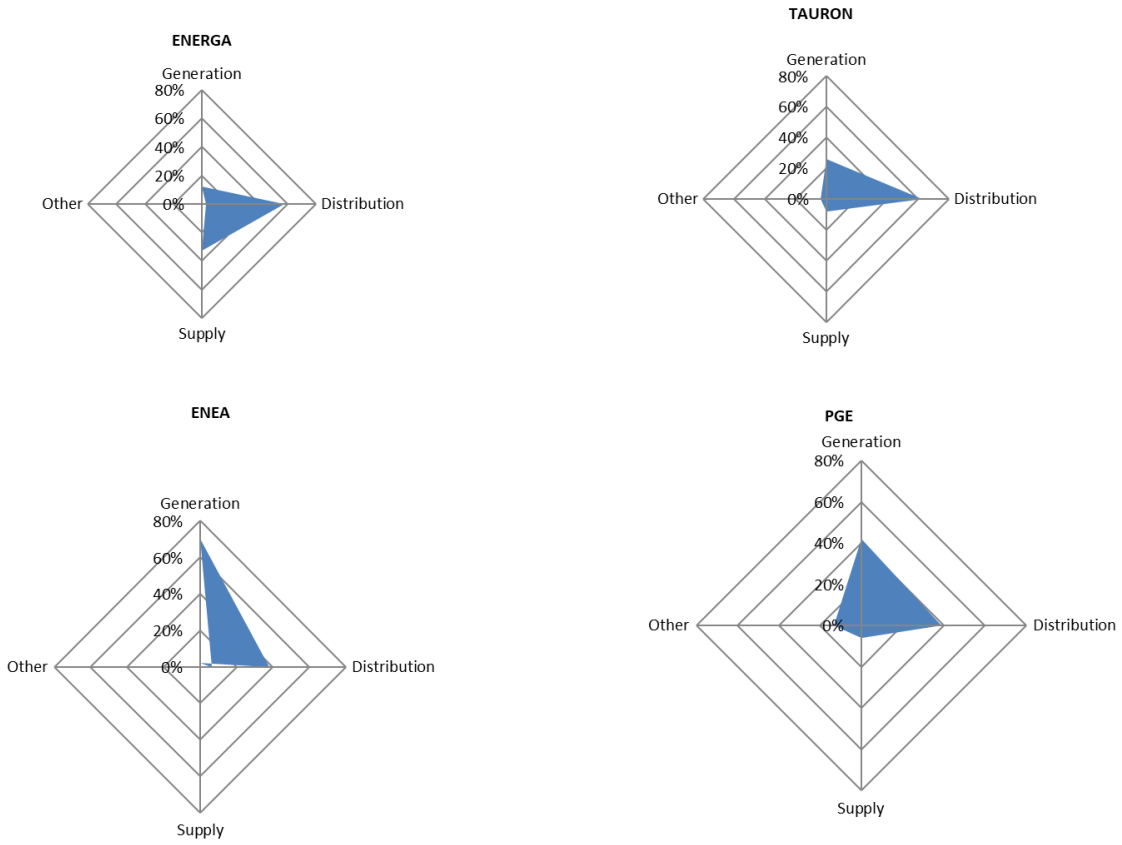
*ENERGY GROUP PROFILES*

The electricity sector is divided into segments, what is reflected in the operating segments of the respective energy groups. The generation and distribution segments play the largest role in creating the PGE Group's EBITDA. 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 2023 EBITDA of respective business segments and the amount of total EBITDA).




*Generation - conventional and renewable generation, mining and district heating.*
*Source: Own study based on information published by companies.*

Table: Competitive advantages of the PGE Capital Group.

| Assets | Strong financials | Strategy |
|---|---|---|
| ▪ Leader in installed capacity and electricity and heat production.<br>▪ Customer base of 5.7 million in segments Supply, Distribution and Energy Railway Services.<br>▪ Diversified activities conducted throughout the country – generation, distribution, wholesale and retail sale of electricity and energy services for rail infrastructure.<br>▪ RES leader: the largest producer of electricity from renewable sources (excluding biomass and biogas) with market share of approx. 6%. Nearly 800 MW of installed wind farm capacity and approximately 126 MW of installed photovoltaic farm capacity.<br>▪ 2023 Regulatory Asset Base in Distribution: PLN 21.6 bn - base of stable revenues.<br>▪ Offshore wind leader: offshore projects of approx. 3.4 GW in progress (including approx. 2.5 GW jointly with Ørsted).<br>▪ Location permits for offshore wind farms with a capacity of approx. 3.9 GW (together with partners). | ▪ Stable and diversified revenues. guaranteed income from the capacity market (Energy generation) and revenues from regulated activities (distribution and cogeneration).<br>▪ Recurring EBITDA of PLN 10.7 bn in 2023.<br>▪ Strong credit ratings with stable outlook (Fitch BBB+ and Moody's Baa1).<br>▪ High acquisition capabilities. Acquisition in 2023 of PKPE Holding sp. z o.o. for approximately PLN 5.9 billion (*Enterprise Value at locked-box date*).<br>▪ Capability to actively participate in energy transition. | ▪ Strategy until 2030 with 2050 perspective with a goal of achieving climate neutrality and 100% of green Energy for PGE Group customers in 2050.<br>▪ Evolution of generation portfolio towards renewables, with a significant share (6.5 GW) of offshore wind farms.<br>▪ Leader of sustainable energy transformation in Poland.<br>▪ Modern energy services.<br>▪ CAPEX of PLN 75 bn 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%. |

# 4.6. 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 could have an impact on PGE Group's operations in the coming years.

Legal regulations regarding the current rules for determining the prices of electricity and heat and the compensations due in this respect are described in chapter 8.1.6 of this report in the section Regulatory changes on the electricity market.

## 4.6.1 Domestic regulatory environment

| Segments | Regulation | Regulation objectives | Latest conclusions and next stages | Impact on PGE Group |
|---|---|---|---|---|
| | The bill on the amendment to the Energy Law and the Renewable Energy Sources Act. | The act includes 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. In particular, the project provides implementation of civic institutions of energy communities , facilitation in the field of aggregation, contracts with dynamic electricity prices and other flexibility and demand response services, direct line changes. | The law entered into force on **September 7, 2023.** | The solutions have an impact on all of PGE Group's operating segments, especially the Supply and Distribution segments. |
| | The act on amendment of the act on renewable energy sources and certain other acts. | The act introduces amendments to several acts, including: Energy Law, Environmental Protection Law, in connection with heating going green, and other changes related to the necessity to implement directive RED II (regarding the promotion of the use of energy from renewable sources). Moreover, the act introduces new support systems for biomethane, to modernise RES installations and for existing RES installations to cover operating expenses. The act also changes the definition of hybrid RES installations. It also defines the rules for sharing a connection by RES installations (cable pooling). | The law entered into force on **October 1, 2023.** | The act is of significance for the Renewables segment due to the new support systems and cable pooling, and for the District Heating segment in terms of increasing the use of heat generated from RES. |
| | Draft Act amending the Act on the greenhouse gas emission allowance trading scheme and the Act - Environmental Protection Law. | The aim of the act is to establish national legislation governing the establishment and operation of the Energy Transition Fund. The Energy Transition Fund is to be used to finance investments in the energy and industrials sectors excluding coal assets area. | PGE S.A. submitted comments on the published draft law. | From 2025, ETF funding is available for investments in the area of: RES, grids, storage, etc. |
| | Act amending the Act on the Management of Agricultural Property of the Treasury and certain other acts. | The act introduces regulations according under which agricultural properties belonging to the Agricultural Property Stock of the Treasury will be able to be leased for the purpose of obtaining electricity from RES. | The law entered into force on **October 5, 2023**. | The act is of significance for the Renewables segment. |
| | Act amending the Act on Spatial Planning and Development and certain other acts. | The act introduces the principle that photovoltaic (PV) investments above 1 MW will only be allowed on the basis of a Local Spatial Development Plan. In other case, it will not be possible to realise the investment in question on the basis of a decision on development conditions. The draft also provides for the possibility of applying a simplified procedure for the enactment or amendment to the Local | The act entered into force on **September 24, 2023**. | The act may slow down PV investments in the Renewable segment due to necessity to embed such investment in the Local Spatial Development Plan |

| Segments | Regulation | Regulation objectives | Latest conclusions and next stages | Impact on PGE Group |
|---|---|---|---|---|
| | | Spatial Development Plan, including in the case of PV investments, but this does not apply to investments with significant impact on the environment. | | what significantly prolongs implementation time. |
| | The law under consideration pertains to modifications to the Act on the preparation and implementation of strategic investments in transmission networks and certain other Acts. | The law introduces new, essential transmission projects and broadens the scope of the distribution project legislation to include voltage equal to or greater than 110 kV, which is crucial for transmitting electric energy from the transmission network to distribution networks. This will make it possible for investors to streamline the process of obtaining public-law permits, as well as introduce a simplified approach to acquiring land for these investments. The recommendation is to restrict the list of distribution investments to those that are of utmost importance. | The act entered into force on **September 3, 2023**. | This regulation affects the Distribution segment. The implementation of regulations will simplify and accelerate investment activities with respect to distribution networks having voltage equal to or exceeding 110 kV and, to a lesser extent, networks at lower voltages than 110 kV. |
| | Act on the preparation and execution of investments in the realm of hydroelectric pumped-storage power plants. | The legislation introduces streamlining of the investment process for PSP plants[13] - it regards both building new pumped-storage plants and refurbishing existing installations. | The act entered into force on **June 30, 2023**. | The act will make investments in the PSP plants – that are in Renewables segment's disposal more efficient and speedy. |
| | The Oder River Revitalisation Act. | The aim of the Act is to ensure adequate water resources and improve water quality in the Oder River. The Act provides for the introduction of separate charging mechanisms for activities relating to heat pumps and aquifer heat batteries. The solutions in question are intended to support the conduct of particular activities. | The law entered into force on **October 7, 2023**. | The act introduces preferences for heat pumps and contributes to the use of this technology in the District Heating segment. |
| | The regulation amending the regulation on detailed rules for the shaping and calculation of tariffs and settlements for heat supply. | The amendment to the regulation is aimed at balancing the interests of heat consumers and power utilities. The regulation will contribute to making the prices and charge rates in heat tariffs more realistic. The changes will prevent an index-based approach to the shaping of heat tariffs. Until now, in applications for approval of heat tariffs, planned revenue could be overestimated, resulting in the calculation of prices and rates of charges at an excessively high level. | On **September 8, 2023**, the regulation came into force. | The regulation affects the revenue of power utilities generating heat and offering transmission and distribution services, tariffed under the cost method. |
| | The regulation amending the regulation on the method of shaping and calculating tariffs and the method of settlements in electricity trading. | The regulation reduces electricity bills for household customers by PLN 125.34 in 2023, provided that one of the listed conditions is met. Power utilities have been obliged to inform their customers of this solution within seven days of the entry into force of the regulation, i.e. by 26 September 2023[14]. | On **September 19, 2023**, the regulation came into force. | The regulation requires the Supply segment to update its settlements to households. |
| | Act amendming the Extraordinary Measures Act aimed at limiting electricity prices and providing support to | The Act changes the calculation of the WRC Fund allowance, in particular with regard to clarifying the coverage of PPAs[15]. | The Act came into force on **September 1, 2023**. | The Act affects the power utilities' financial result from the sale of electricity. |

[13] *PSP plant – pumped storage power plant.*
[14] *For a detailed description of the objectives of the regulation and the impact on the PGE CG, see p. 8.1.6 Regulatory changes on the electricity market.*
[15] *See above.*

| Segments | Regulation | Regulation objectives | Latest conclusions and next stages | Impact on PGE Group |
|---|---|---|---|---|
| | certain consumers in 2023, introduced by an amendment to the Energy Law Act. | | | |
| | The Act on amending the Act on special solutions to protect electricity consumers in 2023 in connection with the situation on the electricity market and certain other Acts. | The Act increases electricity consumption limits for households whose electricity prices have been frozen at last year's levels[16]. | The Act came into force on **September 19, 2023**. | The Act changes the scope of the Trading segment companies' obligations concerning settlements with household electricity consumers and the resulting level of compensation. |
| | The regulation on reference values for new and substantially modernised cogeneration units in 2024. | The Act on the promotion of electricity from high efficiency cogeneration requires the minister responsible for energy to determine, by means of a regulation, by 31 October each year, the reference values – with a breakdown for new cogeneration units and substantially modernised cogeneration units – applicable in the following calendar year. | Publication in the Journal of Laws on **October 23, 2023.** | The Regulation determines the level of revenue from the support scheme for the District Heating segment. |
| | The regulation on the maximum quantity and value of electricity from high-efficiency cogeneration covered by a support system and the unit amounts of the guaranteed bonus in 2024. | The regulation sets out the maximum quantities and values of electricity from high-efficiency cogeneration covered by a support system and the unit amounts of the guaranteed bonus in 2024. | Publication in the Journal of Laws on **October 25, 2023.** | The Regulation has impact on the level of revenue from the support scheme for the District Heating segment. |
| | The regulation on a template report on measures aimed at achieving an energy-efficient heating system. | The regulation sets out a template of a report to be submitted by power utilities holding concessions for the transmit or distribution of heat in a given heating network in accordance with the amendment to the RES Act. | Publication in the Journal of Laws on **November 27, 2023.** | The regulation establishes an obligation to report on measures to achieve energy-efficient status for the district heating system. |
| | The regulation of the Council of Ministers on unit rates of charges for water services. | The purpose of the regulation is to align the regulation with the changes made to water service charge rates through the Oder River Revitalisation Act, including with respect to heat pumps. | Publication in the Journal of Laws on **November 14, 2023.** | The regulation clarifies the water service charge rates for heat pumps and batteries, which applies to the Conventional Generation and District Heating segments. |
| | The draft regulation on substances particularly harmful to the aquatic environment and conditions to be met when discharging waste water into waters or into the ground, and when discharging rainwater or | The aim of the draft is to bring the regulation into line with the changes introduced through the Oder River Revitalisation Act, with regard to the monitoring of industrial waste water (chlorides and sulphates). | Work on the draft regulation is in progress. | The regulation introduces new obligations for operators of facilities in the area of water and waste water management, which applies to the Conventional Generation and District Heating segments. |

*16 See above.*

| Segments | Regulation | Regulation objectives | Latest conclusions and next stages | Impact on PGE Group |
|---|---|---|---|---|
| | snowmelt into waters or into water facilities. | | | |
| | The regulation on changing the quantitative share of the sum of electricity resulting from redeemed certificates of origin of electricity from renewable energy sources in the years 2024-2026. | The regulation determines the level of redemption of certificates of origin by power utilities trading in electricity in 2024. It also affects the level of revenue of generators who are responsible for the supply of certificates of origin. | Publication in the Journal of Laws on **August 29, 2023.** | The regulation affects the level of costs of the Supply segment and the revenue of generators that are responsible for the supply of certificates of origin. |
| | The regulation of the Council of Ministers on the provision of information and data necessary for the implementation of an investment project relating to the construction of a nuclear power facility and accompanying investment projects. | The regulation constitutes an executive document to the Act amending the Act on the preparation and implementation of an investment project relating to nuclear power facilities and accompanying investment projects. It defines the scope of information and data, registers, records, lists and archives from which necessary data will be made available to the project owner for the purposes of performing its tasks related to the implementation of an investment project relating to the construction of a nuclear power facility. | Publication in the Journal of Laws on **November 6, 2023.** | The regulation affects the level of available sources of data and information necessary for the implementation of nuclear power investment projects, currently assigned to the Other Operations segment of the PGE Capital Group. |
| | The Act of December 7, 2023 on amending Acts to support consumers of electricity, gaseous fuels and heat. | Among other things, the Act amends the Act on special solutions to protect electricity consumers in 2023. Due to the situation in the electricity market and the Act on emergency measures to curb electricity prices and support certain consumers in 2023, extending the support for eligible consumers until June 30, 2024 with a simultaneous reduction of the consumption limit for which frozen electricity prices apply to 50% for the period from January 1 to June 30, 2024. Gas fuel prices were frozen for the same period. The duration of the compensation mechanism for energy companies has been extended. | Publication in the Official Journal of Laws on **December 22, 2023.** | The Act extends the duration of the obligations of the Trading segment companies in terms of settlements with household electricity consumers and other eligible consumers and the compensation scheme resulting from the application of the maximum price. |
| | The Act of June 16, 2023 on amending the Act on geological and mining regulations and some other acts. | Among other things, the Act amends the Act on the greenhouse gas emission allowance trading scheme by extending – from 30 April to 30 September – the deadline for emission settlement (i.e. redemption of emission allowances in a number corresponding to the difference between the sum of emission allowances redeemed in the allowance account in a given settlement period and the sum of emissions from the installation). In addition, the Act introduced:<br>▪ an option to remain in the EU ETS for installations whose total rated thermal input, as a result of changes in the production process carried out to reduce greenhouse gas emissions, no longer exceeds 20 MW,<br>▪ a new deadline for issuing emission allowances allocated free of charge (30 June instead of 28 February),<br>▪ an extension of the monitoring, verification and reporting obligation to cover municipal waste incineration installations with a total rated thermal input exceeding 20 MW, | The Act entered into force on **October 28, 2023,** with the exception of the provisions on the option to remain in the EU ETS for installations with a total rated thermal output of up to 20 MW, which entered into force on **January 1, 2024.** | With respect to the extension of the deadline for emission settlements, the Act has a positive impact on the Conventional Generation and District Heating segments by extending the time necessary to prepare the required amount of emission allowances for redemption and optimising the process of their purchase. |

| Segments | Regulation | Regulation objectives | Latest conclusions and next stages | Impact on PGE Group |
|---|---|---|---|---|
| | | ▪ new regulations relating to the use of biomass by entities covered by the EU ETS. | | |

## 4.6.2 International regulatory environment

| Segments | Regulation | Regulation objectives | Latest conclusions and next stages | Impact on PGE Group |
|---|---|---|---|---|
| | Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading within the EU (ETS Directive ).<br>Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve. | Combating climate change.<br>Development of investment incentives through a $CO_2$ price signal to develop low-emission sources. | On **May 16, 2023** directive (UE) 2023/959 was published in the Official Journal of the EU entered into force on the 20th day after its publication.<br>The deadline for the transposition of the ETS Directive has been set as **December 31, 2023**, with a few derogations possible until **June 30, 2024**.<br>The EC is currently implementing the reform of the ETS system: **On November 3, 2023** the executive regulation on the content of climate neutrality plans was published, and on **November 23, 2023** – the regulation on the rules for the operation of the Modernisation Fund was published. Among other things, the publication of an amendment to the Delegated Regulation on the rules for free allocation of allowances is planned for **April 2024**. | Increased competitiveness of renewable sources compared to generation assets using high-emission fuels.<br>Increase in operating costs for conventional generation of electricity and heat.<br>Option to obtain investment support from the Modernisation Fund and Innovation Fund and additional free allocation of allowances to district heating. |
| | EC Communication (COM(2024)63) - Europe's 2040 climate target and the pathway to climate neutrality by 2050 (2040 target) | Setting an intermediate target on the pathway to climate neutrality in 2050 (as required by Regulation 2021/1119 of the European Parliament and of the Council on establishing the framework for achieving climate neutrality – the European climate law). | On **February 6, 2024**, the European Commission published a communication on the 2040 target of a 90% reduction in emissions compared to 1990.<br>The implementation of the 2040 target into the European Climate Law and the alignment of other climate and energy legislation with this target will be handled by the next European Commission, to be appointed after the European Parliament elections. | Faster decarbonisation and RES development in the run-up to 2040. |
| | Directive 2018/2001 on the promotion of the use of energy from renewable sources (Renewable Energy Sources Directive). | To adapt legislation related to increased share of renewables in reference to EU's new higher GHG reduction target by 2030. | On **October 31, 2023**, Directive (EU) 2023/2413 was published in the Official Journal of the EU and entered into force on the 20th day after its publication.<br>The transposition deadline for the RES Directive was set at **May 21, 2025** with some derogations until **July 1, 2024.** | Improvement in the competitiveness of low-emission sources of energy in comparison with high-emission sources.<br>Larger share of renewable sources in the Polish energy mix by 2030, including a faster path of decarbonisation of District Heating segment. |
| | 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. | On **September 20, 2023** Directive (EU) 2023/1791 2413 was published in the Official Journal of the EU and entered into force on the 20th day after its publication.<br>The transposition deadline for the EED Directive was set at **October 11, 2025** with a few derogations with earlier deadlines set out in the legislation. | Improvement in the competitiveness of low-emission sources of energy.<br>The gradual displacement of coal-fired cogeneration from heat generation systems due to the introduction of new definitions of efficient heating/cooling and high-efficiency cogeneration systems.<br>Need for more extensive development of renewable sources and waste heat in district heating systems. |

| | | | | |
|---|---|---|---|---|
| | Directive 2010/31/EU on the energy performance of buildings (EPBD). | Alignment of legislation related to improving the energy performance of buildings with respect to the 2050 climate neutrality target and the new higher 2030 EU GHG reduction target. | The adoption of positions by the Council (**October 25, 2022**) and the EP (**March 14, 2023**) allowed the initiation of trilogues. Negotiations are expected to be concluded by the end of 2023. | Greater competitiveness of renewable energy sources as a heat source in buildings.<br>Reduction in the heat demand of buildings due to improved energy performance.<br>Faster pace of displacement of fossil fuels in the heating sectors, including district heating. |
| | Directive 2010/75/EU on industrial emissions (integrated pollution prevention and control – IED). | Introduction of new requirements determining emission levels in the integrated permit, the rules for obtaining derogations from BAT requirements and giving new competences to the EC. Public participation in appeal proceedings will be increased. | On **November 29, 2023**, the EP and the Council reached a preliminary agreement on amendments to the IED. On **March 12, 2024**, it was adopted by the EP. The agreement still has to be formally approved by the Council. The content of the agreement includes, inter alia: the obligation to implement an environmental management system (including a 2030-2050 transformation plan); the setting of lowest achievable emission standards in integrated permits; the introduction of environmental performance values; the possibility of imposing a penalty for infringements of at least 3% of an entity's turnover in the EU. | The entry into force of the agreed solutions involves additional administrative costs due to the need to adapt the environmental management system (including in relation to the need to prepare a transformation plan).<br>The role of the public in permitting and in monitoring the implementation of IED obligations by operators of installations will be enhanced. |
| | Directive of the European Parliament and of the Council on corporate sustainability due diligence (CSDD). | To establish a framework that encourages companies to contribute to the pursuit of respect for human rights and environmental legislation in their operations and through their value chains. | On **December 14, 2023**, a political agreement was reached within the trilogues. According to this agreement:<br>▪ an enterprise should adopt and implement a climate plan, making every effort in doing so. However, there are no obligations to fulfil the plan and no sanctions for non-fulfilment;<br>▪ for enterprises that report a climate plan in accordance with the revision of the Non-Financial Reporting Directive, they are deemed to have fulfilled the obligation to adopt a climate plan under the CSDD Directive;<br>▪ enterprises will have to comply with the obligations resulting from the Directive on a gradual basis. For enterprises with more than 1 000 employees, the Directive will apply 3 years after its entry into force.<br>On **March 15, 2024** the agreement was approved by the Permanent Representatives Committee in the Council and on **March 19, 2024** the agreement was approved in the JURI Committee. The vote in the EP plenary is scheduled for **April 2024**. The Directive is expected to enter into force in **the second half of 2024**. | Increasing reporting obligations for PGE Group's value chain in terms of environmental impact and respect for human rights.<br>Incorporating the due diligence policy on sustainability in the activities of the PGE Group. |
| | Regulation of the European Parliament and of the Council | Guaranteeing the protection of consumers against excessive changes in electricity prices, | On **July 19, 2023**, the ITRE committee adopted amendments to the EC draft. The ITRE committee also decided that the position adopted should constitute the | The agreed content of the reform introduces a number of changes concerning the shape of contracts for difference (and analogous solutions), |

| | | | | |
|---|---|---|---|---|
| | amending Regulations (EU) 2019/943 and (EU) 2019/942 to improve the Union's electricity market design.<br><br>Directives (EU) amending directives 2018/2001 and (EU) 2019/944 to improve the Union's electricity market design. | providing access to clean and secure energy, and enhancing the market's ability to withstand variations in natural gas prices. Encouraging the adoption of PPA contracts; empowering end consumers in the market, simplifying the implementation of CFD agreements[17]. | EP's mandate in negotiations with the Council. The EP voted in a plenary session on **September 14, 2023** to uphold the decision of the ITRE committee.<br>On **October 17, 2023**, the Council adopted an agreement on the general approach.<br>On **December 14, 2023**, a political agreement was reached within the trilogues. The agreed content of the electricity market reform introduces, among other things:<br>▪ the possibility to apply to the EC for a derogation until 2028 from the emission standards (EPS 550) for coal-fired units receiving support under the Capacity Market ;<br>▪ the obligation to use bilateral contracts for difference (or analogical mechanisms) in the case of state aid in the form of direct price support for investments in new sources of RES or new nuclear units, and an obligation to redistribute revenue from such contracts to final consumers; Member States are also to have the option of allocating part of the revenue to finance the support mechanism and investments serving to reduce energy prices;<br>▪ granting the Council the power to declare an electricity price crisis, which opens up the possibility for Member States to introduce temporary interventions on electricity prices for households and SMEs [18].<br>On **December 22, 2023**, the agreement was endorsed by the Committee of Permanent Representatives in the Council and voted through by the EP ITRE committee on **January 15, 2024**. A vote at an EP plenary session is planned for **April 2024** and publication in the Official Journal of the EU for **the second quarter of 2024**.<br>The transposition deadline for the amendments to the Directives was set at 6 months from their entry into force as a basic rule (20 days after publication) and 24 months from the entry into force of a few selected articles. | which could potentially have a positive impact on the development of investments in RES and new nuclear units. The changes introduced may also result in the gradual popularisation of PPAs.<br>Significant regulatory changes will affect companies in the Supply segment (strengthening the position of consumers vis-à-vis energy suppliers, changes regarding tariffs and offers) and the Distribution segment (a new way of shaping tariffs, flexibility incentives). In the context of challenges to the stability of the Polish electricity system, the introduction of the possibility (with the EC's consent) of a temporary derogation for coal sources in the Capacity Market should be assessed positively. |

[17] *CFD - Contract for difference; a contract for difference, defining a support model in which the supporting party and the supported party agree on a certain reference price. In the event that market energy prices are below the reference price, the supported party receives the positive difference; however, if energy prices exceed the reference price, the supporting party is entitled to that difference.*

[18] *Small and Medium Enterprises.*

| | | | | |
|---|---|---|---|---|
| | The EU draft regulation seeks to improve protection against manipulation in the wholesale energy market by amending regulations (EU) 1227/2011 and 2019/942. | Increase market transparency and monitoring capacity and ensure more effective investigation and enforcement of cross-border breaches in the EU so that consumers and market participants have confidence in the integrity of energy markets, prices reflect a fair and competitive supply-demand relationship and no profits can be made from market abuse. | On **March 14, 2023**, the EC presented a draft revision of the regulation. On **June 19, 2023**, the Council approved its general approach.<br>On **September 7, 2023**, the ITRE committee adopted the position on the revision, which also constituted the EP's mandate for trilogues.<br>On **November 16, 2023**, a political agreement was reached within the trilogues. According to this agreement :<br>▪ the definitions of inside information, wholesale energy products and market participant were extended;<br>▪ the EC was obliged to establish, taking into account the specificities of a Member State concerned, minimum thresholds for identifying events that can be considered inside information ;<br>▪ the ACER was given the power to conduct investigations for breaches of the REMIT Regulation and to carry out on-site inspections and take statements during investigations, as well as to impose a periodic penalty payment on a person under investigation.<br>On **December 22, 2023**, the agreement was approved by the Committee of Permanent Representatives in the Council and voted through at the session of the ITRE committee on **January 15, 2024**. A vote at an EP plenary session took place on **February 29, 2024**. The Council approved the agreement on **March 18, 2024.** Publication in the Official Journal of the EU is planned for **the second quarter of 2024**. The Regulation will enter into force on the 20th day after publication. | Increased reporting obligations concerning inside information, as well as obligations related to the management, recording and monitoring of such information. |

# 5. Activities of PGE Capital Group and operational segments

## 5.1. Basic operational data for PGE Capital Group

| | **Conventional Generation** | **District Heating** | **Renewables** | **Distribution** | **Railway Energy Services** | **Supply** |
|---|---|---|---|---|---|---|
| **Key assets of the segment** | 5 conventional power plants<br>2 lignite mines | 16 CHP plants | 21 wind farms<br>30 photovoltaic power plants<br>29 run-of-river hydro power plants<br>4 pumped-storage power plants, including 2 with natural flow | 301.3 km th<br>of distribution lines | 18.6 km th<br>of distribution lines | - |
| **Installed capacity electricity/heat** | 12 852 MWe/958 MWt | 2 580 MWe/6 130 MWt | 2 480 MWe/- | - | - | - |
| **Electricity volumes** | Net electricity generation<br>44.82 TWh | Net electricity generation<br>8.51 TWh | Net electricity generation<br>3.44 TWh | Electricity distribution volume<br>35.78 TWh[1] | Electricity distribution volume<br>3.10 TWh[2];<br>Sales to final off-takers<br>2.22 TWh[2] | Sales to final off-takers<br>32.41 TWh[3] |
| **Heat volumes** | Heat production (net)<br>3.10 PJ | Heat production (net)<br>47.15 PJ | - | - | - | - |
| **Market position** | PGE Group is the leader of lignite mining in Poland (96%)<br>PGE Group is a national leader in electricity and district heat generation | - | PGE Group is the largest electricity producer from RES with market share of approx. 6% (excluding co-combustion of biomass and bio-gas) | Second domestic electricity distributor with regard to number of customers | Leader of energy services for railway infrastructure and the largest distributor and seller of electricity to the traction grid | Leader in wholesale and retail trading in Poland |

[1] *Data for PGE Dystrybucja S.A.*
[2] *Data for period April 3 – December 31, 2023.*
[3] *Data for PGE Obrót S.A.*

*BALANCE OF ENERGY OF PGE CAPITAL GROUP*

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

| Sales volume | Q4 2023 | Q4 2022 | % change | 2023 | 2022 | % change |
|---|---|---|---|---|---|---|
| **A. Sales of electricity outside the PGE Capital Group:** | **22.38** | **25.48** | **-12%** | **81.96** | **100.19** | **-18%** |
| ▪ Sales to end-users[1] | 8.75 | 8.56 | 2% | 34.71 | 34.28 | 1% |
| ▪ Sales on the wholesale and balancing market | 13.63 | 16.92 | -19% | 47.25 | 65.91 | -28% |
| **B. Purchases of electricity from outside of PGE Group (wholesale and balancing market)** | **9.06** | **9.70** | **-7%** | **30.12** | **38.62** | **-22%** |
| **C. Net production of electricity in units of PGE Capital Group** | **15.65** | **17.79** | **-12%** | **56.77** | **66.13** | **-14%** |
| **D. Own consumption DSO, lignite mines, pumped-storage power plants (D=C+B-A)** | **2.33** | **2.01** | **16%** | **4.93** | **4.56** | **8%** |

[1] *Sale mainly by PGE Obrót S.A. and Energy Railway Services*

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 (DSO), consumption of energy at lignite mines and consumption of energy at pumped-storage power plants.

Lower energy sales on the wholesale market, including the balancing market, result from lower demand for electricity, a higher share of electricity imports and a higher share of RES production. The lower purchase on the wholesale market is mainly the result of PGE Obrót's lower sales to end customers in the corporate client segment, who tend to diversify energy sources, mainly with greater use of RES. At the same time, an increase was recorded in sales to the end customers as an effect of the higher base of 2023 (recognition of electricity sales realised by Railway Energy Services segment).

Table: Net production of electricity (TWh).

| Production volume | Q4 2023 | Q4 2022 | % change | 2023 | 2022 | % change |
|---|---|---|---|---|---|---|
| **NET ELECTRICITY PRODUCTION IN TWh, including:** | **15.65** | **17.79** | **-12%** | **56.77** | **66.13** | **-14%** |
| Lignite-fired power plants | 7.80 | 9.63 | -19% | 29.75 | 39.51 | -25% |
| Coal-fired power plants | 4.25 | 5.10 | -17% | 15.07 | 16.30 | -8% |
| *Including co-combustion of biomass* | *0.01* | *0.00* | - | 0.02 | *0.00* | - |
| Coal-fired CHP plants | 1.16 | 1.34 | -13% | 3.83 | 4.34 | -12% |
| Gas-fired CHP plants | 1.31 | 0.90 | 46% | 4.21 | 2.79 | 51% |
| Biomass-fired CHP plants | 0.11 | 0.07 | 57% | 0.44 | 0.25 | 76% |
| Communal waste-fired CHP plants | 0.00 | 0.00 | 0% | 0.03 | 0.03 | 0% |
| Pumped-storage power plants | 0.31 | 0.27 | 15% | 1.20 | 0.95 | 26% |
| Hydroelectric plants | 0.10 | 0.07 | 43% | 0.44 | 0.39 | 13% |
| Wind power plants | 0.60 | 0.41 | 46% | 1.77 | 1.57 | 13% |
| PV plants | 0.01 | 0.00 | - | 0.03 | 0.00 | - |
| including RES generation | 0.83 | 0.55 | 51% | 2.73 | 2.24 | 22% |

The level of electricity production in 2023 was 14% lower compared to 2022.

The lower level of electricity production is mainly the effect of lower demand for electricity in the Polish power system and higher net energy imports.

Lower generation at lignite-fired power plants (decline by 9.8 TWh) is due to lower use by PSE S.A. - reserve downtime of units in Bełchatów power plant and Turów power plant were longer by: 9 023 hours in Bełchatów power plant and 3 958 hours in Turów power plant. At the same time average load factor of unit at Bełchatów power plant was lower by 44 MW and at Turów power plant by 22 MW. In addition, units at Bełchatów power plant were in overhaul longer by 3 300 hours, mainly as a result of the overhaul of unit no. 7, lasting from January to the beginning of May 2023, and overhaul of unit no. 8 which lasted from May till the beginning of September 2023.

Lower production in hard coal-fired power plants took place at the Rybnik Power Plant and the Dolna Odra Power Plant (a total decrease of 1.2 TWh) as a result of longer standby time in the reserve of these power plants by 7 116 hours and at the same time shorter standby time for renovations by 2 637 hours. Production at Opole Power Plant was maintained at 2022 level.

Lower production in coal-fired CHP plants (decrease by 0.5 TWh) is the result of lower energy production in co-generation with heat due to weather conditions (higher average temperatures).

Higher generation from gas-fired CHP plants (increase by 1,4 TWh) mainly is the result of: higher production by Lublin Wrotków CHP plant, Zielona Góra CHP plant and Rzeszów CHP plant caused by higher profitability of generation based on this fuel due to market conditions and a low base of 2022, when a turbine was being modernized at Zielona Góra CHP plant and a failure occurred at the Lublin Wrotków CHP plant.

Higher production in biomass CHP plants (increase by 0.2 TWh), mainly in Szczecin CHP plant, due to the optimisation of production between Szczecin CHP plant and Pomorzany CHP plant in terms of cost minimisation, resulting from the new model of heat and electricity generation in the above-mentioned locations.

Higher production in pumped storage power plants (increase by 0.3 TWh) results from the nature of the operation of the generating units, which were used to a greater extent by PSE S.A. in 2023.

Higher production in hydro power plants is due to better hydrological conditions in 2023.

Higher wind production achieved due to better wind conditions and commissioning of new capacities in 2023.

Higher production in photovoltaic power plants results from the commissioning of new capacities during 2023.

*HEAT PRODUCTION*

Table: Net production of heat (PJ).

| Heat production volume | Q4 2023 | Q4 2022 | % change | 2023 | 2022 | % change |
|---|---|---|---|---|---|---|
| **Net production of heat in PJ** | **17.60** | **17.94** | **-2%** | **50.25** | **52.79** | **-5%** |
| Lignite-fired power plants | 0.78 | 0.80 | -3% | 2.46 | 2.61 | -6% |
| Coal-fired power plants | 0.20 | 0.21 | -5% | 0.64 | 0.67 | -4% |
| Coal-fired CHP plants | 11.76 | 13.92 | -16% | 34.95 | 39.90 | -12% |
| Gas-fired CHP plants | 3.86 | 2.22 | 74% | 9.89 | 7.26 | 36% |
| Biomass-fired CHP plants | 0.87 | 0.38 | 129% | 1.87 | 1.50 | 25% |
| CHP plants fuelled by municipal waste | 0.02 | 0.05 | -60% | 0.11 | 0.30 | -63% |
| Other CHP plants | 0.11 | 0.36 | -69% | 0.33 | 0.55 | -40% |

External temperatures contributed more than any other factor to lower net generation of heat in 2023 (y/y). The average temperatures for 2023 were by 0.7°C higher y/y, which translated into decreased production of heat.

*HEAT SALES*

In the fourth quarter of 2023 the heat sales volume in PGE Capital Group totalled 17.2 PJ and was lower by 0.3 PJ y/y.

For whole 2023 the heat sales volume in PGE Capital Group totalled 49.0 PJ and was lower by 2.3 PJ y/y. The above result was caused mainly by lower demand for heat due to the higher average outside temperatures than in 2022.

*KEY OPERATING RESULTS OF PGE GROUP FOR 5 YEARS*

Table: Key operating results.

| Key operating results | Unit | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| Electricity generation, net | TWh | 56.77 | 66.13 | 68.95 | 58.13 | 58.32 |
| including RES generation | TWh | 2.73 | 2.24 | 2.33 | 2.32 | 2.04 |
| Sales of electricity outside the PGE Capital Group | TWh | 81.96 | 100.19 | 107.83 | 115.80 | 105.36 |
| Sales of electricity to final off-takers[1] | TWh | 34.71 | 34.28 | 37.48 | 41.17 | 44.01 |
| Heat production | PJ | 50.25 | 52.79 | 56.77 | 50.12 | 50.34 |
| Heat sales | PJ | 49.03 | 51.28 | 55.07 | 48.58 | 48.76 |
| Electricity distribution | TWh | 38.88 | 37.07 | 37.74 | 35.67 | 36.38 |

*[1] After eliminating sales within the PGE Group, sales carried out mainly by PGE Obrót S.A. and PGE Energia Ciepła S.A.*

Table: Installed capacity.

| Installed capacity | Unit | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| **Electricity** | **MWe** | **17 912** | **17 888** | **17 791** | **17 957** | **17 780** |
| Conventional Generation | MWe | 12 852 | 12 852 | 12 852 | 13 285 | 13 247 |
| District Heating | MWe | 2 580 | 2 608 | 2 608 | 2 346 | 2 344 |
| Renewables | MWe | 2 480 | 2 428 | 2 331 | 2 326 | 2 189 |
| **Thermal energy** | **MWt** | **7 088** | **7 766** | **7 686** | **7 835** | **7 834** |
| Conventional Generation | MWt | 958 | 844 | 844 | 1 339 | 1 339 |
| District Heating | MWt | 6 130 | 6 922 | 6 842 | 6 496 | 6 495 |

## 5.2. PGE Group's key financial results

The best way to measure the profitability of energy companies is recurring 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. Additionally, recurring EBITDA is adjusted for one-offs.

PGE Group's consolidated EBITDA is composed of the financial results of each of its operating segments. The following segments have the largest share in the Group's recurring EBITDA for 2023: Distribution (37%), District Heating (19%), Conventional Generation (19%), Railway Energy Services (12%), Renewables (12%). Other segments have an insignificant share in recurring EBITDA.

Chart: Recurring EBITDA of PGE Capital Group (PLN million)

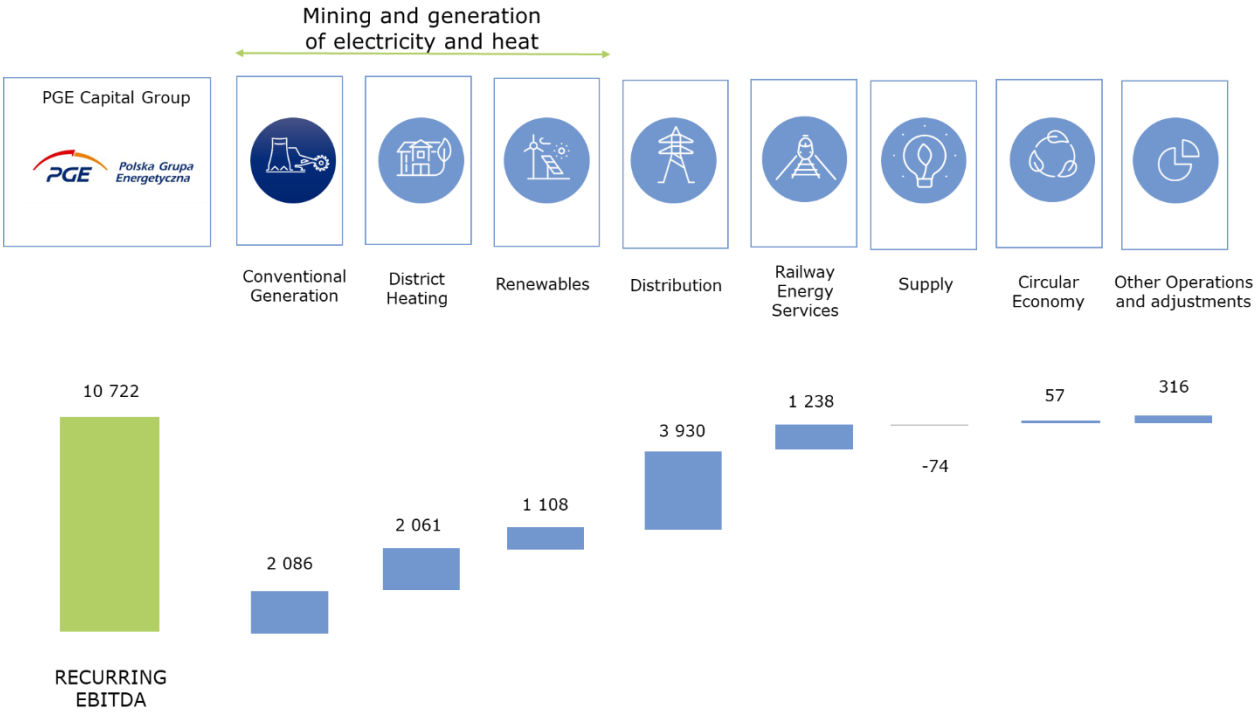


Chart: Reported EBITDA of PGE Capital Group (PLN million)

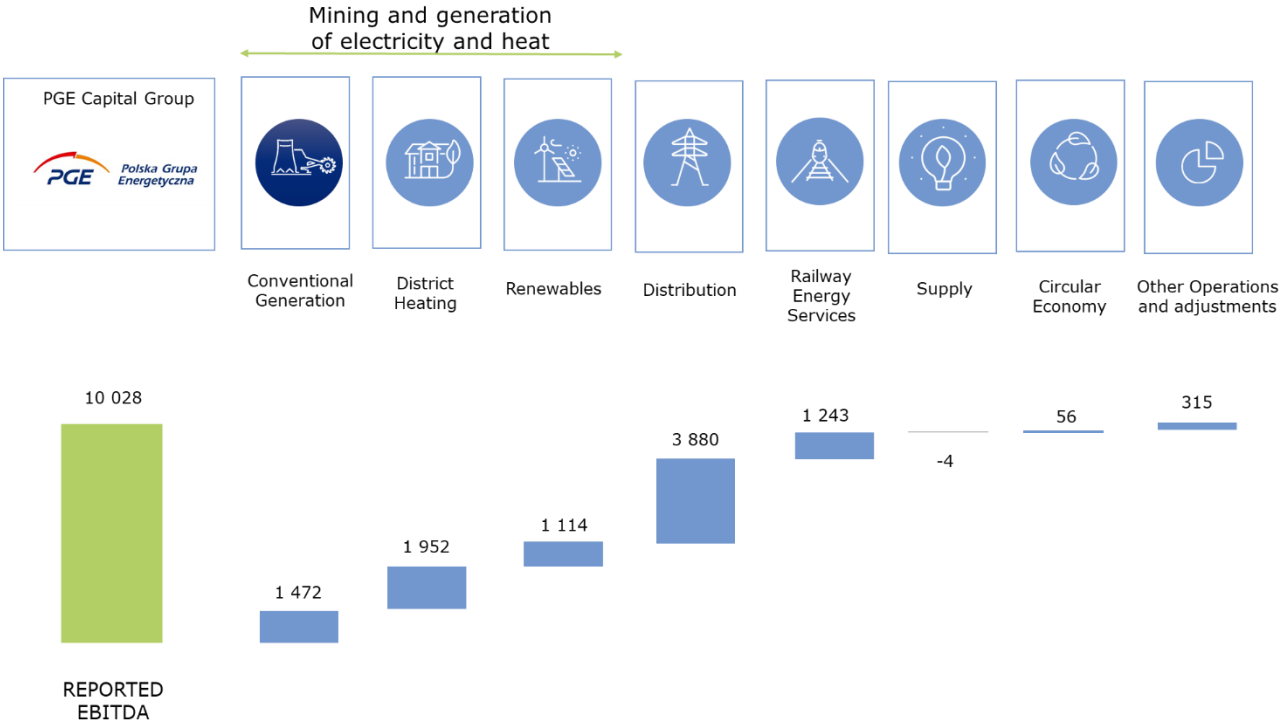
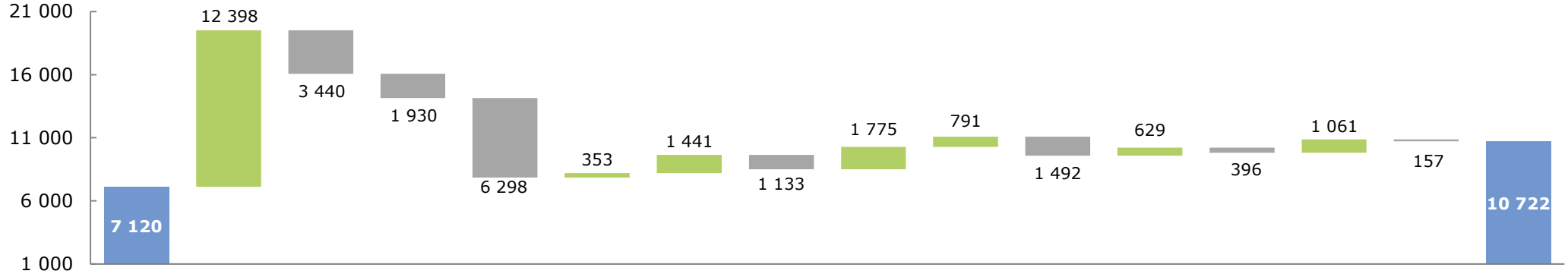



Table: Key financial figures of the PGE Capital Group for 5 years (PLN million).

| Key financial figures | 2023 | 2022 | % change | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| Sales revenues | 95 964 | 73 435 | 31% | 52 772 | 45 766 | 37 627 |
| EBIT reported | -3 431 | 4 299 | - | 5 123 | 1 408 | -4 175 |
| EBITDA reported | 10 028 | 8 657 | 16% | 9 535 | 5 966 | 7 141 |
| EBITDA recurring | 10 722 | 7 120 | 51% | 8 129 | 6 184 | 6 637 |
| One-offs[1] | -694 | 1 537 | - | 1 406 | -218 | 504 |
| Net profit/loss | -4 902 | 3 390 | - | 3 945 | 148 | -3 928 |
| Net debt | 11 121 | -2 656 | - | 4 228 | 7 267 | 11 217 |
| Net debt /LTM EBITDA reported (x) | 1.11 | -0.31 | - | 0.44 | 1.22 | 1.57 |
| Net debt /LTM EBITDA recurring (x) | 1.04 | -0.37 | - | 0.52 | 1.18 | 1.69 |
| Working capital | -7 107 | -1 250[2] | 469% | 890 | 71 | 767 |
| Capital expenditures | 10 088 | 7 053 | 43% | 4 662 | 5 495 | 7 009 |

[1] *One-offs at the EBITDA level.*
[2] *Restatement of comparative data to ensure greater consistency in the financial data presented.*

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




| | EBITDA 2022 | Result on the sale of electricity at producers[1] | CO2 emission rights[2] | Fuel costs, other production materials, electricity for pumping | Contribution to PDP fund[3] | Revenues from support of highly-efficient co-generation | Revenues from ancillary services and Capacity Market | Result on the sale of electricity to final customers[4] | Revenues from heat sales[5] | Margin on distribution services[6] | Personnel expenses[7] | Capitalised costs | Costs of materials and repair and maintenance services and external services | Margin on distribution services and on electricity to final customers Railway Energy Services | Other[8] | EBITDA 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Change** | | **12 398** | **-3 440** | **-1 930** | **-6 298** | **353** | **1 441** | **-1 133** | **1 775** | **791** | **-1 492** | **629** | **-396** | **1 061** | **-157** | |
| Reported EBITDA 2022 | **8 657** | | | | | | | | | | | | | | | |
| One-offs 2022 | **1 537** | | | | | | | | | | | | | | | |
| Recurring EBITDA 2022 | **7 120** | 34 059 | 20 274 | 10 680 | 351 | 231 | 2 984 | 1 365 | 2 989 | 4 594 | 5 832 | 689 | 1 654 | 0 | 1 000 | |
| Recurring EBITDA 2023 | | 46 457 | 23 714 | 12 610 | 6 649 | 584 | 4 425 | 232 | 4 764 | 5 385 | 7 324 | 1 318 | 2 050 | 1 061 | 1 157 | **10 722** |
| One-offs 2023 | | | | | | | | | | | | | | | | **-694** |
| Reported EBITDA 2023 | | | | | | | | | | | | | | | | **10 028** |

*1 Revenue from the sale of electricity reduced by the purchase cost of electricity.*
*2 Adjusted for result on resale of $CO_2$ emission rights, that was caused due to reductions by PSE S.A. and trading activities.*
*3 Without impact of correction of estimated contribution to the fund for 2022 (one-off).*
*4 Including compensation, margin adjustment on certificates at PGE Group; without additional estimation of the cost of the balancing difference.*
*5 Including compensations.*
*6 Including revenues from distribution services, compensations, transmission services (PSE), balance of transferred fees and costs of electricity purchased to cover balancing difference; without additional estimation of the cost of the balancing difference.*
*7 Personnel costs excluding actuarial provision (one-off).*
*8 Other without provision for prosumers, reclamation provision and LTC compensations (one-offs).*

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

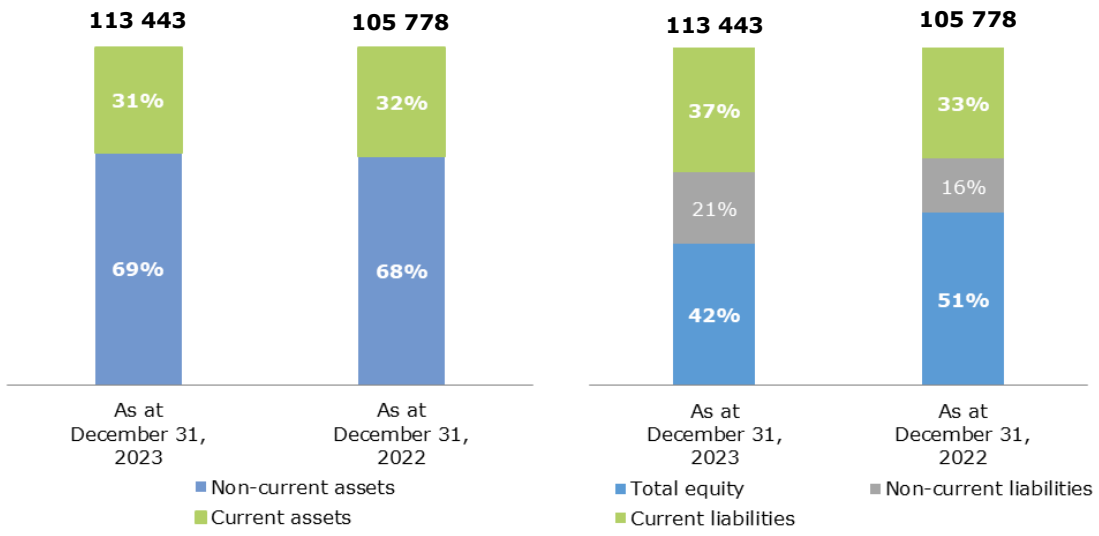
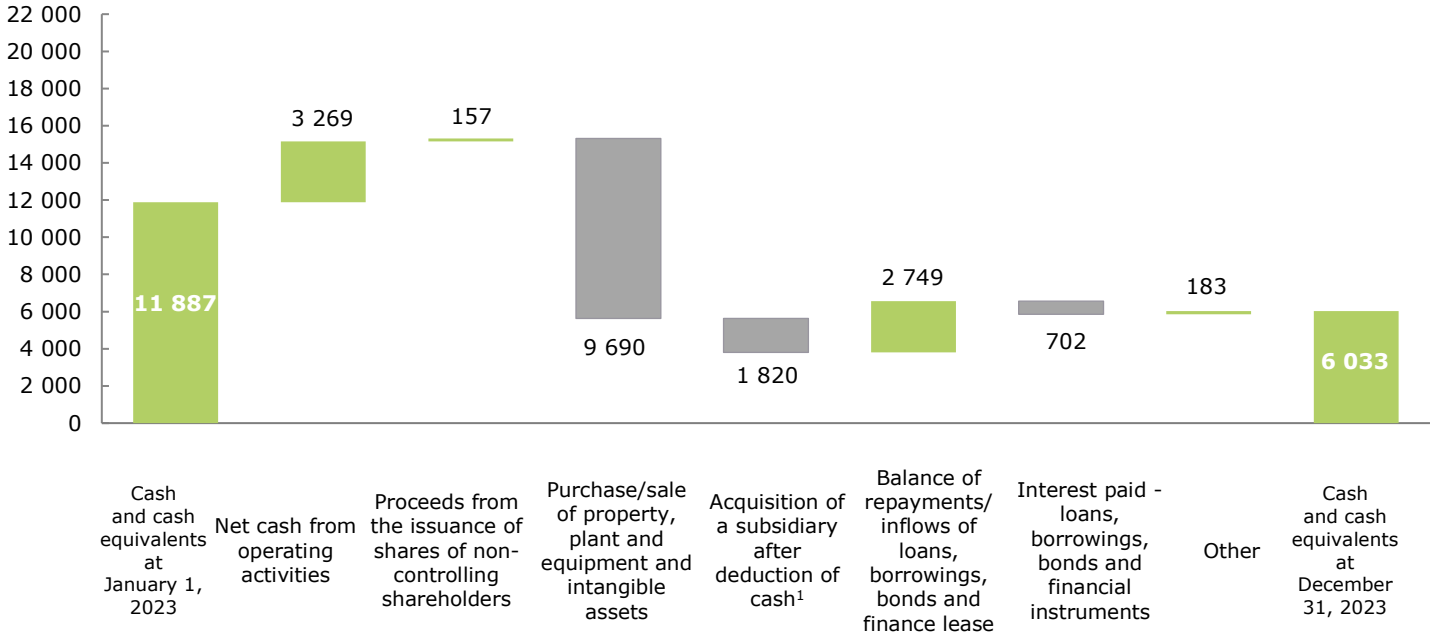


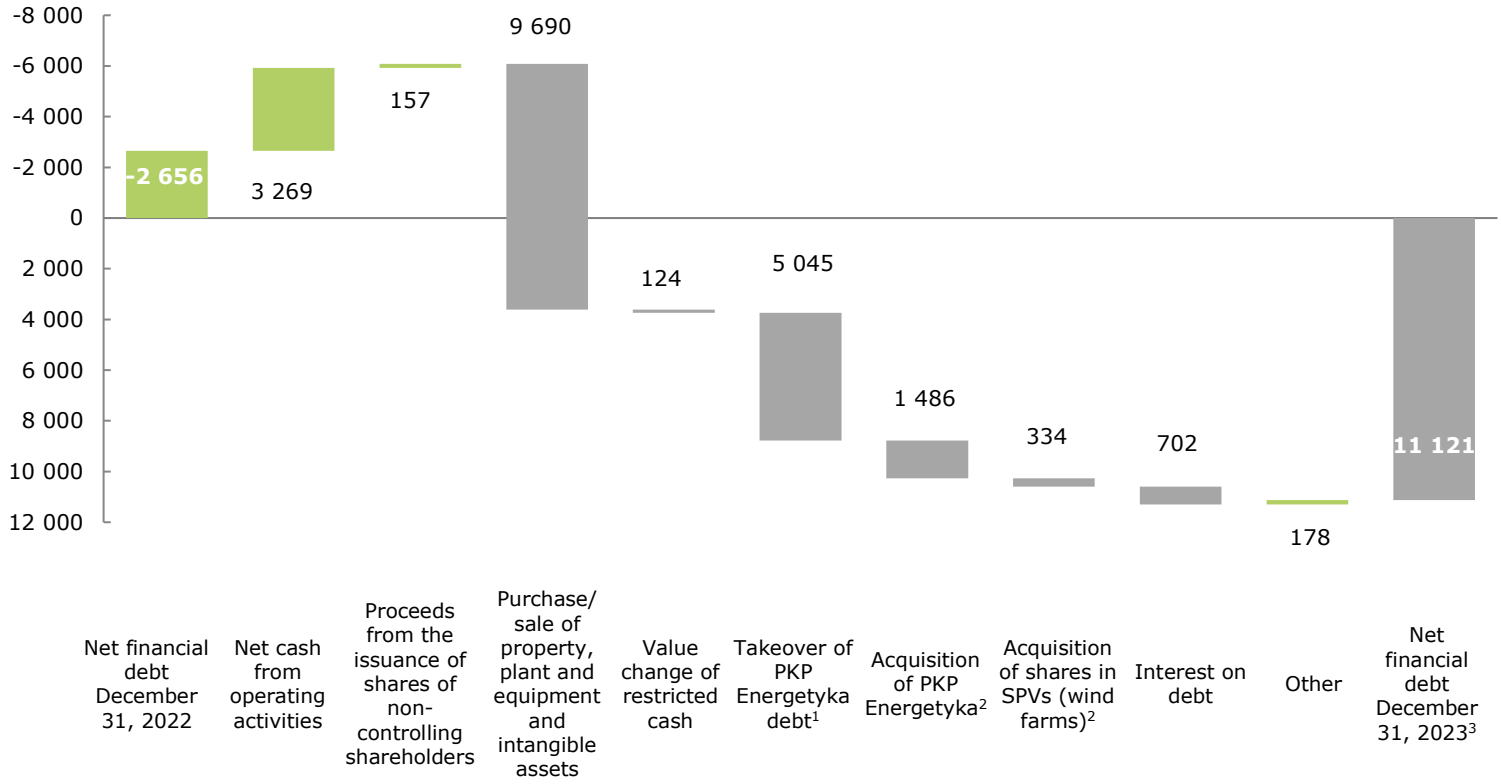

Chart: Net change in cash (in PLN million).




| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Impact on level of cash** | | 3 269 | 157 | -9 690 | -1 820 | 2 749 | -702 | 183 | |
| Cash and cash equivalents | **11 887** | | | | | | | | **6 033** |

*1 Acquisition of PKP Energetyka S.A. and LongWing Polska sp. z o.o.*

Chart: Net financial debt (in PLN million).

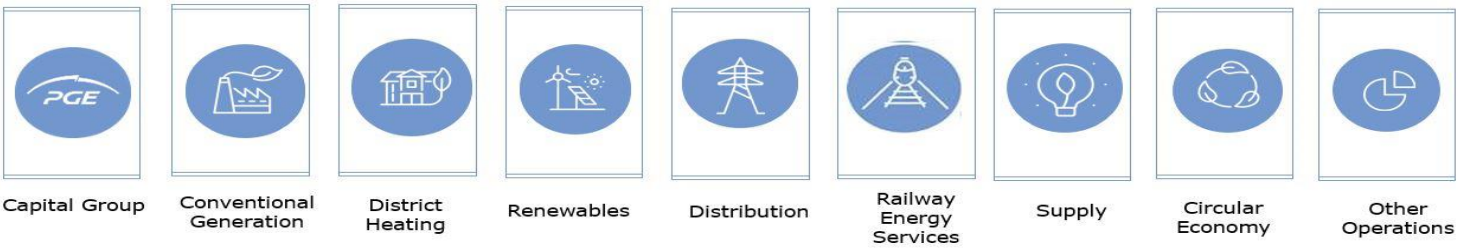



| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Impact on level of net debt** | | -3 269 | -157 | 9 690 | 124 | 5 045 | 1 486 | 334 | 702 | -178 | |
| Financial net debt | **-2 656** | | | | | | | | | | **11 121** |

*1 Estimated debt level as at the date of the company acquisition transaction.*
*2 After adjusting for the seized cash.*
*3 Estimated level of net economic debt (taking into account forward payment for $CO_2$ emission rights) amounts to PLN 21 960 million.*

# 5.3. Characteristics of business segments

## 5.3.1 Key results in business segments (in PLN million)



## 5.3.2 Conventional Generation

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

### Conventional Generation

| Main revenue items | PLN m |
|---|---|
| Sale of electricity[1] | 38 431 |
| Capacity market | 2 203 |
| Revenues from ancillary services | 1 697 |
| Sale of heat<br>Including contracted capacity and heat distribution | 135 |

| | |
|---|---|
| **Electricity generation** | **44.82 TWh** |
| **Heat generation** | **3.10 PJ** |

| Main result items | PLN m |
|---|---|
| **EBIT recurring** | -170 |
| **EBIT reported** | -9 418 |
| **EBITDA recurring** | 2 086 |
| **EBITDA reported** | 1 472 |

| Main cost items | PLN m |
|---|---|
| Fees for CO2 emissions | 21 013 |
| Depreciation and amortisation, liquidation, write-offs<br>Including capitalised depreciation | 10 906<br>16 |
| Cost of production fuels used | 6 693 |
| Contribution to PDP Fund | 5 531 |
| Personnel expenses[2] | 3 488 |
| External services | 2 327 |

*[1] Managerial perspective*

*[2] Adjusted for one-offs*

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 CO2 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.

Under the provisions of the Emergency Measures Act in 2023, from December 2022, electricity generating entities are required to make a contribution to the **Price Difference Payment Fund**.

*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 96%[19] of domestic extraction), it is also the largest generator of electricity as it generates approx. 31%[20] of domestic gross electricity production. The generation is based on lignite extracted from mines owned by the company as well as hard coal.

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

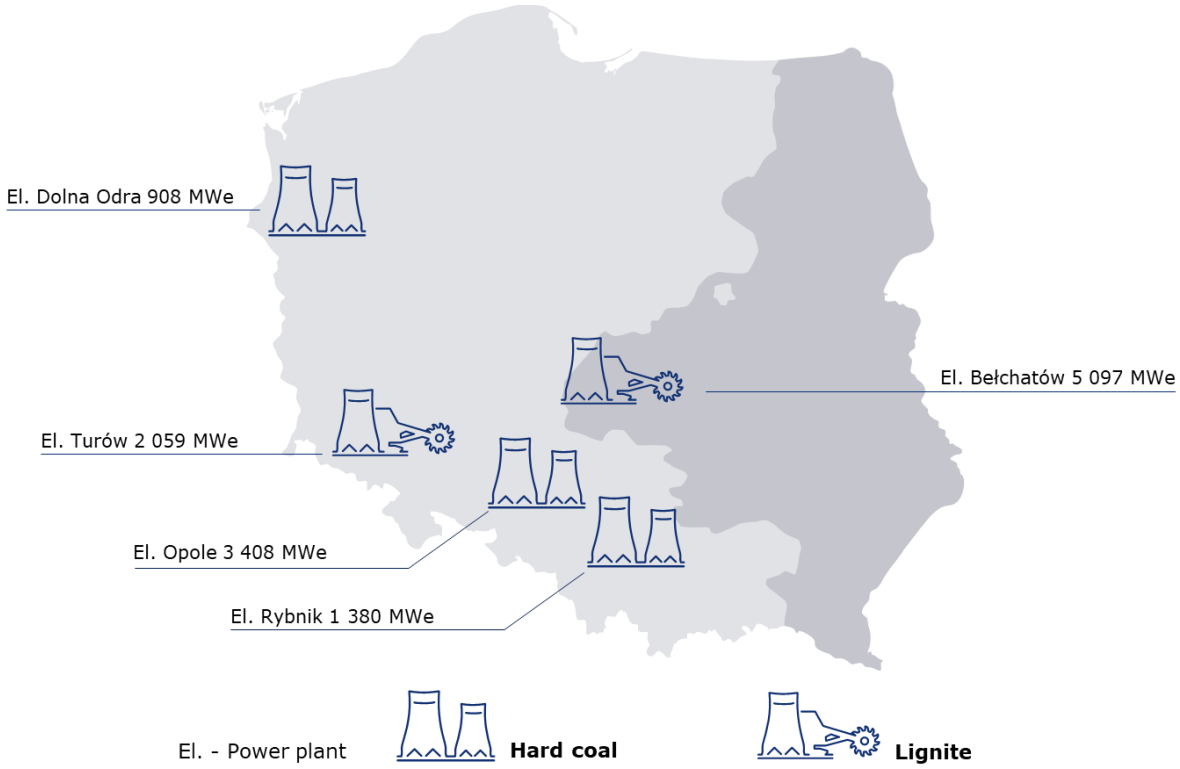
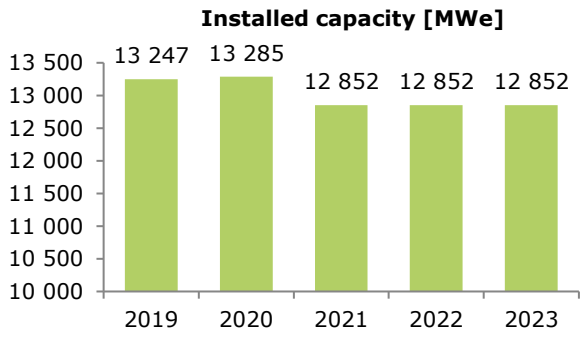
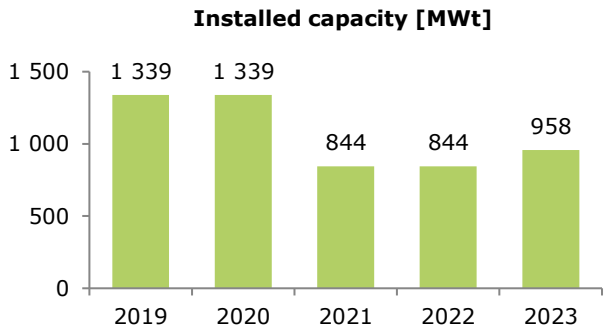



Chart: Change of installed capacity in Conventional Generation.




[19] *Own calculations based on data from Central Statistical Office of Poland.*
[20] *Own calculations based on data from PSE S.A.*

Table: Data in installed capacity in Conventional Generation.

| Main fuel types | Installed capacity (MWe) | | % change | Installed capacity (MWt) | | % change |
|---|---|---|---|---|---|---|
| | 2023 | 2022 | | 2023 | 2022 | |
| Hard coal | 5 696 | 5 696 | 0% | 251 | 251 | 0% |
| Lignite | 7 156 | 7 156 | 0% | 707 | 593 | 19% |
| **Total** | **12 852** | **12 852** | **0%** | **958** | **844** | **14%** |

Table: Electricity production (TWh).

| Main fuel types | Q4 2023 | Q4 2022 | % change | 2023 | 2022 | % change |
|---|---|---|---|---|---|---|
| Hard coal | 4.24 | 5.11 | -17% | 15.05 | 16.30 | -8% |
| Lignite | 7.80 | 9.63 | -19% | 29.75 | 39.52 | -25% |
| Biomass | 0.01 | 0.00 | - | 0.02 | 0.00 | - |
| **Total** | **12.05** | **14.74** | **-18%** | **44.82** | **55.82** | **-20%** |

Table: Heat production (PJ).

| Main fuel types | Q4 2023 | Q4 2022 | % change | 2023 | 2022 | % change |
|---|---|---|---|---|---|---|
| Hard coal | 0.20 | 0.21 | -5% | 0.64 | 0.67 | -4% |
| Lignite | 0.78 | 0.80 | -3% | 2.46 | 2.61 | -6% |
| **Total** | **0.98** | **1.01** | **-3%** | **3.10** | **3.28** | **-5%** |

Table: Availability and capacity factors in Conventional Generation.

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|
| **Availability[1]** | | | | | |
| Power plants - lignite | 82.2% | 86.0% | 82.7% | 82.2% | 78.4% |
| Power plants – hard coal | 90.6% | 87.4% | 78.2% | 80.2% | 81.4% |
| **Capacity factor [1]** | | | | | |
| Power plants - lignite | 57.2% | 75.2% | 70.8% | 58.3% | 62.4% |
| Power plants – hard coal | 33.3% | 35.8% | 42.6% | 34.2% | 38.2% |

*[1] 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.*

## *LIGNITE MINING*

Table: Lignite resources data as at the end of 2023 and lignite output in 2023.

| Deposit | Resources - as at the end of 2023 (Mg million) | | Output in 2023 (Mg million) |
|---|---|---|---|
| Bełchatów – Field Bełchatów | Industrial | 6.55 | 1.99 |
| Bełchatów – Field Szczerców | Industrial | 478.10 | 28.64 |
| Turów | Industrial | 253.17 | 7.76 |
| **Total** | **Industrial** | **737.82** | **38.39** |

*KEY FINANCIAL FIGURES IN THE SEGMENT*

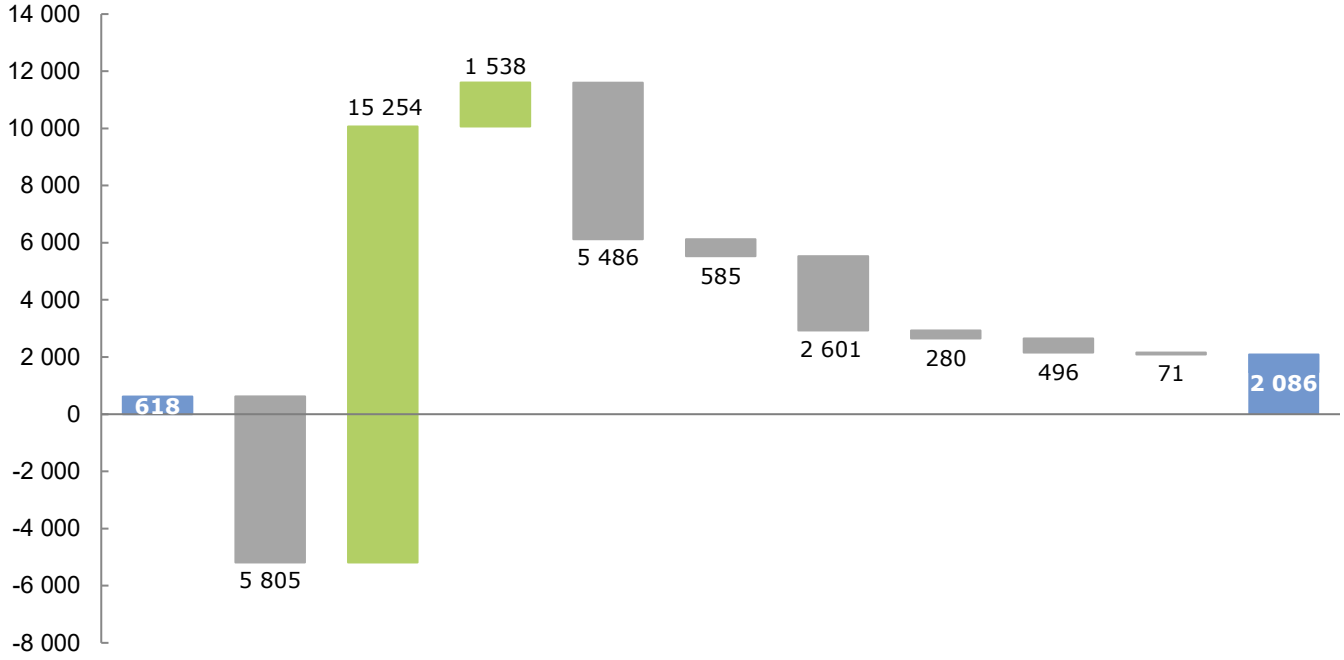
Table: Data on key financial figures in the Conventional Generation (PLN million).

| PLN million | 2023 | 2022 | % change | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| Sales revenues | 47 969 | 36 460 | 32% | 28 764 | 25 251 | 19 245 |
| EBIT reported | -9 418 | 127 | - | 1 998 | -647 | -7 109 |
| EBITDA reported | 1 472 | 2 065 | -29% | 4 078 | 1 725 | 2 880 |
| EBITDA recurring | 2 086 | 618 | 238% | 2 613 | 1 905 | 2 698 |
| One-offs[1] | -614 | 1 447 | - | 1 465 | -180 | 182 |
| Capital expenditures | 1 478 | 750 | 97% | 1 759 | 2 372 | 4 018 |

| PLN million | Q4 2023 | Q4 2022 | % change |
|---|---|---|---|
| Sales revenues | 11 602 | 10 543 | 10% |
| EBIT reported | -9 223 | -1 095 | 742% |
| EBITDA reported | 149 | -622 | - |
| EBITDA recurring | 404 | -352 | - |
| One-offs[1] | -255 | -270 | -6% |
| Capital expenditures | 666 | 350 | 90% |

[1] *One-offs at EBITDA level.*

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




| | EBITDA 2022 | Electricity production -volume[1] | Electricity production - price[1] | Ancillary services and Capacity Market | PDP Fund | Costs of fuel | Costs of $CO_2$[2] | Costs of ZHZW [3] | Personnel costs [4] | Other[5] | EBITDA 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Change** | | **-5 805** | **15 254** | **1 538** | **-5 486** | **-585** | **-2 601** | **-280** | **-496** | **-71** | |
| Reported EBITDA 2022 | **2 065** | | | | | | | | | | |
| One-offs 2022 | **1 447** | | | | | | | | | | |
| Recurring EBITDA 2022 | **618** | 28 982 | | 2 362 | 45 | 6 108 | 18 412 | 1 149 | 2 992 | 2 020 | |
| Recurring EBITDA 2023 | | 38 431 | | 3 900 | 5 531 | 6 693 | 21 013 | 1 429 | 3 488 | 2 091 | **2 086** |
| One-offs 2023 | | | | | | | | | | | **-614** |
| Reported EBITDA 2023 | | | | | | | | | | | **1 472** |

*1 Managerial perspective.*
*2 Costs reduced by resale of $CO_2$ emission rights, that was caused due to reductions by PSE S.A. and trading activities.*
*3 ZHZW - Agreement for Commercial Management of Generation Capacities.*
*4 Personnel costs excluding impact of change in actuarial provision and liability due to one-time benefit related to carve-out of NABE (one-off).*
*5 Item Other without taking into account the impact of a change in the reclamation provision (one-off).*

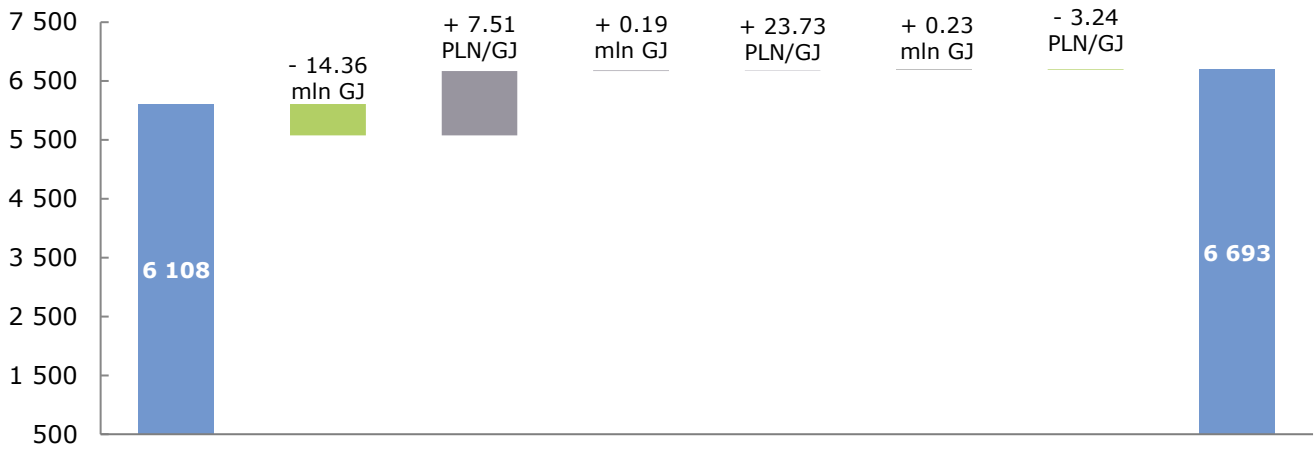
Table: Data on one-offs in Conventional Generation (PLN million).

| One-off | 2023 | 2022 | % change |
|---|---|---|---|
| Change of reclamation provision | -541 | 1 714 | - |
| Change of acuarial provision | -73 | -80 | -9% |
| Liability due to one-time benefit related to carve-out of NABE | - | -187 | - |
| Total | **-614** | **1 447** | **-** |

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

- **Increase in revenues from the sale of electricity,** which results from: higher average selling price of electricity by PLN 348/MWh y/y, which translated into an increase in revenues by approx. PLN 15 254 million; lower sales volume by 11.0 TWh, which resulted in a decrease in revenues by approx. PLN 5 805 million.
- **Higher revenues from ancillary services**, resulting mainly from larger settlements with the TSO due to the reallocation of electricity production between PGE GiEK branches within the Balancing Market and **higher result obtained from the Capacity Market**, as a result of the higher rate of capacity obligation and the higher availability of units of PGE GIEK S.A.
- **Contribution to the PDP fund**, which was introduced in December 2022 (PLN 45 million in 2022).
- **Higher fuel consumption costs**, mainly hard coal as a result of the significantly higher price of this fuel. Main changes on different types of fuel are presented in the chart below.
- **Higher $CO_2$ costs** as a result of higher average cost of $CO_2$ by PLN 130.3/t y/y. Main changes are shown in the chart below.
- **Higher ZHZW costs** results mainly from higher average price of electricity.
- **Higher personnel expenses** mainly in connection with the implementation of agreements concluded with the social party.

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

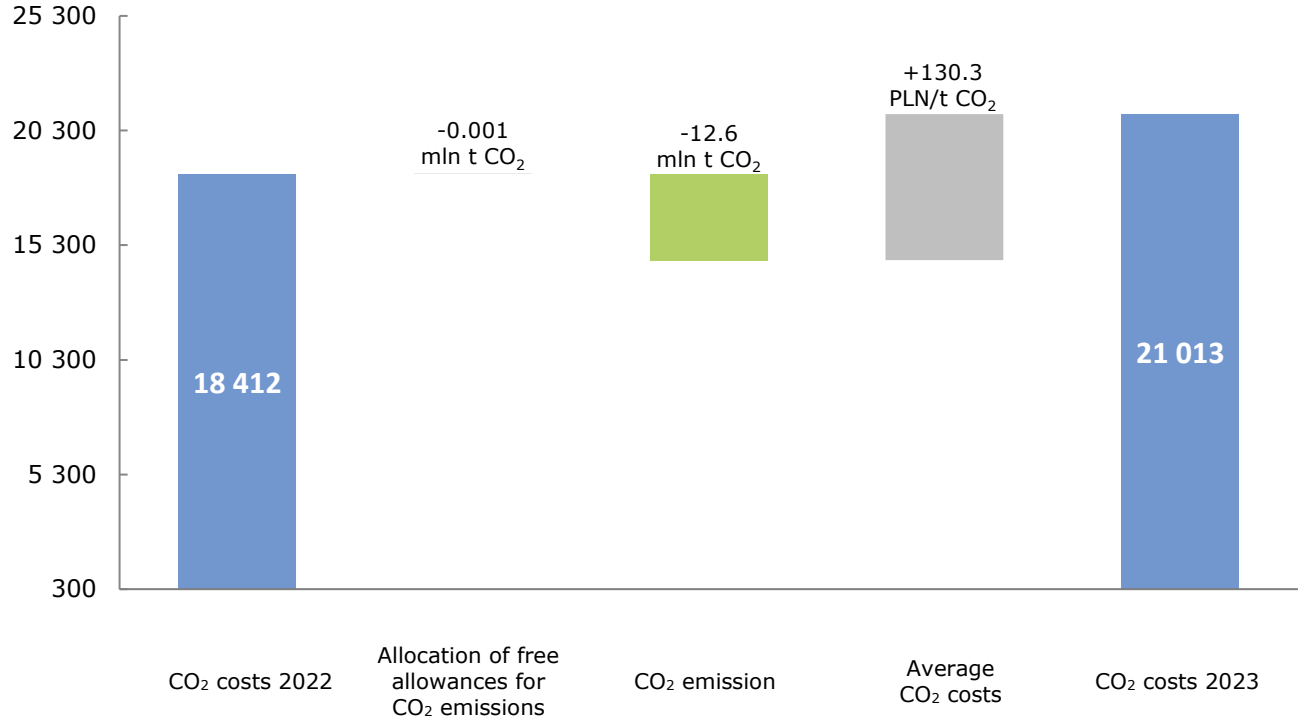



| | Cost of fuels 2022 | Hard coal volume | Hard coal price | Biomass volume | Biomass price | Light and heavy oil volume | Light and heavy oil price | Cost of fuels 2023 |
|---|---|---|---|---|---|---|---|---|
| **Change** | | **-532** | **1 095** | **8** | **5** | **17** | **-8** | |
| Cost of fuels 2022 | **6 108** | 5 942 | | 1 | | 165 | | |
| Cost of fuels 2023 | | 6 505 | | 14 | | 174 | | **6 693** |

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

| Fuel type | 2023 Volume (tons ths) | 2023 Cost (PLN million) | 2022 Volume (tons ths) | 2022 Cost (PLN million) |
|---|---|---|---|---|
| Hard coal | 6 513 | 6 505 | 7 356 | 5 942 |
| Biomass | 13 | 14 | 2 | 1 |
| Fuel oil – light and heavy | 60 | 174 | 54 | 165 |
| **Total** | | **6 693** | | **6 108** |

Chart: $CO_2$ costs in Conventional Generation segment (in PLN million).




| **Change** | | **0** | **-3 765** | **6 366** | |
|---|---|---|---|---|---|
| $CO_2$ costs 2022 | **18 412** | | | | |
| $CO_2$ costs 2023 | | | | | **21 013** |

Table: Data on $CO_2$ costs in Conventional Generation.

| Data on $CO_2$ | 2023 | 2022 | % change |
|---|---|---|---|
| Allocation of free allowances for $CO_2$ emissions (tons) | 62 772 | 63 753 | -2% |
| $CO_2$ emission (tons) | 48 944 703 | 61 510 908 | -20% |
| Average $CO_2$ costs (PLN/t $CO_2$)[1] | 429.9 | 299.6 | 43% |

[1] *Managerial perspective*

*CAPITAL EXPENDITURES*

Table: Capital expenditures incurred in Conventional Generation segment

| PLN million | 2023 | 2022 | % change |
|---|---|---|---|
| Investments in generating capacities, including: | 1 464 | 638 | 129% |
| ▪ Development | 36 | 4 | 800% |
| ▪ Modernisation and replacement | 1 428 | 634 | 125% |
| Other | 14 | 112 | -88% |
| **Total** | **1 478** | **750** | **97%** |

*KEY EVENTS IN CONVENTIONAL GENERATION*

- On July 3, 2023, a decision on the granting of a Construction Permit was issued for the **Start-up Station Installation Project at the Dolna Odra Power Plant**. On July 12, 2023, the construction site was handed over to the Contractor. On September 13, 2023, a three-pass shell boiler, the most important element of the investment project, was delivered to the construction site. Boiler will enable rapid start-up of the power generation units in the event of their complete shutdown.
- On July 13, 2023, as part of the task called **The construction of a steam generator at the Rybnik Power Plant**, the stage concerning the delivery of burners was accepted, while on 2 August 2023 the stage concerning the completion of works related to the construction of foundations and the construction of the start-up boiler house building with internal installations was accepted. On August 23, 2023, an agreement was signed with Energopomiar sp. z o.o. for warranty measurements of the start-up boiler house with two steam generators.
- On October 24, 2023, PGE GiEK S.A., through a law firm, filed a lawsuit in court against the Contractor, related to the possibility of exercising the Performance Bond or the payment of damages in the amount of PLN 200 million in connection with incorrect and insufficient actions in removing major defects during the warranty period, in particular coal mills, increased $CO_2$ emissions and erosion of flue gas water heaters. The filing of the lawsuit by PGE GiEK S.A. does not affect the mediation process conducted with the Contractor of **a power generating unit at the Turów power plant**. On December 13, 2023, another mediation meeting was held (the previous ones had taken place on September 12, October 30 and November 17, 2023) with the participation of the parties involved in the construction of the unit at the Turów power plant. The parties maintained their positions regarding the causes of the operational problems and the failure of the unit. The basis for further discussions is the removal of the most significant defects of the unit and the restoration of its availability.

### 5.3.3 District Heating

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

**District Heating**

| Main revenue items | PLN m |
|---|---|
| Sale of electricity[1] | 6 520 |
| Sale of heat[1] Including contracted capacity and heat distribution | 4 463 |
| Revenues from support of highly-efficient cogeneration | 584 |
| Capacity Market | 218 |

| | |
|---|---|
| **Heat generation** | **47.15 PJ** |
| **Electricity generation** | **8.51 TWh** |

| Main cost items | PLN m |
|---|---|
| Cost of production fuels used | 4 869 |
| CO2 cost[1] | 3 021 |
| Depreciation and amortisation, liquidation, write-offs | 784 |
| External services | 715 |
| Contribution to PDP fund | 647 |
| Personnel expenses[2] | 621 |

| Main result items | PLN m |
|---|---|
| **EBIT recurring** | 1 338 |
| **EBIT reported** | 1 168 |
| **EBITDA recurring** | 2 061 |
| **EBITDA reported** | 1 952 |

*[1] Managerial perspective*
*[2] After adjusting for one-offs*

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 co-generation 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 $CO_2$ emissions** and **contribution to PDP fund.**

Electricity production in high-efficiency cogeneration is additionally remunerated. CHP plants 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 Szczecin CHP plant and biomass unit in Kielce 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. 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.

Under the provisions of the Emergency Measures in 2023 Act, from December 2022, electricity generating entities are required to make a **contribution to the Price Difference Payment Fund**.

*ASSETS*

The following companies are included in the segment: PGE Energia Ciepła S.A., KOGENERACJA S.A., EC Zielona Góra S.A., PGE Toruń S.A., MEGAZEC sp. z o.o. and the district heating network in Gryfino.

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.

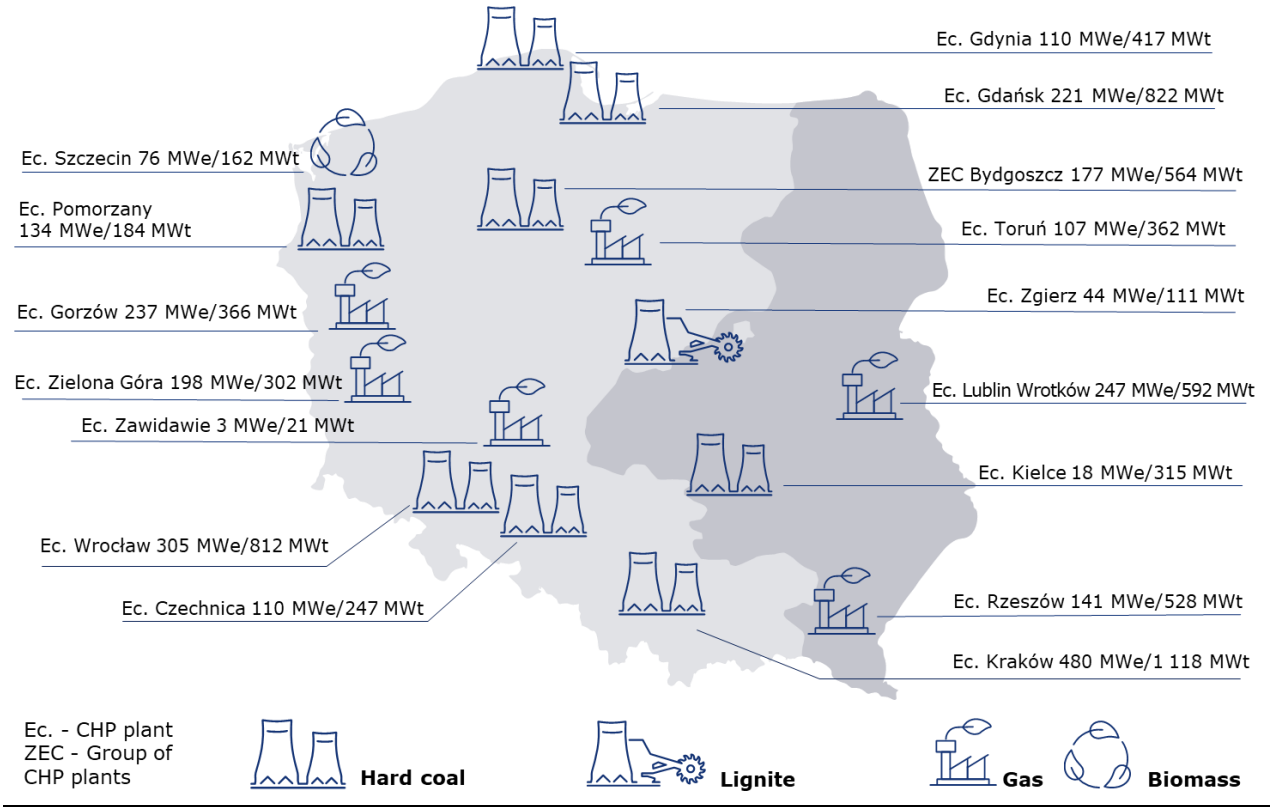
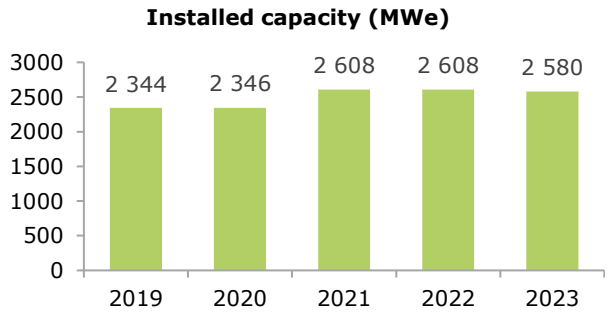



Chart: Change of installed capacity in District Heating



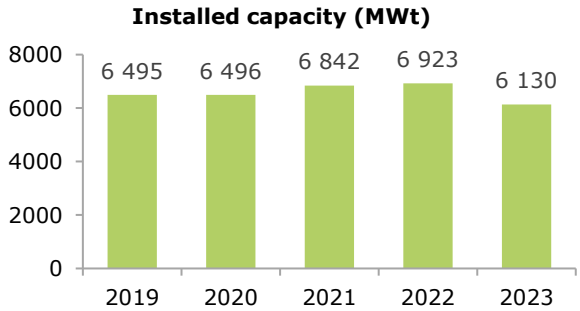



Table: Data on installed capacity in District Heating.

| Main fuel types | Installed capacity (MWe) | | % change | Installed capacity (MWt) | | % change |
|---|---|---|---|---|---|---|
| | 2023 | 2022 | | 2023 | 2022 | |
| Hard coal | 1 548 | 1 592 | -3% | 3 925 | 4 575 | -14% |
| Gas | 940 | 925 | 2% | 1 557 | 2 150 | -28% |
| Biomass | 83 | 83 | 0% | 176 | 176 | 0% |
| Other | 9 | 8 | 13% | 472 | 22 | 2 045% |
| **Total** | **2 580** | **2 608** | **-1%** | **6 130** | **6 923** | **-11%** |

Table: Electricity production (TWh).

| Main fuel types | Q4 2023 | Q4 2022 | % change | 2023 | 2022 | % change |
|---|---|---|---|---|---|---|
| Hard coal | 1.16 | 1.31 | -11% | 3.79 | 4.25 | -11% |
| Gas | 1.31 | 0.90 | 46% | 4.21 | 2.79 | 51% |
| Biomass | 0.11 | 0.07 | 57% | 0.44 | 0.25 | 76% |
| Other | 0.00 | 0.03 | -100% | 0.07 | 0.11 | -36% |
| **Total** | **2.58** | **2.31** | **12%** | **8.51** | **7.40** | **15%** |

Table: Heat production (PJ).

| Main fuel types | Q4 2023 | Q4 2022 | % change | 2023 | 2022 | % change |
|---|---|---|---|---|---|---|
| Hard coal | 11.76 | 13.92 | -16% | 34.73 | 39.90 | -13% |
| Gas | 3.85 | 2.22 | 73% | 9.86 | 7.26 | 36% |
| Biomass | 0.87 | 0.38 | 129% | 1.87 | 1.50 | 25% |
| Other | 0.15 | 0.41 | -63% | 0.69 | 0.85 | -19% |
| **Total** | **16.63** | **16.93** | **-2%** | **47.15** | **49.51** | **-5%** |

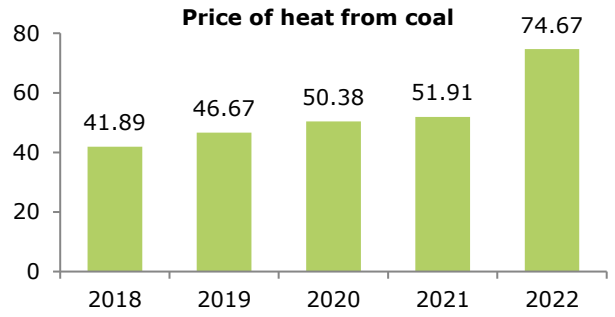
Table: Availability and capacity factors in District Heating.

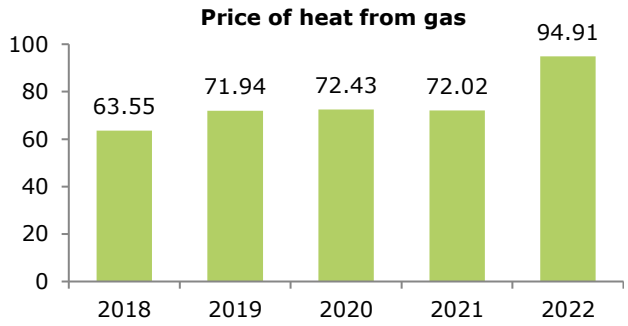
| | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|
| **Availability** | 84.0% | 75.3% | 79.7% | 75.8% | 81.0% |
| **Capacity factor** | 42.2% | 36.8% | 41.0% | 46.7% | 46.0% |

## TARIFFS IN DISTRICT HEATING

Due to the fact that the income on heat sales for CHP plant are tariffed 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.

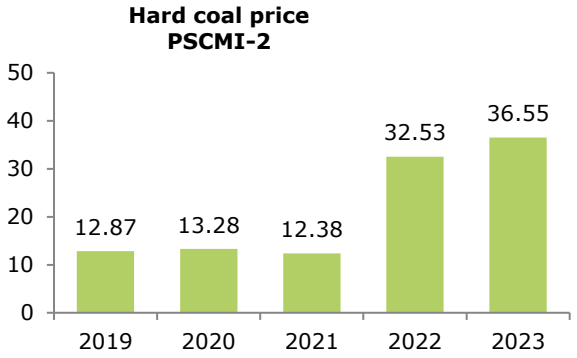
Charts: Changes in the reference price of heat for hard coal and natural gas (PLN/GJ).

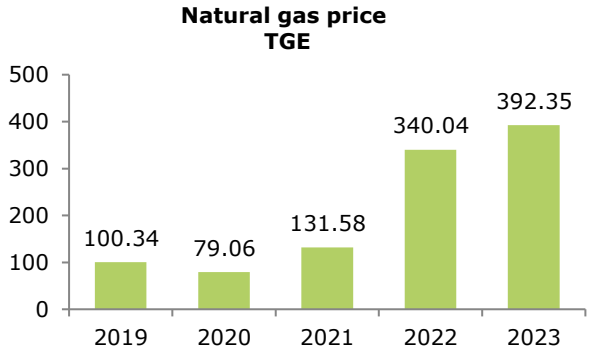



*Source: ERO.*

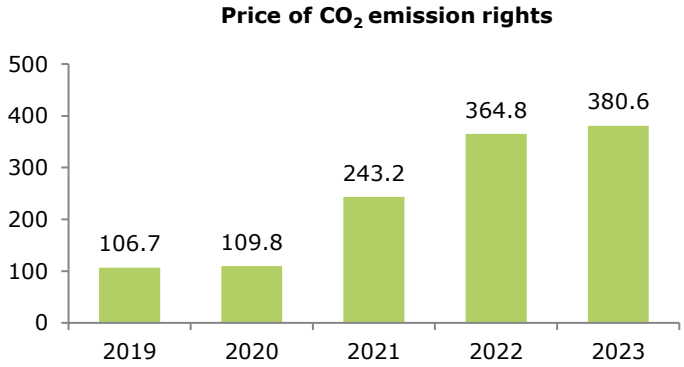
Charts: Changes in costs of fuels – hard coal (PLN/GJ) – PSCMI-2[21] and gas (PLN/MWh) - TGE.




*Source: ARP, TGE.*

Chart: Changes in price of $CO_2$ emission rights[22] (PLN/t).




*Source: ICE.*

Reflecting previous cost increases, the reference price of heat produced from hard coal increased by 44% in 2022. It is a base to the increase in heat prices for co-generation entities establishing the tariff during 2023. In 2023 the average market price of coal increased by 12%, while the average price of $CO_2$ emission rights increased by 4% in comparison to 2022.

[21] *PSCMI-2 Polish Steam Coal Market Index 2 - the average prices for pulverised coals sold on the domestic heating market.*
[22] *Arithmetic average of the daily and monthly records in a given period (spot price).*

Tariffs for the production of heat from gas in 2023 are set based on an change in the reference price, whereas in 2023 gas prices are higher than in previous periods. Prices of gas in TGE forward contracts stood at approx. PLN 392/MWh (i.e. increase by 15%).

*KEY FINANCIAL FIGURES IN THE SEGMENT*

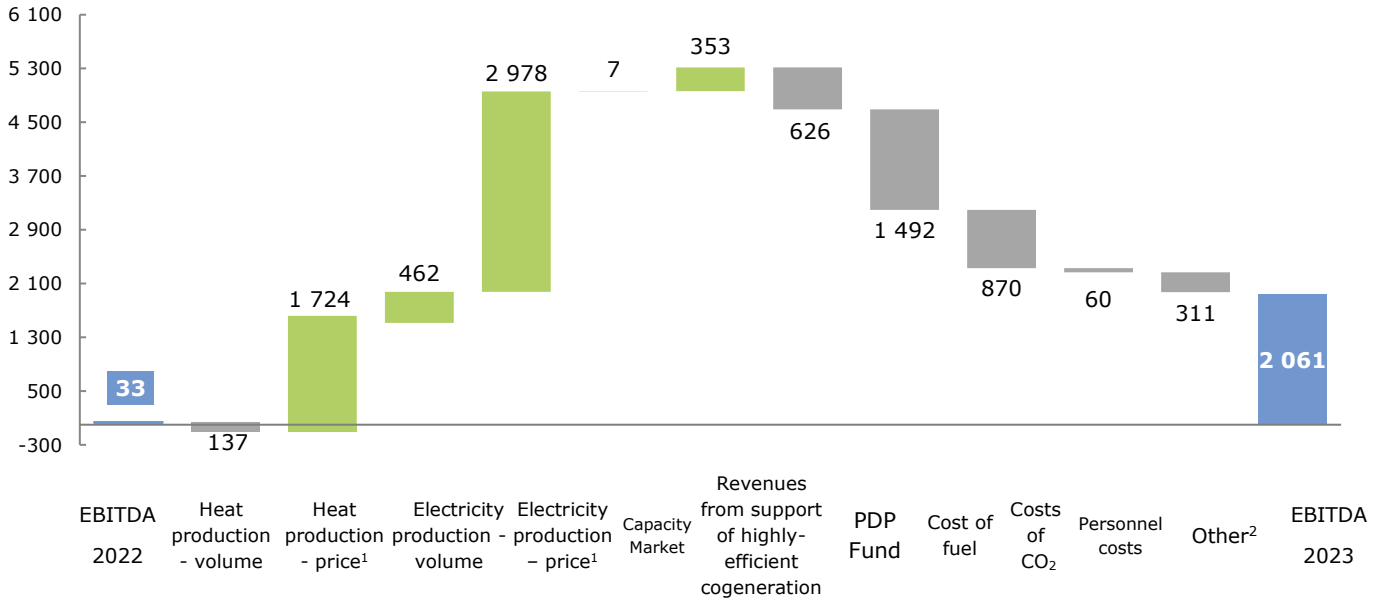
Table: Data on key financial figures in District Heating (PLN million).

| PLN million | 2023 | 2022 | % change | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| Sales revenues | 12 626 | 7 690 | 64% | 6 239 | 4 899 | 6 058 |
| EBIT reported | 1 168 | -713 | - | 104 | 304 | 595 |
| EBITDA reported | 1 952 | 39 | 4 905% | 805 | 947 | 1 186 |
| EBITDA recurring | 2 061 | 33 | 6 145% | 844 | 928 | 926 |
| One-offs[1] | -109 | 6 | - | -39 | 19 | 260 |
| Capital expenditures | 1 523 | 1 140 | 34% | 610 | 671 | 548 |

| PLN million | Q4 2023 | Q4 2022 | % change |
|---|---|---|---|
| Sales revenues | 4 068 | 2 796 | 45% |
| EBIT reported | 424 | -203 | - |
| EBITDA reported | 635 | -10 | - |
| EBITDA recurring | 706 | -6 | - |
| One-offs[1] | -71 | -4 | 1 675% |
| Capital expenditures | 533 | 618 | -14% |

[1] *One-offs at EBITDA level.*

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




| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Change** | | **-137** | **1 724** | **462** | **2 978** | **7** | **353** | **-626** | **-1 492** | **-870** | **-60** | **-311** | |
| Reported EBITDA 2022 | **39** | | | | | | | | | | | | |
| One-offs 2022 | **6** | | | | | | | | | | | | |
| Recurring EBITDA 2022 | **33** | 2 876 | | 3 080 | | 211 | 231 | 21 | 3 377 | 2 151 | 561 | 255 | |
| Recurring EBITDA 2023 | | 4 463 | | 6 520 | | 218 | 584 | 647 | 4 869 | 3 021 | 621 | 566 | **2 061** |
| One-offs 2023 | | | | | | | | | | | | | **-109** |
| Reported EBITDA 2023 | | | | | | | | | | | | | **1 952** |

[1] *Value adjusted for costs of certificates redemption.*

[2] *Item Other without taking into account the impact of changes in the reclamation provision and LTC compensations (one-offs).*

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

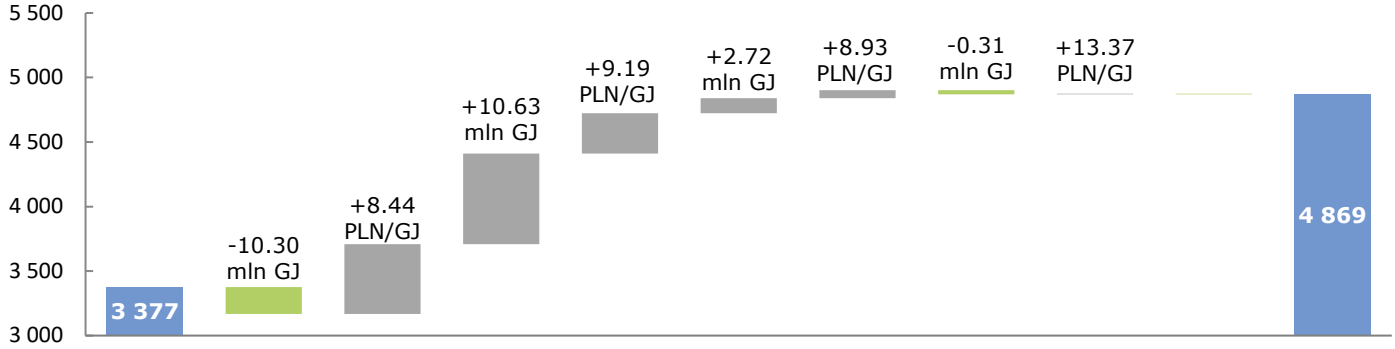
| One-offs | 2023 | 2022 | % change |
|---|---|---|---|
| Change in reclamation provision | 3 | 7 | -57% |
| Change in actuarial provision | -3 | -3 | 0% |
| LTC compensations | -109 | 2 | - |
| Total | **-109** | **6** | **-** |

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

- **Lower volume of net heat production** in 2023 y/y is a result of higher outside temperatures compared to 2022. The average temperatures were by 0.7° C higher, what translated into decreased heat production (by 2.4 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 reference prices for heat production in units not being co-generation units and the amendment of the tariff regulation.
- **Increase in revenues from the sale of electricity,** which results from: higher sales volume by 1.1 TWh, which resulted in an increase in revenues by approx. PLN 462 million and higher average selling price of electricity by PLN 350/MWh y/y, which translated into an increase in revenues by approx. PLN 2 978 million.
- **Higher revenues from Capacity Market,** due to the higher volume of dispatch capacity.
- **Higher revenues due to support for high-efficiency cogeneration** due to the granting of a higher individual cogeneration bonus for gas-fired units.
- **Contribution to the PDP fund**, which was introduced in December 2022 (PLN 21 million in 2022).

- **Higher fuel consumption costs** which are caused by higher gas prices and higher price of hard coal. The details are shown in the chart below.
- **Higher $CO_2$ costs** are mainly a result of higher price of allowances. The details are shown in the chart below.
- **Higher level of personnel costs** mainly in connection with realization of agreements with the social party.

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

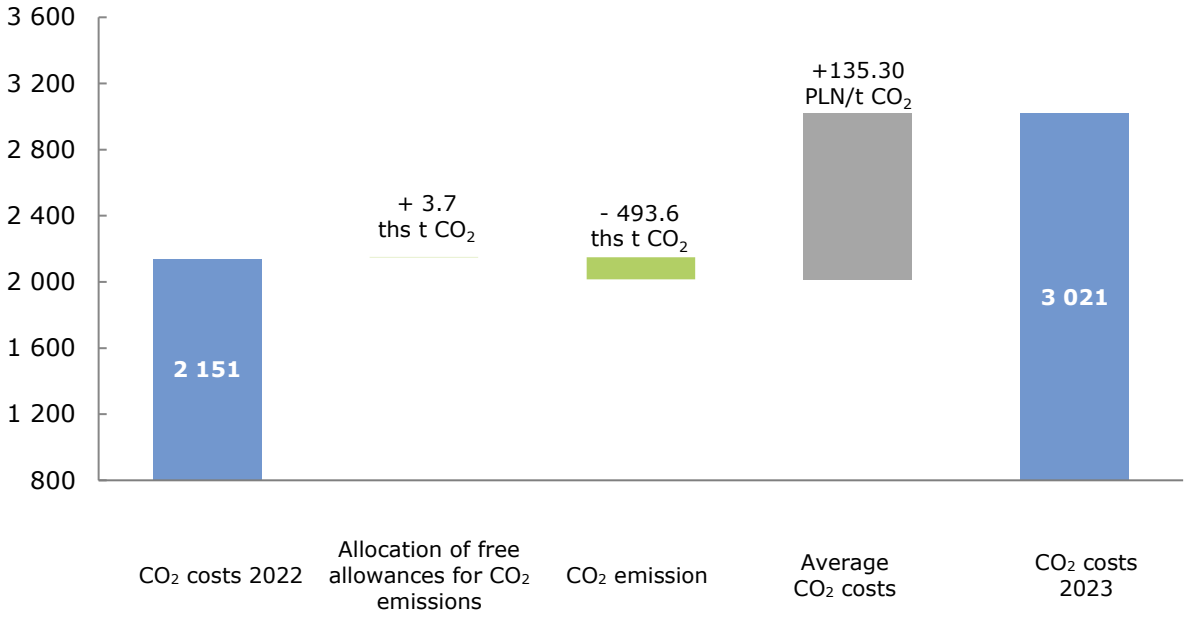



| | Costs 2022 | Hard coal volume | Hard coal price | Gas volume | Gas price | Biomass volume | Biomass price | Fuel oil volume | Fuel oil price | Other raw materials | Costs 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Change** | | **-210** | **542** | **701** | **312** | **118** | **62** | **-33** | **6** | **-6** | |
| Costs of fuel 2022 | **3 377** | 1 517 | | 1 570 | | 185 | | 86 | | 19 | |
| Costs of fuel 2023 | | 1 849 | | 2 583 | | 365 | | 59 | | 13 | **4 869** |

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

| Fuel type | 2023 Volume (tons ths) | 2023 Cost (PLN million) | 2022 Volume (tons ths) | 2022 Cost (PLN million) |
|---|---|---|---|---|
| Hard coal | 2 903 | 1 849 | 3 380 | 1 517 |
| Gas (cubic metres ths) | 1 142 204 | 2 583 | 832 495 | 1 570 |
| Biomass | 763 | 365 | 479 | 185 |
| Fuel oil and other raw materials | - | 72 | - | 105 |
| Total | | **4 869** | | **3 377** |

Chart: $CO_2$ costs in District Heating (PLN million).




| | | | | | |
|---|---|---|---|---|---|
| **Change** | | **-1** | **-134** | **1 005** | |
| $CO_2$ costs 2022 | **2 151** | | | | |
| $CO_2$ costs 2023 | | | | | **3 021** |

Table: Data on $CO_2$ costs in District Heating.

| Data regarding $CO_2$ | 2023 | 2022 | % change |
|---|---|---|---|
| Allocation of free allowances for $CO_2$ emissions (tons) | 578 524 | 574 793 | 1% |
| $CO_2$ emission (tons) | 8 005 915 | 8 499 510 | -6% |
| Average $CO_2$ costs (PLN/t $CO_2$)[1] | 406.7 | 271.4 | 50% |

[1] *Managerial perspective.*

*CAPITAL EXPENDITURES*

Table: Capital expenditures incurred in District Heating segment.

| PLN million | 2023 | 2022 | % change |
|---|---|---|---|
| Investments in generating capacities, including: | 1 507 | 1 076 | 40% |
| ▪ Development | 1 144 | 679 | 68% |
| ▪ Modernisation and replacement | 363 | 397 | -9% |
| Other | 16 | 64 | -75% |
| **Total** | **1 523** | **1 140** | **34%** |

*KEY EVENTS IN DISTRICT HEATING*

- The turnkey construction of the **New Czechnica CHP plant, i.e. CCGT unit** with a total gross capacity of 179 MWe and 163 MWt, heat accumulator and four water boilers with total capacity of 152 MWt, is in progress. The water boiler plant was commissioned in November 2023. The installation of gas turbine sets nos. 1 and 2 and a steam turbine set was completed. Electrical cabling works and the commissioning of the control, measurement and automation apparatus are currently underway.
- The works on **peak-reserve boiler** construction projects were continued at the CHP plants in **Gorzów Wielkopolski, Lublin and Rzeszów**. In the fourth quarter of 2023, assembly works were completed at the Gorzów and Rzeszów construction sites, which was followed by the initiation of commissioning works at these locations. At the Lublin CHP plant, assembly works were being continued. They are now close to

completion. Commissioning activities were started in February 2024. All boiler plants are planned to have been commissioned in the first half of 2024.

- At **Rzeszów CHP plant** the construction of the second line with a capacity of 80 000 tons of waste / year of the **Waste-to-Energy Incinerator** is in progress. In 2023, key deliveries of boiler components were completed and assembly works were underway. Commissioning is planned for the first quarter of 2025.
- An investment program is being implemented in **Bydgoszcz I CHP plant** (EC I) and **Bydgoszcz II CHP plant** (EC II):
  - EC I: On July 31, 2023, the boiler house consisting of four gas-fired boilers (with a total thermal power of 38 MWt) was commissioned.
  - EC II: the contract is being pursued for construction of a cogeneration source based on five gas engines with a total capacity of 52.6 MWe/ 50.8 MWt and a reserve-peak heat source. Assembly works in the engine house are underway. The delivery of engines is expected in the second quarter of 2024. A commissioning procedure is planned for the first quarter of 2025.
- At the **Zgierz CHP plant**, a new CHP system comprising three CHP units (total capacity of approximately 15 MWt), a gas-fired back-up/peak boiler (7 MWt) and a RES installation comprising solar panels (100 kW) was commissioned on October 12, 2023.
- At **Kielce CHP plant** construction of a cogeneration system based on a 7.32 MWe and 12.42 MWt gas turbine with a recovery boiler was continued in 2023. Works on the construction site are well advanced, with the main components of the unit having been delivered and placed on the foundations. Final assembly works are being carried out and preparations are underway to begin commissioning works. With regard to the construction of the 5x32 MWt gas boiler plant, the final investment acceptance procedure took place on December 29, 2023.
- In the fourth quarter of 2023, PGE Energia Ciepła S.A. continued the preparation phase of the programme for **the construction of photovoltaic power plants** to meet part of particular facilities' own needs at selected locations. The scope of the programme comprises 8 locations where the construction of PV plants with a total capacity of approximately 13 MW is envisaged. Tender procedures for the selection of contractors for individual installations and the acquisition of the required administrative decisions are being carried out.

*KEY PROJECT IN 2023*

| Aim of the project | Budget[1] | Expenditures incurred[1] | Capital expenditures in 2023[1] | Fuel/ Net efficiency | Contractor | Investment completion date |
|---|---|---|---|---|---|---|
| Construction of New Czechnica CHP Plant | PLN 1.2 bn | approx. PLN 968 million | PLN 538 million | Natural gas/ 85% in cogeneration | Syndicate of: Polimex Mostostal S.A. (Leader) / Polimex Energetyka sp. z o.o. | Q2 2024 |

*[1] 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.*

### 5.3.4 Renewables

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

**Renewables**

| Main revenue items | PLN m |
|---|---|
| Sale of electricity | 2 291 |
| Capacity Market | 259 |
| Sale of certificates | 214 |
| Ancillary services | 14 |

**Electricity generation** **3.44** **TWh**

| Main cost items | PLN m |
|---|---|
| Use of energy<br>incl. energy to pump water at pumped-storage plants | 832<br>821 |
| Depreciation and amortisation | 361 |
| Taxes and fees<br>incl. Contribution to PDP fund<br>Real estate tax | 343<br>259<br>70 |
| External services | 231 |
| Personnel expenses[1] | 195 |

| Main result items | PLN m |
|---|---|
| **EBIT recurring** | 747 |
| **EBIT reported** | 753 |
| **EBITDA recurring** | 1 108 |
| **EBITDA reported** | 1 114 |

[1] *After adjusting for one-offs*

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 production of 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: **use of energy to pump water at pumped-storage plants, depreciation of segment assets** and **third-party services**, mainly the repair services. Property tax and employee wages also constitute a significant cost item in this segment. Under the provisions of the Emergency Measures in 2023 Act, from December 2022, electricity generating entities were required to make a contribution to the **Price Difference Payment Fund**.

*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 also includes companies from the Offshore area, which are responsible for all activities related to offshore wind energy.

Assets in the segment include:

- 21 wind farms,
- 30 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.

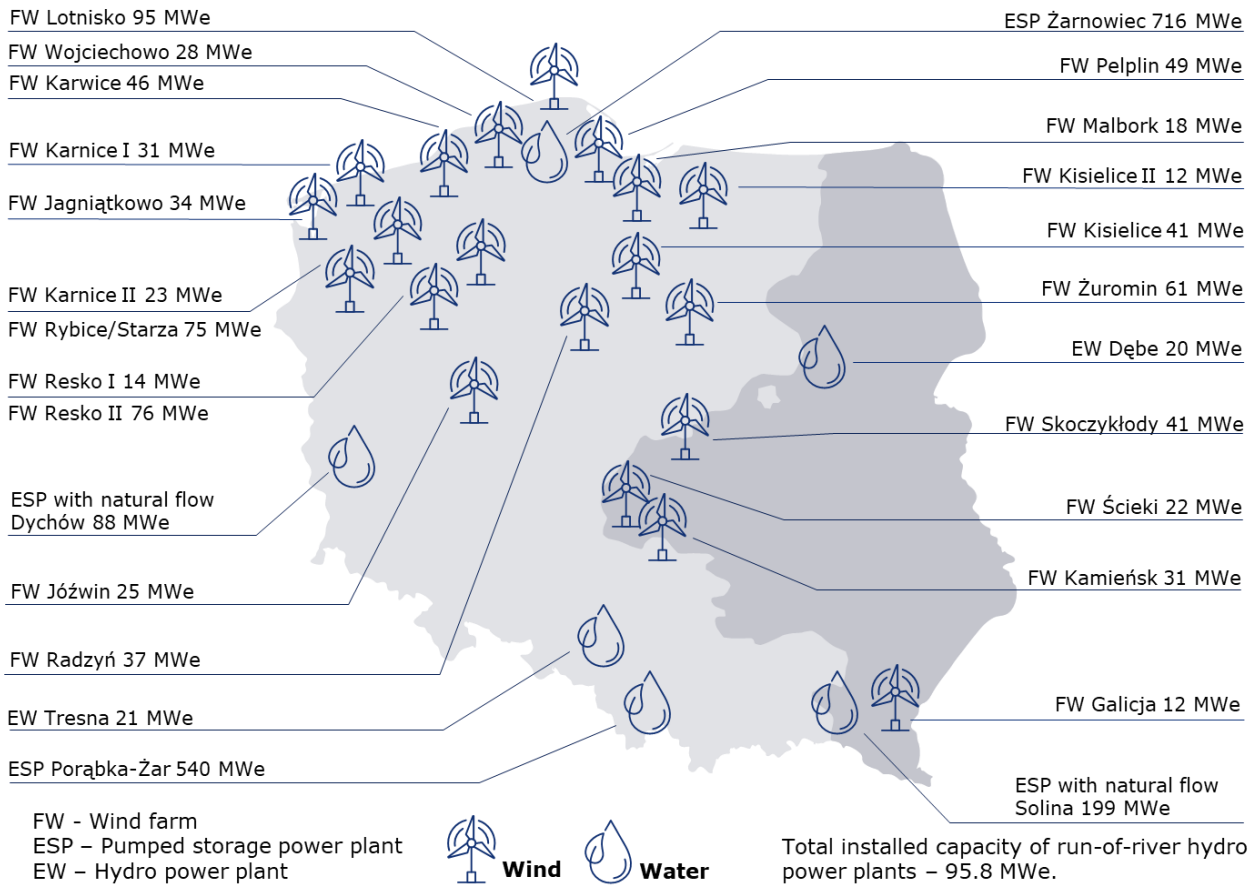


Chart: Change of installed capacity in Renewables (MWe).

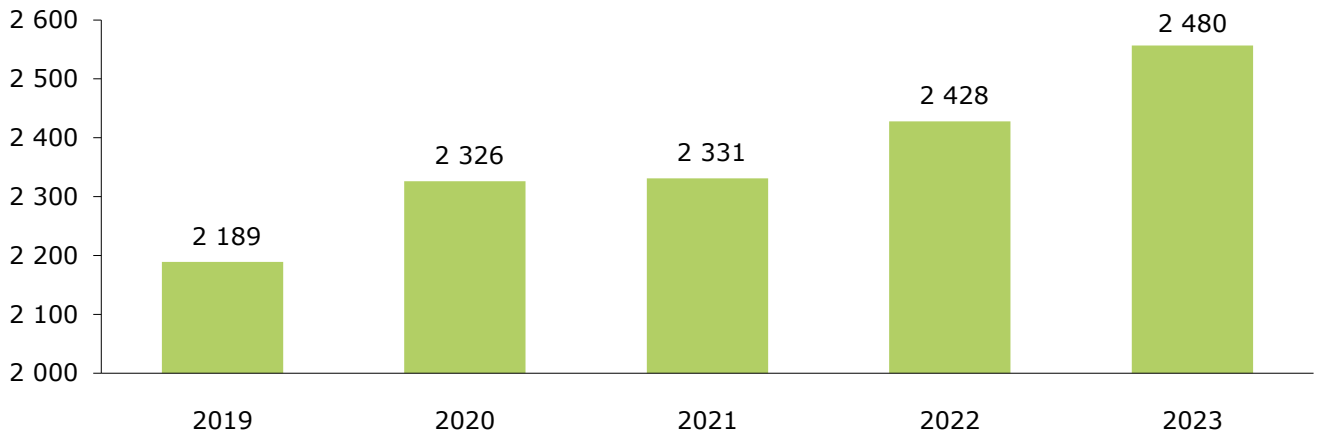



Table: Data on installed capacity in power plants in Renewables (MWe).

| Type of power plant | 2023 | 2022 | % change |
|---|---|---|---|
| Run-of-river hydro power plants | 96 | 96 | 0% |
| Pumped-storage power plants | 1 251 | 1 251 | 0% |
| Pumped-storage power plants with natural flow | 287 | 287 | 0% |
| Wind farms | 797 | 772 | 3% |
| PV | 49 | 22 | 123% |
| **Total** | **2 480** | **2 428** | **2%** |

Table: Energy production (GWh).

| Type of power plant | Q4 2023 | Q4 2022 | % change | 2023 | 2022 | % change |
|---|---|---|---|---|---|---|
| Pumped-storage power plants | 310 | 269 | 15% | 1 201 | 953 | 26% |
| Run-of-river hydro power plants | 103 | 74 | 39% | 441 | 389 | 13% |
| Wind farms | 608 | 406 | 50% | 1 774 | 1 568 | 13% |
| PV | 3 | 1 | 200% | 25 | 5 | 400% |
| **Total** | **1 024** | **749** | **37%** | **3 441** | **2 915** | **18%** |

Table: Availability and capacity factor in Renewables.

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|
| Availability | | | | | |
| Run-of-river hydro power plants | 89.6% | 92.1% | 88.6% | 90.1% | 91.8% |
| Wind farms | 97.1% | 97.6% | 97.2% | 97.0% | 97.3% |
| Capacity factor | | | | | |
| Run-of-river hydro power plants | 35.3% | 31.8% | 35.3% | 31.7% | 30.2% |
| Wind farms | 26.7% | 26.0% | 25.7% | 28.0% | 28.0% |

*KEY FINANCIAL FIGURES IN THE SEGMENT*

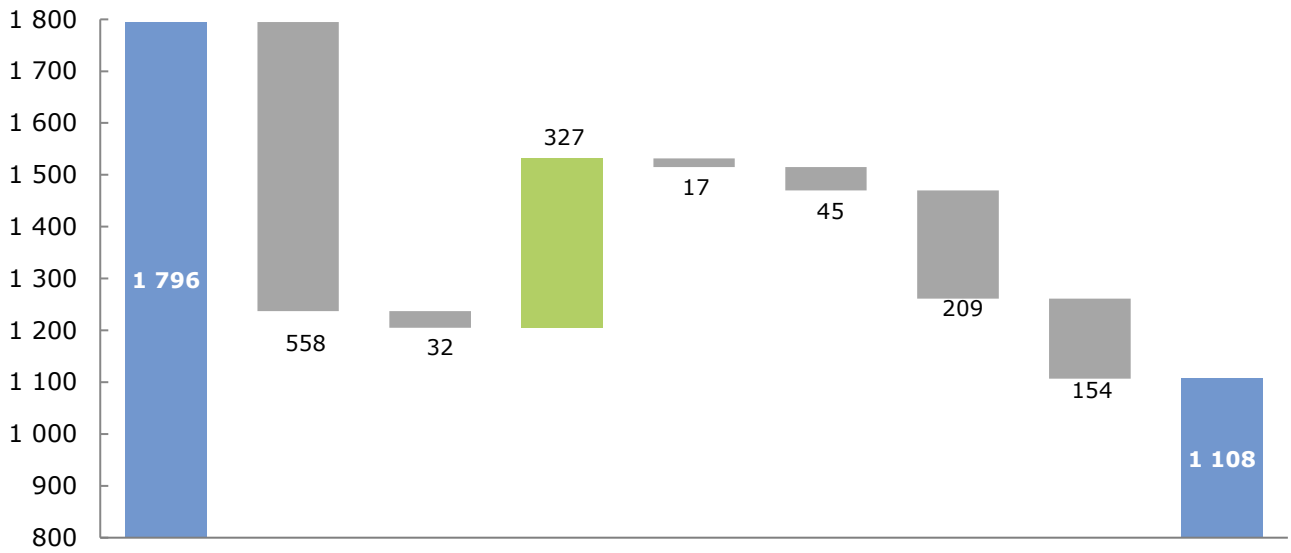
Table: Data on key financial figures in Renewables (PLN million).

| PLN million | 2023 | 2022 | % change | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| Sales revenues | 2 806 | 3 401 | -17% | 1 672 | 1 091 | 1 039 |
| EBIT reported | 753 | 1 440 | -48% | 686 | 405 | 657 |
| EBITDA reported | 1 114 | 1 795 | -38% | 1 016 | 597 | 517 |
| EBITDA recurring | 1 108 | 1 796 | -38% | 1 013 | 597 | 519 |
| One-offs[1] | 6 | -1 | - | 3 | - | -2 |
| Capital expenditures | 1 223 | 458 | 167% | 189 | 715 | 151 |

| PLN million | Q4 2023 | Q4 2022 | % change |
|---|---|---|---|
| Sales revenues | 712 | 900 | -21% |
| EBIT reported | 178 | 305 | -42% |
| EBITDA reported | 268 | 393 | -32% |
| EBITDA recurring | 272 | 395 | -31% |
| One-offs[1] | -4 | -2 | 100% |
| Capital expenditures | 411 | 258 | 59% |

[1] *One-offs at the EBITDA level.*

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




| | EBITDA 2022 | Electricity revenues [1] | Certificates revenues | Purchase of electricity for pumped storage plants | Ancillary services and Capacity Market | Personnel costs | PDP Fund | Other | EBITDA 2023 |
|---|---|---|---|---|---|---|---|---|---|
| **Change** | | **-558** | **-32** | **327** | **-17** | **-45** | **-209** | **-154** | |
| Reported EBITDA 2022 | **1 795** | | | | | | | | |
| One-offs 2022 | **-1** | | | | | | | | |
| Recurring EBITDA 2022 | | 2 849 | 246 | 1 148 | 276 | 150 | 50 | 227 | |
| Recurring EBITDA 2023 | **1 796** | 2 291 | 214 | 821 | 259 | 195 | 259 | 381 | **1 108** |
| One-offs 2023 | | | | | | | | | **6** |
| Reported EBITDA 2023 | | | | | | | | | **1 114** |

[1] *electricity revenues include revenues from main generation technologies (wind, water, PV, pumped storage).*

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

| One-offs | 2023 | 2022 | % change |
|---|---|---|---|
| Change in the actuarial provision | -5 | -1 | 400% |
| Change in the reclamation provision | 11 | 0 | - |
| Total | **6** | **-1** | **-** |

Key factors affecting the y/y results of Renewables:

- **Lower revenues from electricity sales** results from: lower average electricity sale price by PLN 388/MWh y/y, what translated into decrease of revenues by PLN 1 710 million, higher sales volume by 1 269 GWh, what caused revenues increase of PLN 1 152 million.
- **Decreased revenues from sales of certificates** resulting from lower average electricity sale price by PLN 39/MWh y/y, as a result revenues decreased by PLN 61 million, higher sales volume by 164 GWh, what caused revenues increase of PLN 29 million.
- **The decrease in electricity purchase costs** for pumping in pumped storage power plants results from: lower average electricity purchase price by PLN 241/MWh y/y, what translated into a decrease in costs by PLN 509 million and higher purchase volume by 288 GWh, contributing to an increase in costs by PLN 182 million.
- **Lower revenues from ancillary services and the Capacity Market** result mainly from lower utilization of production units due to renovations carried out.

- **The increase in personnel costs** is mainly a result of higher employment due to the development of the Offshore Energy and Renewable Energy areas and concluded wage agreements.
- **Contribution to PDP Fund**, which was introduced in December 2022 (PLN 50 million in 2022).
- **Value change in item Other** results mainly from higher operating costs, caused by the development of the Offshore Energy and Renewable Energy areas.

*CAPITAL EXPENDITURES*

Table: Capital expenditures incurred in Renewables segment.

| PLN million | 2023 | 2022 | % change |
|---|---|---|---|
| Investments in generating capacities, including: | 1 218 | 457 | 167% |
| ▪ Development | 1 001 | 352 | 184% |
| ▪ Modernisation and replacement | 217 | 105 | 107% |
| Other | 5 | 1 | 400% |
| **Total** | **1 223** | **458** | **167%** |

*KEY EVENTS IN RENEWABLES*

- **Offshore wind farms construction program**

As part of offshore wind farms investments, 8 applications for a new location permit for an offshore wind farms in the Baltic Sea was submitted to the Ministry of Infrastructure. 5 proceedings were resolved in favour of the PGE Group and 3 in favour of PKN Orlen. In addition, the PGE Group obtained 3 location permits in 2012, based on which it is preparing investments in the Baltic Sea with a total capacity of approx. 3.5 GW (including 2.5 GW in JO with Ørsted). The launch of both stages of the project carried out jointly with Ørsted, i.e. Baltica 2 with a capacity of up to 1.5 GW and Baltica 3 with a capacity of up to 1.0 GW, is planned by 2030, while the Baltica 1 project after 2030.

On April 20, 2023 Elektrownia Wiatrowa Baltica–2 sp. z. o.o. and Siemens Gamesa Renewable Energy Sp. z. o.o. concluded following agreements:

- Turbine Supply Agreement, which includes 107 wind turbines of 14 MW each with a total capacity of 1 498 MW;
- Service Warranty Agreement for 5 years from the commissioning of all turbines;
- Spare Parts and Tools Agreement.

Elektrownia Wiatrowa Baltica–2 sp. z o.o. also concluded contracts for the supply of key components of offshore wind farms: foundations, marine internal and export cables, marine transformer stations. All key components for the maritime part of the investment have been contracted.

Furthermore, in August 2023, the European Investment Bank (EIB) issued a preliminary credit decision for the PGE Group's offshore wind farm investment project. The total financing package amounts to EUR 1.4 billion for Baltica 2 and Baltica 3 projects. This is a significant step towards securing the optimal financing structure to build the PGE Group's first offshore wind farms in the Baltic Sea.

The strategic goal of the PGE Group in the offshore energy area is to build at least 6.5 GW of capacity by 2040.

- **PGE Group PV Development Program:**

So far, projects with a total capacity of 50 MW have been commissioned under the programme. Projects with a capacity of more than 350 MW are under development, including inter alia PV Jeziórko (100 MW), PV Augustynka (25 MW), for which the first electricity was produced in December 2023, PV Pasterzowice (8 MW) i PV Krotoszyn (5 MW), where energy production will start in the first quarter of 2024.

In the fourth quarter of 2023, activities for the development of further PV farm projects continued, including the acquisition of land rights and the required administrative decisions aimed at obtaining construction permits.

- **Modernisation of technological equipment at the Dębe hydro power plant**

To date, the modernisation of three of the four hydro-sets of the Dębe Hydroelectric Power Plant has been completed. The commissioning of the third hydrosystem took place on November 3, 2023. Dismantling and modernisation works on the fourth hydrosystem also commenced in the fourth quarter of 2023.

- **Comprehensive modernisation program of Porąbka-Żar pumped-storage power plant**

The scope of the works includes the modernisation of the technological part, the upper reservoir and the structures along the waterway. Upgrading works are currently underway on the upper water intake in the electrical and construction sector, as well as basic and detailed designs are being developed for the other sectors. The main modernisation works at the facility are scheduled to start in 2024.

## 5.3.5 Distribution

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

### Distribution

| Main revenue items | PLN m |
|---|---|
| Sale of distribution services | 10 016 |
| Including compensations | 1 199 |
| Connection fees | 236 |

| | |
|---|---|
| Volume of distributed energy | 35.78 TWh |
| Customers | 5.72 m |

| Main cost items | PLN m |
|---|---|
| Transmission services | 2 069 |
| Network loss[1] | 2 064 |
| Personnel expenses[2] | 1 616 |
| Depreciation and amortisation, liquidation, write-offs | 1 324 |
| incl. capitalised depreciation | 21 |
| Taxes and fees | 572 |
| incl. real estate tax | 506 |

| Main result items | PLN m |
|---|---|
| **EBIT recurring** | 2 624 |
| **EBIT reported** | 2 578 |
| **EBITDA recurring** | 3 930 |
| **EBITDA reported** | 3 880 |

[1] *Managerial perspective*
[2] *After adjusting for one-offs*

**Segment revenue is based on a tariff for electricity distribution services,** which is approved by the ERO President every year at company request what means that it is regulated. The tariff takes into account reasonable operating costs related to the distribution system operator's activities, depreciation costs, costs of taxes on distribution assets, costs related to the necessity to cover network 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 the capacity fee.

The key element shaping the Distribution segment's result is **return on company's invested capital**. For this purpose, the so-called Regulatory Asset Base (RAB) is determined and calculated on the basis of incurred investment costs including depreciation of assets. The RAB is the basis for calculating the return on capital employed, using the weighted average cost of capital (WACC), which is determined by the ERO President in the tariff process. It is within the competence of the ERO President to differentiate the remuneration from capital employed, taking into account the prioritisation of the DSO's development objectives, so that priority investment projects can be remunerated using an additional reinvestment bonus mechanism. 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 and connection time.

As part of the government's Solidarity Shield, a package of laws was adopted in 2022 to protect consumers, including with respect to the pricing of electricity distribution services. Under its terms, for some eligible customers, within certain limits, the prices of electricity distribution services in 2023 were frozen at the 2022 price level. DSOs are entitled to compensation to cover the application of reduced prices for distribution services. The compensation constitutes the difference between the amount of charges billed for electricity distribution services resulting from the 2023 tariff rates for electricity distribution services and the amount of charges billed for electricity distribution services resulting from the 2022 tariff rates for electricity distribution services up to the maximum limit. The entity responsible for the payment of compensation is the company Zarządca Rozliczeń S.A.

*VOLUME, CUSTOMERS AND OPERATING DATA*

PGE Dystrybucja S.A. operates in the area[23] of 129.9 th sq. km and delivers electricity to approximately 5.7 million customers.

Diagram: Area of PGE distribution grid.

PGE's distribution network area

Table: Volume of distributed energy (TWh)

| Tariff | Q4 2023 | Q4 2022 | % change | 2023 | 2022 | % change |
|---|---|---|---|---|---|---|
| A tariff group | 1.28 | 1.32 | -3% | 5.01 | 5.35 | -6% |
| B tariff group | 3.54 | 3.67 | -4% | 14.01 | 14.81 | -5% |
| C+R tariff groups | 1.69 | 1.75 | -3% | 6.32 | 6.66 | -5% |
| G tariff group | 2.81 | 2.78 | 1% | 10.44 | 10.25 | 2% |
| **Total** | **9.32** | **9.52** | **-2%** | **35.78** | **37.07** | **-3%** |

Table: Number of customers according to power take-off points.

| Tariff | 2023 | 2022 | % change |
|---|---|---|---|
| A tariff group | 147 | 134 | 10% |
| B tariff group | 14 097 | 13 484 | 5% |
| C+R tariff groups | 472 503 | 480 663 | -2% |
| G tariff group | 5 235 146 | 5 163 322 | 1% |
| **Total** | **5 721 893** | **5 657 603** | **1%** |

[23] *The area of municipalities in which PGE Dystrybucja S.A. operates.*

Table: Key operational data.

| Operational data | Unit | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| Number of stations | thousand pcs. | 99.0 | 96.6 | 96.0 | 95.6 | 95.0 |
| MVA power | MVA | 33 723 | 33 524 | 32 956 | 32 663 | 32 177 |
| Total length of power lines | thousand km | 301.3 | 298.7 | 297.0 | 295.6 | 293.7 |
| ▪ HV lines | thousand km | 10.5 | 10.4 | 10.4 | 10.4 | 10.3 |
| ▪ MV lines | thousand km | 116.6 | 115.6 | 115.0 | 114.5 | 113.8 |
| ▪ LV lines | thousand km | 174.2 | 172.7 | 171.6 | 170.7 | 169.6 |
| Grid loss ratio | % | 4.3 | 4.5 | 4.7 | 5.2 | 4.8 |
| SAIDI, including: | minutes | 313 | 495 | 368 | 251 | 261 |
| ▪ Planned | minutes | 41 | 35 | 34 | 40 | 58 |
| ▪ Unplanned with catastrophic | minutes | 272 | 460 | 334 | 211 | 203 |
| SAIFI, including: | per customer | 4.29 | 5.20 | 4.28 | 3.67 | 3.88 |
| ▪ Planned | per customer | 0.25 | 0.20 | 0.19 | 0.24 | 0.31 |
| ▪ Unplanned with catastrophic | per customer | 4.04 | 5.00 | 4.09 | 3.43 | 3.57 |
| Connection time | days | 298 | 341 | 267 | 206 | 199 |

*KEY FINANCIAL FIGURES IN THE SEGMENT*

Table: Data on key financial figures in Distribution (PLN million).

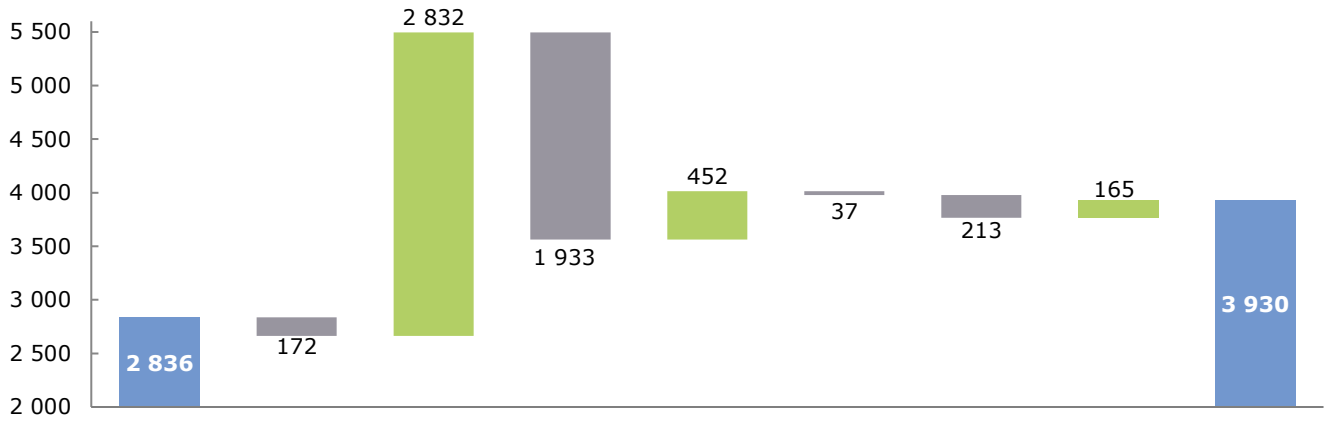
| PLN million | 2023 | 2022 | % change | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| Sales revenues | 10 590 | 6 803 | 56% | 6 492 | 6 396 | 6 155 |
| EBIT reported | 2 578 | 1 616 | 60% | 1 559 | 1 093 | 1 101 |
| EBITDA reported | 3 880 | 2 850 | 36% | 2 779 | 2 306 | 2 306 |
| EBITDA recurring | 3 930 | 2 836 | 39% | 2 746 | 2 331 | 2 340 |
| One-offs[1] | -50 | 14 | - | 33 | -25 | -34 |
| Capital expenditures | 4 224 | 2 576 | 64% | 1 358 | 1 680 | 2 225 |

| PLN million | Q4 2023 | Q4 2022 | % change |
|---|---|---|---|
| Sales revenues | 2 832 | 1 796 | 58% |
| EBIT reported | 290 | 383 | -24% |
| EBITDA reported | 628 | 710 | -12% |
| EBITDA recurring | 657 | 689 | -5% |
| One-offs[1] | -29 | 21 | - |
| Capital expenditures | 1 289 | 1 361 | -5% |

[1] *One-offs at the EBITDA level*

*KEY FACTORS FOR THE RESULTS OF THE SEGMENT*

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




| | EBITDA 2022 | Electricity distribution volume | Change of distribution tariff[1] | Network losses[2] | Additional estimation of balancing difference cost[3] | Real estate tax | Personnel costs | Other | EBITDA 2023 |
|---|---|---|---|---|---|---|---|---|---|
| **Change** | | **-172** | **2 832** | **-1 933** | **452** | **-37** | **-213** | **165** | |
| Reported EBITDA 2022 | **2 850** | | | | | | | | |
| One-offs 2022 | **14** | | | | | | | | |
| Recurring EBITDA 2022 | **2 836** | 4 919 | | 664 | 81 | 469 | 1 403 | 372 | |
| Recurring EBITDA 2023 | | 7 579 | | 2 597 | 533 | 506 | 1 616 | 537 | **3 930** |
| One-offs 2023 | | | | | | | | | **-50** |
| Reported EBITDA 2023 | | | | | | | | | **3 880** |

[1] *Excluding cost of transmission services from PSE S.A. and taking into account revenues from compensations.*
[2] *Adjusted for revenues from the Balancing market.*
[3] *Position that affects the Supply segment negatively, neutral for PGE Capital Group.*

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

| One-off | 2023 | 2022 | % change |
|---|---|---|---|
| Actuarial provision | -50 | 14 | - |
| **Total** | **-50** | **14** | **-** |

Key factors affecting results of Distribution segment y/y:

- **A decrease in the volume of distributed** electricity by 1.29 TWh, resulting mainly from lower demand for electricity from high- and medium-voltage consumers. Additionally, there was a decrease in the number of energy consumption points in the tariff of small and medium-sized businesses and farms (by 8.2 ths).
- **Increase in rates in tariff for 2023 -** taking into account the provisions of the Act on Emergency Measures in 2023 - by an average of PLN 45.6/MWh compared to the tariff for the previous year, as a result of the increase in the cost of the balance difference. In addition, the item includes revenues from compensation related to the law limiting electricity price increases in 2023.
- **Higher costs of electricity purchases** to cover network losses mainly as a result of significant increase in electricity prices.
- **Positive impact of the additional estimation of the cost of the balancing difference** as a result of changes in electricity prices. The additional valuation has a neutral impact on the results of the PGE Capital Group.
- **Increase of costs of tax on real estate** results from higher tax rates and an increase in the value of the buildings as a result of the investments and expansion of the power.

- **Increase in personnel costs** mainly due to realisation of agreements concluded with the social party.
- **Value change in item Other**, resulting mainly from higher revenues: (i) from the sale of other distribution services in the field of reactive energy and capacity excess, as a result of the increase in rates in the 2023 Tariff, and (ii) from connection fee. Additionally, an increase in capitalised costs, partially offset by higher repair and operating costs and energy consumption for own use.

*CAPITAL EXPENDITURES*

Table: Capital expenditures incurred in Distribution segment.

| PLN million | 2023 | 2022 | % change |
|---|---|---|---|
| Investments in generating capacities, including: | 4 224 | 2 561 | 65% |
| ▪ Development | 1 742 | 1 154 | 51% |
| ▪ Modernisation and replacement | 2 482 | 1 407 | 76% |
| Other | 0 | 15 | -100% |
| **Total** | **4 224** | **2 576** | **64%** |

*KEY EVENTS IN DISTRIBUTION*

- **Connecting new customers**

The Customer Connection Program to the distribution network was implemented, under which in 2023 expenditures were incurred in the amount of PLN 1 616 million.

- **Program LTE450**

The objective of the Programme is the construction of a modern Special Communications Network in the LTE450 technology for the provision of services such as critical communication, control of energy infrastructure and remote reading for PGE Dystrybucja S.A. In the first half of 2023, tenders for individual components of the system were carried out, of which two key procedures for the purchase and implementation of the CORE LTE450 network components and the purchase and implementation of the RAN LTE450 radio network components were completed with the selection of the most favourable offer. As a result, performance contracts were signed and preparatory works for the implementation phase began. The first stages of installation and commissioning works on testing environments were completed. In the second half of 2023, further contracts important for the timely implementation of the entire programme were awarded by tender. Consequently, a contract was signed and works began on upgrading the first batch of telecommunication towers owned by PGE Dystrybucja S.A., which towers are to constitute the backbone of the network under construction. At the end of 2023, another contract for the construction of a backbone and aggregation teletransmission network was awarded by tender and signed. In parallel, adaptation and equipment works were carried out in the dedicated supervision centre for the network under construction.

The last two of the key procurement procedures for power systems and the lease of space on commercial operators' towers to complement the backbone of the network under construction are still in progress.

The launch of the LTE450 service is planned for Q4 2024 and the full coverage of the PGE Dystrybucja S.A. operating area by the end of 2025.

- **Cabling program**

In 2023 PGE continued to implement its cabling program for medium-voltage (MV) grids up to the level of 30% of MV networks owned by PGE Dystrybucja S.A., incurring expenditures in amount of PLN 881 million.

4 047 kms of MV cable lines were completed from the start of the Program in 2019.

1 760 kms of MV cable lines were installed in 2023.

- **Installation program for Remote Reading Meters**

This project is mandatory and results from the requirements imposed on Distribution System Operators (DSO) by the legislator in the amended Energy Law. In 2023, actions were taken to:

- supply of meters for end customers connected to the LV network and for MV/LN substations,
- modernisation of MV/LN substations with regard to ensuring the possibility of installing remote reading balancing meters,
- installation of meters at off-takers and at substations,
- selection of suppliers of remote reading meters for end off-takers for the years 2024 – 2025.

According to the provisions of the law, the DSO should until December 31, 2028 install remote reading meters connected to a remote reading system at power take-off points, representing at least 80% of the total number of end-customer energy consumption points.

- **Implementation of central systems CRM and Billing (NCB Program)**

The solution consists of 2 billing systems – one for either company – and a CRM system for PGE Obrót S.A. At the turn of 2022/2023, the investment task moved from the analysis stage to the implementation stage. In 2023, according to the schedule of the main stream, implementation works of the pilot stage were carried out, covering selected local billing systems. At the same time, as part of dedicated accompanying projects included in the Programme, works were carried out to ensure the necessary integration of the new solution with other components of the IT environment in the PGE Capital Group and also with the requirements of the Central Energy Market Information System (CEMIS) currently under construction.

Due to the requirement to adapt the solution being implemented to dynamic legal changes resulting in an additional scope of works, annexes were signed with the Contractor, thus postponing the start of the system under the pilot stage to the second quarter of 2024, while maintaining the completion date for the main stream planned for the second quarter of 2025.

## 5.3.6 Railway Energy Services

The segment include activities by the PGE Capital Group in field of distribution and sale of electricity to railway operators and customers functioning within the railway system, the sale of fuels, as well as the maintenance and modernisation of overhead contact line network, together with other auxiliary services.

The data presented below concerns period from April 3, to December 31, 2023.

**Railway Energy Services**

| Main revenue items | PLN m |
|---|---|
| Sale of electricity | 1 975 |
| Including compensations | 138 |
| Sale of distribution services | 1 545 |
| Including compensations | 3 |
| Connection fees | 512 |
| Revenues from services | 446 |
| Sale of fuels | 168 |

| | |
|---|---|
| Volume of distributed energy | 3.10 TWh |
| Customers – distribution | 55.1 thousand |
| Volume of electricity sold to final off-takers | 2.22 TWh |
| Customers – electricity trading | 36.7 thousand |

| Main cost items | PLN m |
|---|---|
| Purchase of electricity | 1 731 |
| incl. for network losses | 133 |
| Cost electricity transit services | 736 |
| Personnel costs[1] | 416 |
| Other external services | 180 |
| Taxes and fees | 152 |
| incl. contribution to PDP fund | 116 |

| Main result items | PLN m |
|---|---|
| **EBIT recurring** | 867 |
| **EBIT reported** | 866 |
| **EBITDA recurring** | 1 238 |
| **EBITDA reported** | 1 243 |

[1] *After adjusting for one-offs*

One of the primary sources of revenue in the Railway Energy Services segment is the **sale of electricity**. This revenue is derived from the supply of energy to railway operators and entities connected to the segment's distribution network. Rail operators are additionally the recipients of fuel sales services.

Another important source of revenue is the **revenue form the distribution of electricity**. Similarly to the Distribution segment, this revenue is subject to applicable regulations and based on a tariff approved by the ERO. In principle, this tariff ensures a transfer of reasonable costs and a return on the capital invested in the distribution network. The activities of the Railway Energy Services segment as a distribution network operator are limited to the areas along railway lines throughout the country.

The most significant cost items of the segment include the purchase of the distribution service, as well as the purchase of electricity and fuels.

The scope of the Railway Energy Services segment's activities comprises works related to the maintenance of the overhead contact line network and the performance of local modernisation works on this network. The segment also provides power engineering services outside the ranges of the overhead contact line network, such as equipment maintenance, as well as the construction and maintenance of railway traffic control systems. In this type of activity, the most significant costs are **personnel costs.**

Furthermore, under the provisions of the Act on Extraordinary Measures in 2023, a **system of compensating** trading companies for the application of maximum prices and discounts was introduced from December 2022. At the same time, electricity trading companies are required to make **contributions to the PDP Fund**.

*VOLUMES, CUSTOMERS AND OPERATING DATA*

The main part of the segment's assets consists of electricity distribution assets held by PGE Energetyka Kolejowa SA. Among other elements, these assets include 534 overhead contact line network substations supplying power to railway lines throughout the country. The total length of the company's network lines is 18.6 thousand kilometres. The network serves approximately 55.1 thousand customers.

Table: Volume of electricity sold to final off-takers and number of customers by power take-off points.

| Tariff | Volume (TWh) | | Number of customers |
|---|---|---|---|
| | Q4 2023 | 2023 | 2023 |
| B tariff group | 0.73 | 2.09 | 319 |
| C+R tariff groups | 0.03 | 0.09 | 8 412 |
| G tariff group | 0.02 | 0.04 | 27 993 |
| **Total** | **0.78** | **2.22** | **36 724** |

Table: Volume of electricity distributed and number of customers by power take-off points.

| Tariff | Volume (TWh) | | Number of customers |
|---|---|---|---|
| | Q4 2023 | 2023 | 2023 |
| B tariff group | 0.92 | 2.66 | 644 |
| C+R tariff groups | 0.17 | 0.40 | 26 167 |
| G tariff group | 0.01 | 0.04 | 28 256 |
| **Total** | **1.10** | **3.10** | **55 067** |

Table: Key operational data.

| Operational data | Unit | 2023 |
|---|---|---|
| Number of stations | thousand pcs. | 6.7 |
| MVA power | MVA | 8 292 |
| Total length of power lines | thousand km | 18.6 |
| ▪ HV lines | thousand km | 0.4 |
| ▪ MV lines | thousand km | 15.0 |
| ▪ LV lines | thousand km | 3.2 |
| Grid loss ratio | % | 3.94 |
| SAIDI, including: | minutes | 92 |
| ▪ Planned | minutes | 13 |
| ▪ Unplanned with catastrophic | minutes | 79 |
| SAIFI, including: | per customer | 1.96 |
| ▪ Planned | per customer | 0.09 |
| ▪ Unplanned with catastrophic | per customer | 1.87 |
| Connection time | days | 319 |

*KEY FINANCIAL FIGURES IN THE SEGMENT*

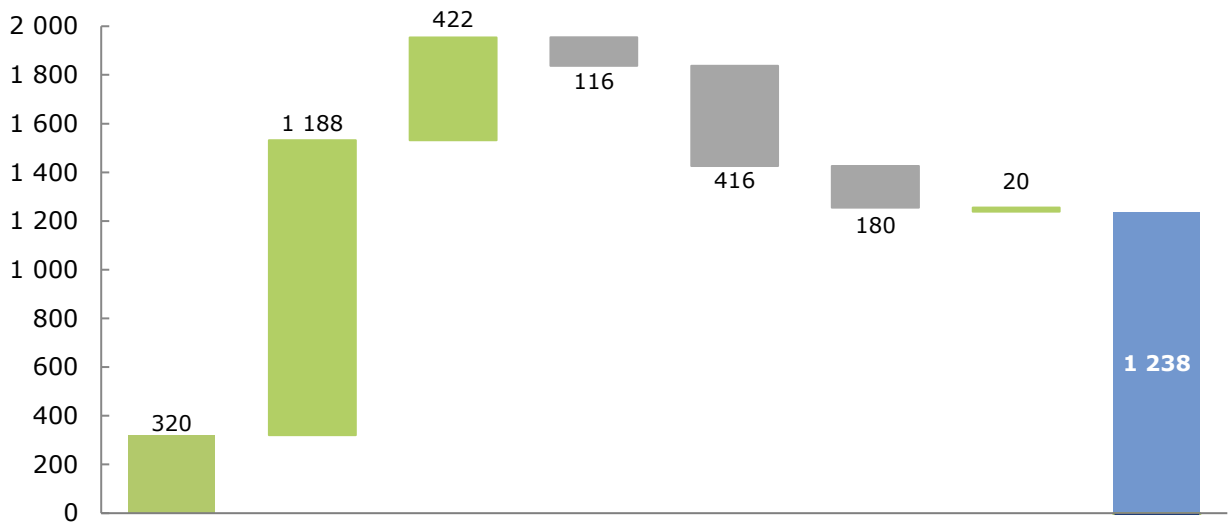
Table: Data on key financial figures in Railway Energy Services (PLN million).

| Financial figures | Q4 2023 | 2023 |
|---|---|---|
| Sales revenues | 1 761 | 4 728 |
| EBIT reported | 440 | 866 |
| EBITDA reported | 618 | 1 243 |
| EBITDA recurring | 613 | 1 238 |
| One-offs[1] | 5 | 5 |
| Capital expenditures | 428 | 1 053 |

[1] *One-offs at the EBITDA level.*

*KEY FACTORS FOR THE RESULTS OF THE SEGMENT*

Chart: Key changes of EBITDA in Railway Energy Services (in PLN million) – managerial perspective.




| | Result on electricity | Result on electricity distribution[1] | Other activities | Contribution to PDP fund | Personnel costs [2] | External services | Other | EBITDA 2023 |
|---|---|---|---|---|---|---|---|---|
| **EBITDA development factors** | **320** | **1 188** | **422** | **-116** | **-416** | **-180** | **20** | **1 238** |
| EBITDA recurring 2023 | 320 | 1 188 | 422 | 116 | 416 | 180 | 20 | **1 238** |
| One-offs 2023 | | | | | | | | **5** |
| EBITDA reported 2023 | | | | | | | | **1 243** |

[1] *Excluding the costs of transmission services from PSE S.A., including compensation revenues, connection revenues, resumption of supplies and adjusted for the cost of the balancing difference.*
[2] *Adjusted for one-offs*

Table: Data on one-offs in Railway Energy Services (PLN million).

| One-off | 2023 |
|---|---|
| Actuarial provision | 5 |
| **Total** | **5** |

Key factors affecting results of Railway Energy Services segment:

- **Result on electricity sale,** resulting from the sale of electricity to end users in number of approx. 36.7 thousand (76% of which are customers from the G tariff group) with the total volume of electricity sales at 2.22 TWh (94% to customers from tariff group B).
- **Result on distribution,** which is the result of energy distribution to 55.1 thousand customers (51% of which are customers from the G tariff group) with the total volume of electricity distribution at 3.1 TWh (86% to customers from tariff group B) and revenues from connection fees in amount of PLN 512 million.
- **Result on other activities** at the level of PLN 422 million regarding activities in the field of traction and electroenergy services and fuel sales.
- **Contribution to the PDP Fund** in the amount of PLN 116 million in accordance with the adopted legal regulations.
- **Personnel cost** at PLN 416 million with average employment level of 3 956 FTEs.
- **The costs of external services** at PLN 180 million relate mainly to other services at a cost of PLN 130 million, related to the performance of overhead contact line network maintenance and railway contracting agreements, ongoing investment projects, as well as IT and telecommunication services at PLN 37 million.
- **Item Other**, which mainly includes other operating costs, consumption of materials as well as taxes and charges offset by capitalised costs.

*CAPITAL EXPENDITURES*

Table: Capital expenditures in Railway Energy Services segment

| PLN million | 2023 |
|---|---|
| Investment in generation capacities, including: | 1 053 |
| ▪ Development | 925 |
| ▪ Modernisation and replacement | 128 |
| **Total** | **1 053** |

*KEY EVENTS IN THE SEGMENT*

- **MUZa Program -** Power Supply Systems Modernisation programme **(MUZa)**

The **MUZa** programme was continued, that is being implemented on the basis of the "Agreement on the principles of establishing a connection to the distribution network" entered into with PKP Polskie Linie Kolejowe S.A. (PKP PLK) and its objectives are the following:

- enabling an increase in the capacity of railway lines (increase in train traffic),
- introducing locomotives with higher power (of the order of 6 MW) allowing for an increase in speed up to 200 km/h,
- electrifying railway lines,
- reducing the distribution network and equipment failure rate as well as improving the quality parameters of electricity,
- meeting the power supply requirements according to the standards set out in the Technical Specifications for Interoperability (TSI) of the "Energy" subsystem – obtaining authorisation from the President of the Railway Transport Office (RTO).

On the part of the Railway Energy Services segment, the programme consists in the modernisation and construction of overhead contact line network substations in accordance with the agreements for network connections entered into with PKP PLK. In 2023, the 29 agreements for network connections were completed on schedule and the expenditure incurred in this period amounted to PLN 841 million. Since the start of the programme in 2012, 296 connection agreements were signed, of which 262 were completed.

- **Connection of new electricity consumers**

The Railway Energy Services segment continued the implementation of the programme for connecting new customers to the distribution network, under which expenditures of PLN 62 million were incurred in 2023.

- **ZUBI project -** project aimed at installing remote reading balancing meters (**ZUBI)**

Project aimed at installing remote reading balancing meters (Balancing Systems Installation – BSI ) was continued. The implementation of the project is mandatory under the requirements imposed on DSOs by the Legislator in the Energy Law of May 20, 2021. In 2023, the segment was focused on pursuing the following objectives:

- purchasing remote reading meters for MV/nN substations for the years 2023-2025,
- purchasing balancing cabinets equipped with modem-routers for the years 2023-2025,
- purchasing current transformers for the year 2023,
- purchasing modernisation and installation services for balancing cabinets at MV/nN substations for the years 2023-2025,
- installing 1 005 balancing cabinets.

These tasks are aimed at fulfilling the statutory obligation, i.e. the installation of 100% of remote reading meters in medium- and low-voltage substations by December 31, 2025. Expenditures of PLN 19 million were incurred in 2023.

## 5.3.7 Supply

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.

**Supply**

| Main revenue items | PLN m |
|---|---|
| Sale of electricity<br>including compensations | 34 139<br>6 197 |
| Sale of $CO_2$ emission rights | 29 071 |
| Sale of fuels[2]<br>including compensations | 7 105<br>958 |
| Sales management | 1 690 |
| Revenue from the sale of gas | 933 |

| | |
|---|---|
| **Volume of electricity sales to final off-takers[1]** | **32.41 TWh** |
| **Customers[1]** | **5.66 million** |

| Main cost items | PLN m |
|---|---|
| Purchase of electricity | 33 452 |
| Purchase of $CO_2$ emission rights | 28 617 |
| Purchase of fuels[2]<br>including transport costs | 6 896<br>200 |
| Segment operating expenses[3]<br>including contribution to PDP Fund | 1 340<br>96 |
| Purchase of gas | 932 |
| Redemption of energy origin certificates | 808 |

| Main result items | PLN m |
|---|---|
| **EBIT recurring** | -108 |
| **EBIT reported** | -38 |
| **EBITDA recurring** | -74 |
| **EBITDA reported** | -4 |

*[1] Data for PGE Obrót S.A.*

*[2] Managerial perspective*

*[3] After adjusting for one-offs*

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 natural gas and fuels**, mainly: pulverised coal and coarse coal, which is sold by PGE Paliwa sp. z o.o.

Additionally, based on the provisions of the Act on Emergency Measures in 2023, a system of compensation for trading companies for maximum prices and discounts was introduced from December 2022. At the same time, electricity trading companies are required to make a **contribution to the Price Difference Payment Fund**.

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.

As part of the activities on the wholesale market, $CO_2$ purchases are made for the needs of the Conventional Generation and District Heating segments, which is reflected both in terms of costs and revenues. At the same time, a significant revenue item is the provision of services to the Group's companies related to the management of purchases and sales of electricity and related products.

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

*VOLUME, CUSTOMERS AND OPERATING DATA*

Table: Volume of electricity sales to final off-takers (TWh)[1].

| Tariffs | Q4 2023 | Q4 2022 | % change |
|---|---|---|---|
| A tariff group | 1.30 | 1.86 | -30% |
| B tariff group | 2.77 | 2.83 | -2% |
| C+R tariff groups | 1.57 | 1.51 | 4% |
| G tariff group | 2.30 | 2.32 | -1% |
| **Total** | **7.94** | **8.52** | **-7%** |

[1] *Data for PGE Obrót S.A.*

Table: Volume of electricity sales to final off-takers (TWh)[1].

| Tariffs | 2023 | 2022 | % change | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| A tariff group | 5.79 | 7.32 | -21% | 7.29 | 9.35 | 9.87 |
| B tariff group | 11.27 | 11.85 | -5% | 13.68 | 14.79 | 15.67 |
| C+R tariff groups | 6.10 | 5.85 | 4% | 6.31 | 6.75 | 7.55 |
| G tariff group | 9.25 | 9.18 | 1% | 10.04 | 9.75 | 9.81 |
| **Total** | **32.41** | **34.20** | **-5%** | **37.32** | **40.64** | **42.90** |

[1] *Data for PGE Obrót S.A.*

Table: Number of customers according to power take-off points[1].

| Tariffs | 2023 | 2022 | Zmiana % | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| A tariff group | 159 | 154 | 3% | 139 | 142 | 169 |
| B tariff group | 11 209 | 11 072 | 1% | 11 877 | 12 575 | 12 708 |
| C+R tariff groups | 415 274 | 405 766 | 2% | 421 164 | 446 253 | 450 126 |
| G tariff group | 5 233 092 | 5 102 455 | 3% | 5 021 702 | 4 954 863 | 4 869 622 |
| **Total** | **5 659 734** | **5 519 447** | **3%** | **5 454 882** | **5 413 833** | **5 332 625** |

[1] *Data for PGE Obrót S.A.*

*KEY FINANCIAL FIGURES IN THE SEGMENT*

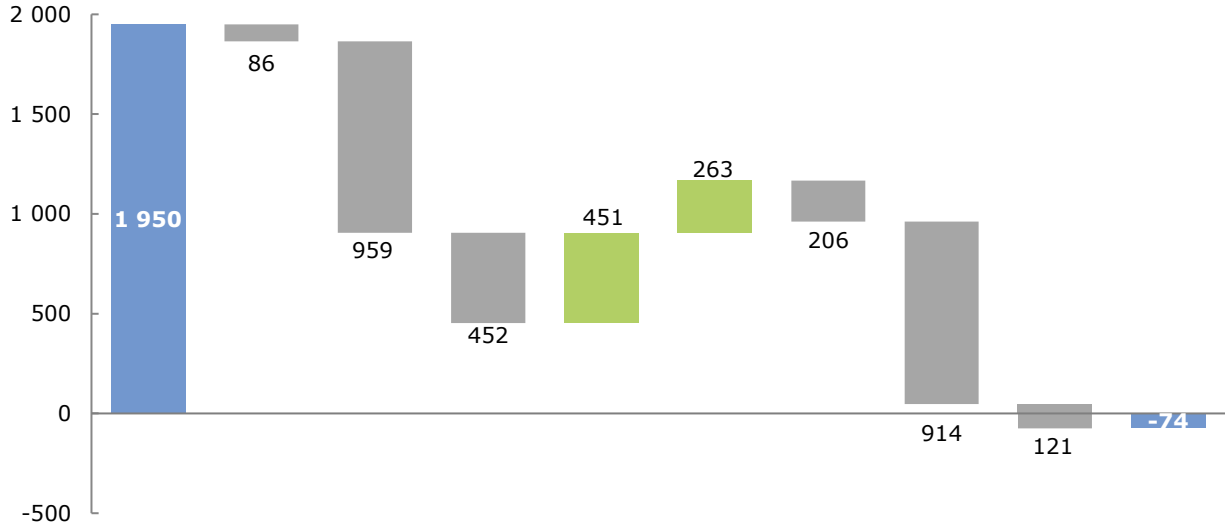
Table: Data on key financial figures in Supply (PLN million).

| PLN million | 2023 | 2022 | % change | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| Sales revenues | 73 316 | 46 566 | 57% | 38 223 | 29 017 | 17 312 |
| EBIT reported | -38 | 2 010 | - | 794 | 577 | 247 |
| EBITDA reported | -4 | 2 043 | - | 827 | 612 | 280 |
| EBITDA recurring | -74 | 1 950 | - | 905 | 637 | 181 |
| One-offs[1] | 70 | 93 | -25% | -78 | -25 | 99 |
| Capital expenditures | 31 | 17 | 82% | 8 | 16 | 30 |

| PLN million | Q4 2023 | Q4 2022 | % change |
|---|---|---|---|
| Sales revenues | 23 263 | 14 400 | 62% |
| EBIT reported | -517 | 350 | - |
| EBITDA reported | -508 | 358 | - |
| EBITDA recurring | -495 | 337 | - |
| One-offs[1] | -13 | 21 | - |
| Capital expenditures | 20 | 6 | 233% |

[1] *One-offs at the EBITDA level.*

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




| | EBITDA 2022 | Result on electricity - volume | Result on electricity - margin | Estimation of the cost of the balancing difference[1] | Revenues from services provided to other segments of the PGE Group[2] | Result on sale of $CO_2$ | Personnel costs[3] | Result on other operating activities[4] | Other[5] | EBITDA 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Change** | | **-86** | **-959** | **-452** | **451** | **263** | **-206** | **-914** | **-121** | |
| Reported EBITDA 2022 | **2 043** | | | | | | | | | |
| One-offs 2022 | **93** | | | | | | | | | |
| Recurring EBITDA 2022 | **1 950** | 1 309 | | 81 | 1 459 | 190 | 455 | -23 | -450 | |
| Recurring EBITDA 2023 | | 264 | | 533 | 1 910 | 453 | 661 | -937 | -571 | **-74** |
| One-offs 2023 | | | | | | | | | | **70** |
| Reported EBITDA 2023 | | | | | | | | | | **-4** |

[1] *Position with a positive impact on the Distribution segment, neutral for the PGE Capital Group.*
[2] *This item does not include the margin on $CO_2$ transactions with PGE Group companies.*
[3] *Item without taking into account the impact of the change in actuarial provision (one-offs).*
[4] *Item without taking into account the impact of reversing the provision for prosumers (one-offs).*
[5] *Item without taking into account correction of the estimate of the contribution to the PDP Fund for 2022 at PGE Obrót S.A. (one-offs).*

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

| One-offs | 2023 | 2022 | % change |
|---|---|---|---|
| Correction of estimated contribution to Price Difference Payment Fund for 2022 at PGE Obrót | 80 | - | - |
| Release of provision for prosumers [1] | - | 95 | - |
| Actuarial provision | -10 | -2 | 400% |
| **Total** | **70** | **93** | **-25%** |

[1] *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. In 2022, provision was fully released for the projected loss on the sale of electricity to prosumers.*

Key factors affecting EBITDA of Supply segment y/y:

- **The lower result on sale of electricity** is mainly the result of a lower margin on sales of market and tariff products.
- **Negative impact of additional valuation of balancing difference** as a result of changes in electricity prices. The additional valuation has a neutral impact on the results of the PGE Capital Group.
- **Increase of revenues from services performed within the Capital Group** resulting from the increase in revenues under the ZHZW agreement, which is a consequence of the higher value of trade in electricity under management.
- **Higher result on sale of $CO_2$** mainly as a result of mainly as a result of higher volume of allowances sales and higher unit price.
- **Higher personnel expenses** as a consequence of organisational changes and the ongoing process of changing remuneration.
- **The lower result on other operating activities** mainly as a consequence of a provision for onerous agreements, which relates to the lack of coverage of part of justified operating costs in the household tariff approved by the President of ERO.
- **Value change on item Other** mainly as a result of deterioration of the result on sales of the distribution service.

## 5.3.8 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.

**Circular Economy**

| Main revenue items | PLN m |
|---|---|
| Revenue from the economic use of combustion by-products | 206 |
| Revenue from other services | 170 |

**Volume of combustion by-products received from suppliers** **3 508 Mg t**

| Main cost items | PLN m |
|---|---|
| Personnel expenses[1] | 144 |
| External services | 95 |
| Amortisation and depreciation | 14 |

| Main result items | PLN m |
|---|---|
| **EBIT recurring** | 46 |
| **EBIT reported** | 42 |
| **EBITDA recurring** | 57 |
| **EBITDA reported** | 56 |

[1] *After adjusting for one-offs*

From the beginning of 2021, PGE Group reports a new operating segment – Circular Economy. Currently it includes the following companies: PGE Ekoserwis S.A. and ZOWER sp. z o.o. On October 2, 2023, PGE Ekoserwis S.A. acquired the company EPORE S.A., which had previously belonged to the segment.

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.

Table: Data on the volume of combustion by-products received from suppliers in the Circular Economy segment.

| Mg thousand | 2023 | 2022 | % change | 2021 |
|---|---|---|---|---|
| Volume of combustion by-products received | 3 508 | 3 629 | -3% | 3 283 |

*KEY FINANCIAL FIGURES IN THE SEGMENT*

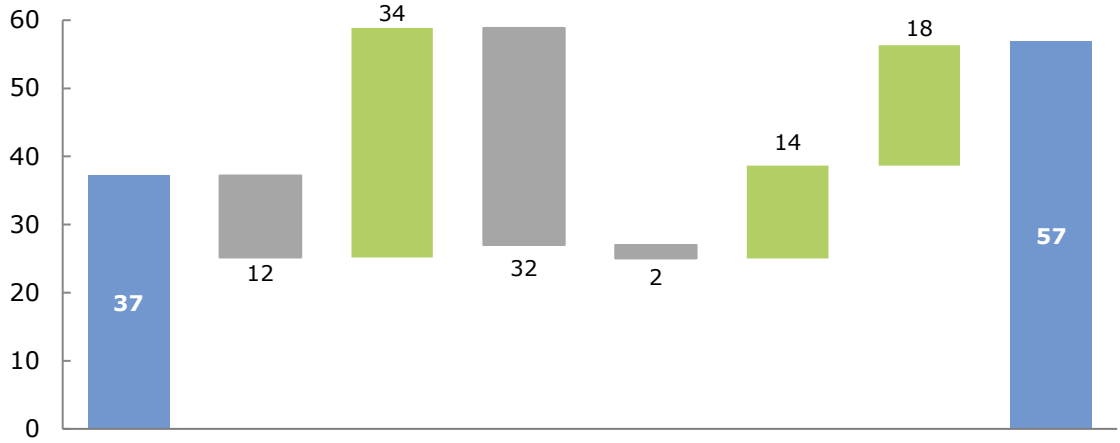
Table: Data on key financial figures in Circular Economy (PLN million).

| PLN million | 2023 | 2022 | % change | 2021 |
|---|---|---|---|---|
| Sales revenues | 376 | 354 | 6% | 311 |
| EBIT reported | 42 | 28 | 50% | 36 |
| EBITDA reported | 56 | 37 | 51% | 45 |
| EBITDA recurring | 57 | 37 | 54% | 45 |
| One-offs[1] | -1 | - | - | - |
| Capital expenditures | 17 | 16 | 6% | 9 |

| PLN million | Q4 2023 | Q4 2022 | % change |
|---|---|---|---|
| Sales revenues | 107 | 109 | -2% |
| EBIT reported | -8 | -12 | -33% |
| EBITDA reported | -2 | -10 | -80% |
| EBITDA recurring | -1 | -10 | -90% |
| One-offs[1] | -1 | - | - |
| Capital expenditures | 10 | 14 | -29% |

[1] *One-offs at the EBITDA level.*

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




| | EBITDA 2022 | Revenues from sale of combustion by-products | Revenue from sale of services | Personnel costs[1] | External services | Value of goods and materials sold | Other | EBITDA 2023 |
|---|---|---|---|---|---|---|---|---|
| **Change** | | **-12** | **34** | **-32** | **-2** | **14** | **18** | |
| Reported EBITDA 2022 | **37** | | | | | | | |
| One-offs 2022 | **0** | | | | | | | |
| Recurring EBITDA 2022 | **37** | 218 | 136 | 112 | 93 | 72 | 40 | |
| Recurring EBITDA 2023 | | 206 | 170 | 144 | 95 | 58 | 22 | **57** |
| One-offs 2023 | | | | | | | | **-1** |
| Reported EBITDA 2023 | | | | | | | | **56** |

[1] *Adjusted for one-offs*

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

| One-offs | 2023 | 2022 | % change |
|---|---|---|---|
| Actuarial provision | -1 | 0 | - |
| **Total** | **-1** | **0** | **-** |

Key factors affecting EBITDA of Circular Economy segment y/y:

- **Lower revenues from sale of combustion by-products**, due to lower sales of the coal mix caused by a decline in market demand.
- **Higher revenue from sales of services**, due to a greater range of services provided and higher cost of service personnel.
- **Higher level of personnel costs** is mainly the result of the ongoing process of changing wages.
- **Higher external services costs**, resulting mainly from increased costs of IT and advisory services.
- **Lower costs of goods and materials sold**, mainly due to lower UPS purchase costs.
- **Value change of item Other**, due to the higher stock of the coal mixture and the effect of the sale of the production facility in Żarska Wieś.

## 5.3.9 Other Operations

Core activities of the segment include provision of services to PGE Capital Group, inter alia organisation of capital raising in form of Eurobonds (PGE Sweden), provision of IT and transportation services.

The segment also includes the company PGE Ventures sp. z o.o., which is responsible for investments in start-ups at every stage of the investment cycle: from projects in the earliest phase of development, through projects in the early growth phase, to mature start-ups in the late growth and expansion phase. PGE Ventures sp. z o.o. and its satellite funds invested in a total of 51 start-ups, of which the funds are responsible for 43 and PGE Ventures sp. z o.o. for 8 equity investments.

In addition, the segment's structures include two companies responsible for the construction of new, low-emission generation units. PGE Gryfino 2050 sp. z o.o. is responsible for construction of gas and steam units in Dolna Odra power plant and Rybnik 2050 sp. z o.o. is responsible for construction of low-emission unit on the premises separated from Rybnik power plant.

Starting with the report for the first quarter of 2024, low-carbon generation units will be presented in the separate segment Low-carbon Energy.

**Other Operations**

| Main revenue items | PLN m |
|---|---|
| Revenues from IT services and other services | 335 |
| Revenues from support services | 15 |

**Provision of services for PGE Group**

**Construction of 2 CCGT units in Dolna Odra power plant**

**Construction of low-emission unit in Rybnik power plant**

**Investments in start-ups**

| Main cost items | PLN m |
|---|---|
| Personnel expenses[1] | 186 |
| IT services | 104 |
| Amortisation and depreciation | 53 |
| incl. capitalised depreciation | 2 |
| Advisory services | 32 |

| Main result items | PLN m |
|---|---|
| **EBIT recurring** | 23 |
| **EBIT reported** | 22 |
| **EBITDA recurring** | 74 |
| **EBITDA reported** | 73 |

[1] *After adjusting for one-offs.*

*KEY FACTORS FOR THE RESULTS OF THE SEGMENT*

Table: Data on key financial figures in Other Operations (PLN million).

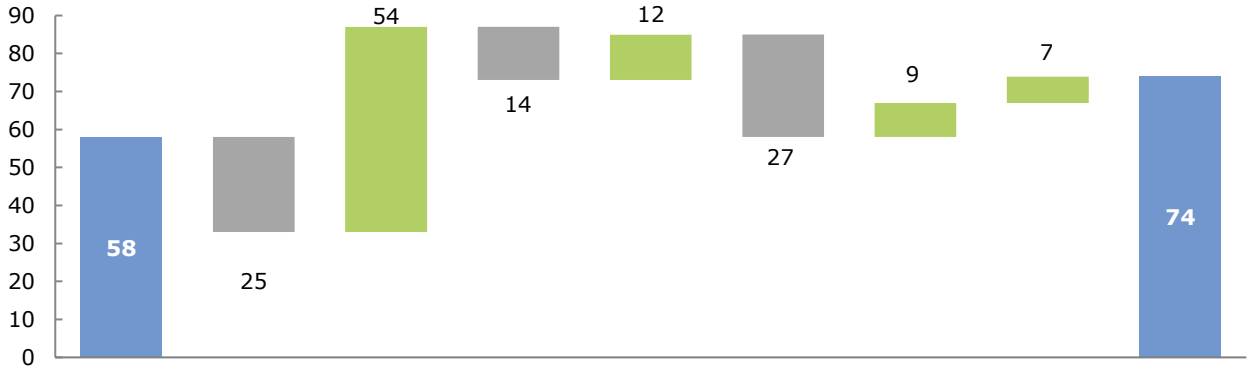
| PLN million | 2023 | 2022 | % change | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| Sales revenues | 352 | 317 | 11% | 432 | 501 | 501 |
| EBIT reported | 22 | 6 | 267% | -2 | -138 | -29 |
| EBITDA reported | 73 | 57 | 28% | 60 | 18 | 55 |
| EBITDA recurring | 74 | 58 | 28% | 59 | -7 | 56 |
| One-offs[1] | -1 | -1 | 0% | 1 | 25 | -1 |
| Capital expenditures | 829 | 2 200 | -62% | 845 | 170 | 208 |

| PLN million | Q4 2023 | Q4 2022 | % change |
|---|---|---|---|
| Sales revenues | 114 | 96 | 19% |
| EBIT reported | 1 | 8 | -88% |
| EBITDA reported | 15 | 23 | -35% |
| EBITDA recurring | 16 | 24 | -33% |
| One-offs[1] | -1 | -1 | 0% |
| Capital expenditures | 209 | 662 | -68% |

[1] *One-offs at the EBITDA level*

*KEY FACTORS FOR THE RESULTS OF THE SEGMENT*

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




| | EBITDA 2022 | Costs of IT services | Revenues from sale of services | Costs of advisory services | Capitalised costs | Personnel costs[1] | Other operations | Other | EBITDA 2023 |
|---|---|---|---|---|---|---|---|---|---|
| **Change** | | **-25** | **54** | **-14** | **12** | **-27** | **9** | **7** | |
| Reported EBITDA 2022 | **57** | | | | | | | | |
| One-offs 2022 | **-1** | | | | | | | | |
| Recurring EBITDA 2022 | **58** | 79 | 296 | 18 | 46 | 159 | 10 | 38 | |
| Recurring EBITDA 2023 | | 104 | 350 | 32 | 58 | 186 | 19 | 31 | **74** |
| One-offs 2023 | | | | | | | | | **-1** |
| Reported EBITDA 2023 | | | | | | | | | **73** |

[1] *Personnel costs without taking into account the impact of the change in actuarial provision (one-offs).*

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

| One-offs | 2023 | 2022 | % change |
|---|---|---|---|
| Change of actuarial provision | -1 | -1 | 0% |
| **TOTAL** | **-1** | **-1** | **0%** |

Key factors affecting EBITDA of Other Operations segment y/y:

- **Higher costs of IT services** resulting from the purchase of external services in order for PGE Systemy S.A. to provide a wider range of services to PGE Group and deliver new investment programs, especially LTE450 and higher prices of services provided by the external companies.
- **Higher revenues from the sale of services** due to a wider range of services provided by PGE Systemy S.A. and Elbis sp. z o. o. for companies in the PGE Group.
- **Higher costs of advisory services** due to the wider scope of projects implemented by Elbis sp. z o.o.
- **Higher capitalised costs** as a result of higher cost allocation to assets in 2023 due to projects carried out by PGE Systemy S.A.
- **Higher personnel costs** due to the increase in the minimum wage, inflation pressure and hiring of new employees in PGE Systemy S.A. in connection with the development of the LTE450 program.
- **Higher result on other Operations** as a result of sale of organised part of the enterprise of PGE Synergia sp. z o.o. and reversal of actuarial provision in that company.
- **Change of value on item 'Other'** mainly as a result of postponed settlements of project costs.

*CAPITAL EXPENDITURES*

Table: Capital expenditures incurred in Other Operations segment

| mln PLN | 2023 | 2022 | % change |
|---|---|---|---|
| Investments in generation capacities, including: | 829 | 2 200 | -62% |
| ▪ Development | 733 | 2 110 | -65% |
| ▪ Modernisation and replacement | 96 | 90 | 7% |
| **Total** | **829** | **2 200** | **-62%** |

*KEY EVENTS IN OTHER OPERATIONS*

- In 2023, work continued on the project to build a **CCGT unit** with a gross capacity of 882 MW in Rybnik (**Rybnik 2050 sp. z o.o.).** Currently, the project is at the stage of obtaining permits and preparing documentation that will enable construction works to begin. On August 11, 2023, the General Contractor submitted an application to the City Office in Rybnik, on behalf of the Project Owner, to obtain a construction permit decision. In addition, as part of the tasks accompanying the investment project, on October 6, 2023 a tender procedure was launched for the construction of a system for power evacuation from the newly built CCGT unit. On October 9, 2023, the Contractor formally took over a part of the construction site, which allowed for the commencement of preparatory works. The Contractor is in the process of procuring the main components necessary for the construction of the unit: a turbine unit, boiler plant and auxiliary equipment. Agreements with subcontractors are being concluded.
- In 2023 work continued also on the construction of two **new gas-and-steam units** of 671 MWe each **(PGE Gryfino 2050 sp. z o.o).** At present, assembly works are well advanced, and the first commissioning works of particular installations have started. With regard to the construction of a gas connection, all works were completed. In July 2023, the operational acceptance procedure for the gas pipeline was carried out and in September 2023, the pipeline was filled with gas. In November 2023, the chemical cleaning process of the unit 9 installation was successfully completed, while in December 2023 the same process was initiated on the unit 10 installation. In the first quarter of 2024, the start-up phase of both units will commence.
- At company **PGE Inwest 14 sp. z o.o.** work is in progress on a Battery Electricity Storage System (BESS) project at ESP Żarnowiec, which will be one of the largest energy storage facilities of its kind in Europe. The project obtained a decision on environmental conditions and a grid connection agreement was

concluded. Another milestone for the project was the first concession promise for electricity storage in Poland. At the end of 2023, the company PGE Inwest 14 sp. z o.o. selected a technical advisor to help develop tender documentation for the construction of BMEE. Non-refundable support is provided for the large-scale energy storage project in Żarnowiec in the amount of EUR 200 million in the Energy storage system action NIP adopted by the EU Council in December 2023.

Combining the existing 716 MW Żarnowiec pumped-storage plant with BESS will result in an innovative hybrid installation with a total power rating of at least 921 MW and a capacity of over 4.6 GWh. The capacity of the entire installation corresponds to the capacity of the largest conventional units in Poland, which has a significant impact on increasing the level of flexibility of the NPS, taking into account the constantly increasing share of RES and the progressing phase out of coal-fired units. The BESS will be able to provide a full range of ancillary services. Further activities in 2024 will be related to the preparation of a public procurement procedure for the construction of BESS and the power evacuation system. In addition, BESS will perform the function of technical and commercial balancing for unstable RES, i.e. onshore and offshore wind farms and PV farms owned by PGE Group.

*KEY PROJECTS IN OTHER OPERATIONS*

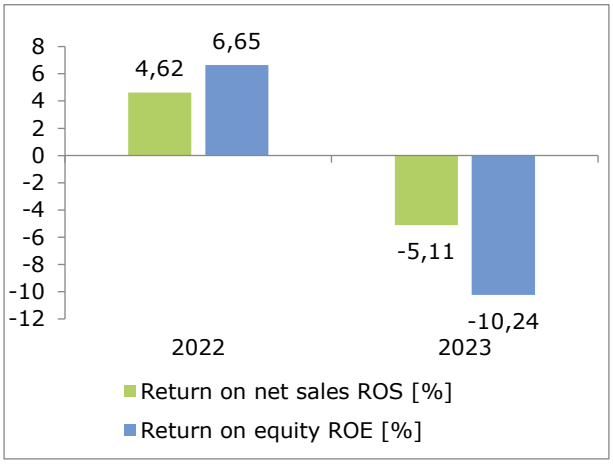
| Aim of the project | Budget | Expenditures incurred[1] | Capital expenditures in 2023[1] | Fuel/ Net efficiency | Contractor | Investment completion date |
|---|---|---|---|---|---|---|
| Construction of two CCGT units at PGE Gryfino 2050 sp. z o.o. | PLN 4.3 bn | PLN 3.2 bn | PLN 364 m | Natural gas/ 63% | Syndicate of companies: General Electric (consortium leader) and Polimex Mostostal | April 2024 |
| Construction of gas-steam unit at Rybnik 2050 sp. z o.o. | PLN 4.0 bn | PLN 100 bn | PLN 97 m | Natural gas/ 61% | Syndicate of companies: Polimex Mostostal S.A. (consortium leader), Siemens Energy sp. z o.o., Siemens Energy Global GmbH & Co. KG | December 2026 |

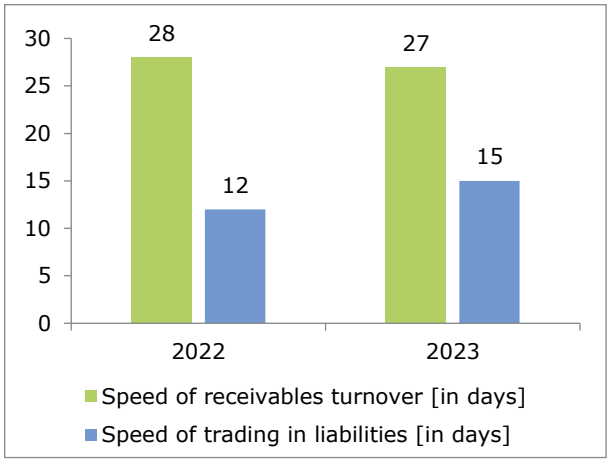
*[1] Expenditures incurred do not include financing costs and expenses in the form of advances paid to the General Contractor for the Investment and to the other contractors.*

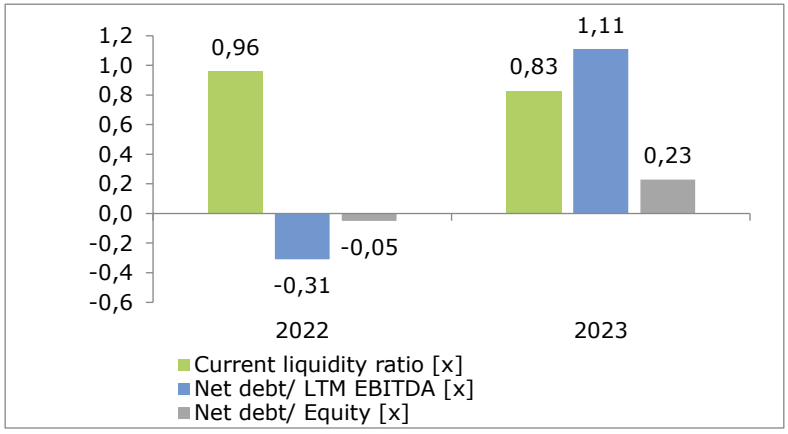
# 5.4. Management of financial resources and financial liquidity

## 5.4.1 Key financial ratios

Charts: Key financial ratios.




## 5.4.2 Net debt of the PGE Capital Group

Table: Group's net debt as at December 31, 2023 and December 31, 2022.

| PLN million | As at December 31, 2023 | As at December 31, 2022 |
|---|---|---|
| Cash on hand and cash at bank | 2 760 | 1 428 |
| Overnight deposits | 103 | 791 |
| Short-term deposits | 236 | 6 147 |
| Proceeds from the issue of shares | 1 309 | 2 727 |
| Funds on VAT accounts | 1 625 | 794 |
| **Cash and cash equivalents** | **6 033** | **11 887** |
| Adjustment for restricted cash | -419 | -295 |
| **Cash at PGE Group's disposal** | **5 614** | **11 592** |
| Current loans and borrowings | 4 376 | 2 062 |
| Bonds issued - current | 18 | 21 |
| Current lease | 119 | 54 |
| Current liabilities from factoring | 1 838 | 0 |
| Non-current loans and borrowings | 7 018 | 3 808 |
| Bonds issued – non-current | 1 999 | 2 046 |
| Non-current lease | 1 367 | 945 |
| **Gross financial debt (short and long-term)** | **16 735** | **8 936** |
| **Net financial debt** | **11 121** | **-2 656** |

### 5.4.3 Financial resources

*LIQUIDITY MANAGEMENT*

The PGE Capital Group's liquidity management consists, among other things, in planning and monitoring operating cash flows in the short and long terms as well as taking measures to ensure funds for the conduct of the PGE Capital Group's activities while minimising costs.

Long-term liquidity management allows for the determination of the PGE Capital Group's ability to incur debt and supports decisions on financing long-term investments.

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

The PGE Capital Group uses a central financing model according to which, as a matter of principle, external financing agreements are entered into by PGE S.A. Long-term debt may also be incurred by PGE Sweden AB (a Swedish special purpose company issuing Eurobonds). PGE Capital Group companies have long-term debt under preferential financing from such entities as the National Environmental Protection and Water Management Fund or the Provincial Environmental Protection and Water Management Fund. Furthermore, subsidiaries within the PGE Capital Group use various sources of intragroup financing such as loans, bonds or bank account consolidation agreements and agreements for cash management in a group of accounts. The 27 PGE Group companies participate in cash pooling. The main objective of cash pooling is to ensure current liquidity in the Capital Group, while limiting the costs of external short-term financing and minimising the financial costs associated with maintaining surplus cash balances on bank accounts. Thanks to the functioning of the cash pooling structure, Group companies with short-term shortages of funds can use the funds of their sister companies with financial surpluses without the need to resort to external financing.

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.

The most important available external financing sources for PGE Group at December 31, 2023 are as follows:

- 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 0.8 billion.
- Term loan from BGK with a contractual value of PLN 2.5 billion – amount withdrawn: PLN 0 billion.
- 4 credit facilities from the EIB with a total value of PLN 5.4 billion - PLN 4.9 billion were 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 - amount withdrawn: PLN 5.1 billion.
- Green facility loan of PLN 0.3 billion from EIB for financing of "green projects" – amount withdrawn: PLN 0.3 billion.
- PLN 0.5 billion credit facility from the EBRD to support implementation of a long-term programme for distribution network development and modernisation – amount withdrawn: PLN 0.3 billion.
- Revolving syndicated loan of the total contractual value of PLN 2.3 billion[24] – amount withdrawn: PLN 1.5 billion.
- Domestic bond programme of up to PLN 5.0 billion (*not committed*) – amount withdrawn: PLN 1.4 billion.
- Euro Medium Term Note (EMTN) bond programme of up to EUR 2.0 billion (*not committed*) – amount withdrawn: EUR 138 million.
- Preferential loans.
- Current-account overdraft facilities.

In 2023, as part of its liquidity maintenance, the PGE Group also used factoring agreements which allowed it to raise additional funds during periods of temporary increased demand for cash.

During 2023, the PGE Group invested surplus cash in bank deposits. Decisions on bank deposits are based on maximising the rate of return with set concentration limits for each bank and the current assessment of the financial standing of the banks requiring a bank to have a short-term rating for deposits at an investment level. All entities with which the PGE Capital Group enters into deposit transactions operate in the financial

[24] *As a result of the annex signed on February 6, 2024, the limit was increased to PLN 3.2 billion.*

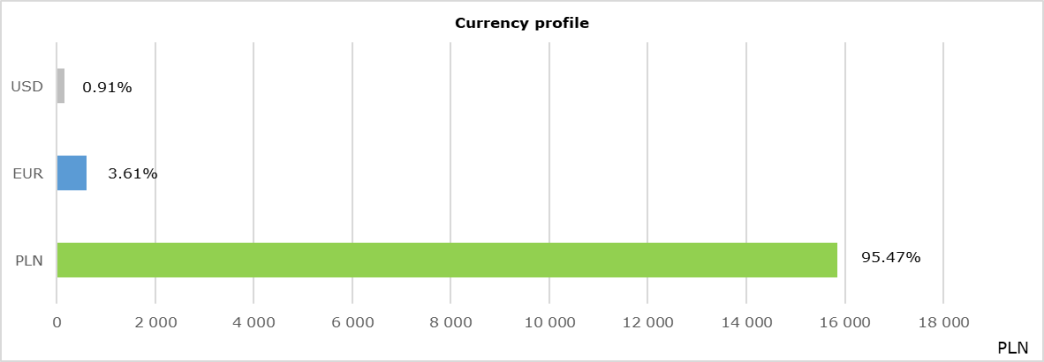
sector. These are exclusively banks registered in Poland or operating in Poland in the form of branches of foreign banks.

Currently, the most significant bank deposit positions result from the share issue carried out in 2022. Part of PLN 3.2 billion raised has already been used for investments in the areas of renewable energy, decarbonisation of district heating and distribution. The manner in which funds from the issue are spent is subject to detailed reporting and auditing. The PGE Group uses the funds in accordance with the investment agreement. Cash that will be spent at a later date in accordance with the agreement is invested in bank deposits.

In 2023, the Company and the Group were fully capable of settling their liabilities as they fall due.

Additional information on liquidity risk management is described in note 25.2 to the consolidated financial statements.

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



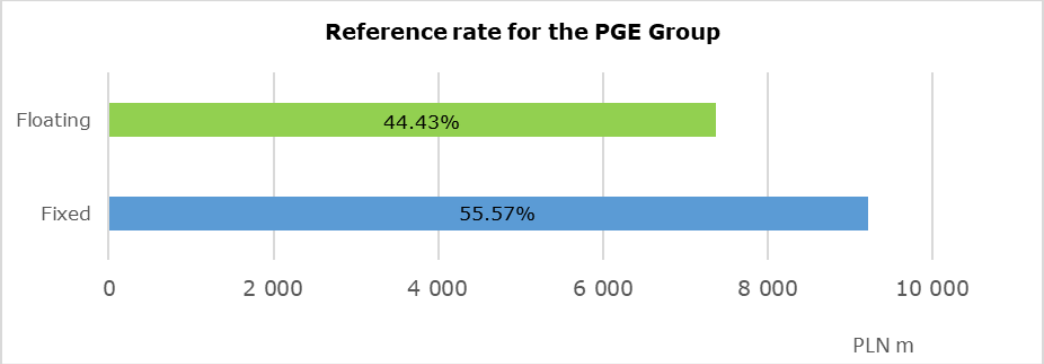
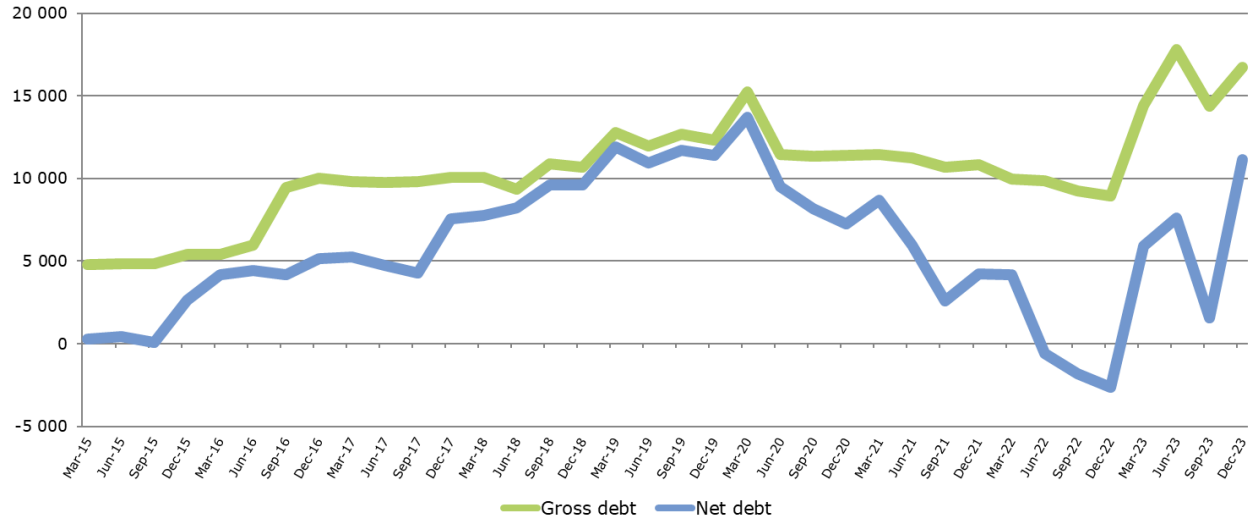
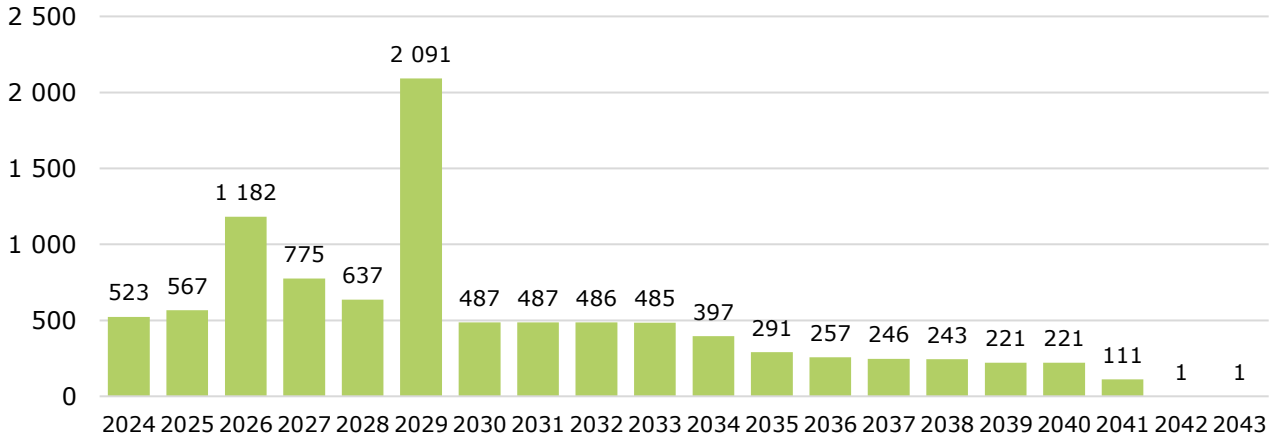




Chart: Net and gross debt (PLN million).




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 implements 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: Debt maturity profile (PLN million) as at December 31, 2023.[25]




*MANAGEMENT OF COUNTERPARTY CREDIT RISK*

Counterparty credit risk management in the PGE Group in relation to trading activities translates into the area of working capital management and is carried out, among others, on the basis of adopted procedures in the area of counterparty financial standing assessment and setting limits (for trade credits). In the process of granting a trade credit, the creditworthiness of counterparties is assessed (on the basis of a financial analysis carried out, taking into account the previous history of cooperation), as a result of which a credit limit is set. In justified cases, collateral is established with respect to a counterparty, which mitigates the risk of default in payment. In addition, periodic verification of counterparties' financial standing and the amount of credit limits granted and adequacy of collaterals accepted is carried out.

Additional information on credit risk management is described in note 25.3 to the consolidated financial statements.

*MANAGEMENT OF THE DEBT COLLECTION PROCESS*

In the Group, debt collection is managed on the basis of the Act on Prevention of Excessive Late Payment in Commercial Transactions and the General Procedure for Management of Trade Receivables in the PGE Group. Group companies monitor the payment of receivables on an ongoing basis, apply early debt collection and use the services of Economic Information Offices and business intelligence agencies.

[25] *In addition to regular repayments of loan instalments, a redemption date for PGE Sweden AB's EUR 138 million Eurobonds and domestic bonds of approximately PLN 1 billion is set for 2029.*

### 5.4.4 Bonds, loans and borrowing

Table: External 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. | Pekao 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, PKO BP and Societe Generale | Eurobonds | 2015-05-22 | - | 2 000 | 138 | EUR |

Table: Intra-group 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 GiEK S.A. | ING Bank Śląski S.A. | Intra-group bonds | 2011-06-20 | 2025-12-31 | 11 558 | 670 | 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. | PKO BP | Intra-group bonds | 2009-11-30 | 2025-12-31 | 3 700 | 1 510 | PLN |

Table: Information about the most significant bank loans and advances signed in 2023.

| Company (Borrower) | Party of the agreement | Type of financing | Signing date (yyyy-mm-dd) | Maturity date (yyyy-mm-dd) | Liability limit (million)[1] | Currency | Fixed/ floating rate |
|---|---|---|---|---|---|---|---|
| PGE S.A. | EBI | Term loan | 2023-02-03 | 2043-02-03 | 1 400 | PLN | Floating |
| PGE S.A. | Bank Gospodarstwa Krajowego | Term loan | 2023-03-01 | 2023-12-31 | 1 600 | PLN | Floating |
| PGE S.A. | PKO BP, Pekao SA., Alior Bank, Santander Bank Polska, Bank of China, ICBC S.A. | Revolving loan | 2023-03-01 | 2027-03-01 | 2 330 | PLN | Floating |
| PGE S.A. | Bank Gospodarstwa Krajowego | Term loan | 2023-11-28 | 2028-11-28 | 2 500 | PLN | Floating |

[1] *Values over PLN 100 million.*

Table: Advances granted by PGE S.A. in 2023.

| Company (Borrower) | Type of financing | Signing date (yyyy-mm-dd) | Maturity date (yyyy-mm-dd) | Liability limit (million)[1] | Currency | Fixed/ floating rate |
|---|---|---|---|---|---|---|
| PGE Baltica 5 sp. z o.o. | Advance | 2023-01-24 | 2024-01-23 | 138 | PLN | Floating |
| PGE Baltica 6 sp. z o.o. | Advance | 2023-01-24 | 2024-01-23 | 388 | PLN | Floating |
| Rybnik 2050 sp. z o.o. | Advance | 2023-04-19 | 2026-04-17 | 233 | PLN | Floating |
| Rybnik 2050 sp. z o.o. | Advance | 2023-04-19 | 2026-04-17 | 885 | PLN | Floating |
| PGE Systemy S.A. | Advance | 2023-04-27 | 2028-04-26 | 130 | PLN | Floating |
| PGE Dystrybucja S.A. | Advance | 2023-07-12 | 2024-07-12 | 447 | PLN | Floating |
| PGE Obrót S.A | Advance | 2023-08-09 | 2024-08-09 | 1 000 | PLN | Floating |
| PGE Energetyka Kolejowa Holding sp. z o.o. | Advance | 2023-08-21 | 2026-07-31 | 1 350 | PLN | Floating |
| PGE Energetyka Kolejowa S.A. | Advance | 2023-08-21 | 2026-07-31 | 2 150 | PLN | Floating |
| PGE Energetyka Kolejowa S.A. | Advance | 2023-08-21 | 2024-07-31 | 350 | PLN | Floating |
| PGE Energia Odnawialna S.A | Advance | 2023-09-13 | 2024-09-13 | 108 | PLN | Floating |
| KOGENERACJA S.A. | Advance | 2023-10-26 | 2028-10-26 | 700 | PLN | Floating |
| PGE Dystrybucja S.A | Advance | 2023-11-07 | 2024-11-06 | 1 400 | PLN | Floating |
| PGE Energia Odnawialna | Advance | 2023-11-29 | 2028-12-28 | 1 585 | PLN | Floating |

[1] *Values over PLN 100 million.*

### 5.4.5 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 were in effect until June 2023 and selected agreements were extended by annexes for a further 12 months, i.e. until June 2024.

In June 2020, an agreement was concluded between PGE S.A. and BGK for establishment of a guarantee line in the amount of PLN 250 million with an expiry date of January 2, 2024. In December 2023, PGE S.A. entered into an annex to the guarantee line agreement with BGK, extending its availability period until January 2, 2025. 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 12 months until January 2, 2025 with the guarantee validity period of up to 5 years.

In June 2022, a Deed of Guarantee was established in favour of Macquarie Bank Europe Designated (as beneficiary) for the liabilities of PGE Dom Maklerski S.A. (as guarantee recipient) to the amount of EUR 130 million. The Deed of Guarantee secures the settlement of transactions concluded on ICE and EEX, for which Macquarie is the clearing entity. The Deed of Guarantee is valid until December 31, 2024.

*SIGNIFICANT SURETIES AND GUARANTEES IN FORCE IN 2023:*

- A surety established in January 2023 in favour of Orlen S.A. PGNiG Branch for gas supply liabilities of PGE Energia Ciepła S.A., of up to PLN 3.4 billion.
- A guarantee established in January 2023 in favour of Orlen S.A. PGNiG Branch for gas supply liabilities of KOGENERACJA S.A., of up to PLN 1.1 billion.
- A surety established in January 2023 in favour of JERA Global Markets Pte. Ltd for raw material supply liabilities of PGE Paliwa sp. z o.o., of up to USD 250 million.
- A surety established in April 2023 in favour of the consortium of Polimex Mostostal S.A., Siemens Energy sp. z o.o., Siemens Energy Global GmbH & Co. KG for the liabilities of Rybnik 2050 sp. z o.o. under the contract for the construction of a CCGT unit in Rybnik, of up to PLN 3.7 billion.
- A surety established in June 2023 in favour of ING N.V. London Branch as credit agent for the liabilities of PGE Energetyka Kolejowa Holding sp. z o.o., PGE Energetyka Kolejowa S.A., of up to PLN 5.4 billion, which expired in August 2023 due to repayment of the syndicated loan.
- A surety established in August 2023 in favour of the consortium of PTSC Mechanical & Construction Co., Ltd and Semco Maritime for the liabilities of Elektrownia Wiatrowa 2 sp. z o.o., of up to EUR 199 million, in connection with the delivery of transformer stations.

*BANKING PRODUCTS RELATED TO THE PURCHASE OF COAL BY PGE PALIWA SP. Z O.O.*

In order to implement the Prime Minister's decision of July 13, 2022, PGE Paliwa sp. z o.o. was obliged to purchase thermal coal and import it to Poland. PGE S.A. and PGE Paliwa sp. z o.o. entered into the following bank product agreements allowing for the implementation of this decision:

- At the end of 2022, collateral was established by the Ministry of Finance of for the benefits of PGE Paliwa sp. z o.o., valid until January 31, 2024, in the amount of up to PLN 2.5 billion, in the form of a guarantee of payment for the liabilities of this company to the bank Pekao S.A. under the treasury limit agreement.
- At the end of 2022, collateral was established by the Ministry of Finance for the benefit of PGE S.A., valid until January 31, 2024, in the amount of up to PLN 2.3 billion, in the form of a guarantee of payment for the liabilities of this company to the bank PKO BP S.A. and under the multi-purpose credit facility agreement.

- At the end of 2022, collateral was established by the Ministry of Finance for the benefit of PGE S.A., valid until February 29, 2024, in the amount of up to PLN 1.76 billion, in the form of a guarantee of payment for the liabilities of this company to the bank BGK and under the multi-purpose credit facility agreement.
- At the end of 2022, collateral was established by the Ministry of Finance for the benefit of PGE Paliwa sp. z o.o., valid until January 31, 2025, in the amount of up to PLN 2 billion, in the form of a guarantee of payment for the liabilities of this company to the bank PKO BP S.A.
- On January 4, 2023, collateral was established by the Ministry of Finance for the benefit of PGE Paliwa sp. z o.o, valid until 31 January 2024, for the amount of up to PLN 798 million, in the form of a guarantee of payment for the liabilities of this company to the bank Pekao S.A. under a multi-purpose credit limit.

Table: Main guarantees granted by the PGE Group companies as at December 31, 2023.

| Company | Beneficiary | Entity for whose liabilities a guarantee was issued (Debtor) | Form of security | Validity of guarantee (yyyy-mm-dd) | | Value of guarantee (million) | Currency |
|---|---|---|---|---|---|---|---|
| | | | | Beginning | End | | |
| PGE S.A. | Bondholders | PGE Sweden AB PUBL | Guarantee of financial instrument [1] | 2014-05-22 | 2041-12-31 | 2 500 | EUR |
| PGE S.A. | Syndicate of Polimex Mostostal S.A. and companies from Siemens group | Rybnik 2050 sp. z o.o. | Corporate Guarantee | 2023-04-20 | 2027-04-30 | 3 752 | PLN |
| PGE S.A. | Orlen S.A. Branch PGNiG | PGE Energia Ciepła S.A. | Corporate Guarantee | 2023-01-01 | 2026-03-31 | 3 397 | PLN |
| PGE S.A. | Orlen S.A. Branch PGNiG | KOGENERACJA S.A. | Corporate Guarantee | 2023-01-01 | 2026-03-31 | 1 084 | PLN |
| PGE S.A. | JERA Global Markets Pte. Ltd. | PGE Paliwa sp. z o.o. | Corporate Guarantee | 2023-01-04 | 2024-06-30 | 250 | USD |
| PGE S.A. | Syndicate of PTSC Mechanical & Construction Co., Ltd and Semco Maritime | PGE Baltica 6 sp. z o.o. | Corporate Guarantee | 2023-08-08 | 2028-02-29 | 199 | EUR |

[1] *The guarantee was granted for the obligations of PGE Sweden AB arising from the issue of Eurobonds under the Programme up to EUR 2 000 million.*

The total amount of guarantees granted by the companies of the PGE Capital Group and mandatory on December 31, 2023 amounted to approx. PLN 30.2 bn, approx. EUR 2.8 billion and USD 398 million.

Table: Main guarantees received by the PGE Group companies and valid as at December 31, 2023.

| Company | Guarantee issuer | Entity for whose liabilities a guarantee was issued (Debtor) | Form of security | Validity of guarantee (yyyy-mm-dd) | | Value of guarantee (million)[1] | Currency |
|---|---|---|---|---|---|---|---|
| | | | | Beginning | End | | |
| PGE Gryfino 2050 sp. z o.o. | Societe Generale S.A. | Generali Electric Services GmbH | Performance bond | 2020-01-29 | 2024-01-11 | 264 | PLN |
| PGE Gryfino 2050 sp. z o.o. | Intesa Sanpaolo S.p.A.S.A. | Generali Electric Services GmbH | Guarantee | 2020-03-02 | 2023-02-15 | 165 | PLN |
| PGE Gryfino 2050 sp. z o.o. | Intesa Sanpaolo S.p.A.S.A. | Polimex Mostostal S.A. | Performance bond | 2021-02-11 | 2024-01-11 | 137 | PLN |
| KOGENERACJA S.A. | Intesa Sanpaolo S.p.A.S.A. | Polimex Mostostal S.A. | Performance bond | 2021-06-23 | 2025-05-30 | 120 | PLN |

[1] *Values over PLN 100 million.*

The total amount of guarantees received by the companies of the PGE Capital Group and mandatory on December 31, 2023 amounted to more than PLN 1.6 billion, EUR 21.5 million. Guarantees were received in connection with investments being pursued and day-to-day operations and include mainly: advance payments guarantees and performance bonds.

### 5.4.6 Assessment of investment capacities

On-going 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.

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, development of the Group's efficiency 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 mid- and 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.

The Group pursues a responsible financial policy, including maintaining its net debt to EBITDA ratio at a level allowing it to receive investment grade credit ratings and consequently the ability to finance the Group's investment programme. The value of the debt ratio is presented in p. Key financial data and in p. Key financial ratios (5.4.1) of this report.

Long-term liquidity management allows for the determination of the PGE Capital Group's ability to incur debt and supports decisions on financing long-term investments.

No change is expected in Poland's long-term credit risk rating in PLN and foreign currencies, which, with other factors unchanged, should remain neutral for the cost of financing the PGE Group's investment programmes. It can be expected that in the coming years the current values of inflation and interest rates will return to the levels indicated in the targets set by the National Bank of Poland.

### 5.4.7 Margin deposits

In connection with their forward transactions on the power exchange TGE, for which the underlying commodity is electricity and natural gas, PGE Group companies are required to put up margin deposits, which constitutes the basic element of the clearing guarantee system for forward markets. The margins are lodged by entities opening positions in futures contracts and their task is to secure the risk related to cleared futures and forward transactions.

Collateral margins are composed of the initial margin and the variation margin.

The clearinghouse Izba Rozliczeniowa Giełd Towarowych S.A. (IRGiT) determines the required value of the collateral margin as a sum of the initial margin and the variation margin.

The variation margin is responsible for the on-going alignment of the portfolio value with market values, can take positive (surplus) as well as negative values (margin requirement) and is subject to daily updates. The clearinghouse accepts both monetary and non-monetary collateral - bank guarantees, $CO_2$, property rights, sureties and declaration of submission to enforcement in the form of a notarial deed in accordance with Art. 777 of the Civil Code.

In addition, for PGE Group Companies, the IRGiT applies mutual netting of initial and variation margins within the Netting Group, which has the effect of reducing the value of required security deposits.

In 2023 compared to 2022 the amount of collateral deposits significantly decreased as a consequence of the stabilisation of energy prices and the abolition of the 100% exchange trading obligation from December 6, 2022.

From September 1, 2022, the IRGIT introduced updates to the order and amount of recognition of non-monetary collateral to cover the required security deposits. The updated IRGIT rules set the maximum amount of security to be provided in the form of a declaration of submission to execution in the form of a notarial deed pursuant to art. 777 of the Civil Code up to 90% of the value of the required security deposits. The remaining 10% of the value of the required security deposits may be covered by up to 90% with bank guarantees and/or property rights and CO2 recognised by IRGiT, with at least 10% covered by cash.

The PGE Group has the ability to make forward transactions on ICE Endex of the Intercontinental Exchange Inc. (ICE) and on the European Energy Exchange AG, for which the underlying instrument are $CO_2$ emission allowances. Margin deposits are required to secure open positions in futures contracts. The margins consist of the Initial Margin and Variation Margin, whose function is to cover the difference between the transaction price of a concluded contract and its market valuation based on the settlement price on a daily basis. For a long position, a fall in the current day's clearing prices compared to the previous day's clearing prices means the necessity to make Variation Margin deposits, while an increase in prices compared to the previous day means that you will receive a Variation Margin.

The PGE Group makes settlements related to $CO_2$ trading on an ongoing basis.

### 5.4.8 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 12 to the consolidated financial statements. Changes in the Capital Group's structure which took place in 2023 and capital investments related thereto are described in p. 8.3 of this report.

### 5.4.9 Financial instruments and hedge accounting

Information on financial instruments with respect to price risk, credit risk, material cash flow disruptions and liquidity risk to which the entity is exposed, the entity's objectives and methods of financial risk management, including hedging methods for material types of planned transactions for which hedge accounting is applied, is provided in notes 24 and 25 to the consolidated financial statements.

# 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

| Key financial data (PLN million) | Q4 2023 | Q4 2022 | % change | 2023 | 2022 | % change |
|---|---|---|---|---|---|---|
| Sales revenues | 22 154 | 10 110 | 119% | 65 842 | 35 922 | 83% |
| EBIT | 461 | 209 | 121% | 1 988 | 1 139 | 75% |
| EBITDA | 464 | 212 | 119% | 2 002 | 1 151 | 74% |
| EBITDA margin (%) | 2% | 2% | | 3% | 3% | |
| Recurring EBITDA | 521 | 206 | 153% | 2 042 | 752 | 172% |
| Recurring EBITDA margin (%) | 2% | 2% | | 3% | 2% | |
| Net profit | -11 075 | 306 | - | -5 894 | 3 097 | - |
| Capital expenditures | 16 | 1 | 1 500% | 22 | 6 | 267% |
| Net cash from operating activities | -10 501 | 2 087[1] | - | -19 272 | -1 105 | 1 644% |
| Net cash from investing activities | -774 | -625 | 24% | 6 120 | 5 428 | 13% |
| Net cash from financial activities | 2 008 | -399 | - | 4 301 | 954 | 351% |

| Key financial data (PLN million) | December 31, 2023 | December 31, 2022 | % change |
|---|---|---|---|
| Working capital | 24 074 | 17 253 | 40% |
| Shares in subsidiaries | 21 711 | 29 445 | -26% |
| **Net debt** | **-10 021** | **-10 906** | **-8%** |
| Net debt /LTM reported EBITDA[2] | -5.01 | -9.48 | |
| Net debt /LTM recurring EBITDA[2] | -4.91 | -14.50 | |

| One-offs affecting EBITDA (PLN million) | Q4 2023 | Q4 2022 | % change | 2023 | 2022 | % change |
|---|---|---|---|---|---|---|
| Valuation of $CO_2$ emission rights futures contracts | -57 | 6 | - | -39 | 399 | - |
| Actuarial provision - change due to change in discount rate | 0 | 0 | - | -1 | 0 | - |
| **Total** | **-57** | **6** | **-** | **-40** | **399** | **-** |

[1] *Restatement of comparative data to ensure greater consistency in the financial data presented.*
[2] *LTM EBITDA - Last Twelve Months EBITDA.*

*REVENUES BY GEOGRAPHICAL AREAS*

PGE S.A. in 2023 earned 100% revenues in domestic market.

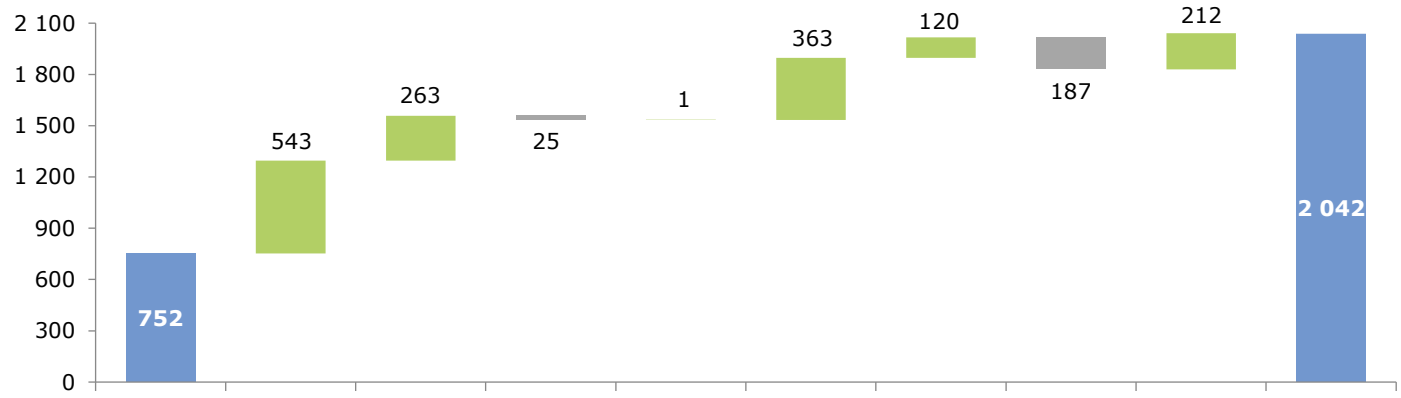
*KEY FINANCIAL FIGURES OF PGE S.A. FOR 5 YEARS*

Table: Data on key financial figures of PGE S.A. (PLN million).

| PLN million | 2023 | 2022 | % change | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| Sales revenues | 65 842 | 35 922 | 83% | 35 917 | 27 541 | 15 146 |
| EBIT reported | 1 988 | 1 139 | 75% | 601 | 712 | 779 |
| EBITDA reported | 2 002 | 1 151 | 74% | 613 | 724 | 791 |
| EBITDA recurring | 2 042 | 752 | 172% | 602 | 745 | 687 |
| One-offs[1] | -40 | 399 | - | 11 | -21 | 104 |
| Net profit/loss | -5 894 | 3 097 | - | 1 734 | 1 744 | -1 259 |
| Net debt | -10 021 | -10 906 | -8% | -5 337 | -397 | 4 769 |
| Net debt /LTM EBITDA reported | -5.01 | -9.48 | | -8.71 | -0.55 | 6.03 |
| Net debt /LTM EBITDA recurring | -4.91 | -14.50 | | -8.87 | -0.53 | 6.94 |
| Working capital | 24 074 | 17 253 | 40% | 11 517 | 8 985 | 5 814 |
| Capital expenditures | 22 | 6 | 267% | 2 | 4 | 6 |

*[1] One-offs at the EBITDA level.*

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




| | EBITDA 2022 | Result on electricity sales | Result on trading of CO2 emission rights | Result on sale of gas | Capacity Market | Revenues from ZHZW and ZDEE[1] | Revenues from Corporate Center services | Cost of organisation's activity | Result on other operations | EBITDA 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Change** | | **543** | **263** | **-25** | **1** | **363** | **120** | **-187** | **212** | |
| EBITDA reported 2022 | **1 151** | | | | | | | | | |
| One-offs 2022 | **399** | | | | | | | | | |
| EBITDA recurring 2022 | **752** | -570 | 190 | 24 | 29 | 1 571 | 172 | 494 | -170 | |
| EBITDA recurring 2023 | | -27 | 453 | -1 | 30 | 1 934 | 292 | 681 | 42 | **2 042** |
| One-offs 2023 | | | | | | | | | | **-40** |
| EBITDA reported 2023 | | | | | | | | | | **2 002** |

*1 ZDEE – Securing Electricity Supply.*

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

- **The higher result on sales of electricity** is attributable to higher unitary margin on electricity trading by PLN 13.0/MWh. This is due to the change in the model of securing electricity supply for retail trading in 2023, based on securing open positions in the internal portfolios of PGE CG power generators.
- The **higher result on trading in CO2 emission allowances** was mainly driven by a higher volume of $CO_2$ emission allowances sold by 32.3 million tonnes and a higher average sale price by PLN 109/t. The higher volume was mainly due to a different timing of purchases of $CO_2$ emission allowances in 2023 for the purpose of their redemption for the years 2022 and 2023 compared to the previous year.
- **The lower result on gas trading** is the result of a lower unit margin on gas sales of PLN 7/MWh. This is due to the result achieved in 2022 due to the increase in gas prices on the market and very large fluctuations in daily spot prices on the exchange.
- **Increased revenues from the Group companies** from the services of ZHZW and ZDEE result mainly from higher value of electricity trading under management on behalf of PGE Group companies, with a lower weighted average margin by 0.34 p.p., which is mainly due to a lower margin in PGE Obrót S.A. in 2023. The increase in the value of electricity results from a higher price of electricity by PLN 349/MWh, with a lower volume of managed electricity by 21.2 TWh.
- **The increase in revenues from the provision of Corporate Centre services** is a result of increased revenues from licence agreements and support agreements. Higher revenues from support contracts are mainly due to the centralisation of the accounting and human resources as well as communication and marketing areas carried out in 2023, and the provision of new services that had not been offered in the previous year. Higher revenues from licence agreements were attributed to higher revenues of PGE Group companies.
- The **increase in the organisation's operating costs** was mainly driven by higher employee benefits and marketing costs. The increase in employee benefits costs resulted from higher employment mainly due to the centralisation of the accounting and human resources as well as communications and marketing areas, and the execution of the Company Collective Bargaining Agreement.
- The **higher result on other activities** - was influenced mainly by impairment losses on receivables (recognition of an impairment loss in 2022 for receivables of Enesta sp. z o.o. in the amount of PLN 154 million, and release of an impairment loss in 2023 for receivables of Enesta sp. z o.o. in the amount of PLN 60 million).

*FINANCIAL OPERATIONS*

Table: Financial operations (PLN million).

| Financial revenues/expenses | 2023 | 2022 | % change |
|---|---|---|---|
| Dividends from PGE Capital Group | 3 269 | 1 639 | 99% |
| Interest | 1 729 | 663 | 161% |
| Profit/(Loss) on disposal of investments | 21 | 35 | -40% |
| Revaluation of financial instruments | -6 | 3 | - |
| Reversal/creation of impairment losses | -12 250 | -17 | 71 959% |
| Foreign exchange translations | -32 | -31 | 3% |
| Other | -4 | -1 | 300% |
| **Result on financial operations** | **-7 273** | **2 291** | - |

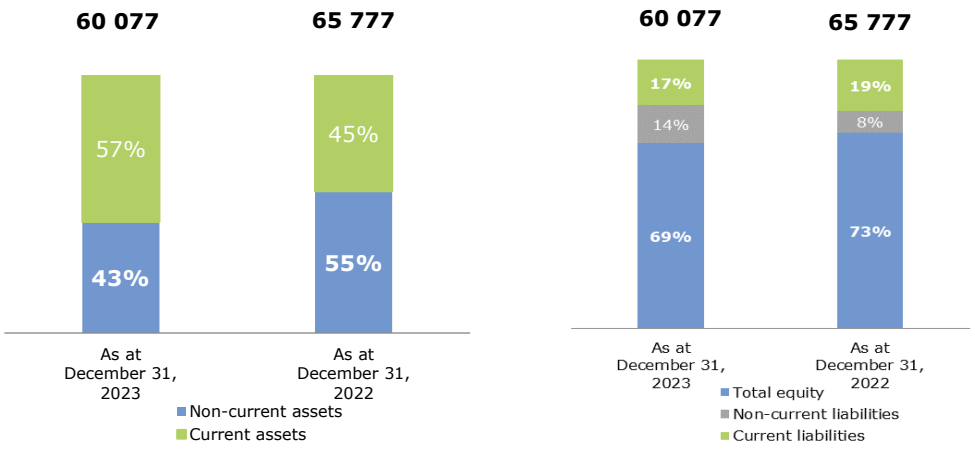
Key factors affecting the financial results of PGE S.A. on y/y basis included:

- **Increased revenues from dividends** mainly as a result of dividend from PGE Energetyka Kolejowa Holding sp. z o.o. in amount of PLN 1 412 million, which did not occur in 2022 and higher dividend income from PGE Energia Odnawialna S.A. by PLN 219 million,
- **The increase in interest** is due to from the valuation and accrual of interest on Autostrada Wielkopolska S.A. bonds in 2023. (covered by a write-down), an increase in loans granted to PGE Group companies and an increase in interest on deposits,

- **Profit/loss on disposal of investments**: in 2023, the most significant item was cash received from the liquidation of PGE Trading GmbH in the amount of PLN 18 million, while in 2022 it had been profit from the sale of shares in companies providing services to PGE GiEK S.A. in the amount of PLN 30 million,
- **Change in impairment write-downs on financial non-current assets** – an impairment write-down on shares, granted loans and held bonds of PGE GiEK S.A. was created in the total amount of PLN 11 750 million, an impairment write-down on bonds of Autostrada Wielkopolska S.A. and an increase in the impairment write-down on shares in PGE Trading GmbH were posted in 2023. In 2022, an impairment write-down on shares in PGE Nowa Energia sp. z o.o. in liquidation in the amount of PLN 17 million had been posted.

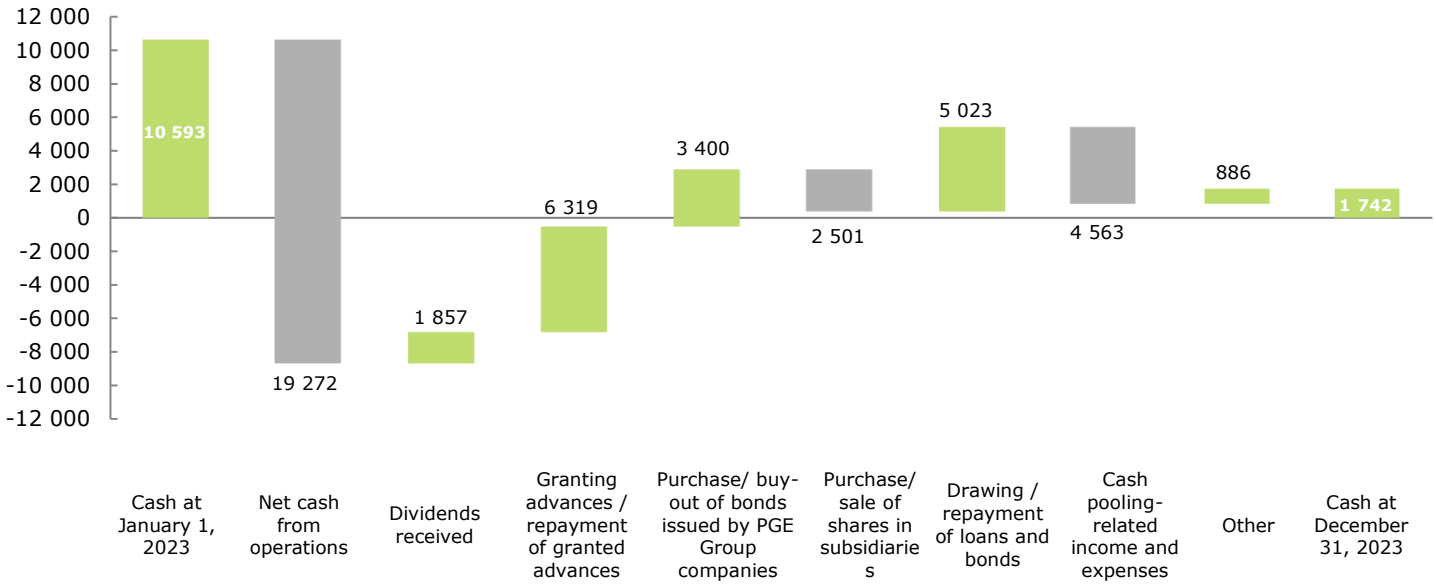
*STATEMENT OF FINANCIAL POSITION*

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




*STATEMENT OF CASH FLOWS*

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



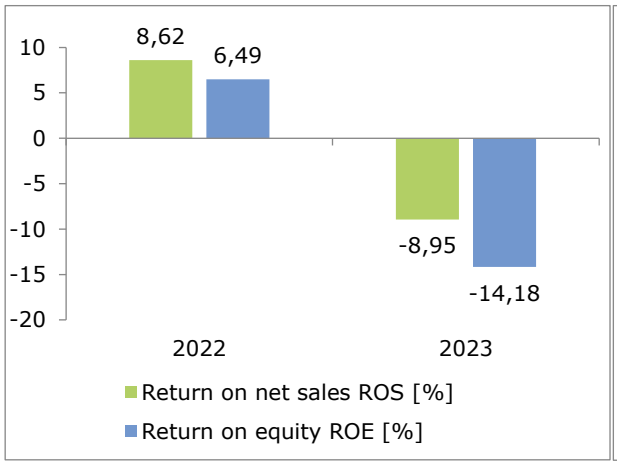

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Impact on cash** | | **-19 272** | **1 857** | **6 319** | **3 400** | **-2 501** | **5 023** | **-4 563** | **886** | |
| Cash | **10 593** | | | | | | | | | **1 742** |

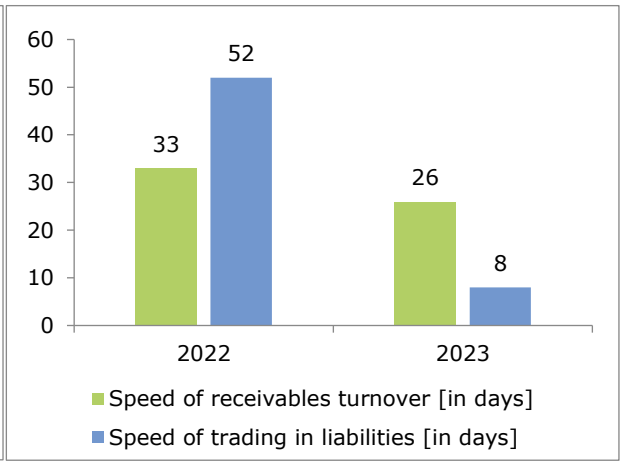
*NET DEBT OF PGE S.A. AND MAIN FINANCIAL RATIOS*

able: Company's net debt as at December 31, 2023 and December 31, 2022.

| PLN million | As at December 31, 2023 | As at December 31, 2022 |
|---|---|---|
| Cash on hand and cash at bank | 379 | 559 |
| Overnight deposits | 0 | 764 |
| Short-term deposits | 1 304 | 8 574 |
| Funds on VAT accounts | 59 | 696 |
| **Cash and cash equivalents** | **1 742** | **10 593** |
| Short-term loans and debt securities (PGE Group) | 21 257 | 12 747 |
| Loans and receivables - cash pooling | 703 | 348 |
| **Cash at the Company's disposal** | **23 702** | **23 688** |
| Current loans and borrowings | 4 131 | 1 920 |
| Short-term bonds (interest) | 10 | 13 |
| Short-term liabilities - cash pooling | 1 371 | 5 614 |
| Lease liabilities (short-term and long-term) | 23 | 24 |
| Non-current loans and borrowings | 6 747 | 3 812 |
| Bonds issued – non-current | 1 399 | 1 399 |
| **Gross financial debt (short and long-term)** | **13 681** | **12 782** |
| **Net financial debt** | **-10 021** | **-10 906** |

Charts: Key financial ratios.



## 6.2. Key operational figures and sales and supply markets

Table: Volume of electricity sales (in TWh).

| Sales volume | Q4 2023 | Q4 2022 | % change | 2023 | 2022 | % change |
|---|---|---|---|---|---|---|
| Sale of electricity to the Group companies | 10.69 | 10.79 | -1% | 39.29 | 39.94 | -2% |
| Sale of electricity on the power exchange and in bilateral transactions outside the Group | 0.12 | 0.05 | 140% | 0.31 | 0.77 | -60% |
| Sale within the balancing group and on the balancing market | 0.45 | 0.46 | -2% | 1.96 | 1.64 | 20% |
| **Total electricity sales** | **11.26** | **11.30** | **0%** | **41.56** | **42.35** | **-2%** |

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 2023 primarily resulted from a decrease in trading with PGE Obrót S.A. in order to secure retail customers' needs for electricity supply. The decline in electricity sales volumes to retail customers is mainly the result of lower level of 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 turnover on TGE.

The main customer of electricity sold by PGE S.A. is the subsidiary PGE Obrót S.A., whose share in the sales volume in 2023 is 79%.

Table: Summary of electricity sales (TWh) for 5 years.

| Sales volume | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|
| Sale of electricity to the Group companies | 39.29 | 39.94 | 42.02 | 51.75 | 46.24 |
| Sale of electricity on the power exchange and in bilateral transactions outside the Group | 0.31 | 0.77 | 1.57 | 4.07 | 2.60 |
| Sale within the balancing group and on the balancing market | 1.96 | 1.64 | 1.39 | 1.26 | 1.42 |
| **Total electricity sales** | **41.56** | **42.35** | **44.98** | **57.08** | **50.26** |

Table: Volume of natural gas sales [TWh].

| Sales volume | Q4 2023 | Q4 2022 | % change | 2023 | 2022 | % change |
|---|---|---|---|---|---|---|
| Sale of natural gas to the Group | 0.62 | 1.15 | -46% | 2.80 | 2.86 | -2% |
| Sale of natural gas outside the Group | 0.06 | 0.35 | -83% | 0.21 | 0.71 | -70% |
| **Total natural gas sales** | **0.68** | **1.50** | **-55%** | **3.01** | **3.57** | **-16%** |

The y/y lower volume of natural gas sales results mainly from a lower volume of gas sold on TGE and to external entities as well as to entities from the PGE Capital Group for securing the needs of retail customers.

The main customer of natural gas sold by PGE S.A. in 2023 is the subsidiary PGE Energia Ciepła S.A., whose share in the sales volume is 49%. In addition, PGE S.A. sold natural gas to the following subsidiaries: Enesta sp. z o.o. in restructuring (21% share), PGE Toruń S.A. (19% share).

Table: Volume of natural gas sales [TWh] for 5 years.

| Sales volume | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|
| Sale of natural gas to the Group | 2.80 | 2.86 | 3.09 | 3.21 | 2.31 |
| Sale of natural gas outside the Group | 0.21 | 0.71 | 0.79 | 0.60 | 2.58 |
| **Total natural gas sales** | **3.01** | **3.57** | **3.88** | **3.81** | **4.89** |

PGE S.A.'s largest suppliers of electricity are the following subsidiaries: PGE Dom Maklerski S.A. (49%), PGE GiEK S.A. (24%), PGE Energia Ciepła S.A. (12%), while for natural gas PGE Dom Maklerski, which supplies 97% of the purchased volume.

# 6.3. Shares and shareholders

## 6.3.1 Share capital of PGE S.A. and ownership structure

*SHARE CAPITAL*

As at January 1, 2023, December 31, 2023 and the date of publication of this report, the share capital of PGE S.A. was PLN 19 183 746 098.70 and split into 2 243 712 994 shares with a nominal value of PLN 8.55 each. There were no changes in share capital of PGE S.A. during 2023.

Table: Share capital of the Company.

| Series/ issue | Type of shares | Type of privilege | Number of shares | Value of series/issue at nominal value | Capital payment method |
|---|---|---|---|---|---|
| **"A"** | ordinary | n/a | 1 470 576 500 | 12 573 429 075.00 | contribution in kind/cash |
| **"B"** | ordinary | n/a | 259 513 500 | 2 218 840 425.00 | cash |
| **"C"** | ordinary | n/a | 73 228 888 | 626 106 992.40 | merger with PGE GiE |
| **"D"** | ordinary | n/a | 66 441 941 | 568 078 595.55 | merger with PGE Energia S.A. |
| **"E"** | ordinary | n/a | 373 952 165 | 3 197 291 010.75 | cash |
| **Total** | | | **2 243 712 994** | **19 183 746 098.70** | |

*SHAREHOLDERS WITH A SIGNIFICANT STAKE*

According to the letter from the Ministry of the State Treasury of May 20, 2022, the State Treasury held 1 365 601 493 ordinary shares of the Company, representing 60.86% of the Company's share capital and entitling to 1 365 601 493 votes on the General Meeting of the Company, constituting 60.86% of total votes.

In addition, The State Treasury informed about the subsidiary holding PGE shares and the total number of votes by both entities and its percentage share in the total number of votes. According to the notification, taking into account the number of shares (18 697 608) held by a subsidiary of the State Treasury, i.e. Towarzystwo Finansowe Silesia sp. z o.o.(TF Silesia), the State Treasury holds a total of 1 384 299 101 shares constituting 61.70% of the share capital of the Company and entitling to exercise 1 384 299 101 votes, which constitutes 61.70% of the total number of votes.

Table: Shareholding structure at January 1, 2023, December 31, 2023 and at the publication date of this report[1].

| State Treasury and its subsidiary | | Other shareholders | | Total | |
|---|---|---|---|---|---|
| Nominal value of shares (PLN) | % in share capital and votes | Nominal value of shares (PLN) | % in share capital and votes | Nominal value of shares (PLN) | % in share capital and votes |
| 11 835 757 313.55 | 61.70 | 7 347 988 785.15 | 38.30 | 19 183 746 098.70 | 100.00 |

[1] *The ownership structure is presented on the basis of information available to the Company.*

All of the Company shares have been paid.

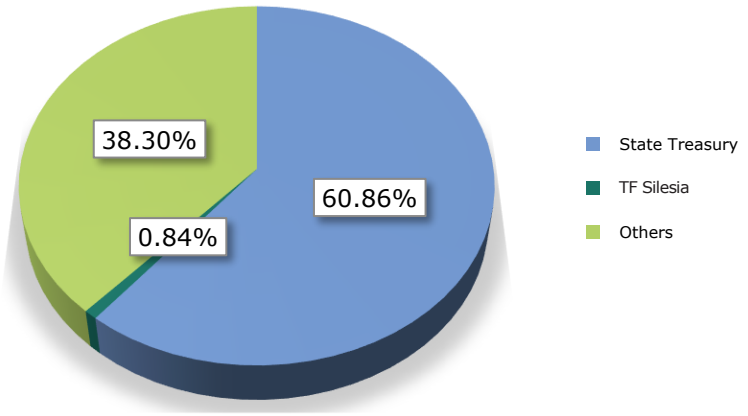
Although the Company's shares are not privileged, the Statutes of the Company provide for special rights of the State Treasury until it remains a Shareholder of the Company, what was described in details in p. 7.1.5 of this report.

Table: Shareholders holding directly or indirectly by subsidiaries at least 5% of the total votes at the General Meeting of PGE S.A. January 1, 2023, December 31, 2023 and at the publication date of this report.

| Shareholder | Number of shares | Number of votes | % in total votes on General Meeting |
|---|---|---|---|
| State Treasury | 1 365 601 493 | 1 365 601 493 | 60.86% |
| State Treasury's subsidiary – Silesia sp. z o.o. | 18 697 608 | 18 697 608 | 0.84% |
| State Treasury and its subsidiary - total | 1 384 299 101 | 1 384 299 101 | 61.70% |
| Others | 859 413 893 | 859 413 893 | 38.30% |
| **Total** | **2 243 712 994** | **2 243 712 994** | **100.00%** |

During 2023, there were no changes in the structure of the PGE S.A. shareholding structure.

Chart: Shareholding structure of PGE S.A. in 2023.




## 6.3.2 Dividend policy

In May 2017 the Management Board decided to recommended 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 intended 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.

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 planned acquisitions (including the acquisition of PKPE Holding sp. z o.o. completed in April 2023), as well as taking into account prolonged market volatility and uncertainty (inter alia as a result of the recession caused by the COVID-19 pandemic and war in Ukraine), the PGE Management Board recommended not to pay dividends for years 2019-2022. Ordinary General Meetings in 2020-2023 adopted resolutions in accordance with the recommendations of the PGE Management Board.

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

## 6.3.3 Shares of the parent company and shares in the entities related to PGE S.A. 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 held shares of the parent company or shares in entities related to PGE S.A. as at December 31, 2023 and as at the date of signing of this report.

## 6.3.4 Agreements concerning potential changes in the shareholder structure

The Management Board of PGE S.A. is not aware of any agreements affecting any future change in the number of shares held by the existing shareholders.

### 6.3.5 Purchase of treasury shares

As at December 31, 2023 PGE S.A. and subsidiaries did not hold any treasury shares.

### 6.3.6 Employee share programmes

There was no employee share programme in the PGE Capital Group in 2023.

### 6.3.7 Issue of shares

In 2023 the Company did not issue shares.

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

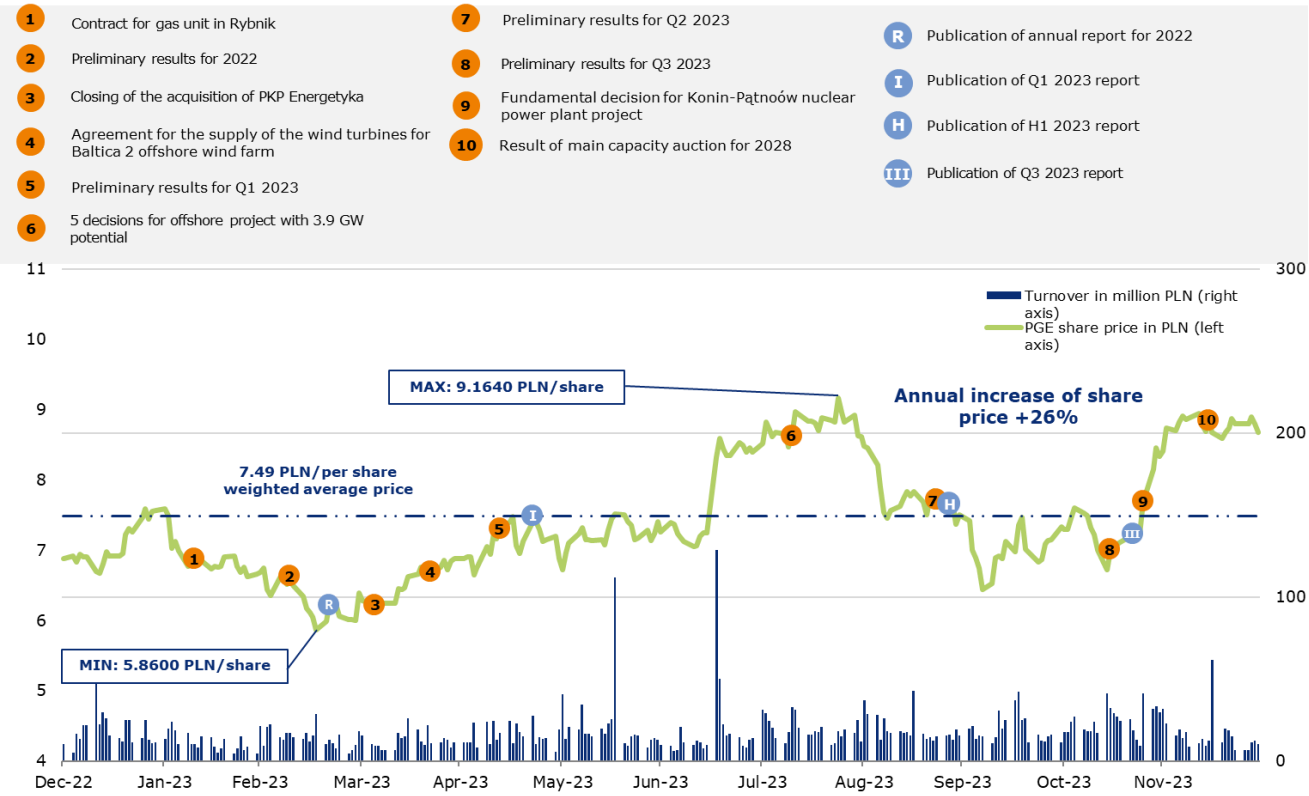
PGE S.A. shares are listed in the continuous trading system on the Main Market of Warsaw Stock Exchange ("WSE"). PGE has the largest market capitalisation among Polish companies from power sector listed on WSE. PGE shares are included in the most important WSE indexes: WIG20 – the index of the largest 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 2023 PGE shares quotation were in range PLN 5.8600-9.1640. Average market capitalisation (value of all shares of the Company) in 2023 amounted to approx. PLN 16.8 billion. Average trading volume amounted to 2.4 million shares per session and average trading amount reached approx. PLN 17.9 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 2023 (PLN).




*Source: Bloomberg, Company's data.*

Table: Key data on PGE S.A. shares.

| | 2023 | 2022 |
|---|---|---|
| Turnover value (PLN m) | 4 649 | 6 108 |
| Average turnover volume (pcs) | 2 415 320 | 2 907 387 |
| Maximum price during the year (PLN)[1] | 9.1640 | 11.0250 |
| Minimum price during the year (PLN)[1] | 5.8600 | 4.7390 |

*[1] Stock prices on closing.*
*Sources: 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 p. 7.1.5 of this report). Shareholders' rights are described in p. 7.3 of this report.

### 6.3.9 Recommendations of brokerage houses

In 2023, analysts of brokerage houses issued 19 recommendations for PGE S.A. shares.

Table: Brokerage houses' recommendations for PGE S.A. shares.

| Brokerage house | Date | Recommendation | Target price (PLN) | Closing price on the day of recommendation (PLN) |
|---|---|---|---|---|
| Societe Generale | 2023-01-27 | buy | 11.30 | 7.56 |
| Citi | 2023-02-03 | buy | 9.40 | 6.44 |
| Societe Generale | 2023-03-03 | buy | 14.40 | 6.39 |
| Trigon | 2023-04-23 | buy | 8.60 | 6.76 |
| Ipopema | 2023-06-30 | buy | 9.70 | 7.26 |
| Citi | 2023-07-17 | buy | 9.30 | 8.32 |
| BM Pekao | 2023-07-18 | buy | 14.10 | 8.59 |
| BM Santander | 2023-07-19 | overweigh | 10.50 | 8.45 |
| BM PKO BP | 2023-07-24 | hold | 9.10 | 8.53 |
| Trigon | 2023-08-22 | buy | 11.10 | 8.82 |
| BOSSA | 2023-09-03 | buy | 11.00 | 8.46 |
| BM Santander | 2023-09-19 | overweigh | 10.30 | 7.50 |
| BM PKO BP | 2023-10-16 | buy | 9.10 | 6.98 |
| Trigon | 2023-10-23 | buy | 10.22 | 6.83 |
| BM Santander | 2023-11-09 | neutral | 8.00 | 7.22 |
| Ipopema | 2023-11-16 | sell | 6.15 | 7.08 |
| BM Santander | 2023-11-27 | overweigh | 9.30 | 8.15 |
| BM Pekao | 2023-12-07 | buy | 14.60 | 8.86 |
| BM PKO BP | 2023-12-20 | buy | 10.50 | 8.73 |

### 6.3.10 PGE S.A. Investor Relations in 2023

The main objectives of PGE's information policy are transparency and cooperation based on mutual trust. Effective communication with investors and transparency are in the Company's best interest and contribute to building value for its Shareholders. The activities taken up by PGE S.A. in terms of investor relations are more than regulation requirements. These regulations oblige the Company to meet information duties in terms of periodical and on-going reporting with special consideration of inside information. In order to satisfy demanding stockholders and investors, we launched a series of additional tools, the aim of which is to eliminate the information asymmetry between the Company and the capital market. These tools are available on the Company's website, in the Investor Relations' section in Analyst's zone https://www.gkpge.pl/en/for-investors/shares/analyst-s-zone

Among others they include:

- Presentation of PGE Group's strategy;
- Investor presentation – updated periodically as market needs and expectations arise;
- presentations on significant undertakings of the PGE Group (i.e. acquisition of PKP Energetyka S.A., offshore wind farm programme);
- An editable xls file, which includes financial and operating data presented in the form of time series starting from the first quarter of 2011 until the latest reporting period.

The following are also published on the website in the section dedicated to investors:

- consensus forecasts of brokerage houses;
- information on shares, bonds and credit ratings;
- information related to corporate governance;
- calendar of events.

In addition, the Company publishes preliminary estimated results in periods preceding periodic reporting. These publications include key financial values, operating volumes and information on important one-offs. Each time after the publication of the periodic report, the company organizes a conference for journalists and analysts, which is broadcast live on the Internet. The representatives of the management and the investor relations team also participate in many conferences and meetings held in Poland and abroad, where they establish direct contact with investors.

For investors sensitive to social and environmental issues, who seek interactions between business, finances and the Company's engagement for the benefit of its surroundings, since 2015 we have been publishing an online integrated report of PGE Capital Group.

The aforementioned activities are aimed at the best possible communication with stakeholders. At the beginning of 2023 PGE S.A. was recognised as the company with the best Investor Relations in Poland in the international Institutional Investor survey, a leading global publisher in the field of finance, conducted for the year 2022. The distinction was awarded in cooperation with IR Society Poland, an organisation of the investor relations community in Poland. Along with the award among Polish companies, PGE was rated best among all utilities across the region.

The companies' investor relations were assessed according to the following criteria: usefulness of investor conferences and meetings with investors, results conferences, knowledge of the business and market, ability to respond quickly, authority and credibility, timeliness, consistency and detail of disclosure of financial information.

An analogous award for the best investor relations in Poland for 2023 was also granted to the PGE S.A. investor relations team in December 2023.

### 6.3.11 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 | January 13, 2023 | January 16, 2024 |
| Poland long-term rating | A2 | A- |
| Rating outlook | stable | stable |

At the beginning of 2024 Fitch Ratings affirmed its long-term rating of PGE S.A. at the investment grade leve of BBB+, with stable outlook.

In its January 2024 announcement, Fitch highlights that the rating reflects the business profile of the PGE Group, which is Poland's largest integrated energy group, based largely on stable regulated revenues from electricity distribution and the capacity market. PGE Group's business profile was further positively influenced by the acquisition of the PKP Energetyka S.A. (currently PGE Energetyka Kolejowa S.A.) in April 2023. In Fitch's assessment, ongoing investments in new generation sources based on gas (Gryfino 2050 and new unit in Rybnik power plant) thanks to 17-year capacity contracts will also improve the future results of the PGE Group. The rating level and its outlook are also supported by the projected maintenance of limited debt levels in the coming years despite planned large capital expenditure. PGE Group's electricity generation profile, currently based on coal-fired power plants, for which Fitch expects a significant deterioration in profitability in the medium term, is cited as a potential risk.

Moody's analysts confirmed the rating of PGE S.A. in January 2023. According to the opinion issued by this agency, the confirmation of the assigned rating takes into account the leading position on the energy market in Poland, the strategy assuming concentration on the Renewables and Distribution segments after the separation of conventional coal assets and the low leverage ratios.

These factors are offset by uncertainty regarding the implementation of the government's plan to take over PGE Group's coal assets, challenges related to revenues resulting from regulations introducing maximum retail prices for electricity, the group's high exposure to price volatility on fuel markets and large planned capital expenditures absorbing operating cash flow and carrying the risk of timely completion of the investment.

Moody's also emphasizes the stable revenues from regulated activities (Distribution and District Heating segments), which are responsible for significant share of EBITDA and low leverage ratios.

Both agencies underline affirmation results from strong market position of PGE in the Polish electricity sector. Ratings assigned by both agencies confirm PGE's long-term credibility on the capital and credit market.

# 7. Statement on implementation of Corporate Governance

This Statement on implementation of corporate governance in PGE S.A. in 2023 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.

Corporate governance is a set of rules of conduct addressed both to the governing bodies of companies and the members of these bodies and to majority and minority shareholders. Corporate governance rules apply to the widely define corporate management and they lead to greater transparency at listed companies, improved quality of companies' communication with investors, reinforcing the protection of shareholder rights, including in matters not addressed by law. Since its IPO in 2009, PGE S.A. has applied the corporate governance rules contained in the Best Practices published by the Warsaw Stock Exchange, on which the Company's shares are listed. The contents of the document are 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.

## 7.1. Application of corporate governance principles by the Company

### 7.1.1 Basic information

In 2023 PGE S.A. was obliged to follow the corporate governance principles described in "Best Practices of WSE Listed Companies 2021" (further: Best Practices 2021, DPSN). 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 text of the Best Practices is published on the official website of the Warsaw Stock Exchange devoted to corporate governance: https://www.gpw.pl/dobre-praktyki2021

Moreover, pursuant to Art. 7 sec. 3 of the Act on the principles of state property management, the Prime Minister may specify best practices in the field of corporate governance. Due to the fact that the Prime Minister did not specify the best practices referred to above, in terms of best practices in 2023, the Company did not apply any other practices - apart from those indicated in the DPSN.

Companies complying with the Best Practices are required to report on their application. A comprehensive study of compliance with the Best Practices at the Company and the Group was carried out, involving a number of relevant departments. A matrix of the responsibilities of the organisational units in relation to each principle was prepared and the data and necessary explanations were collected to determine the degree of compliance with the Best Practices. Additionally, the Company took into account the Corporate Governance Committee's guidance on the application of the Best Practices rules, which was edited based on questions raised by issuers. The application status report was presented to the Management Board and the Supervisory Board of the Company with explanations and comments. The Company's Management Board approved the report on July 30, 2021 and the company published the report in the EIB system on that date. In the report, the Company declared the application of 53 Best Practices rules, which, according to the statements available at the date of preparation of this report on the Best Practices Scanner website (https://www.gpw.pl/dpsn-skaner) means the achievement of a COMPLY factor (declared level of compliance with the Best Practices 2021) of 84%, compared to 82% for the Energy sector and 79% for WIG index companies. The Company monitors the application of the rules on an on-going basis and publishes relevant information in the event of a breach.

Since December 2021, a Sustainability Committee has been operating at the Company, that is responsible for the implementation of ESG principles at PGE Group, including as part of governance management, and prepares recommendations and recommendations for increasing the scope of application of the Best Practices.

Table: Information on the Company's application of selected DPSN rules in 2023.

| Scope | Selected aspects concerning the application of Best Practices |
|---|---|
| DISCLOSURE POLICY, INVESTOR COMMUNICATIONS | In 2023, the Company engaged in multi-channel communication with capital market participants - through the website and a dedicated Investor Relations tab, email correspondence to investors following significant events at PGE Group and meetings with analysts and investors.<br>After the pandemic, the Company returned to participating in stationary investor conferences in Poland and abroad, among others in London and Prague.<br>Each time before the publication of a periodic report, PGE S.A. published estimated results, together with information on one-off events. In addition, a presentation detailing the presented estimated results and key factors influencing the change in the result y/y was published on the website.<br>Following the publication of its results, the Company held four Management Board conferences for journalists and analysts to discuss the operating and financial results for the period and the Company's growth prospects. The conferences were also broadcast live online, after which a transcript of the broadcast was posted on the corporate website. An opportunity was provided each time for participants to ask questions.<br>The publications on the website also included:<br>▪ periodic result presentations together with the analyst package and a supplement to the presentation in the form of an xls file;<br>▪ investor presentation – updated periodically;<br>▪ presentation on the acquisition of PKP Energetyka S.A. by PGE S.A.;<br>▪ presentation PGE Group's Decarbonisation Pathway;<br>▪ editable xls file, which includes financial and operating data presented in the form of time series starting from the first quarter of 2011 until the latest reporting period;<br>▪ consensus of analysts' forecasts;<br>▪ calendar of events.<br>With a view to transparency in the implementation of the concept of sustainability and presentation of the Company's impact on its environment, PGE Group's Integrated Report was published online. The report for 2022 is available at: https://raportzintegrowany2022.gkpge.pl/en/ |
| MANAGEMENT BOARD AND SUPERVISORY BOARD | Principles that were in force when performing functions in the Management Board and the Supervisory Board:<br>▪ Management Board and Supervisory Board members hold the adequate competences, skills and experience necessary to perform the entrusted functions;<br>▪ performing functions in the Management Board of the Company was the main area of professional activity of the Members of the Management Board;<br>▪ at December 31, 2023 4 members of the Supervisory Board met the independence criteria;<br>▪ Members of the Supervisory Board devoted the necessary amount of time to perform their duties;<br>▪ The Chairwoman of the Supervisory Board did not combine her function with managing the work of the Audit Committee;<br>▪ The Company delegated administrative and financial resources necessary to ensure the efficient functioning of the Supervisory Board. |
| INTERNAL SYSTEMS AND FUNCTIONS | ▪ PGE maintained efficient internal control, risk management and compliance systems and an efficient internal audit function;<br>▪ PGE's organisation included units responsible for the tasks of individual systems and functions;<br>▪ the operation of the internal audit was independent, the head of the Audit Department reported to the Member of the Management Board and functionally to the Chairman of the Audit Committee;<br>▪ the remuneration of persons responsible for risk and compliance management and the head of the internal audit was dependent on the implementation of the assigned tasks and not on the short-term results of the Company. |

| Scope | Selected aspects concerning the application of Best Practices |
|---|---|
| GENERAL MEETING, SHAREHOLDER RELATIONS | ▪ There was one General Meeting of the Company in 2023 - the Ordinary General Meeting on 28 April and the proceedings were broadcast live;<br>▪ General Meeting was convened on date in accordance with the provisions of law, and the Company selected the place and date of the General Meeting in a way that enabled the largest possible number of Shareholders to participate in the meeting;<br>▪ Media representatives were allowed to attend the General Meeting;<br>▪ Members of the Management Board and Supervisory Board participated in the General Meeting in composition that allowed them to comment on the matters being discussed during the General Meeting and to provide substantive answer to the questions asked;<br>▪ At the Ordinary General Meeting on April 28, 2023, the Company's Management Board presented and discussed the financial and operating results for 2022 comparing the figures presented with previous years. |
| CONFLICT OF INTEREST, RELATED PARTY TRANSACTIONS | ▪ Company had in place transparent procedures for managing conflicts of interest and for related party transactions where a conflict of interest may occur;<br>▪ Members of the management board and members of the supervisory board refrained from professional or other activities which might cause a conflict of interest or adversely affect their reputation as members of the corporate body;<br>▪ The Regulations of the Management Board and the Supervisory Board contained provisions obliging Members of the governing bodies to inform about the conflict of interest of other Members of the governing bodies;<br>▪ No Shareholder was privileged over other Shareholders with regard to related party transactions. The company has a section on significant related party transactions on its website: https://www.gkpge.pl/dla-inwestorow/lad-korporacyjny/istotne-transakcje-ustawa-o-ofercie – there were no such transactions in 2023. |
| REMUNERATION | ▪ The Company has a Remuneration Policy for the Members of the Management Board and Supervisory Board of PGE S.A. adopted by the Ordinary General Meeting of the Company on June 26, 2020 and modified by the Ordinary General Meeting on June 22, 2022;<br>▪ The content of the Remuneration Policy and the report together with the Auditor's Report regarding the assessment of the report on remuneration of PGE Management Board and Supervisory Board Members for 2019-2020, 2021 and 2022 are available on the company's website at: https://www.gkpge.pl/en/for-investors/corporate-governance/remuneration-policy<br>▪ Remuneration of members of the Management Board and Supervisory Board as well as key managers is sufficient to attract, retain and motivate people with competences necessary for proper management and supervision of the Company;<br>▪ The amount of remuneration of the Members of the Supervisory Board is not dependent on the Company's short-term results - in accordance with the resolution of the General Meeting, the monthly remuneration of the Members of the Supervisory Board was determined as the product of the average monthly remuneration in the enterprise sector without payments of rewards from profit in the fourth quarter of the previous year, announced by the President of the Central Statistical Office and the multiplier: 1.7 (for the Chairperson of the Supervisory Board), 1.5 (for other Members of the Supervisory Board). |

*OTHER PRACTICES IN THE PGE GROUP*

PGE Group has had a Code of Ethics in place since 2015. PGE Group's Code of Ethics is a set of values and principles that apply throughout PGE Group. The Code sets out PGE Group's core ethical values and the standards expected of employees, including management.

Everyone acting for and on behalf of PGE Group is required to be familiar with the Code and, above all, to observe the values and principles set out in the document.

PGE Group's Code of Ethics regulates the manner in which irregularities are reported in the event of breaches and non-compliance with applicable values and principles.

*VALUES IN THE PGE GROUP*

- **Partnership** – is identification with PGE Group and the resulting cooperation, effective and creative collaboration, leading to synergy, in every area of activity - for the benefit of customers, owners, employees and business partners; resulting from good cooperation between companies and segments, as well as between individual employees and between teams. Partnership - is a relationship based on respect.

- **Development** – is the continuous improvement of people, organisations, processes and technologies, creating conditions for innovation, actively seeking new solutions. Development requires the courage to introduce changes and create a new reality.
- **Responsibility** – is caring for the energy security of the country, the development of the Polish economy and the sustainable development of the company, for the company as a good place to work and to maintain the highest standards of health and safety, the reliability of both the organisation and each employee. Responsibility is honesty in every action that is taken.

### 7.1.2 Information on exceptions in application of the corporate governance principles

In 2023 the Company applied the Best 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. The Company strives to ensure that the measures taken in employee affairs are based on equal treatment of both genders.
- 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. The equal pay ratio is presented in the Company's non-financial statements.
- 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. In terms of gender diversity in the Company's Management Board, the minority share was around 20%, while in the Supervisory Board it was around 33% (as at December 31, 2023).
- 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. In the Company's view, the versatility of the Company's bodies is ensured by the diversity of the members of the Management Board and the Supervisory Board in terms of education, expertise in various fields, and professional experience. In terms of gender diversity in the Company's Management Board, the

minority share was around 20%, while in the Supervisory Board it was around 33% (as at December 31, 2023).

- 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, therefore, it does not prepare a report with information on the degree of implementation of the diversity policy.

- 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. The lack of direct reporting to the Head of the Department in charge of risk management is due to the Company's organisational structure and the consistent capture of risks together with financial issues. Regardless of subordination to the Director of the Finance Division as part of his responsibilities, the Director of the Risk and Insurance Department has direct contact with the Member of the Management Board in charge of Finance. The person responsible for compliance reports directly to the President 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. At the other Group companies of significant importance to the Group's business, the persons appointed for risk management and compliance tasks report to the Presidents or Members of the Management Board.

- 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 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".

  Remuneration of Members of the Supervisory Board of PGE S.A. was defined by Resolution No. 5 of the Extraordinary General Meeting of December 14, 2016 (as amended) on the rules for determining the remuneration of Members of the Supervisory Board, according 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 of Supervisory Board members does not depend on the number of meetings held, but the work in committees is not remunerated additionally. Paid to Members of the Supervisory Board of PGE S.A. the remuneration

complies with the rules set out in the Act of June 9, 2016 on the rules for determining the remuneration of persons managing certain companies.

Information on the status of the Company's application of the DPSN 2021 is published on its website under Corporate Governance: https://www.gkpge.pl/en/for-investors/corporate-governance

### 7.1.3 Information about violation of best practices

In 2023 there were no incidental violations of the Best Practices.

### 7.1.4 Description of the basic characteristics of internal control systems and risk management systems used in the company during preparation of the financial statements

The Company applies the following mechanisms of internal control and risk management during preparation of the financial statements (standalone and consolidated):

*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 (Accounting Policy, Policy) 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 which were not described previously. 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 IT 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 performer in the dedicated IT 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 preparation of financial statements in accordance with the ESEF requirements in XBRL format is carried out with the support of an external professional entity.

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 appropriate act. Internal audit operates on the basis of the Audit Regulations at PGE Group developed taking into account the International Standards for the Professional Practice of Internal Auditing. PGE S.A. strives to implement the recommendations of the Warsaw Stock Exchange contained in the Good Practices, regarding the maintenance of an effective internal audit function, appropriate to the company's size, type and scale of operations.

The audit function has been consolidated within PGE Group since October 2021 and is carried out by the Audit Department, which carries out audit tasks for the Corporate Centre and individual PGE Group companies. The exceptions are Conventional Generation companies, where separate audit structures exist. The Director of the Audit Department reports directly to the Vice-President of the Management Board for Support and Development. Internal audit matters are also presented to the Audit Committee of the Supervisory Board through communication of the results of individual audit assignments and collective, cyclical reporting covering the entire functioning of internal audit at PGE Group. The Audit Committee is a collegiate advisory and opinion-making body of the Supervisory Board, composed of its Members.

The Audit Department's internal structure comprises Audit Offices dedicated to the individual operational segments of PGE Group and Departments performing activities from the Corporate Centre level. In order to maintain audit independence, the Audit Department in the organisational structure of PGE S.A. reports directly to the Vice-President of the Management Board for Support and Development. Both the directors and the internal auditors support the Company's operational and reporting processes by participating in the performance of advisory tasks and by communicating to the substantive units of PGE S.A. important issues resulting.

One of the features of the internal control system at PGE Group is that it operates on the basis of on-going cooperation between the units responsible for audit, security, compliance and internal supervision. This cooperation is carried out in particular through on-going and immediate exchange of information. In addition, PGE S.A. has in place an Information Coordination System consisting of the coordination - by the unit competent for security - of investigations carried out in the area of security and crisis management by this unit and by the units competent for audit, compliance and internal supervision, in accordance with their jurisdiction, as well as by the organisational units competent for security and crisis management in PGE Group companies.

### 7.1.5 Shareholders and Company's securities

*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. 6.3.1 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 is not less than 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. Pursuant to art. 13 of the Act in question, shares or rights attached to shares belonging to the State Treasury - as a rule - cannot be sold. Disposal of shares in violation of this prohibition is invalid. Possible sale is permitted, inter alia, to another company whose Shareholder is exclusively the State Treasury or another legal entity or a company expressly mentioned in the aforementioned Act. The manner of sale is also described in the Act.

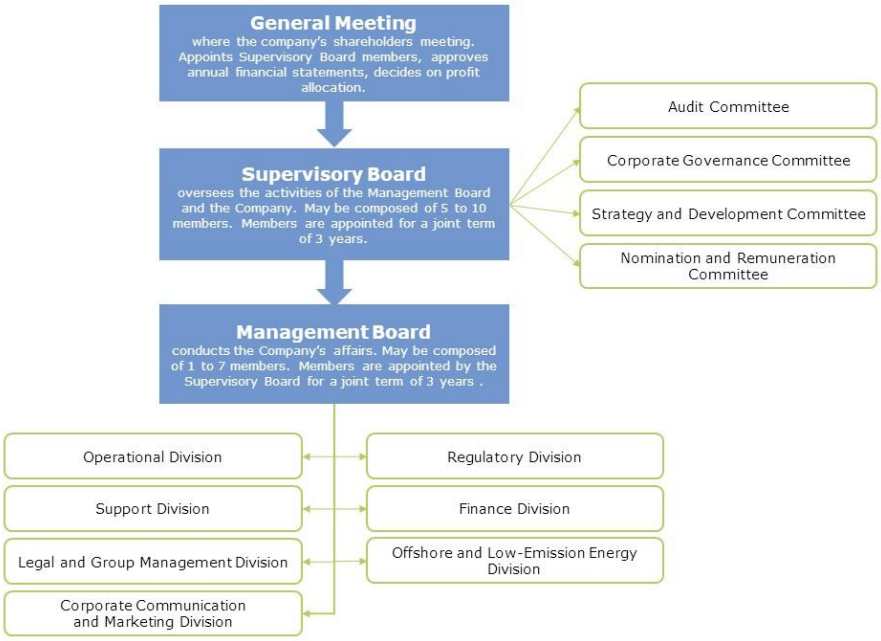
## 7.2. Bodies of the Company

The bodies of the company include:

- General meeting, which is where the Company's Shareholders (co-owners) meet,
- Supervisory board,
- Management board.

Competences of the particular governing bodies are specified in the company's articles of association, the content of which is established by the company's General Meeting.

Chart: Simplified management structure in PGE S.A. as at December 31, 2023




Detailed division of powers of the Management Board is presented in p. 7.5.1.

## 7.3. General Meeting

*MODE OF OPERATION OF THE GENERAL MEETING OF THE COMPANY AND ITS ITS KEY POWERS*

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 by the General Meeting on March 30, 2010.

The Company's Statutes and the Rules of the General Meeting are available on the PGE's website at:

Statutes of PGE S.A.

Regulations of the General Meeting

*RIGHTS OF SHAREHOLDERS AND THE MANNER OF THEIR EXECUTION*

Table: Rights of shareholders and the manner of their execution

| Rights of shareholders | Manner of execution of the rights of the shareholders |
|---|---|
| CONVENING THE GENERAL MEETING | A Shareholder or Shareholders representing at least one-twentieth of the share capital may request that a General Meeting be convened. |
| PLACING ITEMS ON THE AGENDA OF THE GENERAL MEETING | A Shareholder or Shareholders representing at least one-twentieth of the share capital may request that certain matters be placed on the agenda of the next General Meeting. The State Treasury is also entitled to this right as long as it remains a shareholder. The request should be submitted to the Management Board no later than 21 days before the scheduled date of the General Meeting, and if submitted after this date, it will be treated as a request to convene an Extraordinary General Meeting. The request should include a justification or a draft resolution concerning the proposed agenda item. The request may be submitted in electronic form. |
| BECOMING ACQUAINTED WITH THE LIST OF SHAREHOLDERS | At the request of a Shareholder, the list of Shareholders will be sent to him/her free of charge by e-mail to the address he/she has indicated. |
| PARTICIPATION IN THE GENERAL MEETING | 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.<br>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. |
| REPRESENTATION OF A SHAREHOLDER BY A PROXY | 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, no later than before the beginning of 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. |
| SUBMISSION OF DRAFT RESOLUTION | Each Shareholder may, during the General Meeting, propose draft resolutions concerning matters on the agenda in accordance with the provisions of the Polish Commercial Companies Code.<br>A Shareholder has the right, until the discussion on an agenda item is closed, to propose amendments to the content of the draft resolution proposed for adoption by the General Meeting. The proposal should be justified by the Shareholder. Proposals may be submitted in writing to the Chairperson or orally to the minutes of the meeting. The proposal should indicate the name and surname or name (business name) of the Shareholder, and in the case of a Shareholder represented by a representative, also the name and surname of the representative. |
| NOTIFICATION OF OBJECTION | A Shareholder raising an objection has the opportunity to submit a brief justification of the objection to the minutes of the General Meeting. |

*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, 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 and the Capital Group, 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. This article stipulates that no resolution may be passed on items not on the agenda unless the entire share capital is represented at the General Meeting and no one present objects to the passing of the resolution. Only a motion to convene an Extraordinary General Meeting and motions of a procedural nature may be passed, even though they were not included in the agenda of the meeting.

*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 the Company.

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.

*GENERAL MEETINGS IN 2023*

In 2023, the Company held one General Meeting. The Annual General Meeting was held on April 28, 2023. It adopted a number of resolutions, including ones on:

- approval of "Separate financial statements of PGE Polska Grupa Energetyczna S.A. for the year 2022 ended December 31, 2022 in accordance with EU IFRS (in millions of PLN)",
- approval of the "Consolidated financial statements of PGE Polska Grupa Energetyczna S.A. for the year 2022 ended December 31, 2022 in accordance with EU IFRS (in millions of PLN)",
- approval of the "Report of the Management Board on the activities of PGE Polska Grupa Energetyczna S.A. and PGE Capital Group for the year 2022 ended December 31, 2022",
- distribution of the Company's net profit for the financial year 2022,
- approval of the "Report on the activities of the Supervisory Board of PGE Polska Grupa Energetyczna S.A. for 2022",
- approval of the "Report of the Supervisory Board of PGE Polska Grupa Energetyczna S.A. on the evaluation of the 2022 statements, the proposal for the distribution of net profit for 2022 and the Management Board's fulfilment of its information obligations under the Commercial Companies Code",
- opinion of the General Meeting of PGE Polska Grupa Energetyczna S.A. on "Report on remuneration of members of the Management Board and Supervisory Board of PGE Polska Grupa Energetyczna S.A. for 2022",
- granting a vote of approval to all members of the Management Board and Supervisory Board for performance of duties in 2022,
- changes in the Supervisory Board.

## 7.4. 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.

## 7.5. Composition and the description of operations of the management and supervisory bodies and its committees

### 7.5.1 Management Board

*MANAGEMENT BOARD MEMBERS*

Table: Composition of the Company's Management Board as at January 1, 2023

| 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 |
| Lechosław Rojewski | Vice-President for Finance | from June 9, 2021 |
| Paweł Śliwa | Vice-President for Innovations | from February 20, 2020 |
| Ryszard Wasiłek | Vice-President for Operations | from February 20, 2020 |

On January 4, 2023, as a result of the qualification procedure, the Supervisory Board adopted Resolution No. 107/XII/2023 on the appointment of Mr. Rafał Włodarski to the Management Board of PGE S.A., entrusting the function of Vice President of the Management Board for Support and Development with effect from January 9, 2023.

On March 28, 2023 Mr. Ryszard Wasiłek submitted his decision to stand down from the position of the Company's Vice-President of the Management Board for Operations, effective April 30, 2023.

On April 19, 2023, as a result of the qualification procedure, the Supervisory Board adopted resolution on the appointment of Mr. Przemysław Kołodziejak to the Management Board of PGE S.A. entrusting the function of Vice-President of the Management Board for Operations as of May 1, 2023.

On November 23, 2023, the Supervisory Board adopted resolution no. 253/XII/2023 to dismiss Paweł Śliwa, Vice-President for Innovations, from the Management Board as of November 23, 2023. The Supervisory Board did not indicate the reasons.

Table: Composition of the Company's Management Board as at December 31, 2023

| Name and surname of the Management Board | Position | |
|---|---|---|
| Wojciech Dąbrowski | President of the Management Board | from February 20, 2020 to February 7, 2024 |
| Wanda Buk | Vice-President for Regulatory Affairs | from September 1, 2020 to February 7, 2024 |
| Przemysław Kołodziejak | Vice-President for Operations | from May 1, 2023 |
| Lechosław Rojewski | Vice-President for Finance | from June 9, 2021 to February 28, 2024 |
| Rafał Włodarski | Vice-President for Support and Development | from January 9, 2023 to February 7, 2024 |

*MEMBERS OF THE COMPANY'S MANAGEMENT BOARD IN 2023*

**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.

Wanda Buk has held position of the Undersecretary of State at the Ministry of Digital Affairs since July 2018. 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 electronic services. She also 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.

**Przemysław Kołodziejak** - Vice-President for Operations

Przemysław Kołodziejak was appointed to the Management Board of the eleventh term of office as from May 1, 2023. A graduate of the Faculty of Electrical Engineering at the Lublin University of Technology and postgraduate studies in management and finance in the energy sector at the Warsaw School of Economics. He holds a doctoral degree in technical sciences in the discipline of environmental engineering, mining and power sector, obtained at the Wrocław University of Science and Technology. He is co-author of the patent "Liquefied natural gas storage system with energy recovery facility".

From 1997 to 2018, he held position of Director of Technical Affairs at Przedsiębiorstwo Energetyczne (Energy enterprise) in Siedlce. Previously, he was a member of the management board of company Energia Siedlce. From March 2018 he was the Vice-President of the Management Board of PGE Energia Ciepła S.A. responsible for the generation.

He was an associate of the Institute of Heat Engineering at the Faculty of Mechanical, Power and Aeronautical Engineering of the Warsaw University of Technology and the Institute of Applied Research at the Warsaw University of Technology, as well as a lecturer at postgraduate studies. Founding member of the Association of Independent Cogeneration Producers, later a member of the Board and its President. He is the Chairman of the Council of the Polish District Heating Industry Chamber of Commerce. He has also served in numerous industry organisations and conference programme boards, was an expert of the Polish District Heating Industry Chamber of Commerce and a member of the Council of its South-Eastern Branch.

**Lechosław Rojewski** - Vice-President for Finance

Lechosław Rojewski was appointed to the Management Board of PGE S.A. of the 11th term of office on June 9, 2021. 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 Węglokoks 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. 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

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 Wasiłek** – Vice-President for Operations

Ryszard Wasiłek 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 Cieplnej Sp. z o.o. in Stargard. In years 1990-1994 Mr. Ryszard Wasiłek 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 Wasiłek was also the President of the Western Pomerania Municipal Community "Euroregion Pomerania".

**Rafał Włodarski** – Vice-President for Support and Development

Rafał Włodarski was appointed to the Management Board of PGE of the 11th term as of January 9, 2023. A graduate of the Faculty of Law and Administration of the University of Warsaw. In 2013, after completing his legal counsel training conducted by the Warsaw Bar Association, he was admitted to the bar. Until January 2023 Mr Rafał Włodarski served as Deputy Director of the Supervision Department I at the Ministry of State Assets, and prior to joining the Ministry of State Assets he worked with leading law firms in Poland, where as a member of the Energy & Natural Resources, Corporate/M&A and Banking&Finance practices he participated in a number of key transactions in the Polish market, with an aggregate value in excess of PLN 10 billion. Moreover, between September 2020 and January 2023 he was the Supervisory Board member of ENEA S.A.

As at December 31, 2023, the division of responsibilities between individual Board Members was as follows:

**Wojciech Dąbrowski** – **President of the Management Board** – was 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 Department,
- Marketing and Advertising Department,
- Investor Relations ad ESG Department,
- District Heating Bureau,
- RES Bureau,
- Distribution Bureau,
- Retail Sales Bureau,
- Energy Railway Services Bureau,
- Internal Supervision Department,
- Legal and Corporate Governance,
- Department of Company Authority Services.

In the field of supervision over subsidiaries of PGE S.A. was entrusted substantive supervision over the following companies and their subsidiaries: PGE Energetyka Kolejowa Holding sp. z o.o., Elester sp. z o.o., PGE Energia Ciepła S.A., PGE Baltica sp. z o.o. along wih other companies engaged in the Offshore Wind Farm Construction Program and supervision of PGE Foundation.

**Wanda Buk – Vice-President for Regulatory Affairs** was authorised and responsible for managing the activities of PGE S.A. in area covering the following organisation units:

- Sales and Customer Relations Department,
- Regulations Department,
- Bureau for Supporting Instruments,
- International Relations Department.

In the field of supervision over subsidiaries of PGE S.A. was entrusted substantive supervision over the following companies and their subsidiaries: PGE Obrót S.A. oraz PGE Synergia sp. z o.o.

**Przemysław Kołodziejak** – **Vice-President for Operations** - was 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,
- Department of Raw Materials for Conventional Generation,
- Offshore wind Department.

In the field of supervision over subsidiaries of PGE S.A. was entrusted substantive supervision over the following companies and their subsidiaries: PGE GiEK S.A., PGE Dystrybucja S.A., PGE Trading GmbH w likwidacji, ELBIS 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., Energoserwis Kleszczów sp. z o.o.

**Lechosław Rojewski** – **Vice-President for Finance** - was 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,
- Market Analyses Department,
- AML Bureau.

In the field of supervision over subsidiaries of PGE S.A. was entrusted substantive supervision over the following companies and their subsidiaries: PGE Energia Odnawialna S.A., PGE Dom Maklerski S.A., PGE Systemy S.A., PGE Sweden AB, PGE Asekuracja S.A.

**Rafał Włodarski** – **Vice-President for Support and Development** - was 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,
- Nuclear Energy Department,
- Audit Department,
- Compliance Department,
- Dialogue and Social Relations Department,
- Department of Integration and Internal Advisory,
- Department of Development and Innovation,
- Circular Economy Department.

In the field of supervision over subsidiaries of PGE S.A. was entrusted substantive supervision over the following companies and their subsidiaries: PGE Nowa Energia sp. z o.o. in liquidation, PGE Ekoserwis S.A., PGE Ventures sp. z o.o., 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 12 sp. z o.o., PGE Inwest 14 sp. z o.o., 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 24 sp. z o.o., PGE Inwest 25 sp. z o.o., ElectroMobility Poland S.A.

*CHANGES TO THE COMPOSITION OF THE COMPANY'S MANAGEMENT BOARD IN 2024*

On February 7, 2024, the Supervisory Board adopted the following resolutions:

- No. 287/XII/2024 on dismissal of Wojciech Dąbrowski, President of the Management Board, from the Management Board,
- No. 288/XII/2024 on dismissal of Wanda Buk – Vice-President of the Management Board for Regulations,
- No. 289/XII/2024 on dismissal of Rafał Włodarski - Vice-President of the Management Board for Support and Development.

Moreover, the Supervisory Board of the Company on February 7, 2024 adopted resolutions to delegate Supervisory Board Members:

- No. 290/XII/2024 Eryk Kosiński to temporarily perform the duties of the Member of the Management Board of the Company for the 3-month period and to entrust him the duties of the President of the Management Board of the Company,
- No. 291/XII/2024 Małgorzata Banasik to temporarily perform the duties of the Member of the Management Board of the Company for the 3-month period.

On February 28, 2024 the Supervisory Board of the Company has adopted a resolution No. 304/XII/2023 on dismissal of Lechosław Rojewski, Vice-President of the Management Board for Finance. The Supervisory Board did not indicate the reason for the dismissal.

On March 6, 2024, following the qualification procedure, the Supervisory Board adopted the resolutions:

- No. 312/XII/2024 on appointing Dariusz Marzec to the Management Board of PGE S.A., entrusting him the position of President of the Management Board as from March 18, 2024,

- No. 313/XII/2024 on appointing Marcin Laskowski to the Management Board of PGE S.A., entrusting him the position of Vice-President of the Management Board for Regulations as from March 18, 2024.

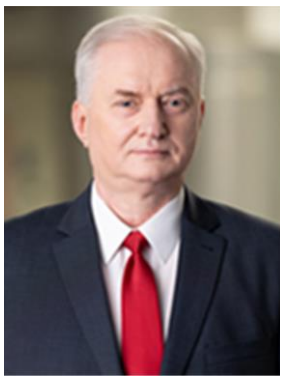
Also on March 6, 2024 the Company's Supervisory Board adopted resolutions to:

- No. 314/XII/2024 terminate as of March 17, 2024 delegation of Eryk Kosiński, Supervisory Board Member, to temporarily perform the duties of the Member of the Management Board of PGE acting as the President of theManagement Board of PGE,
- No. 315/XII/2024 terminate as of March 8, 2024 delegation of Małgorzata Banasik, Supervisory Board Member, to temporarily perform the duties of the Member of the Management Board of PGE.

*THE CURRENT COMPOSITION OF THE COMPANY'S MANAGEMENT BOARD*

Table: Composition of the Company's Management Board at the date of publication of this report

| Name and surname of the Management Board | Position |
|---|---|
| Dariusz Marzec | President of the Management Board |
| Przemysław Kołodziejak | Vice-President for Operations |
| Marcin Laskowski | Vice-President for Regulations |



**Dariusz Marzec** – President of the Management Board

A graduate of the University of Warsaw, holds MA in Organisation and Management.

In years 2013-2016 he was associated with PGE S.A. holding a position of the Vice-President for Development. Among others, he was responsible for the preparation and supervision of the implementation of the PGE Group Development Strategy for years 2014-2020 and the PGE Group Investment Programme. In addition, he held a position of a Chairman of the Supervisory Boards of PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE Energia Odnawialna S.A. and PGE EJ1 Sp. z. o.o., as well as a Member of the Management Board of the Polish Electricity Committee.

In years 2009-2013 he worked in KPMG Advisory Sp. z o.o. as a Director responsible for Energy area in Middle and Eastern Europe and company's financial and strategy advisory services for energy companies in Poland.

Carried out and supervised a number of transactions and projects in the electricity sector. In years 2005-2007, he was a Vice-President for Investments in Unipetrol a.s. (Czech Republic) responsible inter alia for preparation and implementation of investment strategy and organizational restructuring and supervision of M&A projects in the group. In years 2004-2005 Mr. Dariusz Marzec was an Undersecretary of State in the Ministry of State Treasury in the government of Mr Marek Belka. In years 1995-2004 he held managerial positions in international advisory companies PricewaterhouseCoopers (1995-2000, 2001-2004) and Arthur Andersen Poland (2000-2001).

In years 2019-2024 he was a Member of the Management Board for the Economic affairs in Tramwaje Warszawskie sp. z o.o.

**Przemysław Kołodziejak** – Vice-President for Operations

A curriculum vitae, including a photograph, can be found on page 153.

**Marcin Laskowski** – Vice-President for Regulations

A graduate of the Warsaw University of Technology and MBA Executive. He is also a project manager certified by the International Project Management Association. He has specialised in energy infrastructure development for 24 years.

Over the past few years he was preparing and implementing projects in the area of renewable energy sources within Polska Grupa Biogazowa (Polish Biogas Group), currently being part of the French company Total Energies. In Polska Grupa Biogazowa he hold the position of the President of company PGB Inwestycje and the Vice-President of company PGB Serwis. As the Vice-President of the Polish Economic Chamber of Renewable and Distributed Energy (PIGEOR), he was engaged in the development of legal regulations aimed at the development of energy sector, including RES.

For a number of years he was responsible, as the Director of the Investment Department of Polskie Sieci Elektroenergetyczne (Polish Transmission Grid Operator), for the development of the national transmission network, including taking an active part in the creation of legal regulations dedicated to the power industry. He was responsible, among others, for the power project Poland-Lithuania co-financed with EU funds and the construction and expansion of the transmission grid for EURO 2012.

*PRINCIPLES RELATING TO THE APPOINTMENT AND DISMISSAL OF MANAGEMENT BOARD MEMBERS*

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 binding PGE's Statutes.

Pursuant to § 15 sec. 2, 3 of PGE's Statutes, a candidate for a Member of the Management Board may be a person fulfilling jointly the following conditions:

- should meet the conditions specified in Article 22 of the State Property Management Act;
- has higher education or higher education acquired abroad and recognized in the Republic of Poland on the basis of separate regulations;
- has at least a five years' period of employment on the basis of an employment agreement, appointment, selection, nomination, a cooperative employment agreement, or providing services on the basis of other agreements, or conducting business activities in the capacity of a self-employed entrepreneur;
- has at least three years' experience of working at managerial or independent positions, or experience resulting from business activities conducted in the capacity of a self-employed entrepreneur;
- meets requirements other than these specified in items above, specified in separate regulations, in particular, a candidate does not breach any restrictions or prohibitions related to the holding of a position of a member of a governing body in commercial companies.

Pursuant to § 15 sec. 4 of the Statutes a candidate for a Management Board Member cannot be a person who fulfils at least one of the following conditions:

- holds a position of a social coworker or is employed in an office of a Member of the Parliament, a Member of the Senate or a Member of the European Parliament on the basis of an employment agreement or performs work on the basis of a contract of mandate or any other contract of a similar character;
- is a member of a political party's body representing a political party and authorized to incur liabilities;
- is employed by a political party on the basis of an employment agreement or performs work on the basis of a contract of mandate or any other contract of a similar character;
- holds an elective position in a trade union functioning in the company or a trade union functioning in a company belonging to the capital group;
- a candidate's social or business activities are in conflict with the interests of the company.

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, available on the corporate website https://www.gkpge.pl/en/for-investors/corporate-governance/regulations .

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.

The target responsibilities of individual Board Members are as follows:

**Dariusz Marzec** – **President of the Management Board** - is authorised and responsible for managing the activities of PGE S.A. in area covering the following organisation units:

- Department of the Management Board,
- Internal Audit Department,
- Human Capital Management and Organisational Culture Department,
- Security Department,
- Mergers and Acquisitions Department,
- Strategy Bureau,
- Nuclear Energy Department,
- Legal Department,
- Corporate Governance Bureau,
- Corporate Communication Department,
- Marketing and Advertising Department,
- District Heating Bureau,
- RES Bureau,
- Distribution Bureau,
- Retail Sales Bureau,
- Energy Railway Services Bureau,
- Department of Trading,
- Department of Conventional Energy Trading,
- Sales and Customer Relations Department,
- Market Analyses Department.

In the field of supervision over subsidiaries of PGE S.A. is entrusted substantive supervision over the following companies and their subsidiaries: PGE Energetyka Kolejowa Holding sp. z o.o., Elester sp. z o.o., PGE Energia Ciepła S.A., PGE Baltica sp. z o.o. along wih other companies engaged in the Offshore Wind Farm Construction Program, PGE Energia Odnawialna S.A., PGE Dom Maklerski S.A., PGE Systemy S.A., PGE Obrót S.A., PGE Synergia sp. z o.o., PGE Sweden AB, PGE Asekuracja 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 20 sp. z o.o., PGE Ventures sp. z o.o., PGE Inwest 12 sp. z o.o., PGE Inwest 14 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 24 sp. z o.o., PGE Inwest 25 sp. z o.o., ElectroMobility Poland S.A. and supervision over PGE Foundation.

**Marcin Laskowski** - **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 Department.

**Przemysław Kołodziejak** – **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 Raw Materials for Conventional Generation,

- Circular Economy Department,
- Dialogue and Social Relations Department.

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 Dystrybucja S.A., PGE Trading GmbH in liquidation, Elbis 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., Energoserwis Kleszczów sp. z o.o. and PGE Ekoserwis S.A.

**Vice-President for Support and Development** is authorised and responsible for managing the activities of PGE S.A. in area covering the following organisation units:

- Compliance Department,
- Department of Development and Innovation,
- Department of Integration and Internal Advisory,
- Procurement Department,
- Administration Department,
- Occupational Health and Safety Office.

**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,
- AML Bureau,
- Investor Relations ad ESG Department.

### 7.5.2 Supervisory Board

Supervisory Board of PGE S.A. operates on the basis of the Act of September 15, 2000 - Code of Commercial Companies and the Company's Statute and Regulations of the Supervisory Board, the content of which is available on the Company's website: Regulations of the Supervisory Board.

*SUPERVISORY BOARD MEMBERS IN 2023*

Table: Composition of the Supervisory Board as at January 1, 2023

| Name and surname of the member | Position |
|---|---|
| Anna Kowalik | Chairman of the Supervisory Board |
| Artur Składanek | Vice-Chairman of the Supervisory Board – independent |
| Radosław Winiarski | Secretary of the Supervisory Board |
| Janina Goss | Supervisory Board Member - independent |
| Zbigniew Gryglas | Supervisory Board Member - independent |
| Tomasz Hapunowicz | Supervisory Board Member - independent |
| Marcin Kowalczyk | Supervisory Board Member |
| Mieczysław Sawaryn | Supervisory Board Member - independent |

On February 9, 2023, the Company received the resignation of Marcin Kowalczyk from membership in the Supervisory Board of PGE S.A. effective February 9, 2023.

On April 28, 2023, the Ordinary General Meeting of PGE S.A. appointed Cezary Falkiewicz to the Supervisory Board.

As of November 30, 2023, Cezary Falkiewicz resigned from the Supervisory Board.

As of December 29, 2023, the Minister of State Assets dismissed Zbigniew Gryglas from the Supervisory Board.

Table: Composition of the Supervisory Board as at December 31, 2023

| Name and surname of the member | Position |
|---|---|
| Anna Kowalik | Chairman of the Supervisory Board |
| Artur Składanek | Vice-Chairman of the Supervisory Board – independent |
| Radosław Winiarski | Secretary of the Supervisory Board |
| Janina Goss | Supervisory Board Member - independent |
| Tomasz Hapunowicz | Supervisory Board Member - independent |
| Mieczysław Sawaryn | Supervisory Board Member - independent |

*ŻYCIORYSY CZŁONKÓW RADY NADZORCZEJ*

**Anna Kowalik – Chairperson of the Supervisory Board**

Anna Kowalik 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.

At the date of publication of this report, Anna Kowalik is Secretary of the Supervisory Board..

**Artur Składanek – Vice-Chairman of the Supervisory Board**

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.

During years from 1994 to 2007 Artur Składanek was running his own business activity - AWI – Przedsiębiorstwo Wielobranżowe. From June 2007 Artur Składanek started to work in Finpol Rohr sp. z o.o. as a Production Specialist and from January 2008 has held a position of Director of Production. 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.

Artur Składanek 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, Artur Składanek met the independence criteria of a supervisory board member, determined in Best Practices 2021. He served on the Supervisory Board of PGE S.A. until January 31, 2024.

**Radosław Winiarski – Secretary of the Supervisory Board**

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.

In years 2007-2016 he was employed in the Ministry of State Treasury an in years 2016-2019 employed at the Ministry of Energy. Mr Radosław Winiarski used to be a member of supervisory boards of inter alia ENEA S.A., H. Cegielski S.A. and Polfa Tarchomin S.A. Since September 2017 Mr. Radosław Winiarski has been a member of supervisory board of Lotos Upstream sp. z o.o. 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.

He served on the Supervisory Board of PGE S.A. until January 31, 2024.

**Janina Goss – Member of the Supervisory Board**

Janina Goss is a graduate of Law Faculty at the University of Łódź. A legal counsel.

In years 1968-1990 she worked in the Management Board of Społem, including 20 years as a legal counsel. 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 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 2009-2010 she was a Supervisory Board member in Polskie Radio S.A. Since 2012 Janina Goss has held a position of Management Board member in Srebrna Sp. z o.o.

In period from June 23, 2016 till January 10, 2023 she was a member of the Supervisory Board in Bank Ochrony Środowiska S.A. From January 11, 2023 till December 15, 2023, she was a member of the Supervisory Board of PKN ORLEN S.A.

In accordance with the submitted statement, Janina Goss met the independence criteria of a supervisory board member, determined in Best Practices 2021. She served on the Supervisory Board of PGE S.A. until January 31, 2024.

**Tomasz Hapunowicz – Member of the Supervisory Board**

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.

In yars 2010-2021 he hold 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. 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, Tomasz Hapunowicz met the independence criteria of a supervisory board member, determined in Best Practices 2021. He served on the Supervisory Board of PGE S.A. until January 31, 2024.

**Mieczysław Sawaryn – Member of the Supervisory Board**

Mieczysław Sawaryn is a graduate of history and a graduate of law studies, having finished legal practice in Bar Association of Szczecin.

Mieczysław Sawaryn in years 1996-1998 was a Member of the Supervisory Board of a heating company Przedsiębiorstwo Energetyki Cieplnej sp. z .o.o in Gryfino. In years 1998-2014 Mieczysław Sawaryn was a Councillor of the Gryfino Town Council, in years 2006-20014 being the President of the Council. In years 1998-1999 he was Management Board Member of Gryfino Commune. In years 2011-2014 and 1999-2007 he run his own Legal Office in Gryfino. In years 2002-2004 he was a Member of the Regional Bar Council in Szczecin at the Bar Association of Szczecin. In years 2006-2007 Mieczysław Sawaryn served as a Board Member of ZEDO S.A. in Nowe Czarnowo. In years 2006-2011 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. Member of the Supervisory Board of Regional Hospital in Gryfino in years 2012-2014. Since 2014 he has been the Mayor of Town and Community Gryfino.

In accordance with the submitted statement, Mieczysław Sawaryn met the independence criteria of a supervisory board member, determined in Best Practices 2021. He served on the Supervisory Board of PGE S.A. until January 31, 2024.

**Marcin Kowalczyk – Member of the Supervisory Board**

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. Until February 2023 he was the Head of the Political Cabinet of the Minister of State Assets. He has been Vice-President of the Management Board of Grupa Azoty S.A. since February 10, 2023.

He served on the Supervisory Board of PGE S.A. until February 9, 2023.

**Cezary Falkiewicz – Member of the Supervisory Board**

Cezary Falkiewicz is a graduate of the Faculty of Law and Administration at Cardinal Stefan Wyszyński University in Warsaw. He also holds a postgraduate degree in Finance and Accounting with ACCA accreditation from the Vistula University of Finance and Business. He has been involved in state administration since 2014, starting at the Ministry of the Treasury, then being employed at the Chancellery of the Prime Minister and the Ministry of State Assets, where he currently serves as Deputy Director of the Department of Fuel and Energy Companies. In his work to date, he has mainly dealt with economic and financial analyses of companies and issues relating to the acquisition of shares by the Treasury from the Reprivatisation Fund. Cezary Falkiewicz also has professional experience related to merger and acquisition processes of companies with State Treasury shareholding, as well as in the oil and gas sector. Since 2015, he has served on the Supervisory Boards of several commercial law companies, including the Supervisory Board of PGNIG S.A., where he was Deputy Chairman of the Board, and of Lotos Upstream Sp. z o.o. Within his responsibilities are exercising of the owner's rights in the fuel and gas sector companies with State Treasury shareholding.

He served on the Supervisory Board of PGE S.A. from April 28, 2023 to November 30, 2023.

**Zbigniew Gryglas – Member of the Supervisory Board**

Zbigniew Gryglas is a graduate of the National School of Public Administration, ART Olsztyn and completed postgraduate studies at 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. 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 S.A., ENEA S.A., TAURON Polska Energia S.A. and ENERGA S.A.) and one of the co-authors of the Act on supporting electricity generation in offshore wind farms.

In accordance with the submitted statement, Mieczysław Sawaryn met the independence criteria of a supervisory board member, determined in Best Practices 2021. He served on the Supervisory Board of PGE S.A. until December 29, 2023.

*CHANGES TO THE COMPOSITION OF THE COMPANY'S SUPERVISORY BOARD IN 2024*

On January 25, 2024, the Minister of State Assets by a tatement appointed Michal Domagała to the Supervisory Board.

On January 31, 2024 the Extraordinary General Meeting:

- Dismissed from the Supervisory Board:
  - Janina Goss
  - Artur Składanek
  - Radosław Winiarski
  - Tomasz Hapunowicz
  - Mieczysław Sawaryn
- apointed to the Supervisory Board the following persons:
  - Małgorzata Banasik
  - Eryk Kosiński
  - Andrzej Kozyra
  - Elżbieta Niebisz
  - Sławomir Patyra
  - Andrzej Rzońca
  - Andrzej Sadkowski

On February 7, 2024, a new Presidium of the Supervisory Board was elected. Also on February 7, 2024 the Supervisory Board adopted resolutions to delegate Supervisory Board Members:

- Eryk Kosiński to temporarily perform the duties of the Member of the Management Board of the Company for the 3-month period and to entrust him the duties of the President of the Management Board of the Company,
- Małgorzata Banasik to temporarily perform the duties of the Member of the Management Board of the Company for the 3-month period.

On March 6, 2024, the Supervisory Board adopted resolutions concerning the termination of the delegation of Supervisory Board Members to temporarily perform the duties of Members of the Management Board of PGE S.A.

Table: Composition of the Company's Supervisory Board at the date of publication of the report

| Name and surname of the member | Position |
|---|---|
| Michał Domagała | Chairman of the Supervisory Board – independent |
| Andrzej Sadkowski | Vice-Chairman of the Supervisory Board – independent |
| Anna Kowalik | Secretary of the Supervisory Board |
| Małgorzata Banasik | Member of the Supervisory Board – independent |
| Eryk Kosiński | Member of the Supervisory Board – independent |
| Andrzej Kozyra | Member of the Supervisory Board – independent |
| Elżbieta Niebisz | Member of the Supervisory Board – independent |
| Sławomir Patyra | Member of the Supervisory Board – independent |
| Andrzej Rzońca | Member of the Supervisory Board – independent |

*CVS OF SUPERVISORY BOARD MEMBERS*

**Michał Domagała – Chairman of the Supervisory Board**

A graduate of John Paul II Catholic University of Lublin. Head of the Department of Public Economic Law and Associate Dean for Education of the Faculty of Law, Canon Law and Administration of the John Paul II Catholic University of Lublin.

He specialises in energy law, including in particular issues related to energy security and the rules of cooperation between energy companies; business regulation and administrative and court- administrative procedure.

In 2008, he was awarded the degree of PhD in Law on the basis of his doctoral thesis entitled Legal and Administrative Aspects of National Energy Security.

In 2017, on the basis of his scientific output, including the monograph Obligation of economic cooperation of energy companies, he was awarded the degree of Hab. PhD in Law.

Author of scientific articles and monographs in the field of energy law.

In accordance with the submitted statement, Michał Domagała meets the independence criteria of a supervisory board member, determined in Best Practices.

**Andrzej Sadkowski – Vice-Chairman of the Supervisory Board**

He graduated from Tufts University in Boston with a Bachelor of Arts degree in International Relations and Political Science. A graduate of University of Illinois at Urbana-Champaign with Master of Business Administration and of the University of Warsaw where he obtained a Master's degree in Management and Marketing.

In the 1990s, he was associated with the Office of the Government Plenipotentiary for Ownership Transformations, the Ministry of Ownership Transformations and the Ministry of the State Treasury, he was the co-founder and Deputy Chairman of the State Agency for Foreign Investment (PAIZ) and took part in the creation and implementation of pension reform, as an advisor to the World Bank and Advisor to the President of the Social Insurance Institution (ZUS).

He held various management positions, including as President of the Management Board of Lottomerkury Sp. z o.o. and President of the Management Board of Towarzystwo Ubezpieczeń na Życie SAMPO S.A.. He was a member of the supervisory boards of, among others, NFI Kazimierz Wielki S.A., Nafta Polska S.A., PTE Sampo S.A., PTE Norwich Union S.A., Polskie Przedsiębiorstwo Wydawnictw Kartograficznych S.A. and Gerlach S.A..

For more than 20 years an entrepreneur in the medical-pharmaceutical industry and an investor.

In accordance with the submitted statement, Andrzej Sadkowski meets the independence criteria of a supervisory board member, determined in Best Practices.

**Anna Kowalik – Secretary of the Supervisory Board**

A biography is presented on p. 163

**Małgorzata Banasik – Member of the Supervisory Board**

Graduate of the University of Szczecin. Legal counsel with 20 years of experience in providing legal services to companies operating in the electrical power industry, gas, district heating, RES, WtE, hydrogen sectors and utilities. Managing Partner of Banasik Woźniak i Wspólnicy Legal Counsels Firm.

In years 2007 – 2015 she was involved in the liberalisation processes of the Polish gas market, in the processes of unbundling of energy infrastructure and its transfer between energy companies.

In years 2009 – 2018 she was involved in the process of integration of gas markets in the Baltic Sea region, Central and Eastern Europe (CEE).

In years 2018 - 2021 she was involved in the transformation of the Ukrainian gas market and its integration with the EU. As a leader of the legal team, she co-founded the independent Ukrainian TSO. In 2023, she advised on the unbundling process in Moldova.

In accordance with the submitted statement, Małgorzata Banasik meets the independence criteria of a supervisory board member, determined in Best Practices.

**Eryk Kosiński – Member of the Supervisory Board**

Graduate of Asser College Europe, The Hague. Head of the Department of Public Economic Law, Faculty of Law and Administration, Adam Mickiewicz University, Poznan, Poland. Member of the Board of Directors of the Poznan Branch of the Polish Economic Society. Fulbright Fellow, James Baker Institute for Public Policy, Center for Energy Studies, Rice University, Houston USA (2023/2024); visiting professor at Ivan Kozedub National Air Force University, Kharkov, Ukraine; LL. M from the University of the State of New York, Albany, USA and Central European University in Budapest, Hungary (1992-1993). Graduate of Asser College Europe, The Hague, Netherlands (1995); Santander Universidades Fellow at the Wharton School, University of Pennsylvania, Philadelphia, USA.

Lecturer at foreign universities. Author of law publications, including on energy law, public economic law, public finance, competition law, transport law, legal regulation of infrastructure investments, public procurement, public health law, legal regulation of free professions, gambling law, administrative proceedings. Member of the Board of Directors of the Poznan Branch of the Polish Economic Society.

He has held, among others, positions of President of the Military Property Agency and Deputy Mayor of the City of Bydgoszcz. He also worked as a lawyer and legal counsel.

In accordance with the submitted statement, Eryk Kosiński meets the independence criteria of a supervisory board member, determined in Best Practices.

**Andrzej Kozyra – Member of the Supervisory Board**

Obtained Master's degree in law at the Faculty of Law and Administration of the Jagiellonian University. Advocate and since 2008 the owner of a law firm - Kancelaria Adwokacka Andrzej Kozyra. He is also registered on the list of legal advisors kept by the Regional Chamber of Legal Advisors in Cracow.

He has nearly 20 years of experience in providing legal assistance, he specialises in strategic legal advisory for private and public business entities, e.g. in projects related to the implementation of the investment process and in advising bodies of companies or cooperatives, including support for their supervisory boards. He served as a member of the supervisory board of a capital company for nearly 10 years.

In accordance with the submitted statement, Andrzej Kozyra meets the independence criteria of a supervisory board member, determined in Best Practices.

**Elżbieta Niebisz – Member of the Supervisory Board**

She graduated from the Warsaw School of Planning and Statistics at the Faculty of Domestic Trade with a Master's degree in Economics and also completed postgraduate studies at the Warsaw School of Economics in "Development and Market Management in the Electric Power Industry".

Lecturer and examiner at courses for candidates for supervisory board members in companies with State Treasury shareholding.

In years 1991-2005 at the Ministry of Ownership Transformations and the Ministry of the State Treasury she managed departments responsible for corporate governance of state-owned companies, including electric power sector as well as she coordinated first consolidation in the power sector (ENEA S.A., ENERGA S.A., ENION S.A. oraz EnergiaPRO S.A.). Director of the Licensing Department at the Energy Regulatory Office in years 1998-2001.

In years 2006-2019 she held managerial and supervisory positions in companies of ZEPAK S.A. Capital Group, including inter alia Vice-President of the Management Board of the power plant ZE PAK S.A. in Konin, Member of the Management Board of the lignite mines PAK KWB Konin S.A. and PAK KWB Adamów S.A.

In addition, she has served on the supervisory boards of companies including among others KGHM Polska Miedź S.A., PZU S.A, Polimex-Mostostal S.A., Polskie Sieci Elektroenergetyczne S.A.

In accordance with the submitted statement, Elżbieta Niebisz meets the independence criteria of a supervisory board member, determined in Best Practices.

**Sławomir Patyra – Member of the Supervisory Board**

A graduate of Graduate of the Faculty of Law and Administration of Maria Curie-Skłodowska University in Lublin (UMCS). He holds a PhD in law, he is a professor at Maria Curie-Skłodowska University in Lublin, specialist in constitutional law and legal counsel.

Serves as Head of the Chair of Constitutional Law at the UMCS and the Centre for Parliamentary Studies at the Institute of Legal Studies of the UMCS.

Author of nearly a hundred scientific publications, including three books, and more than a hundred legal opinions prepared, among others, for the parliament, state administration entities or the National Chamber of Legal Advisers.

Member of the Board of the Polish Constitutional Law Society, the Team of Legal Experts of the Stefan Batory Foundation and Head of the Team for State Structure and Justice of the Centre for Studies and Legislation of the National Council of Legal Advisers.

In years 2008-2013 member of the Supervisory Board of the Lublin Science and Technology Park S.A.

In accordance with the submitted statement, Sławomir Patyra meets the independence criteria of a supervisory board member, determined in Best Practices.

**Andrzej Rzońca – Member of the Supervisory Board**

A graduate of Warsaw School of Economics. PhD in economic sciences. Chair of the Department of International Comparative Studies at the Warsaw School of Economics.

Member of the Advisory Council of the Centre for Social and Economic research (CASE) and of the Society of Polish Economists..

Economic strategist with experience from private sector (corporate and financial industries, including hedge funds), public sector (central bank, ministry of finance), international financial institutions (World Bank, European Central Bank) and NGOs (Civil Development Forum Foundation, CASE).

Member of supervisory boards in industrial and financial companies. Former member of the Monetary Policy Council in the National Bank of Poland during the sovereign debt crisis in the Euro Area and the first war in Ukraine. Repeatedly awarded for innovative research. Holder of Citibank Foundation Kronenberg Prize and Polish Academy of Sciences Fryderyk Skarbek Prize.

In accordance with the submitted statement, Andrzej Rzońca meets the independence criteria of a supervisory board member, determined in Best Practices.

*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. With the exception of the Member of the Supervisory Board appointed by the State Treasury, member of the Supervisory Board may be appointed and dismissed by the General Meeting at all times y 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.

Each year, the issue related to the fulfilment of the independence criteria by the Members of the Supervisory Board is addressed in the annual report on the activities of the Supervisory Board. On the basis of principle 2.3 of the Best Practices, the Supervisory Board assesses whether there are any relationships or circumstances that may affect a given Board Member's fulfilment of the independence criteria. An evaluation of the fulfilment of the independence criteria by the Members of the Supervisory Board is presented by the Board pursuant to principle 2.11.1.

*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.

In 2023, 16 in-office meetings of the Supervisory Board were held. The Supervisory Board adopted 164 resolutions.

*COMPETENCIES OF THE SUPERVISORY BOARD*

Pursuant to the provisions of the Statutes, the Supervisory Board maintains a continuous supervision over activities of the Company in all areas of the Company's activities. 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 introduced 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: Statute of PGE S.A., Regulations of the Supervisory Board

### 7.5.3 Committees of the Supervisory Board

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 consists of 3 to 5 people. 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 document regulating in detail the scope and object of the Committees' activities is the Rules of Procedure of the Supervisory Board of PGE S.A.

Chart: Committees of the Supervisory Board of PGE S.A.

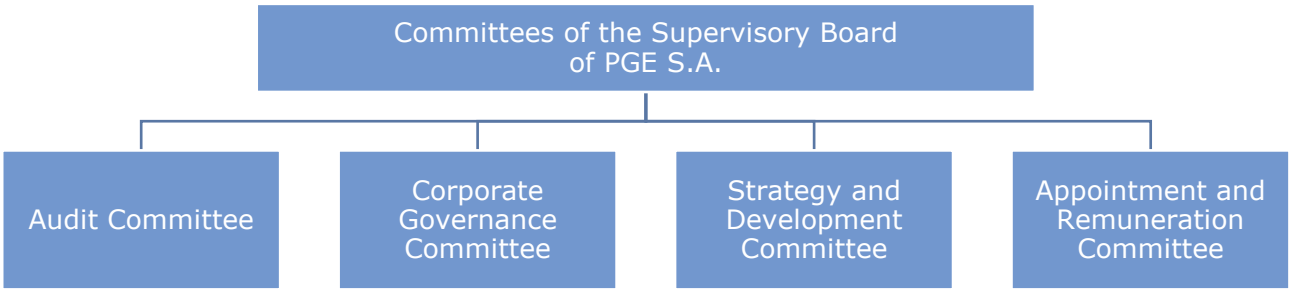


Table: Composition of the committees of the Supervisory Board as at January 1, 2023

| 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 | Member |
| Anna Kowalik | Member | Member | Member | Member |
| Mieczysław Sawaryn | Member | Member | Member | Chairman |
| Artur Składanek | Chairman | | Member | |
| Radosław Winiarski | Member | | Chairman | |

On February 9, 2023, the Company received the resignation of Marcin Kowalczyk from membership in the Supervisory Board of PGE S.A. effective February 9, 2023. On June 6, 2023, the Supervisory Board of PGE S.A., by Resolution No. 162/XII/2023, appointed Cezary Falkiewicz to the Committees: Appointment and Remuneration Committee, Strategy and Development Committee and Audit Committee of the Supervisory Board. As of November 30, 2023, Cezary Falkiewicz resigned from the Supervisory Board. As of December 29, 2023, the Minister of State Assets dismissed Zbigniew Gryglas from the Supervisory Board.

Table: Composition of the committees of the Supervisory Board as at December 31, 2023

| 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 | Member |
| Mieczysław Sawaryn | Member | Member | Member | Chairman |
| Artur Składanek | Chairman | | Member | |
| Radosław Winiarski | Member | | Chairman | |

On January 31, 2024, the Extraordinary General Meeting dismissed the following from the Supervisory Board: Janina Goss, Artur Składanek, Radosław Winiarski, Tomasz Hapunowicz, Mieczysław Sawaryn.

Table: Composition of the committees of the Supervisory Board as at the signing date of the report

| Name and surname of the member of the Supervisory Board | Audit Committee | Corporate Governance Committee | Strategy and Development Committee | Appointment and Remuneration Committee |
|---|---|---|---|---|
| Małgorzata Banasik | | | Member | Member |
| Michał Domagała | Member | | | Member |
| Eryk Kosiński | | Member | Member | |
| Anna Kowalik | Member | Member | | Chairwoman |
| Andrzej Kozyra | | Member | | Member |
| Elżbieta Niebisz | Member | | Member | |
| Sławomir Patyra | | Chairman | | Member |
| Andrzej Rzońca | Chairman | | Member | |
| Andrzej Sadkowski | | | Member | |

The detailed scope of competences of individual Committees of the Supervisory Board of PGE can be found in the Regulations of the Supervisory Board available on the website of PGE S.A.

*AUDIT COMMMITTEE*

As at the date of signing of the report, the composition of the Audit Committee was as follows:

- Andrzej Rzońca - Chairman
- Michał Domagała - Member
- Anna Kowalik - Member
- Elżbieta Niebisz - Member

The Audit Committee operates on the basis of the Regulations of the Audit Committee of the Supervisory Board of PGE S.A., which meets the requirements of the Act of May 11, 2017 on Statutory Auditors, Audit Firms and Public Supervision (the Act on Statutory Auditors). The Company also has the following documents adopted by the Audit Committee:

- Policy and Procedure for the Selection of the Audit Firm to Conduct the Audit (Auditor Selection Policy).
- Policy on the provision of permitted non-audit services by the audit firm, by affiliates of the audit firm and by a member of the audit firm's network (Service Provision Policy).

All members of the Audit Committee of the Supervisory Board of the 12th term of office have submitted a declaration for the record that they meet the requirements set out in the Act on Statutory Auditors regarding the Audit Committee.

In 2023 the Supervisory Board Audit Committee had the following members:

- meeting statutory independence criteria: Janina Goss, Mieczysław Sawaryn and 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: Anna Kowalik oraz Artur Składanek.

Curricula vitae of the Members of the Audit Committee of the Supervisory Board containing details of their education and professional experience, confirming that they possess the requirements indicated above, are available above and on the PGE S.A. website.

The main 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 Audit Committee at PGE S.A. held 13 minuted meetings in 2023. At its meetings, the Audit Committee analysed, among other things, reports for 2022 i.e. 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. The Audit Committee held also regular meetings with the representatives of the auditors – the company PKF Consult sp. z o.o. sp. k. in the scope of year 2022 and 2023 results.

Furthermore, the Audit Committee analysed the Company's separate financial statements for the first half of 2023, as well as the consolidated financial statements of the PGE Capital Group for the same period.

In 2023 the Audit Committee approved the compliance programme of PGE Group for the year 2023.

The Audit Committee issued its positive opinion on the audit plan of the PGE Capital Group for the year 2022.

The Audit Committee also analysed:

- the results of audits carried out at the Company and PGE Group,
- information on the consolidation of the internal audit area at PGE Group,
- information on the performance and functioning of the Audit Department of PGE S.A. following the consolidation of the audit are at PGE Group,
- reports on services provided by the Auditor of PGE S.A. and entities related to the Auditor to PGE Group companies for 2023,
- information on the adoption of a recommendation to the Supervisory Board on the evaluation of transactions entered into by PGE S.A. and its subsidiaries with related parties on an arm's length basis in the ordinary course of business.

*SELECTION OF THE AUDIT FIRM TO CARRY OUT THE AUDIT*

Pursuant to the Auditor Selection Policy, the selection of the auditing firm to audit the financial statements of the Company and the consolidated financial statements of PGE Group is made in compliance with the mandatory provisions of law and internal regulations, in particular:

- Act on Statutory Auditors, in particular art. 130 sec. 3 point 2 of this Act,
- Public Procurement Law (i.e.: Polish Journal of Laws 2019, item 1 843 as amended),
- PGE Group's General Procurement Procedure,
- PGE S.A. Procurement Manual,
- Auditor Selection Policy,
- Guidelines for the selection and co-operation with the audit firm auditing the annual financial statements of the State-owned Company of September 2017.

The first audit engagement will be with an audit firm for a period of not less than 2 years, renewable for successive periods of at least 2 years. The maximum duration of uninterrupted audit engagements with the same audit firm or an audit firm affiliated with that audit firm or any Member of a network operating in countries of the European Union to which those audit firms belong will not exceed 10 years, with the proviso that the key Auditor may not audit for more than 5 years and that the key Auditor may re-perform an audit after a period of at least 3 years has elapsed since the completion of the last audit.

The auditor auditing the non-consolidated financial statements of PGE S.A. and the consolidated financial statements of PGE Group for 2022-2024 is PKF Consult sp. z o.o. sp.k. (PKF Consult). PKF Consult was selected in a procurement procedure in the form of negotiations with an announcement.

In accordance with the Auditor Selection Policy, the following criteria and conditions of participation were taken into account in the tender process:

- Price for carrying out the audit and permitted additional services;
- Knowledge of the energy industry and the specifics of state-owned companies;
- Experience in auditing public entities;
- Composition and experience of the audit team;
- Size and organisational capacity to carry out the audit of PGE Group.

The criteria for selecting the audit firm and the method of evaluation of the bids were determined by the Supervisory Board, on the recommendation of the Audit Committee. The selection of the audit firm to carry out the audit of the financial statements is made by the Supervisory Board, following a recommendation by the Audit Committee. The selection of PKF Consult by the Supervisory Board was in line with the recommendation of the Audit Committee.

In accordance with the Service Provision Policy 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 art. 5 section 1 of the Regulation no. 537/2014),
- other non-financial revision services.

Table: Allowed non-audit services.

| The scope of the allowed service | Indication whether the service was provided in 2023 or will be provided for 2023 | Indication of whether the Audit Committee has carried out an independence assessment | Indication of whether the Audit Committee has agreed to provide the service |
|---|---|---|---|
| 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 | No | N/a | N/a |
| assurance services as regards pro forma financial information, earnings forecasts or estimated results published in a prospectus of the audited entity | No | N/a | N/a |
| 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 | No | N/a | N/a |
| verification of consolidation packages | Yes | Yes | Yes |
| confirming compliance with conditions included in credit agreements based on analysis of financial information from financial statements audited by the audit firm | Yes | Yes | Yes |
| assurance services concerning reporting on corporate governance, risk management and corporate social responsibility | No | N/a | N/a |
| 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 | Yes | Yes | Yes |
| 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 | Yes | Yes | Yes |
| review of standalone and consolidated financial statements | Yes | Yes | Yes |
| 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 | Yes | No[26] | N/a |

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. According to the table provided, in all but the last item, the Audit Committee has carried out an assessment of the threats and safeguards to independence referred to in the Act on Statutory Auditors. In the case of the open training sessions, thematic conferences, industry meetings and other events, the assessment of threats and safeguards for independence 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 of PLN 100 thousand set in the Policy. The costs of the services in question in 2023 were less than PLN 100 thousand.

The Services Provision Policy also specifies how a PGE Group company may request the Audit Committee of PGE S.A. to carry out the aforementioned assessment. The Audit Committee will take a written position within 14 calendar days of receiving a request to perform the assessment.

[26] *In accordance with the Service Provision Policy.*

*CORPORATE GOVERNANCE COMMITTEE*

At the date of signing of the report, the composition of the Corporate Governance Committee was as follows:

- Sławomir Patyra – Chairman
- Eryk Kosiński - Member
- Anna Kowalik - Member
- Andrzej Kozyra - Member

The tasks of the Corporate Governance Committee include, in particular, evaluating the implementation of corporate governance principles in the Company and evaluating the manner in which the Company fulfils its disclosure obligations with respect to the application of corporate governance principles and submitting recommendations or initiatives for changes in this area to the Supervisory Board, providing opinions on internal acts and other documents of the Company submitted to the Supervisory Board which have a significant impact on corporate governance, as well as initiating and developing proposals for amendments to the Company's internal acts concerning corporate governance and submitting them to the Supervisory Board.

There were no minuted meetings of the Corporate Governance Committee in 2023.

*STRATEGY AND DEVELOPMENT COMMITTEE*

At the date of signing of the report, the composition of the Strategy and Development Committee was as follows:

- Małgorzata Banasik - Member
- Eryk Kosiński - Member
- Elżbieta Niebisz - Member
- Andrzej Rzońca - Member
- Andrzej Sadkowski - Member

The Strategy and Development Committee is responsible for providing opinions and presenting recommendations to the Supervisory Board on issues related to the determination of the strategy and development planning of the Company and PGE Group. In particular, the Strategy and Development Committee's tasks include providing opinions on strategy and strategic plans as well as on investments having a significant impact on the Company's assets submitted to the Supervisory Board by the Management Board.

There were 6 minuted meetings of the Strategy and Development Committee in 2023.

Among others the following topics were the subject of the Strategy and Development Committee in 2023:

- Information of the Management Board of PGE S.A. on key projects and activities currently carried out in the area of research, development and innovation at PGE Group and on activities carried out under the Electricity Storage Program at PGE Group,
- Information of the Company's Management Board on the PGE Capital Group's cybersecurity and TOP3 most important projects in the ICT area,
- Update of the PGE Group's Strategy,
- Decarbonisation of the District Heating segment.

*APPOINTMENT AND REMUNERATION COMMITTEE*

At the date of signing of the report, the composition of the Nomination and Remuneration Committee was as follows:

- Anna Kowalik - Chairwoman
- Małgorzata Banasik – Member
- Michał Domagała – Member
- Andrzej Kozyra - Member
- Sławomir Patyra - Member

The Appointment and Remuneration Committee's task is 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 personel. In particular, the tasks of the Nomination and Remuneration Committee include:

- initiating and giving an opinion on the arrangements for the appointment of Management Board members,
- giving its opinion on the solutions proposed by the Management Board regarding the Company's management system in order to ensure that the Company's management is efficient, consistent and secure and compliance with the law and internal regulations,
- periodically reviewing and recommending principles for determining the incentive remuneration of members of the Management Board and senior executives, in accordance with the interests of the Company,
- periodically reviewing the remuneration system for members of the Management Board and executives reporting directly to the members of the Management Board, including management contracts and incentive schemes and submitting to the Supervisory Board proposals for their design in the context of achieving the Company's strategic objectives,
- providing opinions to the Supervisory Board on the justification for the award of performance-related remuneration in the context of assessing the extent to which the Company's specific tasks and objectives have been achieved,
- evaluating the Company's human resources management system.

There were 3 meetings of the Nomination and Remuneration Committee in 2023.

The subject matter of the meetings of the Nomination and Remuneration Committee in 2023 included:

- Discussion of the proposal of Management Objectives for the PGE S.A. Management Board for 2023.
- Discussion of the Report on the implementation of the Management Objectives by the PGE S.A. Management Board for 2022.

## 7.6. Remuneration of the management of PGE S.A.

### 7.6.1 Rules with respect to the determination of remuneration for the Management Board Members of PGE

On September 9, 2016, the Act of June 9, 2016 on the principles of determining the amount of remuneration for persons managing certain companies (Act on remuneration) – came into force. The Act on remuneration determines, inter alia, principles for determining remuneration in companies with a stake of the State Treasury (including 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 adopted resolution 4 on determining the rules for remuneration for members of the Management Board of PGE S.A., subsequently changed through resolution no. 37 of the Company's Ordinary General Meeting of June 27, 2017. Subsequently, on March 7, 2022, the Company's Extraordinary General Meeting adopted Resolution 5 revoking the previously adopted principles for shaping the remuneration of the Members of the Management Board of the Company and introduced new principles for shaping the remuneration of the Members of the Management Board of the Company. The changes resulting from the resolution of March 7, 2022 were subsequently incorporated into the Remuneration Policy for the Members of the Management Board and Supervisory Board of PGE S.A. (Remuneration Policy) by Resolution no. 11 of the Ordinary General Meeting of the Company of June 22, 2022.

The Remuneration Policy is available in the following location on the PGE S.A. website:

https://www.gkpge.pl/en/for-investors/corporate-governance/remuneration-policy

The remuneration of all Members of the Company's Management Board for 2023 was awarded in accordance with the provisions of the Remuneration Policy. The remuneration included only the components provided for in the Remuneration Policy, and was paid in accordance with the principles set out therein, in the correct amount, on the applicable legal basis and taking into account clear, comprehensive and differentiated financial and non-financial performance criteria for the variable remuneration components.

In accordance with the Remuneration Policy, the remuneration of the Members of the Management Board consists of the following elements:

- **fixed remuneration**, which constitutes the monthly base salary;
- **variable remuneration**, which depends on the level of achievement of the Managerial Objectives.

Besides the fixed and variable components of the remuneration, the Supervisory Board may additionally:

- enter into a non-competition agreement with a Member of the Management Board and grant such a Member a benefit in this respect;
- grant such a Member a right to additional benefits.

Only the fixed remuneration is obligatorily paid to the Members of the Management Board.

The amount of the monthly **fixed remuneration** of a Member of the Management Board is determined each time by the Supervisory Board within the amount range resulting from the Remuneration Act, with the proviso that the fixed remuneration of a Member of the Management Board will be determined within the amount range of from 7 to 15 times the assessment basis referred to in Article 4 of the Remuneration Act, taking into account the specific applicable legal regulations determining its amount.

*TERMS AND CONDITIONS OF AWARDING THE VARIABLE REMUNERATION:*

- The Variable Remuneration of a Member of the Management Board depends on the degree to which Managerial Objectives have been achieved and may not exceed 100% of the fixed remuneration received by a Member of the Management Board in the financial year for which the variable remuneration is to be granted.
- The catalogue of **general Managerial Objectives** includes in particular the following:
  - the achievement of EBITDA for the PGE Capital Group at the level specified in the approved material and financial plan for a given financial year;
  - compliance with the covenants under credit agreements – (net debt/EBITDA);
  - the achievement of the required availability index for the selected power generation units of the Capital Group;
  - the implementation of particular strategic investment projects and programmes;
  - adaptation to the essence of structural changes in the sector through the implementation of strategic programmes and projects other than in the item above;
  - the effective utilization of the potential of innovation;
  - the development of a systemic approach to communication within the PGE Capital Group with respect to projects.
- In each financial year, **additional Managerial Objectives** are established whose achievement determines the possibility of achieving the Variable Remuneration. Such additional Managerial Objectives include in particular the following:
  - the development and application of the principles of establishing remuneration for Members of management and supervisory bodies in subsidiaries in accordance with the principles specified in the Remuneration Act,
  - the fulfilment of the obligations referred to in the Act of 16 December 2016 on the principles of state property management.
- The Supervisory Board is authorized to determine detailed Managerial Objectives, their respective weights, as well as objective and measurable criteria of their accomplishment and settlement (KPI - key performance indicators), subject to the following conditions:
  - a given Member of the Management Board is entitled to the variable remuneration after the approval of the Management Board's report on the Company's activities and the Company's financial statements for a given financial year and after the acknowledgement of their discharge of duties in a given financial year by the General Meeting;
  - the payment of a part of the variable remuneration may be delayed for up to 36 months depending on the fulfilment of conditions, by a specified deadline, in accordance with the established Managerial Objectives; then such a part of the variable remuneration may be paid in full or in part at the end of a settlement period;
  - the variable remuneration is calculated on a pro-rata basis. Proportionality depends on the number of days on which a Member of the Management Board has provided their services in a given financial year;
  - the Supervisory Board ascertains the fulfilment of the conditions for the granting of the variable remuneration by particular Members of the Management Board for whom Managerial Objectives have been established for a given financial year and who have performed their functions in the year under assessment, determining the due amount on the basis of financial statements checked by certified auditors as well as other documents, depending on the established Managerial Objectives. Issues related to the recovery of the variable remuneration are regulated by the binding provisions of the law.

- The expiry of the mandate of a Member of the Management Board during the financial year under evaluation in terms of the performance of the Managerial Objectives does not result in the loss of the right to the variable remuneration, under the conditions set out above, provided, however, that the time in office during the financial year under evaluation was longer than three months.
- The criteria for the award of the variable remuneration (as defined above by the general Managerial Objectives) also relate (at a detailed level - determined by the Supervisory Board) to the consideration of social interests, the Company's and the Group's contribution to environmental protection and the taking of measures aimed at preventing and eliminating the negative social effects of the Company's and the Group's activities through the modernisation of the Company and the Group (ESG). The criteria set out in the Managerial Objectives are intended to contribute to the achievement of the objectives set out in the Public Offering Act by linking the remuneration to the execution of management processes involving the implementation of the Company's and the Group's Business Strategy.

  In 2023, 33% of the variable remuneration of the Members of the Management Board of PGE S.A. depended on the achievement of objectives in the ESG area.

*TERMS OF NON-COMPETITION AGREEMENTS AND RELATED BENEFITS:*

- The Supervisory Board and a Member of the Management Board may enter into a non-competition agreement binding and effective after discontinuation in the performance of the function; such a non-competition agreement may be entered into only if a Member of the Management Board has performed their function for a period of at least six months, with the proviso that the amount of a monthly compensation may not exceed 100% of the fixed remuneration.
- Entering into a non-competition agreement after the dissolution or termination of the Agreement is not permissible.
- The period of the prohibition against competition may not exceed six months from the discontinuation of the performance of the function of a Member of the Management Board.
- Should a Member of the Management Board fail to perform, or improperly perform, a non-competition agreement, such a Member will be obliged to pay the Company a contractual penalty in the amount not lower than the amount of compensation due for the whole non-competition period.
- In a non-competition agreement, the Supervisory Board is obliged to determine at least activities competitive to those of the Company, the amount of compensation for complying with the prohibition against competition, the deadline for the payment of such compensation, information provision obligations of a Member of the Management Board, as well as cases in which the prohibition against competition becomes ineffective. The Supervisory Board may determine the Company's right to withdraw from a non-competition agreement or the Parties' rights to terminate a non-competition agreement.

*CONDITIONS FOR THE GRANTING OF ADDITIONAL BENEFITS:*

- Apart from the remuneration referred to above, the Supervisory Board may additionally, in justified cases, under the Agreement, grant Members of the Management Board the right to additional benefits.
- In the Agreement, the Supervisory Board determines the scope and principles of providing a Member of the Management Board with technical equipment and resources constituting the Company's assets and necessary for the performance of the function; the Supervisory Board may also determine limits or a manner of determining limits concerning costs incurred by the Company in connection with providing a Member of the Management Board with such equipment and resources as well as a Member's using such equipment and resources for business purposes.

Table: Remuneration and benefits received in 2023 by the Members of the Management Board of PGE S.A. (in PLN)

| Name and surname of the Management Board member | Fixed salary - Management Contract | Variable remuneration for 2022 | Remaining components Severance payment/ Compensation for non-competition | Refund of social security contributions | Total |
|---|---|---|---|---|---|
| Wojciech Dąbrowski | 792 680.40 | 792 680.40 | 0.00 | 3 966.16 | 1 589 326.96 |
| Wanda Buk | 739 835.04 | 443 901.02 | 0.00 | 0.00 | 1 183 736.06 |
| Paweł Cioch | 0.00 | 390 389.67 | 308 264.60 | 2 565.00 | 701 219.27 |
| Przemysław Kołodziejak | 431 570.44 | 0.00 | 0.00 | 0.00 | 431 570.44 |
| Lechosław Rojewski | 739 835.04 | 443 901.02 | 0.00 | 1 561.77 | 1 185 297.83 |
| Paweł Śliwa | 663 796.50 | 443 901.02 | 184 958.76 | 5 553.31 | 1 298 209.59 |
| Ryszard Wasiłek | 246 611.68 | 591 868.03 | 369 917.52 | 0.00 | 1 208 397.23 |
| Rafał Włodarski | 725 449.42 | 0.00 | 0.00 | 2 418.28 | 727 867.70 |

The total remuneration achieved by the Management Board members in 2023 amounted to PLN 8.3 million (according to PIT11). In cost perspective (including mark-ups and provisions), in 2023 the remuneration cost of all persons who acted as Management Board members of PGE S.A., amounted to PLN 9.0 million.

### 7.6.2 Rules with respect to the determination of remuneration for the Supervisory Board Members of PGE

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. These rules are taken into account in the Remuneration Policy for the Members of the Management Board and Supervisory Board of PGE S.A. adopted by Resolution no. 9 of the General Meeting of the Company of June 26, 2020, amended by Resolution of the General Meeting of the Company of June 22, 2022.

The terms and conditions of remuneration of the Supervisory Board Members are in accordance with the principles set out in the adopted Remuneration Policy. The structure of the remuneration of persons performing the functions of Members of the Supervisory Board consists of a fixed remuneration determined in connection with the appointment as Chairperson of the Supervisory Board or Member of the Supervisory Board.

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).

In accordance with the Remuneration Policy, the Supervisory Board members do not receive additional cash or non-cash benefits.

Table: Remuneration received by the Supervisory Board Members of PGE S.A. in 2023 (in PLN).

| Name and surname of the Supervisory Board member | Remuneration value |
|---|---|
| Cezary Falkiewicz | 46 900.26 |
| Janina Goss | 81 049.50[1] |
| Zbigniew Gryglas | 79 268.04 |
| Tomasz Hapunowicz | 79 268.04 |
| Marcin Kowalczyk | 8 728.92 |
| Anna Kowalik | 92 164.85[1] |
| Mieczysław Sawaryn | 82 509.57[1] |
| Artur Składanek | 80 495.85[1] |
| Radosław Winiarski | 80 470.17[1] |

[1] *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 2023 by the members of the Supervisory Board in PGE S.A. amounted to PLN 630.9 thousand. In cost perspective (including mark-ups), the remuneration cost of all persons who acted as Supervisory Board members amounted to PLN 705.6 thousand in 2023.

# 8. Other elements of the report

## 8.1. Significant events of the reporting period affecting operation in 2023 and subsequent periods

### 8.1.1 Impact of war in Ukraine on PGE Group's activities

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

Cybersecurity has grown significantly in importance in the current geopolitical situation. PGE Group has implemented special procedures for monitoring Information and communication technologies (ICT) networks due to increased activity of criminal groups aiming to attack ICT and Operational Technology (OT) systems. Incidents are regularly identified: phishing, attempts to install malware and DDoS attacks (Distributed Denial of Service). Safeguards adequate to the changing risks are being implemented.

The physical security of the Group's facilities also has been strengthened.

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

- level of generated margin,
- fuel availability and prices,
- prices of CO2 emission allowances,
- disruption of the component supply chain or a significant increase in their prices,
- rising inflation and interest rates and a weakening of the national currency,
- capital raising opportunities,
- import of hard coal,
- cybersecurity and physical security,
- geopolitics,
- new regulations,
- counterparties (sanctions lists).

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

- a significant reduction in the availability of low-sulphur coal,
- possibility of sudden price fluctuations of hard coal and gas prices on the international market.

*RISKS RELATED TO GAS SUPPLIES*

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

PGE Group has no influence over the directions of supply and management of fuel transmission therefore the risk of possible disruptions lies with PKN Orlen S.A. (previously PGNiG S.A.) and the Transmission System Operator (Gaz-System S.A.). PGE has established communication channels with PKN Orlen and Gaz-System S.A. 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 gas fuel, due to the lack of stock-holding capacities, a reduced availability translates into an immediate disruption in electricity and heat production. However, if there are back-up coal-fuelled water boilers at a CHP plant, it is possible to produce heat until these stocks are exhausted (this pertains to CHP Lublin Wrotków and CHP Rzeszów). In the case of CHP Gorzów, an OP-140 coal-fired steam boiler constitutes a back-up. At CHP Zielona Góra, oil boilers serve as back-up for heat production.
- Currently, the main suppliers of hard coal for electricity and heat production are Polish mining companies. Coal supplied by importing companies complements the main domestic supply direction. Currently, CHP plants and Centrally Dispatched Generating Units (JWCD) have high stock levels 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 balancing and operation of the NPS. So far, PGE Group has not identified any risk associated with electricity or heat supply to residents, institutions and businesses.

*THE RISK OF IMPACT OF THE WAR ON FUTURE FINANCIAL RESULTS*

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

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

### 8.1.2 Project of setting up the National Energy Security Agency (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 was to 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 were also among the acquired assets. The scope of the project did not include hard coal mining assets. CHP plants were not subject to his transaction, as they are planned to be modernised towards low and zero-emission sources. It was planned that the carve-out of assets from the energy groups would take place through the purchase of shares of individual companies directly by the State Treasury and their subsequent consolidation through their contribution of shares of particular companies to a capital increase in PGE GiEK S.A.

NABE was to operate as a holding company, concentrated around PGE GiEK S.A., and the companies being acquired from ENEA S.A., TAURON Polska Energia S.A. and ENERGA S.A. as subsidiaries in its group.

It was planned that NABE would 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.

According to the document, after the separation of coal-fired generation assets, energy companies would 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 was to provide the necessary power balance in the energy system. NABE would 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.

*BENEFITS OF COAL ASSET SALES*

The discontinuation of Conventional Generation's operations based on coal combustion results from the strategy of the PGE Capital Group, published on October 19, 2020, which assumes climate neutrality by 2050. The spin-off coal assets will bring measurable benefits for the Group, among others, in the following areas:

- greater and more favorable access to sources of debt and equity financing, lower financing costs;
- greater and more favorable access to the insurance market;

- lower cash requirements for hedging $CO_2$ emission costs and stocks of production raw materials;
- release of credit limits in financing institutions as a result of reducing the demand for EUA allowances;
- increasing the possibility of using financial resources for investments in distribution networks and green technologies, with a higher rate of return;
- reducing the risk of exposure to the price of $CO_2$ emission allowances.

All the above actions, in the opinion of the Management Board, will increase the attractiveness of the Company for shareholders.

*ACTIVITIES FOR THE CARVE-OUT OF GENERATING COAL ASSETS*

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

On July 14, 2023 PGE received from the State Treasury, represented by the Minister of State Assets, proposal of a non-binding document summarising terms and conditions for acquisition by the State Treasury of all shares held in PGE GiEK S.A. On August 10, 2023 PGE and the Minister of the State Assets, signed a document summarising terms and conditions for acquisition by the State Treasury of all shares held by PGE in PGE GiEK S.A. in order to set up NABE.

Conclusion of the sale transaction of PGE GiEK S.A. to the State Treasury depended on the fulfilment of number of conditions precedent.

As of the date of preparation of this report, the above conditions precedent have not been met. In addition, in February 2024, the Council of Ministers withdrew from the Parliament a draft law on the principles of guaranteeing the National Energy Security Agency's liabilities by the State Treasury.

*CURRENT STATUS OF THE PROJECT AND RECOGNITION OF ASSETS RELATED TO PGE GIEK S.A. IN THE FINANCIAL STATEMENTS*

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

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

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

The continuation of the project, as well as its possible final shape and timetable, depends on government decisions. As at the date of preparation of these financial statements, no further decision had been made with respect to the spin-off of the coal assets and their future within PGE Capital Group.

Receipt of the proposal of the terms and conditions for the acquisition of 100% of shares in PGE GiEK

Obtaining corporate approvals

Summary of the Term Sheet

### 8.1.3 Potential claims from the counterparties of Enesta sp. z o.o.

In 2021 ENESTA sp. z o.o. (currently ENESTA sp. z o.o. in restructurisation) terminated unfavourable contracts for the supply of electricity and natural gas. In 2022, some contractors brought their claims to court. After unsuccessful attempts to reach an agreement with its counterparties, ENESTA sp. z o.o. applied for restructuring proceedings. On June 21, 2022, restructuring proceedings were opened. At the end of 2022 and in February 2023, judgments unfavourable to the company were passed in pending proceedings. The judgments established the existence and validity of contracts for the sale of electricity and natural gas. Due to the need to continue the implementation of unfavourable sales contracts, a provision was created at the end of 2022 for onerous contracts in the amount of PLN 37 million. In addition, provisions were created for potential court disputes in connection with the reserve sale carried out in 2022 by the supplier of last resort in the amount of PLN 56 million. In 2023

all provisions for onerous contracts were released. Sales revenues are invoiced in accordance with final court judgments. In September 2023, ENESTA's capital was increased by PLN 32 million. All shares in the increased capital were acquired by PGE Obrót S.A. In December 2023, another resolution was passed regarding a capital increase of PLN 34 million. The shares were acquired by PGE Obrót in 2024.

As at December 31, 2023, the value of assets and equity and liabilities of the company amounts to PLN 135 million and the value of equity to PLN (-)173 million.

### 8.1.4 Recommendation not to pay dividend for 2022

On March 21, 2023 the Management Board of PGE S.A. decided on the recommendation not to pay dividend for 2022 to the PGE's shareholders. Decision was taken in accordance with the dividend policy and is a result of analysis of Company's indebtedness, expected capital expenditures and planned acquisitions (in line with the PGE Group's Strategy until 2030 with 2050 perspective, including acquisition of 100% shares in PKP Energetyka Holding Sp. z o.o.), in the context of prolonged market volatility and uncertainty.

Recommendation not to pay dividend

### 8.1.5 Implementation by PGE Paliwa sp. z o.o. of the decision of the Prime Minister concerning the purchase of coal

By the end of April 2023, PGE Paliwa sp. z o.o. was implementing the decisions of the Prime Minister issued in mid-2022 instructing the purchase of at least 3 million tonnes of thermal coal with parameters similar to the quality parameters used by households and its import into the country (Decision).

PGE Paliwa sp. z o.o. was named in the Regulation of the Minister of State Assets of November 2, 2022, on the list of entities authorised to conduct sales of solid fuel to municipalities, as one of six market-entry entities authorised to conduct sales of solid fuel to municipalities for sale under preferential purchase. According to the provisions of the Act of October 27, 2022, on preferential purchase of solid fuel for households, the sale price of solid fuel couldn't be higher than PLN 1 500/Mg gross. At the same time, the market-entry entity was entitled to compensation in the amount of the product of the quantity of solid fuel and the difference between the justified average unit purchase cost of solid fuel in that period and the average net selling price in that period, plus value added tax.

The implementation of the above mentioned decision resulted in a temporary increase in PGE Group's cash requirements and a temporary increase in debt in connection with the settlement of coal purchase and resale transactions. In connection with a significant decrease in market prices of coal, PGE CG realised a negative result on sales of coal purchased in order to implement the Decision and which was not sold by April 30, 2023. The negative result on sales of this coal together with other costs incurred in order to implement the decision, recognized in the financial results of PGE CG until December 31, 2023 amounted to PLN 610 million. In addition, taking into account the prudence principle, a write-down of the value of coal inventories purchased by the Group and not sold by December 31, 2023 was recognised in the financial results of the PGE Capital Group to the estimated coal prices obtainable on the market. As at December 31, 2023, the amount of the inventory write-down was PLN 239 million.

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

The Group recognised PLN 109 million in the 2023 results as revenue from compensation for coal deliveries made from January to April 2023. On the other hand, PLN 131 million was recognised in the 2022 results for deliveries made in 2022. The applications for compensation for the respective periods were submitted in accordance with the deadlines set out in the Law of October 27, 2022 on the preferential purchase of solid fuel for households. PGE Paliwa sp. z o.o. had received all requested compensations and timely submitted the final application for compensation and settled the relevant accounts with the Settlement Administrator.

PGE Paliwa sp. z o.o. had carried out sales under the aforementioned Act until April 30, 2023.

### 8.1.6 Regulatory changes on the electricity market

Due to the electricity market crisis, the legislator decided to introduce regulations that temporarily introduced exceptional solutions for electricity prices and tariffication in 2023. On October 18, 2022, the Act of October 7, 2022, on special measures to protect electricity consumers in 2023 in connection with the situation on the electricity market (Act for Households) entered into force and on November 4, 2022, the Act of October 27, 2022 on Emergency Measures in 2023 entered into force.

Pursuant to the Act for households, in 2023 an electricity trading company was required to apply to the aforementioned households customers prices equal to those contained in the tariff in force on January 1, 2022 for individual tariff groups up to certain consumption limits. On the other hand, once the Act of August 16, 2023 amending the Act for Households entered into force, the consumption limits for each category of customer were increased by an additional 1MWh. Once the consumption limits for household consumerswere exceeded, a maximum price of 693 PLN/MWh (price excluding VAT and excise duty) was used for billing off-takers in households in accordance with the Emergency Measures Act in 2023. This means that electricity prices have been fixed by law and therefore in 2023 the tariffs approved by the President of the Energy Regulatory Office did not have a direct impact on electricity prices for households.

Additionally, in accordance with the Emergency Measures Act in 2023, the maximum electricity price for other eligible customers was set at 785 PLN/MWh (price excluding VAT and excise duty). After the Act of August 16, 2023 amending the Act for households and certain other acts entered into force, the maximum price was, similarly to that for households, 693 PLN/MWh. This price, in principle, applied from December 1, 2022, however, the changed amount applied from October 1, 2023 to December 31, 2023. The maximum price limit for eligible customers also applied to electricity sales agreements concluded or amended after February 23, 2022, in which case the maximum price also applied to settlements for the period from the date of conclusion or amendment of these agreements until November 30, 2022. Electricity companies were required to make systematic refunds resulting from the application of the maximum prices until the end of 2023.

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

The mechanisms introduced in the Act for Households and the Emergency Measures in 2023 Act should as a rule compensate trading companies for the price reduction.

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

From December 1, 2022 PGE Group's financial position was also affected by the provisions of the Emergency Measures in 2023 Act, which provide for the requirement to make monthly contributions to the account of the Price Difference Payment Fund (PDP Fund) by electricity producers and power companies that are engaged in the business of electricity trading. The contribution to the PDP Fund was the product of the volume of electricity sales and the positive volume-weighted average difference of the market price of electricity sold and the volume-weighted average of the price cap of electricity sold, as regulated in the Regulation of the Council of Ministers of November 8, 2022 on the method of calculating the price cap.

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

- for units generating energy from lignite and hard coal, the price limit takes into account, among other things, the unit cost of fuel consumed, the cost of CO2 emission allowances, the efficiency of the generating units, a margin and a certain level of investment allowance and for coverage of fixed costs of 50 PLN/MWh.
- for units generating energy from RES, the price limit was determined with reference to the reference price referred to in art. 77 sec. 3 p. 1 of the Renewable Energy Sources Act, whereby for hydroelectric power plants the price limit is 40% of this reference price.

For electricity trading companies, on the other hand:

- for energy sold to final consumers, the price limit was the product of the volume-weighted average price of electricity purchased on a given day and a margin defined as 1.035 or 1.03 (plus the unit cost of redemption of certificates of origin),
- for energy sold to customers other than final consumers, the price limit was the product of the volume-weighted average price of energy purchased on a given day and the margin defined as 1.015 or 1.01.

From January 1, 2023 onwards, trading companies calculated the amount of the contribution to the Fund for the calendar month to which the settlement related, taking into account the volume of electricity sales, the market price and the price cap for periods of 3 decades of that month, i.e. from the 1st to the 10th, from the 11th to the 20th and from the 21st to the last day of the month. Until December 31, 2022, the Fund contributions were calculated separately for each day of the month.

On March 1, 2023 and September 1, 2023, an amendments to the Act on Extraordinary Measures in 2023 came into force, determining the rules for paying contributions to the PDP Fund.

The amendment concerned, among other things, the extension of the catalogue of revenue items that constitute the basis for calculating the contribution to the PDP Fund. As a result, the amount of contributions transferred by the PGE Capital Group increased.

In connection with doubts concerning the interpretation of the provisions and the qualification of revenue from additional cash settlements, which should be taken into account in the calculation of contributions to the Fund, PGE S.A. applied to the President of the Energy Regulatory Office for an individual interpretation confirming the applied interpretation of the Act, as a result of which revenue from selected agreements should not be taken into account in the calculation of contributions to the Fund. The President of the ERO did not share the Company's position. PGE S.A., disagreeing with the adverse decision of the President of the ERO, appealed against it to the Regional Court in Warsaw.

In 2023, the contribution due to the Fund amounted to PLN 6 569 million (including the adjustment for 2022) reducing the financial result. In turn, compensation income for 2023, covering the loss on energy sales in accordance with the Act, amounted to PLN 7 658 million. Compensation revenues are independent of the amount of contributions to the PDP Fund. As described above, the funds received by the sales companies were intended to compensate for the losses these entities suffered due to the price freeze. In turn, the contributions to the PDP Fund limited the margins realised by individual energy companies to the levels indicated in the regulations.

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

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

At the same time, on September 11, 2023, the regulation of the Ministry of Climate and Environment of September 9, 2023 was published, amending the regulation on the method of shaping and calculating tariffs and the method of settlement in electricity trading and entered into force on September 19, 2023. This regulation reduced electricity bills for household consumers by PLN 125 on average in 2023, provided that one of the conditions mentioned was met. Power utilities conducting business activities related to electricity trading are obliged to make the reduction at the latest in the last electricity invoice in 2023.

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

### 8.1.7 Nuclear power plant construction project

On October 31, 2022 PGE S.A. signed with Korea Hydro & Nuclear Power Co. Ltd. and ZE PAK S.A. a letter of intent, the aim of which is to start cooperation as part of the strategic Polish-Korean project to build a nuclear power plant in Pątnów-Konin area. The planned capacity of the plant is 2 800 MWe, based on the use of two PWR (Pressurised Water Reactor) nuclear reactors with the Korean APR 1400 technology. The cooperation also includes field and environmental studies, the implementation of a feasibility study and the obtainment of all necessary administrative decisions.

In the Polish Nuclear Power Programme (PNPP), the Pątnów-Konin area is recommended as one of the possible locations for the construction of a nuclear power plant in Poland. The investment project is also in line with the principles of the development of nuclear technologies contained in Poland's Energy Policy until 2040.

On May 22, 2023, PGE PAK Energia Jądrowa S.A. was registered in the National Court Register. PGE S.A. and ZE PAK S.A. each hold 50% of the shares in PGE PAK Energia Jądrowa S.A.

On August 11, 2023, PGE S.A., ZE PAK S.A. and PGE PAK Energia Jądrowa S.A. entered into a shareholders' agreement setting out the rules of this company's corporate governance and business activity.

On August 16, 2023, PGE PAK Energia Jądrowa S.A. filed an application with the Ministry of Climate and Environment for the issuance of a fundamental decision for the construction of a nuclear power plant in the Konin region.

On November 24, 2023, the Ministry of Climate and Environment issued the fundamental decision for the construction of a nuclear power plant in the Konin region.

Signing of a letter of intent regarding a cooperation regarding the development of a nuclear power plant

Initial agreement on setting up of SPV

### 8.1.8 Acquisition of 100% of the shares in PKPE Holding sp. z o.o.

The closing of the transaction of the direct acquisition by PGE S.A. of 100% of the shares in PKPE Holding sp. z o.o., and consequently an indirect acquisition of 100% of the shares in PKP Energetyka S.A. and shares in other subsidiaries owned by the company, took place on April 3, 2023. PKPE Holding Sp. z o.o. is a holding company controlling a number of entities the activities of which are concentrated around PKP Energetyka S.A.. The PKP Energetyka Group is distributor and seller of electricity to the traction grid, and additionally provides traction grid maintenance.

The price to be paid at the closing for 100% shares in the company was determined to be PLN 1 913 million on the basis of the enterprise value as at March 31, 2022, and was settled using a locked-box mechanism assumed in the preliminary shares purchase agreement of December 28, 2022 and then was subject to corrections in accordance with the locked-box mechanism.

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

Currently, the companies operate within the structure of the PGE Group in the newly created Railway Energy Services segment.

The acquisition of PKPE Holding Sp. z o.o. was in line with PGE Group's strategy. As a result of the transaction, PGE Group gained access to the distribution grid throughout the whole country.

Signing of the agreement on acquisition of PKPE Holding

### 8.1.9 Signing of a loan agreement with European Investment Bank

On February 3, 2023 PGE signed a loan agreement with European Investment Bank ("EIB"). The value of the loan agreement amounts to PLN 1.4 billion, the loan will be intended for implementation of the projects in the distribution segment, including MV lines cabling program, connection of new off-takers and generating units as well as installation of smart meters. Investments are planned to be implemented until 2025.

Loan availability period is 24 months from the agreement signing date and the maturity date will be maximum 18 years from the drawing date of the last installment under the agreement. The interest rate will be determined before the payment of the each installment. The agreement does not provide for tangible collaterals. After signing the above mentioned agreement, total nominal value of the financing from EIB amounts to PLN 5.7 billion.

Signing of a loan agreement with EIB

### 8.1.10 Signing of the agreement for construction of the power unit in Rybnik

On February 9, 2023 Rybnik 2050 sp. z o.o., a subsidiary of PGE, signed an agreement with consortium of: Polimex Mostostal S.A. (consortium leader), Siemens Energy Sp. z o.o. (consortium member), Siemens Energy Global GmbH & Co. KG (consortium member). The subject matter of the agreement is the performance of construction and assembly works and other works by the consortium, in order to build a gas and steam unit in Rybnik with a gross capacity of 882 MWe.

The value of the agreement amounts to PLN 3.0 billion net. In connection with the agreement, a service agreement was also signed with regard to gas turbine for the period of at least 12 years starting from the commissioning date of the unit. The value of the service agreement amounts to PLN 0.8 billion net. Total value of all signed agreements amounts to PLN 3.8 billion net. On March 12, 2024, the Mayor of Rybnik issued a decision on the construction permit for the gas and steam unit.

Signing of the agreement for construction of the power unit in Rybnik

### 8.1.11 Signing of the syndicated loan

On March 1, 2023 the revolving loan agreement was signed by PGE S.A. with a syndicate consisting of the following banks: Powszechna Kasa Oszczędności Bank Polski S.A., Bank Polska Kasa Opieki S.A., Bank of China (Europe) S.A., Industrial and Commercial Bank of China (Europe) S.A., Alior Bank S.A. and Santander Bank Polska S.A. The subject matter of the agreement includes granting by the banks of the revolving loan of up to PLN 2 330 million. The loan may be utilised for:

- finance the day-to-day operations of PGE S.A. and the Group in particular in line with the long term Group strategy aiming at reduction of emissions and increase of production of electricity from renewable sources;
- finance investment and capital expenditure in connection with the operations of PGE S.A. and the PGE group, other than investments in new carbon assets;
- refinancing of the financial liabilities of PGE and PGE Group.

The final repayment date falls on February 26, 2027. Interest rate of the loan is calculated on the floating rate based on the relevant WIBOR rate (reference rate) plus margin. The margin may be periodically adjusted depending on the ESG rating assigned to PGE by a specialised agency. According to the provisions of the

agreement, PGE undertakes to keep the consolidated net debt to consolidated EBITDA at a level not higher than 4:1 in the case PGE holds investment grade credit rating or at a level not higher than 3.5:1 in the case PGE does not held investment grade credit rating. The loan is not secured on any of the assets of PGE or of the PGE Group.

On February 6, 2024, an annex to the revolving loan agreement was concluded. As a result of the annex, China Construction Bank (Europe) S.A., Luxembourg, joined the agreement and the amount of the loan was increased from PLN 2 330 million to PLN 3 150 million.

Signing of the syndicated loan

Signing of the syndicated loan p. 2

### 8.1.12 Change of commissioning date of CCGT units in PGE Gryfino 2050 sp. z o.o.

On July 20, 2023 PGE Gryfino 2050 sp. z o.o. signed an annex to the agreement for construction of two new power units at PGE Gryfino realized by the syndicate of General Electric Global Services GmbH, General Electric International Inc. and Polimex Mostostal S.A.

According to the provisions of the annex the commissioning date of CCGT units is postponed from December 11, 2023 to a date not later than April 30, 2024.

Prolongation of the completion date of the contract is caused by the occurrence of force majeure events. the change of completion date of the contract does not cause a change of the syndicate's remuneration.

Change of commissioning date of CCGT units in PGE Gryfino 2050

### 8.1.13 Obtaining the decisions on the permit to erect and use artificial islands

On August 9, 2023 the Company received the decisions of the Minister of Infrastructure on granting of permits to erect and use artificial islands, structures and devices in Polish maritime area (exclusive economic zone) for projects involving construction of offshore wind farms.

Obtaining the decisions on the permit to erect and use artificial islands

### 8.1.14 Acquisition of Zalesie wind farm

On September 20, 2023, PGE Energia Odnawialna S.A. purchased 100% of shares in LongWing Polska sp. z o. o., which owns the Zalesie wind farm with a capacity of 24.9 MW, located in the Warmian-Masurian Voivodeship. The new investment can provide electricity for almost 38 000 households.

### 8.1.15 Signing of a loan agreement with BGK

On November 28, 2023 PGE signed the loan agreement with Bank Gospodarstwa Krajowego of up to PLN 2 500 million, which may be utilised for financing of the ongoing economic needs of PGE and investment needs of the PGE Group. Financing period is 5 years from the Agreement's signing date subject to possible extension for a period not exceeding 3 years.

Signing of a loan agreement with BGK

### 8.1.16 Impairment tests on property, plant and equipment

Property, plant and equipment is the most significant asset item of the PGE Capital Group. Due to the changing macroeconomic and regulatory environment, the PGE Group periodically reviews indications that the recoverable value of its assets may be impaired. On December 6, 2023 The Management Board of PGE S.A. informed about the identification of indications for impairment testing of assets. As a result of the impairment test, the Group identified an impairment of the assets of the Conventional Generation segment of PLN 8.4 billion.

Detailed results of the impairment tests on property, plant and equipment are described in note 3 to the consolidated financial statements.

### 8.1.17 Agreement with PGG for hard coal supplies

On December 13, 2023 PGE signed the agreement for supplies of hard coal with Polska Grupa Górnicza S.A. ("PGG"). Under the agreement, the parties estimated the volume of hard coal supplies for PGE GiEK, KOGENERACJA S.A. and PGE Energia Ciepła S.A. for years 2023-2028. Total value of hard coal supplies for years 2023-2028 is estimated at PLN 13.5 billion. The price for 2024 was agreed through negotiation and does not deviate from the conditions prevailing in the domestic market and is comparable to international market quotations (API2 index). As of the date of signature of the agreement, other existing contracts with PGG were terminated.

Agreement with PGG for hard coal supplies

### 8.1.18 Result of main capacity market auction for the year 2028

On December 14, 2023, as a result of capacity market auction for the year 2028 (the main auction), total capacity obligation of not less than 1 013 MW was contracted for units owned by PGE Group, including:

- 306 MW in 7-years contracts,
- 15 MW in 5-years contract,
- 692 MW in 1-year contracts.

Including long-term contracts from previous auctions, PGE Group contracted not less than 9 851 MW of capacity obligations for 2028 delivery.

The clearing price of th auction was 244.90 PLN/kW/year. The price of capacity obligation in multi-year contracts will be adjusted every year with the annual average consumer price index. The above clearing price is not a final result of power market auction. Final results are published by the President of Energy Regulatory Office in the Biuletyn Informacji Publicznej.

Result of main capacity market auction for the year 2028 p.1

Result of main capacity market auction for the year 2028 p.2

### 8.1.19 Information about approval of G tariff for PGE Obrót and necessity to create provision in Supply segment

In connection with the approval on December 15, 2023 by the President of the Energy Regulatory Office of the selling price of electricity for consumers in G tariff groups for 2024 for PGE Obrót S.A. at an average level of PLN 739/MWh (price excluding value added tax and excise tax), the company assessed the impact of the decision on its operations. The approved tariff does not fully cover the costs of electricity purchases resulting from purchase contracts, property rights and the company's own costs of regulated activities. As a result, the company created a provision as at December 31, 2023 for onerous contracts in 2024 with customers in G tariff groups for a total value of PLN 761 million.

# 8.2. Subsequent events

## 8.2.1 Environmental decision on the Turów Lignite Mine

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

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

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

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

On March 13, 2024, the Regional Administrative Court overturned the decision of the General Directorate of Environmental Protection, specifying the environmental conditions for the further exploitation of the Turów lignite deposit. As the Regional Administrative Court stressed, this does not mean either closure or suspension of work at the Turów Mine. The ruling is not legally binding.

## 8.2.2 Changes in the Management Board and Supervisory Board

Details on changes in the Management Board and Supervisory Board are presented in p. 7.5.1 and 7.5.2.

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

Significant changes which occurred in the PGE Capital Group's structure in the period from January 1, 2023 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/ registration in the National Court Register (NCR) | Comment |
|---|---|---|---|
| - | PGE PAK Energia Jądrowa S.A. | April 13, 2023/ May 22, 2023 | On April 13, 2023 PGE S.A. and ZE PAK S.A. (ZE PAK) established a capital company with its registered office in Konin in the form of a joint-stock company with the following name: PGE PAK Energia Jądrowa S.A. PGE S.A. and ZE PAK each hold 50% of shares in the share capital of the established company. The share capital of this company is PLN 10 000 000. |

*ACQUISITION OR DISPOSAL OF SHARES BY THE COMPANIES*

| Segment | Shares of the company | Date of transaction/ registration in the NCR | Comment |
|---|---|---|---|
| **District Heating** | EC Zielona Góra S.A. – compulsory buyout of shares of EC Zielona Góra from the minority shareholders by KOGENERACJA S.A. as a shareholder of EC Zielona Góra | March 1, 2021/ On April 25, 2023 the ownership title was transferred. | On March 1, 2021 the Extraordinary General Meeting of EC Zielona Góra adopted a resolution on compulsory buyout of 8 849 shares hold by the minority shareholders, representing a total of 1.6% of the share capital of EC Zielona Góra. On April 25, 2023, the above-mentioned 8,849 shares were transferred to KOGENERACJA., by making an appropriate entry in the register of shareholders of EC Zielona Góra. In connection with the above, as of April 25, 2023, KOGENERACJA S.A. became the only shareholder holding 100% of the shares of EC Zielona Góra. |
| **Circular Economy** | EPORE S.A. (EPORE) – sale by PGE GiEK S.A. of all possessed shares in EPORE to PGE Ekoserwis S.A. (share sale agreement) | December 23, 2022/ On January 10, 2023 a change was made in the register of shareholders. | On December 23, 2022 PGE GiEK S.A. as a seller and PGE Ekoserwis S.A. as a buyer signed share sale agreement concerning all possessed shares in EPORE, i.e. 63 963 shares, with a total nominal value of PLN 31 981 500, representing 100% in the share capital. |
| - | ElectroMobility Poland S.A. (ElectroMobility Poland) - share capital increase of ElectroMobility Poland and acquisition of all new shares by the State Treasury | December 28, 2022/ January 16, 2023 | On December 28, 2022 the Extraordinary General Meeting of ElectroMobility Poland adopted a resolution on increasing the share capital of the company, by private placement of 50 748 series C shares with a nominal value of PLN 4 926.29 each. The Extraordinary General Meeting of the company decided to offer all new shares to be acquired by the State Treasury in exchange for a cash contribution. As a result of acquisition by the State Treasury of new shares, share of PGE S.A. in the share capital of this company decreased from 4.33% to 2.30%. |
| **Railway Energy Services** | PKPE Holding sp. z o.o. with seat in Warsaw (PKPE | December 28, 2022 | On December 28, 2022 PGE S.A. as a buyer and Edison Holdings S.à r.l. as a seller signed preliminary agreement regarding the acquisition of the shares in PKPE Holding (currently: PGE |

| Segment | Shares of the company | Date of transaction/ registration in the NCR | Comment |
|---|---|---|---|
| | Holding) – acquisition by PGE S.A. from Edison Holdings S.à r.l. of all shares in PKPE Holding, owning inter alia 100% shares in PKP Energetyka. | On April 3, 2023 the ownership title was transferred. | Energetyka Kolejowa Holding sp. z o.o.). As a result PGE S.A. and Edison Holdings S.à r.l. committed to conclude a promised agreement for the sale of 100% of the shares in PKPE Holding.<br>On April 3, 2023, after meeting certain conditions precedent, PGE S.A. acquired directly 100% of shares in PKPE Holding and indirectly 100% of shares in PKP Energetyka S.A. (currently PGE Energetyka Kolejowa S.A.) and shares in other subsidiaries held by PKPE Holding. |
| - | Energopomiar sp. z o.o. (Energopomiar) – sale by PGE S.A. and PGE Energia Ciepła S.A. of all possessed shares in Energopomiar to PGE GiEK S.A. | On January 4, 2023 the ownership title was transferred. | On January 4, 20234 PGE S.A. and PGE Energia Ciepła S.A. as sellers and PGE GiEK S.A. as a buyer signed share sale agreement regarding all shares in Energopomiar, i.e. 1 share each in this company, with a nominal value of PLN 1 007 774.28 in case of the share owned by PGE S.A. and with a nominal value of PLN 418 288.40 in case of the share owned by PGE Energia Ciepła S.A., jointly representing 26.48% in the share capital. As a result of the concluded share sale agreement, PGE S.A. and PGE Energia Ciepła S.A. ceased to be partners of Energopomiar, and PGE GiEK currently holds shares constituting in total 49.79% share in Energopomiar. |
| - | 4Mobility S.A.– sale by PGE Nowa Energia sp. z o.o. in liquidation of all possessed shares in 4Mobility S.A. to CetusMobility sp. z o.o. | June 15, 2023<br>On June 22, 2023 the ownership title was transferred. | On June 15, 2023 PGE Nowa Energia sp. z o.o. in liquidation as a seller and CetusMobility sp. z o.o. as a buyer signed signed share sale agreement concerning all possessed shares in 4Mobility S.A., i.e. 1 875 000 shares of this company, with a total nominal value of PLN 187 500, representing 37.93% in the share capital. As a result of the signed agreement PGE Nowa Energia sp. z o.o. in liquidation ceased to be a shareholder of 4Mobility. |
| - | Siechnice Nowa Energia sp. z o.o. - acquisition by KOGENERACJA S.A. from Siechnice Commune 50% of shares in the share capital. | On August 29, 2023 the ownership title was transferred. | On August 29, 2023 KOGENERACJA S.A. as a buyer and Siechnice Commune as a seller signed agreement for sale of shares of Siechnice Nowa Energia sp. z o.o., i.e. 50 shares with a total nominal value of PLN 2 500, representing 50% in the share capital of the company. As a result of the above sales transaction, KOGENERACJA S.A. and the Siechnice Commune currently hold 50% of the shares in the share capital of Siechnice Nowa Energia. |
| **Renewables** | LongWing Polska sp. z o.o.- acquisition by PGE Energia Odnawialna S.A. from Solar Energy Ressources S.a r.l. and Ser Windpark Zalesie GmbH 100% of shares in the share capital. | On September 20, 2023 the ownership title was transferred to PGE Energia Odnawialna S.A. | On September 20, 2023 PGE Energia Odnawialna S.A. as a buyer and Solar Energy Ressources S.a r.l. and Ser Windpark Zalesie GmbH as sellers, signed agreement for sale of 100% shares in the share capital of LongWing Polska sp. z o.o., i.e. shares with a total nominal value of PLN 50 000. |
| **Supply** | ENESTA sp. z o.o. in restructuring with seat in Stalowa Wola - increase of the share capital and subscription of all new shares by PGE Obrót S.A. | September 22, 2023 / December 18, 2023 | On September 22, 2023 the Extraordinary Meeting of Partners of ENESTA sp. z o.o. in restructuring adopted a resolution on increasing the share capital of the company from PLN 50 402 000 to PLN 82 402 000, i.e. by PLN 32 000 000, by issue of new 32 000 shares of the company with a nominal value of PLN 1 000 per share. PGE Obrót S.A. as one of the company's shareholders, took up all the company's new shares in the increased share capital. As a result of the share capital increase and the subscription of all new shares of the company by PGE Obrót S.A., the share of PGE Obrót S.A. in the share capital of the company increased, from 87.33% to 92.25%. |
| **Other operations** | PGE Inwest 12 sp. z o.o.– taking up shares by PGE | October 24, 2023 / March 4, 2024 | On October 16, 2023 PGE S.A. and NFOŚiGW signed an investment agreement regarding financing of PGE Inwest 12 sp. z o.o. in order to implement construction of the pumped-storage power plant |

| Segment | Shares of the company | Date of transaction/ registration in the NCR | Comment |
|---|---|---|---|
| | S.A.and joining the PGE Inwest 12 sp. z o.o. and taking up new shares by National Fund for Environmental Protection and Water Management (NFOŚiGW) | | in Młoty (commune Bystrzyca Kłodzka, Lower Silesia voivodship). As a result of performance of the above-mentioned contract on October 17, 2023 Extraordinary Assembly of Partners of PGE Inwest 12 sp. z o.o. adopted a resolution on increase of the share capital and decided that the new shares in the increased share capital will be taken up respectively by PGE S.A. and NFOŚiGW in exchange for cash contributions. On October 24, 2023 PGE S.A. and NFOŚiGW took up new shares in PGE Inwest 12 sp. z o.o. PGE S.A. currently holds 51%, and NFOŚiGW 49% in the share capital of this company. |
| **Supply** | ENESTA sp. z o.o. in restructuring with seat in Stalowa Wola - increase of the share capital and subscription of all new shares by PGE Obrót S.A. | December 18, 2023 / Not yet registered in the NCR | On December 18, 2023 the Extraordinary Meeting of Partners of ENESTA sp. z o.o. in restructuring adopted a resolution on increasing the share capital of the company from PLN 82 402 000 to PLN 116 402 000 PLN, i.e. by PLN 34 000 000, by issue of new 34 000 shares of the company with a nominal value of PLN 1 000 per share. PGE Obrót S.A. as one of the company's shareholders, took up all the company's new shares in the increased share capital. As a result of the share capital increase and the subscription of all new shares of the company by PGE Obrót S.A., the share of PGE Obrót S.A. in the share capital of the company increased from 92.25% to 94.51%. |

*MERGERS*

| Segment | Acquiring company/acquired company | Date of transaction/ registration in the National Court Register | Comment |
|---|---|---|---|
| **Renewables** | PGE Energia Odnawialna S.A. /Mithra B sp. z o.o. with seat in Warsaw | June 7, 2023/ June 30, 2023 (*merger date*) | On June 7, 2023 the Extraordinary General Meetings of PGE Energia Odnawialna S.A. and Mithra B sp. z o.o. adopted resolutions on the 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 and dissolution of the acquired company without its liquidation. PGE Energia Odnawialna S.A. was the sole shareholder of the acquired company. |
| **Renewables** | PGE Energia Odnawialna S.A. / PGE Soleo 3 sp. z o.o. and PGE Klaster sp. z o.o. with seats in Warsaw | June 7, 2023/ June 30, 2023 (*merger date*) | On June 7, 2023 the Extraordinary General Meetings of PGE Energia Odnawialna S.A. and PGE Soleo 3 sp. z o.o. and PGE Klaster sp. z o.o. adopted resolutions on the merger through acquisition, through transferring of all assets of the acquired companies to the acquiring company without issue of new shares in exchange for the shares in the share capital of the acquired companies and dissolution of the acquired companies without their liquidation. PGE Energia Odnawialna S.A. was the sole shareholder of the acquired companies. |
| **Circular Economy** | PGE Ekoserwis S.A. with seat in Wrocław/ EPORE S.A. with seat in Bogatynia | July 26, 2023/ October 2, 2023 (*merger date*) | On July 26, 2023 the Extraordinary General Meetings of PGE Ekoserwis S.A. and EPORE S.A. adopted resolutions on the 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 and dissolution of the acquired company without its liquidation. PGE Ekoserwis S.A. was the sole shareholder of the acquired company. |

*LIQUIDATION OF COMPANIES*

| Segment | Company in liquidation | Date of transaction/ registration in the National Court Register | Comment |
|---|---|---|---|
| **Supply** | PGE Trading GmbH in liquidation with seat in Berlin | March 1, 2021<br>As of December 31, 2023, the company has not been removed from the commercial register | On March 1, 2021 the Extraordinary Assembly of Partners of PGE Trading in liquidation, in which PGE holds 100% of the share capital, adopted resolution on dissolution of the companyand appointment of a liquidator to carry out liquidation activities. |
| **Other Operations** | PGE Nowa Energia sp. z o.o. in liquidation with seat in Warsaw | March 31, 2022 /On 16 February 2024, the register court decided to delete the company from the Register of Entrepreneurs of the NCR - this decision is not valid | On March 31, 2022 the Extraordinary Assembly of Partners of PGE Nowa Energia sp. z o.o. in liquidation, in which PGE holds 100% of the share capital, adopted resolution on dissolution of the company and appointment of a liquidator to carry out liquidation activities. |
| - | Railen GmbH in liquidation with seat in Berlin | January 31, 2023 / As of December 31, 2023, the company has not been removed from the commercial register | On January 26, 2023 the Extraordinary Assembly of Partners of Railen GmbH in liquidation, in which PGE Energetyka Kolejowa Holding sp. z o.o. holds 100% of the share capital, adopted resolution, effective January 31, 2023, resolution on dissolution of the company and appointment of a liquidator to carry out liquidation activities. |
| - | Railen Baltics, UAB in liquidation with seat in Vilnius | October 3, 2023 / As of December 31, 2023, the company has not been removed from the commercial register | On October 3, 2023, the Administrator of the Lithuanian Register of Legal Entities initiated the liquidation of the company Railen Baltics, UAB in liquidation, in which PGE Energetyka Kolejowa Holding sp. z o.o. holds 100% of the share capital. |

*RESTRUCTURING OF THE COMPANIES*

| Segment | Company in liquidation | Date of transaction/ registration in the National Court Register | Comment |
|---|---|---|---|
| **Supply** | ENESTA sp. z o.o. in restructuring with seat in Stalowa Wola | June 21, 2022 / No completion of restructuring proceedings as at December 31, 2023 | On June 21, 2022, the District Court in Rzeszów, 5th Commercial Division, opened restructuring (recovery) proceedings of the company ENESTA sp. z o.o. in restructuring and appointed an Administrator as part of these restructuring proceedings. |

## 8.4. 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 27.4 to the consolidated financial statements.

This note discusses, inter alia the issue of compensation regarding the conversion of shares, termination by ENEA S.A. of agreements for sale of certificates, issues related to the request by the Polimex-Mostostal consortium for an increase in remuneration for the construction of a CHP plant in Siechnice and environmental decision on the Turów Mine.

## 8.5. Information concerning the guarantees for loans granted by the company or a subsidiary

As at December 31, 2023 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.

## 8.6. 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. 8.3 of the foregoing report and in note 1.3 to the consolidated financial statements.

## 8.7. Transactions with related entities

Information about transactions with related entities is presented in note 30 to the consolidated financial statements.

In addition, note 6 to the consolidated financial statements indicates that PGE CG accounts for inter-segment transactions as if they related to unrelated parties - on an arm's length basis.

## 8.8. Publication of financial forecasts

PGE S.A. did not publish financial forecasts.

## 8.9. Significant off-balance sheet items

Significant off-balance sheet items are described in notes 27.1 and 28 to the consolidated financial statements.

## 8.10. Significant agreements

Significant contracts and events are set out in p. 8.1 of this report.

## 8.11. Branches of the Company

The company has a Branch of the Center for Knowledge and Development of the PGE Group with its registered office in Lublin.

## 8.12. 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 2023 is PKF Consult sp. z o.o. sp.k. (PKF) on the ground of the agreement signed on January 21, 2022. More information regarding the co-operation of PGE Capital Group with the auditor is presented in note 31 to the consolidated financial statements.

# 9. 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.

# 10. Statement on non-financial data

A separate report on non-financial data of PGE Polska Grupa Energetyczna S.A. and PGE Group for 2023, 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 2023 and is available at PGE Group's website in the section dedicated to financial data for 2023: https://www.gkpge.pl/en/for-investors/shares/financial-data/periodic-reports-for-2023.

The non-financial report includes, among other things, information on the Group's sustainability management system and regulations in this area. In addition, ESG factors relevant to the PGE Group are reported.

The non-financial report also includes a description of the major activities in the field of research and development.

# 11. 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.

# 12. Approval of the Management Board's Report

The foregoing Management Board's Report on activities of PGE Polska Grupa Energetyczna S.A. and the Capital Group was approved for publication by the Management Board of the parent company on April 3, 2024.

Warsaw, April 3, 2024

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

| | | |
|---|---|---|
| **President of the Management Board** | **Dariusz Marzec** | *signed with a qualified electronic signature* |
| **Vice-President of the Management Board** | **Przemysław Kołodziejak** | *signed with a qualified electronic signature* |
| **Vice-President of the Management Board** | **Marcin Laskowski** | *signed with a qualified electronic signature* |

## Glossary

| | |
|---|---|
| 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 $CO_2$ emission allowances; one EUA allows an operator to release one tonne of $CO_2$. |
| 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 = $10^9$ 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. |
| IRGiT | Izba Rozliczeniowa Giełd Towarowych S.A. (commodities clearing house) |
| IRZ | Cold Intervention Reserve Service – service consisting of maintaining power units ready for energy production. Energy is produced on request of PSE S.A. |
| ITRE | European Parliament Committee on Industry, Research and Energy |
| 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 $CO_2$) |
| MW | a unit of capacity in the SI system, 1 MW = $10^6$ 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 $CO_2$ 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). |
| $NH_3$ | ammonia |
| $Nm^3$ | normal cubic meter; a unit of volume from outside the SI system signifying the quantity of dry gas in 1 m3 of space at a pressure of 101.325 Pa and a temperature of 0°C. |
| $NO_x$ | nitrogen oxides. |
| N:W ratio | Ration of volume of overburden removed in $m^3$ to the mass of extracted coal in tons |
| OTF | Organised Trading Facilities |
| Operational Capacity Reserve (ORM) | ORM constitutes of generation capacities of active Production Schedular 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 |
| 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. |

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| 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. |
| 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. |
| 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 V= 1J/1C = (1 kg x $m^2$) / (A x $s^3$). |
| W (watt) | a unit of power in the International Systems of Units (SI), 1 W = 1J/1s = 1 kg x $m^2$ x $s^{-3}$. |
| 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. |
| ZHZW | Commercial Management of Generation Capacities. |