

The report of the Supervisory Board PGE Polska Grupa Energetyczna S.A. on the evaluation of the Company's position in 2021, including an evaluation of the internal control system, the risk management system, the compliance system, and the internal audit function

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PGE Polska Grupa Energetyczna S.A. in the year 2021



*Prowadzimy w zielonej zmianie*

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## 1. Introduction.

The Supervisory Board of PGE Polska Grupa Energetyczna S.A. (hereinafter also "PGE", "PGE S.A.", "Company") has been bound by the corporate governance principles specified in the 2016 edition of "The Good Practices of Companies Listed on the Warsaw Stock Exchange" ("The Good Practices") which were adopted by the Board of the Warsaw Stock Exchange in resolution no. 26/1413/2015 on 13 October 2015, became effective as of 1 January 2016 and were followed by PGE from that day until 30 June 2021.

On 1 July 2021 the new 2021 edition of "The Good Practices of Companies Listed on the Warsaw Stock Exchange" came into effect. The document had been adopted by the Supervisory Board of the Warsaw Stock Exchange in its resolution no. 13/1834/2021 on 29 March 2021 (hereinafter "The Good Practices of Companies Listed on the Warsaw Stock Exchange") and has been followed by PGE since 1 July 2021. This report has been prepared on the basis of The Good Practices and includes a brief assessment of the Company's position, taking into consideration its internal control, risk management and compliance systems as well as the internal audit function. This evaluation has been prepared based on the documents submitted by the Management Board, discussions held with the members of the Management Board during the meetings of the Supervisory Board and discussions held during the meetings of the permanent committees operating within the Supervisory Board, as well as the following reports submitted to the Supervisory Board: "The standalone financial statements of the company PGE Polska Grupa Energetyczna S.A. for the year ended 31 December 2021", "The Management Board's report on the activities of the company PGE Polska Grupa Energetyczna S.A. and the PGE Capital Group for the year ended 31 December 2021", "The non-financial information statement of the company PGE Polska Grupa Energetyczna S.A. and the PGE Capital Group for the year 2021", and "The compliance review of the PGE Capital Group for the year 2021".

## 2. Significant events in 2021.

### THE IMPACT OF THE COVID-19 PANDEMIC ON THE ACTIVITIES OF THE PGE GROUP

The PGE Group identifies on an ongoing basis risk factors that affect the Group's results in connection with the COVID-19 pandemic. In 2021, the impact of the pandemic on financial results continued to be limited. Further possible impacts and their magnitude are difficult to estimate. The occurrence and extent of subsequent waves of the disease, the possibility of introducing restrictions and their impact on economic activity in Poland will be important. At the same time, the precision of estimates remains difficult to achieve in view of a number of other factors affecting the electricity market, including the level of demand for electricity.

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

Property, plant and equipment constitute the most important part of the PGE Capital Group's assets. In view of its changing macroeconomic environment, the PGE Capital Group periodically reviews circumstances indicating a loss of the recoverable value of its property. In its evaluation of the market situation, the PGE Capital Group uses both its own analytical tools and support provided by independent consulting entities. In previous reporting periods, the PGE Capital Group made significant impairment write-downs on property, plant and equipment in the Conventional Power Generation segment, the Heat Generation segment and the Renewable Power Generation segment. The impairment write-down relating to the Renewable Power Generation segment was also to a considerable extent reversed in previous periods.

As at 30 June 2021, the Group analysed the circumstances and identified the factors that could materially contribute to changes in the value of its assets in the Conventional Power Generation and Renewable Power Generation sectors. The conducted tests did not show any necessity to make an impairment write-down for the Conventional Power Generation Segment or to reverse the write-down for the Renewable Power Generation. The analysis of the circumstances relating to property, plant and equipment of the Heat Generation segments did not indicate any need to carry out impairment tests.

In the fourth quarter of 2021, the Group re-examined the circumstances to identify factors that could cause a change in the value of its assets. In the case of the Conventional Power Generation and Renewable Power Generation no such factors were identified. In the case of the Heat Generation segment, impairment tests were carried out due to the adopted Decarbonisation Plan 2050, which aims to meet the regulatory requirements for the power industry and to maintain the current generation potential in the long term in order to meet customer needs. The conducted impairment tests showed the absence of any necessity to write-down the value of assets in the Heat Generation segment.

## **BUSINESS PARTNERSHIP AND THE SALE OF 100% OF SHARES IN THE COMPANY PGE EJ 1 SP. Z O.O. TO THE STATE TREASURY**

Before the end of the first quarter in 2021 the company PGE EJ 1 sp. z o.o. (established in 2010, hereinafter "PGE EJ 1") had been a company belonging to the PGE Capital Group. In 2014 a group of companies entered into an agreement under which KGHM Polska Miedź S.A., TAURON Polska Energia S.A. and ENEA S.A. purchased each 10% (jointly 30%) of shares in the company PGE EJ 1 from PGE.

In the first quarter of 2021 the parties continued talks concerning the State Treasury's purchase of 100% of shares in the company PGE EJ 1 from PGE and the other shareholders, i.e. KGHM Polska Miedź S.A., TAURON Polska Energia S.A. and ENEA S.A. The intention to enter into this transaction was expressed in a letter of intent signed by PGE, KGHM Polska Miedź S.A., TAURON Polska Energia S.A., ENEA S.A. and the State Treasury on 1 October 2020.

The business model for Polish nuclear power plants envisaged in the Polish Nuclear Power Programme, updated in October 2020, provided for the State Treasury's acquisition of 100% of shares in a special purpose company implementing investment projects in the area of nuclear power in Poland, i.e. PGE EJ 1.

On 26 March 2021 the companies PGE, KGHM Polska Miedź S.A., TAURON Polska Energia S.A. and ENEA S.A. and the State Treasury entered into an agreement providing for the sale of 100% of shares in the company PGE EJ 1 to the State Treasury. Under the provisions of the above agreement, PGE sold to the State Treasury 3,727,661 shares of PGE EJ 1, constituting in total 70% of the share capital of PGE EJ 1 and representing in total 70% of votes at General Meetings. The sales price for all shares was PLN 531,362,000 including PLN 371,953,400 for PGE.

Under the provisions of the share sales agreement, the ownership of the shares was transferred on the date of payment for the shares by the State Treasury, which occurred on 31 March 2021. As of that date, PGE ceased to be a parent company of PGE EJ 1 within the meaning of the Commercial Companies Code.

As a result of the above sales transaction, PGE EJ 1 is no longer part of the PGE Capital Group.

The sale of shares in PGE EJ 1 is the implementation of one of the measures provided for in the Strategy of the PGE Group until 2030 as announced on 19 October 2020.

## **SUBMISSION OF AN INITIAL NON-BINDING OFFER FOR THE ACQUISITION OF SHARES IN FORTUM GROUP ASSETS BY A CONSORTIUM WITH PGE PARTICIPATION**

On 27 October 2020, an investment consortium to which PGE was a party submitted a preliminary non-binding offer to Fortum Holding B.V. for the purchase of its heating and cooling business in Estonia, Lithuania, Latvia and Poland. The Consortium consists of the following companies: PGE, Polskie Górnictwo Naftowe i Gazownictwo S.A., PFR Inwestycje FIZ, a part of whose investment portfolio is managed by Polski Fundusz Rozwoju S.A., and IFM Investors Pty Ltd.

On November 16, 2020 PGE and Polskie Górnictwo Naftowe i Gazownictwo S.A. (Partners) submitted a modified, preliminary and non-binding offer for the purchase of assets belonging to Fortum Holding B.V.

The subject matter of the modified offer was the acquisition of the district heating business conducted by Fortum Holding B.V. exclusively in Poland. At the same time the Partners withdrew their offer to acquire Fortum Group's assets used in Estonia, Lithuania and Latvia and to participate in an investment consortium together with PFR Inwestycje FIZ and IFM Investors Pty Ltd.

On 21 December 2021, PGNiG sent PGE a declaration of withdrawal from participation in the transaction to acquire the assets of the Fortum Group in Poland and from cooperation with PGE conducted for the purposes of the transaction process.

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

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

On 11 December 2020 PGE and Polskie Górnictwo Naftowe i Gazownictwo S.A. (hereinafter also "PGNiG") submitted a joint offer to the company ČEZ a.s. ("ČEZ") to acquire the Polish assets of the ČEZ Group.

On 10 February 2021, PGE received PGNiG's declaration of withdrawal from participation in the transaction to acquire the Polish assets of the ČEZ Group and from cooperation with PGE conducted for the purposes of the transaction process.

Regardless of the consortium decision, PGE expressed interest in acquiring selected Polish assets of ČEZ Group. However, in November 2021, the Company learned that ČEZ had stopped the process of selling its energy assets in Poland. Thus, the above process is no longer being continued.

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

On 2 February 2021, the Council of Ministers approved the Energy Policy of Poland until 2040. This document provides a vision for Poland's energy transition, showing, among other things, a planned structure of power generation units. According to the Policy, the share of zero-carbon units is to be increased and the share of coal-fired units is to be reduced. The full text of PEP2040 was published on 10 March 2021.

The pace of energy transition and the trends assumed in PEP2040 have recently accelerated and strengthened considerably. In July 2021, the European Commission published the Fit for 55 legislative package, aiming, among other things, to achieve a 55% (previously 40%) reduction in EU greenhouse gas emissions by 2030 compared to 1990. As expected by market participants, the reform of the EU ETS system included in the package should result in a significant increase in the level of CO<sub>2</sub> emission allowance prices, which in practice already occurred in the first half of this year. As a result, the current price level of CO<sub>2</sub> emission allowances differs significantly from those forecast in the PEP2040 assumptions. Another important element, which strongly deviates from the assumptions of the Policy, is the dynamic growth of photovoltaic capacity as a result of numerous subsidy programmes, the system of discounts for prosumers and RES auctions. As a result, the level of installed capacity assumed for 2030 has already been achieved.

Therefore, to assess the recoverable value of generation assets, the PGE Group adopted assumptions taking into account the current market and regulatory situation. Possible future differences between factual circumstances and the adopted assumptions may lead to changes in the financial position and results of the PGE Group and will be recognised in future financial statements.

## **ENTERING INTO AN INVESTMENT AGREEMENT WITH ØRSTED REGARDING AN OFFSHORE WIND FARM PROJECT**

On 10 February 2021, the PGE Group companies and Ørsted signed an investment agreement in which they agreed on their participation in two offshore wind farm construction projects at the level of 50%. Previously implemented by the PGE Group, these projects are Baltica -2 (managed by the special purpose company EWB2 and with a planned capacity of about 1.5 GW) and Baltica 3 (managed by the special purpose company EWB3 with a planned capacity of about 1 GW).

The investment agreement sets out the legal framework governing the establishment of a joint venture to prepare, construct and operate the Baltica -2 and Baltica -3 offshore wind farms.

On 6 May 2021, following the fulfilment of conditions precedent, the transaction was finalised; the Ørsted Capital Group acquired shares representing 50% of the share capital of EWB2 and EWB3, which are engaged in the construction of two offshore wind farms: Baltica-2 and Baltica-3. After the registration of the share capital increase, Ørsted and PGE became partners holding each 50% of shares in the joint venture (JO).

The total price to acquire 50% of shares in Baltica-2 and Baltica-3 is equivalent to approximately PLN 686 million. Upon fulfilment of the agreed conditions, the respective Ørsted Group entities will be required to make additional contributions to EWB2 and EWB3, which may total up to PLN 1,024 million.

## **COMMISSIONING OF POWER GENERATION UNIT NO. 7 IN THE TURÓW POWER PLANT**

On 25 February 2021, the company PGE Górnictwo i Energetyka Konwencjonalna S.A. (hereinafter also "PGE GiEK S.A."), having conducted a thorough analysis of a proposal submitted by Mitsubishi Hitachi Power System GmbH (the consortium leader), Tecnicas Reunidas S.A. and Budimex S.A. (Consortium) regarding a change in the schedule and contract price, with regard to the methodological correctness, realism of the adopted assumptions, causes of delays and planned methods of further project management, concluded before a mediator a settlement regarding the turnkey agreement for the design and construction of a power unit in the Turów power plant, under implementation by the Consortium of the above companies. The net value of the agreement was increased by approximately PLN 108 million, i.e. to PLN 3,755 million. The deadline for the commissioning of the unit was extended by 6 months, i.e. until 30 April 2021.

On 30 April 2021, information was received about another delay in the implementation of the project, resulting in the postponement of the commissioning date of unit no. 7 until 14 May 2021.

On 19 June 2021, the scheduled shutdown of unit no. 7 at the Turów Power Plant, resulting from the provisions of the contract, began. During this time, the Consortium carried out a technical inspection of the equipment after the first month of the operation of the unit. Optimisation and maintenance works were performed. All activities carried out by the Consortium on the new generating unit were standard and aimed at guaranteeing its stable operation in the future. On 24 July 2021, unit 7 was reintegrated into the NPS system.

In the following months there were also shutdowns to remove identified malfunctions. The work was carried out by the general contractor of the project, who, as part of the turnkey agreement for the construction of the unit, was obliged to remove faults that had not been caused by the project owner.

## **LEGAL ACTION TAKEN AGAINST POLAND BY THE CZECH REPUBLIC FOR THE EXTENSION OF THE CONCESSION FOR THE CONTINUED OPERATION OF THE TURÓW LIGNITE MINE**

On 30 September 2020, the Czech Republic sent a letter to the European Commission under Article 259 of the Treaty on the Functioning of the European Union, thus initiating proceedings against Poland for alleged breaches of EU law in connection with the extension of the term of the lignite mining concession for the Turów lignite mine by 6 years. The case was given the reference C-121/21.

On 17 December 2020, the European Commission issued a reasoned opinion in which it agreed with some of the Czech allegations, while indicating that the extension of the operation of the Turów lignite mine did not cause a breach of the Water Framework Directive. The European Commission also stressed that some of the other allegations of the Czech party proved to be incorrect.

On 26 February 2021, the Czech government referred a complaint against the Republic of Poland to the European Court of Justice. On 19 April 2021, summaries of the complaint and main arguments were published in the Official Journal of the EU. The Member States are parties to the proceedings, which excludes the possibility of participation of natural and legal persons, even if the case concerns their activities directly.

On 21 May 2021, the Vice-President of the European Court of Justice issued an order for interim relief which reads as follows: "The Republic of Poland shall cease immediately and until delivery of the judgement concluding Case C-121/21 the mining of lignite at the Turów mine (Poland)." The interim measure does not rule on the merits of the case.

On 9 June 2021, the European Commission joined the main proceedings as an intervener supporting part of the Czech party's claims. On the interim measure proceedings, the Czech Republic additionally requested that a fine be awarded for each day of non-compliance with the order to immediately cease lignite mining. In parallel, the Republic of Poland requested that the interim measure order be set aside on the grounds of changed circumstances within the meaning of Article 163 of the Rules of Procedure of the European Court of Justice. In accordance with the order of 20 September 2021, the Vice-President of the European Court of Justice dismissed the application to set aside the interim measure and ordered Poland to pay to the European Commission a penalty of EUR 500,000 per day, starting from the date of delivery of the order to Poland until the moment when this Member State complies with the content of the order of 21 May 2021. In the Company's opinion, there is no possibility of transferring the above penalties to PGE Group companies.

On 9 November 2021, a hearing was held before the European Court of Justice.

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

On 3 February 2022, the Prime Ministers of the Polish and Czech governments initialled a bilateral agreement setting out the conditions for the withdrawal of the Czech complaint from the Court of Justice of the European Union. On 4 February 2022, the Czech Republic informed the Court that, pursuant to Article 147(1) of the Rules of Procedure, as a result of the settlement agreement concluded with the Republic of Poland for the resolution of the present dispute, it waives all claims. Accordingly, on 4 February 2022, the President of the Court of Justice made an order removing the case from the register.

On 7 February 2022, an Agreement was entered into by PGE GiEK S.A., PGE S.A. and the State Treasury, defining principles of cooperation in connection with the performance of the Agreement concluded on 3 February 2022 between the Government of the Czech Republic and the Government of the Republic of Poland on cooperation in respect of effects on the territory of the Czech Republic resulting from the exploitation of the Turów lignite mine.

On the basis of the aforementioned Agreement, PGE GiEK S.A. undertook to construct an earth embankment, monitor noise, monitor air quality, drill 4 boreholes to monitor aquifer water levels, complete the construction of an anti-filtration screen, carry out land displacement measurements and replace lighting in the Turów lignite mine.

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

## **THE CONSTRUCTION OF A CCGT PLANT IN SIECHNICE (NEW CZECHNICA CCGT PLANT)**

On 1 March 2021, the Management Board of Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. decided to:

- conditionally accept the selection of the offer made by the consortium composed of Polimex Mostostal S.A. (Consortium Leader) and Polimex Energetyka sp. z o.o. (Consortium Partner) made in the proceedings entitled "The turnkey construction of a CCGT plant for the company Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. in Siechnice",
- to give its consent to the conditional conclusion of an agreement with the above-mentioned consortium.

On 5 March 2021, the company's Supervisory Board adopted a resolution on giving consent to the implementation of the aforementioned development investment project that would result in the creation of new fixed assets with a value exceeding PLN 10 million, on condition that the ERO granted an individual

cogeneration bonus for the New Czechnica cogeneration unit, based on the Act of 14 December 2018 on the promotion of electricity from high-efficiency cogeneration.

On 12 March 2021, the company was granted an individual cogeneration bonus for the New Czechnica cogeneration unit by the President of the ERO.

On 1 April 2021 the Extraordinary General Meeting adopted a resolution on giving consent to the acquisition of fixed assets, within the meaning of the Accounting Act of 29 September 1994, exceeding the amount of PLN 10 million by giving consent to the construction of the Siechnice CCGT Plant on the basis of agreements with a consortium of the following companies: Polimex Mostostal S.A and Polimex Energetyka sp. z o.o. for a net value of approximately PLN 1.2 billion and a related service contract for a net value of approximately PLN 118 million.

Thus, on 1 April 2021 the last condition concerning the acceptance of the consortium's offer by the company's Management Board was fulfilled.

On 23 June 2021, an agreement was made with the consortium comprising Polimex Mostostal S.A. and Polimex Energetyka sp. z o.o. for the construction of a CCGT plant for the company ZEW KOGENERACJA S.A. in Siechnice.

The subject of the agreement is the contractor's turnkey construction of a CCGT unit with the total electric power of 179.4 MW and thermal power of 162.9 MWt, a heat accumulator and four water boilers with the total power of 152 MWt. The new units are to replace the currently operating coal-fired cogeneration plant. The value of the agreement (on energy efficiency improvement - "EPC agreement") for the construction of the cogeneration plant amounts to PLN 1,159 million.

In addition to the EPC agreement, another agreement was concluded for maintenance services for 103 months from the date of commissioning of the units. The net value of the maintenance services agreement (LTSA) amounts to PLN 25 million and EUR 21 million. The net total value of all concluded agreements amounts to approximately PLN 1,278 million (according to the average EUR exchange rate as at 21 June 2021).

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

#### **GRANTING PGE THE RIGHT TO COVER THE NEGATIVE BALANCE OF ELECTRICITY FROM OFFSHORE WIND FARMS OF THE PGE GROUP**

On 7 April 2021, the President of the ERO granted PGE the right to cover the negative balance of electricity (differential contract) for offshore wind farms Baltica-2 and Baltica-3 with a total capacity of up to 2.5 GW. The right to the differential contract ensures a price not higher than 319.60 PLN/MWh in accordance with the Regulation of the Minister of Climate and Environment and the Act of 30 March 2021 on the maximum price for electricity generated in offshore wind farms and introduced into the grid. The granting of a differential contract, including the final price level, depends on the final approval of the European Commission.

The PGE Group and Ørsted have started the process of individual negotiations with the European Commission regarding the determination of an individual price in the differential contract. A complete set of documents required by the so-called Offshore Act was submitted. The documents passed the verification of the ERO and the Office of Competition and Consumer Protection and then at the beginning of February 2022 they were submitted to the European Commission.

The decision of the European Commission is expected during 2022.

#### **RECOMMENDATION OF NON-PAYMENT OF DIVIDEND FOR THE YEAR 2020**

On 27 April 2021, the Management Board of PGE S.A. decided to recommend not to pay dividend for the year 2020 to the shareholders. The decision was made in accordance with the dividend policy, in particular as a result of the analysis of the Company's indebtedness in the context of the implementation of the investment programme, in accordance with the guidelines of the PGE Group Strategy until 2030.

On 29 June 2021, during the General Meeting, the Shareholders of PGE S.A. decided to allocate the entire profit for 2020 to supplementary capital.

#### **EXTENSION OF THE CONCESSION FOR LIGNITE MINING BY THE TURÓW LIGNITE MINE UNTIL 2044**

On 28 April 2021, the Minister of Climate and Environment extended the validity of the current concession for the extraction of lignite and associated minerals from the "Turów" deposit until 2044.

In the opinion of the Minister of Climate and Environment, the continuation of extraction of lignite and associated minerals from the "Turów" deposit is consistent with the principle of rational management of mineral deposits, thus it was justified to issue the decision allowing for further operation of the existing mining facility.

As regards the decision on extension of the concession, complaints and motions for reconsideration of the case were filed.

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

### **SHUTDOWN OF 10 POWER UNITS IN THE BEŁCHATÓW POWER PLANT**

On 17 May 2021, for reasons attributable to PSE S.A., 10 power units with a total capacity of approximately 3,900 MW were shut down in the Bełchatów Power Plant. The operation of all units was restored on 18 May 2021. The shutdown did not cause interruptions in electricity supply and was not felt by customers. The reason for the shutdown was a disturbance at the Rogowiec substation, to which 11 units of the Bełchatów Power Plant are connected.

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

On 23 July 2021, PGE S.A., ENEA S.A., TAURON Polska Energia S.A. and ENERGA S.A. entered into an agreement with the State Treasury concerning cooperation in the process of separation of coal power assets and their integration into the NESA.

On 1 March 2022, the Council of Ministers adopted a resolution on the approval of the document entitled "The Transformation of the electricity sector in Poland. The separation of coal-fired generation assets from the companies with State Treasury shareholding". According to the document, the process of separation of assets will have the formula of purchase, by the State Treasury from PGE S.A., ENEA S.A., TAURON Polska Energia S.A. and ENERGA S.A., of all assets connected with generation of electricity in power plants fired with hard coal and lignite, including maintenance companies providing services to them. Due to the inseparability of power complexes fired with lignite, lignite mines will also be among the aforementioned assets. Coal mining assets will not be included in a coal-fired generation entity. District heating assets, due to their planned upgrades towards low and zero carbon sources, will not be subject to this transaction. The separation of assets from the power generation groups may take place through:

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

The NESA will operate in the form of a holding in which PGE GiEK S.A. will be the parent company, and companies acquired from ENEA S.A., TAURON Polska Energia S.A. and ENERGA S.A. will be subsidiaries included in its capital group.

The NESA will be a fully self-sufficient entity, i.e. it will be able to provide – on its own or, in the interim period, on the basis of contracts concluded with external entities, including the companies from which the assets are to be separated – all the internal and external functions, i.e. HR, IT, purchasing, trading, that are necessary for its smooth operation.

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

The method of settlement of the transaction, due to the indebtedness of the generation companies to their parent companies within the respective groups, will be subject to detailed arrangements between the State Treasury and the current owners and their lenders.

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

The role of NESA will be to ensure the necessary power balance in the power system. The NESA will focus on maintenance and modernisation investments necessary to keep up the efficiency of the coal units in operation, including those aimed at reducing the carbon intensity of the units in operation.

According to the framework schedule for the separation of coal power assets and their integration into the NESA, the commencement of the due diligence process is scheduled for Q3/Q4 2022, and the valuation of the separated companies for Q4 2022. The sale of assets to the NESA is planned for Q4 2022.

The method of valuation and settlement of debt and other liabilities related to the assets has not yet been determined. Therefore, it is currently not possible to determine the impact of the separation on future financial statements of PGE S.A. and the PGE Group.

## **MOODY'S AFFIRMS PGE'S RATING AT BAA1 WITH STABLE OUTLOOK**

On 30 June 2021 the Moody's Investors Service rating agency confirmed the rating of PGE S.A. at the level of Baa1 and its stable outlook.

According to Moody's, the confirmation takes into account PGE's current strong financial profile, giving the Company the flexibility to execute its broad investment programme and to withstand potential changes in the Polish electricity market.

According to Moody's, additional support for PGE's position will come from the government's plan to transform the electricity sector. The separation of coal assets from the Group's structure will strengthen its profile and PGE will be able to implement its corporate strategy focusing on increasing the already high share of regulated revenues from distribution and district heating activities and on increasing generation from renewable sources.

## **ARRANGEMENT BETWEEN PGE S.A. AND POLSKA GRUPA GÓRNICZA S.A. FOR COAL DELIVERIES**

On 27 August 2021, PGE S.A. and PGG S.A. negotiated an arrangement to the agreements for hard coal deliveries. The arrangement determines the rules of further cooperation until 2023 under the existing long-term agreements. First of all, issues related to coal supplies that could not be received by PGE S.A. as a result of reduced demand for electricity due to the COVID-19 pandemic were agreed.

The agreement guarantees continuity of cooperation and enables undisturbed functioning of PGG S.A., and for PGE S.A. it ensures market conditions for receipt of contracted hard coal volumes.

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

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

The executed documents are conditional agreements. The consent of the OCCP is the only condition precedent for both preliminary agreements. An application to the President of the OCCP for the concentration of PGE S.A. with ENEA S.A. was submitted on 5 July 2021, whereas the consent to the concentration was issued on 23 December 2021. An application to the President of the Office for Competition and Consumer Protection for concentration of PGE S.A. with TAURON Polska Energia S.A. was submitted on 28 October 2021. The concentration was approved on 10 January 2022.

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

On 15 December 2021, PHH entered into a conditional agreement with PGE S.A. for the acquisition of ten hotels and facilities owned by Elbest sp. z o.o. On 4 March 2022, the share sale transaction was finalised.

The inclusion of the hotels and facilities of Elbest sp. z o.o. in the capital group of Polski Holding Hotelowy is another step in the consolidation of hotel companies owned by the State Treasury, which is being carried out by PHH, while for the PGE Group it is an element of rearranging its structure and implementing tasks aimed at concentrating on its core activities.

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

On 20 December 2021 PSE S.A. published the preliminary results of the capacity market auction for 2026, including the closing price of the capacity auction, which was PLN 400.39/kW/year. The price of the capacity obligation for long-term power agreements will be subject to annual indexation based on the average annual consumer price index.

A total of 1,739.51 MW of capacity obligation for the power generation units operated by the PGE Group, including:

- 329.01 MW for new units with a capacity contract for 17 years,
- 536.24 MW for new units with a capacity contract for 7 years,
- 824.27 MW for new units with a capacity contract for 1 year,
- 50.00 MW for an unconfirmed demand reduction unit with a capacity contract for 1 year.

The reported auction closing price was announced by the ERO President in the Public Information Bulletin on the website, on the first working day following the 21st day after the day on which the power auction ended.

The total volume of capacity obligations for 2026 contracted by entities belonging to the PGE Group, including long-term contracts concluded in the auction for the years 2021-2025, amounts to 9,155 MW.

### 3. Description of the business activities of the PGE Capital Group.

The Capital Group of PGE Polska Grupa Energetyczna S.A. ("PGE CG", "PGE Capital Group", "Capital Group", "PGE Group", "Group") is the largest vertically integrated producer of electricity and heat in Poland. Thanks to the combination of its own raw materials base, electricity generation and distribution network, the PGE Group guarantees the security and reliability of power supply to more than 5 million households, businesses, and institutions. The PGE Group is also the largest generator of heat in Poland.

The parent company of the PGE Group is PGE Polska Grupa Energetyczna S.A. (hereinafter also "PGE S.A.", "PGE", "Company"). The PGE Capital Group's business activities are currently organised in seven segments:

- Conventional Power Generation

The Company's main objects include lignite mining as well as electricity and heat generation from conventional sources.

- Heat Generation

The operation objective of the segment is the generation of electricity and heat from the Group's cogeneration sources, as well as the transmission and distribution of heat.

- Renewable Power Generation

The operation objective of the segment is the generation of electricity from renewable sources and in pumped storage hydropower plants, as well as the provision of system services.

- Trade

The operation objective of the segment is wholesale trade in electricity in the domestic and foreign markets, sale of electricity to end users, trade in emission allowances, property rights and fuels, as well as the provision of Corporate Centre services to the companies belonging to the PGE Group.

- Distribution

The operation objective of the segment is the provision of services related to the supply of electricity to end users by means of high-, medium-, and low-voltage networks and facilities.

- Circular Economy

The segment's business is to provide comprehensive services in the management of combustion by-products (CBP), to provide services in ancillary areas to electricity and heat generators and to supply CBP-based materials.

- Other Activities

The segment's activities include the provision of services by subsidiaries to the PGE Capital Group, inter alia, organisation of acquisition of financing in the form of Eurobonds (PGE Sweden), provision of IT, accounting and HR services, transport services, as well as management of investment funds and investments in start-ups.

Additionally, the segment includes companies responsible for the construction of CCGT units in the Dolna Odra Power Plant and a planned new low-emission unit in the Rybnik Power Plant.

#### 4. Changes in the organisation of the Capital Group.

##### **Establishment of companies**

On 17 December 2020 PGE S.A. established a one-person capital company with its registered office in Warsaw, in the form of a limited liability company. The current business name of this company is: Elektrownia Wiatrowa Baltica-6 sp. z o.o. The company's share capital amounts to PLN 1,250,000. The company was entered in the register of entrepreneurs on 25 February 2021.

On 1 February 2021 PGE S.A. established a one-person capital company with its registered office in Rybnik, in the form of a limited liability company. The current business name of this company is: Rybnik 2050 sp. z o.o. At the time of establishment, the company's share capital amounted to PLN 50,000; at present it amounts to PLN 22,564,000. The company was entered in the register of entrepreneurs on 31 May 2021.

On 4 October 2021 PGE S.A. established 4 one-person capital companies with registered offices in Warsaw in the form of limited liability companies with the following business names: Elektrownia Wiatrowa Baltica 9 sp. z o.o., Elektrownia Wiatrowa Baltica 10 sp. z o.o., Elektrownia Wiatrowa Baltica 11 sp. z o.o. and Elektrownia Wiatrowa Baltica 12 sp. z o.o. The share capital of Elektrownia Wiatrowa Baltica 9 sp. z o.o. is PLN 981,000, and the share capital of the other companies is PLN 25,000 in each case. The companies were entered in the register of entrepreneurs on the following dates: Elektrownia Wiatrowa Baltica 9 sp. z o.o. – 1 December 2021, Elektrownia Wiatrowa Baltica 10 sp. z o.o. – 18 February 2022, Elektrownia Wiatrowa Baltica 11 sp. z o.o. – 17 December 2021, and Elektrownia Wiatrowa Baltica 12 sp. z o.o. – 17 December 2021.

##### **Purchase, acquisition or disposal of shares/interests by the subsidiaries**

On 26 March 2021, PGE S.A., ENEA S.A., TAURON Polska Energia S.A. and KGHM Polska Miedź S.A., as the sellers, and the State Treasury, as the buyer, signed an agreement for the sale of all shares held by the above companies in PGE EJ 1 sp. z o.o. (PGE EJ 1), i.e. 5,325,230 shares of this company, with a total par value of PLN 750,857,430, constituting 100% of the share capital. The ownership title to the shares was transferred to the State Treasury on 31 March 2021. PGE S.A. held 3,727,661 shares constituting 70% of the share capital of PGE EJ 1. As a result of the sale agreement, PGE S.A. ceased to be the parent company of PGE EJ 1, as defined in the Commercial Companies Code, and PGE EJ 1 ceased to be a part of the PGE Capital Group.

On 15 April 2021, PGE GiEK S.A. as the seller and PGE Energia Ciepła S.A. (hereinafter "PGE EC S.A.") as the buyer entered into an agreement for the sale of all registered shares of Przedsiębiorstwo Energetyki Ciepłej S.A. with its registered office in Bogatynia (hereinafter "PEC Bogatynia") held by PGE GiEK S.A., i.e. 101,036 shares of this company, with a total par value of PLN 10,103,600, constituting 34.93% of the share capital. The ownership of the shares was transferred to PGE EC S.A. on 5 May 2021 (as of the moment of making an entry in the shareholder register of PEC Bogatynia indicating PGE EC S.A. as the purchaser of these shares, on the basis of the aforementioned share sale agreement).

On 15 April 2021, an agreement was entered into between PGE GiEK S.A. as the seller and PGE EC S.A. as the buyer for the sale of all shares held by PGE GiEK S.A. in "Przedsiębiorstwo Energetyki Ciepłej" sp. z o.o. with its registered office in Bełchatów (hereinafter "PEC Bełchatów"), i.e. 14,411 shares in that company, with a total par value of PLN 7,205,500, constituting 17.05% of the share capital. The ownership title to the shares was transferred to PGE EC S.A. on 15 April 2020.

On 30 April 2021 the Extraordinary General Meeting of the company PGE Ekoserwis S.A. (hereinafter "PGE Ekoserwis") adopted a resolution on the compulsory buyout of minority shareholders pursuant to Article 418 of the Polish Commercial Companies Code. The compulsory buyout covered 11,525 shares constituting in total 4.92% of the share capital of the company, i.e. all shares belonging to the other shareholders of PGE Ekoserwis. On 12 July 2021 PGE S.A. paid the entire buyout price of the aforementioned minority shares and on 13 July 2021 the Management Board decided to carry out the buyout of the minority shares and transfer them to the shareholder PGE S.A. as well as to make relevant changes in the shareholder register of the company. As a result of the compulsory buyout of shares, PGE S.A. became the sole shareholder of PGE Ekoserwis. On 19 August 2021, a relevant entry was made in the shareholder register.

On 07 July 2021, an agreement was entered into between PGE Energia Ciepła S.A. as the seller and PGE Ekoserwis S.A. as the buyer for the sale of all shares held by PGE Energia Ciepła S.A. in ZOWER sp. z o.o. with its registered office in Rybnik, i.e. 8,000 shares in that company, with a total par value of PLN 4,000,000, constituting 100% of the share capital. The ownership title to the shares was transferred to PGE Ekoserwis on 7 July 2021.

On 19 August 2021, the Extraordinary General Meeting of ElectroMobility Poland S.A. with its registered office in Warsaw (hereinafter also "ElectroMobility Poland") adopted a resolution on decreasing the company's share capital from PLN 70,000,000 to PLN 52,300,500, i.e. by PLN 17,699,500, by decreasing the par value of all shares from PLN 7,000 to a new par value of PLN 5,230.05 per share. The purpose of the share capital decrease is to transfer funds from the share capital to the supplementary capital, therefore amounts obtained from the share capital reduction will increase the company's supplementary capital.

Furthermore, on 19 August 2021, the Extraordinary General Meeting of ElectroMobility Poland adopted a resolution on increasing the company's share capital from PLN 52,300,500 to PLN 302,296,890, i.e. by PLN 249,996,390, through the private subscription issue of 47,800 series B shares numbered B-00001 to B-47800, with a par value of PLN 5,230.05 per share. The Extraordinary General Meeting decided to waive the pre-emptive rights of the existing shareholders to the new shares in their entirety and to offer all the new shares to be taken up by the State Treasury in exchange for a cash contribution. Until the day of the increase of the company's share capital, the shareholders of ElectroMobility Poland, holding 25% of shares each, were PGE S.A., ENEA S.A., ENERGA S.A. and TAURON Polska Energia S.A. As a result of the State Treasury joining ElectroMobility Poland by taking up all the new shares in the increased share capital of ElectroMobility Poland, the share of PGE S.A. in the share capital of this company decreased from 25% to 4.33%. On 30 September 2021 the increase of the share capital was entered in the register of entrepreneurs.

On 18 November 2021 PGE S.A. as the seller and ENEA S.A. with the registered office in Poznań as the buyer entered into a conditional agreement for the sale of a part of shares held by PGE S.A. in Elektrownia Wiatrowa Baltica-4 sp. z o.o. (EWB 4) Elektrownia Wiatrowa Baltica-5 sp. z o.o. (EWB5) and Elektrownia Wiatrowa Baltica-6 sp. z o.o. (EWB 6), i.e. 95 shares in EWB 4, 95 shares in EWB 5 and 422 shares in EWB 6, with a total par value of PLN 95,000 in the case of EWB 4, PLN 95,000 in the case of EWB 5 and PLN 422,000 in the case of EWB 6, constituting 33.8% of shares in the initial capital of each EWB 4, EWB 5 and EWB 6. The entry into force of the conditional agreement for the sale of shares and transfer of the ownership of shares to ENEA S.A. depends on the fulfilment of conditions precedent.

On 18 November 2021, between PGE S.A. as the seller and TAURON Polska Energia S.A. with its registered office in Katowice (hereinafter also "TAURON") as the buyer, a conditional agreement was concluded for the sale of a part of shares held by PGE S.A. in PGE Baltica 4 sp. z o.o., i.e. 526 shares in this company, of a total par value of PLN 526,000, constituting 44.96% of the share capital. The entry into force of the conditional agreement for the sale of shares and transfer of the ownership of shares to TAURON S.A. depends on the fulfilment of conditions precedent.

On 15 December 2021, PGE S.A. as the seller and Polski Holding Hotelowy sp. z o.o. with its registered office in Warsaw (hereinafter also "PHH") as the buyer, entered into a conditional agreement for the sale of all shares held by PGE S.A. in Elbest sp. z o.o., i.e. 116,812 shares in this company, with the total par value of PLN 116,812,000, constituting 100% of the share capital. The entry into force of the conditional share purchase agreement and the transfer of ownership of shares to PHH was subject to the fulfilment of conditions precedent. Upon fulfilment of the conditions precedent, on 4 March 2022, the ownership of the aforementioned shares in Elbest sp. z o.o. was transferred to PHH.

On 14 January 2022, the Extraordinary General Meeting of 4Mobility S.A. (hereinafter also "4Mobility") adopted resolutions on increasing the share capital from PLN 364,316 to PLN 494,316, i.e. by PLN 130,000, through the issue of 1,300,000 new ordinary H-series shares with a par value of PLN 0.10 per share. All the new shares were offered in a private subscription exclusively to EFF B.V., Maastricht, the Netherlands, an existing shareholder of 4Mobility. As a result of the share capital increase, the shareholding of PGE Nowa Energia sp. z o.o. in the company will decrease from 51.47% to 37.93%, which means that PGE Nowa Energia sp. z o.o. will lose its status of the parent company vis-à-vis 4Mobility.

### **Increasing share capitals in the subsidiaries**

#### **Elektrownia Wiatrowa Baltica 1 sp. z o.o.**

On 28 October 2020, the Extraordinary General Meeting of the company adopted a resolution to increase the share capital from PLN 20,700,000 to PLN 22,545,000, i.e. by PLN 1,845,000. The increased share capital was acquired and paid for by PGE S.A. with a cash contribution. PGE S.A. holds 100% of shares in the company's capital. The share capital increase was entered in the register of entrepreneurs on 25 January 2021.

#### **PGE Baltica 5 sp. z o.o.**

On 11 February 2021, the Extraordinary General Meeting of the company adopted a resolution to increase the share capital from PLN 2,778,000 to PLN 46,768,000, i.e. by PLN 43,990,000. The increased share capital was acquired and paid for by PGE S.A. with a cash contribution. PGE S.A. held 100% of shares in the company's share capital. At present PGE Baltica 3 sp. z o.o. is the sole shareholder of PGE Baltica 5 sp. z o.o. The share capital increase was entered in the register of entrepreneurs on 22 March 2021.

Elektrownia Wiatrowa Baltica 3 sp. z o.o.

On 11 February 2021, the Extraordinary General Meeting of the company adopted a resolution to increase the share capital from PLN 83,900,000 to PLN 127,422,000, i.e. by PLN 43,522,000. The increased share capital was acquired and paid for by PGE Baltica 5 sp. z o.o. with a cash contribution. At that time PGE Baltica 5 sp. z o.o. held 100% of shares in the share capital. Currently, PGE Baltica 5 sp. z o.o. and Ørsted Baltica 3 Holding sp. z o.o. hold the same number of shares in the company, representing 50% of its share capital each. The share capital increase was entered in the register of entrepreneurs on 15 March 2021.

Elektrownia Wiatrowa Baltica 1 sp. z o.o.

On 18 February 2021, the Extraordinary General Meeting of the company adopted a resolution to increase the share capital from PLN 22,545,000 to PLN 32,545,000, i.e. by PLN 10,000,000. The increased share capital was acquired and paid for by PGE S.A. with a cash contribution. PGE S.A. holds 100% of shares in the company's capital. The share capital increase was entered in the register of entrepreneurs on 11 March 2021.

PGE Baltica 6 sp. z o.o.

On 18 February 2021, the Extraordinary General Meeting of the company adopted a resolution to increase the share capital from PLN 1,344,000 to PLN 36,516,000, i.e. by PLN 35,172,000. The increased share capital was acquired and paid for by PGE S.A. with a cash contribution. PGE S.A. held then 100% of shares in the company's share capital. At present PGE Baltica 2 sp. z o.o. is the sole shareholder of PGE Baltica 6 sp. z o.o. The share capital increase was entered in the register of entrepreneurs on 15 March 2021.

Elektrownia Wiatrowa Baltica 2 sp. z o.o.

On 18 February 2021, the Extraordinary General Meeting of the company adopted a resolution to increase the share capital from PLN 65,200,000 to PLN 99,947,500, i.e. by PLN 34,747,500. The increased share capital was acquired and paid for by PGE Baltica 6 sp. z o.o. with a cash contribution. At that time PGE Baltica 6 sp. z o.o. held 100% of shares in the share capital. Currently, PGE Baltica 6 sp. z o.o. and Ørsted Baltica 2 Holding sp. z o.o. hold each the same number of shares in the company, representing 50% of its share capital. The share capital increase was entered in the register of entrepreneurs on 28 April 2021.

Elektrownia Wiatrowa Baltica 3 sp. z o.o.

On 6 May 2021, the Extraordinary General Meeting of Elektrownia Wiatrowa Baltica-3 sp. z o.o. adopted a resolution on increasing the share capital of the company from PLN 127,422,000.00 to PLN 254,844,000, i.e. by PLN 127,422,000, through creation of new 254,844 shares with a par value of PLN 500 per share. Furthermore, the Extraordinary General Meeting decided to exclude the preference right of the sole shareholder, i.e. PGE Baltica 5 sp. z o.o., to acquire all newly created shares in the increased share capital and decided that all newly created shares would be acquired by the new shareholder, i.e. Ørsted Baltica 3 Holding sp. z o.o. with the registered office in Warsaw. In connection with the above resolution, the increase of the company's share capital was acquired by the new shareholder of the company for a cash contribution: EUR 19,727,173, DKK 158,934,766 and PLN 200,721,000, with part of the contribution in the amount of PLN 127,422,000 being used to cover the par value of the new shares and the remaining part of the cash contribution representing the excess over the par value of the new shares in the amount of PLN 73,299,000, EUR 19,727,173 and DKK 158,934,766 being transferred to the company's supplementary capital. As a result of the increase of the company's share capital and taking up new shares, PGE Baltica 5 sp. z o.o. and Ørsted Baltica 3 Holding sp. z o.o. each have the same number of shares in the company, constituting 50% of its share capital, and the company became a jointly controlled entity. The share capital increase was entered in the register of entrepreneurs on 19 July 2021.

Elektrownia Wiatrowa Baltica 2 sp. z o.o.

On 6 May 2021, the Extraordinary General Meeting of Elektrownia Wiatrowa Baltica-2 sp. z o.o. adopted a resolution on increasing the share capital of the company from PLN 99,947,500 to PLN 199,895,000, i.e. by PLN 99,947,500, through creation of new 199,895 shares with a par value of PLN 500 per share. Furthermore, the Extraordinary General Meeting decided to exclude the preference right of the sole shareholder, i.e.

PGE Baltica 6 sp. z o.o., to acquire all newly created shares in the increased share capital and decided that all newly created shares would be acquired by the new shareholder, i.e. Ørsted Baltica 2 Holding sp. z o.o. with the registered office in Warsaw. In connection with the above resolution, the increase of the company's share capital was acquired by the new shareholder of the company for a cash contribution: EUR 15,499,922, DKK 124,877,316 and PLN 156,913,750, with part of the contribution in the amount of PLN 99,947,500 being used to cover the par value of the new shares and the remaining part of the cash contribution representing the excess over the par value of the new shares in the amount of PLN 56,966,250, EUR 15,499,922 and DKK 124,877,316 being transferred to the company's supplementary capital. As a result of the increase of the company's share capital and taking up new shares, PGE Baltica 6 sp. z o.o. and Ørsted Baltica 2 Holding sp. z o.o. each have the same number of shares in the company, constituting 50% of its share capital, and the company will become a jointly controlled entity. The share capital increase was entered in the register of entrepreneurs on 18 August 2021.

#### PGE Baltica 2 sp. z o.o.

On 1 July 2021, the Extraordinary General Meeting of PGE Baltica 2 sp. z o.o. adopted a resolution on increasing the share capital of the company from PLN 20,000 to PLN 606,216,000, i.e. by PLN 606,196,000, through creation of new 606,196 shares with a par value of PLN 1,000 per share. The increase of the company's share capital was acquired by the sole shareholder, i.e. PGE S.A., in exchange for a contribution in kind in the form of 36,516 shares in the share capital of PGE Baltica 6 sp. z o.o., constituting 100% of its share capital, which meant that PGE Baltica 2 sp. z o.o. became the sole shareholder of PGE Baltica 6 sp. z o.o. On 13 July 2021 the ownership of shares in PGE Baltica 6 sp. z o.o. was transferred to PGE Baltica 2 sp. z o.o., on the basis of an in-kind contribution agreement between PGE S.A. and PGE Baltica 2 sp. z o.o., entered into on that day. The share capital increase was entered in the register of entrepreneurs on 09 September 2021.

#### PGE Baltica 3 sp. z o.o.

On 1 July 2021, the Extraordinary General Meeting of PGE Baltica 3 sp. z o.o. adopted a resolution on increasing the share capital of the company from PLN 20,000 to PLN 774,491,000, i.e. by PLN 774,471,000, through creation of new 774,471 shares with a par value of PLN 1,000 per share. The increase of the company's share capital was acquired by the sole shareholder, i.e. PGE S.A., in exchange for a contribution in kind in the form of 46,768 shares in the share capital of PGE Baltica 5 sp. z o.o., constituting 100% of its share capital, which meant that PGE Baltica 3 sp. z o.o. became the sole shareholder of PGE Baltica 5 sp. z o.o. On 13 July 2021 the ownership of shares in PGE Baltica 5 sp. z o.o. was transferred to PGE Baltica 3 sp. z o.o., on the basis of an in-kind contribution agreement between PGE S.A. and PGE Baltica 3 sp. z o.o., entered into on that day. The share capital increase was entered in the register of entrepreneurs on 26 August 2021.

#### Rybnik 2050 sp. z o.o.

On 17 August 2021, the Extraordinary General Meeting of Rybnik 2050 sp. z o.o. adopted a resolution on increasing the share capital of the company from PLN 50,000 to PLN 22,564,000, i.e. by PLN 22,514,000, through creation of new 22,514 shares with a par value of PLN 1,000 per share. The increased share capital was acquired and paid for by PGE S.A. with a cash contribution. PGE S.A. holds 100% of shares in the company's capital. The share capital increase was entered in the register of entrepreneurs on 15 September 2021.

#### PGE Baltica 4 sp. z o.o.

On 25 August 2021, the Extraordinary General Meeting of PGE Baltica 4 sp. z o.o. adopted a resolution on increasing the share capital of the company from PLN 20,000 to PLN 1,170,000, i.e. by PLN 1,150,000, through creation of new 1,150 shares with a par value of PLN 1,000 per share. The increased share capital was acquired and paid for by PGE S.A. with a cash contribution. PGE S.A. holds 100% of shares in the company's capital. The share capital increase was entered in the register of entrepreneurs on 20 October 2021.

#### PGE Baltica 1 sp. z o.o. (the company's present business name is: Elektrownia Wiatrowa Baltica-8 sp. z o.o.)

On 4 November 2021, the Extraordinary General Meeting of PGE Baltica 1 sp. z o.o. adopted a resolution on increasing the share capital of the company from PLN 20,000 to PLN 986,000, i.e. by PLN 966,000, through creation of new 966 shares with a par value of PLN 1,000 per share. The increased share capital was acquired and paid for by PGE S.A. with a cash contribution. PGE S.A. holds 100% of shares in the company's capital. The share capital increase was entered in the register of entrepreneurs on 12 January 2022.

### **Additional contributions to share capital**

PGE Inwest 8 sp. z o.o. (the company's present business name is: PGE Gryfino 2050 sp. z o.o.)

On 13 January 2021, the Extraordinary General Meeting adopted a resolution to obligate the sole shareholder of the company, i.e. PGE S.A., to make an additional payment to its shares, within the meaning of Article 177 of the Commercial Companies Code, in the total amount of PLN 50,000, i.e. in the amount of PLN 1,000 to each share held by PGE S.A., by 18 January 2021. In accordance with the above resolution of the Extraordinary General Meeting, the additional contribution was made by PGE S.A. on 15 January 2021.

PGE Soleo 1 sp. z o.o., PGE Soleo 2 sp. z o.o., PGE Soleo 3 sp. z o.o., PGE Soleo 4 sp. z o.o., PGE Soleo 5 sp. z o.o., PGE Soleo 6 sp. z o.o. and PGE Soleo 7 sp. z o.o.

On 4 February 2021, the Extraordinary General Meetings of PGE Soleo adopted resolutions on obliging the sole shareholder of PGE Soleo, i.e. PGE Energia Odnawialna S.A., to make additional contributions to the shares held, within the meaning of Article 177 of the Commercial Companies Code. The amount of additional contributions in the cases of PGE Soleo 1 sp. z o.o. and PGE Soleo 5 sp. z o.o. equals PLN 200,000 each and in the cases of PGE Soleo 2 sp. z o.o., PGE Soleo 3 sp. z o.o., PGE Soleo 6 sp. z o.o. and PGE Soleo 7 sp. z o.o. it equals PLN 50,000. The additional contributions were made as requested.

PGE Inwest 8 sp. z o.o. (the company's present business name is: PGE Gryfino 2050 sp. z o.o.)

On 02 March 2021, the Extraordinary General Meeting adopted a resolution to obligate the sole shareholder of the company, i.e. PGE S.A., to make an additional payment to its shares, within the meaning of Article 177 of the Commercial Companies Code, in the total amount of PLN 820,000, i.e. in the amount of PLN 16,400 to each share held by PGE S.A., by 05 March 2021. In accordance with the above resolution of the Extraordinary General Meeting, the additional contribution was made by PGE S.A. on 05 March 2021.

PGE Soleo 1 sp. z o.o.

On 21 April 2021, the Extraordinary General Meeting adopted a resolution to obligate the sole shareholder of the company, i.e. PGE Energia Odnawialna S.A., to make an additional payment to its shares, within the meaning of Article 177 of the Commercial Companies Code, in the total amount of PLN 1,500,000, i.e. in the amount of PLN 15,000 to each share held by PGE Energia Odnawialna S.A., by 22 April 2021. The additional contribution was made as requested.

PGE Inwest 14 sp. z o.o.

On 22 April 2021, the Extraordinary General Meeting adopted a resolution to obligate the sole shareholder of the company, i.e. PGE S.A., to make an additional payment to its shares, within the meaning of Article 177 of the Commercial Companies Code, in the total amount of PLN 2,381,058, i.e. in the amount of PLN 537 to each share held by PGE S.A., by 28 April 2021. In accordance with the above resolution of the Extraordinary General Meeting, the additional contribution was made by PGE S.A. on 27 April 2021.

PGE Soleo 4 sp. z o.o.

On 10 September 2021, the Extraordinary General Meeting adopted a resolution to obligate the sole shareholder of the company, i.e. PGE Energia Odnawialna S.A., to make an additional payment to its shares, within the meaning of Article 177 of the Commercial Companies Code, in the total amount of PLN 7,000,000, i.e. in the amount of PLN 70,000 to each share held by PGE Energia Odnawialna S.A., by 13 September 2021. The additional contribution was made on 13 September 2021.

PGE Soleo 5 sp. z o.o.

On 10 September 2021, the Extraordinary General Meeting adopted a resolution to obligate the sole shareholder of the company, i.e. PGE Energia Odnawialna S.A., to make an additional payment to its shares, within the meaning of Article 177 of the Commercial Companies Code, in the total amount of PLN 6,500,000, i.e. in the amount of PLN 65,000 to each share held by PGE Energia Odnawialna S.A., by 13 September 2021. The additional contribution was made on 13 September 2021.

### **Mergers of companies**

On 31 March 2021 the Extraordinary General Meeting of the company PGE Energia Odnawialna S.A. (the acquiring company) and the Extraordinary General Meeting of the company ECO - POWER sp. z o.o. (the company being acquired) adopted resolutions on the merger of the companies under Article 492 § 1 item 1 of the Commercial Companies Code (merger by acquisition) by transferring all assets of the company being acquired to the acquiring company without issuing new shares in the acquiring company in return for the shares in the company being acquired, pursuant to Article 516 of the Commercial Companies Code, and by dissolving the company being acquired without conducting a liquidation process.

The company PGE Energia Odnawialna S.A. was the sole shareholder in the company ECO – POWER sp. z o.o. The merger was entered in the register of entrepreneurs on 30 April 2021.

On 20 September 2021 the Extraordinary General Meeting of the company PGE Obrót S.A. (the acquiring company) and the Extraordinary General Meeting of the company PGE Centrum sp. z o.o. (the company being acquired) adopted resolutions on the merger of the companies under Article 492 § 1 item 1 of the Commercial Companies Code (merger by acquisition) by transferring all assets of the company being acquired to the acquiring company in return for the shares in the acquiring company that the acquiring company granted to PGE S.A. as the sole shareholder in the company being acquired. As a consequence of the merger, the Extraordinary General Meeting of PGE Obrót S.A. adopted a resolution to increase the share capital of the acquiring company by PLN 37,283,500 to PLN 529,923,900 through the issue of 372,835 registered series I shares with a par value of PLN 100 per share. Furthermore, the Extraordinary General Meeting of PGE Obrót S.A. decided to allot to PGE S.A. all the new shares of PGE Obrót S.A. referred to above. The merger was entered in the register of entrepreneurs on 01 October 2021.

On 3 November 2021 the Extraordinary General Meeting of the company PGE Energia Ciepła S.A. (acquiring company) and the Extraordinary General Meeting of Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. with its registered office in Zgierz (the company being acquired) adopted resolutions on the merger of the companies under Article 492 § 1 item 1 of the Commercial Companies Code (merger by acquisition) by transferring all assets of the company being acquired to the acquiring company without issuing new shares in the acquiring company in return for the shares in the company being acquired, pursuant to Article 516 § 6 of the Commercial Companies Code, and by dissolving the company being acquired without conducting a liquidation process. The company PGE Energia Ciepła S.A. was the sole shareholder in the company Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. The merger was entered in the register of entrepreneurs on 03 January 2022.

#### **Division of companies**

On 15 April 2021, the Extraordinary General Meetings of PGE GiEK S.A. and PGE Energia Ciepła S.A. adopted resolutions on the division of PGE GiEK S.A. (the company being divided) through separation under Article 529 § 1 item 4 of the Commercial Companies Code by way of transferring to the company PGE Energia Ciepła S.A. (the acquiring company) a part of the assets of the company being divided in the form of a part of the branch of this company, i.e. Dolna Odra Power Plant Complex Branch in the scope comprising the Szczecin Cogeneration Plant, the Pomorzany Cogeneration Plant and the heating system in Gryfino constituting an organised part of the enterprise, functionally connected with the cogeneration of electricity and heat, as well as the distribution of heat. The transfer of ZCP to the acquiring company took place through a decrease of the share capital of the company being divided by PLN 105,286,780 to PLN 6,477,850,820 and an increase of the share capital of the acquiring company by PLN 120,347,940 to PLN 2,501,281,240 as a result of the issue of 12,034,794 registered shares of the acquiring company with a par value of PLN 10 per share. PGE S.A. as the only shareholder of the company being divided took up all new shares in the increased share capital of the acquiring company. The division was entered in the register of entrepreneurs on 01 July 2021.

On 15 July 2021 the Extraordinary General Meeting of PGE GiEK S.A. and the Extraordinary General Meeting of PGE Inwest 8 sp. z o.o. (the company's present business name is: PGE Gryfino 2050 sp. z o.o.) adopted resolutions on the division of PGE GiEK S.A. (the company being divided) through separation under Article 529 § 1 item 4 of the Commercial Companies Code by way of transferring to the company PGE Inwest 8 sp. z o.o. (the acquiring company) a part of the assets of the company being divided in the form of a branch of this company, i.e. Dolna Odra Power Plant Complex Branch, in the scope comprising the construction of gas-fired units, which constitutes an organised part of the enterprise, functionally connected with the construction of new gas-fired units and generation of electricity in the future. The transfer of ZCP to the acquiring company took place through a decrease of the share capital of the company being divided by PLN 27,543,770 to PLN 6,450,307,050 and an increase of the share capital of the acquiring company by PLN 32,314,000 to PLN 32,364,000 as a result of the creation of 32,314 shares of the acquiring company with a par value of PLN 1,000 per share. PGE S.A. as the only shareholder of the company being divided took up all new shares in the increased share capital of the acquiring company. The division was entered in the register of entrepreneurs on 1 October 2021.

#### **Transformations of companies**

On 2 December 2020, the Extraordinary General Meeting of the company PGE Ekoserwis z o.o. adopted a resolution to transform the company into a joint-stock company with the business name of PGE Ekoserwis S.A. The company PGE Ekoserwis S.A. was incorporated on 5 February 2020 as a result of its entry in the register of entrepreneurs of the National Court Register on that day. As at the date of the entry in the National Court Register, PGE S.A. held 222,850 shares of this company, which jointly represented 95.08% in the share capital of PGE Ekoserwis S.A. At present PGE S.A. holds 100% of the shares capital of this company.

The transformation was entered into the Register of Entrepreneurs on 5 February 2021.

On 21 December 2020, the Extraordinary General Meeting of the company EPORE sp. z o.o. adopted a resolution to transform the company into a joint-stock company with the business name of EPORE S.A. The company EPORE S.A. was incorporated on 13 January 2020 as a result of its entry in the register of entrepreneurs of the National Court Register on that day. PGE GiEK S.A. is the sole shareholder of EPORE S.A., holding 100% of the share capital of EPORE S.A. The transformation was entered into the Register of Entrepreneurs on 13 January 2021.

#### **Liquidation of companies**

On 1 March 2021, the Extraordinary General Meeting of PGE Trading GmbH with its registered office in Berlin (PGE Trading), in which PGE S.A. holds 100% of shares, adopted a resolution on dissolution of PGE Trading and appointment of a liquidator to conduct liquidation activities.

## **5. The economic and financial position.**

### **The key financial results of PGE S.A.**

Key financial data	Unit	Year ended 31 December 2021	Year ended 31 December 2020	Change %
Sales revenue	PLN million	35,917	27,541	30%
Earnings before interests and taxes (EBIT)	PLN million	601	712	-16%
Earnings before interest, tax, depreciation and amortisation (EBITDA)	PLN million	613	724	-15%
EBITDA margin	%	2%	3%	
Earnings before interest, tax, depreciation and amortisation, excluding one-time and temporary events (recurring EBITDA)	PLN million	602	745	-19%
Recurring EBITDA margin	%	2%	3%	
Net profit	PLN million	1,734	1,744	-1%
Capital expenditures	PLN million	2	4	-50%
Net cash from operating activities	PLN million	953	2,035	-53%
Net cash from investing activities	PLN million	1,887	2,642	-29%
Net cash from financing activities	PLN million	-1,016	-1,403	-28%

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

Non-recurring events with impact on EBITDA	Period ended 31 December 2021	Period ended 31 December 2020	Change %
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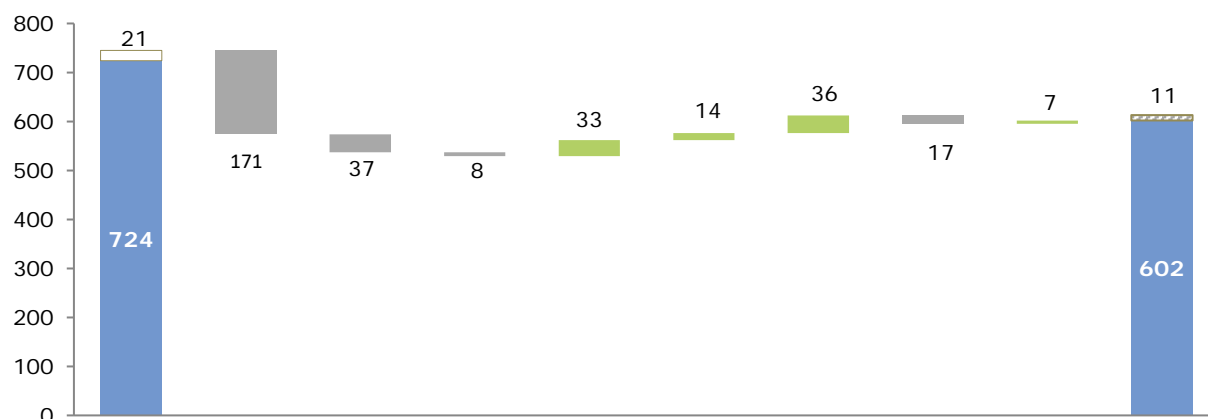
Reversal of provisions	PLN million	11	-21	-
– Voluntary Leave Programme				
<b>Total</b>	<b>PLN million</b>	<b>11</b>	<b>-21</b>	<b>-</b>

<sup>1</sup>LTM EBITDA - EBITDA for the past 12 months from the reporting date.

#### Revenues from geographical areas

PGE S.A. achieves revenues mainly in the domestic market (85%).

#### Key factors determining EBITDA in PGE S.A. (PLN million)



	EBITDA 2020	Sale of electricity	Result on trade in CO <sub>2</sub> emission allowances	Sale of gas	Capacity market	Revenue from CPCM and ESSA	Revenues from services of Corporate Centre	Operating expenses <sup>1</sup>	Result on other activities	EBITDA 2021
<b>Deviation</b>		<b>-171</b>	<b>-37</b>	<b>-8</b>	<b>33</b>	<b>14</b>	<b>36</b>	<b>-17</b>	<b>7</b>	
EBITDA reported 2020	<b>724</b>									
Non-recurring events 2020	<b>-21</b>									
EBITDA 2020	<b>745</b>	-33	24	4	0	970	67	291	4	
EBITDA 2021		-204	-13	-4	33	984	103	308	11	<b>602</b>
Non-recurring events 2021										<b>11</b>
EBITDA reported 2021										<b>613</b>

- Reversal of the impact of total non-recurring events decreasing the reported result.
- Reversal of the impact of total non-recurring events increasing the reported result.

<sup>1</sup>Operating expenses of the organisation excluding the provision for Voluntary Leave Programme (non-recurring events).

The key factors influencing the results achieved by PGE S.A. on a year-to-year basis were as follows:

- The lower profit on electricity sales is the result of a lower unit margin realised on electricity trading by PLN 3.9/MWh. This is due to the increase in electricity prices in 2021, where the average price of the base contract on the Day-Ahead Market increased by 91% compared to 2020. The necessity for PGE S.A. to balance the electricity demand for retail trading on the DAM with such a significant y/y price increase caused a decrease in the profit.
- The lower profit on CO2 emission allowance trading was influenced by the valuation of forward transactions and the settlement of transactions of sale of free CO2 emission allowances outside of the PGE Group in 2020.
- The Capacity Market, a mechanism which did not function in the comparable period.
- The increase of revenues from the PGE Group companies for the services of the Commercial Management of Generation Capacities (CMGC) and the Security of Electricity Supply (SES) resulted mainly from the higher unit margin, which was partially compensated by the lower value of electricity managed on behalf of the PGE Group companies as a result of the volume of electricity lower by 6.6 TWh.
- The increase in revenues from the provision of Corporate Centre services is the result of the increase in revenues from support agreements, mainly from the centralisation of the legal area (from January 2021) and the audit area (from October 2021), and the increase in revenues from licence agreements, which is mainly influenced by the increase in revenues from PGE GiEK S.A.
- The increase in the organisation's operating costs is mainly influenced by higher costs of sponsoring and advertising activities.

#### **Financing activities**

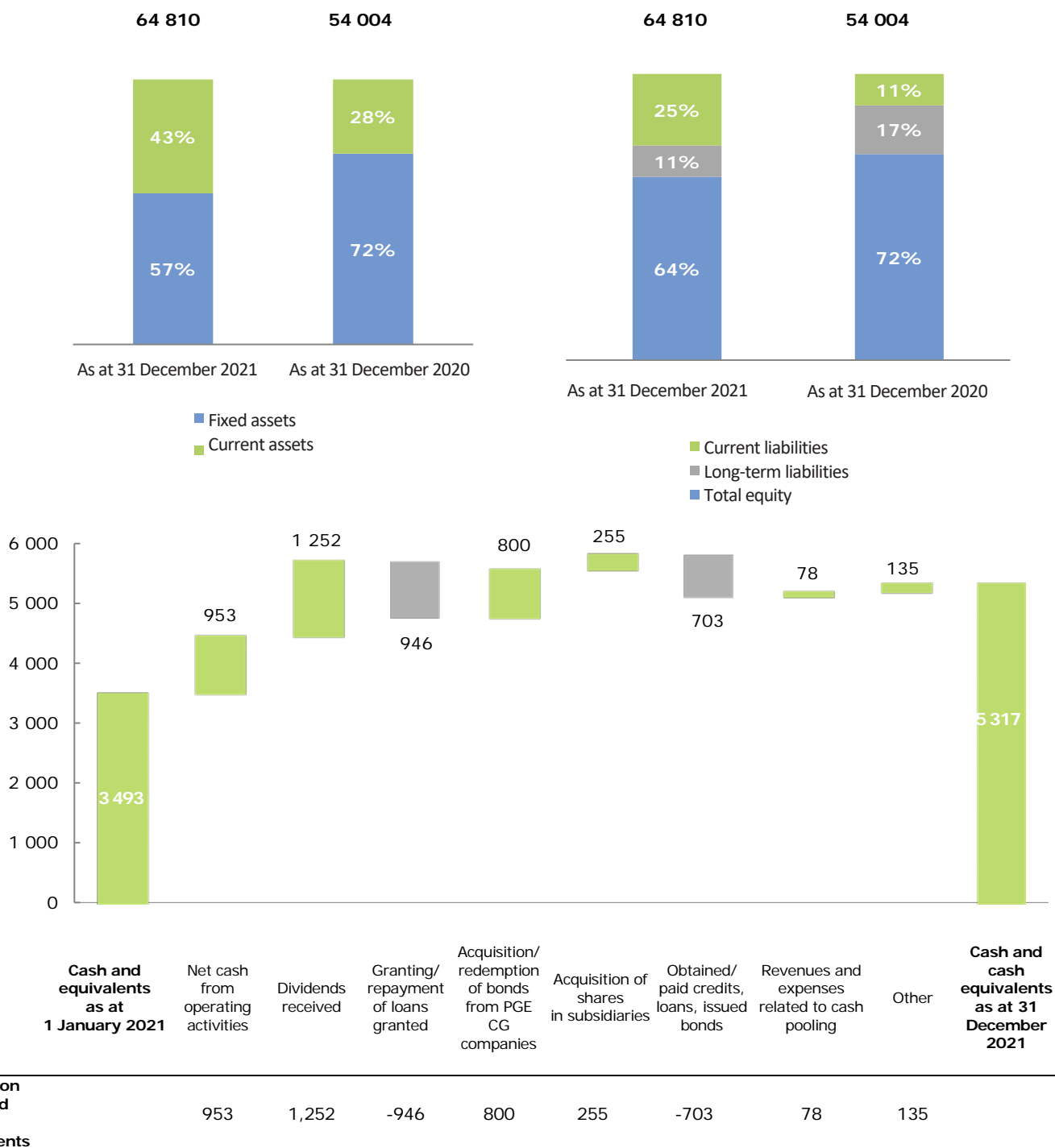
PLN million	Year ended 31 December 2021	Year ended 31 December 2020	Change %
<b>Finance income/expenses</b>			
Dividends from PGE CG companies	1,252	1,464	-14%
Interest	141	150	-6%
Gain/(Loss) on disposal of investments	-36	-11	-
Revaluation of financial instruments	-33	15	-
Reversal/establishment of write-downs	-7	-515	-
Foreign exchange differences	-4	-4	-
Other	-	-2	-
<b>Result from operating activities</b>	<b>1,313</b>	<b>1,097</b>	<b>20%</b>

The key factors influencing the financial results achieved by PGE S.A. on a year-to-year basis were as follows:

- The decrease of dividend revenues is mainly caused by dividends from PGE Energia Odnawialna S.A. lower by PLN 301 million, with concurrent dividend revenues from PGE Energia Ciepła S.A. higher by PLN 91 million.
- Profit/loss on disposal of investments: in 2021 a loss of PLN 39 million was incurred on disposal of PGE EJ1 sp z o.o. and in 2020 there was a redemption of certificates held in the Eko-Inwestycje Closed-end Non-public Assets Investment Fund and PGE Ventures and a related loss of PLN 11 million.
- Revaluation of financial instruments: the deviation results mainly from the valuation of forward transactions hedging foreign exchange rates and the CCIRS interest rate in amount of PLN (-) 31 million and the valuation of call options for the purchase of Polimex-Mostostal S.A. shares in amount of PLN (-) 11 million.

The change in the write-downs of financial fixed assets results from the high write-downs made in 2020 with respect to shares held in PGE Obrót, PGE Systemy S.A., TFI Energia S.A., PGE EJ1 sp. z o.o., Elbest sp. z o.o., PGE Nowa Energia sp. z o.o., PGE Ventures sp. z o.o. and PGE Trading GmbH. In the year 2021 the write-down of shares in Elbest spółka z o.o. was partially reversed.

**Structure of assets and liabilities + equity (PLN million)**

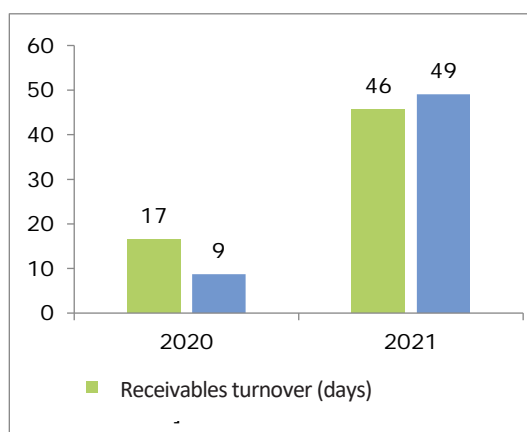
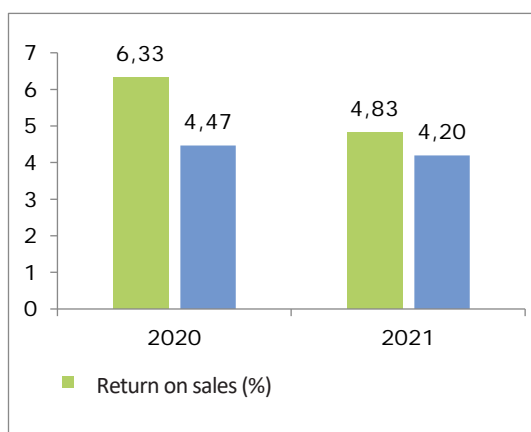


Cash and cash equivalents	3,493	5,317
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**The Company's net debt as at 31 December 2021 and 31 December 2020**

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

**Basic financial ratios**



### The key operating results of PGE S.A.

Volume of electricity sold (TWh).

Sales volume	2021	2020	Change %
Electricity sales to PGE CG	42.02	51.75	-19%
Electricity sales in the exchange market and bilateral transactions outside PGE CG	1.57	4.07	-61%
Sales within BG and BM	1.39	1.26	10%
<b>Total electricity sales</b>	<b>44.98</b>	<b>57.08</b>	<b>-21%</b>

PGE S.A. fulfils the function of a competence-based wholesale trade centre for PGE CG. In 2021 the y/y decrease of the volume of electricity sales to PGE Group companies is mainly caused by the decrease of the volume of transactions with PGE Obrót S.A. to ensure the meeting of the demand of retail customers for electricity and the decrease of the surplus of electricity unsold by PGE S.A. to PGE Obrót S.A. again to the generator PGE GIEK S.A. The decrease in the volume of electricity sales to retail customers is mainly due to the decrease in sales to large customers in the professional segment. The decrease in the volume of electricity sold to entities from outside the PGE Capital Group is the result of a decrease in turnover on the power exchange and a loss of a major customer.

Natural gas sales volume [TWh]

Sales volume	2021	2020	Change %
Sales of gas to PGE CG	3.09	3.21	-4%
Sales of gas outside PGE CG	0.79	0.60	32%
<b>Total sales of gas</b>	<b>3.88</b>	<b>3.81</b>	<b>2%</b>

The higher y/y volume of natural gas sales is the result of higher volumes sold on the gas exchange, partially offset by lower sales to PGE CG entities and other external parties.

## 6. The sponsoring policy.

The document regulating sponsoring activities is "The General Procedure for Sponsoring Activities in PGE Polska Grupa Energetyczna S.A. and in Other Companies of the PGE Capital Group", which has been in force since 21 April 2021. In 2021, the sponsoring policy in the PGE Capital Group was structured through the adoption of the Sponsoring Strategy in the PGE Capital Group. The Strategy provides for sponsoring programmes within which individual activities in the area of sponsoring culture, sport and industry events will be carried out in the coming years.

The Sponsoring Strategy comprises the following sponsoring programmes: PGE MOCna League (sponsoring the PGE National Stadium and professional sports clubs and leagues), MOC e-mocji (esports initiatives), The Sports Winter with PGE (supporting skating), The POWER of the Wind (sailing), PGE Junior (sports academies for children and youth), PGE Cultural Energy Group (high culture, including philharmonic halls), PGE Proud of Their History (supporting projects promoting historical memory, e.g. the Warsaw Uprising Museum), PGE We Lead in the Green Change (congresses and industry events devoted to the power sector).

In 2021, PGE's sponsorship activities were focused, as in the previous years, on the support of sport (professional sport as well as amateur sport for children and young people) and culture. The naming rights agreement for the PGE National Stadium in Warsaw was extended for another 5 years. Cooperation with PGE Ekstraliga, PGE Skra Bełchatów, PGE FKS Stal Mielec and PGE Spójnia Stargard was continued. The Company also got involved in esports by becoming the naming right sponsor of the Master Division of the Polish Esport League. PGE supported also ice skating as the sponsor of the 100th anniversary of the Polish Speed Skating Association and the Polish Figure Skating Association. Cooperation was also established with the Polish Sailing Association, which is a reference to PGE's business activity – the construction of offshore wind farms. Within the framework of the PGE Junior Programme, the Company supported 16 amateur clubs in various sports disciplines.

Support for Polish high culture is an important element of PGE's involvement in the promotion of Polish music and the preservation of Polish traditions. Supporting 15 philharmonic orchestras across Poland, the PGE Group is one of the most recognisable patrons of high culture in the country. PGE also became the Sponsor of the Gallery of 19th Century Art of the National Museum in Warsaw and the Sponsor of the educational activities of the Crown Treasury at the Wawel Royal Castle Museum.

Total sponsorship expenses in 2021 in PGE S.A. amounted to PLN 32,780,519.08, including:

- Sponsoring of culture: PLN 2,461,350.00;
- Sponsoring of sport: PLN 29,041,019.08;
- Conferences and congresses: PLN 1,228,250.00;
- Other: PLN 49,900.00

The expenses of other companies (PGE GiEK S.A., PGE Energia Ciepła S.A., PGE Dystrybucja S.A.) for sponsoring in 2021 totalled PLN 4,879,773.17, including:

- PGE GiEK S.A.: PLN 3,450,600;
- PGE Energia Ciepła S.A.: PLN 1,057,000.00;
- PGE Dystrybucja S.A.: PLN 276,000.00;
- PGE Baltica sp. z o.o.: PLN 0;
- PGE Obrót S.A.: PLN 0;
- PGE Energia Odnawialna S.A.: PLN 96,173.17;

In 2021, the preliminary ex-post study of the effectiveness of sponsorship activities showed a return of 863% and a project evaluation index of 6.71, indicating excellent delivery of expectations and very good efficiency and effectiveness of the undertaken sponsorship activities.

The compliance of the followed sponsoring policy with The Principles of Conducting Sponsoring Activities in PGE Polska Grupa Energetyczna S.A. and the other companies belonging to the PGE Capital Group is evaluated every year on the basis of an examination of the effectiveness of sponsoring activities carried out by an independent external auditor. An evaluation of conducted activities is included in a yearly report submitted to the Management Board and the Supervisory Board of PGE S.A. The effect of a positive evaluation of the conducted sponsoring policy is annual resolutions of the Management Board of PGE S.A. accepting relevant reports as well as the acceptance of information on the results of inspections carried out by the Supervisory Board of PGE S.A.

**The Supervisory Board considers the sponsoring policy of PGE S.A. as reasonable.**

## **7. Charitable and social activities.**

The main areas of PGE's social involvement are defined in "The general procedure for the management of social involvement activities in the PGE Group", as well as in "The general procedure for planning and implementing donations in the PGE Capital Group". The PGE Group's approach to building relations with stakeholders is also defined in The Strategy of the PGE Capital Group and The Code of Ethics of the PGE Capital Group.

The PGE Group actively participates in the implementation of all 17 UN Sustainable Development Goals, and in its strategy identifies four of them, whose implementation it supports in a special way. These are the following: Goal 7. – affordable and clean energy; Goal 11. – sustainable cities and communities; Goal 12. – responsible consumption and production and Goal 13. – climate action. The charitable and social activities of the PGE Group fulfil the principles of Goal 11.

An important element of the PGE Group's corporate social responsibility is the PGE Foundation. The profile of the Foundation's activities results from the PGE Group's strategy, corporate communication and marketing strategy and brand strategy. The Foundation supports historical, educational, environmental and social activities. It fulfils its mission through its own projects and projects implemented in cooperation with partners. It makes donations for charitable purposes, projects in the field of cultivating historical memory and national identity, projects in the field of education, upbringing and sport. It also supports health protection and promotion projects, projects related to environmental protection, ecology and many others. In 2021, the PGE

Foundation received nearly 1,000 requests for donations. The Foundation made almost 500 donations for a total amount of over PLN 10 million.

In 2021, the PGE Group continued its activities supporting the fight against the coronavirus pandemic. Since the beginning of the pandemic in March 2020, PGE Group companies and the PGE Foundation have allocated almost PLN 9 million for this purpose, of which PLN 2 million in 2021. All activities were in response to the current needs of the health service. The actions taken were coordinated with the Ministry of State Assets and the Ministry of Health.

In the year 2021, PGE continued the activities started in the previous year to support direct involvement in countering the pandemic by implementing actions aimed at promoting responsible consumer attitudes. The PGE Group conducted research in which it asked respondents what influenced their purchasing decisions. The aim of the survey was to identify Poles' shopping attitudes and to obtain their opinions and expectations in order to make the choice of Polish products easier.

Furthermore, for many years, the PGE Group has been involved in and initiated pro-environmental activities. "Forests Full of Energy" is a programme of the PGE Group that for 22 years has been pursuing the same objective – the reconstruction of Polish forests and improvement of air quality and groundwater levels. In the previous years, trees were planted in locations indicated and prepared by foresters from Regional Directorates of State Forests. In 2020 PGE changed the formula of the project and initiated cooperation with institutions involved in nature protection. PGE established cooperation with the Biebrzański National Park, Świętokrzyski National Park, Roztoczański National Park, Kampinoski National Park and Wigierski National Park, implementing active nature conservation, educational, scientific and research and infrastructural projects. In 2021, PGE and the League for Nature Conservation signed a strategic partnership agreement. Under this strategic partnership, environmental, educational and ecological projects are implemented.

The PGE Group supports local activities aimed at social welfare, including assistance for individuals and families who find themselves in difficult situations. This support is carried out through the employee volunteer programme.

**The Supervisory Board considers the charitable and social policy of PGE S.A. as reasonable.**

## 8. The remuneration policy.

The PGE Capital Group is one of the five largest employers in Poland, ensuring stable employment for close to 40,000 people in more than 200 locations all over Poland.

On 9 September 2016 the Act on the Principles of Determining Remuneration for People Managing Some Companies of 9 June 2016, the so-called new Chimney Act, entered into force. The new Chimney Act regulates, among other things, the manner of establishing the principles of determining remuneration for members of management boards and supervisory boards in companies where the State Treasury is a shareholder (e.g. PGE), and in particular specifies how remuneration is determined and granted to members of management boards and supervisory boards (the principles of determining remuneration for members of management boards and supervisory boards are adopted by a general meeting, while a supervisory board adopts resolutions on concrete conditions of remunerating members of a management board). The Act also specifies selected clauses of agreements for the provision of management services to be entered into with members of management boards.

On 14 December 2016 the Extraordinary General Meeting convened upon a motion submitted by the Minister of Energy representing the State Treasury acting in the capacity of a shareholder adopted resolution no. 4 on the shaping of the principles of remuneration for members of the Management Board of PGE Polska Grupa Energetyczna S.A., which was amended subsequently by resolution no. 37 adopted by the Ordinary General Meeting held on 27 June 2017 and resolution no. 4 of the Extraordinary General Meeting held on 2 December 2019. According to this resolution, the remuneration of members of the Management Board consists of a fixed part constituting a monthly basic salary and a variable part constituting supplementary remuneration for a given financial year, depending on the achievement of managerial objectives. In 2021 the Supervisory board established managerial objectives and indicators determining their achievement.

In accordance with the Act of 16 October 2019 amending the Act on public offering, conditions governing the introduction of financial instruments to an organised trading system and public companies, as well as certain other acts, on 26 June 2020 the Ordinary General Meeting adopted resolution no. 9 on the adoption of "The Remuneration Policy for Members of the Management Board and the Supervisory Board of PGE Polska Grupa Energetyczna S.A.". The adopted Remuneration Policy maintains the solutions adopted in resolution no. 37 of the Ordinary General Meeting of 27 June 2017 and resolution no. 4 of the Extraordinary General Meeting of 2 December 2019 providing for the division of remuneration of members of the Management Board into a fixed part constituting the basic monthly remuneration and a variable part depending on the achievement of management objectives for a given year, as well as additional cash or non-cash benefits.

The remuneration package for the employees and directors of PGE S.A. consists of a permanent part (comprising a base salary), a variable part (comprising annual bonuses for directors, quarterly bonuses for other employees, annual awards depending on the achievement of the Company's objectives, and individual discretionary awards for outstanding achievements). Since 2014 PGE S.A. has used market payroll data to monitor the competitiveness of its remuneration packages. Annual bonuses for directors and quarterly bonuses for employees depend on a degree to which individual objectives have been achieved (management by objectives). Furthermore, PGE S.A. provides its employees with an extensive system of non-payroll benefits such as medical services, the employee pension plan, low-cost meals, electricity consumption compensation, partial or complete financing of professional training courses. PGE S.A. employees receive also benefits from the Corporate Social Benefits Fund.

## 9. Factors important for development.

MAIN DIRECTIONS OF CHANGE		POTENTIAL IMPACT ON PGE CG
MACROECONOMIC ENVIRONMENT – THE WORLD	<ul style="list-style-type: none"> <li>▪ Eurozone GDP dynamics recorded strong growth of 5.2% in 2021. The recovery follows the economies' rebound from the deep recession in 2020 (GDP decline of -6.4%) triggered by the global COVID-19 pandemic. For 2022 and 2023, the EC forecasts a continuation of economic expansion at 4.3% and 2.4% respectively.</li> <li>▪ The strong economic rebound, together with supply-side constraints and rising fuel and energy prices, contributed to increases in inflation to levels not seen in nearly 30 years. At the end of 2021, the annual CPI (consumer inflation) index rose to 5% in the Eurozone. Similar inflationary pressures were evident in other global economies such as: USA (annual inflation at the end of 2021 7%) and UK (5.4%).</li> <li>▪ As inflation targets were exceeded, central banks started to tighten monetary policy by reducing asset purchase programmes (FED and ECB) and raising interest rates, particularly evident in countries in our region (Czech Republic and Hungary).</li> <li>▪ Industrial production in the Eurozone, after a strong rebound in Q2 2021 resulting from a low base in 2020, fell by 1.5% y/y in November 2021. The decline was mainly due to supply chain disruptions during the COVID-19 pandemic particularly evident in the automotive industry.</li> <li>▪ In February 2022, the PMI economic trend indicators for manufacturing were at 58.2 and services at 55.5, indicating a continued recovery in the near term. The main risks to growth are pandemic developments, monetary tightening and supply-side constraints.</li> <li>▪ Economic growth in the EU in the coming years will be supported by a EUR 750 billion pandemic recovery package.</li> <li>▪ The planned tightening of the EU climate policy (CO2 emission reduction target of 55% in 2030), including the expected further instruments to accelerate the decarbonisation of the economy, will affect the levels and price relations of energy carriers.</li> </ul>	<ul style="list-style-type: none"> <li>▪ GDP and industrial production growth in the Eurozone should also support the level of economic activity in Poland. This allows us to assume an increase in demand for energy in the National Power Grid (NPG), while the dynamics of this increase will depend both on domestic factors and the situation on foreign markets, with particular emphasis on the level of international exchange.</li> <li>▪ A significant portion of the funds under the reconstruction plan is to be directed to measures aimed at decarbonising the economy, which, combined with the tightening of climate policy (increase in the price of CO2 emission allowances, increase in the share of RES, adoption of taxonomy and work on the Fit-for-55 package), will not improve the prospects for energy generation from coal. In the long term, these measures will result in a further decrease in demand and pressure on prices, the level of which will be determined by the situation on global markets, which in periods of short-term imbalance may cause increased volatility in the market.</li> <li>▪ Meanwhile, the wide availability of financial resources targeted at decarbonisation may facilitate the implementation of investments oriented towards the transformation of the PGE Group.</li> </ul>

<p><b>MACROECONOMIC ENVIRONMENT – POLAND</b></p>	<ul style="list-style-type: none"> <li>According to the estimates of the Central Statistical Office (GUS), Poland's real GDP dynamics in 2021 amounted to +5.7% as a result of recovery after the pandemic decline in 2020 (-2.5%).</li> <li>The main factor influencing the high GDP dynamics was domestic demand (+7.6%), including consumption in the household sector (+3.4%). On the other hand, the impact of investment demand was smaller, amounting to +1.3%.</li> <li>In individual sectors of the economy, the strongest revival took place in industry, where the gross added value increased by +14.1% and trade by +5.9%. The construction industry recorded growth of +1.2%.</li> <li>The PMI index for manufacturing has remained above 50 points since July 2020, indicating an increase in economic activity in the sector, but the reading for January 2022 at 54.5 points is slightly weaker than the December 2021 data.</li> <li>Due to the intensification of price pressures with both supply- and demand-side causes (including increases in fuel and energy prices), inflation rates rose strongly in 2021, reaching an annual average of 5.1% and y/y of 8.6% in December 2021 for consumer inflation. Core inflation, excluding food and energy prices, was 4.1%. According to a January 2022 NBP survey, average annual CPI inflation could rise even more strongly in 2022, to 7.4%, and fall to 4.4% in 2023. Due to the anti-inflationary shields introduced by the government, the forecasts are accompanied by a heightened level of uncertainty.</li> <li>Strong inflationary pressures have led the NBP to act by raising interest rates. The reference rate increased from 0.1% at the end of 2020 to 3.5% currently. At the same time, there was an increase in the yields of debt instruments. According to the NBP communication, further interest rate increases are possible in order to bring inflation down to the inflation target of 2.5% with a tolerance of 1 percentage point.</li> <li>EC and NBP forecasts assume an accelerated GDP growth in the coming years at the level of 4.9% in 2022 and 4.4%-4.9% in 2023. The rate of economic growth will depend on the intensity of the pandemic, the impact of interest rate rises, the growth of European economies and the possibility of increasing the investment rate.</li> </ul>	<ul style="list-style-type: none"> <li>Economic growth in the short to medium term may translate into increased demand for electricity. However, high upward pressure on electricity costs (CO<sub>2</sub> and fuel costs, distribution charges, support schemes), increasing energy efficiency and development of RES sources will negatively affect the demand for energy from conventional generation sources in the long term.</li> <li>In the longer term, a potential lower level of demand for energy from conventional sources and changes in the energy mix may translate into a lower E.E. price on the wholesale market and, in particular, negatively affect the economics of coal-fired generation. This does not exclude short-term price increases in the event of a reduction in the availability reserves of generating units.</li> <li>Rising interest rates and yields on debt instruments will increase the cost of financing the debt investment programme. No changes are expected in the PGE Group's credit ratings in local currency and foreign currencies (Moody's - Baa1 and Fitch - BBB+), which should remain neutral for the availability of financing. Additionally, on January 18, 2022, PGE's Management Board adopted a resolution to initiate a recapitalisation process for the company in connection with planned investment projects in the areas of renewable energy, decarbonisation and distribution, which may reduce the need for debt capital.</li> </ul> <p>The Extraordinary General Meeting held on 7 March 2022 did not adopt the proposed resolution due to the announced recess until 6 April 2022. Further decisions will be taken at the continuation of the General Meeting.</p> <p>On 7 April 2022, the Extraordinary General Meeting adopted resolution no. 7 on: decreasing the share capital by way of reducing the par value of shares and simultaneously increasing the share capital by way of issuing series E shares under the private subscription procedure, depriving the present shareholders entirely of the preemptive right to all series E shares, applying for admission and introduction of series E shares and/or rights to series E shares to trading on the regulated market of Giełda Papierów Wartościowych w Warszawie S.A. [Warsaw Stock Exchange], dematerialising series E shares or rights to series E shares, as well as amending the Company Statutes.</p> <ul style="list-style-type: none"> <li>An increase in the price indices of construction and assembly works and materials as well as cost pressures in the specialised construction segment may result in higher expenditures for the execution of the planned investment programme and higher costs of external services. In addition, the structural shortage of skilled workers in the construction sector may cause delays in the implementation of investment and overhaul tasks.</li> </ul>
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**TRENDS ON THE  
ELECTRICITY AND FUEL  
MARKETS**

- Increase to record levels of domestic electricity consumption in Poland in 2021 (+5.4%) and production (+14%) above pre-pandemic values.
- Significant decrease in net imports from 13.2 TWh in 2020 to 0.8 TWh in 2021 due to increased energy prices and consumption in European markets.
- Supply constraints in European markets in renewable sources. Planned closure of 4 GW of nuclear power plants in Germany in 2021 and another 4 GW by the end of 2022.
- Sharp increase in prices of energy carriers on global markets in the second half of 2021 triggered by strong economic recovery (increase in energy and fuel consumption), weaker wind and geopolitical tensions.
- Increase in natural gas prices quoted on the SPOT TGE market from 96 PLN/MWh in Q1 2021 to 450 PLN/MWh in Q4 2021. Increase in coal prices in ARA ports in the period from approximately 10 PLN/GJ to over 25 PLN/GJ.
- On the Polish market, the stable cost of the basic fuel for power plants - hard coal - was about 11.5 PLN/GJ.
- Increasing CO2 prices - from an average of about 37 EUR/tonne in Q1 2021 to an average of about 67 EUR/tonne in Q4 2021, reaching a level of about 90 EUR/tonne.
- Increasing energy prices in Poland due to rising CO2 costs and energy prices on European markets. Increasing prices of annual BASE contracts on the TGE exchange to average 830 PLN/MWh in December 2021 from around 275 PLN/MWh on average in Q1 2021.
- A systematic increase in demand for natural gas in Poland and the region is expected in view of new investments in natural gas-fired power generation units and high-efficiency cogeneration units as well as a gradual change in the fuel mix in Germany.
- The Development of possibilities to supply natural gas to Poland (the expansion of the LNG terminal, the Baltic Pipe project, infrastructural projects of LNG exporters).
- Initiation by the Ministry of State Assets of a project for the transformation of the electricity sector in Poland and the separation of coal-fired generation assets from state-owned companies.
- Changes in the energy market model:
- Implementing the capacity market mechanism and auctions for energy from renewable sources.
- Introducing changes to the balancing market rules in two phases, at the beginning of 2021 and 2022.
- Introducing changes in establishing energy prices for end users.
- New billing model for prosumers.
- Implementing regulatory solutions dedicated to distributed power generation.

Implementing the Flow Based Market Coupling mechanism for trade on the synchronous link at the end of 2021. This mechanism enables the best economic use of available transmission capacities among countries.

- Start of the process of granting new location permits for offshore wind farms.

- Growing energy consumption in Europe and supply constraints may significantly affect the level of cross-border exchange of electricity, resulting in higher price levels on the wholesale market and higher load on PGE Group units.
- Persistence of very high fuel prices, especially for natural gas, on European markets may temporarily positively affect margins generated by generating units of the PGE Group, despite persisting risks related to high costs of amortisation of CO2 emission rights.
- In 2021, coal-fired generation increased by 30% due to high energy demand, lower wind and rising gas prices on European markets. In the short term, this results in increased consumption and upward pressure on coal prices in the Polish market.

In the long term, a steady reduction in coal consumption and production is assumed as a result of structural changes in the energy sector, development of renewable and gas power and abandoning the use of solid fuels in households.

- Continued upward pressure on energy prices in Poland in the long term may have a negative impact on energy consumption by energy-intensive customers and the competitiveness of electricity against other energy carriers, and thus on the sales volume generated by the PGE Group.
- Price increases for retail customers may have a negative impact on the margins achieved by the PGE Group in the Trade segment.
- New potential for natural gas supply (construction of the Baltic Pipe pipeline and extension of the LNG terminal in Świnoujście) will enable the development of generation units in CCGT technology and the implementation of investments in highly efficient gas co-generation under the support system.
- The PGE Group participates in the project for separating coal-fired generation assets from State Treasury companies. The implementation of the project will significantly change the Group's generation profile into a low-emission one and will reduce the risk related to the level of margins and production in coal units.
- The capacity market is an opportunity for a gradual transformation of the power structure in the NPG towards the construction of highly efficient base-load power generation units, flexible peak sources, and a gradual decommissioning of units which do not meet environmental requirements.
- Auctions for renewable energy sources allow investors to secure the revenue side of projects, while maintaining a competitive cost of RES development for end users.
- Changes in the balancing market are intended to enable the market valuation of reserves and system services, strengthen price signals and provide an incentive to invest in flexibility on the part of generators and customers.
- Causing greater activity on the part of end users will allow the PGE Group to develop its product offer in new cooperation models.
- The development of offshore wind energy is one of the pillars of PGE Group's transformation - PGE

		Group's long-term development strategy provides for the construction of at least 6.5 GW by 2040.
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<b>DEVELOPMENT OF NEW TECHNOLOGIES</b>	<ul style="list-style-type: none"> <li>▪ We observe the growing competitiveness of wind (including offshore) and photovoltaic technologies, which is confirmed by prices achieved in RES auctions and the rising number of micro-installations.</li> <li>▪ In some countries, the dynamic dissemination of full-scale, new energy storage technologies, providing, among other things, regulatory services to the electricity systems or enhancing local security of energy supply, is clearly visible.</li> <li>▪ The systematic development of prosumer power generation and the dynamic growth in the number of micro-installations.</li> <li>▪ The development of electromobility.</li> <li>▪ The development of information and telecommunications technologies for new applications in the energy sector.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Increasing the competitiveness of new RES installations affects the increase of their number and changes the working conditions of older conventional units.</li> <li>▪ The falling costs of the offshore technology enable it to be used to maintain the PGE Group's leading position in generation with a significantly reduced average level of the portfolio's carbon footprint.</li> <li>▪ 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.</li> <li>▪ With the development of prosumer power generation, the variability of network operating conditions at the local level increases, which means the need to invest in infrastructure (connections, modernisations), while limiting the volume of distributed electricity. In the conventional power generation segment, there is a higher demand for highly flexible generation units in order to balance distributed power generation.</li> <li>▪ The development of electromobility will increase demand for electricity and change its daily profile, which may slightly alter the operating conditions of some conventional units. However, this development requires investments in the development of grid infrastructure and charging points, as well as a charging management system. It is also possible to use batteries in electric cars as storage facilities for energy produced by RES.</li> <li>▪ The PGE Group's use of new technologies and the potential of data resources may allow it to develop in new roles and areas of activity, as well as improve its operational efficiency.</li> </ul>
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## 10. Risks and threats to PGE S.A. and the PGE Capital Group.

As the Corporate Centre responsible for the management of the Group, PGE S.A. creates and implements solutions in the area of integrated risk management architecture in the PGE Capital Group. In particular, it develops risk management policies, standards and practices, prepares and develops internal IT tools supporting the process, determines global appetite for risk managed globally at the level of the PGE Group and relevant limits, and monitors their levels.

Similarly to other entities in the power generation sector, the companies belonging to the PGE Capital Group are exposed to risks and threat resulting from the specific character of their business activities and the functioning in the particular market and regulatory environment.

The most important risks and threats to which the Company and the PGE Capital Group are exposed include the following:

- **market and product risks related to the prices and volumes of the products and services (on both revenue and cost sides) offered by the Group, in particular:**
  - Gross margin on electricity from the PGE Group's generation assets and trading in related products,
  - Generation of electricity and heat,
  - Electricity sales volumes,
  - Tariffs (regulated prices),
  - The capacity market,
  - By-products and services,
  - Legal changes in the support systems,
- **property risks related to the development and maintenance of assets, in particular:**
  - Breakdowns and damage to property,
  - Development and capital expenditures;
- **operational risks related to the course of the current economic processes, in particular:**
  - Fuels management,
  - Cyber security,
  - Procurement,
  - Employee safety,
  - Human resources,
  - Social dialogues;
- **regulatory and legal risks related to the fulfilment of requirements imposed by both external and internal legal environments, in particular:**
  - Environmental protection,
  - Climate,
  - Concessions,
  - Reporting and taxes,
  - Occupational health and safety,
- **financial risks related to financial management, in particular:**
  - Credit risks,
  - Liquidity risks,
  - Interest rate risks,
  - Currency risks.

## 11. Evaluation of the internal control, risk management and compliance systems as well as the internal audit function.

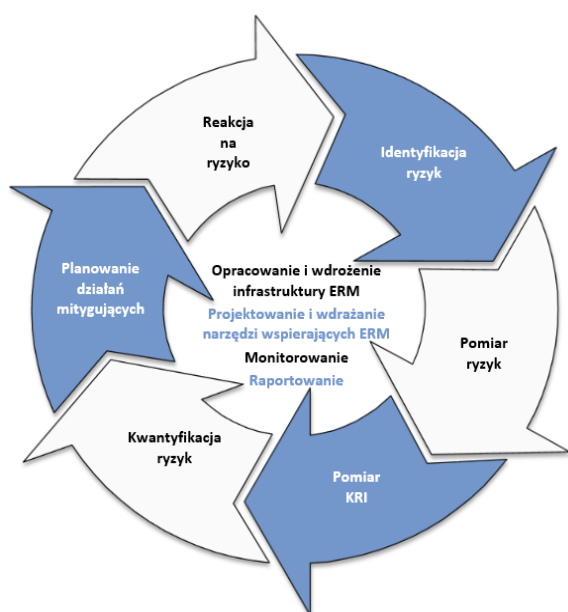
### 11.1 The internal control and risk management systems.

PGE S.A. operates an internal control system as well as a corporate risk management system. These systems comprise all solutions developed and implemented by the Company's management and employees with a view to achieving a reasonable assurance that the Company's business objectives are being achieved. It is the Management Board that is responsible for the establishment of these systems as well as their development, functioning and respective strategies.

Similarly to other entities in the power generation sector, the companies belonging to the PGE Capital Group are exposed to risks and threat resulting from the specific character of their business activities and the functioning in the particular market and regulatory environment.

In the PGE Capital Group, the internal control system (including risk management) is implemented based on the GRC model (Governance - Risk - Compliance). This enables alignment and integration of control processes at all levels and types of management. The Risk Committee, established at the highest management level, gives due prominence to this system, thereby strengthening the effectiveness of risk management in the Group. The definition of this function within the corporate risk management system allows an independent evaluation of particular risks, their impact on the PGE Capital Group as well as the limitation and control of significant risks by means of dedicated instruments. Establishing a separate compliance and internal audit function within the PGE Group guarantees that its business activities are consistent with the applicable legal regulations and ensures that the adopted internal standards are also complied with.

The PGE Capital Group consistently develops its comprehensive risk management system. Risk is assessed and analysed in the key companies belonging to the Group. The mechanisms of identifying areas exposed to risks and manners of measuring their intensity are subject to continual verification and improvement; thanks to this, significant risks concerning the particular operating segments are maintained within the predetermined limits by reducing the negative consequences of such risks and taking pre-emptive 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 actions.



Opracowanie i wdrożenie infrastruktury ERM	Developing and implementing ERM infrastructure
Projektowanie i wdrażanie narzędzi wspierających ERM	Developing and implementing ERM supporting tools
Monitorowanie	Monitoring
Raportowanie	Reporting
Identyfikacja ryzyk	Risk identification
Pomiar ryzyk	Risk measurement
Pomiar KRI	KRI measurement
Kwantyfikacja ryzyk	Risk quantification
Planowanie działań mitygujących	Planning of mitigating activities
Reakcja na ryzyko	Reaction to risk

The most important risk mitigating measures are presented below.

#### Market and product risks.

##### Activities:

- Optimising the sales of electricity from generation assets.
- Using uniform process organisation principles in the context of commercial strategies and medium-term planning.
- Determining a position security level on the basis of the results of measuring the electricity and related products price risk based on "at risk" measures.
- Implementing a strategy to hedge key exposures in electricity and related commodities trading over the medium term. The level of hedging for open positions is set taking into account risk appetite, results of monitoring the risk related to prices of electricity and related products, liquidity of specific markets, the financial position of the Group, as well as the Group's strategic objectives.
- Examining, monitoring, and analysing the markets of electricity and trends in the sector in pursuit of the optimal utilisation of the PGE Group's generation and trading potential.
- Acquiring new customers – diversification of the channels of reaching end customers and target groups by maintaining a comprehensive product portfolio and adjusting offers to the market.

- Maintaining the present customers – a diversified portfolio of loyalising offers as well as activities of an acquisitive character and special offers dedicated to customers lost to competitors.
- Paying special attention to the high quality of customer service by building employees' competencies and shaping relationships in the areas of both corporate and individual customers.
- Using tools supporting customer relations processes and allowing better planning and organisation of sales processes.
- Ensuring the expected level of operational readiness of the individual capacity market units.
- Signing multi-annual contracts for the collection of generated by-products.
- Undertaking appropriate lobbying activities for legislative changes favourable to the Company.
- Preparing duly substantiated financial documents to justify the support requested, possible appeals against decisions of the ERO.

**Property risks.****Activities:**

- Diversifying the existing structure of production sources, introducing a technology reducing the negative impact of weather conditions.
- Implementing actively the strategy of development and modernisation of the PGE Group's own generation capacities.
- Carrying out current overhauls according to the highest sector standards.
- Insuring key generation assets against failure and property damage. Assets are insured on the basis of insurance cost analysis, the available capacities of insurance markets with respect to particular risks or particular types of assets, costs related to possible assets replacement, and potentially lost revenues.
- The Company systematically improves the reliability of energy supply to end users by modernising its distribution network.
- Monitoring continuously environmental laws and regulations and the energy policy.

**Operational risks.****Activities:**

- Optimising the lifetime of equipment and the availability of key assets.
- Conducting overhauls, repairs and modernisations of assets according to schedules.
- Optimising costs, for example, by monitoring the prices and reserves of fuels as well as securing their supplies by means of long-term contracts with suppliers and pricing formulas.
- Maintaining permanent monitoring of service availability.
- Developing Business Continuity Plans for critical systems; developing and testing emergency procedures.
- Ensuring ongoing monitoring of changes in legislation.
- Providing training in regulations aimed at preventing money laundering and terrorist financing.
- Fulfilling the requirement to be familiar with the Good Procurement Practices and the Code of Conduct for Business Partners of the PGE Group companies.
- Ensuring compliance with the acceptance path and internal regulations concerning the procurement process.
- Conducting inspections of the working environment.
- Providing employees with training in occupational health and safety.

- Communicating risks, restrictions and rules related to COVID-19 (a dedicated tab in the Intranet).
- Conducting intensive and effective dialogues with social partners in order to prevent the escalation of any disputes and to develop the most advantageous solutions in the area of employment and related costs within the PGE Capital Group.
- PGE's active participation in traineeship programmes and cooperation with educational centres in order to ensure the inflow of qualified employees.
- Assessing and training the personnel with a view to their optimal deployment in the Group's structure.

**Regulatory and legal risks.****Activities:**

- The monitoring of implemented and proposed legal changes ensures that the activities conducted in the basic business segments are compliant with the applicable regulations and that the PGE Capital Group can use solutions which take into consideration possible changes in the legal environment.
- Social dialogues.
- Exercising operational supervision of planned and ongoing investment and modernisation measures with respect to their compliance with environmental requirements.
- Improving the Group's activities relating to the protection and improvement of the natural environment by implementing technological and organisational solutions ensuring the effective and efficient management of this area.
- Decreasing the carbon intensity of the PGE Group's generation assets, developing low and zero emission generation sources.
- Adjusting internal regulations and business practices so that the conducted activities are consistent with the sector regulations and the applicable legal regulations.
- Monitoring and analysing the state of the PGE Capital Group's regulatory environment at the international level with risk assessment.
- Assessing the impact of regulatory changes proposed at the international level on the PGE Capital Group.
- Issuing opinions and creating changes in the regulatory environment at the international level in the strategic scope.
- Managing cooperation and contact with stakeholders at the international regulatory level, including through the activities of the PGE S.A. Office in Brussels.
- Managing the PGE Group companies' membership in industry organisations, including Eurelectric (through PKEE), COGEN Europe, Eurogas, WindEurope and others, as well as cooperation with Euracoal industry organisations.
- Effective acquisition of external financing and public aid for implementation of planned low- and zero-emission investments by the PGE Capital Group.
- Effective acquisition of external financing and permitted public aid for implementation of planned low- and zero-emission investments by the PGE Capital Group.

**Financial risks.****Activities:**

- In the area of credit risk: before a transaction is entered into, the Company conducts an assessment of the business partner, determines the partner's internal rating and credit limit, which are regularly updated and monitored. Exposures exceeding the determined limits are secured in accordance with the PGE Capital Group's credit risk management policy. The level of utilisation of the limits is monitored on a regular basis, current monitoring of the payment of receivables is also carried out and early debt collection is applied. The Corporate Centre determines and manages the PGE Group's global exposure to individual counterparties

(suppliers and customers of the PGE Group companies) based on the exposure of individual PGE Group companies.

- In the area of financial liquidity management: the Group uses a central financing model according to which, as a matter of principle, external financing is acquired by PGE S.A. The Group's subsidiaries take advantage of various sources of intra-group financing, and the risk of losing liquidity is monitored by means of the tools of periodic planning related to the conducted operating, investing and financing activities. Due to a very significant impact of high volatility of market prices – electricity and related products (CO2 emission allowances, gas and coal) – on the demand for working capital necessary to finance the conducted trading activities (including in particular the financing of security deposits on exchanges where the PGE Capital Group conducts trading activities), it is of key importance to ensure adequate financial liquidity to finance these activities. Analyses are carried out with the aim to optimise the PGE Capital Group's financing model in the context of ensuring financing of its operating activities (commercial strategy), investment activities, and financial activities of the PGE Capital Group. The Company monitors the maintenance of the net debt/EBITDA ratio at a level that guarantees that its credit ratings remain at investment grade and, consequently, that it can finance the implementation of the Group's strategy.
- With respect to the currency risk and interest rate risk, the PGE Capital Group has adopted internal principles of managing these risks. The companies belonging to the PGE Capital Group enter into derivative transactions related to instruments based on an interest rate and/or currency (IRS, CCIRS, FX Forward) exclusively for the purpose of securing identified exposures to the risks. The regulations in force in the PGE Capital Group do not allow, with regard to interest rate and currency derivative transactions, entering into speculative transactions, i.e. transactions which would be aimed at generating additional profits resulting from changes in the level of interest rates and foreign currency exchange rates, while exposing the Company to the risk of incurring a potential loss on this account.

The PGE Group does not focus exclusively on risks related to its ongoing activities. Risks that may affect the Group's operations over the next decade are also identified and assessed. Personnel at the highest management level (Management Board Members and Division Directors) assess the impact of the perception of the development of long-term risks. Each long-term risk is assessed in terms of its impact on the achievement of the Group's objectives, image and business continuity. These activities allow the PGE Group to prepare for new challenges and secure its long-term development.

While threats to the ongoing activities influence the Group's functioning and financial results, risks of a strategic character may determine success in implementing a particular strategy or the future of the whole organisation. Their identification is of key importance for ensuring the stability of the PGE Group.

The following are the areas in which challenges and risks for the PGE Group are identified in the perspective of the next decade:

- Geopolitics
- Macroeconomics
- Climate change (meteorology)
- Energy generation sources
- Access to capital
- Law and regulations
- Technological revolution
- Social preferences
- Security
- Competition

## 11.2 The compliance management system in the PGE Capital Group.

### **Compliance in the PGE Capital Group.**

The PGE Group management system's functioning and continuous improvement are based on legal regulations, adopted values and ethical standards of operation. The PGE Group operates in compliance with the law, internal regulations and high ethical standards. Consequently, it requires compliance with the same rules of conducting business from its counterparties. The PGE Capital Group operates a

compliance management system based on the recommendations of the ISO 37301 Compliance Management Systems (CMS) standard, which formulates the requirements for developing, implementing and ensuring the effectiveness of compliance management systems. The system is also consistent with the standards set by the Warsaw Stock Exchange: "Recommended standards for a compliance management system with respect to counteracting corruption and a whistleblower protection system in companies listed on the markets organised by the Warsaw Stock Exchange".

The PGE Group has an organisational structure dedicated to the performance of compliance tasks. In PGE SA, it is the Compliance Department, whose director, acting in the capacity of Compliance Officer, reports directly to the Audit Committee of the PGE Supervisory Board. The companies and branches of the PGE Group appoint Compliance Coordinators who report to the head of the Compliance Department in PGE SA with respect to the performance of their tasks. These persons are also provided with an appropriate direct reporting path to the Management Board of a given company. Currently, there are 56 Compliance Coordinators in the PGE Group. In 2021, the compliance management system in the PGE Group comprised the Corporate Centre and 23 companies – direct subsidiaries of PGE S.A. conducting active operations. The implemented solutions apply to all employees of the PGE Capital Group and other persons performing work for the Group, regardless of their positions.

The main objective of the compliance function in the PGE Capital Group is to support the implementation of the Strategy of the PGE Capital Group as the most effective and flexible power utility in Poland and to minimise non-compliance risks which could result in penalties, fines or tarnished reputation in consequence of non-compliance with regulations and standards sanctioned by the law or constituting the best practices in the sector.

In order to achieve successfully the aforementioned key objectives, the PGE Capital group:

- develops the organisational culture of the PGE Capital Group on the basis of the legal compliance principle, the ethical standards and the sustainable business principles which are reflected particularly in such internal regulations as the code of ethics, the code of conduct for business partners, and the anti-corruption policy;
- implements clear and transparent processes ensuring the possibility of identifying, clarifying and immediately eliminating any cases of non-compliance;
- conducts education activities and communicates issues related to compliance with the law and internal regulations as well as compliance and business integrity.

### **The organisation of the compliance function in the PGE Capital Group.**

#### The Supervisory Board of PGE S.A.

The Supervisory Board supervises and monitors the compliance management system within the PGE Capital Group, evaluates the effectiveness of the compliance system and function on the basis of, among other things, periodic reports. The tasks related to the ongoing supervision and monitoring of the compliance system will be the responsibility of the Audit Committee of the Supervisory Board.

#### The Management Board of PGE S.A.

Within the internal control system, the Management Board of PGE S.A. implements and maintains, besides the risk management function and the internal audit function within the internal control system, an effective compliance management system, implements adequate and effective solutions ensuring that the employees and executives of the PGE Capital Group will conduct business activities in an honest and ethical manner consistent with the legal and regulatory obligations and with the adopted internal regulations of the PGE Capital Group. The Management Board of PGE S.A. in particular manages the course of compliance management in the PGE Capital Group and ensures resources necessary for the effective execution of the process, provides the organisational unit competent for compliance affairs with necessary access to information and data indispensable for the execution of its tasks, determines the main directions in compliance management in the PGE Capital Group, provides the Supervisory Board (including its Audit Committee) with relevant information and reports concerning the functioning of the compliance management system in the PGE Capital Group.

#### Compliance Department in PGE S.A.

The director of the Compliance Department reports to a member of the PGE S.A. Management Board. The basic role of the compliance function is supporting the organisation in the development of an organisational culture based on the principle of compliance with the law, the principles of ethics, and the principles of sustainable business. The organisational structure of the Compliance Department comprises two divisions:

- the Compliance Management Division;
- the Compliance Control Division.

#### Organisation of the system in the PGE Capital Group.

The compliance management system in the PGE Group comprises the Corporate Centre and direct subsidiaries of PGE S.A. conducting active operations. In indirect subsidiaries, the compliance system is implemented through their supervisory companies. In total, the system covers 24 companies.

In the companies of the PGE Capital Group, the role of compliance is fulfilled by employees appointed as Compliance Coordinators or employees who have been assigned the function of Compliance Coordinators as part of their additional duties. In order to ensure an efficient response to the companies' needs in the area of Corporate Centre support and to facilitate a comprehensive analysis of their individual needs, each company has been assigned dedicated Compliance Department employees as supervisors. A supervisor, through better knowledge of the specifics of the company's operations, provides more effective support to the Compliance Coordinator in his tasks, but also passes on experiences and lessons learned from specific situations when designing group solutions in the Corporate Centre.

#### Annual Compliance Report 2021.

In order to simplify the Compliance reporting process, the Annual Compliance Report for 2021 was developed. It consists of a synthesis of the information contained in:

- PGE Capital Group Compliance Assessment for the period October 2020 - September 2021;
- PGE Capital Group Compliance Review for 2021;
- PGE Capital Group Compliance Programme for 2022.

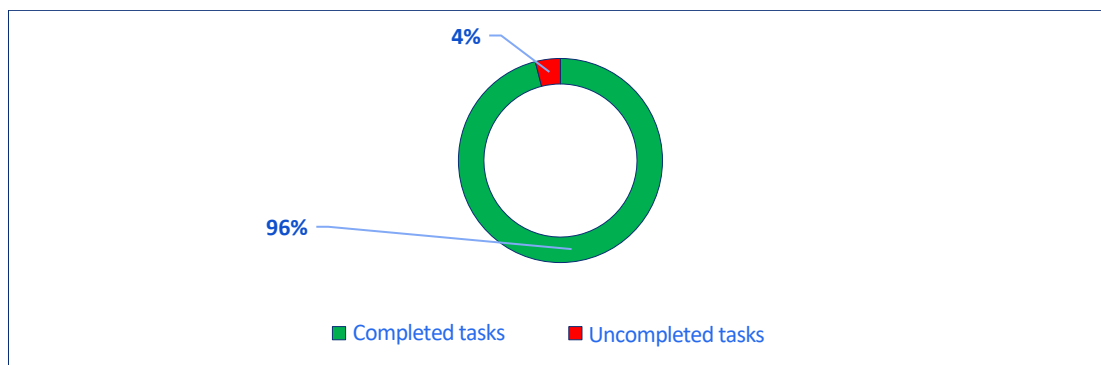
An analysis of the content of the documents prepared to date (PGE Capital Group Compliance Assessment, PGE Capital Group Compliance Review, and PGE Capital Group Compliance Programme) shows that it was advisable to merge them, which made the material clearer and more concise, among other things by avoiding repetition.

The basic tool used to perform the compliance function in the PGE Group is an annual compliance programme.

With respect to the reporting year covered by this report of the Supervisory Board, "The Compliance Programme of the PGE Capital Group for 2021" adopted by the Management Board in resolution no. 47/22/2021 of 23 March 2021 and "The Compliance Program of PGE Polska Grupa Energetyczna S.A. for 2021" adopted by the Management Board in resolution no. 173/25/2021 of 08 April 2021 were in force.

The tasks under the Compliance Programmes of the PGE Capital Group companies were completed in 96%, which means that the level of completion is 10 percentage points higher than in 2020. The performance of the Compliance Programmes can be considered very good, all the more so as it was another year when there were restrictions on social distance (remote working) caused by COVID-19.

Graph no. 1 The status of the performance of the PGE Capital Group Compliance Programme tasks for 2021. [%]



The individual PGE Group companies completed their tasks from the adopted Compliance Programmes at a level of at least 90%, and some have completed their tasks in 100%. Such a result was achieved by the following eight companies:

- PGE Ventures sp. z o.o.,
- PGE Ekoserwis S.A.,
- MegaSerwis sp. z o.o.,
- ELBIS sp. z o.o.,
- BETRANS sp. z o.o.,
- Elbest sp. z o.o.,
- PGE Synergia sp. z o.o.,
- PGE Dom Maklerski S.A.

It should be noted that in the previous evaluation cycle (for 2020), none of the companies achieved 100% implementation of the Compliance Programme.

The main tasks approved in the Compliance Programme for the PGE Capital Group companies for 2021 included:

- approval and implementation of the amendment of the documents on counteracting corruption in the PGE Capital Group (i.e. the Anti-Corruption Policy and the General Procedure for Counteracting Corruption);
- conducting a cycle of refresher training on the Code of Ethics and Anti-corruption;
- educational activities on avoiding and managing conflicts of interest (guidelines, articles, L&L);
- cooperation in the preparation of a legal guide with the Department of Law and Corporate Governance (on a monthly basis);
- preparing for the entry into force of Directive (EU) 2019/1937 of the European Parliament and of the Council on the protection of whistleblowers (the so-called whistleblower protection directive);
- implementing the AML Procedure for the PGE Capital Group and carrying out monitoring in the companies PGE Synergia sp. z o. o. and PGE Energia Ciepła S.A. in this area;
- developing a group regulation (Policy) on counteracting mobbing and discrimination.

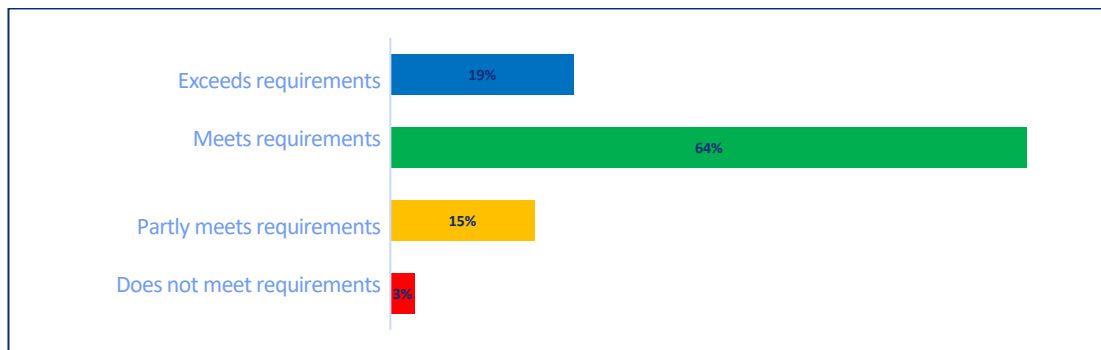
Most of the above tasks were completed in full, except for tasks related to communication. However, it should be mentioned that the tasks related to communication were not performed for reasons beyond the control of the Compliance Department of PGE S.A. The unfulfilled part of the task included communication in the scope of ensuring availability of communication materials and documents (EC, KPPB, anti-corruption brochure), posters, leaflets according to the guidelines sent to the Compliance Department and implementation of new communication materials in the company in accordance with the guidelines provided by the Compliance Department. This was due to delays connected with updating the Visual Identification System as part of the new brand strategy - We lead in the green change.

For 2021, PGE S.A. had 10 main tasks planned in the Compliance Programme, comprising 65 sub-tasks, five of which were not completed. Considering the previous year, the proportion of uncompleted tasks in the Compliance Programme improved. In 2021, 92% of the planned tasks were completed, including the completion of all tasks relating to the following objectives:

- implementation of the Compliance Management process;
- the Compliance Academy in terms of conducting training;
- organisation and resources of the compliance management system;
- practical implementation of the elements of the Code of Ethics in the functioning/implementation of business processes in the PGE Capital Group companies (the so-called operationalisation of the Code of Ethics);
- activities in the field of counteracting abuses (other than corruption);
- counteracting corruption and conflict of interest (training activities included in the Compliance Academy);
- Compliance monitoring.

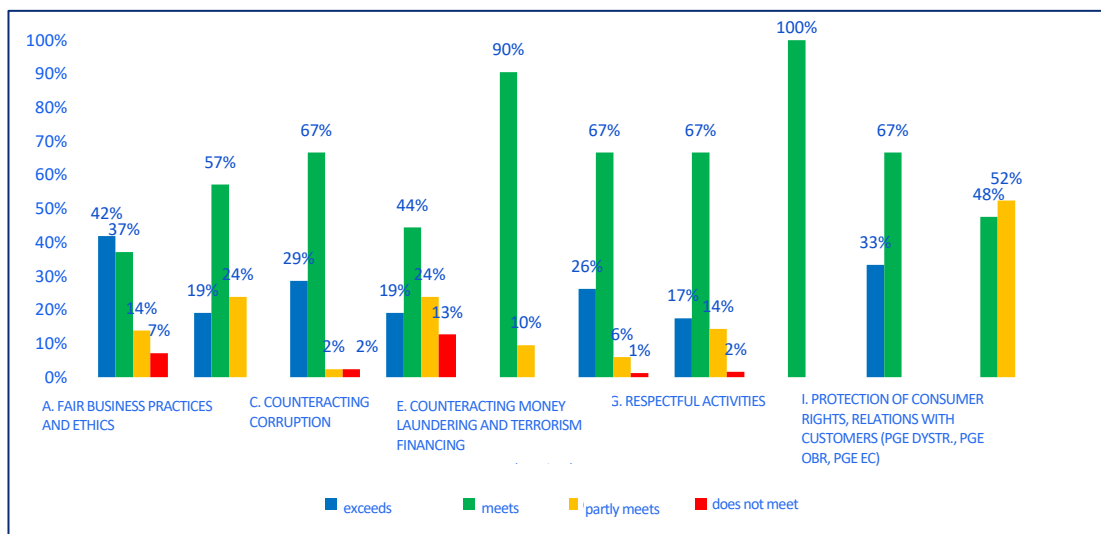
The results of the compliance assessment for the period October 2020 - September 2021 indicate steady progress in building an organisational culture based on the values and principles contained in the PGE Group Code of Ethics, as shown in Graph 2. Activities in this respect will continue within the framework of the tasks included in the PGE Group Compliance Programme for 2022 and recommendations included in individual company assessments.

Graph no. 2 The total averaged results for all surveyed categories.



The assessment examined 10 areas of Compliance: fair business principles and ethics, counteracting fraud, counteracting corruption, counteracting conflict of interest, counteracting money laundering and terrorist financing (AML/FT), relations with business partners, respectful activities, personal data protection, fair competition principles (applicable to PGE S.A., PGE Dystrybucja S.A., PGE Obrót S.A., PGE EC S.A.), protection of consumer rights, customer relations (applicable to PGE Dystrybucja S.A., PGE Obrót S.A., PGE EC S.A.). In the areas requiring improvement, actions were planned in the Compliance Programme for 2022. The graph below presents the aggregate results of the compliance assessment for the period under review.

Graph no. 3 The summary results of the compliance assessment for the period October 2020 - September 2021.



\* Within the framework of the assessment in parts H and I, the issues concerned only selected companies.

**The Supervisory Board evaluates positively the functioning of the compliance management system in PGE S.A. in 2021.**

### 11.3 Internal audit.

As a company listed on the regulated market managed by the Warsaw Stock Exchange ("WSE"), PGE S.A. follows the WSE's recommendations included in the 2016 and 2021 editions of the document entitled "The Good Practices of Companies Listed on the Warsaw Stock Exchange" concerning the maintenance of an effective internal audit function corresponding to the Company's size as well as the type and scale of the conducted business activities. In PGE S.A. and in the PGE Capital Group, the internal audit function is fulfilled by the Group's own structures established and developed in accordance

with The International Standards of the Internal Audit Professional Practice promoted by the international auditors' organisation – the Institute of Internal Auditors (IIA). The audit structures cover all PGE Capital Group companies, with the PGE Audit Department playing the leading role, which includes the implementation of audit in the PGE Capital Group as well as the coordination and supervision of the activities of the audit structures in the PGE Capital Group companies.

In 2021, a process of consolidation of the internal audit area in the PGE Capital Group was carried out. As a result of this process, since 1 October 2021, the Audit Department has been providing audit support services to the PGE Capital Group companies on the basis of concluded agreements. Agreements were concluded with 33 PGE Capital Group companies. The resources of the consolidated Audit Department were built on the basis of the audit structures functioning in PGE Capital Group companies, as a result of internal recruitment. The consolidation of the resources did not cover the company PGE Górnictwo i Energetyka Konwencjonalna S.A., together with selected subsidiaries and supervised companies, due to their planned separation to the NESAs.

The Company's internal audit covers all areas of the PGE Capital Group's operations with the exception of the protection of classified information, the control of which is regulated by the Act. The objective of internal audit is to carry out, in a systematic and orderly manner, an independent and objective assessment of the business processes conducted by the PGE Capital Group with respect to the implementation of effective and appropriate systems of risk management, control, and corporate governance. The internal audit system functions on the basis of the Internal Audit Regulations developed pursuant to the International Standards for the Professional Practice of Internal Audit, carrying out planned and ad hoc audit tasks in both the parent company and the subsidiaries. Internal audit supports the PGE Group in achieving its objectives by providing the corporate bodies, the management, and the PGE Group companies with information on the effectiveness of the processes of risk management, control and corporate governance, as well as related consultancy. The results of audits are reported to the Management Board as well as the Audit Committee of the Supervisory Board.

#### **Audit Regulations**

The Audit Regulations of the PGE Capital Group define the principles for the implementation of internal audit in PGE and the companies of the PGE Capital Group, the ethical standards applicable to internal auditors and the principles for the Compliance Department's coordination or monitoring inspections and audits carried out in the companies of the PGE Capital Group by external entities.

#### **Audit plan**

Internal audit activities are of a planned character. The activities of the Audit Department are based on an annual audit plan which is approved at the level of the Management Board. The plan is built on the basis of audit needs identified and reported by the Supervisory Board, members of the Management Board and directors of the PGE S.A. organisational units, as well as other audit needs occurring in the PGE Group companies.

The audit plan addresses the issues of audit tasks to be carried out in whole by the audit teams of the Audit Department and tasks to be performed jointly with the auditors of the PGE Group companies (under the supervision of an Audit Department coordinator) – such tasks constitute opportunities for providing comprehensive information on an examined area at a level of the PGE Group (from many companies).

#### **Ad hoc measures**

Irrespective of the execution of an audit plan, the Audit Department may apply ad hoc audit measure initiated at the request of a member of the PGE Management Board supervising the Audit Department. In connection with the consolidation of the audit area in the PGE Capital Group carried out in 2021, as well as the conclusion of agreements with PGE Capital Group companies for the provision of audit support services, as of 1 October 2021 an ad hoc audit task may also be performed on the basis of a written order from the President of the Management Board of a company to be audited, a member of the Management Board indicated by the President or a member of the Management Board to whom the audit area has been allocated in accordance with the division of duties.

Furthermore, the Audit Department may conduct explanatory procedures for the purpose of preliminary verification of information on possible irregularities – the result of such a procedure is the ascertainment that there are or there are not reasons for initiating an ad hoc audit measure.

#### **Monitoring of recommendations**

The implementation of recommendations from audit tasks is the responsibility of the management of relevant organisational units in PGE or the PGE Group companies. Pursuant to the Internal Audit Regulations, the Audit Department monitors the process of implementing given recommendations.

#### **Audits in 2021**

Audit activities were based on the annual audit plan of the PGE Group as approved by the Management Board. In addition, in connection with the consolidation of the audit area in the PGE Capital Group, since 1 October 2021 the Audit Department has also been carrying out tasks submitted by the companies on the basis of concluded agreements, and work has been continued on the tasks started by the audit units in the consolidated companies that had not been completed by 30 September 2021.

In 2021, the Audit Department was involved in the performance of 61 tasks, including 54 audit tasks and 7 clarifying investigations.

#### **Resources of the Audit Department**

Until 30 September 2021, in accordance with the existing Detailed Regulations of the Audit Department, there had been two audit implementation cells within the Department:

- the Audit Division responsible for the performance of scheduled audits,
- the Ad Hoc Audit Division responsible for the performance of ad hoc audits.

There was also a two-person Analysis and Reporting Team within the structure of the Audit Department responsible for analytical support for audit teams and for current activities such as: development of plans and collective statements and reports on the Audit Department's activities, coordination of inspections carried out in PGE by external entities, monitoring of the implementation of issued recommendations, etc. Due to the large number of outsourced tasks, the Team's members also performed audit tasks.

As of 1 October 2021, in connection with the consolidation of the audit area in the PGE Capital Group, the following audit implementation units operate within the Audit Department:

- - the Audit Division at the Audit Department Headquarters – dedicated to the performance of scheduled audits in the PGE Capital Group,
- the Ad-hoc Audit Division at the Audit Department Headquarters – dedicated to the performance of ad-hoc audits in the PGE Capital Group,
- the Audit Office for District Heating and UPS – dedicated to the performance of planned and ad hoc audits in the District Heating and Circular Economy Business Segments,
- the Audit Office for Distribution – dedicated to the performance of planned and ad hoc audits in the Distribution Business Segment,
- the Audit Office for Trading – dedicated to the performance of planned and ad hoc audits in the Trading Business Segment,
- the Audit Office for RES – dedicated to the performance of planned and ad hoc audits in the Renewable Energy Sources Business Segment.

Due to the fact that audit activities in the PGE companies are currently performed on the basis of concluded audit support agreements, the Analysis, Reporting and Settlement Division was established in the Audit Department structure on the basis of the Analysis and Reporting Team. It deals in particular with conducting settlements with the companies, invoicing and other activities related to cooperation with the companies, and is also responsible for current activities, such as the development of plans and collective statements and reports concerning the Department's operations, coordination of inspections carried out in PGE by external entities, monitoring the implementation of issued recommendations, etc. The Department's employees also perform audit tasks. In addition, the Department's responsibilities will include issues related to internal audit, which is subject to consolidation from 1 July 2022.

#### **Training**

Participation in training courses and conferences mainly involves participation in the Audit Academy – a series of training courses for auditors from PGE and the PGE Capital Group companies with internal audit units (or independent auditor positions).

#### **Coordination and monitoring of external inspections**

The Audit Department is responsible for the coordination of external audits carried out in PGE, as well as for the maintenance of the entrepreneur's audit book. The Audit Department also maintains a repository of knowledge concerning inspections conducted in the PGE Capital Group by external control bodies.

In 2021, PGE S.A. underwent one inspection conducted by the State Labour Inspectorate.

On the basis of information provided by the internal audit units in the companies of the PGE Capital Group, the Audit Department also maintains a register of audits carried out in these companies.

The information provided by the audit units of the PGE Capital Group companies shows that in 2021 external audit bodies carried out 241 external audits in the companies.

**Taking into account the day-to-day supervision of the Audit Department's activities performed, inter alia, through reporting to the Audit Committee of the Supervisory Board of PGE S.A., the Supervisory Board positively evaluates the operation of the internal audit function in PGE S.A. in 2021.**

#### 11.4 Internal control and risk management mechanisms in the process of preparing financial statements.

In particular, the following internal control and risk management mechanisms are used in the process of drawing up the Company's financial statements: internal procedures regulating the process, the mechanisms of managing IT systems used in financial information recording and reporting as well as their protective mechanisms, the principles of supervision over the preparation of financial statements, the principles of the verification and evaluation of financial statements, internal audits and corporate risk management as well as other elements of control.

The accounting policy of the PGE Capital Group consistent with the International Financial Reporting Standards ("IFRS") as approved by the European Union is obligatory for all companies following the IFRSs in drawing up their statutory financial statements and reporting packages for consolidation purposes. Before every reporting period the companies subject to consolidation receive from PGE S.A. detailed guidelines concerning the methods and deadlines for closing their account books, drawing up and submitting reporting packages, as well as a specimen package updated for a particular period.

The Company keeps its account books in the integrated IT system. The system ensures the division of competences, the consistence of postings in the books, and control between the general ledger and subsidiary ledgers. There exists a possibility of modifying the functionality of the system in order to ensure the suitability of technical solutions for the changing accounting rules and legal regulations.

Financial statements are consolidated by means of a dedicated financial management software. This software, among other things, automates repetitive consolidation adjustments, ensures internal consistency of reporting data, and generates reports which are the basis for preparing consolidated financial statements.

The preparation of standalone and consolidated financial statements is the responsibility of the Director of the Reporting and Taxes Department. The preparation of reporting packages subject to consolidation is the responsibility of the management of particular companies.

An independent evaluation of the reliability and correctness of the financial statements prepared by PGE and the companies subject to the process of consolidation is carried out by certified auditors.

The PGE Capital Group operates a multi-stage process of approving financial statements, including also the participation of the Supervisory Boards. It is the Supervisory Board that evaluates the separate and consolidated financial statements of PGE. One of the permanent committees of the Supervisory Board is the Audit Committee. Its duties include, among others, monitoring the independence of the certified auditor, monitoring the effectiveness of the internal control systems, and reviewing periodic and annual financial statements of the Company. The standalone financial statements of the companies subject to the process of consolidation are evaluated by their respective Supervisory Boards. The financial statements are approved by General Meetings.

**The Supervisory Board positively evaluates the operation of the internal control, risk management and compliance systems, as well as and the internal audit function in PGE S.A. in 2021.**

## 12. An evaluation of the Company's fulfilment of its information obligations.

### 12.1 The information obligations concerning the application of the principles of corporate governance specified in the Regulations of the Warsaw Stock Exchange.

In 2021 PGE was bound by the corporate governance principles included in the following documents: "The Good Practices of Companies Listed on the WSE 2016" ("The Good Practices 2016") and "The Good Practices of Companies Listed on the WSE 2021" ("The Good Practices 2021"). The Good Practices 2016 were adopted by the Board of the Warsaw Stock Exchange in resolution no. 26/1413/2015 of 13 October 2015. They came into force on 1 January 2016 and were followed by PGE from that date to 30 June 2021. The Good Practices 2021 were adopted by the Board of the Warsaw Stock Exchange in resolution no. 13/1834/2021 of 29 March 2021 and have been followed by PGE since 1 July 2021.

In the first half of 2021 the Company followed The Good Practices 2016 with the exception of the following recommendation: IV.R.2.

Recommendation IV.R.2 included in Chapter IV "The General Meeting and relations with shareholders" concerns an obligation to provide shareholders with a possibility to participate in a general meeting based on the use of means of electronic communication.

The PGE Management Board proposed twice that the shareholders amend the Company Statutes and the Regulations of the General Meeting, introducing provisions allowing the organisation of general meetings in the manner specified in The Good Practices. The shareholders did not approve the proposal neither at the Ordinary General Meeting held on 30 May 2012 nor at the Extraordinary General Meeting held on 27 June 2013.

According to the Management Board, non-compliance with the aforementioned principle had no impact on the reliability of the information policy and did not create any risk of limiting or hindering the shareholders' participation in general meetings. The Company provided a real-time broadcast of the General Meeting.

In accordance with Rule I.Z.1.15 of the Good Practices, the Company was to provide information on its diversity policy with respect to the Company's governing bodies and key managers or to explain its decision not to provide such information.

The Ordinary General Meeting held on 26 June 2020 adopted resolution no. 24, which clarified the rules for the appointment of persons to managerial positions by introducing the following provision into the Company Statutes: "Members of the Management Board shall be appointed for a joint term of office which lasts 3 years. A member of the Management Board shall meet the conditions specified in Article 22 of the State Property Management Act."

PGE S.A. has not yet developed a diversity policy with respect to the Company's authorities and its key managers. The process of selecting persons for managerial and management positions takes into account such elements as appropriate education, professional experience, qualifications and competences of candidates and does not disqualify candidates in any way due to the diversity policy elements indicated in the aforementioned principle. Elements of the diversity policy are described in the Code of Ethics of the PGE Capital Group. Each employee is obliged to follow the principles resulting from the Code of Ethics. It contains regulations on the equal treatment of people the use of their potential irrespective of age, gender, religion, marital status, type of contract, experience or any other factors. Regular training events are held for all employees on the application of the principles resulting from the Code of Ethics. The PGE Capital Group has also implemented "The Age Management Strategy".

Since 1 July 2021, the Company has followed The Good Practices 2021 with the exception of the principles 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 "In its business strategy, the company also takes into account ESG topics, in particular covering social and labour issues, concerning, inter alia, measures taken and planned to ensure gender equality, sound working conditions, respect for employees' rights, dialogue with local communities, customer relations".

In its business strategy, the Company takes into account broad social and labour issues, however the strategy does not include issues related to the actions taken or planned to ensure gender equality.

- 1.4.2 "In order to ensure proper communication with stakeholders regarding the adopted business strategy, the company publishes information on its website about the principles of its strategy, measurable objectives, including in particular long-term objectives, planned activities and progress in its implementation, defined by financial and non-financial metrics. The information on the strategy in the ESG area should, inter alia, present the value of the pay equity ratio paid to its employees, calculated as a percentage difference between the average monthly pay (including bonuses, prizes and other benefits) of women and men for the last year, and present information on actions taken to eliminate possible inequalities in this respect, together with a presentation of related risks and the time horizon in which it is planned to achieve equality".

Currently, the Company does not provide information on measures taken and planned to ensure gender equality in remuneration. Along with information on progress in implementing the Strategy, the Company will provide indicators of equal pay.

- 2.1 "The company should have a diversity policy for the management board and the supervisory board, adopted by the supervisory board or the general meeting respectively. The diversity policy sets out the objectives and criteria for diversity in areas such as gender, field

of study, specialist knowledge, age and professional experience, and indicates when and how the achievement of these objectives is monitored. In terms of gender diversity, the condition for ensuring the diversity of the company's governing bodies is a minority share of no less than 30%."

PGE S.A. has not yet developed a diversity policy with respect to the Company's governing bodies. The process of selecting persons for managerial positions takes into account such elements as appropriate education, professional experience, qualifications and competences of candidates and does not disqualify candidates in any way due to the diversity policy elements indicated in the aforementioned principle.

- 2.2 "The persons deciding on the election of members of the company's management Board or supervisory board should ensure the comprehensiveness of these bodies by selecting persons to ensure diversity in their composition, making it possible, inter alia, to achieve the target ratio of minimum minority participation set at not less than 30%, in accordance with the objectives set out in the adopted diversity policy referred to in principle 2.1."

PGE S.A. has not yet developed a diversity policy with respect to the Company's governing bodies. The process of selecting persons for managerial positions takes into account such elements as appropriate education, professional experience, qualifications and competences of candidates and does not disqualify candidates in any way due to the diversity policy elements indicated in the aforementioned principle.

- 2.11.6 "In addition to the activities required by law, once a year the supervisory board prepares and presents an annual report to the ordinary general meeting for approval. The report referred to above includes at least: information on the extent to which the diversity policy in respect of the management board and the supervisory board has been implemented, including the achievement of the objectives referred to in principle 2.1."

The Company does not have a formalised diversity policy in relation to its Management Board and Supervisory Board.

- 3.5 "Those responsible for risk management and compliance report directly to the CEO or another member of the management board."

According to the current organisational structure, the person responsible for risk management reports to the director of the finance division, who reports directly to a member of the Management Board.

- 3.7 "Principles 3.4 - 3.6 also apply to entities within the company's group that are very important for its operations if they have designated persons to perform these tasks".

Principle 3.5 is not met in the case of persons responsible for risk management in certain companies that belong to the PGE Capital Group and are very important for PGE's operations.

- 3.8 "At least once a year, the person responsible for internal audit, or, if no such function has been separated in the company, the company's management board, presents to the supervisory board an assessment of the effectiveness of the systems and functions referred to in principle 3.1, together with an appropriate report."

At present, information on the assessment of the effective functioning of the systems and functions referred to in principle 3.1 (internal control, risk management and compliance, as well as an effective internal audit function) is presented to the Supervisory Board by the directors of the various departments and the President of the Management Board. The Company's governing bodies will take steps to apply the principle, entrusting this task to the competent internal audit function.

- 4.1 "The Company should enable shareholders to participate in the general meeting by means of electronic communication (e-meeting) if this is justified in view of the shareholders' expectations communicated to the Company, provided that it is able to provide the technical infrastructure necessary for holding such a general meeting".

The Management Board of PG S.A. proposed twice that the shareholders amend the Company Statutes and the Regulations of the General Meeting, introducing provisions allowing the organisation of general meetings in the manner specified in The Good Practices. The shareholders did not approve the proposal neither at the Ordinary General Meeting held on 30 May 2012 nor at the Extraordinary General Meeting held on 27 June 2013. The Management Board does not rule out the possibility of following the aforementioned principle in the future. According to the Management Board, non-compliance with the aforementioned principle will have no impact on the reliability of the information policy and does not create any risk of

limiting or hindering the shareholders' participation in general meetings. The Company provides a real-time broadcast of the General Meeting.

- 6.4 "The supervisory board performs its tasks on a continuous basis, therefore the remuneration of board members cannot depend on the number of meetings held. The remuneration of the members of committees, in particular the audit committee, should take into account the additional workload related to the work in these committees."

The remuneration of the members of the Supervisory Board does not depend on the number of meetings, but work in the committees is not additionally remunerated.

In accordance with the requirements of paragraph 29.3 of the Regulations of the Warsaw Stock Exchange, PGE provided information on the status of application of the Good Practices 2021 by the company in its EBI Report no. 1/2021 of 30 July 2021. The document "Information on the status of application of the Good Practices 2021" was also published on the website [www.gkpge.pl](http://www.gkpge.pl) in the section dedicated to corporate governance.

## 12.2 The information obligations concerning the application of the principles of corporate governance specified in the rules of providing current and periodic information by issuers of securities.

Applicable as at the date of publishing the PGE 2021 annual report, i.e. 22 March 2022, the Regulation of the Minister of Finance of 29 March 2018 on current and periodical information to be released by issuers of securities and the conditions for recognising as equivalent information required under the laws of a country which is not a Member State (Journal of Laws of 2018, item 757) obliges issuers of securities to publish announcements about the application of the corporate governance principles in an annual report on an issuer's activities (§ 70 clause 6 item 5). In 2022, pursuant to the aforementioned Regulation, the Company made a relevant declaration in "The Management Board's report on the activities of the company PGE Polska Grupa Energetyczna S.A. and the PGE Capital Group for the year ended 31 December 2021" concerning the application of the corporate governance principles in the year 2021, which was publically announced on 22 March 2022.

The aforementioned declaration includes information which fulfils the requirements of the aforementioned Regulation, including:

- Information on the collection of the corporate governance principles binding the Company in 2021,
- Information on refraining from the application of the corporate governance principles,
- Information on the diversity policy,
- A description of the basic features of the systems of internal control and risk management related to the process of drawing up standalone and consolidated financial statements,
- Information on the Company's shareholders holding significant blocks of shares,
- Information on the Company's shareholders having special controlling powers,
- A description of limitations in the exercise of voting rights related to existing shares,
- A description of limitations in the assignment of titles to securities issued by the Company,
- Information on the rules of amending the Company Statutes,
- A description of the manner of the functioning of the General Meeting and its basic powers as well as the shareholders' rights and their exercise,
- A description of the rules concerning the appointment and dismissal of managers and supervisors as well as their powers,

Information on the composition and activities of the Company's management and supervisory bodies as well as the Supervisory Board's committees,

- Additional information concerning the audit committee, including information on the fulfilment of the independence criteria, knowledge and skills of the members of the committee, the policy of selecting an audit firm,

Information on remuneration of the members of the governing bodies of PGE S.A.,

- Information on shares and other securities.

The principles of "The Good Practices of Companies Listed on the WSE 2021" were presented by the Management Board to the Supervisory Board together with information on the status of their application and limitations in the possibility to follow all best practices. The Supervisory Board's verification of the

Company's fulfilment of its information obligations regarding the application of corporate governance principles was carried out within the framework of the evaluation of the Management Board's Report on the Activities of PGE Polska Grupa Energetyczna S.A. for the year 2021 regarding the Statement on the application of corporate governance.

**The Supervisory Body evaluates positively the manner of the Company's fulfilment of its information obligations concerning the application of the corporate governance principles as specified in the Regulations of the Warsaw Stock Exchange and the rules of providing current and periodic information by issuers of securities.**

Chairperson of the Supervisory Board  
of the company PGE Polska Grupa Energetyczna S.A.

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Anna Kowalik

Members of the Supervisory Board:

Janina Goss /-/ [An illegible signature]

Zbigniew Gryglas /-/ [An illegible signature]

Tomasz Hapunowicz /-/ [An illegible signature]

Marcin Kowalczyk /-/ [An illegible signature]

Grzegorz Kuczyński /-/ [An illegible signature]

Mieczysław Sawaryn /-/ [An illegible signature]

Artur Składanek /-/ [An illegible signature]

Radosław Winiarski /-/ [An illegible signature]