



Supervisory Board  
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**The report of the Supervisory Board of PGE Polska  
Grupa Energetyczna S.A. on its evaluation of the  
statements and reports for the year 2023, the proposal  
concerning the allocation of the net loss for the year  
2023 and the Management Board's fulfilment of the  
information disclosure obligations resulting from the  
Commercial Companies Code**

Adopted by resolution of the Supervisory Board no 371/XII/2024 of 29 May 2024

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## Introduction.

Acting pursuant to Article 382 § 3 of the Commercial Companies Code and § 18 clause 1 items 1 and 2 of the Statutes of PGE Polska Grupa Energetyczna S.A., and with respect to the content of Article 4a in connection with Article 49b clause 9 and Article 55 clause 2c of the Accounting Act of 29 September 1994 ("Accounting Act"), the Supervisory Board evaluated the following:

1. The EU-IFRS-compliant separate financial statements of the company PGE Polska Grupa Energetyczna S.A. for the year 2023 ended 31 December 2023 (in PLN million),
2. The EU-IFRS-compliant consolidated financial statements of the company PGE Polska Grupa Energetyczna S.A. for the year 2023 ended 31 December 2023 (in PLN million),
3. 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 2023,
4. The non-financial information statement on the activities of PGE Polska Grupa Energetyczna S.A. and the PGE Capital Group for the year 2023 ended 31 December 2023.
5. The motion of the Management Board to be submitted to the General Meeting of PGE Polska Grupa Energetyczna S.A. and relating to the proposed allocation of the Company's net loss for the financial year 2023.

In its resolution no. 340/XII/2024 of 4 April 2024, the Supervisory Board of PGE Polska Grupa Energetyczna S.A. evaluated positively the following documents:

1. The EU-IFRS-compliant separate financial statements of the company PGE Polska Grupa Energetyczna S.A. for the year 2023 ended 31 December 2023 (in PLN million),
2. The EU-IFRS-compliant consolidated financial statements of the company PGE Polska Grupa Energetyczna S.A. for the year 2023 ended 31 December 2023 (in PLN million),
3. 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 2023,
4. The non-financial information statement on the activities of PGE Polska Grupa Energetyczna S.A. and the PGE Capital Group for the year 2023 ended 31 December 2023.

Additionally, in the aforementioned resolution, the Supervisory Board of PGE Polska Grupa Energetyczna S.A. accepted the document entitled "The Supervisory Board's evaluation of the financial statements as well as the report on the activities of the company PGE Polska Grupa Energetyczna S.A. and the PGE Capital Group for the year 2023", which, pursuant to §70 clause 1 item 14 and § 71 clause 1 item 12 of 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, was published as an element of the separate annual report and the consolidated annual report of PGE Polska Grupa Energetyczna S.A. and posted on the website [www.gkpge.pl](http://www.gkpge.pl).

Besides the Supervisory Board's own analyses, the evaluation was also based on the results of the audits indicated in the reports of the independent statutory auditor on the audits of the separate financial statements of the company PGE Polska Grupa Energetyczna S.A. for the year 2023 and the consolidated financial statements of the PGE Capital Group for 2023. The separate and consolidated financial statements for the financial year 2023 were audited by the company PKF Consult Spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw, entered in the register of entities authorised to audit financial statements under registration number 477, the said register being kept in the custody of the Polish Audit Supervision Agency.

Pursuant to Article 382 § 3 of the Commercial Companies Code and § 18 clause 1 item 3 of the Statutes of PGE Polska Grupa Energetyczna S.A., the Supervisory Board of PGE Polska Grupa Energetyczna S.A. is obliged to draw up a report on the results of the aforementioned evaluation

and to submit such a report to the General Meeting of the company Polska Grupa Energetyczna S.A.

The Supervisory Board finds as follows:

## **2. Evaluation of the following documents:**

### **2a) The EU-IFRS-compliant separate financial statements of the company PGE Polska Grupa Energetyczna S.A. for the year 2023 ended 31 December 2023 (in PLN million).**

1. The Supervisory Board became acquainted with and analysed the separate financial statements of PGE Polska Grupa Energetyczna S.A. for the year 2023 ended 31 December 2023 consisting of the following: the statement of comprehensive income, the statement of financial position as at 31 December 2023, the statement of changes in equity, the statement of cash flows for the period from 1 January 2023 to 31 December 2023, general information, bases for the preparation of the financial statements, as well as notes and additional information and explanations.
2. The separate financial statements of the company PGE Polska Grupa Energetyczna S.A. for the financial year 2023:
  - present truly and fairly<sup>1</sup> the economic and financial position of the Company as at 31 December 2023, as well as its financial result and cash flows for the financial year ended 31 December 2022, in accordance with the applicable International Financial Reporting Standards as approved by the European Union ("IFRS"), and the adopted accounting principles (policy);
  - with respect to their form and content, are consistent with the legal regulations applicable to the Company and the provisions of the Company Statutes;
  - have been drawn up on the basis of correctly maintained account books, in accordance with the provisions of Chapter 2 of the Accounting Act.

### **2b) The EU-IFRS-compliant consolidated financial statements of PGE Polska Grupa Energetyczna S.A. for the year 2023 ended 31 December 2023 (in PLN million).**

1. The Supervisory Board became acquainted with and analysed the consolidated financial statements of PGE Polska Grupa Energetyczna S.A. for the year 2023 ended 31 December 2023 consisting of the following: the consolidated statement of comprehensive income, the consolidated statement of financial position as at 31 December 2023, the consolidated statement of changes in equity, the consolidated statement of cash flows for the period from 1 January 2023 to 31 December 2023, general information, bases for the preparation of the financial statements, as well as notes and additional information and explanations.
2. The consolidated financial statements for the financial year 2023:
  - present truly and fairly<sup>2</sup> the economic and financial position of the Group as at 31 December 2023, as well as its financial result and cash flows for the financial year ended 31 December 2023, in accordance with the applicable International Financial Reporting Standards as approved by the European Union, and the adopted accounting principles (policy);
  - with respect to their form and content, are consistent with the legal regulations applicable to the Group and the Statutes of the parent company.

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<sup>1</sup> The Supervisory Board of PGE Polska Grupa Energetyczna S.A. considers as a "true and fair presentation" a description of facts using the same methodology without any changes with respect to that used in the past.

<sup>2</sup> See above.

During the course of the analyses of the financial statements, the Audit Committee of the Supervisory Board of PGE Polska Grupa Energetyczna S.A. held a meeting with the representatives of the audit firm. The Audit Committee became also familiar with the reports of the independent statutory auditor on the audit of the annual consolidated financial statements, the separate financial statements, as well as the final report of the independent statutory auditor for the Audit Committee.

In consequence of the above, the Audit Committee recommended that the Supervisory Board evaluate positively the submitted financial statements for the year 2023.

At the same time, the Audit Committee expressed concern about the low liquidity ratios, the strong increase in costs, including labour and overheads, and the deterioration in financial performance, despite the fact that the PGE Capital Group benefited from high energy prices during the period under review. The Chairperson of the Audit Committee raised doubts as to whether the scale of the write-downs made was sufficient.

**2c) The Management Board's report on the activities of PGE Polska Grupa Energetyczna S.A. and the PGE Capital Group for the year ended 31 December 2023.**

1. The report is consistent with the information included in the separate financial statements and the consolidated financial statements.
2. The Company properly executes its tasks related to its objects specified in § 3 of the Statutes of PGE Polska Grupa Energetyczna S.A.
3. The report has been drawn up in accordance with Article 49 and Article 55 clause 2a of the Accounting Act as well as § 70 and § 71 of 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.

**2d) The non-financial information statement on the activities of the company PGE Polska Grupa Energetyczna S.A. and the PGE Capital Group for the year 2023 ended 31 December 2023.**

The statement of non-financial information of PGE Polska Grupa Energetyczna S.A. and the PGE Capital Group has been drawn up in accordance with Directive 2014/95 of the European Parliament and of the Council (EU) 2014/95 (Non-Financial Reporting Directive, NFRD) as implemented in the Accounting Act and takes into account the guidelines for the preparation of a sustainability statement in accordance with Directive 2022/2464 of the European Parliament and of the Council (EU) 2022/2464 (Corporate Sustainability Reporting Directive, CSRD) to be included in the amended Accounting Act in 2024.

The statement presents non-financial information for the period from 1 January to 31 December 2023 and includes data for the PGE Capital Group and for the parent company PGE Polska Grupa Energetyczna S.A. and its subsidiaries.

The substantive content of the statement is the result of a materiality analysis process. The content of the statement is, among other things, a response to the needs and expectations related to the provision of information and voiced during the dialogue sessions attended by nearly 80 key PGE stakeholder representatives. In the next step, particular topics were allocated the respective GRI standards (GRI Standards version 2021): core and mandatory standards, as well as those resulting from the materiality assessment. The selection of the statement's content also benefited from the previous results of the double materiality analysis carried out as part of the PGE Group's preparation for CSRD-compliant reporting.

The division of the chapters of the statement corresponds to the particular ESG areas, namely:

- environmental,

- social,
- governance.

In addition, the statement includes PGE's own indicators, as well as references to the 10 Global Compact Principles and as the Sustainable Development Goals (SDGs).

The numerical indicators are presented both within the individual thematic chapters and at the end of the statement. These are divided into environmental, labour, social, human rights and anti-corruption areas, as required by the NFRD. In line with the same division, information on the management of ESG risks is presented.

The key new elements in the 2023 non-financial information statement include the following:

- the statement's structure reflecting next year's CSRD guidelines,
- analysis of activities in line with the EU Environmental Taxonomy in a year-on-year comparison,
- analysis of the carbon footprint over the last three years,
- expanding the scope of environmental reporting,
- expanding the scope of reporting on ESG risks.

## **2e) The motion of the Management Board to be submitted to the General Meeting of PGE Polska Grupa Energetyczna S.A. and relating to the proposed allocation of the Company's net loss for the financial year 2023.**

In its resolution no. 176/36/2024 of 3 April 2024, in view of the fact that the Company reported a net loss of PLN 5,893,995,497.86 (say: five billion eight hundred and ninety-three million nine hundred and ninety-five thousand four hundred and ninety-seven zlotys and eighty-six groszy) in its financial statements for 2023, the Management Board decided to submit a motion to the Ordinary General Meeting proposing the allocation of the net loss for the financial year 2023 to the supplementary capital of PGE Polska Grupa Energetyczna S.A., whose value amounts to PLN 28,145,624,240.02 (say: twenty-eight billion one hundred and forty-five million six hundred and twenty-four thousand two hundred and forty zlotys and two groszy).

Having considered the aforementioned motion, in its resolution no. 357/XII/2024 of 9 May 2024, the Supervisory Board evaluated positively the aforementioned motion of the Management Board to the Ordinary General Meeting of PGE Polska Grupa Energetyczna S.A.

## **Final conclusions.**

In view of the above, the Supervisory Board has evaluated positively the following:

1. The EU-IFRS-compliant separate financial statements of the company PGE Polska Grupa Energetyczna S.A. for the year 2023 ended 31 December 2023 (in PLN million),
2. The EU-IFRS-compliant consolidated financial statements of the company PGE Polska Grupa Energetyczna S.A. for the year 2023 ended 31 December 2023 (in PLN million),
3. 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 2023,
4. The non-financial information statement on the activities of PGE Polska Grupa Energetyczna S.A. and the PGE Capital Group for the year 2023 ended 31 December 2023,

5. The motion of the Management Board to be submitted to the General Meeting of PGE Polska Grupa Energetyczna S.A. and relating to the proposed allocation of the Company's net loss for the financial year 2023,

and recommends that the Ordinary General Meeting of PGE Polska Grupa Energetyczna S.A. approve the documents referred to in items 1-3 above and allocate the Company's net loss for the financial year 2023 to the Company's supplementary capital, in accordance with the motion of the Management Board of PGE Polska Grupa Energetyczna S.A. referred to in item 5 above.

### **3. An evaluation of the company's position, taking into account the adequacy and effectiveness of the company's systems for internal control, the compliance, risk management, ensuring compliance with standards or applicable practices and internal audit, including on a consolidated basis**

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 2021 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. 13/1834/2021 on 29 March 2021, and became effective as of 1 July 2021.

This report has been prepared on the basis of The Good Practices and the Commercial Companies Code; it 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. The report also presents information on the fulfilment of the Management Board's disclosure obligations vis-à-vis the Supervisory Board. 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 separate financial statements of the company PGE Polska Grupa Energetyczna S.A. for the year 2023 ended 31 December 2023, 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 2023 ended 31 December 2023, the non-financial information statement on the activities of the company PGE Polska Grupa Energetyczna S.A. and the PGE Capital Group for the year 2023 ended 31 December 2023 and the annual compliance report for the year 2023.

#### **a) Significant events in 2023.**

#### **IMPACT OF THE WAR ON THE TERRITORY OF UKRAINE ON THE ACTIVITIES OF THE PGE GROUP**

In connection with the situation in Ukraine, the Crisis Team has been established at the central level of the PGE Group to continuously monitor threats and identify potential risks. As part of the Team's work, monitoring is carried out, which covers the security of electricity and heat generation and supply, as well as the protection of the critical and IT infrastructure. The Team is also responsible for taking actions to minimise the risk of an emergency situation, preparing the companies belonging to the Group for an emergency situation and planning, organising and coordinating works to ensure the continuity of operation of the Company and the PGE Group.

In the current geopolitical situation, also the importance of cyber security has increased significantly. The PGE Group has implemented special procedures for monitoring ICT networks due to the increased activity of criminal groups aiming to attack ICT and OT

systems. The following incidents are regularly identified: phishing, attempts to install malware and DDoS (Distributed Denial of Service) attacks. Safeguards adequate to the changing risks are being implemented.

The physical protection of the Group's facilities has also been strengthened.

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

- the level of margin generated,
- fuel availability and prices,
- CO2 emission allowance prices,
- disruption to the supply chain of components or a significant increase in their prices,
- an increase in inflation and interest rates and a weakening of the national currency,
- capital raising opportunities,
- hard coal imports,
- cyber security and physical security,
- geopolitics,
- new legal regulations
- business partners (sanction lists).

#### KEY RISKS OF THE PGE CAPITAL GROUP'S OPERATIONS RELATED TO THE WAR IN UKRAINE

- a significant reduction in the availability of low-sulphur coal,
- a possibility of sharp fluctuations in hard coal and gas prices on international markets.

#### RISKS ASSOCIATED WITH GAS SUPPLY

- The Gorzów CHP plant and the Zielona Góra CHP plant are supplied with field gas (so-called Ln gas). Due to the use of a dedicated transmission infrastructure between the mine and the CHP plant, the indicated generation assets are neutral to disruptions in supply to the National Gas Transmission System.
- The Toruń, Zawidawie, Czechnica, Lublin Wrotków, Rzeszów, Zgierz, Bydgoszcz and Kielce CHP plants are supplied with high-methane gas (so-called E gas). E gas taken from the National Gas Transmission System is secured in the form of adequate storage volumes and is at a relatively high level in Poland.

The PGE Group has no influence on the directions of supply and management of the transmission of the gaseous fuel, therefore the risk of possible disruptions lies with the company ORLEN S.A. (formerly PGNiG) and the Gas Transmission System Operator (Gaz-System S.A.). The PGE Group has established communication channels with ORLEN S.A. and Gaz-System S.A. for the purposes of commercial and operational management in cooperation with particular PGE Group sites. In accordance with national gas supply constraint management programmes, security of supply for electricity and heat generation is privileged over other corporate customers.

#### IMPACT OF FUEL AVAILABILITY CONSTRAINTS ON ELECTRICITY AND HEAT GENERATION

- In the case of the gaseous fuel, due to the inability to hold stocks of this fuel, the reduction in availability translates into an immediate interruption in the generation of electricity and heat. However, if there are reserve coal-fired water boilers at a CHP plant, heat generation is possible until stocks are exhausted (this applies to the Lublin Wrotków and Rzeszów CPH plants). In the case of the Gorzów CHP plant, the stand-by generation capacity is provided by the OP-140 coal-fired steam boiler. At the Zielona Góra CPH plant, the stand-by heat generation capacity is provided by oil-fired boilers.
- At present, the main suppliers of hard coal for electricity and heat generation are Polish mining companies. Coal supplied by importing companies complements the

main domestic supply direction. At present, CHP plants and centrally managed generating units have high stocks of hard coal, which allows for uninterrupted generation of electricity and heat. The supply of electricity to PGE Dystrybucja S.A. and PGE Obrót S.A. is guaranteed in the form of commercial security. Physical supplies of energy are determined by the current balancing and functioning situation of the National Power System. At present, the PGE Group has not identified any threats to electricity or heat supply to residents, institutions and enterprises.

#### RISK OF THE IMPACT OF THE WAR ON FUTURE FINANCIAL RESULTS

The risks described above may have a significant impact on the PGE Capital Group's individual areas of operations and future financial performance. In particular, the recoverable amount of selected asset items, the level of expected credit losses and the valuation of financial instruments may change.

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

#### **PROJECT PROVIDING FOR THE ESTABLISHMENT OF THE NATIONAL ENERGY SECURITY AGENCY**

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. A spin-off of coal-fired generation assets from the companies with State Treasury shareholding". According to the document, the process of a spin-off of assets was to 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 the power complexes fired with lignite, lignite mines will also be among the aforementioned assets. The scope of the project did not include coal mining assets. District heating assets, due to their planned upgrades towards low and zero carbon sources, were not to be subject to this transaction. The project provided for a spin-off of assets from the energy groups through the acquisition of shares of individual companies directly by the State Treasury, and then their consolidation within the NESAs through the contribution of shares of individual companies to the capital increase of PGE Górnictwo i Energetyka Konwencjonalna S.A. (hereinafter: PGE GiEK S.A.)

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

According to the document, following the spin-off of coal-fired generation assets, the energy companies were to 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 the NESAs was to ensure the necessary power balance in the power system. The NESAs were to 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.

### BENEFITS ARISING FROM THE SALE OF COAL ASSETS

The divestment of conventional power generation activities based on coal combustion results from the PGE Capital Group's strategy published on 19 October 2020, which provides for the achievement of climate neutrality by 2050. The spin-off of coal assets will bring tangible benefits to the Group in the following areas, for example:

- greater and more favourable access to debt and equity financing sources, lower financing costs;
- greater and more favourable access to the insurance market;
- lower cash requirements for hedging the costs of CO<sub>2</sub> emissions and inventories of production raw materials;
- release of credit limits at financing institutions as a result of reduced demand for EUA allowances;
- increased opportunities to use financial resources for investments in distribution networks and green technologies, with higher rates of return;
- reduced risk of changes in prices of CO<sub>2</sub> emission allowances.

### ACTIVITIES RELATED TO THE SPIN-OFF OF COAL ASSETS

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 NESAs.

On 14 July 2023, PGE S.A. received, from the State Treasury, represented by the Minister of State Assets, a proposal for a non-binding document summarising the terms of the transaction for the acquisition by the State Treasury of all shares in PGE GiEK S.A. On 10 August 2023, PGE S.A. and the Minister of State Assets signed a document summarising the key terms of a transaction for the acquisition by the State Treasury of shares in PGE GiEK S.A. for the purpose of establishing the NESAs.

The implementation of the transaction for the sale of PGE GiEK S.A. to the State Treasury is subject to the fulfilment of a number of conditions precedent.

### CURRENT STATUS OF THE PROJECT AND RECOGNITION OF ASSETS RELATED TO PGE GIEK S.A. IN THE FINANCIAL STATEMENTS

In the opinion of the PGE Capital Group, as at the reporting date, the conditions of IFRS 5 concerning operations held for sale regarding assets and liabilities as well as revenue and expenses for the described coal-fired units are not met.

Consequently, as at 31 December 2023, assets related to PGE GiEK S.A. are not reclassified to discontinued operations. PGE S.A. also did not make adjustments bringing the value of assets related to PGE GiEK S.A. to the values required by IFRS 5. The values of assets, liabilities, revenue, costs and results of the Conventional Power Generation segment, showing the data for PGE GiEK S.A. and its subsidiaries, are presented in note 6.1 to the financial statements.

As described in note 3.1 to the consolidated financial statements, non-current assets impairment tests were performed on 30 November 2023. As a result of the tests, the non-current assets of the Conventional Power Generation segment were written down in the gross amount of PLN 8.4 billion. Consequently, the book value of the consolidated net assets of PGE GiEK S.A. and its subsidiaries was PLN 1,814 million on 31 December 2023. There was also a total write-down of the book value of PGE GiEK S.A. shares in the separate financial statements. The value of the write-down amounted to PLN 11.7 billion. The write-down did not affect the financial result presented in the consolidated financial statements.

At the date of this report, no further arrangements had been made regarding the coal assets and their future within the PGE Group.

### **POTENTIAL CLAIMS FROM THE COUNTERPARTIES OF ENESTA SP. Z O.O.**

In 2021 ENESTA sp. z o.o. (now ENESTA sp. z o.o. under restructuring) terminated unfavourable agreements for the supply of electricity and natural gas. In 2022, some counterparties took their claims to court. After unsuccessful attempts to reach an agreement with the counterparties, ENESTA sp. z o.o. filed for restructuring proceedings. On 21 June 2022, the restructuring (recovery) proceedings were initiated. At the end of 2022 and in February 2023, verdicts unfavourable to ENESTA were given in the pending proceedings. The verdicts established the existence and validity of agreements for the sale of electricity and natural gas. At the end of 2022, a provision of PLN 37 million was created for onerous agreements in connection with the necessity to continue the performance of the aforementioned sales agreements. In addition, provisions were created for potential litigation in connection with reserve sales carried out by the seller under an official order in 2022, in the amount of PLN 56 million. During the course of 2023, all provisions for onerous agreements were reversed. Sales revenue is invoiced in accordance with final court verdicts. In September 2023, ENESTA's capital was increased by PLN 32 million. All shares in the increased capital were acquired by PGE Obrót S.A.. In December 2023, another resolution was passed regarding a capital increase of PLN 34 million. The shares were acquired by PGE Obrót in 2024.

As at 31 December 2023, ENESTA's assets, capital and liabilities amount to PLN 135 million and its equity amounts to PLN (-) 173 million.

### **PGE PALIWA'S IMPLEMENTATION OF THE DECISION OF THE PRESIDENT OF THE COUNCIL OF MINISTERS WITH REGARD TO THE PURCHASE OF COAL**

By the end of April 2023, PGE Paliwa sp. z o.o. had been implementing the Prime Minister's decisions, issued in mid-2022, instructing the company to purchase at least 3 million tonnes of thermal coal with parameters close to the quality parameters used by households and to import it into the country.

PGE Paliwa sp. z o.o. was indicated in the Regulation of the Minister of State Assets of 2 November 2022 on the list of entities authorised to conduct sales of the solid fuel to municipalities, as one of the six entities authorised to conduct sales of the solid fuel to municipalities, with a view to sale under preferential purchase conditions. According to the provisions of the Act on preferential purchase of the solid fuel for households of 27 October 2022, the gross sale price of the solid fuel could not be higher than PLN 1,500 per Mg. At the same time, the entity responsible for such sale was entitled to compensation in the amount of the product of the quantity of the solid fuel and the difference between the

justified average unit cost of the solid fuel in that period and the average net selling price of the solid fuel in that period, plus value added tax.

The implementation of the decision resulted in a temporary increase in the PGE Capital Group's cash requirements and a periodic increase in debt in connection with the settlement of coal purchase and resale transactions. In connection with a significant decrease in market prices of coal, the PGE Capital Group realised a negative result on sales of coal purchased by PGE CG in order to implement the Decision and not sold by 30 April 2023. The negative result on sales of this coal together with other costs incurred in order to implement the decision recognised in the financial results of PGE CG before 31 December 2023 amounted to PLN 610 million. Furthermore, taking into account the prudence principle, the financial results of PGE CG included an impairment write-down of the value of the stock of coal purchased by PGE CG and not sold before 31 December 2023 to the estimated coal prices achievable on the market. As at 31 December 2023, the amount of the inventory write-down was PLN 239 million.

On 10 October 2023, an agreement was entered into with the Ministry of Climate and Environment for the financing of the implementation of the Prime Minister's decision. The agreement provides for the reimbursement of costs incurred in connection with the implementation of the decision. A report on the implementation of the decision as at 30 April 2023, as required by the provisions of the agreement, was submitted on time by PGE Paliwa sp. z o.o. to the Ministry of Climate and Environment. The financial effect of the agreement was reflected in the financial results of the PGE Capital Group in Q4 2023. At the time of the preparation of this report, the net revenue recognised in the results amounted to PLN 849 million; it consisted of PLN 406 million received in 2023 and estimated compensation to be settled in 2024 in the amount of PLN 443 million.

The Group recognised PLN 109 million in the results for 2023 as revenue from compensation for coal deliveries made from January to April 2023. On the other hand, the net amount of PLN 131 million was recognised in the 2022 results for deliveries made in 2022. Applications for compensation payments for the respective periods were submitted in accordance with the deadlines set out in the Act on preferential purchase of solid fuel for households of 27 October 2022. PGE Paliwa sp. z o.o. received all of the compensation requested and timely submitted and settled with the Settlement Administrator S.A. the final application relating to the received compensation.

PGE Paliwa sp. z o.o. carried out sales based on the aforementioned Act until 30 April 2023.

## **REGULATORY CHANGES IN THE ELECTRICITY MARKET**

Due to the crisis situation in the electricity market, the legislator decided to introduce regulations that temporarily introduce exceptional solutions for electricity prices and electricity tariffs in 2023. On 18 October 2022, the Act on special solutions to protect electricity consumers in 2023 in connection with the situation on the electricity market of 7 October 2022 (Households Act) entered into force and on 4 November 2022, the Act on emergency measures in 2023 of 27 October 2022 entered into force.

According to the Households Act, in 2023, a power company carrying out the business of electricity trading was obliged to apply, with respect to household customers, prices equal to those contained in the tariff in force on 1 January 2022 for individual tariff groups up to

specified consumption limits. On the other hand, once the Act of 16 August 2023 amending the Act for Households entered into force, the consumption limits for each category of customer would be increased by an additional 1MWh. Once the consumption limits dedicated to household customers were exceeded, a maximum price of 693 PLN/MWh (price excluding VAT and excise duty) would be used for settlements with household customers in accordance with the Extraordinary Measures in 2023 Act. This means that electricity prices were established in legal regulations and, therefore, in 2023, tariffs approved by the President of the ERO did not directly affect electricity prices for households.

In addition, under the Extraordinary Measures Act, in 2023, the maximum electricity price for other eligible customers was set at PLN 785/MWh (price excluding VAT and excise duty). After the Act Amending the Household Act of 16 August 2023 entered into force, the maximum price was, as for households, PLN 693 per MWh. This price, in principle, applied from 1 December 2022, but it did apply in a different amount from 1 October 2023 to 31 December 2023. The indicated limit of the maximum price for eligible customers also applied to electricity sales agreements that were concluded or amended after 23 February 2022 and where the maximum price also applied to settlements for the period from the date of conclusion or amendment of such agreements until 30 November 2022. Power companies were obliged to successively reimburse the amounts resulting from the application of the maximum prices until the end of 2023.

Power companies engaged in the business of electricity trading, in accordance with the implemented regulations, were entitled to compensation for the application of electricity prices in settlements with household customers in the same amount as on 1 January 2022. Such compensation was the product of electricity consumed at the electricity connection point, up to the maximum consumption limits entitling consumers to pay the 2022 prices, and the difference between the electricity price resulting from the electricity tariff approved by the President of URE for 2023 and the electricity prices approved in the 2022 tariff. In turn, for the application of the maximum price of PLN 693/MWh in settlements with household customers, trading companies were entitled to compensation in the amount of the product of the amount of electricity consumed in a given month and the difference between the reference price and the maximum price, for each electricity connection point. The reference price was the price of electricity resulting from the electricity tariff approved by the President of URE for 2023. Compensation was also due for the use of maximum prices in settlements with other eligible entities. In this case, as a rule, the reference price for the payment of compensation was calculated on the basis of the prices of electricity in power exchange contracts and the prices of electricity purchased for sale to eligible customers, plus the cost of redemption of certificates of origin and a margin.

The mechanisms introduced in the Households Act and the Extraordinary Measures in 2023 Act should, in principle, compensate trading companies for the price reduction.

In accordance with the provisions of the Act of 7 December 2023 on amending laws to support consumers of electricity, gaseous fuels and heat, which came into force on 31 December 2023 (the Act for 2024), the mechanisms for freezing tariff prices and the maximum price were extended until 30 June 2024.

After 1 December 2022, the financial position of the PGE Group was also affected by the provisions of the Extraordinary Measures in 2023 Act, which introduced the obligation for electricity generators and electricity trading companies to make monthly contributions to the account of the Price Difference Payment Fund. A contribution to the Fund was the product of the volume of electricity sold and the positive difference between the volume-weighted average market price of electricity sold and the volume-weighted average price cap of electricity sold, as specified in the Regulation of the Council of Ministers of 8 November 2022 on the manner of calculating the price limit.

A different method of calculating the price limit was defined for individual generation sources:

- in the case of lignite- and coal-fired power generation units, the price limit took into account, among other things, the unit cost of fuel consumed, the cost of CO<sub>2</sub> emission allowances, the efficiency of power generation units, the margin and a certain level of investment and fixed cost allowance of PLN 50/MWh,
- for units producing energy from renewable sources, the price limit was determined by reference to the reference price indicated in Article 77(3)(1) of the Renewable Energy Sources Act, whereby for hydroelectric power plants the price limit would be 40% of this reference price.

For electricity trading companies, on the other hand:

- for energy sold to end-users, the price limit was the product of the volume-weighted average price of electricity purchased on a given day and a margin defined as 1.035 or 1.03 (plus the unit cost of redemption of certificates of origin),
- for energy sold to customers other than final consumers, the price limit was the product of the volume-weighted average price of energy purchased on a given day and the margin defined as 1.015 or 1.01.

From 1 January 2023 onwards, trading companies calculated the amount of the contribution to the Fund for a given calendar month to which the settlement related, taking into account the volume of electricity sales, the market price and the price limit for the 3 decades of that month, i.e. from the 1st to the 10th, from the 11th to the 20th and from the 21st to the last day of a month. Until 31 December 2022, the contribution to the Fund was calculated separately for each day of the month.

On 1 March and 1 September 2023, amendments to the provisions of the Extraordinary Measures in 2023 Act governing the rules of making contributions to the Fund came into force.

The amendment concerned, among other things, the extension of the catalogue of revenue items that constituted the basis for calculating the contribution to the Fund. As a result, the amount of contributions transferred by the PGE Capital Group increased.

In connection with doubts concerning the interpretation of the provisions and the qualification of revenue from additional cash settlements, which should be taken into account in the calculation of contributions to the Fund, PGE S.A. applied to the President of the Energy Regulatory Office for an individual interpretation confirming the applied interpretation of the Act, as a result of which revenue from selected agreements should not be taken into account in the calculation of contributions to the Fund. The President of the ERO did not share the Company's position. PGE S.A., disagreeing with the adverse decision of the President of the ERO, appealed against it to the Regional Court in Warsaw.

In 2023, the contribution due to the Fund amounted to PLN 6,569 million (including the adjustment for 2022), thus reducing the financial result. In turn, revenue from compensation for the loss on energy sales under the Act in 2023 amounted to PLN 7,658 million. Revenue from compensation was independent of the amount of contributions to the Fund. As described above, the amounts of compensation received by the sales companies were intended to compensate for the losses these entities suffered due to the price freeze. The contributions to the Fund, on the other hand, limited the margins realised by individual energy companies to the specific levels indicated in the regulations.

The above values concerning due compensation are estimates determined in accordance with the best knowledge available to the PGE Capital Group as at the date of the preparation of the financial statements.

The system of contributions to the Fund for the 2023 settlement periods was not closed before 31 December 2023. Contributions to the Fund will also have to be transferred in 2024 for sales effected in the last weeks of 2023. In the Act for 2024, the legislator did not decide to extend the obligation to make contributions to the Fund to 2024, which means that the last month for which a contribution to the Fund should have been paid was December 2023.

Simultaneously, on 11 September 2023, the Regulation of the Minister of Climate and Environment of 9 September 2023, amending the Regulation on the manner of shaping and calculating tariffs and the manner of settlements in electricity trading, was published and came into force on 19 September 2023. This regulation reduced electricity bills for household consumers by an average of more than PLN 125 in 2023, provided that one of the listed conditions was met. Power utilities conducting business activities related to electricity trading were obliged to make the reduction at the latest in the last electricity invoice in 2023.

On 31 December 2023, taking into account the number of recipients who met at least one of the conditions set out in the regulation, revenue was reduced by PLN 535 million (of which PLN 230 million was an estimate)

## **NUCLEAR POWER PLANT CONSTRUCTION PROJECT**

On 31 October 2022, PGE S.A. and Korea Hydro & Nuclear Power Co. Ltd. and ZE PAK S.A. signed a letter of intent to start cooperation within the framework of the strategic Polish-Korean project to build a nuclear power plant at the Pałnów-Konin site. The planned capacity of the plant is 2,800 MWe, based on the use of two PWR (Pressurised Water Reactor) nuclear reactors with the Korean APR 1400 technology. The cooperation also includes field and environmental studies, the implementation of a feasibility study and the obtainment of all necessary administrative decisions.

In the Polish Nuclear Power Programme (PNPP), the Pałnów-Konin area is recommended as one of the possible locations for the construction of a nuclear power plant in Poland. The investment project is also in line with the principles of the development of nuclear technologies contained in Poland's Energy Policy until 2040.

## **CONCLUSION OF AN AGREEMENT TO ACQUIRE 100% OF THE SHARES OF PKPE HOLDING SP. Z O.O.**

On 3 April 2023, the transaction of PGE's direct acquisition of 100% of shares in PKPE Holding sp. z o.o., and consequently the indirect acquisition of 100% of shares in PKP S.A. and shares in other subsidiaries of PKPE Holding sp. z o.o. by PGE S.A. was completed. PKPE Holding sp. z o.o. is a holding company controlling a number of entities whose activities are focused around PKP Energetyka S.A. The group of PKP Energetyka is a distributor and seller of energy to overhead contact line networks and additionally provides maintenance services for such networks.

The price payable at the closing for 100% of shares was determined based on the value of the enterprise as at 31 March 2022, as an amount of PLN 1,913 million, and settled based on the locked-box mechanism provided for in the preliminary share purchase agreement of 28 December 2022, and subsequently adjusted, in accordance with the locked-box mechanism.

The final price paid by PGE S.A. to the seller on 3 April 2023 amounted to PLN 1,873 million.

The companies currently operate within the structure of the PGE Capital Group in the newly created Railway Power Engineering segment.

The acquisition of PKPE Holding sp. z o.o. was in line with the PGE Group Strategy. As a result of the transaction, the PGE Group gained access to the distribution network throughout the country.

## **CONCLUSION OF A CREDIT AGREEMENT WITH THE EUROPEAN INVESTMENT BANK**

On 3 February 2023, PGE S.A. entered into a credit agreement with the European Investment Bank. The credit agreement is worth PLN 1.4 billion. This sum is earmarked for projects in the Distribution segment, including a programme of medium-voltage line cabling, connecting new customers and generation sources and installing VOCs. The projects are scheduled to be completed by 2025.

The availability period of the credit is 24 months from the effective date of the agreement and the term of the agreement will be a maximum of 18 years from the date of the drawdown of the last tranche under the agreement. The interest rate will be determined each time before the tranche is disbursed. The agreement does not provide for collateral in kind.

## **CONCLUSION OF AN AGREEMENT FOR THE CONSTRUCTION OF A POWER UNIT IN RYBNIK**

On 9 February 2023, Rybnik 2050 sp. z o.o. entered into an agreement with a consortium of companies consisting of Polimex Mostostal S.A. (consortium leader), Siemens Energy sp. z o.o. (consortium member), Siemens Energy Global GmbH & Co. KG (consortium member). The object of the agreement is the consortium's performance of construction, assembly and other works related to the building of a CCGT unit in Rybnik with a gross electrical power rating of 882 MWe.

The net value of the agreement is PLN 3.0 billion. In connection with the aforementioned agreement, an agreement was also concluded for the provision of maintenance services

for a gas turbine for a minimum period of 12 years from the date of the commissioning of the unit. The net value of the service contract is PLN 0.8 billion. The total net value of all concluded agreements is PLN 3.8 billion. On 12 March 2024, the Mayor of Rybnik issued a decision relating to a construction permit for a CCGT unit.

### **CONCLUSION OF A CONSORTIAL CREDIT AGREEMENT**

On 1 March 2023, a revolving credit facility agreement was signed by PGE S.A. with a consortium consisting of the following banks: Powszechna Kasa Oszczędności Bank Polski S.A., Bank Polska Kasa Opieki S.A., Bank of China (Europe) S.A., Industrial and Commercial Bank of China (Europe) S.A., Alior Bank S.A. and Santander Bank Polska S.A. The subject matter of the agreement is the Banks' providing PGE with a renewable credit line for up to PLN 2,330 million to be used for the following purposes:

- the financing of the current activities of PGE S.A. and the Group, in particular in accordance with the Group's long-term strategy to reduce emissions and increase electricity generation from renewable sources;
- the financing of investments and capital expenditures related to PGE's and the Group's activities other than investments in new coal assets;
- the refinancing of financial liabilities of PGE S.A. and the PGE Group.

The final repayment date for the credit is 26 February 2027. The interest rate on the credit is calculated on the basis of a variable interest rate based on the relevant WIBOR rate (reference rate) plus a margin. The credit margin may be subject to periodic adjustments depending on the ESG rating assigned to PGE S.A. by a specialised agency. Under the terms of the agreement, PGE S.A. commits to maintain a net debt to EBITDA ratio of no more than 4:1 if PGE S.A. has an investment grade rating or no more than 3.5:1 if PGE S.A. does not have an investment grade rating. The credit is not secured on any asset of PGE S.A. or the PGE Group.

On 6 February 2024, an annex to the revolving credit agreement was concluded. As a result of the annex, China Construction Bank (Europe) S.A. with its registered office in Luxembourg, joined the agreement and the credit amount was increased from PLN 2,330 million to PLN 3,150 million.

### **CHANGE OF THE COMMISSIONING DATE FOR THE UNITS IN PGE GRYFINO 2050 SP. Z O.O.**

On 20 July 2023, PGE Gryfino 2050 sp. z o.o. concluded an annex to the agreement for the construction of two new CCGT units being performed by a consortium of General Electric Global Services GmbH, General Electric International Inc. and Polimex Mostostal S.A.

According to the provisions of the annex, it was agreed that the commissioning date of the units was postponed from 11 December 2023 to a date no later than 30 April 2024.

### **OBTAINING DECISIONS RELATING TO A PERMIT TO ERECT AND USE ARTIFICIAL ISLANDS**

On 9 August 2023, PGE S.A. received decisions from the Minister of Infrastructure granting permits for the erection and use of artificial islands, structures and equipment in the Polish

maritime area (exclusive economic zone) for projects involving the construction of offshore wind farms.

### **ACQUISITION OF THE ZALESIE WIND FARM**

On 20 September 2023, PGE Energia Odnawialna S.A. purchased 100% of the shares in LongWing Polska sp. z o.o., which owns the Zalesie wind farm with a capacity of 24.9 MW, located in the Warmińsko-Mazurskie province. The new facility can provide electricity to almost 38,000 households.

### **CONCLUSION OF A CREDIT AGREEMENT WITH BANK GOSPODARSTWA KRAJOWEGO**

On 28 November 2023, PGE S.A. signed a term credit agreement with Bank Gospodarstwa Krajowego (hereinafter "BGK") for the amount of up to PLN 2,500 million, which may be used to finance PGE S.A.'s current economic needs and the PGE Group's investment needs. The financing period is 5 years from the effective date of the Agreement, subject to a possible extension for up to 3 years.

### **IMPAIRMENT TESTING OF PROPERTY, PLANT AND EQUIPMENT**

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 assets. On 6 December 2023, the Management Board of PGE S.A. announced that indications of the necessity of asset impairment testing had been identified. As a result of the impairment test conducted, the Group found an impairment of PLN 8.4 billion in the assets of the Conventional Power Generation segment.

The detailed results of the impairment test of the property, plant and equipment are discussed in note 3 to the consolidated financial statements.

### **EXECUTION OF A COAL SUPPLY AGREEMENT WITH PGG**

On 13 December 2023, a coal supply agreement was signed with PGG. As part of the Agreement, the parties specified the estimated volumes of hard coal deliveries for the years 2023-2028 for PGE GiEK S.A., KOGENERACJA S.A. and PGE Energia Ciepła S.A. The estimated total value of hard coal deliveries for 2023-2028 is PLN 13.5 billion.

### **RESULT OF THE MAIN AUCTION OF THE CAPACITY MARKET FOR 2028**

On 14 December 2023, as a result of the capacity market auction for 2028, a total of 1,013 MW of capacity obligations were contracted for units belonging to the PGE Group, including:

- 306 MW in seven-year contracts,
- 15 MW in a five-year contract,
- 692 MW in one-year contracts.

The total volume of capacity contracts concluded for the 2028 delivery year, including multi-year contracts from previous auctions, is no less than 9,851 MW.

The closing price of the power auction was PLN 244.90/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. The closing price quoted is not the final result of the capacity auction. The final results of capacity auctions are announced by the ERO President in the Public Information Bulletin.

### **INFORMATION ON THE APPROVAL OF THE G TARIFF FOR 2024 FOR PGE OBRÓT S.A. AND THE NEED TO ESTABLISH A PROVISION IN THE TRADING SEGMENT**

On 15 December 2023, the President of the Energy Regulatory Office (ERO) approved the price of electricity sales to consumers in G tariff groups for 2024 for PGE Obrót S.A. at an average level of PLN 739/MWh (exclusive of value added tax and excise tax). Following the decision, the company assessed its impact on its operations. The approved tariff does not fully cover the costs of purchasing electricity resulting from concluded purchase contracts, property rights and the costs of regulated activities. Accordingly, on 31 December 2023, the company established a provision for onerous contracts with customers in Gx tariff groups in 2024 for a total amount of PLN 761 million.

### **b) Changes in the organisation of the Capital Group.**

#### **Establishment of companies**

On 13 April 2023, PGE S.A. and ZE PAK S.A. with its registered office in Konin established a capital company with its registered office in Konin in the form of a joint stock company with the business name of PGE PAK Energia Jądrowa S.A. PGE S.A. and ZE PAK S.A. each hold 50% of the shares in the newly established company. On 22 April 2023, the company was registered in the National Court Register. The company's share capital amounts to PLN 38,248,000.00.

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

On 1 March 2021, the Extraordinary General Meeting of the company Elektrociepłownia "Zielona Góra" S.A. with its registered office in Zielona Góra (EC Zielona Góra S.A.) adopted a resolution on the compulsory buyout of shares held by minority shareholders, representing a total of 1.6% of the share capital of EC Zielona Góra S.A. On 25 April 2023, the aforementioned 8,849 shares were transferred to the company KOGENERACJA S.A. with its registered office in Wrocław by making an appropriate entry in the register of shareholders of EC Zielona Góra S.A. As a result, KOGENERACJA S.A. became the sole shareholder holding 100% of the shares in EC Zielona Góra S.A.

On 23 December 2022, an agreement was entered into between PGE GiEK S.A. as the seller and PGE Ekoserwis S.A. as the buyer for the sale of all ordinary shares held by PGE GiEK S.A. in EPORE S.A., i.e. 63,963 shares with a total par value of PLN 31,981,500, constituting 100% of the share capital. On 10 January 2023, the Shareholders' Register was amended and the above-mentioned shares were transferred to PGE Ekoserwis S.A. on that date.

On 28 December 2022, the Extraordinary General Meeting of ElectroMobility Poland S.A. with its registered office in Warsaw, passed a resolution on increasing the company's share capital through the issue by private subscription of 50,748 series C shares with a par value of PLN 4,926.29. The Extraordinary General Meeting decided to offer all the new shares to be taken up by the State Treasury in exchange for a cash contribution. As a result of the acquisition of the new shares by the State Treasury, PGE S.A.'s shareholding in the share capital of this company decreased from 4.33% to 2.30%. On 16 January 2023, the increase of the share capital was registered in the National Court Register.

On 28 December 2022, a preliminary agreement for the sale of shares in PKPE Holding sp. z o.o. (now PGE Energetyka Kolejowa Holding sp. z o.o.) with its registered office in Warsaw was

entered into between PGE S.A. as the buyer and Edison Holdings S.à r.l. Under the agreement, PGE S.A. and Edison Holdings S.à r.l. agreed to enter into a promised agreement for the sale of 100% of the shares in PKPE Holding sp. z o.o. On 3 April 2023, following the fulfilment of certain conditions precedent, PGE S.A. directly acquired 100% of the shares in PKPE Holding sp. z o.o. and indirectly 100% of the shares in PKP Energetyka S.A. (now PGE Energetyka Kolejowa S.A.) and shares in other subsidiaries held by PKPE Holding sp. z o.o. from Edison Holdings S.à r.l.

On 4 January 2023, PGE S.A. and PGE Energia Ciepła S.A., as the sellers, and PGE GiEK S.A., as the buyer, concluded an agreement for the sale of all shares held in Energopomiar sp. z o.o. with its registered office in Gliwice, i.e. 1 share each in this company, with a total par value of PLN 1,007,774.28 for the share held by PGE S.A. and with a total par value of PLN 418,288.40 for the share held by PGE Energia Ciepła S.A., representing in total 26.48% of the share capital. On 4 January 2023, the ownership of shares was transferred to PGE GiEK S.A. As a result of the share sale agreement, PGE S.A. and PGE Energia Ciepła S.A. ceased to be shareholders of Energopomiar sp. z o.o., and PGE GiEK S.A. currently holds shares representing a total of 49.79% shares in Energopomiar sp. z o.o.

On 15 June 2023, PGE Nowa Energia sp. z o.o. in liquidation with its registered office in Warsaw, as the seller, and CetusMobility sp. z o.o. with its registered office in Rzeszów, as the buyer, concluded an agreement for the sale of shares in 4Mobility S.A. with its registered office in Warsaw, i.e. 1,875,000 shares in this company, with a total par value of PLN 187,500, constituting 37.93% of the share capital. On 22 June 2023, the ownership of the shares was transferred to CetusMobility sp. z o.o. As a result of the share sale agreement, PGE Nowa Energia sp. z o.o. in liquidation ceased to be a shareholder of 4Mobility S.A.

On 29 August 2023, an agreement for the sale of shares in Siechnice Nowa Energia sp. z o.o. with its registered office in Siechnice, i.e. 50 shares with a total par value of PLN 2,500, representing 50% of the company's share capital, was entered into between KOGENERACJA S.A. with its registered office in Wrocław, as the buyer, and the Commune of Siechnice, as the seller. On 29 August 2023, the ownership of shares was transferred to KOGENERACJA S.A. As a result of the aforementioned sale transaction, KOGENERACJA S.A. and the commune of Siechnice now each hold 50% shares in the share capital of Siechnice Nowa Energia sp. z o.o.

On 20 September 2023, an agreement for the sale of 100% of shares in the share capital of LongWing Polska sp. z o.o., i.e. 500 shares with a total par value of PLN 50,000, was concluded between PGE Energia Odnawialna S.A., as the buyer, and Solar Energy Ressources S.à r.l. and Ser Windpark Zalesie GmbH, as the sellers. On 20 September 2023, the ownership of the shares in LongWing Polska sp. z o.o. was transferred to PGE Energia Odnawialna S.A.

On 22 September 2023, the Extraordinary General Meeting of Shareholders of ENESTA sp. z o.o. in restructuring, with its registered office in Stalowa Wola, adopted a resolution on increasing the company's share capital from PLN 50,402,000 to PLN 82,402,000, i.e. by PLN 32,000,000, through the creation of 32,000 new shares of the company with a par value of PLN 1,000. PGE Obrót S.A., as one of the company's shareholders, acquired all new shares in the company's increased share capital. On 18 December 2023, the increase of the share capital was registered in the National Court Register. As a result of the share capital increase and the acquisition of all new shares in the company by PGE Obrót S.A., the share of PGE Obrót S.A. in the company's capital increased from 87.33% to 92.25%.

On 16 October 2023, PGE S.A. and the National Fund for Environmental Protection and Water Management signed an investment agreement for the financing of PGE Inwest 12 sp. z o.o. in order for PGE Inwest 12 to implement the construction of a pumped storage power plant in Młoty (Commune of Bystrzyca Kłodzka, Dolnośląskie Province). As a result of the performance of the aforementioned agreement, on 17 October 2023, the Extraordinary General Meeting of

Shareholders of PGE Inwest 12 sp. z o.o. adopted a resolution on increasing the share capital and decided that new shares in the increased share capital would be acquired by PGE S.A. and the National Fund, in exchange for cash contributions. On 24 October 2023, PGE S.A. and the National Fund acquired new shares in PGE Inwest 12 sp. z o.o., and on 4 March 2024, the increase in the company's share capital was registered in the National Court Register. At present, PGE S.A. holds 51% and the National Fund 49% of the company's share capital.

On 18 December 2023, the Extraordinary General Meeting of Shareholders of ENESTA sp. z o.o. in restructuring, with its registered office in Stalowa Wola, adopted a resolution on increasing the company's share capital from PLN 82,402,000 to PLN 116,402,000, i.e. by PLN 34,000,000, through the creation of 34,000 new shares of the company with a par value of PLN 1,000. PGE Obrót S.A., as one of the company's shareholders, acquired all new shares in the company's increased share capital. As a result of the share capital increase and the acquisition of all new shares in the company by PGE Obrót S.A., the share of PGE Obrót S.A. in the company's capital increased from 92.25% to 94.51%. At the date of this report, the increase in the company's share capital had not been registered in the National Court Register.

### **Mergers of companies**

On 7 June 2023 the Extraordinary General Meetings of the companies PGE Energia Odnawialna S.A. (the acquiring company) and Mithra B sp. z o.o. with its registered office in Warsaw (the company being acquired) adopted resolutions to merge the companies by acquisition, i.e. by transferring all the assets of the company being acquired to the acquiring company without issuing new shares in the acquiring company in exchange for shares in the company being acquired, and to dissolve the company being acquired without liquidation. PGE Energia Odnawialna S.A. was the sole shareholder in the company being acquired. On 30 June 2023, the merger of the companies was registered in the National Court Register (merger date).

On 7 June 2023 the Extraordinary General Meetings of the companies PGE Energia Odnawialna S.A. (the acquiring company) and PGE Soleo 3 sp. z o.o. and PGE KLASTER sp. z o.o. with their registered offices in Warsaw (the companies being acquired) adopted resolutions to merge the companies by acquisition, i.e. by transferring all the assets of the companies being acquired to the acquiring company without issuing new shares in the acquiring company in exchange for shares in the companies being acquired, and to dissolve the companies being acquired without liquidation. PGE Energia Odnawialna S.A. was the sole shareholder in the companies being acquired. On 30 June 2023, the merger of the companies was registered in the National Court Register (merger date).

On 26 July 2023, the Extraordinary General Meetings of the companies PGE Ekoserwis S.A. with its registered office in Wrocław ((the acquiring company) and EPORE S.A. with its registered office in Bogatynia (the company being acquired) adopted resolutions to merge the companies by acquisition, i.e. by transferring all the assets of the company being acquired to the acquiring company without issuing new shares in the acquiring company in exchange for shares in the company being acquired, and to dissolve the company being acquired without liquidation. PGE Ekoserwis S.A. was the sole shareholder in the company being acquired. On 2 October 2023, the merger of the companies was registered in the National Court Register (merger date).

### **Liquidation of companies**

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

On 31 March 2022, the Extraordinary General Meeting of PGE Nowa Energia sp. z o.o. in liquidation with its registered office in Warsaw, in which PGE S.A. holds 100% of shares, adopted a resolution on dissolution of PGE Nowa Energia sp. z o.o. and appointment of a liquidator to carry out liquidation activities. On 16 February 2024, the registry court decided to delete the company from the register of entrepreneurs of the National Court Register. At the date of preparation of this report, this decision was not final.

On 26 January 2023, the Extraordinary General Meeting of Railen GmbH in liquidation with its registered office in Berlin, in which PGE Energetyka Kolejowa Holding sp. z o.o holds 100% of shares, adopted a resolution, effective as at 31 January 2023, on dissolution of the company and appointment of a liquidator to conduct liquidation activities. The liquidation process of the company is currently underway.

On 3 October 2023, the Administrator of the Lithuanian Register of Legal Entities initiated the liquidation of Railen Baltics, UAB in liquidation with its registered office in Vilnius, in which PGE Energetyka Kolejowa Holding sp. z o.o. holds 100% of the share capital. On 31 January 2024, the Administrator of the Lithuanian Register of Legal Entities reversed the liquidation of Railen Baltics, UAB, i.e. the company is not currently under liquidation

### **Restructuring of companies**

On 21 June 2022, the District Court in Rzeszów, 5th Commercial Division, opened restructuring (recovery) proceedings of the company ENESTA sp. z o.o. in restructuring with its registered office in Stalowa Wola and appointed an Administrator as part of these restructuring proceedings. The restructuring process of the company is currently underway.

### **c) The economic and financial position.**

#### KEY FINANCIAL RESULTS

Key financial data (PLN million)	Q4 2023	Q4 2022	Change %	2023	2022	Change %
Sales revenue	22,154	10,110	119%	65,842	35,922	83%
Earnings before interests and taxes (EBIT)	461	209	121%	1,988	1,139	75%
Earnings before interest, tax, depreciation and amortisation (EBITDA)	464	212	119%	2,002	1,151	74%
EBITDA margin (%)	2%	2%		3%	3%	
Earnings before interest, tax, depreciation and amortisation, excluding one-time events (recurring EBITDA)	521	206	153%	2,042	752	172%
Recurring EBITDA margin (%)	2%	2%		3%	2%	
Net profit	-11,075	306	-	-5,894	3,097	-
Capital expenditure	16	1	1,500%	22	6	267%
Net cash from operating activities	-10,501	2,087 <sup>1</sup>	-	-19,272	-1,105	1,644%
Net cash from investing activities	-774	-625	24%	6,120	5,428	13%
Net cash from financing activities	2,008	-399	-	4,301	954	351%

Key financial data (PLN million)	31 December 2023	31 December 2022	Change %
Working capital	24,074	17,253	40%
Shares and interests in subsidiaries	21,711	29,445	-26%
<b>Net debt</b>	<b>-10,021</b>	<b>-10,906</b>	<b>-8%</b>
Net debt/LTM EBITDA <sup>2</sup> reported (x)	-5.01	-9.48	
Net debt/LTM EBITDA <sup>2</sup> recurring (x)	-4.91	-14.50	

Non-recurring events affecting EBITDA (PLN million)	Q4 2023	Q4 2022	Change %	2023	2022	Change %
Valuation of CO <sub>2</sub> emission allowance futures contracts	-57	6	-	-39	399	-
Actuarial reserve - change due to change in discount rate	0	0	-	-1	0	-
<b>Total</b>	<b>-57</b>	<b>6</b>	<b>-</b>	<b>-40</b>	<b>399</b>	<b>-</b>

<sup>1</sup> Transformation of comparative data to ensure greater consistency in the financial data presented.

<sup>2</sup> LTM EBITDA - EBITDA for the past 12 months from the reporting date.

#### REVENUE FROM GEOGRAPHICAL AREAS

In 2023, PGE S.A. generated 100% of its revenue in the domestic market.

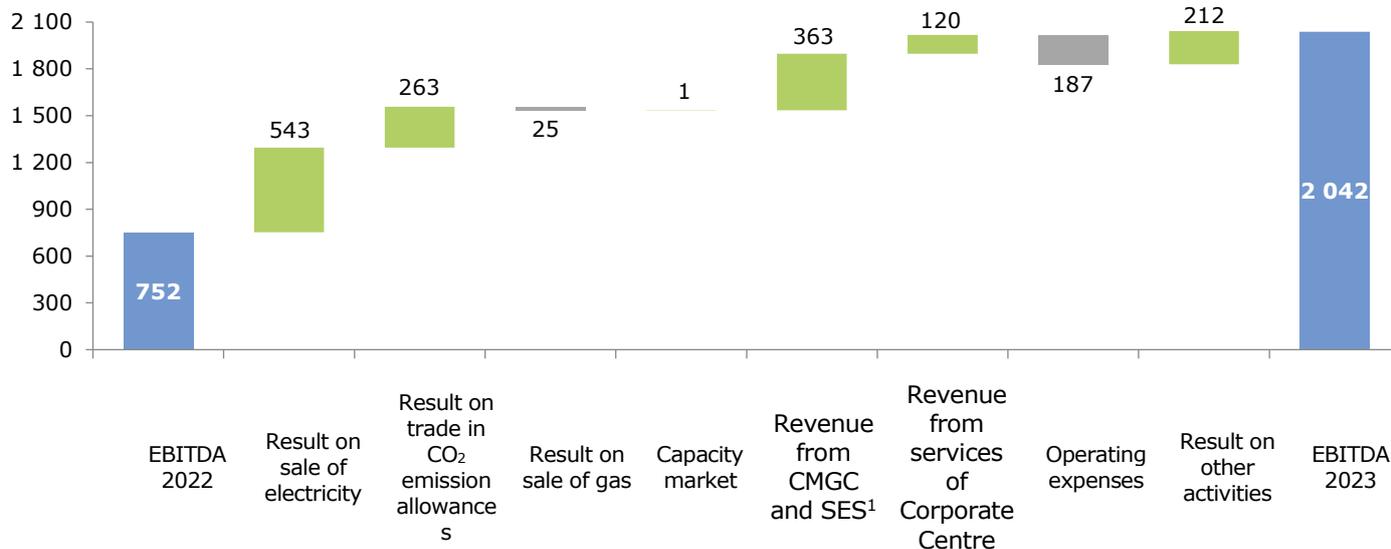
#### KEY FINANCIAL FIGURES AT PGE S.A. FOR 5 YEARS

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

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

<sup>1</sup> One-off events at EBITDA level.

Figure: Key drivers of EBITDA (PLN million).



Deviation	543	263	-25	1	363	120	-187	212	
Reported EBITDA 2022	<b>1,151</b>								
Non-recurring events 2022	<b>399</b>								
Recurring EBITDA 2022	<b>752</b>	-570	190	24	29	1,571	172	494	-170
Recurring EBITDA 2023		-27	453	-1	30	1,934	292	681	42
Non-recurring events 2023									<b>-40</b>
Reported EBITDA 2023									<b>2,002</b>

<sup>1</sup> CMGC - Commercial Management of Generation Capacity; SES - Securing Electricity Supply.

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

- **The higher result on electricity sales** in 2023 is the result of a higher unit margin realised on electricity trading by PLN 13.0/MWh. This is due to the change in the model of securing electricity supply for retail trading in 2023, based on securing open positions in the internal portfolios of PGE CG power generators
- **The higher result on CO<sub>2</sub> emissions trading** was mainly due to a higher volume of CO<sub>2</sub> emissions allowances sold by 32.3 million tonnes and a higher average sales price of PLN 109/t. The higher volume was mainly due to a different timing of purchases of CO<sub>2</sub> emission allowances in 2023 for the purpose of their redemption for the years 2022 and 2023 compared to the previous year
- **The lower result on gas trading** in 2023 is the result of a lower unit margin on gas sales by 7 PLN/MWh. This is due to the result achieved in 2022, as a result of the increase in gas prices in the market and the very large fluctuations in spot prices in daily quotations on the exchange.
- **The increase in revenue from PGE CG companies** from for CMGC and SES services is mainly due to higher value of electricity under management on behalf of PGE CG companies, with a lower weighted average margin of 0.34 p.p., which is mainly due to the reduced margin at PGE Obrót S.A. in 2023. The increase in the value of electricity is due to a higher average electricity price of 349 PLN/MWh, with a volume of managed electricity lower by 21.2 TWh.

- **The increase in revenue from the provision of Corporate Centre services** is a result of the increase in revenue from support contracts and revenue from licence agreements. The higher revenue from support contracts is mainly due to the centralisation of the accounting and human resources as well as communication and marketing areas carried out in 2023, and the provision of new services that had not been offered in the previous year. The higher revenue from licence agreements was influenced by higher revenue achieved by the individual PGE CG companies.
- The **increase in the organisation's operating costs** was mainly driven by higher employee benefits and marketing costs. The increase in employee benefits costs resulted from higher employment mainly due to the centralisation of the accounting and human resources as well as communications and marketing areas, and the execution of the Company Collective Bargaining Agreement.
- The **higher result on other activities** was mainly influenced by receivables write-downs (creation of a write-down in 2022 for receivables of Enesta sp. z o.o. amounting to PLN 154 million and reversal in 2023 of a write-down for receivables of Enesta sp. z o.o. in the amount of PLN 60 million).

#### FINANCING ACTIVITIES

Table: Financing activities (PLN million).

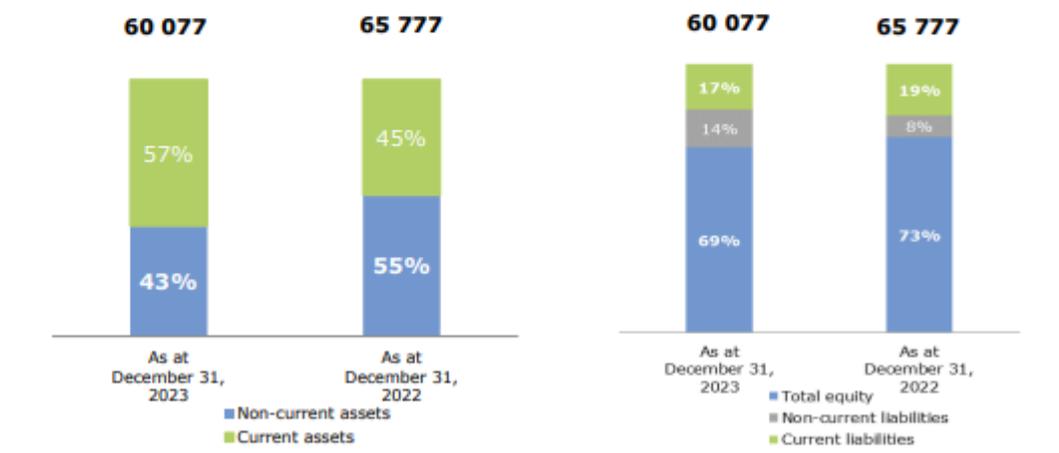
Finance income/expenses	2023	2022	Change %
Dividends from PGE CG companies	3,269	1,639	99%
Interest	1,729	663	161%
Gain/(Loss) on disposal of investments	21	35	-40%
Revaluation of financial instruments	-6	3	-
Reversal/establishment of write-downs	-12,250	-17	71,959%
Foreign exchange differences	-32	-31	3%
Other	-4	-1	300%
<b>Result from operating activities</b>	<b>-7,273</b>	<b>2,291</b>	-

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

- **The increase in dividend income** was mainly due to the dividend from PGE Energetyka Kolejowa Holding sp. z o.o. in the amount of PLN 412 million, which had not occurred in 2022, and dividend income from PGE Energia Odnawialna S.A. higher by PLN 219 million,
- **The increase in interest** is mainly due to the valuation and accrual of interest on the Autostrada Wielkopolska S.A. bonds in 2023 (covered by an impairment write-down), an increase in the level of loans granted to PGE CG companies and an increase in interest on deposits,
- **Profit/loss on disposal of investments:** in 2023, the most significant item was cash received from the liquidation of PGE Trading GmbH in the amount of PLN 18 million, while in 2022 it had been profit from the sale of shares in companies providing services to PGE GiEK S.A. in the amount of PLN 30 million,
- **Change in impairment write-downs** - in 2023 an impairment write-down was made for shares in, loans granted to and bonds held in PGE GiEK S.A. in the total amount of PLN 11,750 million, an impairment write-down for bonds of Autostrada Wielkopolska S.A., an increase in the impairment write-down for shares in PGE Trading GmbH. In 2022, a write-down of PLN 17 million was made for PGE Nowa Energia sp. z o.o. in liquidation.

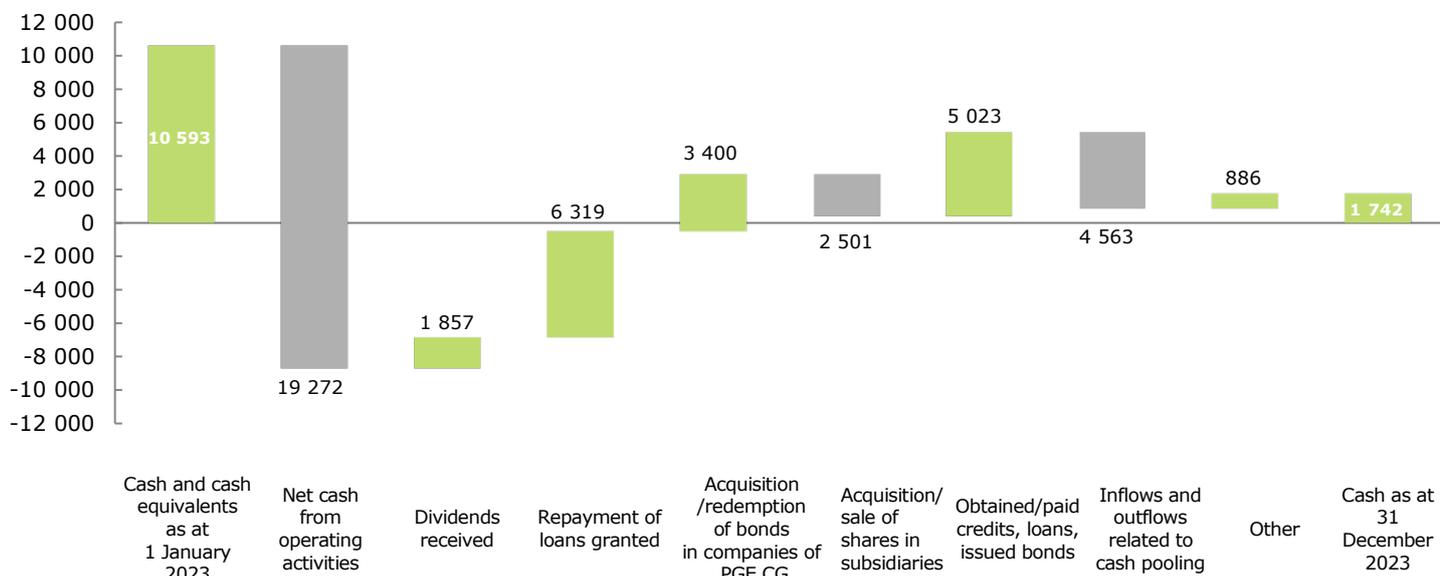
### STATEMENT OF FINANCIAL POSITION

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



### STATEMENT OF CASH FLOWS

Figure: Change in cash and cash equivalents (PLN million)



#### Impact on cash and cash equivalents

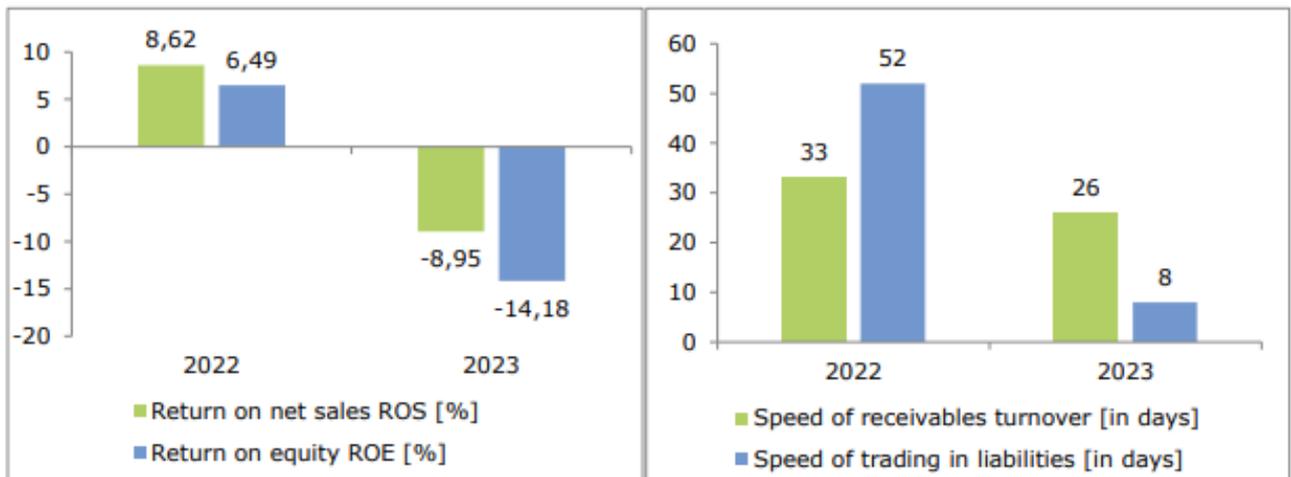
Cash and cash equivalents	10,593	-19,272	1,857	6,319	3,400	-2,501	5,023	-4,563	886	1,742
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NET DEBT AND BASIC FINANCIAL RATIOS OF PGE S.A.

Table: The Company's net debt as at 31 December 2023 and 31 December 2022.

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

Charts: Key financial ratios.



KEY OPERATING RESULTS AS WELL AS SALES AND SUPPLY MARKETS

Table: Trade in electricity (TWh).

Sales volume	Q4 2023	Q4 2022	Change %	2023	2022	Change %
Electricity sales to PGE CG	10.69	10.79	-1%	39.29	39.94	-2%
Electricity sales in the exchange market and bilateral transactions outside PGE CG	0.12	0.05	140%	0.31	0.77	-60%
Sales within BG and BM	0.45	0.46	-2%	1.96	1.64	20%
<b>Total electricity sales</b>	<b>11.26</b>	<b>11.30</b>	<b>0%</b>	<b>41.56</b>	<b>42.35</b>	<b>-2%</b>

PGE S.A. fulfils the function of a competence-based wholesale trade centre for PGE CG. The y/y decrease in the volume of electricity sold in 2023 to PGE Group companies is mainly the result of a decrease in the volume of electricity allocated by PGE Obrót S.A. for the purpose of securing electricity supply for retail customers. The decrease in 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.

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

Table: Electricity sales (TWh) for the 5-year period.

Sales volume	2023	2022	2021	2020	2019
Electricity sales to PGE CG	39.29	39.94	42.02	51.75	46.24
Electricity sales in the exchange market and bilateral transactions outside PGE CG	0.31	0.77	1.57	4.07	2.60
Sales within BG and BM	1.96	1.64	1.39	1.26	1.42
<b>Total electricity sales</b>	<b>41.56</b>	<b>42.35</b>	<b>44.98</b>	<b>57.08</b>	<b>50.26</b>

Table: Natural gas sales volume [TWh]

Sales volume	Q4 2023	Q4 2022	Change %	2023	2022	Change %
Sales of gas to PGE CG	0.62	1.15	-46%	2.80	2.86	-2%
Sales of gas outside PGE CG	0.06	0.35	-83%	0.21	0.71	-70%
<b>Total sales of gas</b>	<b>0.68</b>	<b>1.50</b>	<b>-55%</b>	<b>3.01</b>	<b>3.57</b>	<b>-16%</b>

The lower y/y volume of natural gas sales is mainly the result of a lower volume of gas sold on the power exchange and to external entities outside the PGE CG, as well as to entities within the PGE CG for the purpose of securing retail customers.

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

Table: Natural gas sales volumes [TWh] for the 5-year period.

Sales volume	2023	2022	2021	2020	2019
Sales of gas to PGE CG	2.80	2.86	3.09	3.21	2.31
Sales of gas outside PGE CG	0.21	0.71	0.79	0.60	2.58
<b>Total sales of gas</b>	<b>3.01</b>	<b>3.57</b>	<b>3.88</b>	<b>3.81</b>	<b>4.89</b>

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

#### d) Factors important for development.

	Main directions of change	Potential impact on PGE Group
<b>MACROECONOMIC ENVIRONMENT WORLD</b>	<ul style="list-style-type: none"> <li>• After a significant increase in fuel and electricity prices during 2022, the situation calmed down in 2023 and prices returned to slightly higher than historical averages.</li> <li>• There was a significant drop in demand for electricity and gas in Europe, which allowed inventories of raw materials to remain at high levels. No risk of shortages was noted.</li> <li>• A reduction in inflationary pressures was evident in 2023, which initially translated into an improvement in economic sentiment, but the weakening global economy resulted in recessionary sentiment in Europe.</li> <li>• The Eurozone manufacturing PMI fell from 48.8 points in January 2023 to 47.4 points in December 2023. On a quarterly basis, the PMI averaged 46.9 points and for the whole of 2023 it averaged 46.2 points. According to expert forecasts, the Polish economy may rebound in 2024.</li> <li>• Industrial production in the Eurozone recorded a significant decline in the second half of 2023 compared to 2022. There was a large variation between individual sectors, including a markedly sharper decline in production in energy-intensive enterprises. Only a slight rebound is expected in 2024.</li> <li>• In 2023, there was an elevated level of core inflation, which translated into further interest rate increases. However, in the last months of 2023, the level of core inflation declined so much that the prospect of a return to the limits of the acceptable range of the inflation rate seems imminent. Consequently, interest rate cuts in the Eurozone and the US are anticipated in 2024.</li> </ul>	<ul style="list-style-type: none"> <li>• The downturn in the Eurozone was also followed by a decline in industrial production in Poland, which translated into a significant drop in energy demand in the NPS.</li> <li>• The reduction in gas and coal prices on the European market translated into a significant reduction in electricity prices, which resulted in a change in Poland's cross-border exchange balance from export to import, which in turn influenced a further reduction in generation from domestic sources.</li> <li>• Falling prices on raw material markets and freight costs translated into a reduction in the capital intensity of RES investments. This effect is offset by the high level of interest rates.</li> <li>• The high level of core inflation translates into the need to maintain increased interest rate levels, which in turn raises financing costs in the PGE Capital Group.</li> </ul>

**MACROECONOMIC ENVIRONMENT - POLAND**

- Poland's gross domestic product grew by 0.2% y-o-y in 2023, which was weaker than forecast. The elements slowing down GDP growth were the low level of domestic demand and reliance on inventories accumulated in 2021 and 2022. Investments and the level of net exports had a positive effect.
- The average level of inflation recorded in 2023 was 11.4%. The core inflation rate oscillated around 10.2%.
- The reference rate of the National Bank of Poland remained unchanged at 6.75% from January to September 2023. In September and October 2023, the Monetary Policy Council decided to cut interest rates. At the end of 2023, the reference rate was 5.75%.
- The rating agencies maintained Poland's high creditworthiness ratings. They also stressed that the outlook for the near future was stable.
- Yields on 10-year treasury bonds fell from 6.7% recorded in January 2023 to 5.2% in December 2023.
- The market is beginning to adjust to the uncertainty surrounding the ongoing conflict across Poland's eastern border.
- In 2023, the PMI was at levels heralding a crisis in the manufacturing sector. The index recorded some rebound in Q4 relative to previous quarters.
- The continued population growth due to migration from Ukraine.
- The European Commission raised its forecast for Poland's economic growth for 2024 from 2.5% to 2.7%.

- The reported slowdown in economic growth translated into reduced demand for electricity. Price pressures (high costs of obtaining energy fuels, CO<sub>2</sub> emission allowances, distribution charges) reduced energy consumption in households, as well as the industrial and service sectors. High energy prices particularly affected the profitability of energy-intensive industries. It can be expected that high energy prices and the availability of support schemes are likely to drive consumers to install RES.
- It is estimated that some refugees from the Ukraine have settled in Poland. Additional residents increased the demand for electricity in 2023. Over the course of the year, further re-emigration of Ukrainian residents to Western European countries was evident.
- In the longer term, lower levels of demand and changes to the energy mix may translate into a lower electricity price on the wholesale market and, in particular, a negative impact on the economics of coal-fired power generation.
- No change is expected in Poland's long-term credit risk rating in PLN and foreign currencies, which, with other factors unchanged, should remain neutral for the costs of financing investment programmes of the PGE Group. It can be expected that in the coming years the current values of inflation and interest rates will return to the levels indicated in the targets set by the National Bank of Poland.
- The increase in price indexes for construction and assembly works and the cost pressure in the specialist construction segment may result in higher expenditures on the execution of the planned capital expenditure programme and higher costs of external services. A structural shortage of skilled workers may cause delays in the implementation of investment and overhaul tasks.

**TRENDS IN ELECTRICITY AND FUEL MARKETS**

- In 2023, demand for electricity Poland fell by 5.96 TWh.
- The further continuation of the trend of declining demand for electricity may have a negative

- At the end of 2023, the average price of natural gas purchased in EU countries was EUR 31.43 per MWh. Lower consumption, high storage fills and supplies of liquefied natural gas (LNG) contributed to the price decline. Over the course of 2023, the average SPOT price of natural gas on the Dutch exchange (TTF) was around EUR 40.73 per MWh.
  - Greater stability in the global hard coal market. Prices returned to levels below PLN 20 per GJ.
  - Hard coal inventory levels had been increasing since September 2022 and reached 12.2 million tonnes in December 2023, of which approximately 5.1 million tonnes were located at power plants, 2.8 million tonnes at CHP plants and 4.3 million tonnes at mines.
  - The dynamic development of renewable energy sources and stabilised gas supply chains led to a reduction in coal consumption in Europe.
  - The weighted average BASE price on the Day-Ahead Market was PLN 533.62 per MWh in 2023, a decrease of PLN 262.55 per MWh compared to 2022.
  - The weighted average price of the BASE\_Y-24 annual contract was PLN 642.19 per MWh in 2023, a decrease of PLN 467.85 per MWh from the price quoted for the BASE\_Y-23 contract in 2022.
  - The average price of CO<sub>2</sub> in 2023 was around EUR 83 per tonne.
  - In 2023, Poland was a net importer of energy – 3.9 TWh.
  - Dynamic development of photovoltaics - in 2023, the number of prosumers in Poland exceeded 1.4 million and the total capacity of prosumer installations exceeded 10 GW. Throughout 2023, the number of prosumers increased by 190,000.
  - LNG imports to Poland amounted to around 5.9 m<sup>3</sup>. The main exporter of LNG to Poland was the United States, which accounted for about 58% of the volume. Qatar was in the second place, with a share of about 38%.
  - Natural gas imports via Baltic Pipe amounted to 6.72 m<sup>3</sup> in the whole of 2023.
- impact on the sales volumes achieved by the PGE Group.
- In 2023, as in previous years, there was an increase in RES capacity in Europe, which translated into reduced power generation from fossil fuels. After the uncertainties of 2022 related to the availability of coal for generation sources, in 2023, coal inventories were replenished in both Poland and throughout Europe. However, the development of RES will continue to put pressure on reducing generation from coal-fired units.
  - As households move away from coal, electrification and interest in RES solutions such as photovoltaics, heat pumps and energy storage will increase. Electrification of transport and the growing popularity of electric cars may provide an additional impetus for the development of domestic RES.
  - Electricity will also become increasingly important in heat generation and distribution. The development of “power to heat” technologies – electrode boilers, heat pumps, daily as well as seasonal heat storage facilities – will have a positive impact on the decarbonisation of these sectors. The PGE Group’s intention is to maximise the potential of these new technologies.
  - The restoration and stabilisation of natural gas and LNG supply chains will enable the development of CCGT generating units, the realisation of investments in high-efficiency gas cogeneration systems under the support system and the abandonment of coal combustion.

	<ul style="list-style-type: none"> <li>• At the end of December 2023, natural gas storage facilities in Europe were filled in approximately 87% and in Poland in approximately 95%. Reduced demand and high LNG supplies to Europe contributed to such high filling levels.</li> </ul>	
<p><b>DEVELOPMENT OF NEW TECHNOLOGIES</b></p>	<ul style="list-style-type: none"> <li>• Increasing interest in nuclear power in Europe. At the United Nations Climate Summit COP28, a declaration was formally signed on the pivotal role of nuclear power to achieve net-zero emissions in 2050 and the aspiration to triple energy production from this technology by 2050. The declaration on tripling power generation from nuclear sources was signed by more than 20 countries (including Poland).</li> <li>• There is a growing interest in the modular nuclear reactor (SMR), which could be used for both electricity and heat generation. Companies in the US and Canada are planning to launch pilot projects even before 2030. Commercial installations of this type are not yet available in Europe.</li> <li>• The importance of battery-based energy storage is growing. More than 1.7 GW of energy storage appeared in the December capacity market auction.</li> <li>• PGE PAK Energia Jądrowa S.A., a special purpose company, was established to participate in the construction of a nuclear power plant in Konin/Państwów in the Wielkopolska region.</li> <li>• Development of hybrid installations that combine the potential of wind and photovoltaic farms – so-called cable pooling – a combination of two technologies at a single connection point. This allows for the utilisation of the connection capacity of two RES installations with variable but complementary power generation characteristics.</li> <li>• Developments in information, telecommunication and artificial intelligence technologies in the energy sector.</li> <li>• New projects for green hydrogen plants and hydrogen solutions for transport.</li> </ul>	<ul style="list-style-type: none"> <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>• The PGE Group emphasises the relevance of the cable pooling solution and continues to work on this technology.</li> <li>• The development of the green hydrogen production technology can allow the use of surplus energy from RES but also the decarbonisation of sectors and the replacement of fossil fuels with hydrogen. The PGE Group has started cooperation with GE Wind France SAS and GE Power sp. z o.o. on the development of a project to test green hydrogen production using an offshore wind turbine.</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> <li>• The development of electromobility will influence an increase in demand for electricity and a change in the daily electricity consumption profile, which may slightly alter the operating conditions of some conventional units. However, this development requires investments in the grid infrastructure and charging points, as well as a charging management system. It is also possible to use batteries in electric cars as RES energy storage units.</li> </ul>

## **e) Risks and threats to PGE S.A. and the PGE Capital Group.**

### **Risks in the operations of 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 offered by the Group, in particular:**

- Gross margin on electricity from the PGE CG's generation assets and trading in related products,
- Generation of electricity and heat,
- Electricity sales volumes,
- Tariffs (regulated prices);

#### **property risks related to the development and maintenance of assets, in particular:**

- Breakdowns and damage to property,
- In-kind investments,
- Asset management and maintenance investments;

#### **operational risks related to the course of the current economic processes, in particular:**

- Fuels management,
- Cyber security,
- Supervision of insurance policies,
- Reputation,
- Procurement,
- Human resources,
- Social dialogues;

#### **regulatory and legal risks related to the fulfilment of requirements imposed by the legal environment, in particular:**

- Environmental protection,
- Solidarity Shield,
- Employee safety,
- Climate,
- Concessions,
- Reporting and taxes,

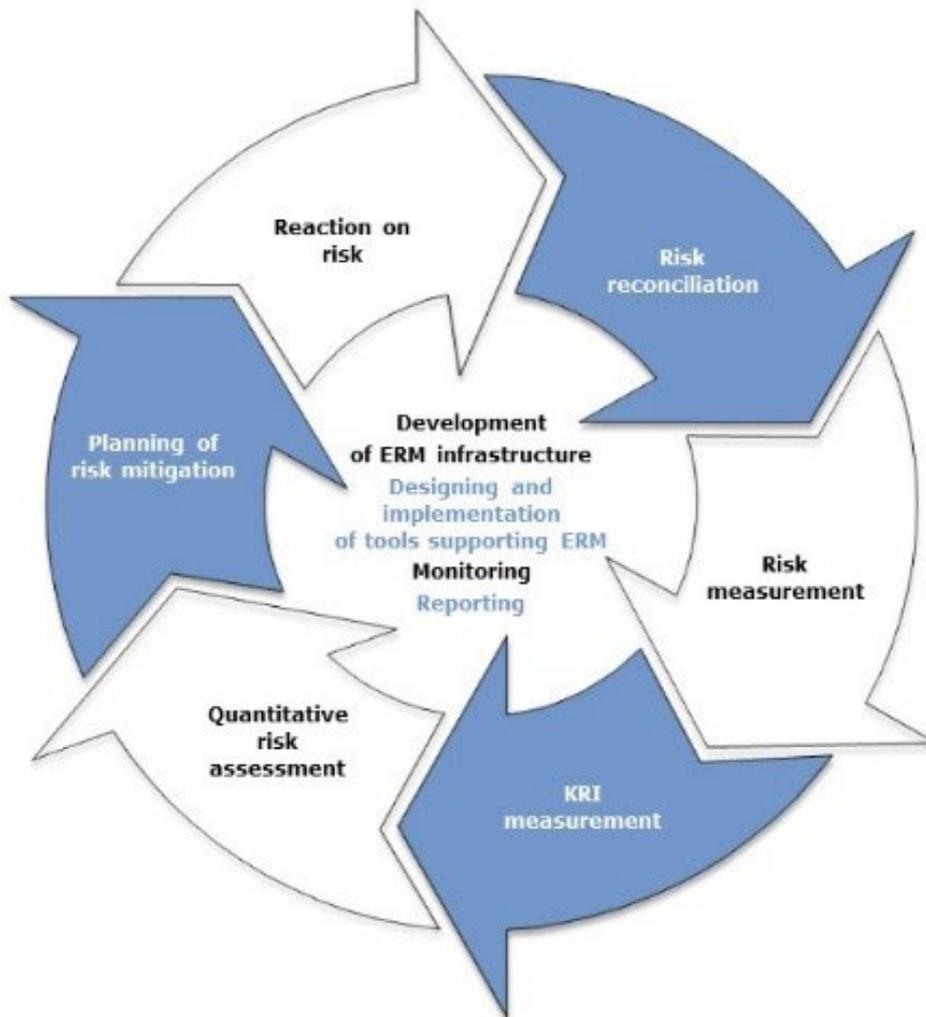
#### **financial risks related to financial management, in particular:**

- Credit risks,
- Liquidity,
- Interest rate,
- Currency risks;

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

PGE S.A. operates an internal control system as well as a corporate risk management system.

In the PGE Capital Group, risk management is carried out on the basis of the GRC (Governance – Risk – Compliance) model, i.e. the concept of three lines of defence (Business – Risk – Audit).



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

**The most important risk mitigating measures are presented below.**

**Market and product risks.**

**Activities:**

- Optimising the sales of electricity from generation assets.

- 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.
- Acquisition of new customers.
- Maintaining existing 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.
- ESG-sensitive sustainable development.
- Carrying out current overhauls according to the highest sector standards.
- Insuring key generation assets against failure and property damage.
- The Company systematically improves the reliability of energy supply to end users by modernising its distribution network.
- Monitoring of environmental legislation and regulations, in particular air, water and soil emission standards.

#### **Operational risks.**

##### **Activities:**

- Optimising the lifetime of equipment and the availability of key assets.
- Conducting overhauls, repairs and modernisations of assets according to schedules.
- Service agreements for efficient and rapid repair of breakdowns and failures
- 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.
- 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.

- 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.

### **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.
- Exercising operational supervision of planned and ongoing investment and modernisation measures with respect to their compliance with environmental requirements.
- Decreasing the carbon intensity of the PGE Group's generation assets, developing low and zero emission generation sources.
- Monitoring and analysing the state of the PGE Capital Group's regulatory environment at the international level with risk assessment.
- 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.

### **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.
- 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. Subsidiaries in the Group use various sources of intra-group financing. The liquidity risk is monitored by means of the periodic liquidity planning tools with respect to operating, investing and financing activities.
- 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. Existing regulations do not allow speculative derivative transactions based on interest rates or currencies.

#### **Long-term risks**

The PGE Capital Group does not focus only on risks related to current operations, but also on long-term risks and risks arising from climate change. 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 Capital Group to prepare for new challenges and secure its long-term development.

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

- Development directions
- Access to financing sources
- Disinformation and artificial intelligence
- Geopolitics
- Climate change
- Energy generation sources
- Law and regulations
- Technological revolution
- Social preferences
- Security / cybersecurity

### **Climate risk**

The PGE Capital Group is aware of the impact of its activities on the climate, as well as the risks of climate change to the Group's operations. This interdependence generates both risks and opportunities for growth. Therefore, stakeholders' expectations regarding the reporting of the environmental impact of its activities are understood. Consequently, climate risk management is recognised as a key element of strategic management, with a direct impact on financial aspects.

In view of the above, the PGE Capital Group has taken a number of actions aimed at achieving climate neutrality in 2050, which are already indicated in the PGE Group Strategy until 2030, and continues to work on the implementation of the PGE Group ESG Strategy, focusing on 4 areas: competitiveness in the financial market, leadership in the green transformation, corporate culture supporting sustainable development and active communication on sustainable development with all stakeholders.

The Group also stepped up its efforts to meet regulatory requirements, both national and European. This mainly relates to the EU Environmental Taxonomy<sup>3</sup>, the preparation for meeting the requirements arising from the Corporate Sustainability Reporting Directive (CSRD) as well as the expectations of financial institutions, investors and customers.

Issues related to the climate risk are subject to rigorous requirements and guidelines resulting from the corporate risk management process. The body responsible for overseeing the PGE Group's corporate risk management process, including the climate risk, is the Risk Committee, as in the case of financial risks. The establishment of the Risk Committee reporting directly to the Management Board ensures the supervision over the effectiveness of the risk management processes in the Group. This positioning of the risk function allows for an independent assessment of individual risks, their impact on the PGE Group, as well as the mitigation and control of significant risks through dedicated instruments.

Climate issues are assessed centrally in PGE S.A., taking into account all activities of the PGE Capital Group and its constituent entities. This means that the result of the assessment is reported jointly at the level of the whole Capital Group.

In 2023, the PGE Group once again participated in an international study on the environmental impact of the PGE Capital Group's activities, i.e. the Carbon Disclosure Project - CDP (<https://www.cdp.net/en>). The Group responded to queries from global investors on the impact of its activities on the climate and water resources, and also identified both risks and opportunities.

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<sup>3</sup>The PGE Group is obliged to disclose the extent to which its activities can be considered environmentally sustainable in accordance with Regulation 2020/852 of 18 June 2020 on the establishment of a framework to facilitate sustainable investments, amending Regulation 2019/2088 and the Delegated Regulations on the establishment of a framework to facilitate sustainable investments. |

There is an interdependence between climate-related risks and opportunities for business. Any business is affected by two types of climate risks:

- physical risks related to the physical impacts of climate change i.e. real threats in the form of extreme weather events, drought, flooding;
- risk related to transition (i.e. transformation/transition risks) towards a low-carbon and climate-resilient economy; these relate to meeting regulatory requirements, implementing new technologies or the impact on the Company's reputation.

At the same time, the changing climate and climate change mitigation activities aimed at mitigating and adapting to its effects provide new opportunities and chances for business development. Therefore, the PGE Group focuses on not only risks but also opportunities to ensure that it is resilient to risks and increases sustainable profits. Climate-related opportunities in the PGE Group primarily relate to the following:

- effective resources management, e.g. in the form of work on waste management solutions and recovery of valuable products from wind turbine blades;
- new sources of electricity through investments in offshore and onshore wind farms and photovoltaic farms, construction of an emission-free hybrid electricity storage facility;
- new products such as the expansion of the product portfolio with PRO EKO initiatives - products compatible with low-carbon heating systems, development of products/offers promoting low-carbon activities, following changes in consumer preferences or development of insurance solutions for offshore wind farms;

Within the PGE Capital Group, the climate risk was defined in the following five areas:

- sourcing of aid funds and investment incentives in national regulations - related to increasing the impact of climate requirements relevant to the allocation of aid funds and investment incentives in national regulations,
- international regulations - related to EU legislation in the field of energy and climate policies, in particular under the pending Fit for 55 package,
- CO2 emissions - related to the rising cost of emission allowances, which may adversely affect the profitability of generating units or lead to the suspension of production at these units,
- operations - relating to extreme weather phenomena or changes in climate conditions that may adversely affect the assets and operations of the PGE Capital Group,
- investments - relating to the PGE Group's potential failure to meet its investment commitments aimed at green transformation, at the EU, national and strategic goals level.

Each area of climate risks described above is assessed in the short, medium and long terms. The adopted time horizons result from analogy with ongoing external studies.

### **Assessment of the impact of physical climate risks on the PGE Group's operations**

Global warming, changing precipitation patterns, rising sea levels and extreme weather events are increasingly posing serious challenges to the resilience of electricity systems, thus increasing the likelihood of disruptions. Climate change directly affects every segment of the electricity system: generation potential and capacity, heating and cooling demand, the resilience of transmission and distribution networks, as well as demand patterns.

The PGE Group, being aware of the risks posed by climate change, as part of the first stage of the climate risk management process, in 2023 conducted an assessment of the relevant physical (material) climate risks that could have a negative impact on its operations, consequently supporting adaptation to climate change and increasing resilience to climate

risks. The assessment covered climatic factors in the form of primarily temperature, precipitation and wind as well as their negative impact on the key activities of the Group.

The assessment of climate risks related to physical hazards in the PGE Group in 2023 was carried out on a current basis and a long-term basis, using scientific models describing possible climate scenarios, i.e.:

- RCP 4.5 - the optimistic scenario, which assumes the introduction of new technologies to achieve a higher reduction in greenhouse gas emissions than today, assuming that the increase in average global temperature will be around 2.5°C at the end of the 21st century relative to the pre-industrial era; and
- RCP 8.5- the pessimistic scenario, which assumes a continuation of the current rate of increase in greenhouse gas emissions, on a business-as-usual basis, assuming that, by the end of the 21st century, the average global temperature will have risen by 4.5°C compared to the pre-industrial era.

The performed assessment showed a low to medium impact of risks related to physical climate hazards on the key activities of the PGE Group in 2023. An important role in the impact assessment process is played, among others, by the implementation of adaptation measures developed in the PGE Group that increase the resilience of the power systems to climate change through the use of solutions that are more resistant to weather conditions, e.g. the cabling programme (replacement of overhead transmission power lines with cables placed in the ground), preventive management of the key elements of the infrastructure affecting the continuity of operations, insurance against events related to weather phenomena or precise analyses of land for new investments.

### **Impact of transformational climate risks on the PGE Group's operations**

Transformational climate risks in the PGE Capital Group mainly concern areas affecting the transformation towards achieving climate neutrality planned by 2050, i.e. requirements and regulations applicable to existing products and services (area: policy and law), replacement of existing products and services with their low-carbon counterparts (area: technology) and stakeholder concerns/negative opinions (area: reputation). Examples of risks from the aforementioned areas are listed below by category:

#### **Policy and law**

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

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

#### **Emerging regulations**

Emerging regulations are important for implementing the strategy and for supporting an effective transition to low- and zero-carbon technologies. The PGE Group seeks to take full advantage of available financing options for green investments. Emerging regulatory changes, such as EU infrastructure support to stimulate sustainable investments, consideration of financing shortfalls, penalties for climate negative transactions, give rise

to significant risks. These changes will have an impact on the credit risk and may affect cash flows generated by the PGE Group's assets and thus affect their income value.

The risk of increasing costs of emission allowances, including a reduction in the limit of free emission allowances for district heating, results in a decrease in the ability to finance low- and zero-emission investments.

The PGE Capital Group systematically undertakes measures to reduce greenhouse gas emissions. The decarbonisation of generation assets will intensify in parallel with the implementation of the PGE Capital Group strategy. As a result, PGE's contribution to avoiding CO<sub>2</sub> emissions is expected to be 120 million tonnes by 2030. At the same time, pro-environmental investments constitute the core of the PGE Capital Group's investment activities. Furthermore, the Group invests in asset modernisation and development projects, including the optimisation of combustion processes and the introduction of solutions aimed at improving generation efficiency, higher fuel and raw material consumption efficiency and reducing the energy intensity of generation processes and internal needs.

### **Technology**

A sustainable reduction in emissions intensity is to be achieved in the PGE Group by changing generation technologies, investing in new technologies, expanding the portfolio of renewable energy sources, developing the circular economy and enabling customers to participate in the energy transition. The technology risk also includes the selection of optimal and efficient new technologies, the use of potential by the PGE Capital Group. By 2030, the share of low- and zero-carbon sources in the Group's generation portfolio is expected to reach 85% and renewable energy sources will account for 50% of generated energy. The PGE Capital Group aims to achieve climate neutrality by 2050.

### **Reputation**

The reputational risk for the PGE Group is very significant as the power sector plays an important role in supporting an effective transition to a low-carbon and ultimately zero-carbon economy. As the leader of the energy transition, the PGE Group is focusing on reducing its environmental impact. A sustainable reduction in emissions intensity is to be achieved by changing generation technologies, expanding the renewable portfolio and enabling customers to participate in the energy transition by offering them attractive products.

### **f) The compliance management system in the PGE Capital Group.**

The PGE Group compliance management system's functioning and continuous improvement are based on legal regulations, adopted values and ethical standards of operation.

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.

The content of the PGE Capital Group Code of Ethics, as well as other policies of the compliance area, are available to employees, business partners and other stakeholders – in both Polish and English – on the website [www.gkpgge.pl](http://www.gkpgge.pl) and on the websites of individual PGE Group companies. Information materials, including posters, are available at each company. They provide information on the PGE Group's values and rules of conduct, as well as channels to report non-compliances. Besides codes and policies, the PGE Group is also bound by the regulations defining how the compliance management system is organised.

The compliance area supports the management boards of PGE Capital Group companies in the implementation of uniform operating principles in the PGE Capital Group, as a result of which the organisational culture supports compliance with the law and ethical principles as well as activities in line with sustainable business principles.

This objective is pursued through the following:

- providing education through training and communication activities on issues related to compliance with the applicable laws and internal regulations on corporate governance and attitudes of integrity,
- supporting the implementation of transparent processes that ensure that non-compliances and rule violations can be identified, explained and remedied promptly, and actions can be taken to prevent them from occurring in the future,
- the minimisation of the risk of non-compliance that may result in penalties, sanctions, or loss of reputation and credibility as a result of non-compliance with regulations and standards that are sanctioned by the law or constitute the best practices in the field.
- ensuring support in the implementation of the PGE Group strategy, taking into account the applicable laws and internal regulations;

Developing their awareness of the importance of acting with integrity to build the organisation's value and to achieve its business goals influences employees' subsequent choices.

In 2023, the communication activities carried out in the PGE Group focused on the following themes:

- compliance with the law (including the sanctions regime),
- the manager's role in ensuring the organisation's compliance,
- building an organisational culture based on fairness and integrity,
- the role of the whistleblower and the need to respond to situations of inappropriate behaviour,
- avoidance of conflicts of interest,
- issues related to cooperation with business partners (examining business partners or the need to include compliance clauses in contracts).

In 2023, the Compliance Department of PGE S.A. conducted cyclical training on the PGE Capital Group Code of Ethics, anti-corruption regulations and compliance communication, as well as the execution of the core tasks of the process, i.e. identification of laws and regulations, identification and assessment of compliance risks, compliance assessment and cyclical reporting.

Ongoing monitoring of the implementation of follow-up measures recommended during compliance-related investigations continued in 2023.

Compliance assessments were carried out in individual PGE Group companies with regard to the following: implementation of the compliance management process, principles of fair business and ethics, respect-based activities (human and employee rights), personal data protection, anti-corruption, conflicts of interest, relations with business partners, anti-money laundering and countering the financing of terrorism (AML/CFT).

In selected PGE Group companies, a compliance assessment also covered the application of fair competition principles and consumer protection issues.

In 2023, in response to the Group's needs, the following new measures were also taken within the compliance area:

- implementation of the reporting of penalties and sanctions imposed on companies or members of company bodies and related follow-up monitoring,
- preparation of a report on the fulfilment of minimum guarantees in respect of human rights, employee rights and environmental protection,
- adoption of the Human Rights Policy,
- adjustment of the content of the PGE Capital Group Code of Ethics and the Code of Conduct for Business Partners of PGE Capital Group Companies to the ESG standards,
- confirmation of the training of project team members on the code of ethics and anti-corruption regulations,
- implementation of AML regulations required under the law, in connection with the extension of the scope of PGE's activities to include the provision of bookkeeping services.

The PGE Group has an organisational structure dedicated to the performance of compliance tasks. In PGE S.A., it is the Compliance Department. The companies and branches of the PGE Group appoint Compliance Coordinators.

In this important process, the Company's bodies, i.e. the Supervisory Board of PGE S.A. and the Management Board of PGE S.A., play an essential role.

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. manages the implementation of the compliance management process in the PGE Capital Group, determines the main directions of compliance management in the PGE Capital Group, provides the Supervisory Board (including the Audit Committee) with relevant information and reports on the functioning of the compliance management system in the PGE Capital Group.

The compliance management system in the PGE Group comprises the Corporate Centre and PGE's direct subsidiaries conducting active operations. In indirect subsidiaries, the compliance system is implemented through their supervisory companies.

In total, at the end of 2023 the system covered 27 companies in the Group (including PGE SA). The above information confirms the functioning of the compliance management system in PGE S.A. in 2023.

#### **g) 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 2021 edition 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).

In the PGE Capital Group, the audit function is consolidated. The organisational unit responsible for this Group-wide consolidation is the Internal Audit Department of PGE S.A., which performs audit tasks for the Corporate Centre and individual PGE Capital Group companies. Audit structures are also maintained in PGE CG companies that were intended to be spun-off from the Group as part of the creation of the NESAs. These companies are not included in audit consolidation, but are parties to audit support agreements with PGE

S.A., under which services are provided to PGE Capital Group companies. As at 31 December 2023, 31 support agreements were in force (concluded with all companies, irrespective of their inclusion in audit consolidation).

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 in the PGE Capital Group 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 PGE CG in achieving its objectives by providing the corporate bodies, the management, and the PGE CG 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. The Regulations in their current wording specify the implementation of the internal audit function in the PGE Capital Group divided into: Part A – in PGE S.A. and PGE CG companies included in the consolidation of the audit area and Part B – in PGE CG companies not included in the consolidation of the audit area.

### **Audit plan**

Internal audit activities are planned and based on the Annual Audit Plan of the PGE CG. It is approved by the Management Board of PGE S.A. 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 CG companies. The Annual Audit Plan is also built on the basis of the Long-Term Audit Plan, which is developed in four-year cycles.

The PGE Capital Group Annual Audit Plan includes the topics of audit tasks to be performed entirely by the audit teams of the Audit Department and tasks to be performed jointly with the audit units of the PGE Capital Group companies that have not been included in the consolidation of the audit area (under the supervision of a coordinator from the Audit Department). Such activities create the possibility of providing comprehensive information on the audited area on the PGE Capital Group scale (from many companies).

### **Ad hoc assignments**

Irrespective of the execution of the Annual Audit Plan, the Audit Department carries out ad hoc audit assignments initiated at the request of a member of the PGE Management Board supervising the Audit Department. In addition, based on the provisions of the support service contracts, an ad hoc audit assignment may also be carried out on the basis of a written order from the President of the Management Board of the audited Company, a member of the Management Board designated by the President or a member of the Management Board to whom the audit area has been assigned in accordance with the division of competences.

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, as well as execute advisory tasks.

### **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 CG companies. Pursuant to the Audit Regulations for the PGE Capital Group, the Audit Department monitors the process of implementing issued recommendations.

### **Audits in 2023**

Audit activities were based on the Annual Audit Plan of the PGE Capital Group as approved by the Management Board. In addition, the Audit Department also carried out tasks requests by PGE Capital Group companies on the basis of concluded agreements. In 2023, the Internal Audit Department was involved in the performance of 109 tasks, including 108 audit tasks and 1 advisory task.

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

The Audit Department's internal structure includes Audit Offices dedicated to servicing individual PGE CG Business Segments and Departments implementing activities from the Corporate Centre level. The following audit implementation units function within the Internal 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 Electricity Distribution Business Segment,
- the Audit Office for Trading – dedicated to the performance of planned and ad hoc audits in the Retail Sales Business Segment,
- the Audit Office for RES – dedicated to the performance of planned and ad hoc audits in the Renewable Power Generation Business Segment.

The Audit Department structure includes also the Analysis, Reporting and Settlement Division. 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. The Department is also responsible for the implementation and coordination of the management systems' audit function in the PGE Capital Group.

As at 31 December 2023, the Internal Audit Department employed 60 persons (58.5 FTEs).

### **Training**

Besides meeting the individual needs of employees to improve their competences, 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 CG companies with internal audit units (or independent auditor positions).

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

The Internal 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 Internal Audit Department also maintains a repository of knowledge concerning inspections conducted in the PGE Capital Group by external control bodies.

In 2023, PGE S.A. underwent three audits conducted by external authorities:

- 1) Audit P/22/015 "Development of the electricity distribution network". In the course of the audit, an irregularity was found with regard to an unjustified instruction given by the Management Board of PGE S.A. to the Distribution System Operator to reduce the annual investment plans for 2020 and 2021 and a post-audit conclusion was formulated with regard to not taking actions, in particular in the implementation of procedures related to the development of the PGE Capital Group's annual financial plans, which could be considered as an unauthorised exertion of influence on the DSO and thus limiting its financial decisions concerning the construction or modernisation of distribution lines.
- 2) Audit P/22/016 "Operation of the power market in the electricity system". In the course of the audit, an irregularity was found with regard to PGE S.A.'s incomplete fulfilment of its capacity obligation, which resulted from a delay of more than four months in the commissioning of the Turów B11 - JRM/170 unit and accounted for a small percentage (8.9%) of the total capacity obligation under all concluded capacity agreements. The Supreme Chamber of Audits refrained from formulating comments and conclusions with regard to the non-fulfilment of the capacity obligation in the period from 1 January to 14 May 2021, due to the change in the circumstances, namely the Turów B11-JRM/170 capacity market unit started to fulfil its capacity obligation from 15 May 2021.
- 3) Conducted by the Customs and Taxation Office, an audit of compliance with the tax regulations concerning the fulfilment of the Company's obligations as payer of corporate income tax on the income referred to in Article 21 of the Corporate Income Tax Act of 15 February 1992 paid in 2018 to entities (beneficiaries) with registered offices located in the territory of Sweden. No irregularities were identified during the audit and no post-audit conclusions were drawn.
- 4) Conducted by the Customs and Taxation Office, an audit of compliance with the tax regulations concerning the fulfilment of the Company's obligations as payer of corporate income tax on the income referred to in Article 21 of the Corporate Income Tax Act of 15 February 1992 paid in 2019 to entities (beneficiaries) with registered offices located in the territory of Sweden. No irregularities were identified during the audit and no post-audit conclusions were drawn.
- 5) Conducted by the Customs and Taxation Office, an audit of compliance with the tax regulations concerning the fulfilment of the Company's obligations as payer of corporate income tax on the income referred to in Article 21 of the Corporate Income Tax Act of 15 February 1992 paid in 2020 to entities (beneficiaries) with registered offices located in the territory of Sweden. No irregularities were identified during the audit and no post-audit conclusions were drawn.
- 6) Conducted by the Customs and Taxation Office, an audit of compliance with the tax regulations concerning the fulfilment of the Company's obligations as payer of corporate income tax on the income referred to in Article 21 of the Corporate Income Tax Act of 15 February 1992 paid in 2021 to entities (beneficiaries) with registered offices located in the territory of Sweden. No irregularities were identified during the audit and no post-audit conclusions were drawn.

- 7) Conducted by the Customs and Taxation Office, an audit of compliance with the tax regulations concerning the fulfilment of the Company's obligations as payer of corporate income tax on the income referred to in Article 21 of the Corporate Income Tax Act of 15 February 1992 paid in 2022 to entities (beneficiaries) with registered offices located in the territory of Sweden. No irregularities were identified during the audit and no post-audit conclusions were drawn.
- 8) Conducted by the Archive of New Files, an audit concerning the handling of archival materials entering the state archival resource and non-archival documentation created and accumulated in bodies and organisational units, regardless of the place of, and legal title to, the storage of such materials or documentation. The audit found irregularities relating to, among other things, to a lack of separation of documentation, inadequacies in the drawn up transfer and acceptance inventories, incorrect storage of documentation and a lack of accurate records of the examined resources. Post-audit recommendations were formulated with a view to addressing the identified irregularities.

The Internal Audit Department, on the basis of information provided by the internal audit units in PGE Capital Group companies, also maintains a register of audits carried out in these companies and, on the basis of conclude support agreements, monitors audits carried out in other PGE CG companies. The information provided by the audit units of the PGE Capital Group companies shows that in 2023 external audit bodies carried out 268 external audits in all companies belonging to the Capital Group.

Taking into account the day-to-day supervision of the Internal Audit Department's activities performed, among others, through reporting to the Audit Committee of the Supervisory Board of PGE S.A., the Supervisory Board confirms the existence of the internal audit function in PGE S.A. in 2023.

#### **h) Internal control and risk management mechanisms in the process of preparing financial statements.**

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. The IT solutions adopted have measures to ensure access control and protection against unauthorised interference. Financial and accounting data archiving rules are also implemented.

Financial statements are consolidated by means of a dedicated financial management software. The software ensures consistent reporting for consolidation purposes for all Capital Group companies, regardless of the accounting system used for statutory purposes. All Capital Group companies enter data in the same layout.

Part of the data for the consolidation software is entered automatically from the accounting systems and the rest is completed manually. The software's functionality ensures the verification of internal data consistency, the reconciliation of turnover, settlements and flows among Capital Group companies and the automation of repetitive consolidation adjustments. Finally, the software generates reports that form the basis for consolidated financial statements.

Control of access and authorisation to edit and approve financial data entered in the consolidation software is also ensured.

## **PRINCIPLES OF VERIFICATION AND EVALUATION OF REPORTS AND STATEMENTS.**

The preparation of reporting packages subject to consolidation is the responsibility of the management of particular companies. Management is responsible for preparing and approving all necessary data. In addition, the reporting packages of significant subsidiaries are reviewed by the reporting team at the parent company and by an independent Statutory Auditor. The reporting figures of subsidiaries are also analysed by the parent company for deviations from financial plans and comparative periods.

The preparation of separate and consolidated financial statements is the responsibility of the Director of the Reporting and Taxes Department. An independent evaluation of the reliability and correctness of financial statements prepared by PGE and the companies subject to the process of consolidation is carried out by statutory auditors.

The procedure for the selection of a Statutory Auditor and the policy for cooperation with a Statutory Auditor ensure that a Statutory Auditor remains independent of the Company and the Capital Group. In accordance with the policy adopted by the Audit Committee, the maximum uninterrupted duration of audit engagements performed by the same audit firm, or an audit firm affiliated to that audit firm, or any member of a network operating in countries of the European Union to which those audit firms belong, must not exceed 10 years, provided that the key Statutory Auditor may not perform audits for more than 5 years and that the key Statutory Auditor may perform audits again after a period of at least 3 years has elapsed since the completion of the latest audit.

The PGE Capital Group operates a multi-stage process of approving financial statements, including also the participation of the Supervisory Boards of the companies subject to consolidation. 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 statutory auditor, monitoring the effectiveness of the internal control systems, and reviewing periodic and annual financial statements of the Company. The separate 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 confirms the existence of internal control and risk management mechanisms in the process of preparing financial statements.

### **4. Evaluation of the company's application of the principles of corporate governance and the manner in which it fulfils its disclosure obligations regarding their application.**

## **THE INFORMATION OBLIGATIONS CONCERNING THE APPLICATION OF THE PRINCIPLES OF CORPORATE GOVERNANCE SPECIFIED IN THE REGULATIONS OF THE WARSAW STOCK EXCHANGE.**

In 2023 PGE was bound by the corporate governance principles specified in the 2021 edition of "The Good Practices of Companies Listed on the Warsaw Stock Exchange" ("The Good Practices"). The Good Practices 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 S.A. since 1 July 2021. The text of the Good Practices is posted on the WSE's official corporate governance website <https://www.gpw.pl/dobre-praktyki2021>.

Furthermore, pursuant to Article 7 clause 3 of the State Property Management Act, the Prime Minister may determine good practices for the corporate governance area. As the Prime Minister has not determined such good practices, in 2023, the Company did not follow any practices other than those indicated in "The Good Practices".

Companies adhering to the Good Practices are obliged to report on their application. A comprehensive study of compliance with the principles of the Good Practices was carried out in the Company and the Group, involving a number of substantive departments. A matrix of the responsibilities of the organisational units in relation to each principle was prepared; data and necessary explanations were collected to determine the degree of compliance with the principles of the Good Practices. In addition, the Company took into account the Corporate Governance Committee's guidance on the application of the principles of the Good Practices, which was based on questions raised by issuers. A report on the application of the Good Practices was submitted to the Management Board and Supervisory Board together with explanations and comments. On 30 July 2021, the Management Board adopted such a report and the company published it in the Electronic Information Base system of the Warsaw Stock Exchange. In the report, the Company declared the application of 53 Good Practices, which, according to the statements available at the date of this report on the Good Practices Scanner website (<https://www.gpw.pl/dpsn-skaner>), means the achievement of a COMPLY factor (declared level of compliance with the Good Practices 2021) of 84%, compared to 82% for the energy sector and 79% for WIG index companies. The company monitors the application of the Good Practices on an ongoing basis and publishes an appropriate notice in the event of a breach.

Since December 2021, a Sustainability Committee has functioned within the organisational structure of the company. It is responsible for the implementation of the ESG principles in the PGE Group, including, as part of the management of governance issues, the preparation of instructions and recommendations for increasing the scope of the application of the Good Practices.

In 2023, the Company applied the Good Practices with the exception of those 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, among other things, 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. However, the Company endeavours to ensure that the measures taken in employee affairs are based on equal treatment of both genders.

**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, among other things, 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. The pay equity ratio is presented in the Company's statement of non-financial information.

**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. In terms of gender diversity, in the cases of the Company's Management Board and Supervisory Board, the minority share was at 20% and 33%, respectively (as at 31 December 2023).

**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, among other things, 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. In the Company's opinion, the versatility of the Company's bodies is ensured by the diversity of the Members of the Management Board and the Supervisory Board in terms of their educational background, expertise in various fields and professional experience. In terms of gender diversity, in the cases of the Company's Management Board and Supervisory Board, the minority share was at 20% and 33%, respectively (as at 31 December 2023).

**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 with regard to the Management Board and the Supervisory Board and therefore does not report on the degree of implementation of the diversity policy.

**3.5** "Those responsible for risk management and compliance report directly to the President 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. The fact that the Director of the Department responsible for risk management is not a direct subordinate results from the Company's organisational structure and the consistent recognition of risks alongside financial issues. Irrespective of reporting to the Director of the Finance Division, the Director of the Risk and Insurance Department has direct contact with the Member of the Management Board for Finance as part of his responsibilities. The person responsible for compliance, on the other hand, 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. In the other companies belonging to the Group that are important to the Group's business, the persons assigned to risk management and compliance tasks report to the Presidents or Members of the Management Boards of the companies concerned.

**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 PGE Management Board does not rule out the possibility of following the aforementioned principle in the future. According to the PGE 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 amount of remuneration of the Members of the Supervisory Board of PGE S.A. was determined by resolution no. 5 of the Extraordinary General Meeting of 14 December 2016 (as amended) on the principles of shaping the remuneration of the Members of the Supervisory Board, pursuant to which the monthly remuneration of

the Members of the Supervisory Board was determined as the product of the average monthly remuneration in the enterprise sector excluding profit-based payments in the fourth quarter of the previous year, as announced by the President of the Central Statistical Office, and the multiplier: 1.7 (for the Chairperson of the Supervisory Board), 1.5 (for the other Members of the Supervisory Board). 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. The remuneration paid to the Members of the Supervisory Board of PGE S.A. corresponds to the principles set out in the Act of 9 June 2016 on the principles of shaping the remuneration of persons managing certain companies (the so-called Chimney Salaries Act).

#### INFORMATION ON VIOLATIONS OF THE GOOD PRACTICES 2021

In 2003 there were no incidental violations of the Good Practices.

#### **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 2023 annual report, i.e. 4 April 2024, 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 point 5). In 2024, 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 2023" concerning the application of the corporate governance principles in the year 2023, which was publically announced on 4 April 2024.

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 2023,
- 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 financial statements used in the Company,
- 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 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 2023 regarding the Statement on the application of corporate governance.

The above information indicates that the Company fulfils 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.

## **5. Assessment of the reasonableness of expenditure incurred by the Company and the PGE Capital Group to support culture, sport, charitable institutions, media, social organisations, etc.**

### **The sponsoring policy.**

The sponsoring activities in the area of culture, sport and industry events implemented in 2023 resulted from the **Sponsoring Strategy** adopted in 2021 and pursued in the years 2022-2023. Simultaneously, the document regulating ongoing 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 2023, within the framework of sponsoring programmes, the Company continued the implementation of the following projects:

- **PGE MOCna League** (sponsoring the National Stadium - PGE National, the professional speedway league - PGE Ekstraliga, professional sports clubs of the most popular sports disciplines such as football, basketball or volleyball);
- **Power of Wind and Water** (mainly sponsoring sports associations representing disciplines related to the elements of wind and water);
- **The Sports Winter with PGE** (support for speed and figure skating by sponsoring associations and academies as well as implementing the "Winter PGE National on Tour" project);
- **Power of e-motions** (sponsoring of esports initiatives);
- **PGE Junior** (support for sports academies for children and young people from various disciplines across Poland);
- **PGE Cultural Energy Group** (sponsoring of cultural institutions and events);
- **PGE Proud of Their History** (support for projects promoting historical memory);
- **PGE We Lead in the Green Change** (sponsoring of industry events in the energy area).

As part of the **"Power of Wind and Water"** programme, cooperation continued with the **Polish Sailing Association**, the **Polish Canoeing Association** and the **Polish Swimming Association**.

As part of the **"PGE MOCna League"** programme, the naming rights sponsorship of the Kazimierz Górski National Stadium, which had begun in 2015, continued, with the PGE brand being positioned during the most important sporting, cultural and business events that take place at the **PGE National Stadium**.

In 2023, the Sponsoring Strategy maintained PGE's status as the **main sponsor of Polish skating** by extending the sponsoring agreements with the **Polish Speed Skating Association and the Polish Figure Skating Association**. Both agreements, as in the case

of cooperation with sports associations participating in the "Power of Wind and Water" programme, include direct support of the Polish national team and their participation in major championship events, but also a number of additional activities supporting the popularisation of these sports and the activity of families and children.

In 2023, the second edition of the **Winter PGE National on Tour** project took place, bringing together a total of 600,000 participants in 16 different cities across Poland.

In 2023, as part of the popularisation of skating continued from the previous years, PGE was a partner in the **"Come Skating"** project implemented (continuously since 2018) by the Polish Figure Skating Association. Its target audience is pre-school children and primary school pupils. In 2003, PGE continued its naming rights sponsoring programme comprising a series of events called **"P.E. Lessons"**. The next edition of the **"PGE Greatest P.E. Lesson"** project was attended by a total of more than 2,000 participants - primary school pupils and 100 volunteers, including young people from secondary schools.

In 2023, as part of the **"Power of e-motions"** programme, PGE continued its cooperation with the Polish Esport League as the naming rights sponsor of the competition called **"PGE Champions Division of the Polish Esport League"**.

2023 saw the continuation of sponsoring activities in the area of culture. As part of the **"PGE Cultural Energy Group"** programme, PGE supported **25 cultural institutions across Poland** in 2023.

In 2023, in addition to activities in the area of culture, support for projects promoting historical memory continued under the **"PGE Proud of Their History"** programme.

**In 2023, PGE's total sponsoring expenses amounted to PLN 62,710,409**, including:

- Sponsoring of sport: PLN 47,956,909;
- Sponsoring of culture: PLN 11,175,200;
- Conferences and congresses: PLN 3,518,300;
- Other: PLN 60,000

In 2023, sponsoring activities were conducted on the basis of the Sponsoring Activity Plan, which was positively approved by the PGE Supervisory Board. In separate resolutions, the Supervisory Board approved the conclusion of sponsoring agreements exceeding PLN 500,000. The compliance of the followed sponsoring policy with "The General Procedure – 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 – a professional entity engaged in the evaluation of sponsoring effectiveness. 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 an 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.

In the area of sponsoring activities, the Supervisory Board considers it advisable to take control measures and to carry out appropriate audits.

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

The scope of initiatives implemented in the area of corporate social responsibility in 2023 resulted from the objectives formulated in the PGE Capital Group strategy, internal regulations (General Procedure for the Management of Social Involvement Activities) and the UN Sustainable Development Goals (the so-called SDGs), in particular:

- Goal 7. Affordable and clean energy,
- Goal 11. Sustainable cities and communities,
- Goal 12. Responsible consumption and production,

- Goal 13. Climate action.

Through a number of initiatives and partnerships, the area of community engagement supports the pursuit of business objectives and assists in building relationships with stakeholders.

In 2023, for the fourth time, PGE ranked first in the 17th Ranking of Responsible Companies in the industry leader category (fuels, energy and mining), and third in the overall classification list, which examines the quality of responsible management in accordance with ESG guidelines. The Group was also awarded the Silver CSR Letter of the "Polityka" in the 11th edition of the ranking. The organisers appreciated PGE's preparation for and adaptation to the regulatory requirements related to the management of the ESG area.

## **Key projects implemented in 2023**

### **Development of communes in the operational area**

The PGE Group activates local communities and strengthens their social capital. It also supports financially initiatives reported and identified as important by local residents themselves. An examples of such a project is "Choczewo. A Wind-Driven Commune". Residents of communes neighbouring PGE's planned investments in the Baltic Sea applied for support for their projects. In 2023, 45 projects received financing under the programme.

#### **We share heat**

For years, PGE Energia Ciepła has been carrying out the "We share heat" programme, which is aimed at the most needy end users living in PGE's areas of operation. As part of the programme, the company helps them to pay their heat and hot water bills.

#### **A Schoolbag Full of Energy**

In 2023, first graders from the regions where PGE Górnictwo i Energetyka Konwencjonalna operates received 339 schoolbags with school equipment.

#### **On safety among the youngest**

In 2023, PGE Dystrybucja continued to conduct its educational activities among children and young people regarding the safe use of electrical appliances and energy efficiency, the latter being of particular importance nowadays.

#### **Safe holidays with PGE Energia Odnawialna**

PGE Energia Odnawialna once again carried out the educational project entitled "Safe holidays with PGE Energia Odnawialna" in a special zone on Lake Solina.

#### **Blood donation**

"Blood is not water - don't be indifferent!" Throughout the year, PGE employees donate blood during regular campaigns, on the occasion of holidays and in response to requests for help for specific individuals.

#### **Employee volunteering**

In March 2023, pupils of the General and Technical School Complex together with their teachers and PGE Baltica employees cleaned the western beach in Ustka and the nearby forest.

In autumn, PGE volunteers also carried out the annual cleanup of the Bieszczady Sea, i.e. the shores of Lake Solina. Nearly 100 people took part in the project.

#### **Biodiversity**

The PGE Group actively works to preserve and develop biodiversity. It has taken care of birds, forests, animals and vegetation for many years. The PGE Group is involved in the implementation of projects such as:

- 1) Forests Full of Energy
- 1) Protection of storks
- 2) Restoration of the peregrine falcon population
- 3) Restocking of water bodies
- 4) Flower meadows and pollinator protection

#### **Partnership for biodiversity**

*Cooperation with national parks*

In 2023, PGE continued the “Energy of the Rhythm of Nature” programme by cooperating with nine national parks, implementing nearly 60 projects for the benefit of biodiversity and environmental education.

*League for the Protection of Nature*

In 2023, PGE, as a strategic partner of the League for the Protection of Nature, participated in environmental, educational and ecological projects implemented by the LPN. Among the most important of these was the planting of trees.

*Revitalisation of the Crooked Forest*

In 2023, the project to revitalise the Crooked Forest near Gryfino was completed. The area adjacent to the crooked pines was made accessible to the public with infrastructure to ensure that its natural substance is protected.

*Solska Forests*

Thanks to the support of PGE, the Lublin Ornithological Society implemented a project entitled “The introduction of tranquillity zones for the white eagle and black stork in the Lubelskie Province and a part of the Mazowieckie Province”.

### **PGE Foundation**

Socially responsible activities are also carried out by the PGE Foundation, which is an important element of the PGE Group’s corporate social responsibility. The Foundation supports historical, educational, environmental and social activities. It fulfils its mission through its own projects and projects implemented in cooperation with partners. In 2023, the PGE Foundation received nearly 1844 requests for donations. The Foundation made almost 960 donations for a total amount of over PLN 27 million.

In 2023, the Foundation also carried out more than 20 projects of a patriotic, historical, educational or social nature. More than 250,000 persons took part in projects organised by the PGE Foundation (competitions, events, exhibitions, lessons, etc.). The most important of these were:

*Virtual Museum of the Polish Underground State*

*Memorial plaques*

*The Stare Powązki Cemetery - installation of lanterns*

*In the Footsteps of the Heroes of the Home Army*

*Encounters with Art*

*PGE Beach – Experience the Power of the Baltic Wind*

*Wind Machines Tournament*

*Water Machines Tournament*

*Parcels for those in need*

In the area of charitable and social policy, the Supervisory Board considers it advisable to take control measures and to carry out appropriate audits.

## **6. Evaluation of the Company’s Management Board’s fulfilment of its disclosure obligations under Articles 380<sup>1</sup> and 382 § 4 of the Commercial Companies Code.**

In 2023, the Management Board provided the Supervisory Board with regular information on the Management Board’s resolutions and their subject matter.

The Management Board informed the Supervisory Board about the situation of the Company and the PGE Group, including in particular monthly presentation of information on the economic and financial position of the Company together with the results of the PGE Group. It presented key financial data with regard to the realisation of the Company’s and the PGE Group’s EBITDA result, the margins obtained and the fixed controllable costs incurred, with particular attention

paid to personnel costs and the costs of repairs and maintenance. The information provided also included an analysis of capital expenditure incurred with a commentary on major investment projects. The Supervisory Board was also informed about the level of the PGE Group's current net debt and the realisation of bank covenants. The data provided were discussed with an indication of the main deviations from the values planned and realised in the previous year.

The Company's Management Board informed the Supervisory Board about the realisation of the set directions of business development understood as the realisation of the business strategy, long-term interests and stability of the Company reflected in the Management Objectives defined by the General Meeting and specified in more detail by the Company's Supervisory Board. Among the general Management Objectives set for 2023 by the General Meeting, it is necessary to indicate the objectives related to the achievement of certain financial (EBITDA, net debt/EBITDA) and technical indexes: carrying out investment projects to support the implementation of the Group's strategy, carrying out research projects to effectively exploit the potential of innovation and building a systemic approach to communication. The bonus criteria set for the individual members of the Management Board for 2023 included the achievement of key business development directions and were intended to motivate them to take action oriented towards the Company's main strategic objectives.

The Company's Management Board systematically informed the Supervisory Board, on a quarterly basis, about the situation of the PGE CG in the operational and investment areas. Investment plans in individual segments and their performance against the plan were analysed. Regular information was provided on the implementation of strategic investments in 2023. PGE CG carried out activities within three strategic investment portfolios:

- Portfolio of Megainvestments;
- Portfolio of strategic development projects;
- Portfolio of strategic modernisation and renewal projects.

The Supervisory Board also regularly familiarised itself with the technical condition of the assets of the PGE CG and its subsidiaries, electricity generation, heat sales, and the state of hard coal stocks.

The Company's Management Board also presented information on the Company's human resources situation. It identifies joint initiatives that are being implemented by the Corporate Centre in cooperation with the companies, as well as key initiatives for each segment.

Information on the OHS situation in the PGE CG was also presented. Proactive and reactive health and safety objectives were implemented for the top management of PGE CG subsidiaries.

During the Supervisory Board meetings held in 2023, financial flows related to the implementation of commercial activities in the Capital Group, general information illustrating the situation in the energy market, the financial dimension of commercial activities related to the implementation of the strategy in light of the objectives arising from the Financial Plan, and margin forecasts of the main PGE CG companies were presented.

The Management Board also reported on transactions and other events or circumstances which materially affect or may affect the Company's assets, including its profitability or liquidity.

Most of the information in question was prepared on a monthly or quarterly basis and discussed by the Management Board at the Supervisory Board meetings.

With respect to the scope described above, the Management Board properly fulfilled its obligations under the provision of Article 380<sup>1</sup> of the Code of Commercial Companies related to providing information to the Supervisory Board.



At PGE S.A. audits are currently being conducted at the request of the current governing bodies, including the "Opening audit of selected projects, human resources policy and the area of communication and marketing in the PGE Capital Group". In addition, as complementary to the above audit, the "Audit of the PGE Foundation's Activities" will be carried out. The time period of the aforementioned audits covers the years 2020 - 2023. Taking into account the above, as well as the cases identified so far in the Company of granting severance payments to selected employees which may be considered to be contrary to the principles of social co-existence, as well as the probable failure to take the actions regarding the obligation to finance the Polish National Foundation, despite held by the Company legal analyses of the actions set out therein, there are grounds for questioning at this stage (based on the data and information in the Company's possession) the correctness of the actions taken by the members of the Management Board in the financial year 2023.

As a consequence of the above, pending the completion of the aforementioned audits, which may possibly reveal irregularities in the performance of duties by specific members of the Management Board in the previous year, it is justified that the Supervisory Board of PGE does not give a positive recommendation of the Supervisory Board for the adoption by the General Meeting of the resolution on granting discharge to the members of the PGE Management Board for the performance for their duties year 2023

Pursuant to § 18 clause 1 item 15 of the Statutes of PGE Polska Grupa Energetyczna S.A. in connection with Rule 4.7 of the of the Good Practices for Companies Listed on the WSE, on 20 May 2024 the Supervisory Board submitted for opinion giving draft resolutions concerning the granting of discharge to individual Members of the Management Board for the performance of their duties in 2023, submitted by the Management Board to the agenda of the Company's General Meeting. The Supervisory Board did not adopt any resolution in this matter.

## **7. Information on the total remuneration payable by the Company for all studies commissioned by the Supervisory Board to its advisers in 2023 pursuant to Article 382<sup>1</sup> of the Commercial Companies Code.**

In 2023, the Supervisory Board did not exercise the power set out in the provisions of the Commercial Companies Code and did not elect a Supervisory Board adviser. Accordingly, the Company did not incur any costs for this in 2023.

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

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Michał Domagała

Members of the Supervisory Board:

Małgorzata Banasik

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Eryk Kosiński

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Anna Kowalik .....

Andrzej Kozyra .....

Elżbieta Niebisz .....

Sławomir Patyra .....

Andrzej Rzońca .....

Andrzej Sadkowski .....