

## Questions of shareholder asked at the OGM

**1) PGE S.A. in 2019, through subsidiaries, continued its efforts to obtain a mining license for the extraction of lignite from the Złoczew deposit. Efforts to obtain the mining license are ongoing. In the face of changes in the business environment, does PGE S.A. continue to consider lignite extraction from this deposit and if so, when should a decision to invest in lignite extraction from this deposit be expected or discontinued?**

PGE is working to obtain the license to develop the Złoczew deposit after having exhausted the deposits of the Bełchatów deposit currently in operation. Obtaining the license does not denote commencing the investment, whereas PGE intends at this stage to ensure the potential implementation thereof. The final decisions in this matter do not depend only on PGE, whilst the implementation will depend mainly on the environment in the country and the European Union. When preparing the long-term strategy of the PGE Group, we analyse all available development opportunities, also thinking about the future of Bełchatów in the context of the depletion of lignite in the next decade and the challenges of European climate policy. Approaching the topic of the future of the region with the highest responsibility, we also see the potential for the development of renewable energy. We already identify the possibility of building 100 MW in the wind and 100 MW in solar farms in the Bełchatów complex.

**2) What are the expected dates of decommissioning of Bełchatów power plant units and is the company planning to replace them with new lignite units? If not, why is the exploitation of the Złoczew deposit planned for?**

The PGE Group generating units have shut-off dates. In 2019, unit 1 of the Bełchatów power plant was decommissioned. The expected decommissioning dates of the units have been planned in accordance with the availability of fuel, and the possible acquisition of a new deposit would require modernization of units, significantly affecting the profitability of the investment.

**3) In the report of the management board of the PGE Group for 2019, quite a lot of attention is paid to the analysis of prices of CO<sub>2</sub> emission allowances. However, there is no information as to how the decisions of subsequent foreign banks and institutional investors to discontinue financing of coal projects (mines and power plants) and financing of companies that generate more than 30-50% percent of electricity from coal affected the costs of raising capital by the PGE group and the ability to refinance the debt and implement the investment program in 2019. Does the management board of the PGE capital group anticipate an increase in financial costs in 2020 and subsequent years?**

PGE listens to the opinion of all stakeholders of the Group. The concept of spinning-off of coal assets, presented by the new management board, is an expression thereof. Being aware of the need to transform the PGE Group, which requires multi-billion expenditures into renewable energy sources. Ensuring adequate financing for these ambitious plans is an enormous challenge. We meet the expectations of financial institutions. We are convinced that by presenting the details of our strategic plans we will gain their confidence that the money lent to us contributes to changing the face of the Polish energy sector, limiting our impact on the natural environment and investments building the

future value of the Polish economy. This trust is expressed by the European Investment Bank (EIB) granting a loan of up to PLN 272.5 million to finance investment outlays for the construction of new onshore wind farms. The agreement signed at the end of 2019 was the first energy project of this type among EIB borrowers approved after the adoption of a new bank credit policy for the energy sector. During the negotiations of the loan agreement, PGE presented its plans related to changes in the energy mix, emphasizing the commitment thereof to activities related to the energy transformation and planned investments in zero-emission energy sources.

**4) At the end of April 2020, Allianz published a tightening of its insurance policy towards the coal sector. At the end of last year, the criteria were also tightened by the largest insurance company in the world. How do the decisions of 6 out of 8 insurance companies that were involved in the insurance of coal power plants and coal mines in Poland in the past affect the company's strategic options and estimated costs of insuring planned lignite mines? I am asking for information about the availability and costs of insuring PGE's operations in 2019 and an assessment of how the costs of insuring property, machinery, power plants, mines and the company's operations will increase in 2020 and in the following years?**

In the light of decarbonisation policies of insurance companies, the company has adopted a new insurance strategy covering activities involving the review of insurance programs in terms of protection effectiveness and cost optimization options, as well as seeking partners on non-European markets. Simultaneously, we conduct a dialogue with financial institutions, in which we indicate the implemented and planned activities of PGE in the scope of increasing the share of green energy in production. At the same time, in the scope of significant production and mining assets, the company has long-term insurance programs which are still valid in subsequent years.

In terms of insurance costs for the construction of lignite mines, they are difficult to estimate because the construction of a mine is an activity with individual conditions. Obtaining sufficient insurance capacity may be a problem, which results from the low interest of insurers in new risks in the conventional energy segment. A consequence of this situation may be not only the high cost of obtaining protection, but above all the lack thereof. This scenario is also taken into account.

**5) The President of the Management Board of PGE S.A. announced his intention to publish a new strategy of the PGE Capital Group in the autumn of this year. PGE's strategy was to be initially ready by autumn 2019. What caused the annual delay in adopting the new PGE strategy? Will the new strategy include a detailed plan for the PGE Capital Group to achieve greenhouse gas emission neutrality (mainly carbon dioxide) by 2050, along with the trajectory for reaching that emission neutrality and estimated CO<sub>2</sub> emissions in 2025, 2030, 2035, 2040 and 2045?**

The company operates in a dynamically changing environment and its development plans require a comprehensive approach to the changes. Nowadays, in all of Europe, including Poland, there is a debate on the future of energy sector and the challenges it faces. Choosing the right direction of development, which is consistent with social expectations and subsequent actions in the economic sphere, will determine what directions will be most valuable for PGE. We are currently working on publishing a strategy that will go beyond 2030. The greenhouse gases emissions aspect does not

escape our attention and, in order to meet the expectations of our shareholders, we will present how consistently the emission rate of the PGE Group will decrease, also in the long term perspective.

**6) During the last 5 years, the Company, implementing the current strategy, has lost approx. 60% of its value. Will the new strategy, that will be announced by PGE, assume a withdrawal from coal to 2030, dynamic RES development and fair transformation, taking into account global development trends, EU climate policy? And the will of the Poles want to withdraw from coal in Poland by 2030?**

PGE is aware of the forthcoming challenges and is ready to face them. In the strategy, we will focus on adapting the Group to the changing market environment and meeting the requirements of, inter alia, the climate policy. The gradual departure from the use of coal in the power industry in Poland is possible, but it must be planned in the long term, taking into account, inter alia, technical feasibility, security and costs of energy supply in Poland, as well as social aspects. Fair transformation is amidst our priorities, which is why we assess the creation of the Just Transition Fund, together with the possibility of using its resources in coal regions, including the Province of Łódzkie and the Province of Dolnośląskie, as a step in the right direction, required to make ambitious plans to change the face of the European and Polish energy sector.

Achieving climate neutrality is considered throughout the European Union in the perspective of 2050. None of the European countries with a similar electricity generation structure, in which the use of hard and lignite plays an important role, plans to completely discontinue coal sources in the perspective of 2030. In the case of Germany, the cut-off date for energy decarbonisation is 2038. Our southern neighbours – in Czechia – are currently undergoing intensive coal commission work, and the date of abandoning the use of coal in the energy sector is to be presented in September this year. In countries that have announced a departure from coal combustion by 2030, energy based on the use of this fuel is already of a marginal nature – such as in Slovakia (700 MW shut-down until 2023). Of the countries with a significant share of coal use in the energy mix, only Greece has declared the withdrawal of 4.4 GW by 2028.

**7) Does PGE S.A. intend to continue efforts to obtain a mining license enabling the extraction of lignite from the Gubin 2 deposit? There is no information on this subject in the PGE management report on activities in 2019, the non-financial report and the financial statements. There is also no information on the operating costs of the company belonging to the PGE Capital Group established to obtain the mining license for the Gubin 2 field and information whether this company will continue its activity or be liquidated. Did PGE create reserves for claims by residents of the municipalities of Brody and Gubin related to PGE's failure to promise the construction of the so-called "Gubin project", i.e. opencast mine and power plant near Gubin? If so, in what amounts?**

Obtaining the license for the extraction of coal from the "Gubin" deposit as a result of work carried out by PGE Górnictwo i Energetyka Konwencjonalna S.A. (no longer by a special purpose vehicle) would not be synonymous with the launch of works related to the construction of the mine along with obtaining the license.

According to the information included in current report no. 41/2017 PGE Polska Grupa Energetyczna S.A. of July 11, 2017, total expenses related to the Gubin project, including current operating costs,

capital expenditures and the net purchase price of the Gubin project by the end of 2016, amounted to PLN 31.6 million, including the net purchase price of the Gubin project by PGE of 16.7 million PLN. In the following years, PGE Górnictwo i Energetyka Konwencjonalna S.A. continued work on obtaining a concession, in particular, it began the procedure for obtaining an environmental decision (including the environmental impact report) and the procedure for changing local spatial development plans in the area of the planned project (Gubin and Brody). The company also prepared design and conceptual documentation for the construction of the mining and energy complex in the Gubin region. However, these works did not generate significant financial expenses.

**8) How does PGE intend to reconcile decarbonisation plans with lignite mining and combustion from the Złoczew opencast, the production of which is to begin after 2030?**

In the case of the Złoczew deposit, PGE has not yet obtained the license, therefore no investment decision has been made. The details of our plans regarding the vision of PGE development will be presented in the new strategy of the PGE Group.

**9) What is the expected level of return on investment (Internal Rate of Return) in the Złoczew opencast? How would PGE's involvement in the construction of the Złoczew opencast affect the company's plans to pay dividends for 2020 and subsequent years?**

A prerequisite for the decision to implement the project is to achieve a rate of return greater than or equal to the minimum rate of return specified in the PGE Capital Group Investment Policy. The minimum rate of return for a given project depends, inter alia, on the duration thereof, as well as technological and market risk of the project. Analysing all potential investment projects, the Management Board of PGE will make decisions that will create the company's value.

**10) PGE obtained a decision to extend the mining license for the Turów opencast by 6 years. Simultaneously, the new unit at Turów power plant is still under construction, which is associated with significant investments. The new unit in Turów also secured a capacity contract for 15 years. How does PGE intend to convince the European Commission to obtain the necessary derogation from the objectives of the Water Framework Directive after 2027, without which the further operations of the Turów opencast and Turów power plant will not be possible?**

Activities in the field of water policy in Poland are included in national regulations in the form of Water Management Plans adopted by the Council of Ministers. The competent authority in Poland to establish a derogation in relation to environmental objectives the competent authority is Państwowe Gospodarstwo Wodne Wody Polskie (hereinafter: *Wody Polskie*). That authority may set targets for those water bodies that have been altered as a result of human activities in such a way that it is impracticable to bring them into good condition or would give rise to disproportionate costs in relation to the expected benefits. The conditions to be met are specified in Article 63 of the Water Law Act.

In a natural way and resulting from the above, PGE does not assume applying for possible derogations. It is the responsibility of the Wody Polskie, issuing the water law assessment and assessment in the case of investments that can always have a significant impact on the environment, to analyse the

impact of a specific investment on the possibility of achieving environmental objectives for appropriate water resources. If adverse effects are identified, Wody Polskie may, as a result of their assessment, request evidence to confirm that all possible actions to be carried out in this respect have been carried out.

The administrative procedure to obtain an integrated permit for the new power unit at Turów Power Plant is conducted by the marshal of the Province of Dolnośląskie. The cross-border proceedings with Czechia and the Federal Republic of Germany have ended. The application showed that the planned investment does not deteriorate the existing condition of the Miedzianka River, and the future activities will not violate the provisions of the Odra River Basin Management Plan. This will be achieved, inter alia, by building a dedicated sewage treatment facility from the Flue Gas Treatment Installation and extending the existing industrial waste water treatment plant.

The decision on environmental conditions for the continuation of lignite opencast mining in Turów was issued on January 21, 2020 by the Regional Directorate for Environment Protection (RDOŚ) in Wrocław. The conducted environmental impact assessment did not reveal the impact of the mine on achieving environmental objectives for surface water bodies as defined in the applicable Water Management Plan in the Odra River Basin. The Report on the environmental impact has shown that the further operations of the mine will not have an impact on the chemical status and the condition and ecological potential of Nysa Łużycka and Miedzianka.

**11) Similarly, how does PGE intend to convince the European Commission about the need to obtain a derogation from the Water Framework Directive for the Szczerców opencast after 2027?**

The entity conducting mining activities intends to demonstrate the existence of the conditions referred to in Art. 4 of the Water Framework Directive justifying the derogation.

**12) When will PGE publicly announce the dates of decommissioning of coal units in commercial power plants and combined heat and power plants belonging to PGE, in addition to those announced in the Management Board's report on activities in 2019?**

When planning the decommissioning of Centrally Dispatched Generation Units, PGE always takes into account a number of factors: economic, technical and systemic ones. Status of generation assets and development plans are presented to both the Transmission System Operator - PSE S.A. and the President of the Energy Regulatory Office, which is to ensure optimal planning of the development of the National Power System, necessary to ensure long-term security of electricity supply in Poland. Further information in this regard should be expected when publishing the new PGE Group strategy.

**13) Residents of Czechia indicate that as a result of continuing lignite extraction from the Turów opencast to 2044, thousands of Czech residents will be deprived of drinking water sources. Is the management board of PGE considering establishing a provision to pay compensation to Czech residents for this reason?**

PGE does not see the need to establish provisions for the payment of compensation, in its activities guided by the principle of preventing negative impact on the natural and social environment. The Group monitors and analyses the impact of mining and production activities on the environment on an ongoing basis and carries out measures to protect it. For many years, the impact of the Turów opencast on underground waters has been monitored by Polish-Czech and Polish-German teams of experts. The network includes approx. 550 monitoring holes, and research results confirm that the mine does not dehydrate drinking water intakes in Czechia. Only the water intake in Uhelna requires special protective measures, so pre-emptive measures were taken to develop technical ways to reduce the impact of mine drainage. As a result, a decision was made to build an anti-filtration screen whose technical design is currently being developed. Thus, the Uhelna intake will be protected against the potential impact of the Turów opencast on the drinking water source.

**14) Is PGE intending to lead to the destruction of the historic Opolno-Zdrój rural layout in relation to the planned lignite mining up to 2044, or does PGE want to continue the plan expressed by the mine authorities during an administrative hearing regarding the environmental decision for the opencast Turów in September 2019 and move the monuments that make up the former resort to another place? Does the management board of PGE not think that it would be in the public interest to reduce (by 1-2%) the surface area of the opencast and to preserve the unique former resort of Bad-Oppelsdorf (Opolno-Zdrój)?**

In order to limit the impact on the town of Opolno-Zdrój, as well as taking into account social needs, Turów Lignite Mine adopted the exploitation variant, which leaves some of the documented resources of the deposit located in that town. For this variant, it is planned to demolish or relocate about 14 monuments entered into the municipal register of monuments. In order to protect the remaining facilities, the mine conducts geological and engineering monitoring, including land displacements in the 350 lay mark observation network, as well as a total station and GPS system, automatic measurement of deep displacements and airborne laser scanning. Any potential claims of the owners of the monuments, which would be damaged as a result of the Investor's activities, should be settled on the principles set out in geological and mining law, as well as general principles arising from civil law. During the environmental hearing, the postulate of non-governmental organizations was discussed regarding the limitation of deposit extraction in order to reduce the impact on the buildings of Opolno-Zdrój.

**15) In the report of the Management Board of PGE on the activities for 2019, the company's management board announced activities aimed at obtaining a mining license until 2044 for the Turów opencast. Is the PGE Capital Group still intending to obtain a mining license for the Turów opencast until 2044 or is the extension of the license for six years more favourable to the PGE Capital Group and the company's shareholders, in the opinion of the management board?**

Subsidiary of PGE – PGE GiEK S.A. – in the current year obtained an extension of the license for the exploitation of lignite and associated minerals from the Turów field by 6 years, i.e. until 2026. In order to develop all documented industrial resources of the deposit, as well as to use the existing production potential of the mine and power plant, PGE GiEK S.A. intends to apply for the extension of the license until 2044.

**16) In 2019, capital expenditures for renewable energy sources once again amounted to only 2% of the group's total expenditure, and PGE does not have a decarbonisation plan. What percentage of the total investment value of the PGE CG in 2020 will be RES investments and network modernization?**

The share of RES in PGE Group's investments will consistently increase, and when we enter the phase of construction of offshore wind farms, it will become the dominant in the total investment expenditure. With the launch of two new wind farms in Western Pomerania, with a total capacity of nearly 100 MW, we have strengthened the Group's position as the largest green energy producer in Poland. Also this year, this increase in share should be noticeable. And when it comes to decarbonisation plans, we will present the details in the new PGE Group's strategy.