

MANAGEMENT BOARD'S REPORT

on activities of PGE Capital Group
for the 6-month period

ended June 30, 2022



Leading in the green transition

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Key financial data	Unit	Period ended	Period ended	Change
		June 30, 2022	June 30, 2021	%
Sales revenues	PLN million	32 625	21 950	49%
EBIT	PLN million	4 254	3 158	35%
Recurring EBIT	PLN million	2 087	2 263	-8%
EBITDA	PLN million	6 392	5 254	22%
EBITDA margin	%	20%	24%	
Recurring EBITDA	PLN million	4 212	4 290	-2%
Recurring EBITDA margin	%	13%	20%	
Net profit/ loss	PLN million	3 305	2 719	22%
Capital expenditures	PLN million	1 844	2 247	-18%
Net cash from operating activities	PLN million	4 993	3 290	52%
Net cash from investing activities	PLN million	-2 720	-2 076	31%
Net cash from financial activities	PLN million	1 928	12	15 967%

Key financial data		As at June 30, 2022	As at December 31, 2021	% change
Working capital	PLN million	5 076	917	454%
Net debt	PLN million	-583	4 228	-
Net debt /LTM EBITDA ¹ reported	x	-0.05	0.44	
Net debt /LTM EBITDA ¹ recurring	x	-0.07	0.52	

One offs affecting EBITDA		Period ended June 30, 2022	Period ended June 30, 2021	% change
Change in reclamation provision	PLN million	2 160	932	132%
Release of provision for prosumers	PLN million	37	0	-
LTC compensations	PLN million	2	4	-50%
Change in actuarial provision	PLN million	-19	17	-
Release of provision - Voluntary Leave Program	PLN million	0	11	-
Total	PLN million	2 180	964	126%

¹LTM EBITDA - Last Twelve Months EBITDA.

1. PGE Capital Group

1.1. Characteristics of activities

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

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



CONVENTIONAL GENERATION

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



DISTRICT HEATING

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



RENEWABLES

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



SUPPLY

The core business of the segment includes wholesale trading of electricity on domestic and international market, sale of electricity to final off-takers, trading of CO2 allowances and energy certificates and fuels and provision of services of the Corporate Centre to companies from the PGE Group.



DISTRIBUTION

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



CIRCULAR ECONOMY

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



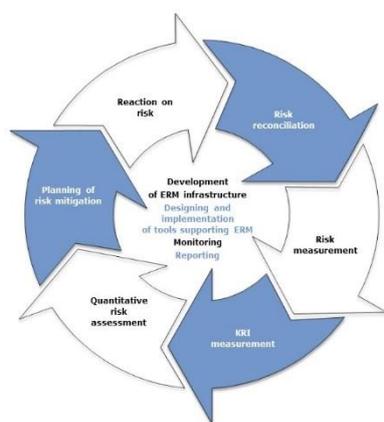
OTHER OPERATIONS

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

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

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

2. Risks in the PGE Group's operations



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

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

The PGE Capital Group has consequently developed a comprehensive risk management system. The Group measures and assesses risks in the key companies of the Group. Mechanism allowing identification of areas exposed to

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

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

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

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

2.1. Current outlook

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

Risk level				Mitigating actions and main tools used for the management of the risk
	low	medium	high	
Risk outlook in the next period	 decrease	 growth	 stable	
Low level	Risk does not pose a threat and may be tolerated			
Medium level	Risk which needs preparation of the proper reaction based on analysis of costs and benefits			
High level	Intolerable risk, which needs immediate and active reaction, leading simultaneously to limitation of possible consequences and of probability of occurrence thereof			
Market and product risks Related to prices and volumes of offered products and services	Gross margin on electricity from the production assets of the PGE Capital Group and on trading in related products – its amount results from the uncertainty as to the future levels and volatility of market prices (electricity prices and the prices of key energy products – CO ₂ , fuels, including in particular hard coal, gas and the prices of certificates)			Most important actions: <ul style="list-style-type: none"> Optimization of generation assets - definition of production scenarios for updated market parameters of electricity, CO₂ and fuels. Margin-based approach to market risk limits rather than volume-based. Using consistent guidance in respect of process organisation in the context of commercial strategy and mid-term planning (strategy for hedging key exposures in the area of electricity and related product trading that correspond to the adopted risk appetite in the mid-term). Establishing position hedging levels with consideration given to the results of analysing pricing risk in respect of electricity and related products, VaR-based. Target hedging levels are specified taking into consideration the Group's financial standing, in particular its strategic objectives. Monitoring exposures for individual areas in relation to the set limits and hedging strategies defined by the Risk Committee or the Management Board of PGE S.A. through operational reports prepared by the Department of Risk and Insurance Research, monitoring and analysing the electricity markets and sector trends in order to optimally use generation and selling capacities. Using the administrative appeal path provided for in the Energy Law and the Code of Civil Procedure. Acquiring new customers - diversification of channels to reach final off-takers and diversification of target groups by maintaining an extensive product portfolio and adapting offering to market.
	Electricity and heat production – related to production planning and the negative impact of factors determining production capacities			
	Electricity sales volumes - this risk derives from uncertainty related to the development of macroeconomic indicators affecting the demand for electricity and energy goods, including in the context of the impact of the COVID-19 epidemic and the remedial actions taken			

¹ The risk outlook is related to the introduction of the Regulatory Account mechanism, which allows for the equalization of differences in the company's tariff in terms of actual revenues compared to the planned revenues resulting from the approved tariffs.

	<p>Tariffs (regulated prices) – resulting from the requirement to approve rates for distribution services and electricity and heat prices for particular groups of entities</p> <p>■ ■ ■ ↗</p>			<ul style="list-style-type: none"> Current clients retention - a diversified portfolio of customer loyalty schemes and special offers dedicated to former clients who moved over to the competitors. Care for a high level of customer service by developing employees' competences and building relations with business and retail clients. Use of tools to supporting customer relations processes allows the Group better sales planning and organisation of sales. Ensuring the expected level of operational readiness of the individual capacity market units.
	<p>The Capacity Market – resulting from uncertainties related to withholding of payments from the Capacity Market and threats related to compliance with the capacity obligations of Capacity Market Units</p> <p>■ ■ □ ↔²</p>			
<p>Property risks Related to development and maintenance of the assets</p>	<p>Failures and damage to property – connected with the operation and degradation over time of energy equipment and facilities and protection of energy equipment and facilities against destructive factors (including fire, effects of weather phenomena, intentional damage)</p> <p>■ ■ □ ↗</p>	<p>Most important actions:</p> <ul style="list-style-type: none"> Diversification of the current structure of the production sources, Introducing a technology reducing the negative impact of atmospheric factors. Active pursuing of a strategy for building up and modernization of the production capacities. Performing maintenance repairs in line with the highest sector standards. Insurance of the most important production assets in the event of breakdown and property damage. Assets are insured based on an analysis of insurance costs, capabilities of insurance markets for specified risks or for particular types of assets, costs related to asset replacement and potential lost revenue. The systematic improvement of reliability of the power supply to the end users through modernization of the distribution grid. Continuous monitoring of environmental laws and regulations regarding environmental protection, and the energy policy. 		
	<p>Tangible investments – connected with strategic plans for expanding the generation, distribution and sales potential as well as on-going investments, development investments and threats resulting therefrom</p> <p>■ ■ ■ ↗</p>			
	<p>Asset management and maintenance investment - related to risks arising from the maintenance of production assets in good condition</p> <p>■ ■ □ ↔</p>			
<p>Operational risks Related to pursuing of ongoing economic processes</p>	<p>Fuel management – connected with uncertainty regarding the costs, quality, timeliness and volumes of fuel supply (mainly coal) and production raw material as well as the effectiveness of inventory management processes</p> <p>■ ■ ■ ↗</p>			<p>Most important actions:</p> <ul style="list-style-type: none"> Optimisation of equipment lifecycles and the availability of key assets. Timely inspections, repairs and modernisation of the existing assets. Optimisation of costs inter alia through monitoring of fuel prices and reserves and securing supply through long-term contracts with suppliers and through price fixing formulas.

² The risk outlook is stable; the risk related to the current operating activities and ensuring the effective readiness of the Capacity Market Unit.

	<p>Cybersecurity – the risk of deliberate disruption of the proper functioning of the information processing and exchange space created by IT systems operating at the PGE Capital Group</p>			<ul style="list-style-type: none"> ▪ Monitoring of legal changes and changes in technical standards in the field of by-products. ▪ Investments in improving the efficiency of the combustion process. ▪ Constant monitoring of service availability. ▪ Creating Business Continuity Plans for critical systems, developing and testing emergency procedures.
	<p>Oversight of insurance policies - risks arising from the failure to tailor insurance policies to the needs or the Company's failure to comply with the terms of insurance policies which may result in lack of receiving a claim in whole or in part</p>			<ul style="list-style-type: none"> ▪ Continuous contact and cooperation with the Risk and Insurance Department and the Company's organisational units with regard to identified new risks or gaps in current insurance policies. ▪ Ongoing monitoring of changes in legal regulations. ▪ Training in regulations preventing money laundering and terrorist financing. ▪ Requirement to read Best Procurement Practices and the Code of Conduct for Business Partners of PGE Group companies.
	<p>Reputation – associated with the negative perception of the entity's image by its customers, counterparties, investors, shareholders as well as the general public</p>			<ul style="list-style-type: none"> ▪ The approval path and internal regulations concerning the purchasing process. ▪ Control of the work environment. ▪ Training of employees in the field of occupational health and safety. ▪ Informing about threats, restrictions and rules related to the COVID-19 (dedicated tab on the Intranet).
	<p>Procurement - related to the ineffectiveness and incorrectness of the purchasing process</p>			<ul style="list-style-type: none"> ▪ Conducting an intensive and effective dialogue in order to avoid escalation of potential disputes with the social partners and to work out the most favourable solutions with regard to employment and employment costs within PGE Capital Group connected therewith.
	<p>Human Resources – pertaining to difficulties in provision of personnel with the relevant experience, competences and ability to perform specific tasks</p>			<ul style="list-style-type: none"> ▪ PGE Group's active participation in internship programmes and cooperation with educational institutions in order to secure a pipeline of qualified personnel. ▪ Assessment and training of personnel in order to make optimal use of it within the Group's structures.
	<p>Social dialogue – related to the failure to reach an agreement between the Group's management and the social partners, which could lead to strikes / collective disputes</p>			
<p>Regulatory and legal risks Related to compliance with external and internal legal provisions</p>	<p>Environmental protection – resulting from industry regulations specifying which "environmental" requirements energy installations should meet and what are the principles for using the natural environment</p>			<p>Most important actions:</p> <ul style="list-style-type: none"> ▪ Monitoring of the changes being introduced or proposed provides that our operations in key business segments are carried in compliance with the law and that PGE Capital Group has solutions which take into account potential changes in the legal environment. ▪ Social dialogue.

³ The level and trend of the risk was determined by the situation related to the planned separation of coal assets to NABE and the establishment of a brokerage company PGE Asekuracja S.A.

	<p>Employee safety – associated with failures to provide safe working conditions</p> <p>■ ■ ■</p> <p>↔</p>	<ul style="list-style-type: none"> Exercising operational supervision of planned and ongoing investment and modernisation measures with respect to their compliance with environmental requirements. Improvement of activities aimed at protecting and improving the state of the environment by implementing technological and organisational solutions ensuring efficient and effective management in this area.
	<p>Climate – commitments on the EU and national level and under strategic objectives arising from the EU's climate and energy policy</p> <p>■ ■ ■</p> <p>↔⁴</p>	<ul style="list-style-type: none"> Reduction in the emission intensity of PGE Group's generating assets, development of low- and zero-carbon energy generation sources. Adaptation of internal regulations and practices to make sure that the activities are in compliance with the power sector regulations and binding law.
	<p>Concessions – resulting from the statutory requirement to hold concessions with regard to conducted operations (risk level and outlook based on KWB Turów's current situation)</p> <p>■ ■ ■</p> <p>↔⁵</p>	<ul style="list-style-type: none"> Monitoring and analysing PGE Group's legal environment at an international level, together with risk assessment. Assessing the impact on PGE Group of proposed regulatory changes at an international level. Issuing opinions and influencing changes with regard to the legal environment at an international level in a strategic dimension. Managing cooperation and contacts with stakeholders as regards international regulations, including through the activities of PGE S.A.'s office in Brussels.
	<p>Reporting and Taxes – related to uncertainty surrounding the future shape of tax regulations and their interpretation and to changes in reporting regulations</p> <p>■ ■ ■</p> <p>↗</p>	<ul style="list-style-type: none"> Managing PGE Group companies' memberships in industry organisations, including as part of Eurelectric (via the Polish Electricity Association), COGEN Europe, Eurogas, WindEurope, EURACOAL (through the Union of Employers: Association of Lignite Miners) and others, and cooperating with trade organisations. Effective raising of external financing and state aid for the development of planned low- and zero-carbon investments by PGE Group.
<p>Financial risks Related to finance management</p>	<p>Credit risk – connected with the counterparty default, partial and/or late payment of receivables or a different type of breach of contractual conditions (for example failure to deliver/collect goods or failure to pay for any associated damages or contractual penalties)</p> <p>■ ■ ■</p> <p>↔⁶</p>	<p>Most important actions:</p> <ul style="list-style-type: none"> Prior to executing a transaction, a counterparty assessment is carried out and forms a base for applying credit limits, that are regularly updated and monitored. Exposures that exceed established limits are hedged in accordance with the Group's credit risk management policy. The level of utilisation of limits is monitored on a regular basis, payment of receivables is monitored on an ongoing basis and early recovery procedures are in place. Applying a central financing model, which assumes – as a rule – that external capital is raised by PGE S.A. PGE Group subsidiaries use a variety of intra-group financing sources and liquidity risk is monitored using periodic planning for operating, investing and financing activities.
	<p>Liquidity risk – connected with the possibility of losing the ability to meet current liabilities and obtaining</p> <p>■ ■ ■</p> <p>↗</p>	

⁴ The risk outlook is related to the climatic pressure and results, inter alia, from the proposed implementation of new EU reduction targets, including the Fit for 55 regulatory package. In view of the ongoing war in Ukraine, this is associated with a number of uncertainties as to future changes and their implementation in the currently proposed scope.

⁵ The risk outlook is determined to be stable as a result of signing a settlement at the level of the Polish government regarding the dispute initiated by the Czech Republic. The risk is assessed as high due to the lack of significant changes in the decisions regarding the sanctions imposed for failure to implement the interim measure (cessation of coal mining in KWB Turów).

⁶ The risk outlook is mainly related to a much lower number of acceptances of exceeding the limits granted and the credit exposure shown on CO₂ counterparties (having an impact on the expected and unexpected loss), which is related to, inter alia, with the settlement of CO₂ supplies, which took place in the first half of 2022 (reduction of the credit exposure level) and with limited offers from CO₂ suppliers.

	financing sources for business operations			<ul style="list-style-type: none"> As regards currency risk and interest rate risk, PGE Group has implemented internal management procedures. PGE Group companies execute derivative transactions involving interest rate- and/or currency-based instruments (IRS, CCIRS, FX Forward) only in order to hedge identified risk exposures. Regulations in force at the PGE Group do not allow, with regard to derivative transactions based on interest rates and currencies, to enter into speculative transactions, i.e. transactions which would be aimed at generating additional gains resulting from changes in the level of interest rates and changes in exchange rates, while exposing the Group to the risk of incurring a potential loss on this account.
	Interest rate risk – resulting from the negative impact of changes in market interest rates on PGE Group's cash flows			
	Foreign exchange risk – resulting from negative impact of exchange rate movements on PGE Group's cash flows denominated in currencies other than domestic currency			

⁷ The level of risk results from the direct negative impact of changes in interest rates on cash flows of the PGE Capital Group.

⁸ The level of risk at an average level results from the fact that most of the risk related to CO₂ prices is placed in the margin risk.

2.2. Long-term outlook

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

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

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

CLIMATE CHANGE⁹ - risk deriving from physical hazards related to the occurrence of extreme weather events and an increase in their frequency, as a result of which the PGE Group's assets may be damaged, as well as climate changes affecting the demand for electricity and heat.

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

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

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

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

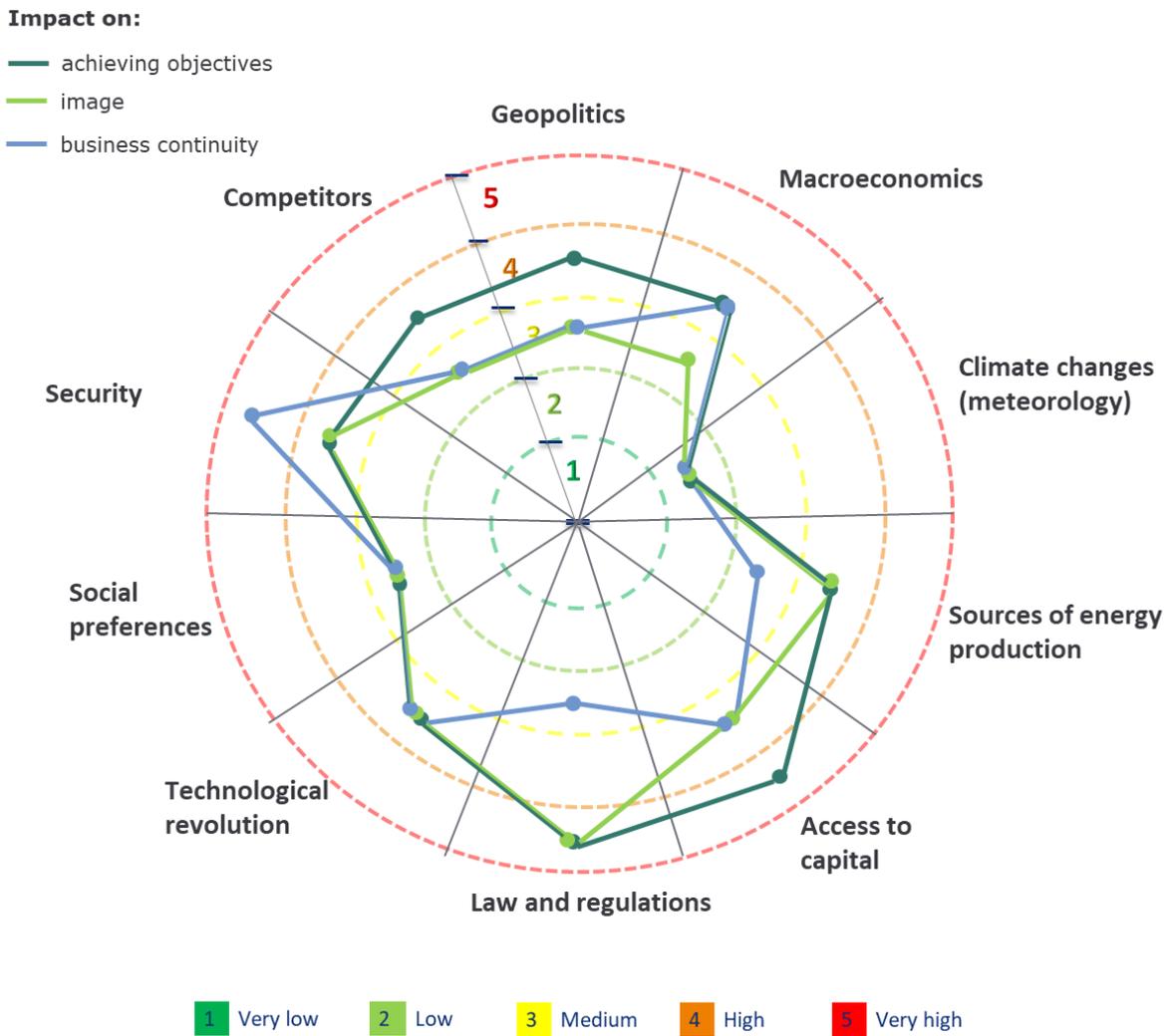
SOCIAL PREFERENCES - risks resulting from an expected further evolution of social preferences towards care for the environment, sustainability and social responsibility, in terms of mass customer expectations, assessment of employer attractiveness and public opinion, which may affect PGE Group.

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

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

⁹It concerns only physical phenomena, it does not take into account the EU climate policy. The context of climate risks is described in the next section.

Diagram: Map of long-term risks



Source: Own work

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

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

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

2.3. Risks and opportunities related to climate change and water security

PGE Group once again participated in the Carbon Disclosure Project - CDP (<https://www.cdp.net/en>), an international study on corporate environmental impact. The Group responded to enquiries from global

investors about the impact of its operations on climate and water resources, identifying both risks and opportunities related to climate change and water security.

Business both affects and depends on the climate. There is an interdependence between the risks and opportunities for businesses associated with the climate.

Any business is affected by two types of risks. The first is physical risk, related to the physical effects of climate change i.e. real threats in the form of extreme weather events, drought, flooding, access to raw materials. There are also risks associated with the transition to a low-carbon and climate-resilient economy, which relate to meeting regulatory requirements, implementing new technologies or impact on the reputation of a business.

At the same time, the changing climate and efforts to combat climate change, i.e. to mitigate and adapt to its effects, provide new opportunities and chances to develop business. Climate-related opportunities at PGE Group mainly concern efficient management of resources (including water), new energy sources, new products and services and increased resilience to climate change.

CLIMATE RISKS

Management of climate risk is the first step on the road to sustainability. A business should report on the environmental impact of its activities and understand the risks and opportunities related to climate change because climate risk management has financial implications. This is why PGE Group focuses not only on risks but also on opportunities so as to ensure resilience to risks and to increase sustainable earnings.

The process of corporate management of climate and environmental risks at PGE Group is exercised, as with other risks, on the basis of the General Procedure for Enterprise Risk Management. Impact on climate is managed and minimised by identifying and analysing climate-related risks and continuously improving pre-environmental solutions and control tools, while ensuring financial performance for PGE Group. The solutions developed by PGE Group are aimed at its development and sustainable transition in line with climate requirements and with concern for all stakeholders.

PGE Group defines climate risk across five following areas:

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

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

RISK ASSOCIATED WITH WATER RESOURCES

Based on its direct activities, PGE Group identifies issues related to water and wastewater risks, which are part of the environmental risks assessed in the Group. Factors related to above mentioned risks are identified and risk-assessed, with mitigating measures identified. The organisation determines their impact based on years of experience, expertise and current market conditions.

Key risk factors include:

- physical risks associated with drought and flooding,
- water stress in the form of water deficit,
- incidents involving pollution or the discharge of dammed water,
- regulatory risks related to water quality and discharge volumes, higher water prices, deteriorating water quality, regulatory uncertainty and tighter regulatory standards.

Whereas the most significant mitigating measures and tools implemented to manage the aforementioned risks are:

- development of flood plans,
- changes in business continuity plans,
- monitoring of laws and regulations and active participation in fulfilling the relevant obligations,
- preventive measures and deterrence of breakdowns by continuous monitoring of equipment operation by power plant maintenance staff, compliance with provisions contained in equipment operating instructions.

3. Electricity market and regulatory and business environment

3.1. Macroeconomic environment

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

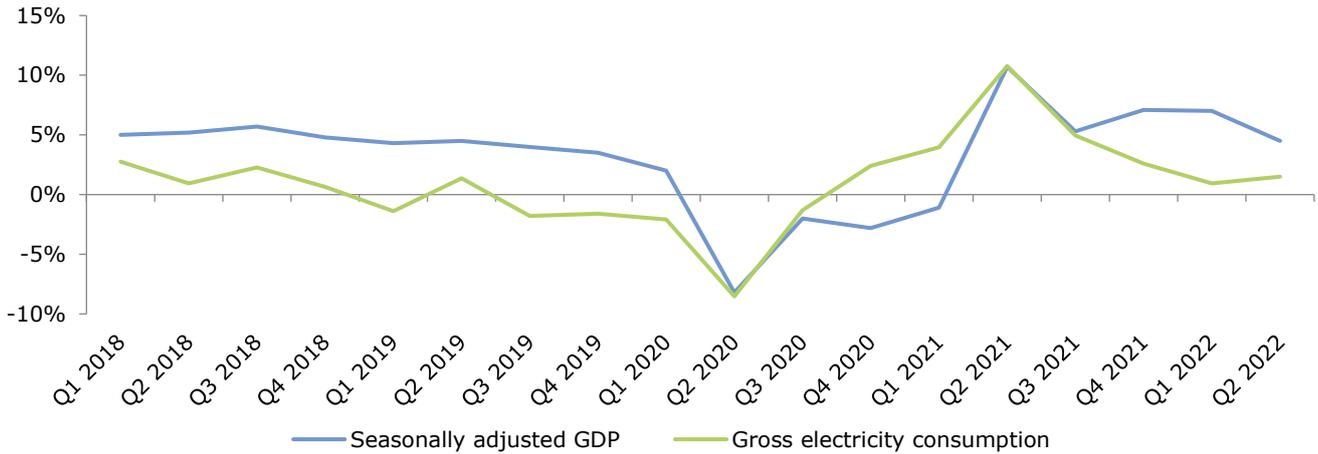
As a rule of thumb, there is a historical correlation between change in electricity demand and change in the rate of economic growth in Poland. Considering PGE Group's position on the Polish power generation market, as well as its substantial share in the electricity sales and distribution market, changes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

Gross electricity consumption in the first half of 2022 increased by approx. 1.2% y/y. This maintains the up-trend in demand for electricity in Poland initiated in the first quarter of 2021. At the same time, the up-tick in demand in the first half of 2022 was lower than the increase in demand in the first half of 2021 (when it was 7.1% y/y) primarily due to higher air temperatures in the first quarter of 2022 y/y.

From the beginning of 2022, positive trends were observed in the Polish economy, which continued for most of the first quarter of 2022. Russia's aggression against Ukraine on February 24, 2022 caused the Polish economy to suffer negative consequences resulting from, inter alia, disrupted supply chains.

A very good economic start to 2022 had a positive impact on the GDP result in the first quarter 2022. According to the Statistical Office of Poland, Poland's GDP growth in the first quarter of 2022 amounted to 9% y/y, which is an improvement from Q1 2021, when GDP contracted by 1% y/y. Poland's economy slowed slightly in the second quarter of 2022, with GDP standing at 4.7%. This deterioration is primarily associated with lower growth in consumer spending, a slowdown in construction and stagnation in retail.

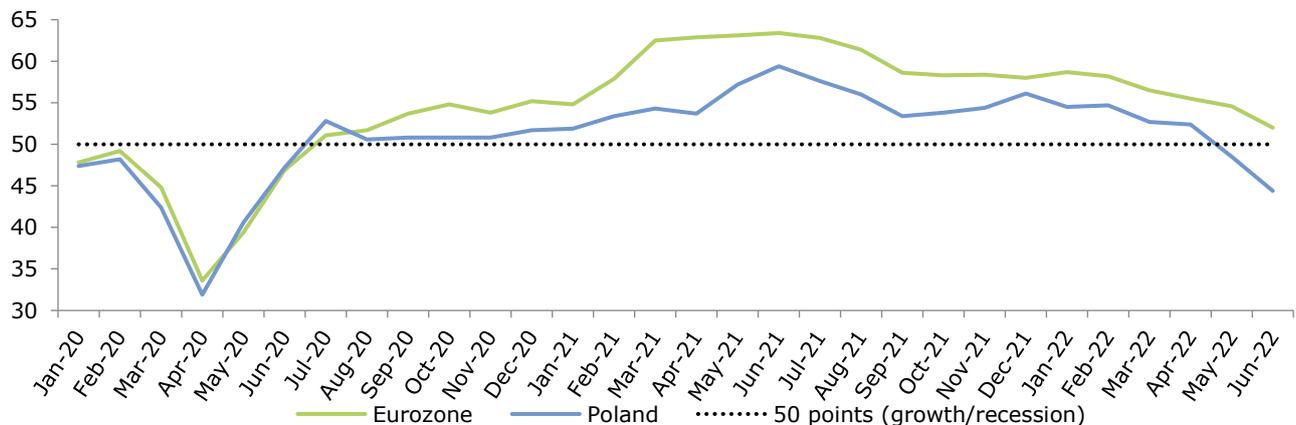
Chart: Seasonally adjusted GDP change vs. change in domestic gross electricity consumption.



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

The Purchasing Managers' Index (PMI) reflects the negative impact of Russia's aggression against Ukraine. Increasing geopolitical tensions and rising inflation rates have led to a decline in new orders and industrial production, which has translated into a drop in business optimism to the lowest level since the outbreak of COVID-19. In June 2022, the PMI level for manufacturing in Poland was only 44.4 points. A score below 50.0 points means that the surveyed managers do not expect the sector to improve. The June result confirmed the downward trend of PMI, which started in the beginning of 2022. In effect, the PMI reading for industry in Poland in the first half of 2022 averaged 51.2 points, representing a y/y decline of almost 7% (the average PMI for industry in Poland in the first half of 2021 was 55.0 points). The outbreak of war had a destabilising effect on the situation in Polish industry. Production and new orders declined, trade with countries from across the eastern border was severely curtailed. Additionally, rising fuel and energy prices, unfavourable exchange rate fluctuations and cost inflation pose a huge challenge for many businesses. Polish industry is also affected by the condition of the Eurozone industry, where PMI in the first quarter of 2022 fell by 8% y/y, more than in Poland. The Eurozone manufacturing PMI averaged close to 56.0 points in the first quarter of 2022, compared to an average of 60.8 points in the same period last year. Also in the Eurozone, the rising economic activity of early 2022 was partially stopped by Russia's aggression against Ukraine, as reflected by the continued downward trend of PMI from 58.7 points in January 2022 to 52.0 points in June 2022 (the lowest reading in almost two years). The decline in optimistic business sentiment is mainly due to disrupted supply chains and market restrictions, as well as high fuel and electricity prices.

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



Source: Markit Economics

Industrial production sold was 10.4% higher in June 2022 than a year earlier, the lowest monthly y/y growth since the start of 2022. The dynamics for the entire first half of 2022 proved higher on average than in the same period last year, when the effects of the constraints caused by COVID-19 were acutely felt. At the same time, the down trend in industrial production from month to month continues in 2022. This is the result of rising inflation and weakening demand, as well as shortages in some sectors of materials and intermediates. Industry is slowing down in the wake of falling foreign demand, persistent supply problems and a reversing inventory cycle. Most of the major industrial groupings saw year-on-year production growth in June 2022. Production of capital goods increased by 18.4% y/y, energy-related goods by 15.1% y/y, non-durable consumer goods by 11.4% y/y and supply goods by 7.3% y/y. In contrast, the production of consumer durables declined by 7.9% y/y. The decrease in demand for consumer durables reflects weaker overseas orders, where the jump in gas prices has strongly hit purchasing power and consumer sentiment across our main trading partners.

3.2. Market environment

SITUATION IN THE NATIONAL POWER SYSTEM (NPS)

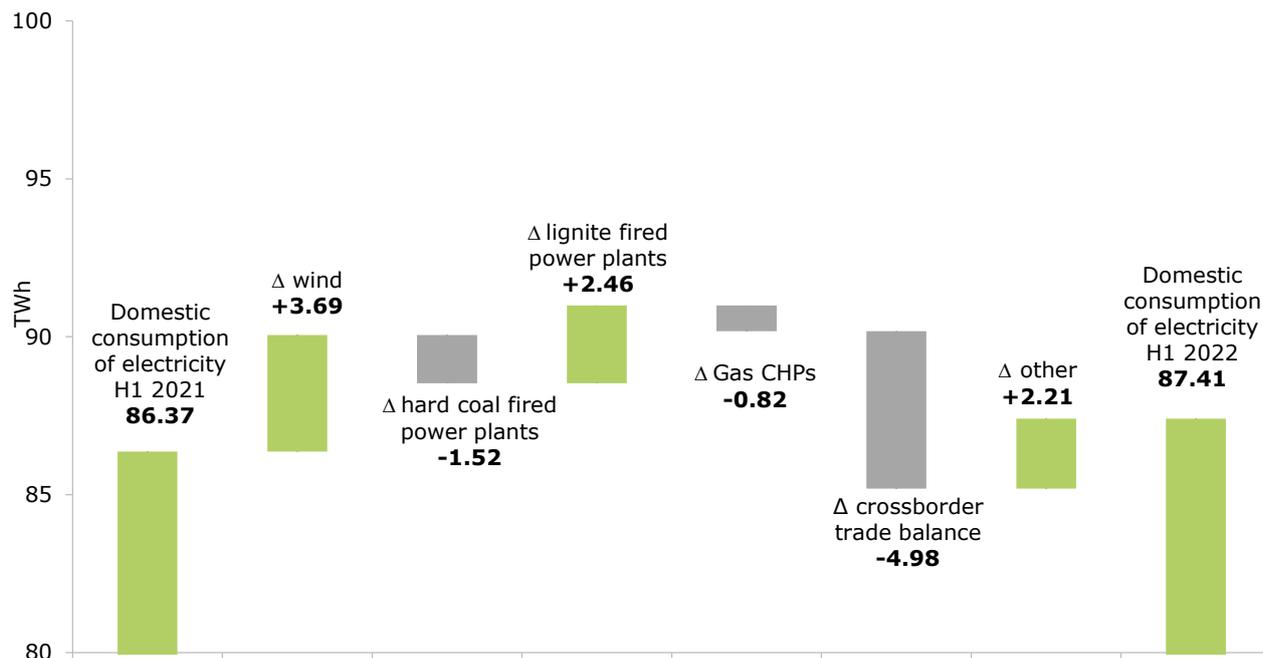
Table: Domestic electricity consumption (TWh).

	H1 2022	H1 2021	% change
Domestic electricity consumption, including:	87.41	86.37	1%
Wind farms	10.45	6.76	55%
Industrial thermal hard-coal fired power plants	43.18	44.70	-3%
Industrial thermal lignite fired power plants	23.67	21.21	12%
Industrial gas-fired power plants	5.62	6.44	-13%
International exchange balance	-1.71	3.27	-
Other (hydro power plants, other RES)	6.20	3.99	55%

Source: PSE S.A. data.

Domestic consumption of electricity increased in the first half of 2022 (mainly due to increase in the demand of the Polish economy due to the lower impact of the COVID-19 pandemic) by 1.0 TWh compared to the base period. As a result of the increase in installed capacity and more favourable wind conditions, wind generation increased by 3.7 TWh y/y. Additionally, due to the situation in neighbouring countries, net imports decreased by 5.0 TWh compared to the previous year therefore Poland became a net exporter in the first half of 2022 (Poland was a net importer of electricity in the first half of 2021). In effect, more energy production in utility lignite-fired power plants (+2.5 TWh) was needed to balance the energy system. At the same time, there was a decrease in production in hard coal-fired power plants (-1.5 TWh) due to disruptions in coal supplies to Europe. Similar reasons, enhanced by galloping fuel prices, resulted in a reduction in generation based on natural gas (-0.8 TWh).

Chart: Energy balance in the NPS in the first half of 2022 y/y (TWh)



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

ELECTRICITY PRICES – DOMESTIC MARKET

DAY-AHEAD MARKET (RDN, SPOT MARKET)

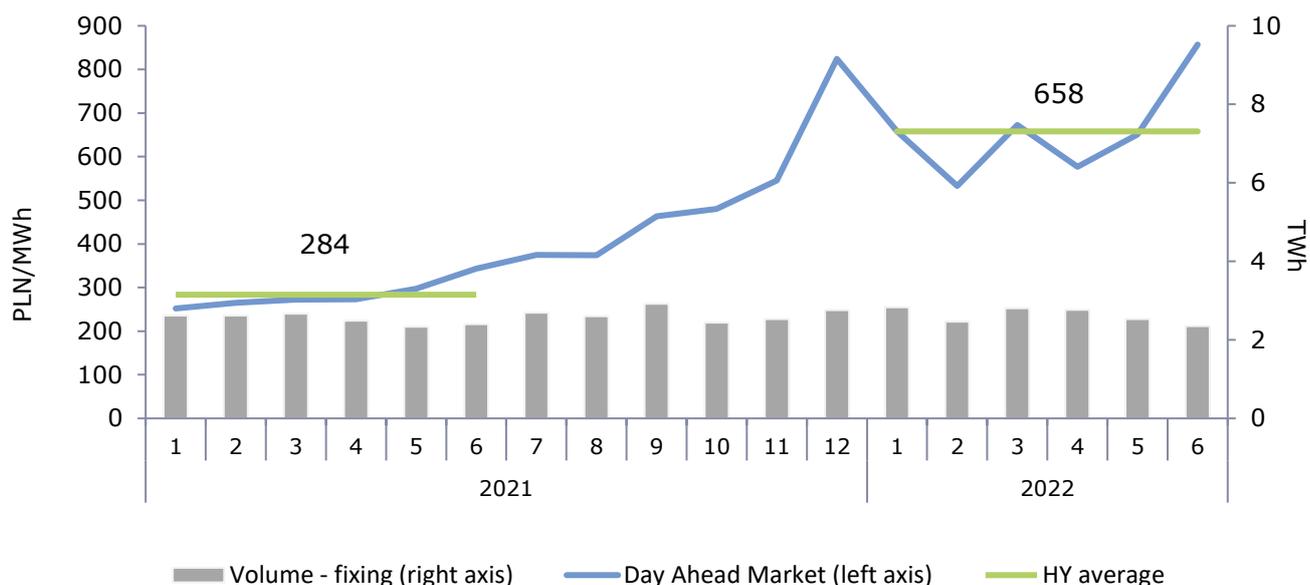
Market/measure	Unit	H1 2022	H1 2021	% change
RDN – average price	PLN/MWh	658	284	132%
RDN – trading volume	TWh	15.74	15.12	4%

ANALYSIS – SELECTED PRICE FACTORS AFFECTING RDN QUOTATIONS

Factor	Unit	H1 2022	H1 2021	% change
CO ₂ emission rights	EUR/t	84.00	44.57	88%
Polish Steam Coal Market Index PSCMI-1	PLN/GJ	14.26	11.44	25%
Wind generation NPS	TWh	10.45	6.76	55%
Ratio: wind generation/ NPS consumption	%	12%	8%	
Ratio: international trading/ NPS consumption	%	-	4%	

In the first half of 2022, the average electricity price on the day-ahead market was PLN 658/MWh and was higher by 132% than average price (PLN 284/MWh) in the analogical period of the previous year. The increase in energy prices resulted mainly from higher demand by 1.0 TWh y/y, higher cost of CO₂ emission rights, higher prices of raw materials and their significantly limited supply, what is connected with the ongoing war in Ukraine.

Chart: Average monthly prices at the day-ahead market in 2021-2022 (TGE).¹



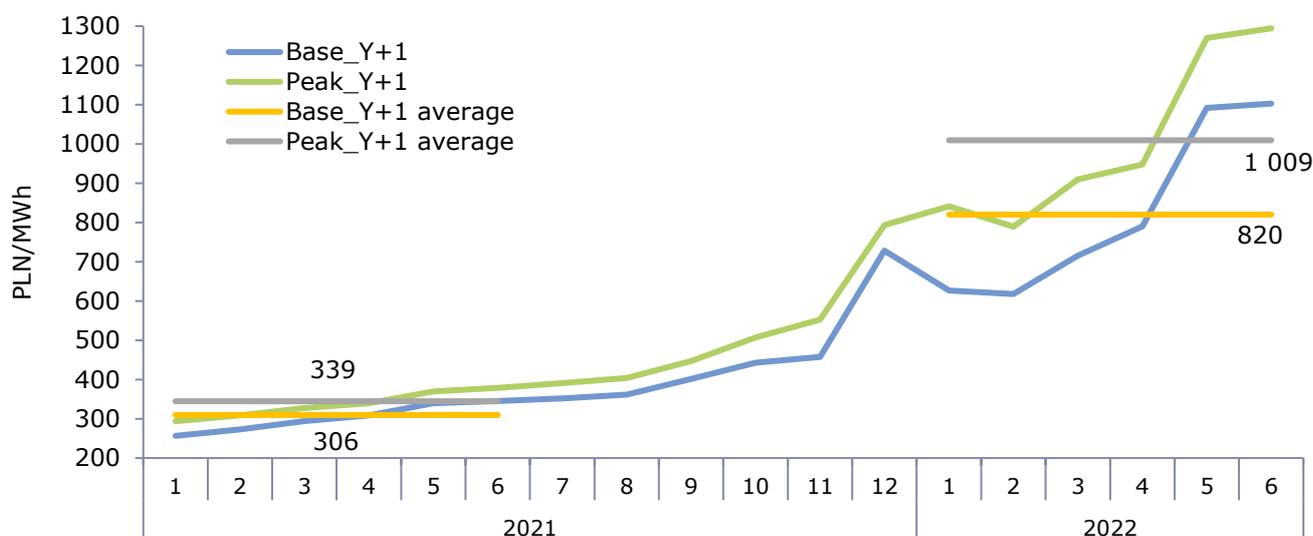
¹ Average monthly RDN prices calculated on the base of hourly quotations (fixing).

FORWARD MARKET

Market/measure	Unit	H1 2022	H1 2021	% change
BASE Y+1 – average price	PLN/MWh	820	306	168%
BASE Y+1 – trading volume	TWh	34.26	45.14	-24%
PEAK5 Y+1 – average price	PLN/MWh	1 009	339	198%
PEAK5 Y+1 – trading volume	TWh	3.40	5.30	-36%

Electricity prices on forward market are shaped by the similar fundamental factors, as the prices on the Day-Ahead Market described above. The observed forward market price increase y/y for the whole year for BASE_Y+1 is related to increased demand for electricity and very high prices of CO₂ and raw materials.

Chart: Average monthly prices on the forward market in 2021-2022 (TGE).¹

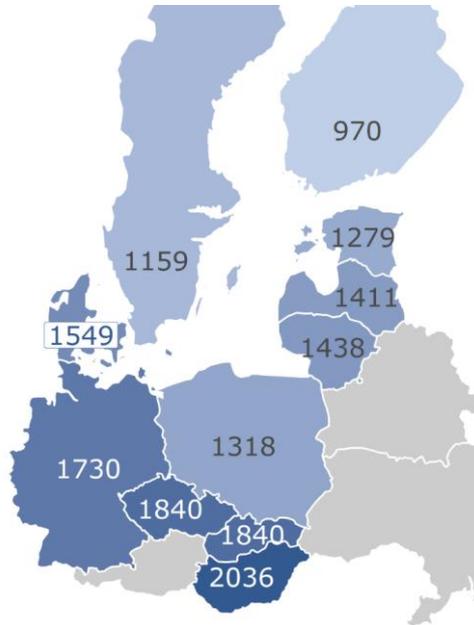


¹ Monthly average index level for forward contracts for the next year (Y+1), baseload and peak, weighted by the trading volume.

ELECTRICITY PRICES - INTERNATIONAL MARKET

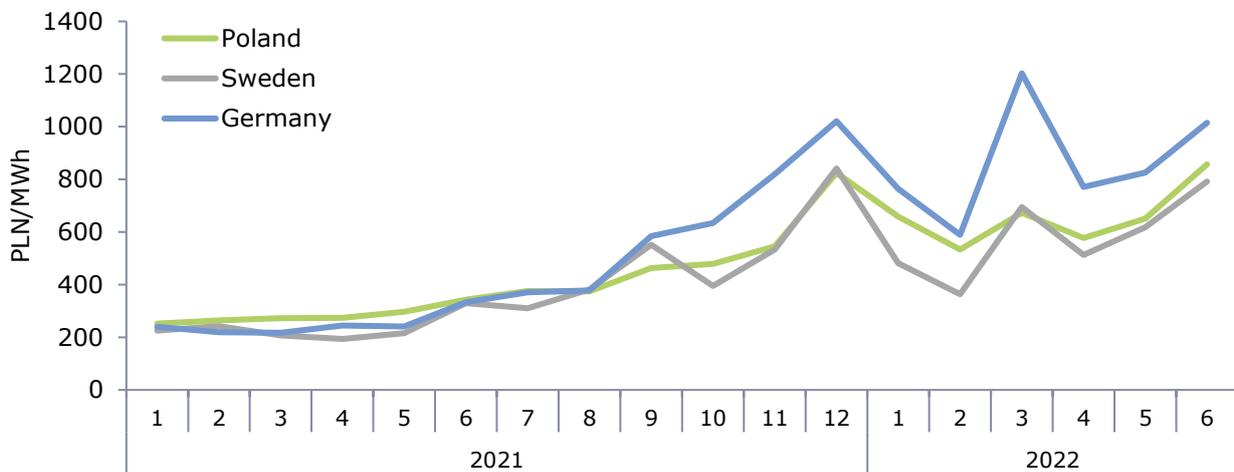
WHOLESALE MARKET (COMPARISON OF DAY-AHEAD MARKETS)

Chart: Comparison of average electricity prices on Polish market and on European markets in the first half of 2022 (prices in PLN/MWh, average exchange rate EUR/PLN 4.64).



Source: TGE, EEX, Nordpool

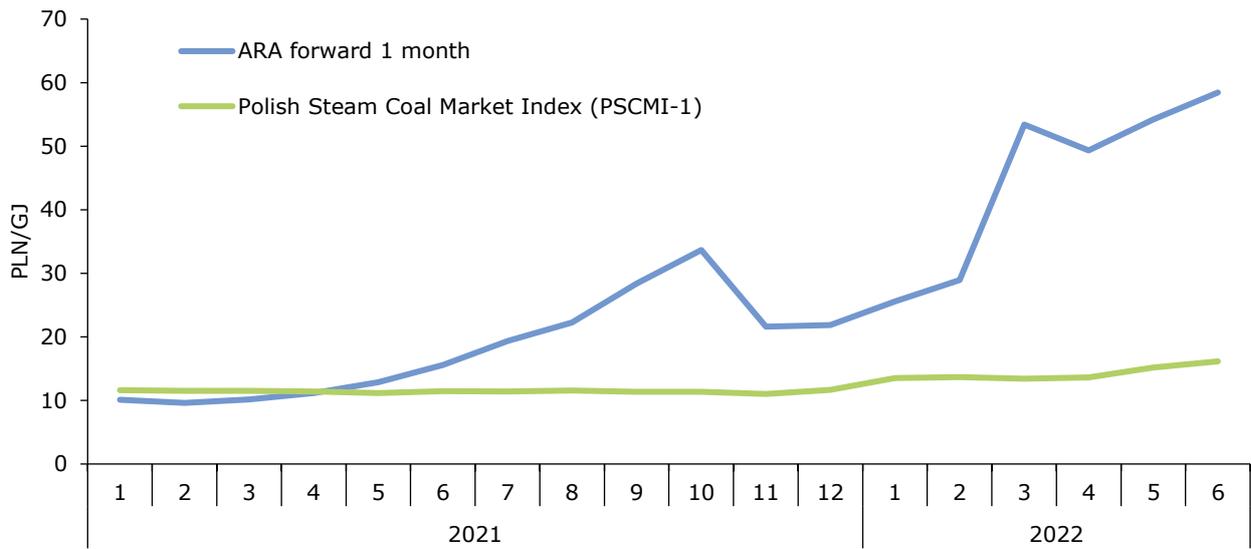
Chart: Evolution of spot market prices.



Source: TGE, EEX, Nordpool

In the first half of 2022, the y/y change in prices on neighbouring markets ranged between PLN 341 and PLN 741/MWh (i.e. growth by approx. 145-270%), whereas in Poland the average price level has increased by PLN 374/MWh y/y (increase by approx. 132%). The low correlation of energy prices results from differences in the technological mix (share of renewable energy sources) and the situation on the markets for related products. The price of hard coal in ARA ports rose by 288% y/y, while the domestic pulverised coal price index, PSCMI-1, increased by 25% over the same period.

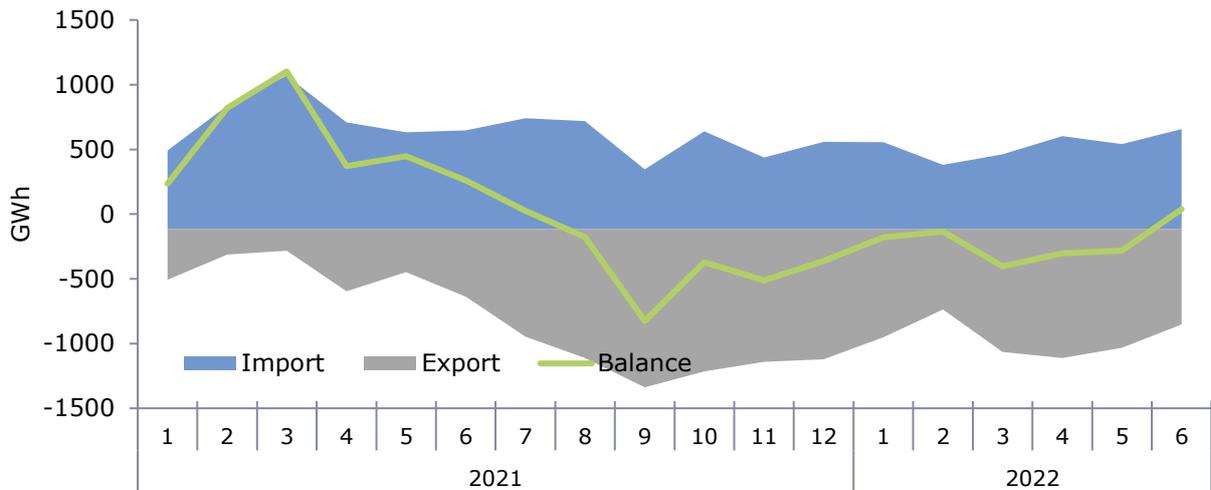
Chart: Hard coal indices ARA vs PSCMI-1¹⁰.



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

INTERNATIONAL TRADING

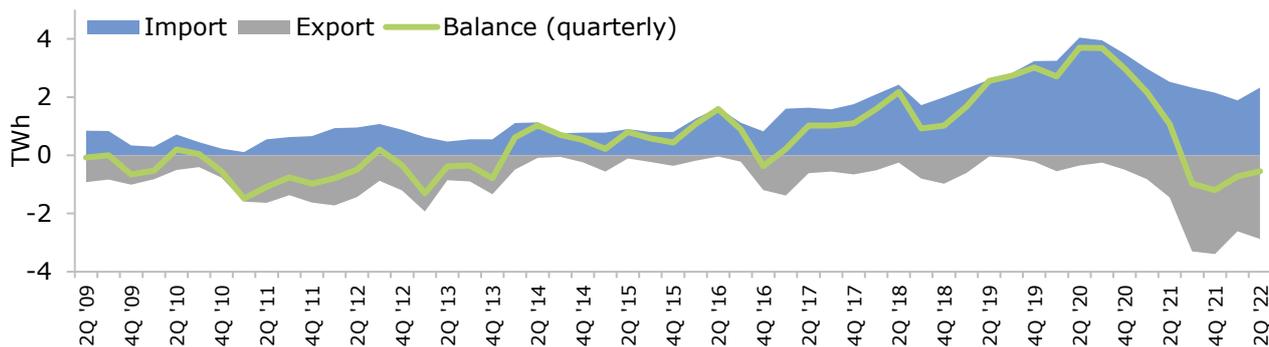
Chart: Monthly imports, exports and cross-border exchange balance in 2021-2022.



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

¹⁰ The comparison is illustrative only. Methodologies of counting the ARA and PSCMI1 indexes are different. Among other things, the ARA index includes insurance and delivery costs. The PSCMI 1 is an ex-mine index without insurance and delivery costs. Standards for calculating the caloric values are also different (ARA – 25.12 GJ/t vs. PSCMI1 caloric value - range 20-24 GJ/t). The aim is to compare the trend and not the absolute level. For illustration purposes ARA index is recalculated from USD/t to PLN/GJ.

Chart: Quarterly trading volumes – import, export and international trading balance in years 2009-2022.



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

In the first half of 2022, Poland was a net exporter of electricity, and the commercial exchange balance was - 1.3 TWh (4.2 TWh import, 5.5 TWh export) and was lower by 4,5 TWh on a y/y basis. Export to Germany and Slovakia together with import from Lithuania had the largest impact on the balance of commercial exchange.

Chart: Parallel exchange balance¹¹: average vs. maximum hourly flow in particular months.



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

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

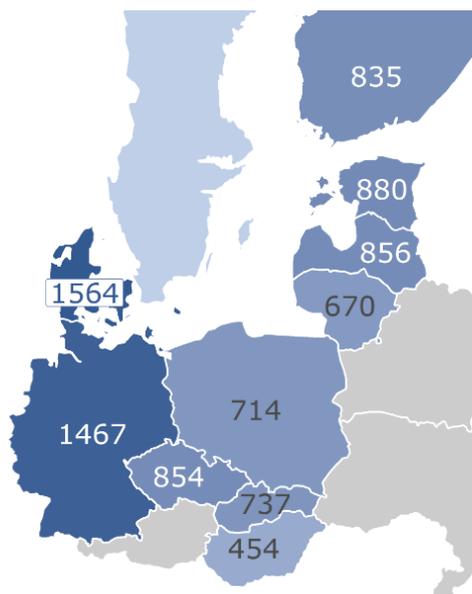
RETAIL MARKET

The diversity of electricity prices for retail customers in the European Union depends both on the level of the wholesale prices of electricity and fiscal system, regulatory mechanism and support schemes in particular countries. In Poland in the second half of 2021¹² an additional burden (over sale price and cost of electricity distribution) for individual customers accounted for 44% of the electricity price and in comparison to EU average of 39%. In Denmark and Germany the proportion of additional charges in the price of electricity exceeded 50%.

¹¹ Parallel exchange – exchange between synchronised system on borders with Germany, Czechia and Slovakia.

¹² Eurostat data on retail market are published in semi-annual intervals.

Chart: Comparison of average prices for individual customers in selected EU countries in the second half of 2021 (prices in PLN/MWh, average exchange rate EUR/PLN 4.54).



Source: own work based on Eurostat data.

Chart: The share of additional charges in electricity prices for the individual customers in selected EU countries in the second half of 2021 (prices in PLN/MWh, average exchange rate EUR/PLN 4.54).

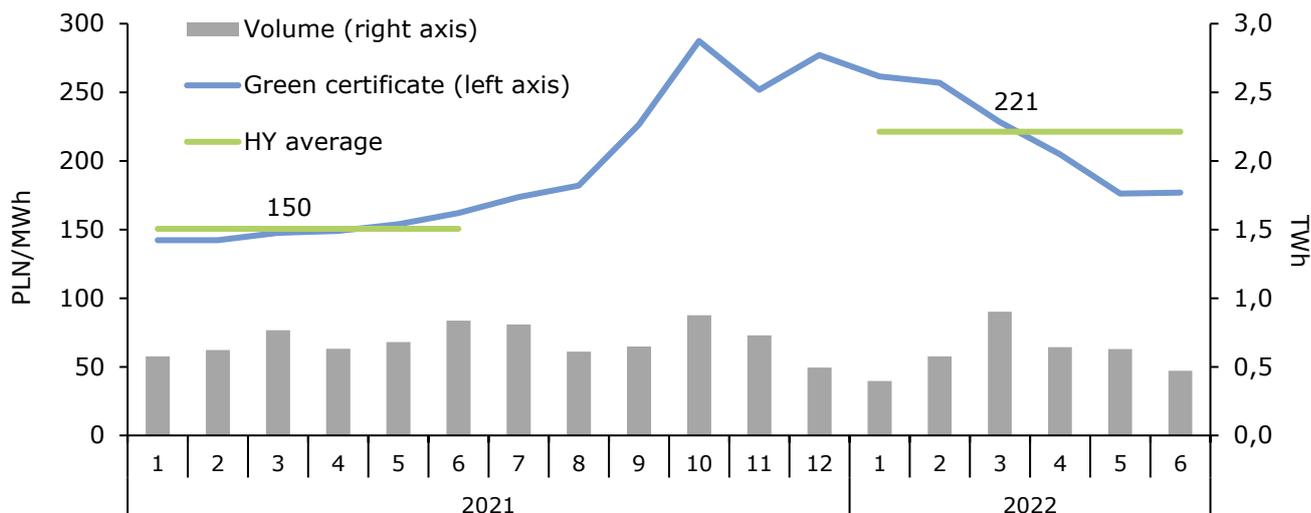


Source: own work based on Eurostat data.

PRICES OF CERTIFICATES

In the first half of 2022 the average price of green certificates (index TGEoza) reached PLN 221/MWh and was higher by 47% compared to the analogical period of the previous year. An obligation to redeem green certificates has changed as compared to 2021 (19.5%) and currently stands at 18.5% for 2022.

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



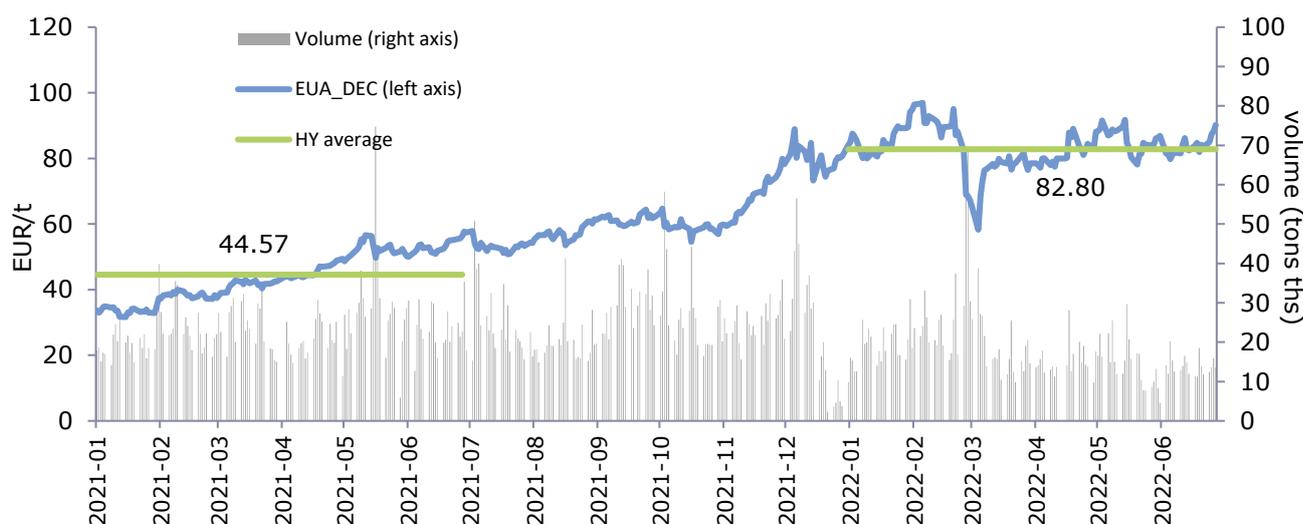
Source: Own work based on TGE quotations.

PRICES OF CO₂ EMISSION RIGHTS

EUA (European Union Allowances) prices are one of the key factors determining wholesale energy prices and PGE Group's financial results. Installations emitting CO₂ in the process of electricity or heat production bear the expenses for purchasing EUA allowances to cover the deficit (i.e. the difference between CO₂ emissions at PGE Group's generating units and the free-of-charge allowances received under derogation in accordance with the National Investment Plan). Wherein, last allocations granted free of charge were planned for realisation of investment tasks for 2019. It means that the free allocations for electricity generation, in accordance with the currently used method, ended when 2019 allowances were received.

Following a sudden slump caused by the outbreak of the COVID-19 pandemic in mid-March 2020, the prices of CO₂ emission allowances began recovering until reaching dynamic growth from November 2020. In the first half of 2022, the weighted average price of EUA DEC 22 was EUR 82.80 /t and was considerably higher (by 86%) than the average price of EUR 44.57/t for the EUR DEC 21 instrument in the similar period of the previous year.

Chart: Prices of CO₂ emission rights.



Source: own work based on ICE exchange quotations

3.3. CO₂ emission rights granted free of charge

In accordance with Commission Implementing Regulation (EU) 2019/1842 of October 31, 2019 laying down rules for the application of Directive 2003/87/EC of the European Parliament and of the Council as regards further arrangements for adjustment of the allocation of free CO₂ emission allowances due to changes in activity levels, the competent authority may suspend the issuance of free emission allowances to an installation until it is determined that there is no need to adjust the allocation to that installation or the Commission has adopted a decision concerning adjustments to the allocation to that installation.

In national legislation, the Act on the Greenhouse Gas Emission Trading Scheme introduced an additional condition for the issuance of emission allowances to installations. Generally speaking, allowances are issued by February 28 each year, however, in the case of installations, the issue of emission allowances takes place after the submission of an activity level report and the publication of information in the Public Information Bulletin on the website of the office serving the Minister of Climate and Environment. According to the Commission Regulation, activity level reports are submitted by March 31 each year, hence on April 8, 2022 emission allowances were issued to the accounts of the operators of installations in the Union Registry in accordance with the publication in the Public Information Bulletin of the Ministry of Climate and Environment on April 7, 2022. Entities whose reports were still being verified by the EC received allowances on April 28, 2022.

Table: Emission of CO₂ compared to the allocation of CO₂ emission allowances for 2022 (in tonnes).

Product	CO ₂ emissions in H1 2022	Allocation of CO ₂ emission rights for 2022 ¹
Electricity	31 362 154	-
Heat	2 845 995	618 414
Total	34 208 149	618 414

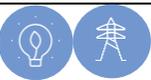
¹ Allowances for heat production.

3.4. Regulatory environment

PGE Group operates in an environment with a significant impact of domestic and foreign regulations. Presented below is a summary of the most significant decisions, which took place in period from January 1, 2022 until the publication date of this report and which could have an impact on PGE Group's operations in the coming years.

DOMESTIC REGULATORY ENVIRONMENT

Segments	Regulation	Regulation objectives	Latest conclusions	Next stage	Impact on PGE Group
	The bill on the amendment to the Energy Law and the Renewable Energy Sources Act. GLC list: UC74	The draft act includes, in particular, proposals for provisions implementing into the Polish legal system Directive (EU) 2019/944 of the European Parliament and of the Council of June 5, 2019 on common rules for the internal market in electricity and amending Directive 2012/27/EU. The draft expands on the directions of changes in regulations initiated in the act of May 20, 2021 on amendment of the act – Energy Law, and certain other acts. These include: <ul style="list-style-type: none"> the technical ability to change electricity supplier within 24 hours, starting from 2026, implementation of civic institutions of energy communities, the customer's right to voluntarily and temporarily reduce electricity consumption ("DSR"), aggregation, contracts with dynamic electricity prices, definition of the aggregator's function on the electricity market, along with its tasks and authorisations, definition of demand response and active customer on the energy market, allow DSOs and TSOs to own certain energy storage installations, expand the Energy Regulatory Office's authority, regulations concerning system services, flexibility services and changes in balancing, introduction of provisions introducing the separation of transmission and distribution activities from energy storage - (an energy 	The deadline for submitting comments was June 23, 2021 . On July 6, 2022 , the Council of Ministers Committee on Digitalisation approved the draft.	Referral for work in the Permanent Committee of the Council of Ministers.	The proposed solutions will have an impact on all of PGE Group's operating segments, especially the Supply and Distribution segments. The draft introduces or applies numerous EU laws addressing the electricity market, including directive 2019/944 on common rules for the internal market for electricity, and grid codes.

Segments	Regulation	Regulation objectives	Latest conclusions	Next stage	Impact on PGE Group
	<p>The bill on the amendment to the Energy Law and the Renewable Energy Sources Act GLC list: UD162</p>	<p>system operator, with the exceptions provided for in the draft, cannot be the owner of and cannot build, operate or manage an energy storage system).</p>	<p>Comments submitted during public consultations were published on April 8, 2021. On April 14, 2022, at a meeting of the Council of Ministers, the draft was referred to the Economic Committee of the Council of Ministers for consideration.</p>	<p>Consideration of the draft by the Economic Committee of the Council of Ministers.</p>	<p>The proposed change to abolish the exchange obligation will have no adverse impact on the PGE Group's operations.</p>
	<p>Draft act on amendment of act on renewable energy sources and certain other acts. Sejm print no.: 1 382</p>	<p>The act introduces a change in the settlement method for renewable energy prosumers by replacing the current discount system, which provides for the possibility of storing energy in the grid and consuming it at any other time, with a net billing system, which means that energy is ultimately valued according to the value from the hour of generation and hour of consumption. Furthermore, the act requires prosumers entering the system from April 1, 2022 to pay a distribution fee (previously paid on behalf of prosumers by energy vendors). In order to enable vendors to settle with prosumers, the act requires DSOs to provide vendors with detailed metering information. Vendors will be required to provide detailed billing information to prosumers via a dedicated ICT system. The act also introduces the institution of collective prosumer (entered into force on April 1, 2022) and virtual prosumer (effective from July 2, 2024).</p>	<p>On December 14, 2021 the President signed the act. The act entered into force on April 1, 2022, with the exception of provisions pertaining to the acquisition of the right to participate in the existing prosumer support system, which went into effect on December 22, 2021 and provisions concerning the virtual prosumer, which will enter into force on July 2, 2024.</p>	<p>-</p>	<p>The draft is of key importance for the Supply segment, which currently has obligations to settle with prosumers and pay a distribution fee on their behalf to DSOs, and for the Distribution segment, which will be required to collect and compile metering data on prosumers.</p>
	<p>Amendment of the act on investment in wind farms. GLC ref. no. UD207</p>	<p>Modification of rule 10H - mitigation by allowing municipalities to define in local spatial development plans (after consultation with local communities) a distance less than the statutory distance for wind</p>	<p>On December 15, 2021, the Joint Commission of the State Government and Local Government</p>	<p>Parliamentary works.</p>	<p>The draft is of significance to the development of the Renewable Energy segment.</p>

Segments	Regulation	Regulation objectives	Latest conclusions	Next stage	Impact on PGE Group
		farms from residential buildings, but not less than 500 m.	issued a positive opinion on the draft. In April 2022 , the draft was transferred from the Ministry of Development and Technology to the Ministry of Climate and Environment. On July 5, 2022 , the draft was adopted by the Council of Ministers and referred to the Sejm.		
	Draft act amending the act on maritime safety and the act on maritime areas of the Republic of Poland and maritime administration. GLC ref. no. UD232 Sejm print no.: 2071	The draft act contains provisions aimed at ensuring safety during the construction and operation of offshore wind farms in the Polish exclusive economic zone of the Baltic Sea and equipment for the off-take of power from these installations. To achieve this goal, the legislation provides for the implementation of appropriate oversight mechanisms over the design, construction and operation of offshore wind farms, including a certification system and oversight activities related to the investment implementation process.	On February 22, 2022 the draft act was adopted by the Council of Ministers. On July 7, 2022 , the draft was passed by the Sejm. On July 20, 2022 the act was signed by the President of the Republic of Poland.	Publication of the Act in the Journal of Laws.	The draft is of significance to investments in the development of offshore wind farms. The introduction of excessive certification mechanisms may delay the investment and increase the cost of the investment to develop offshore wind farms.
	Draft Act amending the Act on the greenhouse gas emission allowance trading scheme and the Act - Environmental Protection Law	The aim of the act is to establish national legislation governing the establishment and operation of the Energy Transition Fund. The Energy Transition Fund is to be used to finance investments in the energy and industrial sectors excluding solid fossil fuels, i.e. coal.	On 6 April 2022 , a revised version of the act was published by the Government Legislation Centre. PGE submitted comments on its own and as part of the Polish Association of Combined Heat and Power Plants and the Economic Association of Polish Power Plants. Analysis of the submitted comments is in progress.	Examination of the draft by the Council of Ministers and referral to the legal affairs committee of the Government Legislation Centre for consideration.	The draft will be relevant for the entire PGE Group, excluding coal assets. Funds from the Energy Transition Fund will be available to finance investments in the areas: RES, grids, storage, etc.
	Draft Act amending the Act on reserves of crude oil, petroleum products	The draft intending to align the legal order regulating various aspects of ensuring fuel security	The deadline for submitting comments was May 13, 2022 .	Analysis by the Minister of Climate and Environment of the	The project is of significance to trading in gaseous fuels and the generation of

Segments	Regulation	Regulation objectives	Latest conclusions	Next stage	Impact on PGE Group
	<p>and natural gas and the rules of conduct in situations of a threat to the state's fuel security and disturbances on the oil market and some other acts.</p> <p>Government Legislation Centre list: UC52</p>	<p>in the field of natural gas with the provisions of Regulation (EU) 2017/1938 of the European Parliament and of the Council of 25 October 2017 concerning measures to safeguard security of natural gas supply and repealing EU Regulation No 994/2010. The draft introduces a number of recommended solutions that, among other things:</p> <ul style="list-style-type: none"> ▪ change the rules for creating and maintaining (strategic) natural gas reserves, which will be the responsibility of the Government's Strategic Reserve Agency, ▪ set the volume of natural gas reserves per gas year at 35% of the total demand for type E gas during a period of 30 days of exceptionally high gas demand which may not occur more than once in 20 years, ▪ introduce a new way of financing natural gas reserves, which will consist of a monthly contribution to a special fund by a gas fee paid by obliged undertakings, ▪ define a protected customer, who, in principle, will not be subject to restrictions on the consumption of natural gas during supply degrees, ▪ regulate the rules for dealing with natural gas supply emergencies. 	<p>On May 30, 2022, comments were published, but without a comment from the draft author.</p>	<p>comments submitted as part of the public consultation.</p>	<p>electricity and heat in natural gas-fuelled generating units, taking into account the obligation of customers of the transmission service to pay a gas fee and the need to reduce the volumes of gas consumed during the introduction of feed-in stages.</p>
	<p>Regulation of the Minister of Climate and Environment on change in volume share of sum of electricity resulting from redeemed certificates of origin confirming the generation of electricity from renewable energy sources in 2023. GLC ref. no. 816</p>	<p>The regulation defines the level of obligation to redeem certificates of origin of energy from RES (PM OZE) for the so-called obligated entities in 2023. The regulation reduces the level of obligation for PM OZE from 18.5% in 2022 to 12.5%. At the same time, the rationale to the regulation provides for the possibility to further reduce the obligation level in subsequent years.</p>	<p>The regulation was adopted on July 13, 2022 and entered into force on August 11, 2022.</p>		<p>The reduced level of obligation may lower incremental revenue in the Renewable Energy segment from the sale of PM RES. At the same time, it reduces the burden on the Supply segment with the need to purchase a certain amount of PM OZE in relation to the volume of electricity traded.</p>
	<p>Draft regulation of Climate and Environment Minister</p>	<p>Draft regulation of Climate and Environment Minister regarding energy market processes implements the statutory delegation contained in</p>	<p>On January 11, 2022 the Minister of Climate</p>		<p>The regulation will have a significant impact primarily on the Distribution segment,</p>

Segments	Regulation	Regulation objectives	Latest conclusions	Next stage	Impact on PGE Group
	regarding energy market processes. Government Legislation Centre list: UD603	art. 11zh sec. 1 of the act - Energy Law. The draft regulation is to enable the preparation of IT systems (remote reading systems for electricity distribution system operators and the central energy market information system) in connection with new challenges on the electricity market. The definition of a full catalogue of energy market processes is necessary to ensure the transparency of obligations of all energy market participants, both electricity system users obligated to implement energy market processes through the Central Energy Market Information system ("CSIRE"), and for the Energy Market Information Operator ("OIRE") so that it is possible to assess the fulfilment by the above-mentioned entities of the obligations imposed on them. The regulation will define a catalogue of energy market processes, the implementation of which through CSIRE will be obligatory for system users. The catalogue of energy market processes includes the basic processes currently implemented on the electricity market, taking into account the greatest usefulness of CSIRE for system users.	and Environment signed the regulation. The regulation went into effect on February 16, 2022 .		but also on the following segments: Conventional Generation, Renewables and Supply.
	Draft regulation of Climate and Environment Minister regarding metering system Government Legislation Centre list: UD507	The draft regulation implements the statutory delegation contained in art. 11x sec. 2 of the act - Energy Law, which imposes on the minister responsible for energy the obligation to regulate therein, in consultation with the minister responsible for computerisation, the detailed requirements and standards to be met by the metering system. In addition, the draft regulation satisfies the obligation specified in art. 19 sec. 3 of Directive (EU) 2019/944 of the European Parliament and of the Council of June 5, 2019 on common rules for the internal market in electricity and amending Directive 2012/27 / EU, according to which Member States joining the introduction of smart metering systems adopt and publish minimum requirements functional and technical related to smart metering systems to be introduced in their territories.	The regulation was issued on March 22, 2022 and entered into force on April 23, 2022 .		The regulation will have a significant impact primarily on the Distribution segment, but also on the following segments: Conventional Generation, Renewables and Supply. As regards the DSO's activities, it will be necessary to clarify requirements for metering systems, including electricity meters and metering system.
	Draft act on support allowance	The draft is intended to provide support to approx. 6.84 million households in Poland, including the	The act, published in - the Journal of Laws of		The draft is of importance to electricity vendors. The act

Segments	Regulation	Regulation objectives	Latest conclusions	Next stage	Impact on PGE Group
	RCL register: 1 820	most energy-poor households, by covering a part of their energy expenses and the related growing food prices. From PGE Group's viewpoint, additional obligations, including information obligations, are introduced.	2022 item 1, entered into force on January 4, 2022		generates costs for Supply segment due to new information obligations. Protective obligations for sensitive customers are also introduced.
	Draft Regulation on determination of specific conditions for loss of waste status for waste generated from combustion of fuels by energy Government Legislation Centre list: 655	The aim of the proposed regulation (hereinafter: "draft") is to set out detailed conditions for the loss of waste status for waste generated in the process of combustion of fuels for energy-generation purposes. The conditions set out in the draft are intended to standardise the procedure for losing the status of waste already existing in business practice on the basis of general conditions for the status of waste (art. 14(1) of the Waste Act), to the extent applicable to waste generated in the process of combustion of fuels for energy-generation purposes.	On July 4, 2022 , the draft was released from the legal committee. The EC notified the draft on July 13, 2022 .	Draft referred for further work in the Council of Ministers.	The project is important from the point of view of waste/combustion by-product management in PGE Group, especially for the Conventional Generation and District Heating segment.
	Draft Regulation of the Minister for Climate and Environment on defining methods for economic cost-benefit analysis and data or data sources for this analysis. Government Legislation Centre list: 794	The draft regulation fulfils the obligation to eliminate an infringement identified by the EC regarding incorrect application and transposition of the Energy Efficiency Directive. In order to rectify this breach, a delegation for the minister responsible for energy matters to issue a regulation on defining methods for economic cost-benefit analysis and data or data sources for the purpose of this analysis was introduced. The aim of the analysis is to enable a more efficient allocation of resources by demonstrating the superiority of a given project over others from the point of view of social benefits.	On July 1, 2022 the regulation was adopted. It entered into force on July 20, 2022 .		The project is of significance to the District Heating segment.
	Draft Regulation of the Minister of Climate and Environment amending the regulation on detailed rules for preparing and calculating tariffs and billing for heat supply Government Legislation Centre list: 795	The draft intends primarily to: <ul style="list-style-type: none"> definition of the k value, being an element of the formula for calculating the reference index so that the k value can be calculated and published by the President of the Energy Regulatory Office depending on changes in the operating conditions of energy companies that burden the production of heat in cogeneration - for individual types of fuel referred to in art. 23 sec. 2 point 18 letter c of the Energy Law, 	The regulation was issued on March 15, 2022 .	-	The draft is relevant to the District Heating segment as it will increase the heat tariff.

Segments	Regulation	Regulation objectives	Latest conclusions	Next stage	Impact on PGE Group
		<ul style="list-style-type: none"> determination of the k value so as to reflect the lack of a full sample of ETS sources in the average heat sale prices published by the President of the Energy Regulatory Office. 			
	Draft Act amending the Act on the energy performance of buildings and certain other acts Government Legislation Centre list: UC82	The amendment provides for a change to the Building Law, which is an opportunity to tighten the obligation to connect to the district heating network.	On July 26, 2022 , the Council of Ministers adopted the draft and submitted it for further work in the Sejm.	Parliamentary work - work in the parliamentary committee after the first reading.	The project has an impact on ensuring the necessity to connect to the heating network, so it is relevant to the district heating segment.
	Draft Act on amending the Act on maritime areas of the Republic of Poland and maritime administration Government Legislation Centre list: UD361	The purpose of the draft act is to modify the regulations on issuance of permits for the erection or use of artificial islands, structures and equipment in Polish maritime areas and on issuance of permits or agreements for cables or pipelines concerning a set of equipment for power evacuation. The draft also introduces regulations concerning the settlement of ties in proceedings to resolve applications for the issuance of permits to erect or use artificial islands, structures and equipment in Polish maritime areas.	On March 24, 2022 the draft was published on the Government Legislation Centre's website. The public consultation ended on April 7, 2022 . On 26 July 2022 , a new draft act was published on the Government Legislation Centre website referring it to the legal committee for consideration.	Confirmation of the draft by the Standing Committee of the Council of Ministers and its adoption by the Council of Ministers.	The draft is of significance from the viewpoint of PGE Group due to its impact on investments in the construction of offshore wind farms. The draft regulates issues related to the determination procedure, which will be necessary to grant a permit for the erection or use of artificial islands, structures and equipment in Polish maritime areas.
	Draft Regulation of the Minister of Infrastructure amending the Regulation on evaluation of applications in settlement procedures Government Legislation Centre list: 213	The aim of the draft is to clarify the rules for the determination procedure necessary for the selection of an entity that will obtain the permit for the erection or operation of artificial islands, installations and equipment in Polish maritime areas for the construction of offshore wind farms. The draft assumes, inter alia, changes in the scoring for fulfilling the criteria, as well as in the way of assessing the criterion concerning the financing of the planned project. It also resolves issues concerning the submission of documents by entities that prepare financial statements for which the financial year does not coincide with the calendar year.	On March 24, 2022 the draft was published on the Government Legislation Centre's website. The public consultation ended on March 27, 2022 . The draft was examined by the legal committee on June 30, 2022 . The regulation entered into force on August 4, 2022 .		The draft is important for PGE Group due to its impact on investments in the construction of offshore wind farms.
	Draft Regulation of the Minister of Climate and Environment on the	The draft is intended to set out how settlements are to be carried out for released compulsory natural gas reserves and how the price for gaseous fuels	On May 17, 2022 , the draft was published on the Government	Analysis by the Minister of Climate and Environment of the	The draft is of importance from the point of view of trading in gaseous fuels,

Segments	Regulation	Regulation objectives	Latest conclusions	Next stage	Impact on PGE Group
	<p>method of conducting settlements and balancing of the gas transmission system in periods of mandatory reserves of natural gas</p> <p>Government Legislation Centre list: 821</p>	<p>used for these settlements is to be calculated, as well as how balancing of the gas transmission system is to be carried out and how imbalances are to be settled during the release of stocks. The draft sets out formulas for the calculation of:</p> <ul style="list-style-type: none"> ▪ fees for collected mandatory reserves, ▪ fees for the release of mandatory reserves to the relevant entity ordering transmission services, ▪ fees for balancing activities, taking into account an entity ordering transmission services whose imbalance is negative and positive respectively, ▪ a fee related to the financial neutrality of balancing during the period of mandatory reserve release. 	<p>Legislation Centre's website and sent for public consultation, which ended on May 20, 2022.</p>	<p>comments submitted as part of the public consultation.</p>	<p>given the establishment of a system of settlements between PSE S.A. and the rules of the transmission service for balancing activities undertaken by PSE S.A..</p>
	<p>Draft Act amending the Act on the Management of Agricultural Property of the Treasury and certain other acts</p> <p>Government Legislation Centre list: UD376</p>	<p>The draft introduces regulations according under which agricultural properties belonging to the Agricultural Property Stock of the Treasury, which include at least 70% of uncultivated land/land of class IV will be able to be leased for the purpose of obtaining electricity from RES.</p>	<p>On April 19, 2022, the draft was published on the Government Legislation Centre website. On May 10, 2022, the public consultation closed.</p>	<p>Analysis by the Ministry of the Environment of the comments submitted in the public consultation.</p>	<p>The draft will make it possible to acquire new land, in particular wasteland included in the Agricultural Property Stock of the State Treasury, for RES investments.</p>
	<p>Draft Act amending the Act on Spatial Planning and Development and certain other acts</p> <p>Government Legislation Centre list: UD369</p>	<p>The draft introduces the principle that photovoltaic (PV) investments above 1 MW will only be allowed on the basis of a Local Spatial Development Plan. In the absence of an adopted Local Spatial Development Plan, it will not be possible to realise the investment in question on the basis of a decision on development conditions. The draft also provides for the possibility of applying a simplified procedure for the enactment or amendment to the Local Spatial Development Plan, including in the case of PV investments, but this does not apply to investments with significant impact on the environment.</p>	<p>On April 25, 2022, the draft was published on the Government Legislation Centre website. On May 16, 2022, the public consultation closed.</p>	<p>Analysis by the Ministry of Development and Technology of the comments sent as part of the public consultation.</p>	<p>The draft may slow down PV investments due to the fact that it will be necessary to embed the investment in the Local Development Plan. The average time required to enact the Local Spatial Development Plan is around 3 years.</p>

INTERNATIONAL REGULATORY ENVIRONMENT

Segments	Regulation	Regulation objectives	Latest conclusions	Next stage	Impact on PGE Group
European Green Deal/ Fit for 55 package					
	<p>Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading within the EU (ETS Directive) as well as implementing and delegated acts, Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme (MSR Decision).</p>	<p>Combating climate change. Development of investment incentives through a CO₂ price signal to develop low-emission sources.</p>	<p>On April 5, 2022 the EP plenary adopted its position on the revision of the MSR decision.</p> <p>On 22 June 2022, the EP adopted its position on the revision of the ETS Directive at its plenary session, setting a 63% reduction target in the ETS sectors. In addition, from 2025, participation in the EU ETS primary market is to be possible only for entities with a past, current or projected obligation to redeem allowances (and for institutions acting on their behalf). The mechanism to counter excessive price hikes (art. 29a of the ETS Directive) is also to be strengthened: triggered if, for more than six consecutive months, allowance prices are more than double the average price in the two preceding years. The free allocation of allowances to district heating is also to be increased relative to the EC's initial proposal.</p> <p>On June 29, 2022, the EU Environment Council adopted a general approach to the revision of the ETS Directive. According to the Council's position, the reduction target in the ETS sectors is to be 61%. The Council also introduced changes to accelerate the activation and automaticity of the release of 75 million allowances from the MSR reserve in case of application of the art. 29a mechanism, and additional</p>	<p>On July 11, 2022, the first round of inter-institutional negotiations between the Commission, the EP and the Council took place within the framework of the so-called trilogues.</p> <p>The deadline to transpose the changes in the ETS directive as stated in the draft is December 31, 2023.</p>	<p>Increased competitiveness of renewable sources to the detriment of generation assets using high-emission fuels .</p> <p>Increase in operating costs for conventional generation of electricity and heat.</p> <p>Option to obtain direct investment support from the Modernisation Fund and Innovation Fund and partial free allocation of allowances to district heating .</p> <p>The introduction of changes to the mechanism provided for in art. 29a of the ETS Directive should reduce the fluctuations of the price of emission allowances.</p> <p>Another revision of the ETS Directive and MSR decision is likely to cause a further increase in prices of emission allowances.</p>

allowances for district heating: possible allocation of an extra 30% of free allowances to district heating subject to investments compatible with the installation's plan to achieve climate neutrality.

In the general approach to the revision of the IAS decision, also adopted on **June 29, 2022**, the Council opted to accept the EC's legislative proposal without making changes to the parameters of the reserve's operation.



Directive 2018/2001 on the promotion of the use of energy from renewable sources (Renewable Energy Directive).

To adapt legislation related to increased share of renewables in reference to EU's new higher GHG reduction target by 2030.

On **June 27, 2022**, the Transport, Telecommunications and Energy Council adopted a general approach on the RES Directive. The Council maintained the RES target at 40%, and in heating the Council proposes to reduce the obligation level from 1.1 percentage point to 0.8 percentage point per year over the period 2021-2025, along with the possibility to count electricity used in heat pumps towards the sector's targets.

On **July 13, 2022**, the EP's lead committee ITRE adopted the final report on the RES Directive and the final standpoint of the European Parliament was adopted at the plenary session on **September 14, 2022**. Inter alia, MEPs adopted a higher overall RES target of 45% and correspondingly higher sector targets. The ITRE committee also adopted the possibility to count electricity from RES towards targets in district heating.

Additionally, as part of the REPowerEU Communication, the European Commission on **May 18, 2022** presented proposals for additional amendments to the RES

The next step in the process are inter-institutional negotiations between the Commission, the EP and the Council in the so-called trilogues.

The proposed deadline for transposing the proposal into national law is **December 31, 2024**.

Improvement in the competitiveness of low-emission sources of energy in comparison with high-emission sources.

Larger share of renewable sources in the Polish energy mix by 2030.

Directive, which include an increase in the proposed target for the share of energy from renewable sources in gross final energy consumption in 2030 from 40 to 45% and proposals for improvements in administrative procedures to accelerate the development of RES.

A draft report by Markus Pieper (EPP, DE) rapporteur on this matter in the leading ITRE committee of the European Parliament was published on **September 5, 2022**.



Directive 2012/27/EU on energy efficiency (EED Directive).

To adapt legislation related to energy efficiency improvements in reference to EU's new higher GHG emission reduction target by 2030.

On **June 27, 2022**, the Transport, Telecommunications and Energy Council adopted a general approach on the EED Directive. The Council maintained the target of reducing energy consumption by 9% in 2030 relative to 2020. Amendments to the definition of an efficient heating and cooling system and indicators for new annual final energy savings were also adopted.

On **July 13, 2022**, the EP's lead committee ITRE adopted the final report on the EED Directive and the final standpoint of the European Parliament was adopted at the plenary session on **September 14, 2022**. Inter alia, MEPs adopted a higher final energy reduction target of 40% by 2030 and 42.5% for primary energy relative to 2007. Countries would determine binding national contributions and the coefficient for new annual final energy savings was set at 2%.

Additionally, as part of the REPowerEU communication, the European Commission on **May 18, 2022** proposed an additional amendment to the EED to increase

The next step in the process are inter-institutional negotiations between the Commission, the EP and the Council in the so-called trilogues. The published draft does not include a deadline for transposing the directive into national law.

Improvement in the competitiveness of low-emission sources of energy in comparison with high-emission sources, particularly in heating systems.

A faster phase-out of coal-based cogeneration from heating systems in connection with the introduction of a new emission criterion.

Need for more extensive development of renewable sources in district heating systems.

A higher factor for annual final energy savings will result in an increase in burdens on the energy efficiency certificate system.

			<p>the 2030 energy reduction target from 9% to 13% relative to 2020. A draft report by Markus Pieper (EPP, DE) rapporteur on this matter in the leading ITRE committee of the European Parliament was published on September 5, 2022.</p>	
 	<p>Directive 2010/31/EU on the energy performance of buildings (EPBD).</p>	<p>Alignment of legislation related to improving the energy performance of buildings in the EU with respect to the 2050 climate neutrality target and the new higher 2030 EU GHG reduction target .</p>	<p>On June 6, 2022, MEP Ciarán Cuffe (Greens/EFA, Ireland), rapporteur in the EP's lead ITRE committee, presented a draft report on the EPBD. The rapporteur proposes lowering the maximum values for primary energy demand in existing and new buildings and phasing out fossil fuels from the heating and cooling sector by 2035. Moreover, Member States would not be able to offer financial incentives for the purchase of fossil fuel boilers from the entry into force of the directive, and the draft report does not provide for any exceptions.</p> <p>In addition, as part of the REPowerEU Communication, the European Commission on May 18, 2022 presented proposals for additional amendments to the EPBD, addressing solar energy requirements and accelerating the development of solar energy installations on buildings.</p> <p>A draft report by Markus Pieper (EPP, DE) rapporteur on this matter in the leading ITRE committee of the European Parliament was published on September 5, 2022</p>	<p>The legislative proposal was sent for further work at the Council and the European Parliament.</p> <p>The date for transposition of the Directive into national law is not specified in the published draft.</p> <p>Greater competitiveness of renewable energy sources as a heat source in buildings.</p> <p>Reduction in the heat demand of buildings due to improved energy performance.</p> <p>Faster rate of displacement of fossil fuels in the heating sectors, including district heating.</p> <p>Potential inhibition of growth of existing district heating systems due to proposed requirements for new and modernised buildings.</p>

	<p>Alternative Fuels Infrastructure Regulation (AFIR Regulation).</p>	<p>The aim of the new regulation, which repeals Directive AFID, is to ensure faster development of charging infrastructure and implement targets for charging station locations, including targets concerning distances between charging points throughout the trans-European TEN-T network.</p>	<p>On June 2, 2022, the Transport, Telecommunications and Energy Council adopted a general approach on the AFIR Regulation. The Council maintained the EC's proposals for the development of chargers for light-duty vehicles and relaxed the requirements in this respect for heavy-duty vehicles. Additionally, the definition of alternative fuels was maintained.</p>	<p>The legislative proposal is still subject to final work in the European Parliament - that is, work on the rapporteur's report in the Committee on Transport and Tourism (TRAN). The adoption of the final report of this committee in the EP is tentatively expected by the end of September 2022 and the vote in the EP plenary in October 2022.</p>	<p>The necessity to prepare the power grid to perform obligations resulting from the AFIR Regulation in the distribution area.</p>
	<p>Regulation on guidelines for trans-European energy infrastructure (revision of the TEN-E Regulation).</p>	<p>Establishing guidelines for the development of trans-European energy infrastructure and new criteria for projects of common interests ("PCI").</p>	<p>On December 14, 2021, in the trilogues between the EP, the EC and the Council, a preliminary agreement was reached on the new shape of the TEN-E regulation provisions.</p> <p>On June 3, 2022, Regulation (EU) 2022/869 of the European Parliament and of the Council on guidelines for trans-European energy infrastructure was published in the Official Journal of the EU. The regulation entered into force 20 days after its publication in the Official Journal of the EU.</p>	<p>The first EU list of PCI projects in the form of a delegated act of the European Commission under the new regulation will be established by November 30, 2023.</p>	<p>The definition of rules for implementing PCI is a potential opportunity for certain PGE Group investments to apply for the status of PCI projects that may receive financial support from the Connecting Europe Facility.</p>

	<p>Directive 2010/75/EU on industrial emissions (integrated pollution prevention and control).</p>	<p>Introduction of new requirements tightening up the way in which emission levels are set in the integrated permit, the rules for obtaining derogations from BAT requirements and giving new competences to the EC. Public participation in appeal proceedings will be increased. Operators will be required to introduce an Environmental Management System, which will include, inter alia, a plan for the transition by 2050 in towards a sustainable, clean and climate neutral circular economy.</p>	<p>On April 5, 2022 the EC presented draft amendments to the Directive. The EC proposes:</p> <ul style="list-style-type: none"> ▪ a change of rules for determining BAT emission thresholds, including the need to justify the achievable emission level, ▪ introduction of requirements relating to energy efficiency, ▪ enhance public participation in proceedings, ▪ introduction of a mandatory environmental management system, ▪ possibility of pursuing claims for damage caused by the operation of installations and changes in the burden of proof, ▪ change of rules for granting derogations, including the preparation of guidelines by the EC. 	<p>The legislative proposal is subject to further work in the Council and the European Parliament. The new directive is scheduled to enter into force at the end of 2024. The EP's position is expected to be adopted by the end of 2022.</p>	<p>The entry into force of the proposed solutions may result in additional capital expenditures being incurred in the Conventional Generation and District Heating segments .</p>
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The regulations concerning the financial perspective 2021-2027 and financing for sustainable economic growth

	<p>The Regulation 2020/852 on the establishment of a framework to facilitate sustainable investment, changing the regulation (EU) 2019/2088 (the Taxonomy Regulation) and Delegated</p>	<p>Facilitation of funding for sustainable economic growth in EU.</p>	<p>On February 2, 2022 the EC unveiled a delegated act setting out detailed technical screening criteria for the use of nuclear power and gas. On March 9, 2022, the European Commission officially adopted this delegated act. On June 14, 2022, the ECON and ENVI committees voted a resolution for the EP to reject the delegated act. However, the resolution was rejected</p>	<p>The delegated regulation will apply from January 1, 2023.</p>	<p>Impact on availability and cost of funding obtained by PGE Group companies for investments. Direct impact on raising external capital for investments in condensation and high-efficiency gas-fired cogeneration, depending on the locations and meeting criteria established by an additional delegated act. The obligation to include information on the share in the trade, CAPEX and OPEX of environmentally sustainable</p>
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Regulation
2022/1214
specifying technical
screening criteria
for nuclear and gas
power.

when the EP plenary voted on **July 6, 2022**.

On **July 11, 2022**, the deadline for the EP and Council to object expired. In the Council, the delegated act was also not blocked.

On **July 15, 2022**, Delegated Regulation 2022/1214, setting out technical screening criteria for nuclear and gas power, was published in the Official Journal of the EU.

activities in the statement on non-financial information or consolidated statement on non-financial information. Compliance with the "no significant harm" principle will be an additional criterion for the assessment of investment projects under EU financial instruments.

4. Activities of PGE Capital Group

4.1. Main business segments

	 Conventional Generation	 District Heating	 Renewables	 Distribution	 Supply
Key assets of the segment	5 conventional power plants 2 lignite mines	16 CHP plants	20 wind farms 5 photovoltaic power plants 29 run-of-river hydro power plants 4 pumped-storage power plants, including 2 with natural flow	297 384 kms of distribution lines	-
Installed capacity electricity/heat	12 852 MWe/844 MWt	2 608 MWe/6 914 MWt	2 416 MWe/-	-	-
Electricity volumes	Net electricity generation 26.53 TWh	Net electricity generation 4.22 TWh	Net electricity generation 1.57 TWh	Electricity distribution volume 18.62 TWh	Sales to final off-takers 17.44 TWh ¹
Heat volumes	Heat production (net) 1.83 PJ	Heat production (net) 28.74 PJ	-	-	-
Market position	PGE Group is the leader of lignite mining in Poland (93%) PGE Group is also a national leader in electricity and district heat generation	-	PGE Group is the largest electricity producer from RES with market share of approx. 8% (excluding co- combustion of biomass and bio-gas)	Second domestic electricity distributor with regard to number of customers	Leader in wholesale and retail trading in Poland

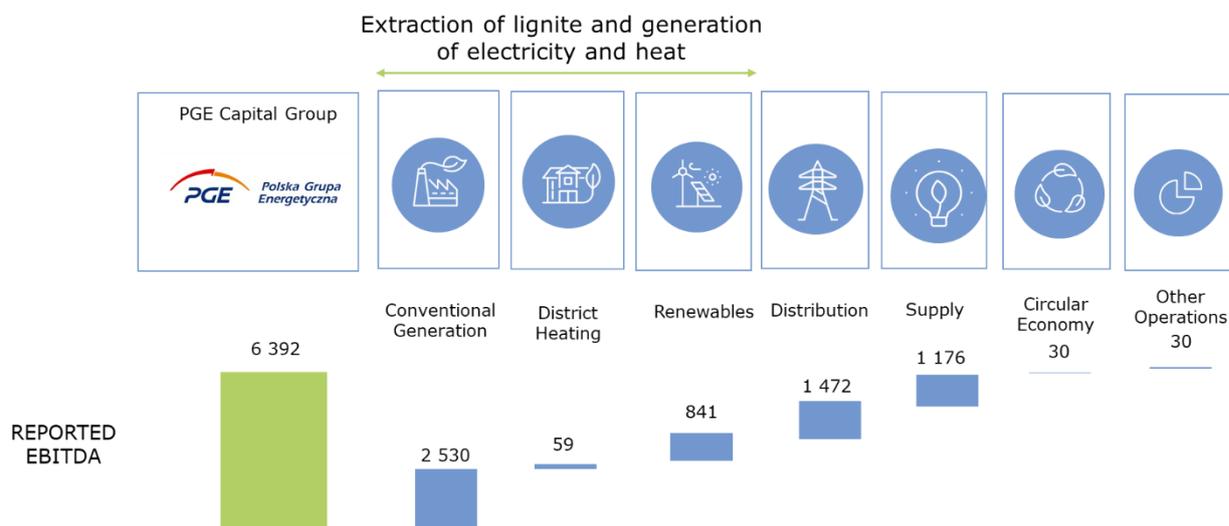
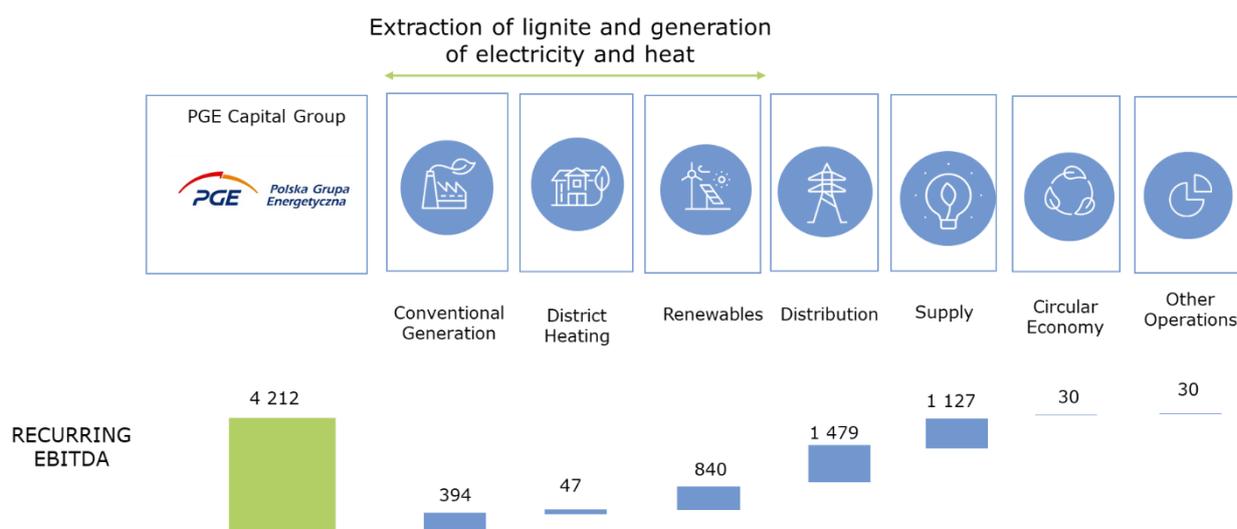
¹ Data for PGE Obrót S.A.

4.2. PGE Group's key financial results

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

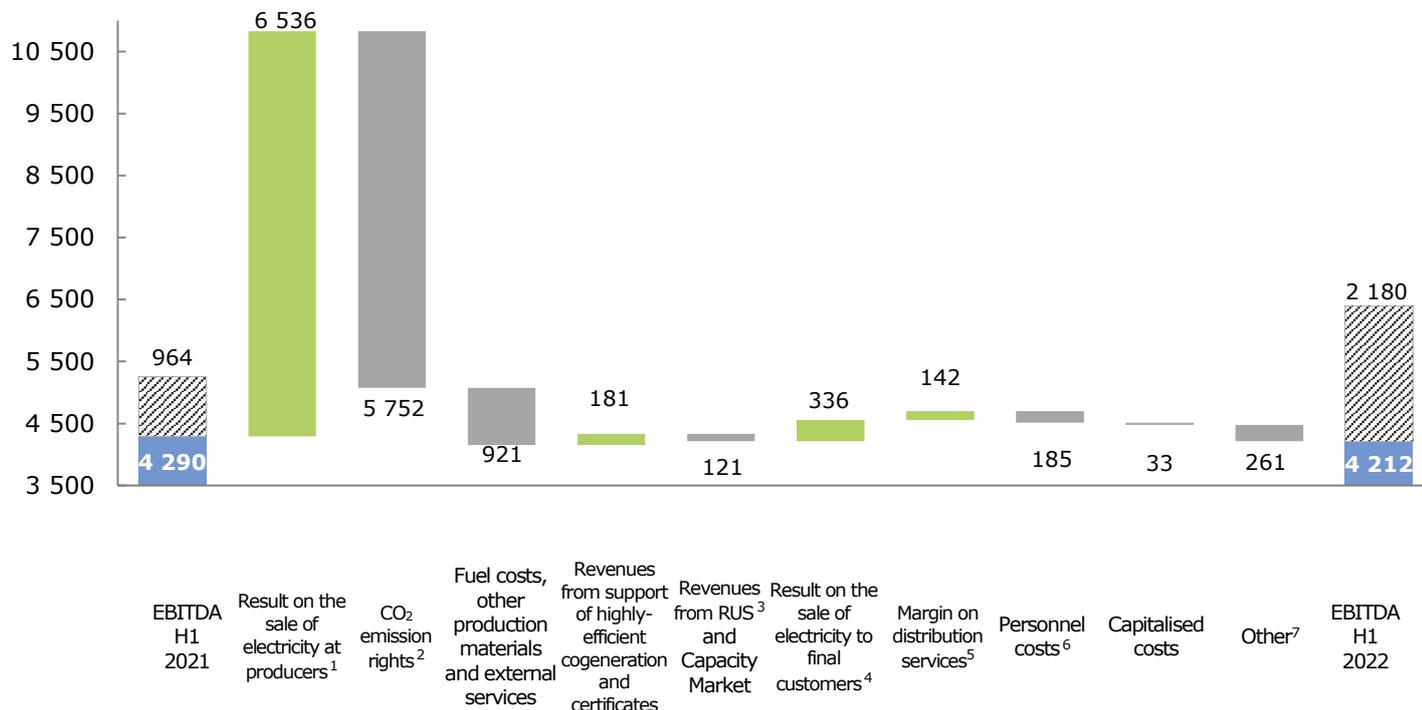
PGE Group's consolidated results are composed of the financial results of each of its operating segments. The Distribution segment, Supply segment and Renewables segment made the largest contribution to the Group's recurring EBITDA for the first half of 2022, participating respectively in 35%, 27% and 20% of the result. The Conventional Generation segment contributed 9%, while District Heating segment, Other Operations and Circular Economy each contributed 1% to the Group's recurring EBITDA.

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



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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



Change	6 536	-5 752	-921	181	-121	336	142	-185	-33	-261	
Reported EBITDA H1 2021	5 254										
One-offs H1 2021	964										
Recurring EBITDA H1 2021	4 290	8 277	3 830	3 602	131	1 517	526	2 247	2 661	285	-1 400
Recurring EBITDA H1 2022		14 813	9 582	4 523	312	1 396	862	2 389	2 846	252	-1 139
One-offs H1 2022											2 180
Reported EBITDA H1 2022											6 392

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

¹ Revenue from the sale of electricity reduced by the purchase cost of electricity.

Change in comparison to the values presented in H1 2021 - in accordance with the amendments to IAS 16, energy output at the new unit of the Turów power plant in the period from synchronisation to the start of trial operation was taken into account.

² Adjusted for result on resale of CO₂ emission rights, that was caused due to reductions by PSE S.A. and trading activities, and result on forward contracts.

Presentation change in comparison to the values presented in H1 2021 - the interim result on the rollover of CO₂ hedging transactions has been included in other operating activities.

³ RUS- ancillary services.

⁴ Including margin adjustment on certificates at PGE Group.

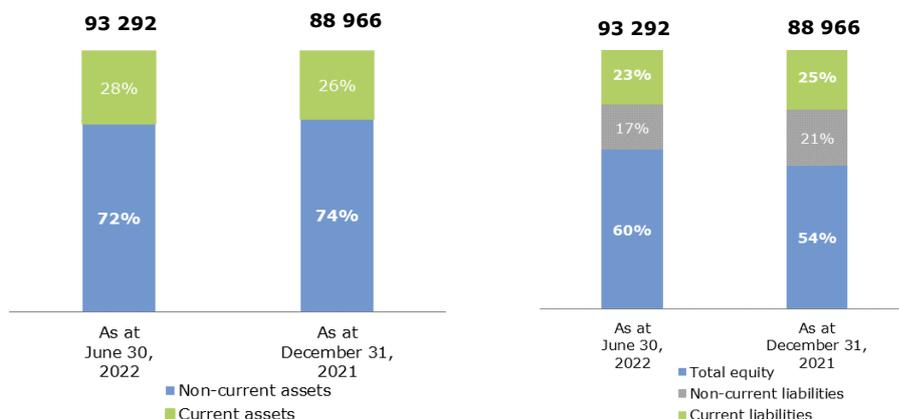
⁵ Including revenues from distribution services, transmission services (TSO), balance of transferred fees and costs of electricity purchased to cover balancing difference.

⁶ The item Personnel costs excluding impact of change in actuarial provision and Voluntary Leave Program (one-offs).

⁷ Other without including the impact of change of the reclamation provision and provision for prosumers (one-offs).

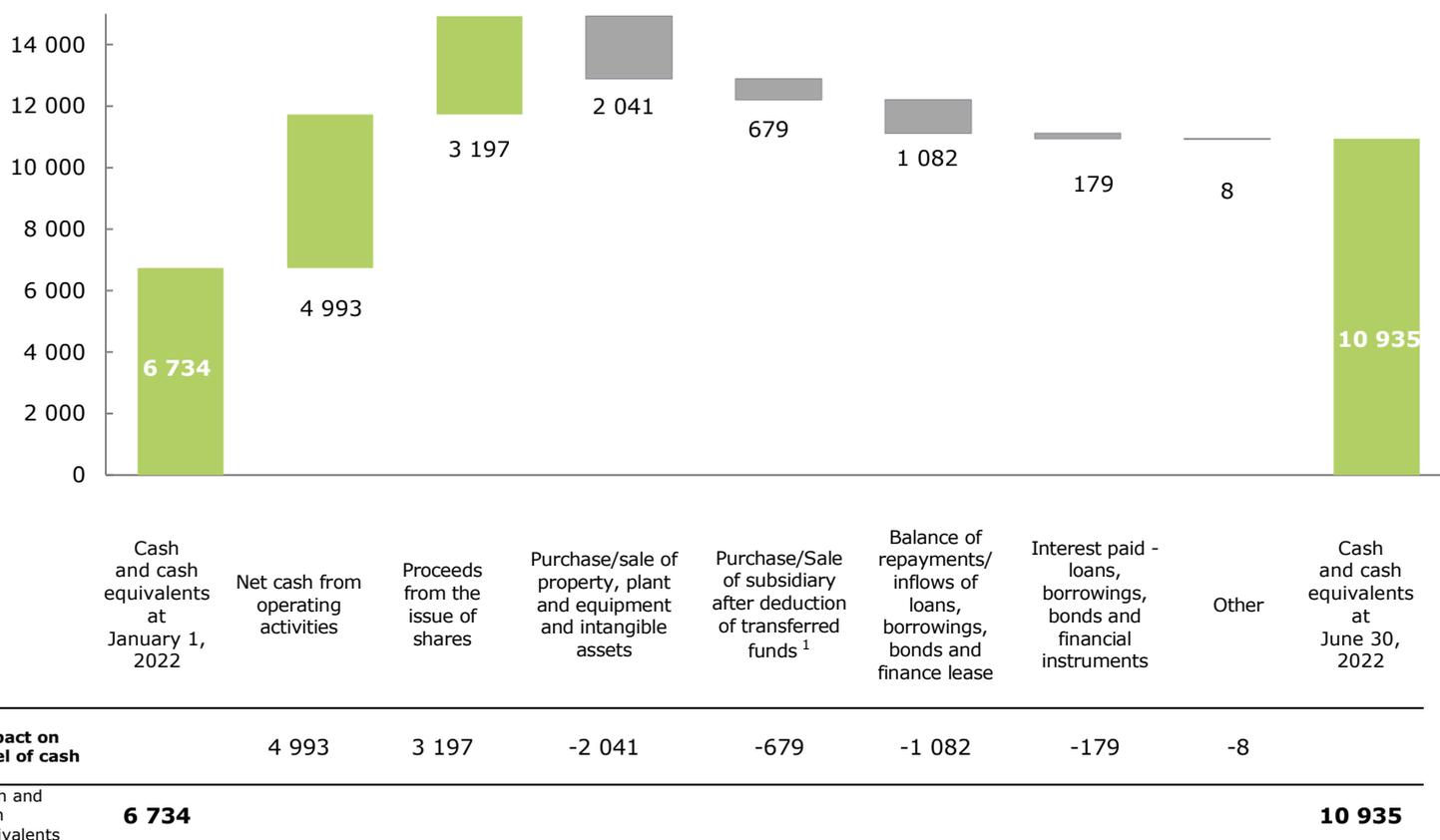
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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



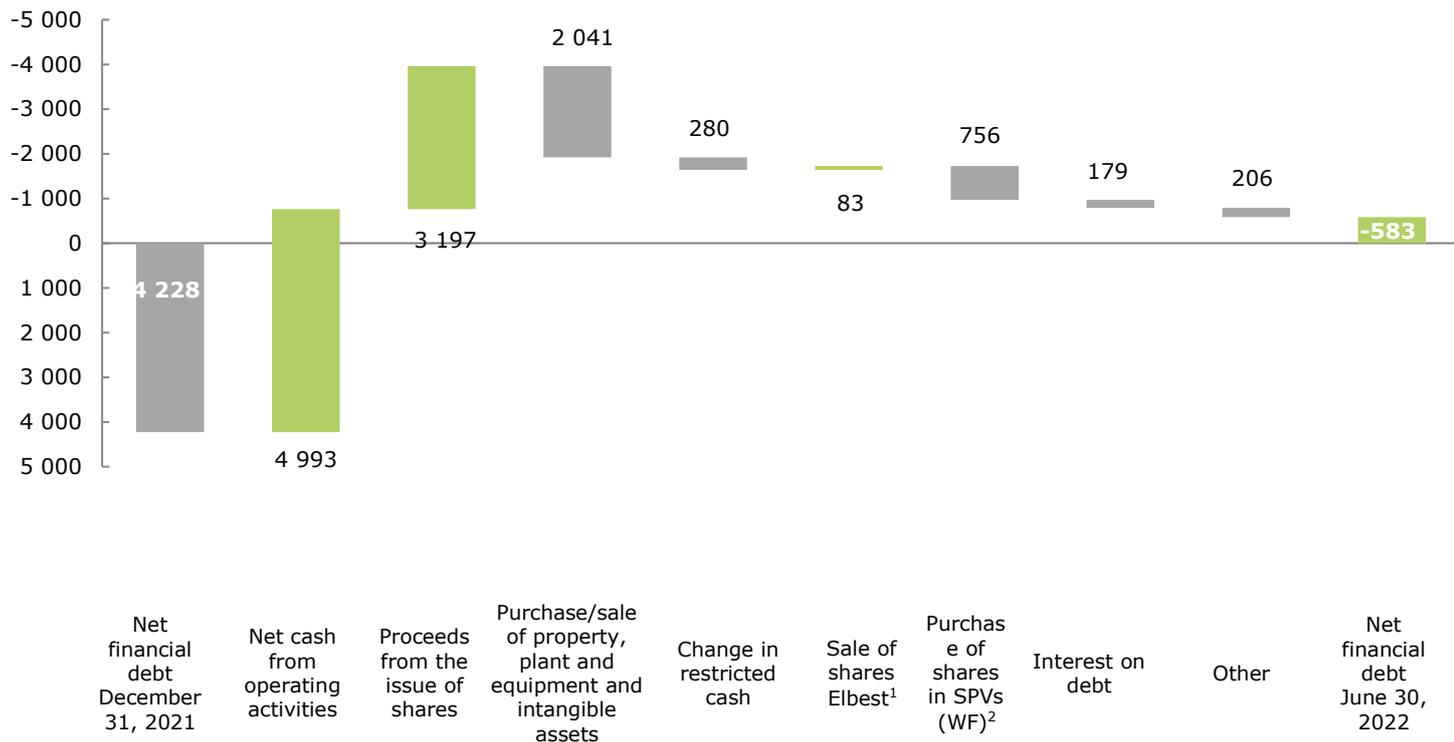
CONSOLIDATED STATEMENT OF CASH FLOWS

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



¹ Mainly cash spent by PGE EO S.A. on the purchase from Vanadium Holdco Limited of 100% of shares in Collfield Investments, which operates three wind farms. The transaction value was PLN 939 million. PLN 344 million constituted payment for the shares, PLN 595 million was related to subrogation of liabilities, while cash acquired amounted to PLN 183 million. Additionally, cash from the sale of shares in Elbest sp. z o.o. (PLN 88 m) reduced by cash and cash equivalents of the sold company (PLN 5 m).

Chart: Net debt (in PLN million).



Impact on level of net debt	Net cash from operating activities	Proceeds from the issue of shares	Purchase/sale of property, plant and equipment and intangible assets	Change in restricted cash	Sale of shares Elbest ¹	Purchase of shares in SPVs (WF) ²	Interest on debt	Other	Net financial debt June 30, 2022
	-4 993	-3 197	2 041	280	-83	756	179	206	
Financial net debt									4 228
									-583

¹ Sale of shares in Elbest sp. z o.o. (PLN 88 m) reduced by cash and cash equivalents of the sold company (PLN 5 m).

² Purchase by PGE EO S.A. from Vanadium Holdco Limited of 100% of shares in Collfield Investments, which operates three wind farms. The transaction value was PLN 939 million. PLN 344 million constituted payment for the shares, PLN 595 million was related to subrogation of liabilities, while cash acquired amounted to PLN 183 million.

WF-wind farms

KEY RESULTS IN BUSINESS SEGMENTS (IN PLN MILLION)



**Conventional
Generation**

**District
Heating**

Renewables

Distribution

Supply

**Circular
Economy**



BALANCE OF ENERGY OF PGE CAPITAL GROUP

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

Volume	H1 2022	H1 2021	% change
A. Sales of electricity outside the PGE Capital Group:	50.22	52.58	-4%
▪ Sales to end-users ¹	17.46	18.75	-7%
▪ Sales on the wholesale and balancing market	32.76	33.83	-3%
B. Purchases of electricity from outside of PGE Group (wholesale and balancing market)	19.52	21.38	-9%
C. Net production of electricity in units of PGE Capital Group	32.32	33.12	-2%
D. Own consumption DSO, lignite mines, pumped-storage power plants (D=C+B-A)	1.62	1.92	-16%

¹ Sale mainly by PGE Obrót S.A. and PGE Energia Ciepła S.A.

² In accordance with the amendments to IAS 16 data for H1 2021 were adjusted - energy output at the new unit of the Turów power plant in the period from synchronisation to the start of trial operation was taken into account.

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

Lower energy sales on the wholesale market, including the balancing market, result from the market situation in the first half of 2022 and limitations in hard coal supplies. The lower purchase on the wholesale market is mainly the result of lower sales to end customers in the corporate client segment.

Table: Net production of electricity (TWh).

Production volume	H1 2022	H1 2021	% change
ELECTRICITY PRODUCTION IN TWh, including:	32.32	33.12	-2%
Lignite-fired power plants	19.87	17.76	12%
<i>including co-combustion of biomass</i>	0.00	0.00	-
Coal-fired power plants	6.66	8.81	-24%
<i>including co-combustion of biomass</i>	0.00	0.01	-100%
Coal-fired CHP plants	2.41	2.57	-6%
<i>including co-combustion of biomass</i>	0.00	0.00	-
Gas-fired CHP plants	1.61	2.46	-35%
Biomass-fired CHP plants	0.18	0.15	20%
Communal waste-fired CHP plants	0.02	0.02	0%
Pumped-storage power plants	0.43	0.36	19%
Hydroelectric plants	0.26	0.28	-7%
Wind power plants	0.88	0.71	24%
including RES generation	1.34	1.17	15%

¹ In accordance with the amendments to IAS 16 data for H1 2021 were adjusted - energy output at the new unit of the Turów power plant in the period from synchronisation to the start of trial operation was taken into account in volume of 0.18 TWh.

The level of electricity production in the first half of 2022 was 2% lower than in the first half of 2021.

Generation at lignite-fired power plants was higher by 2.1 TWh. The increase in production at the Turów power plant is the result of overhauls shorter by 796 h (medium extended overhaul of unit no. 6 from March to June 2021) and higher generations from new unit no. 7, which was still being

synchronized with the National Power System in the first half of 2021 and operated in trial run. Higher production at the Bełchatów Power Plant is the result of higher average load factors of units 2-14 by 25 MW, i.e. by 8%.

Higher production on wind farms (+0.2 TWh) is a result of better windiness in the first half of 2022.

Higher production in pumped storage power plants (+0.1 TWh) results from the nature of the operation of the generating units, which were used to a greater extent by PSE S.A. in the first half of 2022.

Lower production in hard coal-fired power plants (-2.2 TWh) results from decreased generation at Opole power plant and Rybnik power plant, what is a consequence of longer reserve downtime of the units: by 4 419 h at Opole power plant and by 3 029 h for units 3-8 at Rybnik power plant. The above situation is partly the result of problems with the availability of hard coal.

Lower generation from gas-fired CHP plants (-0.9 TWh) is mainly a consequence of lower generation at Lublin Wrotków CHP plant due to a unit failure in December 2021 lasting until February 2022 and lower profitability of production due to market conditions.

A few percent drops in production were recorded in coal-fired CHP plants and hydro power plants. Higher production in biomass CHP plants, mainly in the Szczecin CHP Plant, results from higher production of energy in cogeneration with heat due to the higher demand for heat in this location.

HEAT PRODUCTION

Table: Net production of heat (PJ).

Production volume	H1 2022	H1 2021	% change
Net production of heat in PJ, including:	30.57	32.99	-7%
Lignite-fired power plants	1.46	1.59	-8%
Coal-fired power plants	0.37	0.38	-3%
Coal-fired CHP plants	22.85	23.59	-3%
Gas-fired CHP plants	4.47	6.19	-28%
Biomass-fired CHP plants	1.11	1.09	2%
CHP plants fuelled by municipal waste	0.15	0.06	150%
Other CHP plants	0.16	0.09	78%

External temperatures contributed more than any other factor to higher net generation of heat in the first half of 2022 (y/y). The average temperatures in the first half of 2022 were by 1.6°C higher y/y, which translated into decreased production of heat.

HEAT SALES

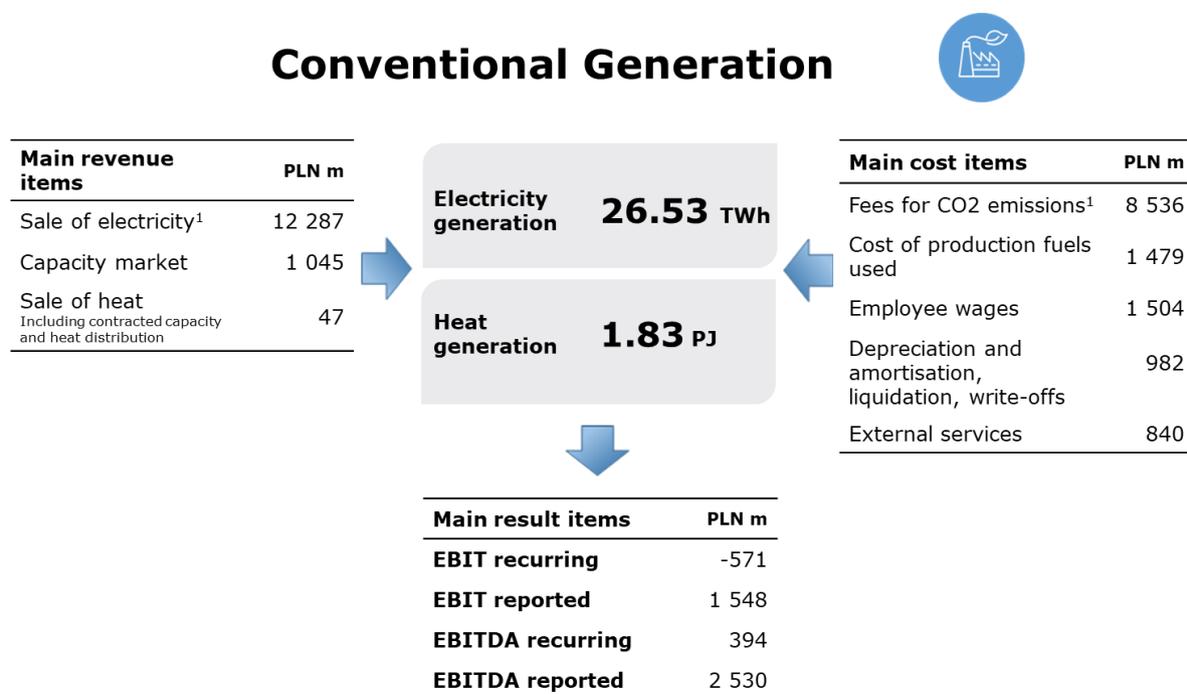
In the first half of 2022 the heat sales volume in PGE Capital Group totalled 29.70 PJ and was lower by 2.42 PJ y/y. The above result was caused mainly by lower demand for heat due to the higher average outside temperatures than in analogical period of the previous year.

4.3. Operational segments

CONVENTIONAL GENERATION

SEGMENT DESCRIPTION AND ITS BUSINESS MODEL

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



¹ managerial perspective

The main source of revenue in the Conventional Generation segment is **revenue from the sale of electricity** on the wholesale market, based on electricity prices that are shaped by supply and demand mechanisms, taking into account the variable costs of generation. At the same time, the segment's key cost items, given their size and volatility, and thus their impact on operating results, are the **fees for CO2 emissions** and **cost of production fuels**, mainly hard coal. Lignite-based production, which is of key significance for the Group, is based on own mines, therefore its cost is relatively stable and reflected mainly in fixed-cost items, i.e. personnel costs, third-party services and depreciation.

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

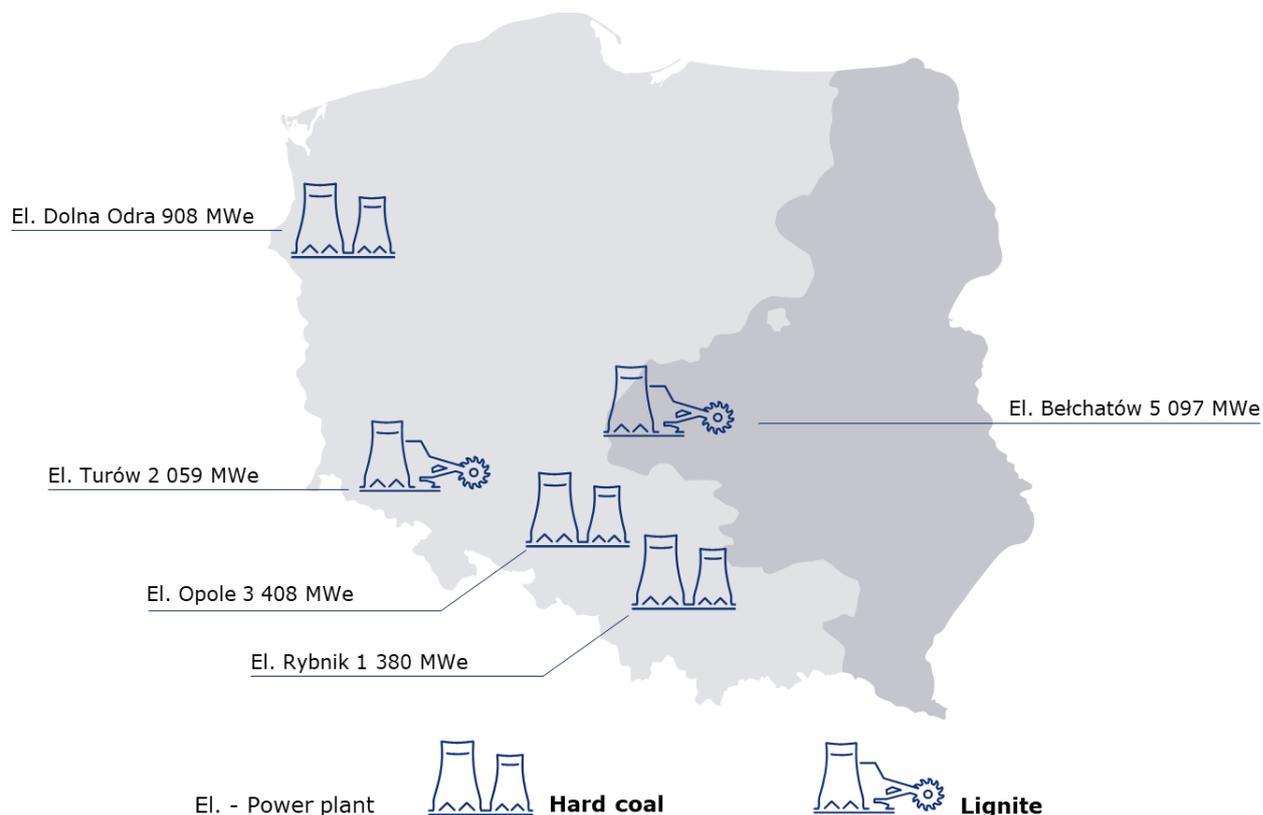
In addition, this segment generates revenues from sales of heat produced at industrial plants. From July 1, 2021 the Szczecin CHP plant and Pomorzany CHP plant and the heat grid in Gryfino have been incorporated into the structures of District Heating segment.

ASSETS

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

Conventional Generation is the leader of lignite mining (its share in the extraction market of this raw material accounting for 93%¹³ of domestic extraction), it is also the largest generator of electricity as it generates approx. 33%¹⁴ of domestic gross electricity production. The generation is based on lignite extracted from mines owned by the company as well as hard coal and biomass.

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

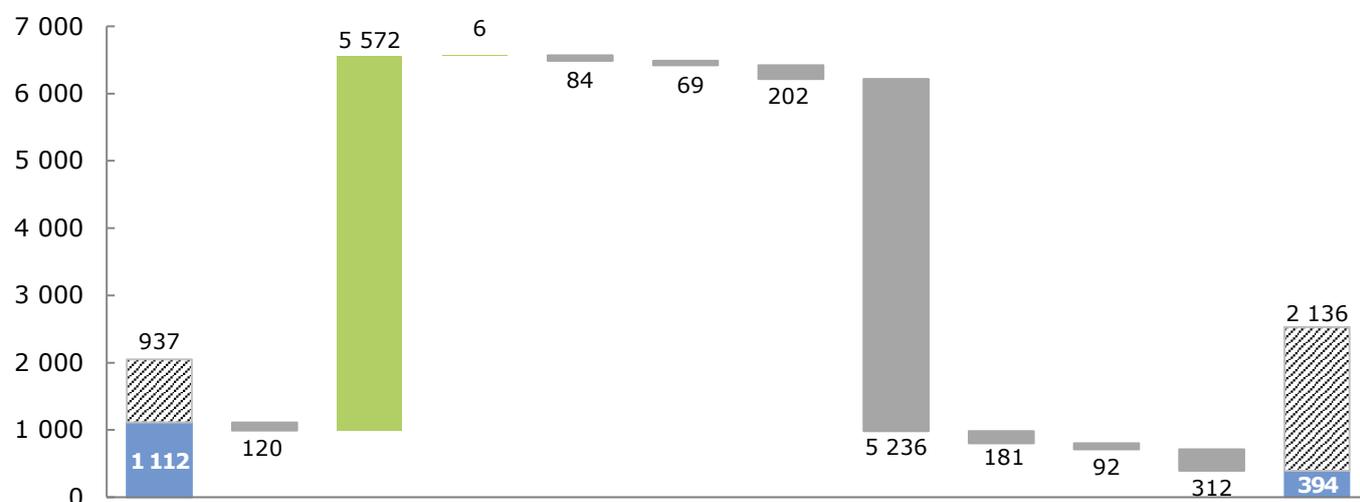


¹³ Own calculations based on data from Central Statistical Office of Poland.

¹⁴ Own calculations based on data from PSE S.A.

KEY FACTORS FOR THE RESULTS OF THE SEGMENT

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



	EBITDA H1 2021	Electricity production - volume ¹	Electricity production - price ¹	Capacity Market ²	Revenues from agreement with TSO	Heat sales	Costs of fuel	Costs of CO ₂ ³	Costs of Comm. Management of Generation Capacities	Personnel expenses ⁴	Other ⁵	EBITDA H1 2022
Change		-120	5 572	6	-84	-69	-202	-5 236	-181	-92	-312	
Reported EBITDA 2021	2 049											
One-offs H1 2021	937											
Recurring EBITDA 2021	1 112	6 835		1 039	161	116	1 277	3 300	331	1 398	732	
Recurring EBITDA 2022		12 287		1 045	77	47	1 479	8 536	512	1 490	1 044	394
One-offs H1 2022												2 136
Reported EBITDA 2022												2 530

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

¹ Change in comparison to the values presented in H1 2021 - in accordance with the amendments to IAS 16, energy output at the new unit of the Turów power plant in the period from synchronisation to the start of trial operation was taken into account.

² Managerial perspective.

³ Costs reduced by resale of CO₂ emission rights, that was caused due to reductions by PSE S.A. and trading activities.

Presentation change in comparison to the values presented in H1 2021 - the interim result on the rollover of CO₂ hedging transactions has been included in other operating activities.

⁴ The item Personnel costs excluding impact of change in actuarial provision (one-off).

⁵ Other without including the impact of change of the reclamation provision (one-off).

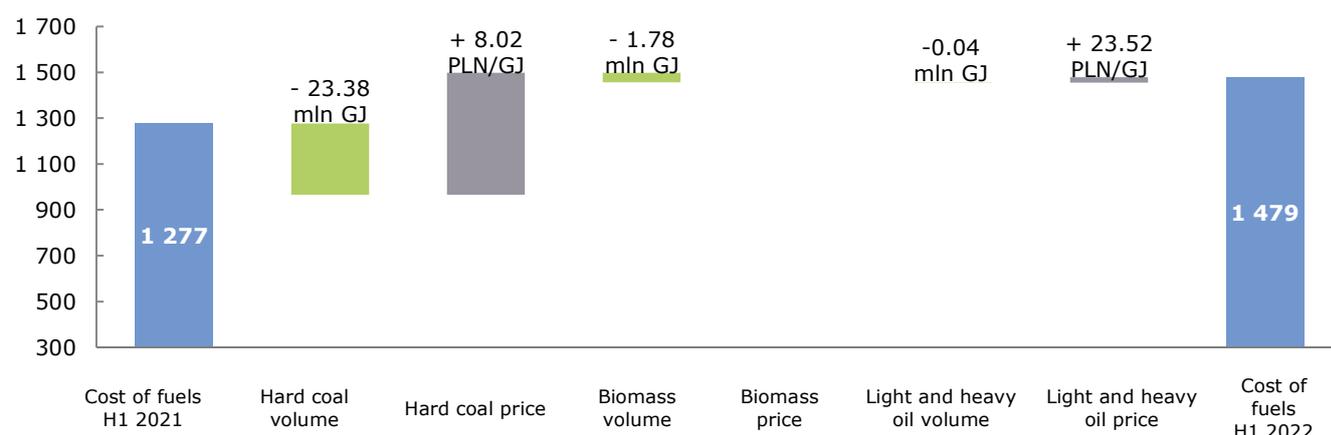
Table: Data on one-offs in Conventional Generation segment (PLN m).

One-offs	H1 2022	H1 2021	% change
Change in the reclamation provision	2 150	930	131%
Change in the actuarial provision	-14	7	-
TOTAL	2 136	937	128%

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

- **Increase in revenues from the sale of electricity**, which results from: higher average selling price of electricity by PLN 214/MWh y/y, which translated into an increase in revenues by approx. PLN 5 573 million; lower sales volume by 0.5 TWh, which resulted in a decrease in revenues by approx. PLN 121 million.
- **Higher result obtained from the Capacity Market** as a result of a lower base due to delays in the start-up of unit No. 7 in Turów in the comparable period.
- **Lower revenues from ancillary control services**, mainly as a result of lower revenues from the provision of the capacity reallocation service.
- **Lower revenues from the sale of heat**, due to the inclusion of Szczecin CHP plant and Pomorzany CHP plant into the structures of the District Heating segment from July 1, 2021.
- **Higher fuel consumption costs**, mainly hard coal, due to the much higher fuel price (see p. 2.2 of this report). Lack of costs of biomass consumption results from the inclusion of the Szczecin CHP Plant in the District Heating segment's structures from July 1, 2021. Main changes on different types of fuel are presented in the chart below.
- **Higher CO₂ costs** as a result of higher average cost of CO₂ by PLN 176/t CO₂ and higher emission volumes as a result of higher production from the more emission-intensive lignite. Main changes are shown in the chart below.
- **Higher commercial costs** results from higher value of energy under management due to higher average electricity price.
- **Lower personnel expenses** mainly due to in connection with the creation of a provision for agreements with the social partners.
- **The increase in the item 'other'** is mainly caused by lower level of cost capitalisation for in-house implementation of investments due to the smaller scope of tasks performed, payment of a donation to the Liberec County in connection with the signed settlement between governments of Poland and Czechia regarding Turów lignite mine and lack of revenues from the sale of green certificates as a result of the inclusion of Szczecin CHP plant into the structures of the District Heating segment as of July 1, 2021. Additionally, the interim result on the rollover of CO₂ hedging transactions in the comparable period is included in this.

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

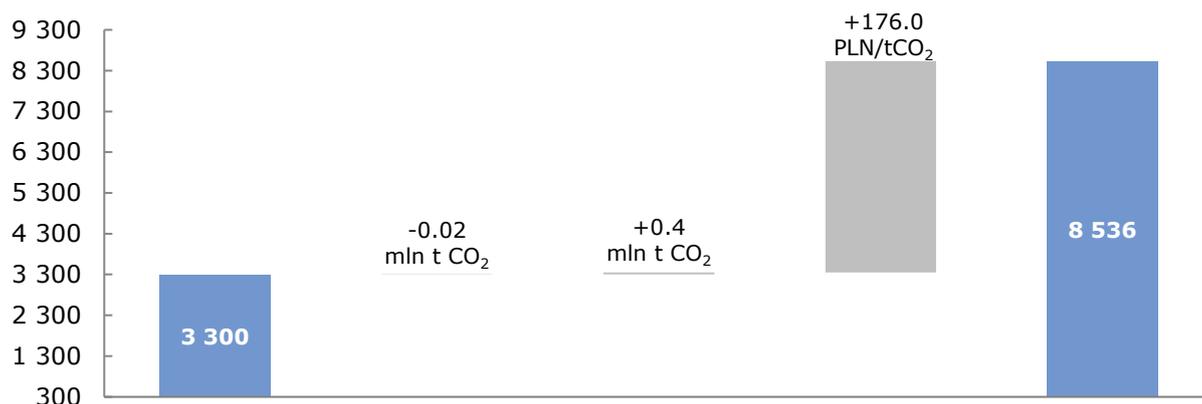


Change	-311	532	-41	0	-2	24	
Cost of fuels H1 2021	1 277	1 191	42		44		
Cost of fuels H1 2022		1 412	1		66		1 479

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

Fuel type	H1 2022		H1 2021	
	Volume (tons ths)	Cost (PLN million)	Volume (tons ths)	Cost (PLN million)
Hard coal	3 064	1 412	3 942	1 191
Biomass	2	1	216	42
Fuel oil – light and heavy	25	66	26	44
Total		1 479		1 277

Chart: CO₂ costs in Conventional Generation segment (in PLN million).



	CO ₂ costs H1 2021	Allocation of free allowances for CO ₂ emissions	CO ₂ emission	Average CO ₂ costs	CO ₂ costs H1 2022
Change		2	47	5 187	
CO ₂ costs H1 2021	3 300				
CO ₂ costs H1 2022					8 536

Table: Data on CO₂ costs in Conventional Generation.

Data regarding CO ₂	H1 2022	H1 2021	% change
Allocation of free allowances for CO ₂ emissions (tons)	31 583	51 645	-39%
CO ₂ emission (tons)	29 508 039	29 098 524	1%
Average CO ₂ costs (PLN/t CO ₂) ¹	289.6	113.6	155%

¹ Managerial perspective.

CAPITAL EXPENDITURES

Table: Capital expenditures incurred in Conventional Generation segment

PLN m	H1 2022	H1 2021	% change
Investments in generating capacities, including:	237	1 359	-83%
Development	0	921	-100%
Modernisation and replacement	237	438	-46%
Other	20	28	-29%
Total	257	1 387	-81%

KEY EVENTS IN THE CONVENTIONAL GENERATION SEGMENT

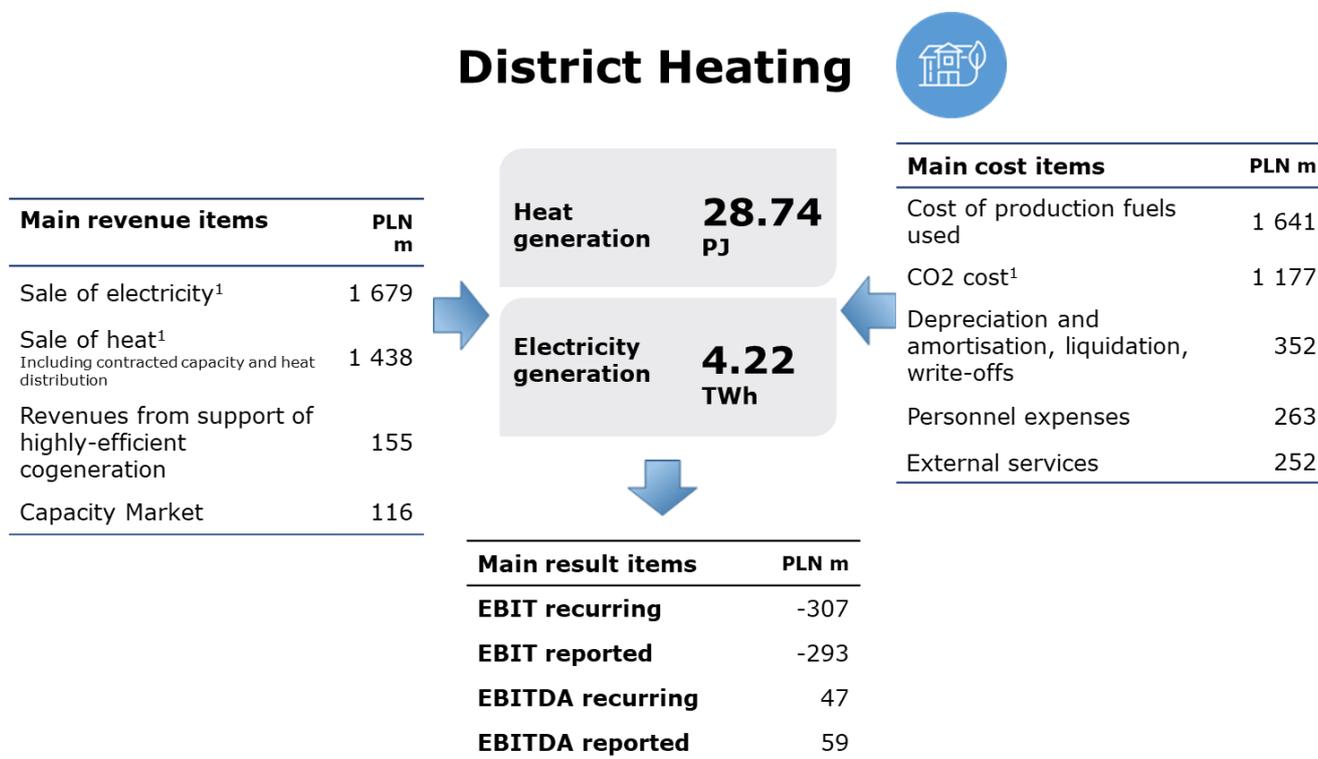
Modernisation investments aimed at reducing the negative impact of production on the natural environment:

- On January 3, 2022, the **electrostatic precipitator of unit 4 at the Opole power plant** was put into service, the final acceptance after guarantee measurements was carried out on March 7, 2022.
- On January 25, 2022, the modernisation of the flue gas desulphurisation system of unit 3 and unit 4 was completed at the Bełchatów power plant – and the system was put into service.
- On February 15 2022, the modernisation of the flue gas desulphurisation system of unit 8 at the Bełchatów power plant was completed – and the system was put into service.
- On February 25, 2022, the construction phase consisting of the construction of a steel structure with internal walls and roof sheathing was completed as part of the task "Extension of the Turów power plant wastewater treatment plant - main node building."
- In March 2022, a 14-day trial run of the non-catalytic reduction of nitrogen oxides removal installation for unit 7 of the Bełchatów power plant was performed.
- On March 9, 2022, the **electrostatic precipitator of unit 5 at the Rybnik power plant** was put into service following modernisation.
- An SNCR flue gas NOx reduction system was commissioned at unit 7 of the Bełchatów power plant on June 10, 2022.
- On June 14, 2022, final acceptance was performed for the construction of a bromine salt dosing system on units 1-6 at the Turów plant, together with a bromine salt storage and distribution system.
- On June 28, 2022, the final acceptance protocol for measurements of the **NOx emission reduction system at unit 4 at the Opole plant was signed**. The task concerning NOx emission reduction at units 1 - 4 has been completed. Thus, the assumptions of the Opole plant's adaptation program regarding compliance with emission parameters (dust, nitrogen oxides, hydrogen chloride, hydrogen fluoride, ammonia) have been met.

DISTRICT HEATING

SEGMENT DESCRIPTION AND ITS BUSINESS MODEL

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



¹ managerial perspective

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

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

Generation of heat and electricity is directly related to key variable costs of the segment, i.e. **the cost of production fuel used** (in particular, hard coal and gas) and **the cost of fees for CO₂ emissions**.

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

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

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

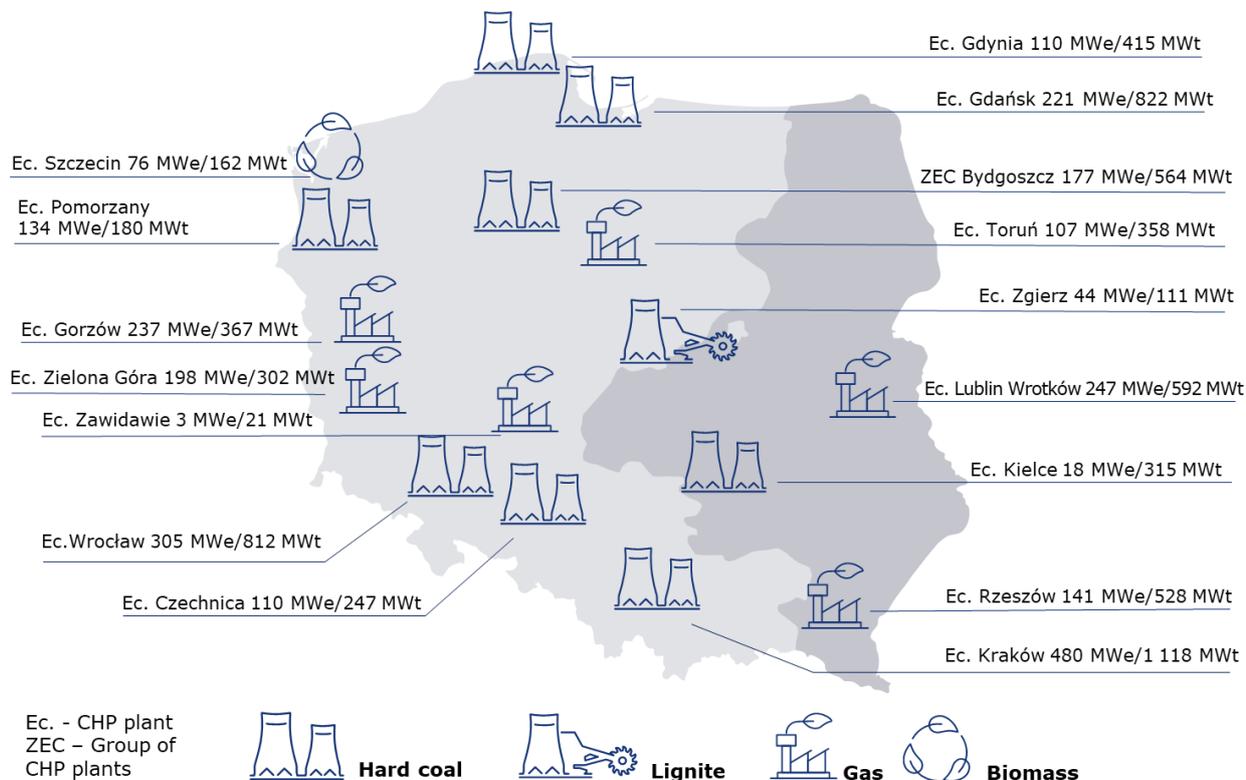
ASSETS

The following companies are included in the segment: PGE EC S.A., KOGENERACJA S.A., Elektrociepłownia Zielona Góra S.A., PGE Toruń S.A., PGE Gaz Toruń sp. z o.o. and MEGAZEC sp. z o.o. In addition, from July 1, 2021, Szczecin CHP, Pomorzany CHP and the district heating network in Gryfino, recognised until June 30, 2021 as part of the Conventional Generation segment, were included in the structures of the District Heating segment.

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

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

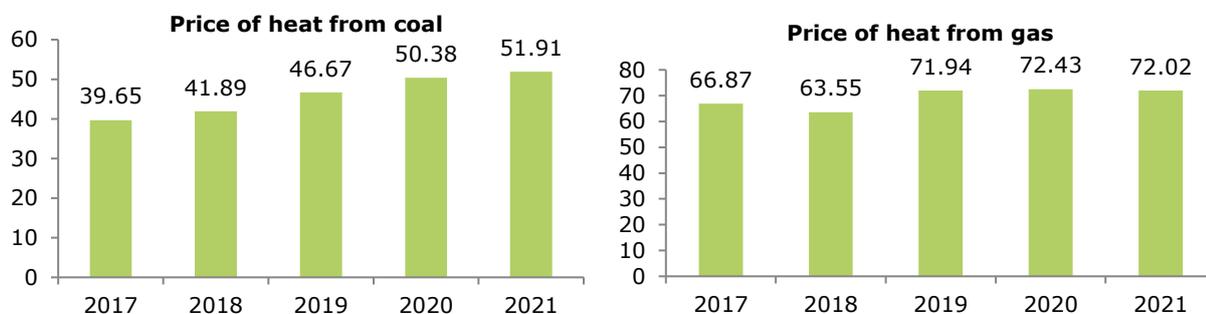
Diagram: Main assets of the District Heating segment and their installed capacity.



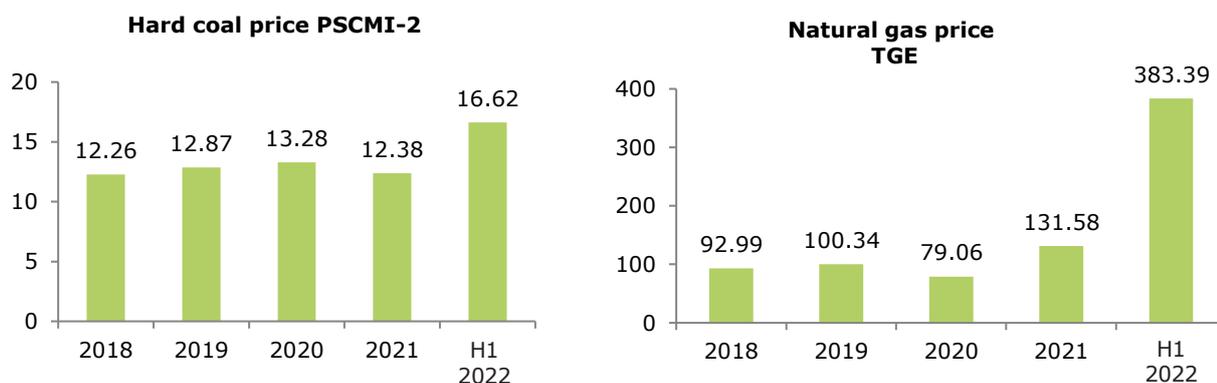
TARIFFS IN DISTRICT HEATING

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

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

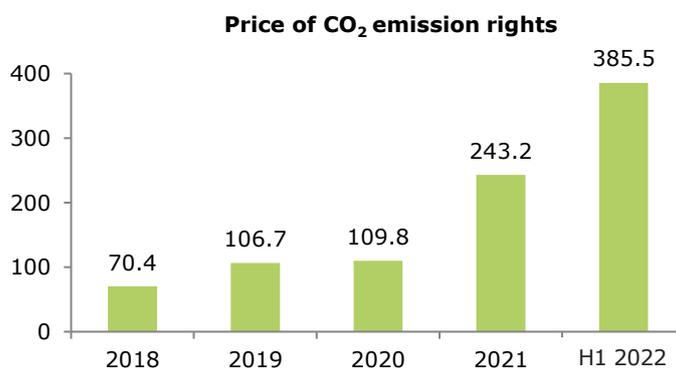


Source: ERO. Charts: Changes in costs of fuels – hard coal (PLN/GJ) – PSCMI 2¹⁵ and gas (PLN/MWh) – TGE.



Source: ARP, TGE.

Chart: Changes in price of CO₂ emission rights¹⁶ (PLN/t).



Source: ICE.

¹⁵ PSCMI-2 Polish Steam Coal Market Index 2 - The average prices for pulverised coals sold to industrial and municipal heat plants, other industrial customers and other domestic customers in Poland.

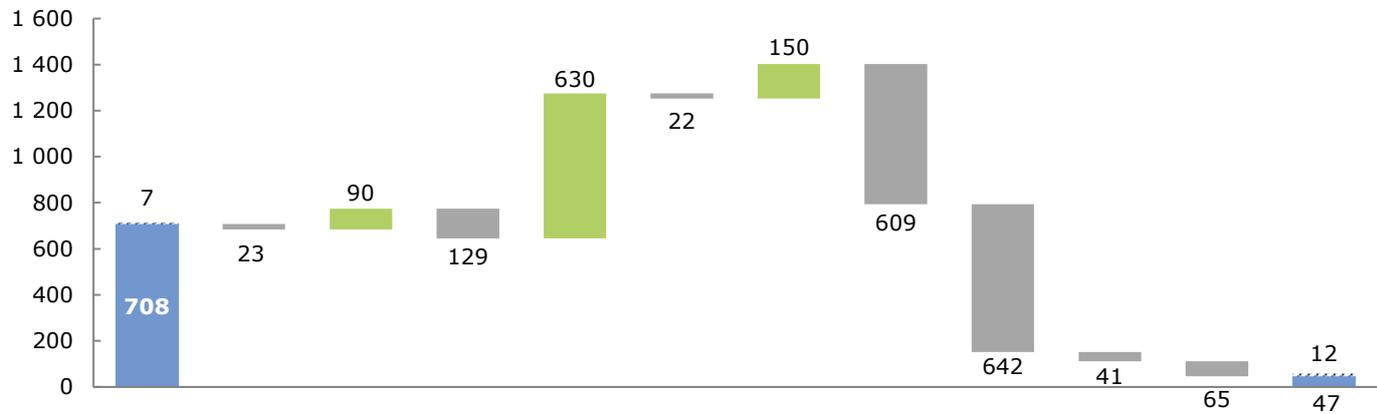
¹⁶ Arithmetic average of the daily and monthly records in a given period (spot price).

Reflecting previous cost increases, the reference price of heat produced from hard coal increased by 3% in 2021. It is a base to the increase in heat prices for co-generation entities establishing the tariff during 2022. In the first half of 2022 the average market price of coal increased by 34%, while the average price of CO₂ emission rights increased by 59% in comparison to 2021.

Tariffs for the production of heat from gas in 2022 are set based on an change in the reference price, whereas in the first half of 2022 gas prices are already significantly higher than in previous periods. Prices of gas in TGE forward contracts stand at approx. PLN 383/MWh (i.e. increase by 191%).

KEY FACTORS FOR THE RESULTS OF THE SEGMENT

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



	EBITDA H1 2021	Heat production - volume	Heat production - price ¹	Electricity production - volume	Electricity production - price ¹	Capacity Market	Revenues from support of highly-efficient cogeneration	Cost of fuel	Costs of CO ₂	Personnel expenses ²	Other ³	EBITDA H1 2022
Change		-23	90	-129	630	-22	150	-609	-642	-41	-65	
Reported EBITDA H1 2021	715											
One-offs H1 2021	7											
Recurring EBITDA H1 2021	708	1 371		1 178		138	5	1 032	535	222	195	
Recurring EBITDA H1 2022		1 438		1 679		116	155	1 641	1 177	263	260	47
One-offs H1 2022												12
Reported EBITDA H1 2022												59

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

¹ Value adjusted for costs of certificates redemption.

² The item Personnel costs excluding impact of change in actuarial provision (one-off).

³ Other without including the impact of change of the reclamation provision and LTC compensations (one-offs).

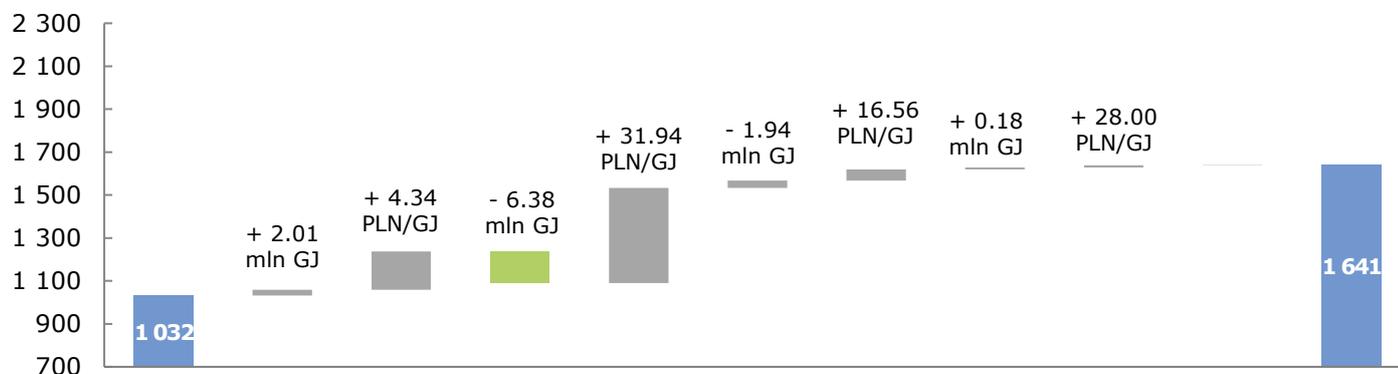
Table: Data on one-offs in District Heating segment (PLN m).

One-offs	H1 2022	H1 2021	% change
Change in the reclamation provision	10	2	400%
Change in the actuarial provision	0	1	-100%
LTC compensations	2	4	-50%
TOTAL	12	7	71%

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

- **Lower volume of net heat production** in the first half of 2022 y/y is a result of higher outside temperatures compared to analogical period of 2021. The average temperatures were by 1.6°C higher, what translated into decreased heat production (by 0.6 PJ).
- **Increase of heat sale price** is a result of increased tariffs for heat for the CHP plants following the publication by the ERO of new reference prices for heat production in units not being co-generation units.
- **Increase in revenues from the sale of electricity**, which results from: higher average selling price of electricity by PLN 149/MWh y/y, which translated into an increase in revenues by approx. PLN 630 million; compensated by a lower sales volume by 0.5 TWh, which resulted in a decrease in revenues by approx. PLN 129 million.
- **Lower revenues from Capacity Market**, due to the granting of a higher level of support for highly-efficient cogeneration, while limiting the number of units that can participate in the Capacity Market.
- **Higher revenues due to support for high-efficiency cogeneration** due to the granting of a higher individual cogeneration bonus for gas-fired units.
- **Higher fuel consumption costs** which are caused by higher gas and hard coal prices and increased volume of hard coal consumption. Additionally, due to the inclusion of CHP Pomorzany in the structures of the District Heating segment, the consumption of biomass increased. The details are shown in the chart below.
- **Higher CO₂ costs** are mainly a result of higher price of allowances. The details are shown in the chart below.
- **Higher personnel expenses** result mainly from including, from July 1, 2021, Szczecin CHP, Pomorzany CHP and the heating network in Gryfino in the structures of the District Heating segment.

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

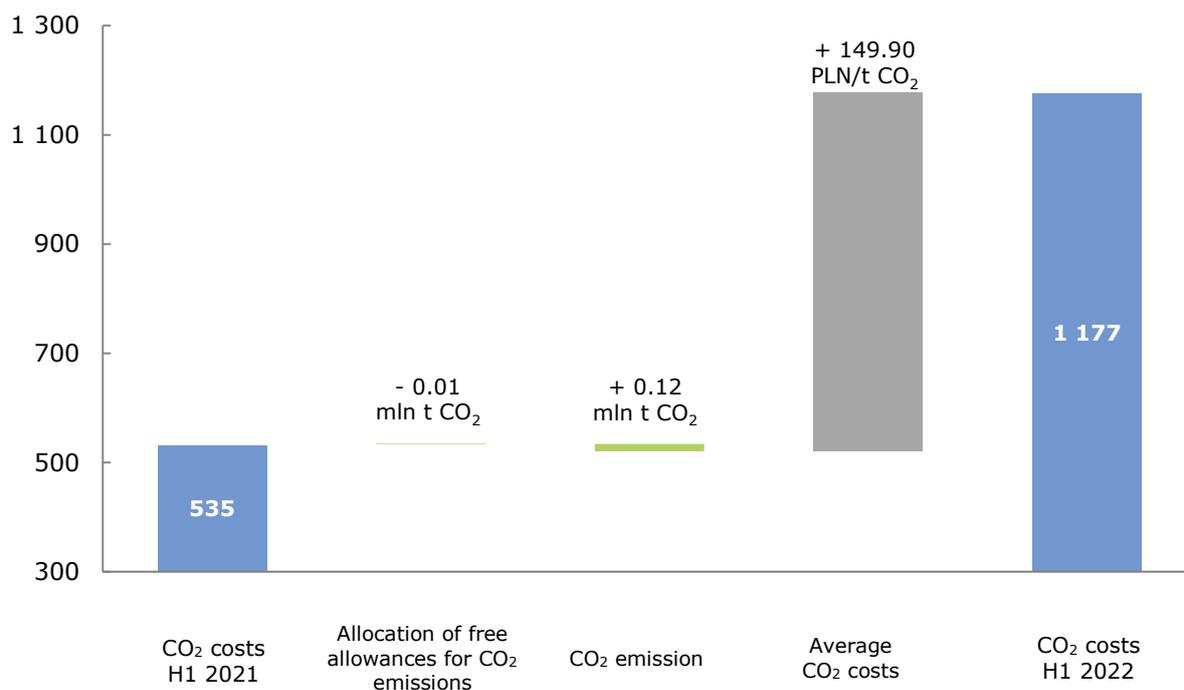


	Costs H1 2021	Hard coal volume	Hard coal price	Gas volume	Gas price	Biomass volume	Biomass price	Oil and other raw materials - volume	Oil and other raw materials - price	Other raw materials	Costs H1 2022
Change		27	178	-147	444	34	51	10	10	2	
Costs of fuel H1 2021	1 032	528		468		20		10		6	
Costs of fuel H1 2022		733		765		105		30		8	1 641

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

Fuel type	H1 2022		H1 2021	
	Volume (tons ths)	Cost (PLN million)	Volume (tons ths)	Cost (PLN million)
Hard coal	1 850	733	1 719	528
Gas (cubic metres ths)	483 858	765	668 182	468
Biomass	355	105	117	20
Fuel oil and other raw materials	-	38	-	16
Total		1 641		1 032

Chart: CO₂ costs in District Heating (PLN million).



Change	-1	-14	657
CO ₂ costs H1 2021	535		
CO ₂ costs H1 2022	1 177		

Table: Data on CO₂ costs in District Heating.

Data regarding CO ₂	Q1 2022	Q1 2021	% change
Allocation of free allowances for CO ₂ emissions (tons)	324 739	317 309	2%
CO ₂ emission (tons)	4 700 110	4 815 114	-2%
Average CO ₂ costs (PLN/t CO ₂) ¹	268.93	119.03	126%

¹ Managerial perspective.

CAPITAL EXPENDITURES

Table: Capital expenditures incurred in District Heating segment.

PLN m	H1 2022	H1 2021	% change
Investments in generating capacities, including:	239	190	26%
Development	151	119	27%
Modernisation and replacement	88	71	24%
Other	26	14	86%
Total	265	204	30%

KEY ACTIVITIES IN DISTRICT HEATING SEGMENT

- The turnkey construction of the new **Czechnica CHP plant, i.e. CCGT unit** with a total gross capacity of 179 MWe and 163 MWt, heat accumulator and four water boilers with total capacity of 152 MWt, is in progress. The financial advancement of the project is at approx. 8% and the material advancement is at about 6%. In the second quarter of 2022, the foundations for a peak-load boiler room were completed and construction of the building began. The foundations for a gas preparation building and heat accumulator were completed.
- At the **Gdańsk CHP**, a Work Acceptance Protocol was signed on April 28, 2022 for the completion of the investment: **construction of a peak-load boiler room** with a capacity of approx. 130 MW (oil and gas boilers and electrode boilers). The project, implemented between 2019 and 2022, has been completed and settled. Projects for the construction of peak-load boilers were also being implemented in **Gorzów Wielkopolski, Lublin and Rzeszów**: in Q2 2022, these projects were at the stage of obtaining a building permit decision (Gorzów and Lublin CHPs) and the stage of initial construction work.
- The modernisation of the **gas turbine at EC Zielona Góra is in progress** - the old gas turbine was retired on May 14, 2022, and from May 15, 2022 the work site was made available to the Contractor - modernisation work began, removing the old turbine and laying the foundation for a new one.
- At the **Rzeszów CHP**, construction of the second line of the **waste-to-energy unit** has begun. On May 26, 2022, the contract for this investment was signed with a consortium comprising PORR S.A. and Termomeccanica Ecologia.
- At the **Zgierz CHP**, the installation of 15 MWe **gas engines**, as well as a standby/peak boiler facility and a photovoltaic installation (100 kW), is in progress. The construction site was handed over to the contractor by protocol on June 29, 2022.

KEY PROJECT IN THE FIRST HALF OF 2022

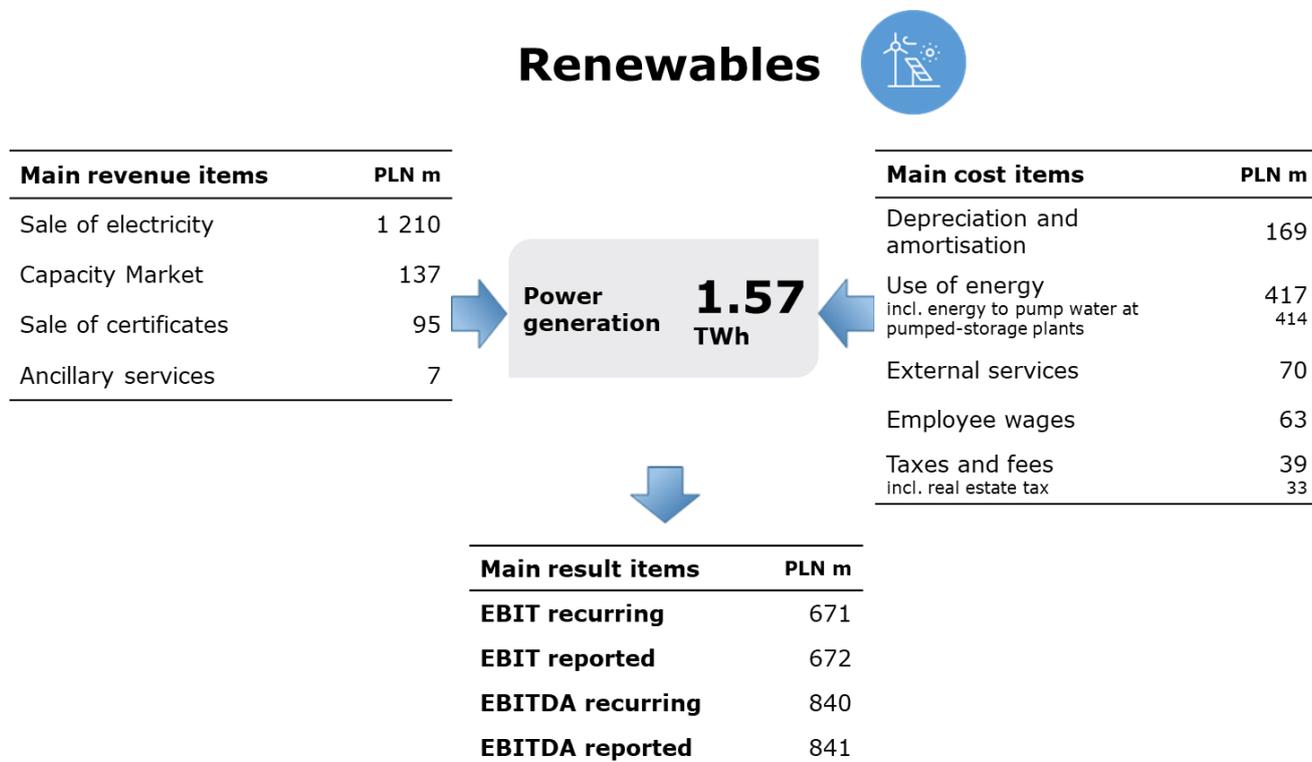
Aim of the project	Budget ¹	Expenditures incurred ¹	Capital expenditures in 2022 ¹	Fuel/ Net efficiency	Contractor	Investment completion date
Construction of New Czechnica CHP Plant	PLN 1.2 bn	approx. PLN 100m	PLN 63m	Natural gas/ 85% in cogeneration	Syndicate of: Polimex Mostostal S.A. (Leader) / Polimex Energetyka sp. z o.o.	Q2 2024

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

RENEWABLES

SEGMENT DESCRIPTION AND ITS BUSINESS MODEL

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



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

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

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

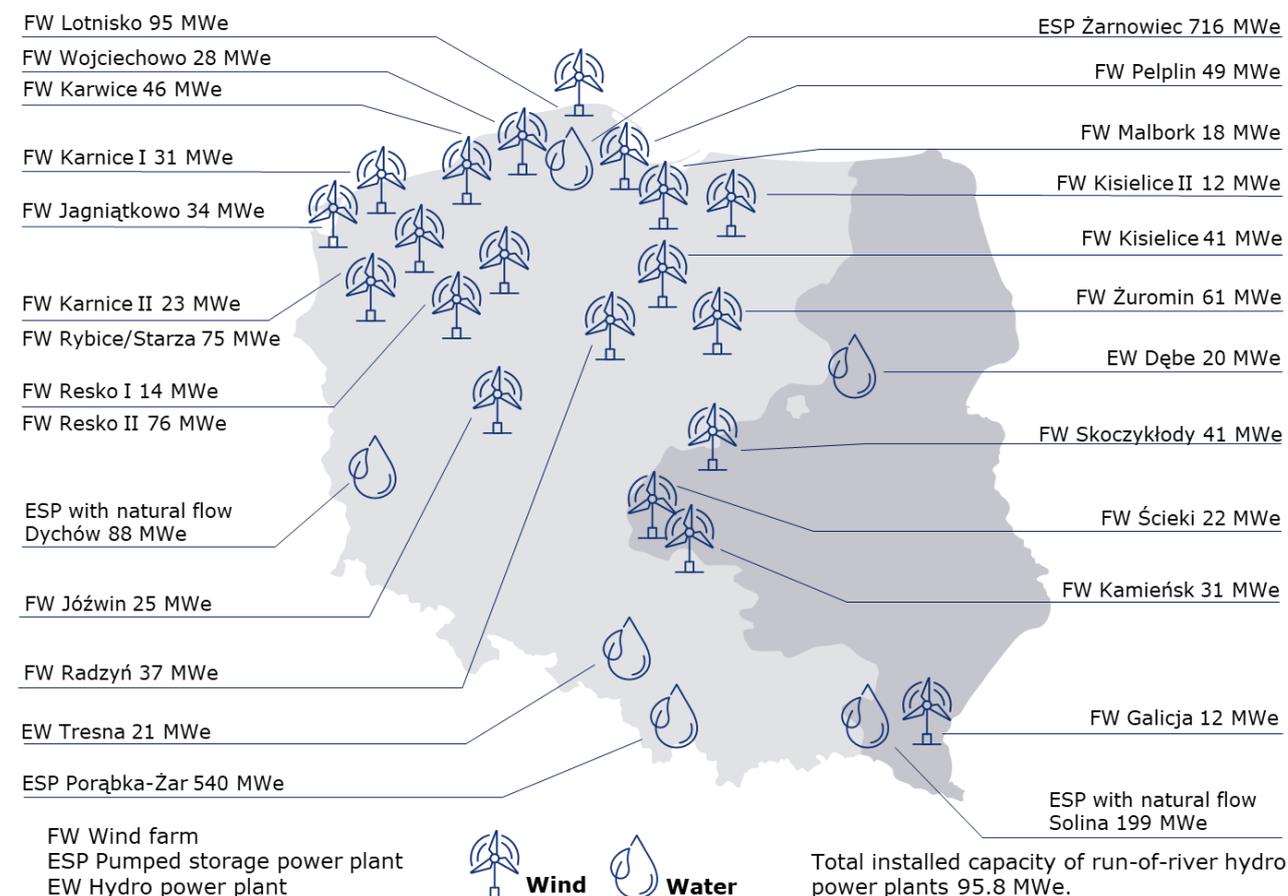
ASSETS

The PGE Capital Group's operations in renewable energy are managed by the PGE Energia Odnawialna S.A. Due to the profile of operations, the segment also includes companies from the Offshore area, which are responsible for all activities related to offshore wind energy.

Assets in the segment include:

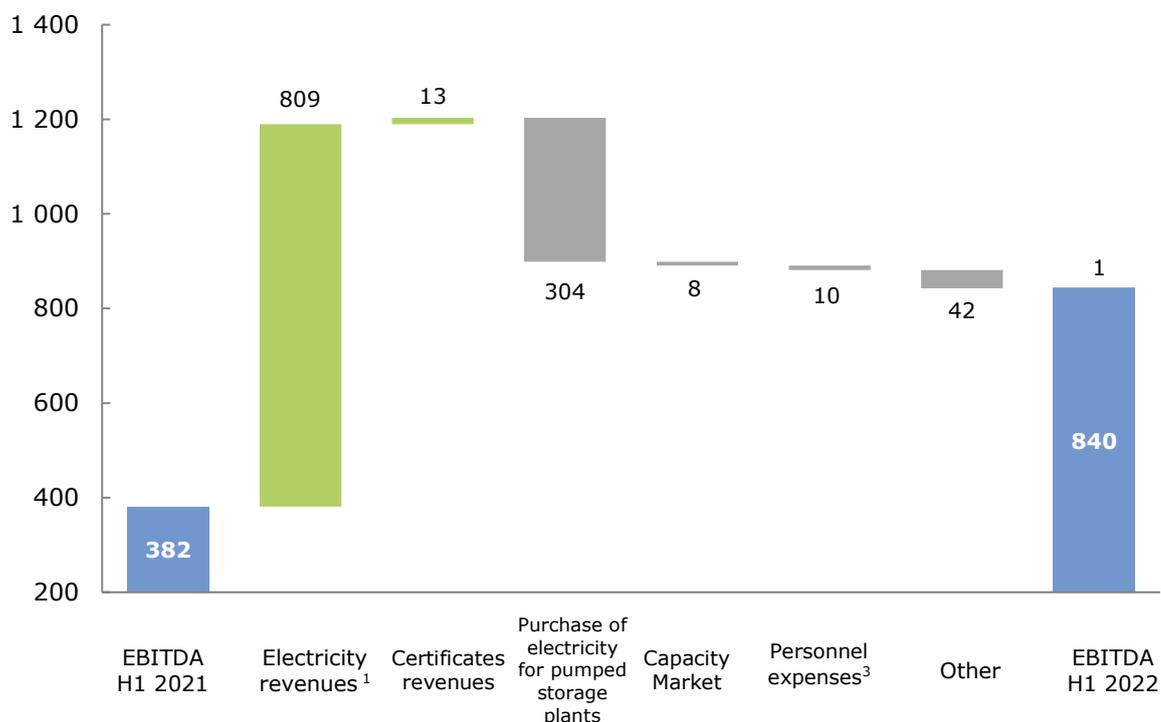
- 20 wind farms
- 5 photovoltaic power plants,
- 29 run-of-river hydro power plants,
- 4 pumped-storage power plants, including 2 with natural flow.

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



KEY FACTORS FOR THE RESULTS OF THE SEGMENT

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



Change	809	13	-304	-8	-10	-42	
Reported EBITDA H1 2021	382						
One-offs H1 2021	0						
Recurring EBITDA H1 2021	382	401 ²	82	110	145	54	82
Recurring EBITDA H1 2022		1 210	95	414	137	64	124
One-offs H1 2022							1
Reported EBITDA H1 2022							841

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

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

² Change in presentation compared to the values presented in the first half of 2021 (transfer of a part of revenues from the item Other to the item Revenues from electricity).

³ The item Personnel costs excluding impact of change in actuarial provision (one-off).

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

One-offs	H1 2022	H1 2021	% change
Change in the actuarial provision	1	0	-
TOTAL	1	0	-

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

- **Increase in revenues from electricity sales** results from: higher average electricity sale price by PLN 398/MWh y/y, what translated into increase of revenues by approx. PLN 699 million; higher sales volume by 377 GWh, what caused revenues increase of approx. PLN 110 million.
- **Increased revenues from sales of certificates** resulting mainly from: higher sales volume by 141 GWh, what translated into increase of revenues by approx. PLN 18 million, compensated partially by lower average electricity sale price by PLN 7/MWh y/y, as a result, revenues decreased by approx. PLN 5 million.
- **The increase in electricity purchase costs** for pumping in pumped storage power plants results from: higher average electricity purchase price by PLN 320/MWh y/y, which translated into an increase in costs by PLN 255 million; higher purchase volume by 245 GWh, contributing to an increase in costs by PLN 49 million.
- **Lower revenues from Capacity Market**, mainly due to lower rates compared to the previous year.
- **The increase in personnel costs** is mainly a result of higher employment due to the development of the Offshore Energy and Renewable Energy areas.
- **Lower level in Other** results mainly from higher operating costs, caused by the development of the Offshore Energy and Renewable Energy areas.

CAPITAL EXPENDITURES

Table: Capital expenditures incurred in Renewables segment.

PLN m	H1 2022	H1 2021	% change
Investments in generating capacities, including:	106	70	51%
Development	89	19	368%
Modernisation and replacement	17	51	-67%
Other	6	7	-14%
Total	112	77	45%

KEY EVENTS IN RENEWABLES

- In the first half of 2022, work continued on the construction of **19 PV projects** with a total capacity of approx. 18 MW, which secured support in the 2021 RES auction. At the same time, tendering procedures were launched at the beginning of 2022 for projects that received construction permit decisions last year, including, inter alia, large-scale investments such as PV Augustynka (25 MW), PV Gutki 1 and 2 (total 12 MW) and PV Huszlew 1 and 2 (total 13 MW), PV Jeziórko (100 MW). The technical acceptance of the 1 MW Bedlno Radzyńskie PV farm took place on June 28, 2022. The remaining 18 PV projects of up to 1 MW each are under construction. In the second quarter of 2022, contracts were signed with the general contractor for photovoltaic installations with a total capacity of 37 MW (i.e. PV Gutki 1 of 6 MW, PV Gutki 2 of 6 MW, PV Huszlew 1 of 5 MW, PV Huszlew 2 of 8 MW, PV Zawidów of 2 MW and 10 installations of up to 1 MW). The total value of these contracts is approx. PLN 123 million. In the first half of 2022, active efforts to develop further photovoltaic farm projects were carried out, including acquiring land rights and obtaining the required administrative decisions necessary for securing construction permits.
- As part of **offshore wind farms** investments, 8 applications for a new location permit for an offshore wind farms in the Baltic Sea was submitted to the Ministry of Infrastructure. Currently, PGE Group is implementing investments in the Baltic Sea with a total capacity of approx. 3.5 GW (including 2.5 GW in JO with Ørsted) on the basis of three location permits secured in 2012. Works carried out in these areas are on schedule. Important administrative decisions concerning, among others, environmental permits for onshore infrastructure related to power evacuation and subsequently construction permits

are expected to be secured in the coming months. Tenders for individual investment stages are in progress. PGE Group and Ørsted have selected the consortium of Ramboll Polska and Projmors Biuro Projektów Budownictwa Morskiego as the building design contractor for both phases of the offshore project. The strategic goal of the PGE Group in the offshore energy area is to build at least 6.5 GW of capacity by 2040. According to government assumptions included in PEP2040, offshore wind farms in the Polish zone of the Baltic Sea in 2040 will have a capacity of approx. 8-11 GW. There are currently 11 reservoirs available in the Baltic Sea, under which PGE Group and other entities apply for permits to build and use artificial islands.

- On April 1, 2022 PGE signed a conditional agreement to acquire three **onshore wind farms** with a total capacity of 84.2 MW what increases PGE Group's onshore wind installed capacity from 688 MW to 772 MW and its market share from 9.6% to 10.8%. The ownership of the shares was transferred to PGE EO S.A. on June 21, 2022. The farms being acquired are located in three voivodeships: Kujawsko-Pomorskie (FW Radzyń, 36.9 MW), Łódzkie (FW Ścieki, 22 MW) and Wielkopolskie (FW Józwin, 25.3 MW). The assets being the subject of the transaction include 32 turbines with a total capacity of 84.2 MW and average annual production of 240 GWh, which makes it possible to meet the demand of 120 000 households, i.e. a city the size of Lublin. All of the acquired farms have long-term contracts in place for the purchase of green electricity, which partially secure the produced volumes even until 2030. The farms will benefit from a green certificate support system until around 2030.
- On June 3, 2022, the contract for completing the modernisation of technological equipment at the **Dębe hydroelectric power station** was signed with the consortium of Elbis sp. z o.o. and Ramb sp. z o.o., after a previous contract for the modernisation task had been cancelled due to the insolvency of the general contractor (ZRE Gdańsk S.A.).
- In the second quarter of 2022, procurement procedures related to **Porąbka-Żar** pumped-storage power plant comprehensive modernisation program were resolved with the selection of contractors for the modernisation of the technological part, modernisation of the upper reservoir and modernisation of the fairway structures. The modernisation includes, inter alia, replacement with new ones of the existing four hydrosets that have been in operation since the beginning of the plant's operation, i.e. since 1979, modernisation of the asphalt concrete screen of the upper reservoir (last modernisation in 1995) and replacement modernisations on the fairway facilities. Carrying out the investments will extend the operation of the power station by at least another 30 years.
- In June 2022, the Battery Energy Storage System (BESS) project received an environmental decision, a necessary and exceptionally important step for continuing the project work. Another milestone for the project was the first concession promise for electricity storage in Poland. The project is intended to combine the existing pumped-storage plant ESP Żarnowiec, with a power rating of 716 MW, with a BESS with a power rating of 205 MW and energy storage capacity of more than 820 MWh. The resulting innovative hybrid system with a power rating of at least 921 MW and energy storage capacity of more than 4.6 GWh, equivalent to the capacity of the largest conventional units in Poland, will be able to provide a full range of regulatory system services, serve to "restore" the energy system or supply energy to approx. 200 000 households for a period of at least 5 hours (with an average load of 5 kW per home). In the first quarter of 2022, the planned BESS was registered in the Capacity Market register, and the design work already underway has led to the issue of transmission grid connection conditions for it. In addition, BESS will perform the function of technical and commercial balancing for unstable RES, i.e. onshore and offshore wind farms owned by PGE Group.

VOLUME, CUSTOMERS AND OPERATING DATA

PGE Dystrybucja S.A. operates in the area of 129 829 sq. km and delivers electricity to approximately 5.62 million customers.

Diagram: Area of PGE distribution grid.



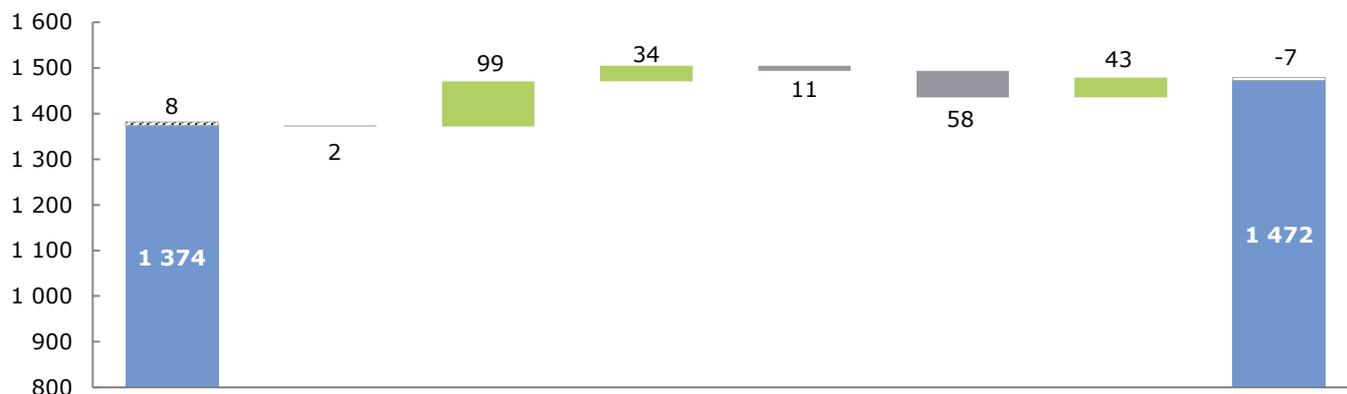
■ PGE's distribution network area

Table: Volume of distributed energy and number of customers.

Tariff	Volume (TWh)		Number of customers according to power take-off points	
	H1 2022	H1 2021	H1 2022	H1 2021
A tariff group	2.69	2.64	123	115
B tariff group	7.40	7.25	13 235	12 703
C+R tariff groups	3.39	3.37	486 763	488 971
G tariff group	5.14	5.38	5 121 741	5 056 964
Total	18.62	18.64	5 621 862	5 558 753

KEY FACTORS FOR THE RESULTS OF THE SEGMENT

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



	EBITDA H1 2021	Electricity distribution volume	Change of distribution tariff ¹	Network losses ²	Property tax	Personnel expenses ³	Other	EBITDA H1 2022
Change		-2	99	34	-11	-58	43	
Reported EBITDA H1 2021	1 382							
One-offs H1 2021	8							
Recurring EBITDA H1 2021	1 374	2 363		254	223	632	120	
Recurring EBITDA H1 2022		2 460		220	234	690	163	1 479
One-offs H1 2022								-7
Reported EBITDA H1 2022								1 472

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

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

¹ Excluding cost of transmission services from PSE S.A.

² Adjusted for revenues from the Balancing market.

³ The item Personnel costs excluding impact of change in actuarial provision (one-off).

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

One-offs	H1 2022	H1 2021	% change
Change in the actuarial provision	-7	8	-
Total	-7	8	-

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

- **A decrease in the volume of distributed** electricity by 0.02 TWh, mainly due to the high base from previous year in the household tariff and a 6% decrease in average electricity consumption in this group.
- **Increase in rates in tariff for 2022** by PLN 5.3/MWh compared to the tariff for the previous year, that translated into an increase in revenues from the sale of distribution services .
- **Lower costs of electricity purchases to cover network losses** mainly as a result of as a result of the additional valuation of the compensation settlement with PGE Obrót.
- **Increase of costs of tax on real estate** results from increase in the value of buildings and higher tax rates.

- **Increase in personnel costs** due to increasing employment costs.
- **Change in other** resulting mainly from significantly higher revenues from the connection fees.

CAPITAL EXPENDITURES

Table: Capital expenditures incurred in Distribution segment.

PLN m	H1 2022	H1 2021	% change
Development investments	363	302	20%
Modernisation and replacement investments	270	304	-11%
Other	4	0	-
Total	637	606	5%

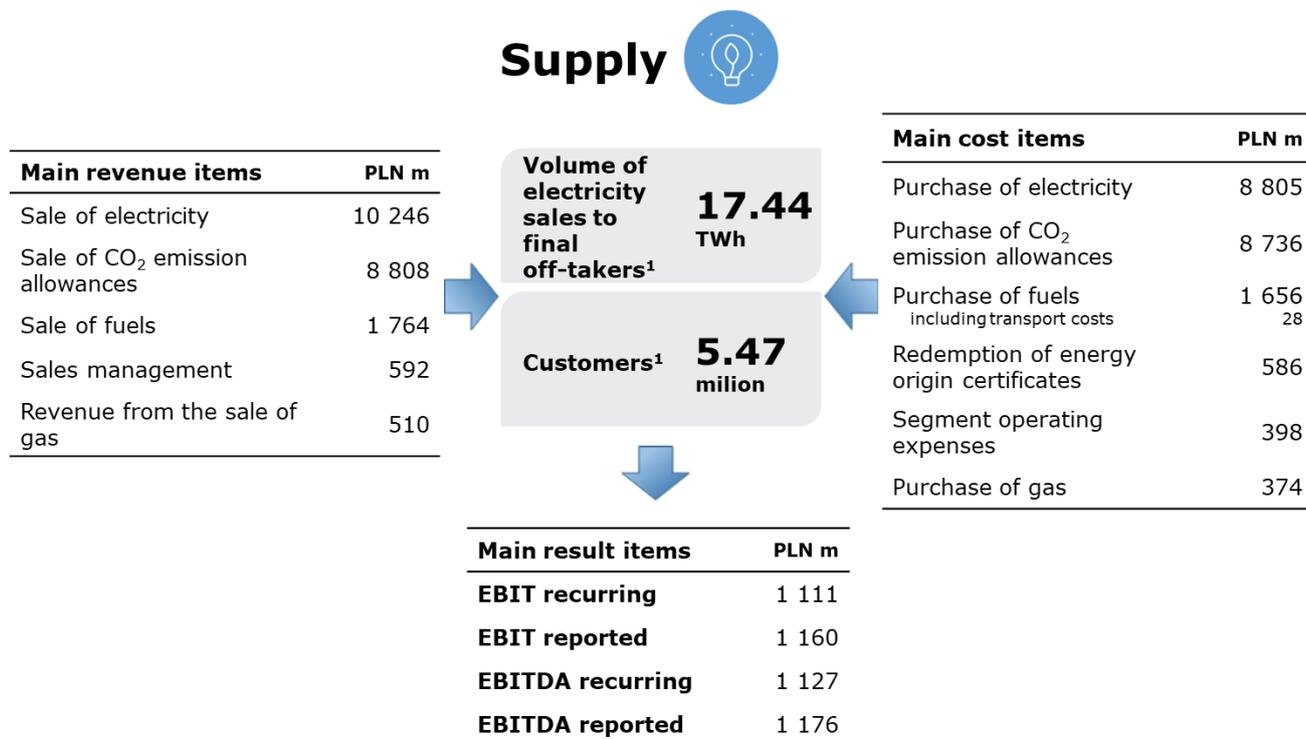
KEY EVENTS IN DISTRIBUTION

- **Connecting new customers** to the distribution grid was on-going in the first half of 2022, recording the expenditures in amount of PLN 346 million.
- **Czosnów node:** In the first half of 2022, PGE Group completed the final stage of its investment in the construction of two high-voltage cable lines from the 400/110 kV Mościska substation, which is owned by PSE, to the 110/15 kV substation in Łomianki and towards the 110/15 kV Czosnów substation. Acceptance of the works was carried out and the Czosnów node was put into operation. This made it possible to "close the power ring", as a result of which, in the event of one line being switched off or some of its elements being damaged, energy is still supplied to customers. The 110/15 kV substation in Czosnów along with the HV power lines will enhance the security of electricity supply and make it possible to connect new facilities to the grid.
- **Program LTE450:** In the first half of 2022 tenders were pursued for the purchase and implementation of CORE LTE450 core network components as well as the purchase and implementation of RAN LTE450 radio network components along with the technical support service.
- **Cabling program:** In the first half of 2022, PGE continued to implement its cabling program for medium-voltage (MV) grids up to the level of 30% of MV networks owned by PGE Dystrybucja S.A., incurring expenditures in amount of PLN 50 million.
- **Installation program for remote reading meters:** This project is mandatory and results from the requirements imposed on Distribution System Operators (DSO) by the legislator in the amended Energy Law. In the first half of 2022, procurement procedures were launched for:
 - supply of remote reading meters for end customers for 2023 - 2025;
 - supply of meters and modems at MV/LV substations for 2023 - 2025;
 - installation of meters at end customers and modernisation of MV/LV substations and
 - installation of meters at MV/LV substations.
- According to the provisions of the law, the DSO has until December 31, 2028, to install remote reading meters connected to a remote reading system in energy consumption points representing at least 80% of the total number of end-customer energy consumption points.
- **Implementation of central systems CRM and Billing (NCB program):** A tender procedure for the performance of an order encompassing the implementation of a comprehensive, central IT solution to support key business processes at PGE Group being performed by PGE Obrót S.A. and PGE Dystrybucja S.A. was settled in the first half of 2022. This will consist of two billing systems – separate for each of the companies – and a CRM system for PGE Obrót S.A. On April 29, 2022, PGE Systemy S.A., a PGE Group company, signed a contract with the contractor A2 Customer Care from Atende Group selected in the tender - for the development and implementation of the CRM Billing system in the Group. The

new solution will replace the existing billing and CRM systems for customer service at PGE Group. Pre-implementation work has commenced regarding the analysis of business processes and solutions adjusting to cooperation with CSIRE. Project teams for the implementation of NCB in companies have been appointed and a pre-implementation analysis is being carried out with the supplier. The initial stage of implementation is planned in the first half of 2023.

SUPPLY

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



¹ Data for PGE Obrót S.A.

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

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

As part of the activities on the wholesale market, CO₂ purchases are made for the needs of the Conventional Generation and District Heating segments, which is reflected both in terms of costs and revenues. At the same time, a significant revenue item is the provision of services to the Group's companies related to the management of purchases and sales of electricity and related products.

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

VOLUME, CUSTOMERS AND OPERATING DATA

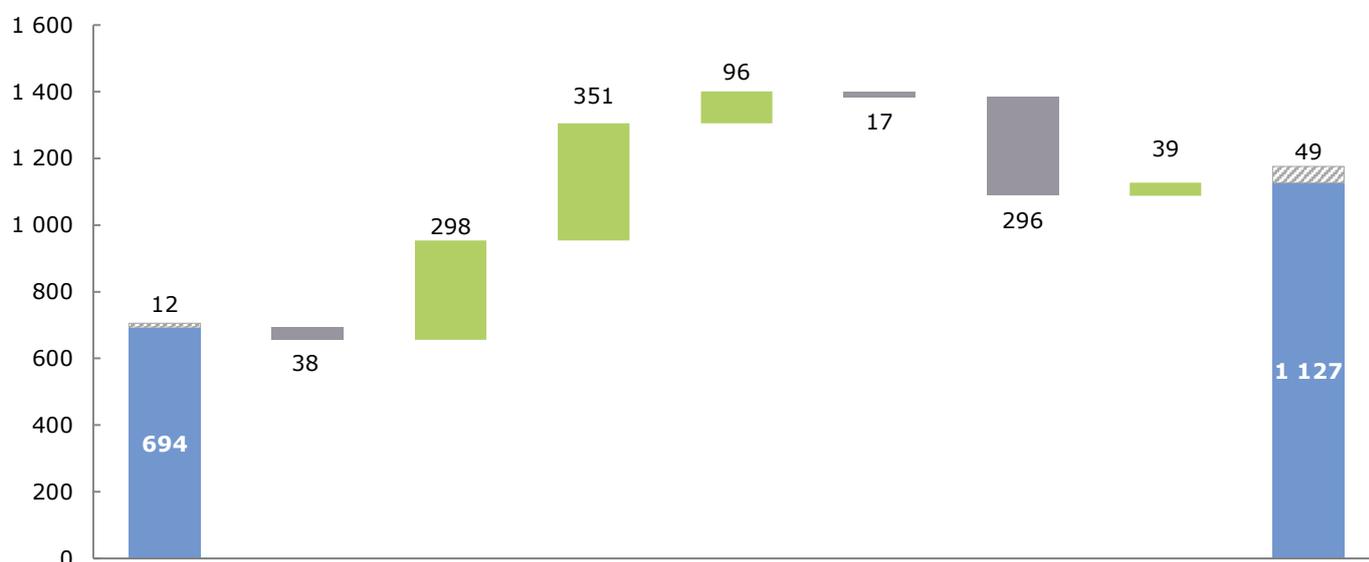
Table: Volume of electricity sales to final off-takers and number of customers in the first half of 2021 and 2022.

Tariff	Volume (TWh) ¹		Number of customers according to power take-off points ¹	
	H1 2022	H1 2021	H1 2022	H1 2021
A tariff group	3.61	3.63	150	136
B tariff group	6.04	6.69	11 017	11 830
C+R tariff groups	2.89	3.13	406 622	423 869
G tariff group	4.90	5.20	5 054 547	4 989 505
Total	17.44	18.65	5 472 336	5 425 340

¹ Data for PGE Obrót S.A.

KEY FACTORS FOR THE RESULTS OF THE SEGMENT

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



	EBITDA H1 2021	Result on electricity - volume	Result on electricity margin	Revenues from services provided to other segments of the PGE Group	Result on sale of fuels	Personnel expenses ¹	Result on other operating activities ²	Other	EBITDA H1 2022
Change		-38	298	351	96	-17	-296	39	
Reported EBITDA H1 2021	706								
One-offs H1 2021	12								
Recurring EBITDA H1 2021	694	546		429	12	189	-2	-102	
Recurring EBITDA H1 2022		806		780	108	206	-298	-63	1 127
One-offs H1 2022									49
Reported EBITDA H1 2022									1 176

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

¹ The item Personnel costs excluding impact of change in actuarial provision and provision for Voluntary Leave Program (one-offs).

² Without including the impact of provision for prosumers (one-off).

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

One-offs	H1 2022	H1 2021	% change
Provision for Voluntary Leave Program	0	11	-100%
Actuarial provision	1	1	0%
Release of the provision for prosumers ¹	48	0	-
Total	49	12	308%

¹In connection with the amendment of the Act on Renewable Energy Sources of October 29, 2021, introducing changes in settlements with prosumers and specifying the period of support for existing prosumers, it was considered that the conditions for creating provisions for onerous contracts within the meaning of IAS 37 were met. The provision was created for contracts for 2022. In the first half of 2022, part of this provision was released for the projected loss on the sale of electricity to prosumers.

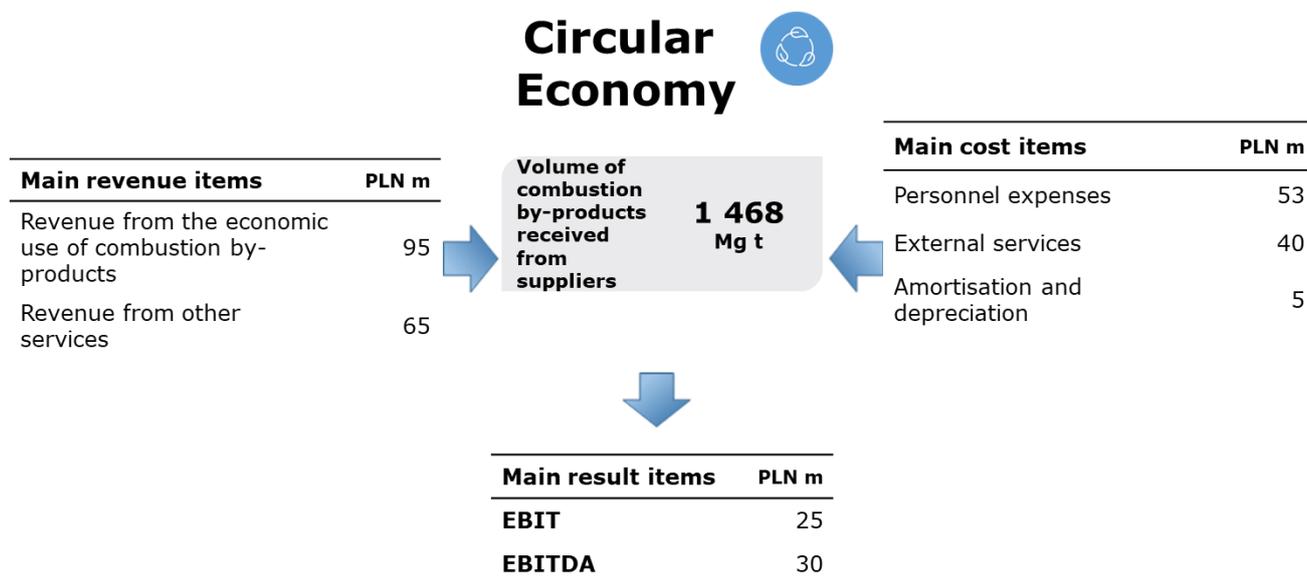
Key factors affecting EBITDA of Supply segment y/y included:

- **The higher result on electricity** is the result of higher margins generated on tariff products.
- **Increase of revenues from services performed within the Group** resulting mainly from higher revenues from the Agreement for Commercial Management of Generation Capacities as a consequence of increased trading value of electricity under management and the result of the margin on CO₂ trading with PGE Group companies.
- **Higher result on fuel sales** as a result of a higher result on the sale of coarse coal and fine coal and on the management of financial instruments.
- **Higher personnel expenses** as a consequence of organisational changes and the ongoing process of changing remuneration.
- **Lower result on other operating activities** as a result of higher impairment losses on trade receivables and as a result of provisions being recognised for future doubtful debts at the retail companies.

CIRCULAR ECONOMY

SEGMENT DESCRIPTION AND ITS BUSINESS MODEL

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



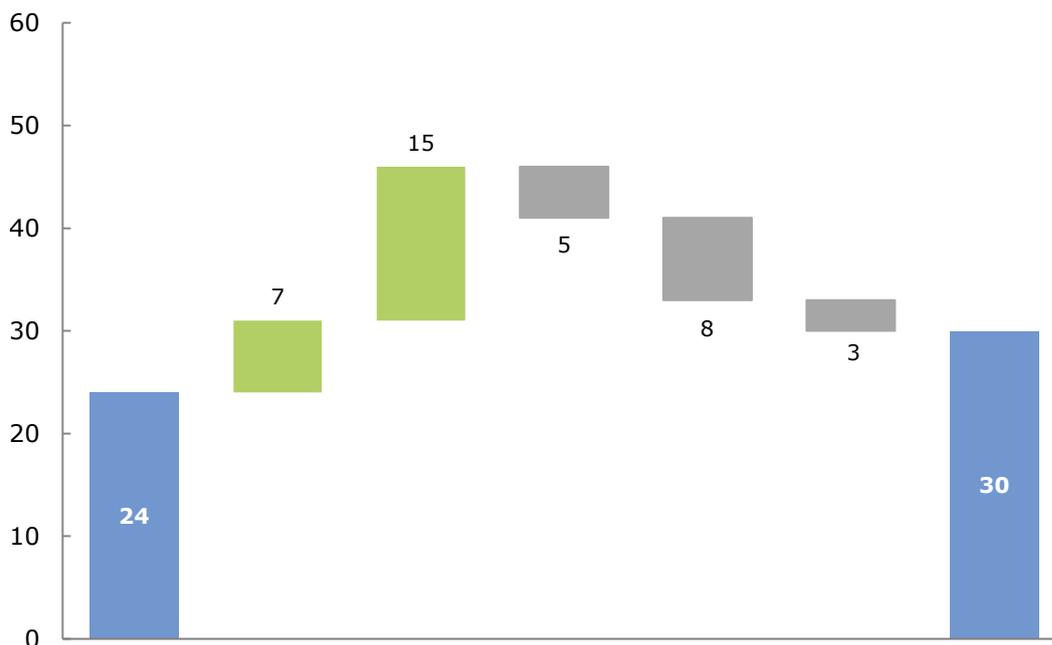
From the beginning of 2021, PGE Group reports a new operating segment – Circular Economy, which includes the following companies: PGE Ekoserwis S.A., EPORE S.A., ZOWER sp. z o.o. The management of combustion by-products at PGE Group turns waste into high-value substances that are used in other branches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

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

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

KEY FACTORS FOR THE RESULTS OF THE SEGMENT

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



Change		7	15	-5	-8	-3	
EBITDA H1 2021	24	88	50	48	32	34	
EBITDA H1 2022		95	65	53	40	37	30

Key factors affecting EBITDA of Circular Economy segment included:

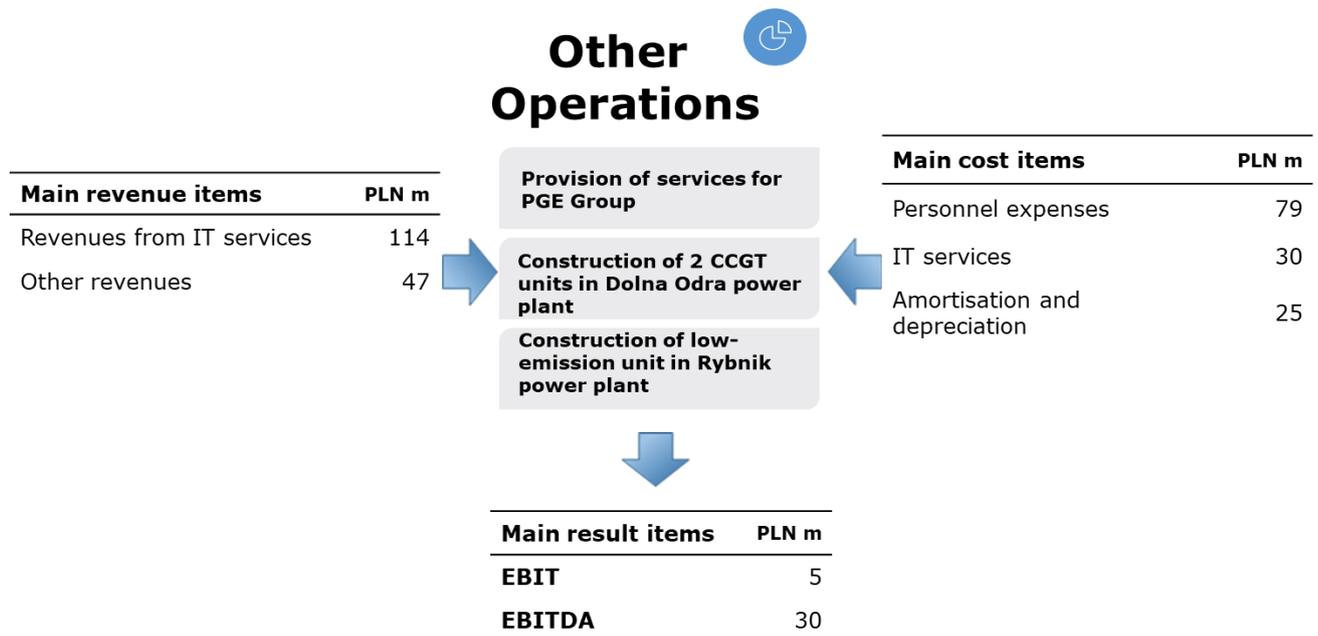
- **Higher revenues from sale of combustion by-products**, caused by higher collection volumes of combustion by-products from producers.
- **Higher revenues from the sale of services**, which is the result of higher revenues from the rental of heavy equipment.
- **Higher level of personnel costs** is mainly the result of the increase in salaries y/y.
- **Higher third-party service costs**, mainly concerning higher costs of transporting combustion by-products from production units.
- **Higher level of item Other**, mainly due to an increase in the consumption of fuels and production materials.

OTHER OPERATIONS

SEGMENT DESCRIPTION AND ITS BUSINESS MODEL

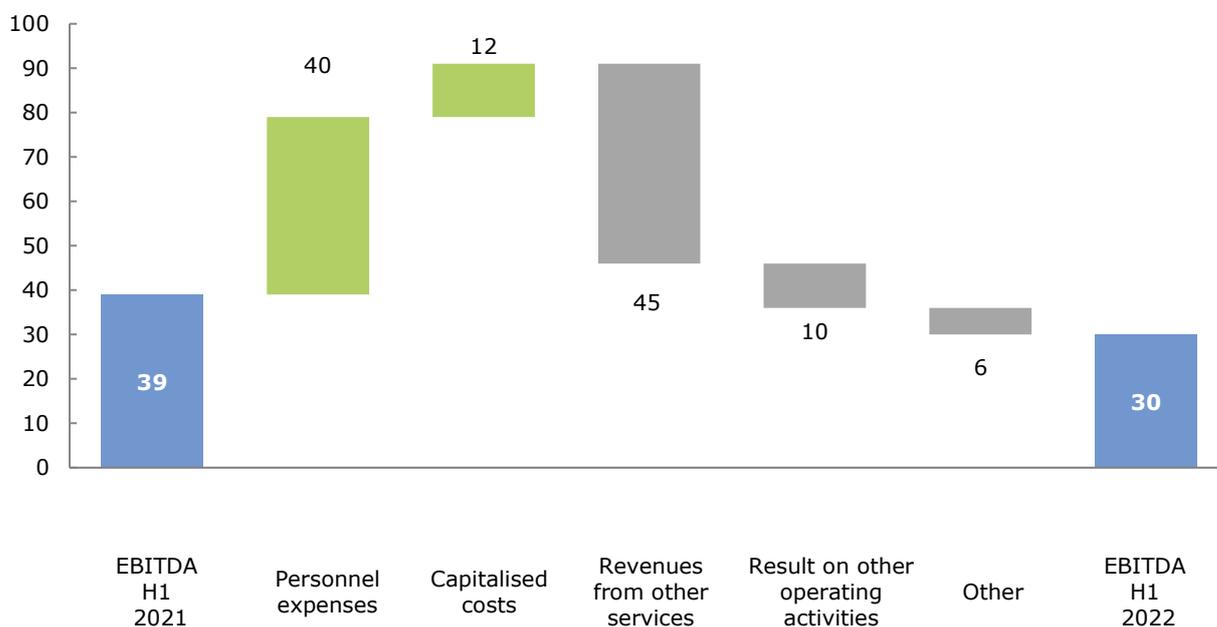
Core activities include provision of services to PGE Group, inter alia organisation of capital raising in form of Eurobonds (PGE Sweden), provision of IT, payroll and HR services, transportation and investing in start-ups.

In addition, the segment's structures include companies responsible for the construction of new, low-emission generation units. On October 1, 2021 a project was separated from PGE GiEK S.A. (Dolna Odra Power Plant), constituting an organized part of the enterprise, in the scope including the construction of gas and steam units. The project was transferred to company PGE Inwest 8 sp. z o.o. (current name: PGE Gryfino 2050 sp. z o.o.). The structure of the Other Operations also includes a company PGE Rybnik 2050 sp. z o.o., which is responsible for construction of low-emission unit in Rybnik power plant.



KEY FACTORS FOR THE RESULTS OF THE SEGMENT

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



Change	40	12	-45	-10	-6	
EBITDA H1 2021	39	119	7	62	10	-79
EBITDA H1 2022		79	19	17	0	-73
						30

Key factors affecting EBITDA of Other Operations segment included:

- **Lower personnel expenses** in connection with transferring from the beginning of 2022 Elbest Security sp. z o.o. to the Conventional Generation segment and sale of shares in PGE EJ1 sp. z o.o. in March 2021.
- **Higher capitalised costs** as a result of higher cost allocation to assets in the first half of 2022 due to projects carried out by PGE Systemy S.A.
- **Lower revenues from other services** due to transferring Elbest Security sp. z o.o. to the Conventional Generation segment.
- **Lower result on other operating activities**, mainly due to transferring Elbest Security sp. z o.o. to the Conventional Generation segment and sale of Elbest sp. z o.o.

CAPITAL EXPENDITURES

Table: Capital expenditures incurred in Other operations segment

PLN m	H1 2022 ¹	H1 2021	% change
Total	599	21	2 752%

¹ The data for H1 2022 include the value of capital expenditures on the project to build two gas and steam units pursued by PGE Gryfino sp. z o.o. and a low-emission unit for the construction of which Rybnik 2050 sp. z o.o. is responsible.

KEY ACTIVITIES IN OTHER OPERATIONS

- A design for the construction of a gas-and-steam unit with a capacity of approx. 800-900 MW at Rybnik power plant is in preparation (Rybnik 2050 Sp. z o.o.). A competitive dialogue with bidders was held in the second quarter 2022 and the tender specification was published. The deadline for submitting technical and commercial proposals was set for October 24, 2022.
- In the first half of 2022, work continued on the construction of two new gas-and-steam units of 671 MWe each (PGE Gryfino 2050 Sp. z o.o.). Work at the site focused mainly on technological equipment in the engine rooms of units 9 and 10. In unit 9, the generator was installed and the assembly of a heat recovery steam generator (HRSG) was completed, the chimney was installed, and part of the high-pressure and medium-pressure steam turbine was installed. In unit 10, the installation of the chimney and HRSG boiler modules is still in progress, the generator and steam turbine have been delivered. The material advancement of the project at the end of June 2022 was 71.3%. As regards the gas connection, works are being implemented according to schedule. The construction of two gas and steam units is PGE Group's flagship project. The investment budget is PLN 4.3 billion. The units have been awarded a 17-year contract at the Capacity Market main auction, which will take effect from 2024. The units will meet stringent environmental standards for emissions. By being powered by high-methane gas, electricity will be generated by low-carbon generating units, which in turn will benefit the environment and air quality in the region. The investment responds to the growing demand for flexible generating capacity and is of strategic importance for ensuring the country's energy security. The gas-and-steam power station is to be fuelled by the LNG terminal in Świnoujście and the Baltic Pipe gas pipeline.

KEY PROJECT IN OTHER OPERATIONS

Aim of the project	Budget ¹	Expenditures incurred ¹	Capital expenditures in 2022 ¹	Fuel/ Net efficiency	Contractor	Investment completion date	Status
Construction of two CCGT units no. 9 and 10 in Dolna Odra power plant	PLN 4.3 bn	PLN 1.35 bn	PLN 535.5 m	Natural gas/ 63%	Syndicate of companies: General Electric (consortium leader) and Polimex Mostostal	December 2023	At June 30, 2022, the progress of work under the Project was estimated at approx. 71.3%. Works on the site mainly concerned the assembly of technological installations in the engine room of units 9 and 10 (delivery and foundation of generators, foundation of steam turbines, assembly of chimneys, final assembly of recovery boilers)

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

4.4. Significant events of the reporting period and subsequent events

IMPACT OF WAR IN UKRAINE ON PGE GROUP'S ACTIVITIES

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

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

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

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

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

The reality of cyber threats is confirmed by attacks carried out against the Group's ICT infrastructure and users of information systems. Targeted attacks aimed at phishing or attempting to install malware have attracted particular attention recently. DDoS (Distributed Denial of Service) attacks have also been identified, the aim of which is to seize all available and free resources in order to prevent the entire service from functioning.

The counter measures taken (monitoring, incident handling and system recovery) allow attacks to be successfully repelled. These actions, combined with adequate management, lead to the build-up of resilience.

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

KEY AREAS IN PGE GROUP AFFECTED BY THE WAR IN UKRAINE

- fuel availability and prices,
- disruption of the component supply chain,
- rising inflation and interest rates and a weakening of the national currency,
- prices of CO2 emission allowances,
- greater pressure on the energy transition through RES development,
- cybersecurity,
- geopolitics,
- counterparties (sanctions lists).

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

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

RISKS RELATED TO GAS SUPPLIES

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

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

IMPACT OF FUEL AVAILABILITY CONSTRAINTS ON ELECTRICITY GENERATION

- In the case of gas fuel, due to the lack of stock-holding capacities, a reduced availability translates into an immediate disruption in electricity and heat production. However, if there are back-up coal-fuelled water boilers at a CHP plant, it is possible to produce heat until these stocks are exhausted (this pertains to CHP Lublin Wrotków and CHP Rzeszów). In the case of CHP Gorzów, an OP-140 coal-fired steam boiler constitutes a back-up. At CHP Zielona Góra, oil boilers serve as back-up for heat production.
- The main suppliers of hard coal for electricity and heat production are Polish mining companies and coal importing companies. Currently, CHP plants have reserves of hard coal to enable uninterrupted production of electricity and heat. Centrally Dispatched Generating Units (JWCD), due to significant

load and problems on the hard coal market, have problems maintaining the minimum required stocks, resulting in the need to reduce production in order to maintain continuous operation of the units.

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

IMPACT OF WAR ON COMMODITY AND FINANCIAL MARKETS

The energy crisis has spread across Poland, Europe and the world. The war in Ukraine is having a major impact on the heat and electricity market in Poland. It significantly affects the prices and availability of energy raw materials, which has translated into energy and CO₂ prices and the prices of goods and services, thereby affecting margin levels and capital raising opportunities. The disruption or complete shutdown of many production sites in Ukraine has disrupted the supply chain of components for key investments, or significantly increased their prices. The war in Ukraine has also highlighted the huge role of renewable energy sources (RES), the development of which is a response to the cut-off of energy supplies from Russia and high energy prices. There is also pressure mounting to accelerate the energy transition in line with the European Union's climate policy, using the phase-out of fossil fuels to modernise the Polish economy. And as the leader of Poland's national energy transition, PGE Group is integrating the need to achieve climate neutrality into its business strategy. At the same time, a change of the behavioural patterns of energy customers is also inevitable so that there are no problems with shortages of heat and electricity in the winter period. PGE Group mitigates these risks by continuing its policy of hedging electricity generation costs along with energy sales on the wholesale market, which is reflected both in hedging CO₂ emission allowances and foreign currencies for transaction purposes. Also, in line with the current decision to impose war sanctions on Russia and Belarus, PGE Group has introduced contractor compliance verification in its supply chains.

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

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

CHANGES IN THE MANAGEMENT BOARD AND SUPERVISORY BOARD

MANAGEMENT BOARD MEMBERS

From January 1, 2022 till June 30, 2022 and as at the publication date of this report the Management Board has worked in following composition:

Name and surname of the Management Board	Position	
Wojciech Dąbrowski	President of the Management Board	from February 20, 2020
Wanda Buk	Vice-President for Regulatory Affairs	from September 1, 2020
Paweł Cioch	Vice-President for Corporate Affairs	from February 24, 2020
Lechosław Rojewski	Vice-President for Finance	from June 9, 2021
Paweł Śliwa	Vice-President for Innovations	from February 20, 2020
Ryszard Wasilek	Vice-President for Operations	from February 20, 2020

SUPERVISORY BOARD MEMBERS

From January 1, 2022 till January 18, 2022 the Supervisory Board worked in following composition:

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

From January 19, 2022 till June 22, 2022 the Supervisory Board worked in following composition:

Name and surname	Position
Anna Kowalik	Chairman of the Supervisory Board
Artur Składanek	Vice-Chairman of the Supervisory Board – independent
Grzegorz Kuczyński	Secretary of the Supervisory Board - independent
Janina Goss	Supervisory Board Member - independent
Zbigniew Gryglas ¹	Supervisory Board Member - independent
Tomasz Hapunowicz	Supervisory Board Member - independent
Marcin Kowalczyk	Supervisory Board Member
Mieczysław Sawaryn	Supervisory Board Member - independent
Radosław Winiarski	Supervisory Board Member

¹ On January 18, 2022, Zbigniew Gryglas submitted a statement regarding the independence criteria.

On June 22, 2022, the Ordinary General Meeting of PGE Polska Grupa Energetyczna S.A. appointed the Supervisory Board of the twelfth term of office with the following composition.

From June 22, 2022 till July 12, 2022 the Supervisory Board of the twelfth term worked in following composition:

Name and surname	Position
Janina Goss	Supervisory Board Member - independent
Tomasz Hapunowicz	Supervisory Board Member - independent
Marcin Kowalczyk	Supervisory Board Member
Mieczysław Sawaryn	Supervisory Board Member - independent
Anna Kowalik	Supervisory Board Member
Artur Składanek	Supervisory Board Member - independent
Radosław Winiarski	Supervisory Board Member

On July 12, 2022 the Company received a statement of the Minister of State Assets (representative of the State Treasury) appointing Mr. Zbigniew Gryglas as a member of the Supervisory Board of the Company as of July 12, 2022.

From July 12, 2022 until the publication date of this report the Supervisory Board has worked in following composition:

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

COMPOSITION OF THE COMMITTEES OF THE SUPERVISORY BOARD

From January 1, 2022 until June 22, 2022 the committees worked in following compositions:

Name and surname of the member of the Supervisory Board	Audit Committee	Corporate Governance Committee	Strategy and Development Committee	Appointment and Remuneration Committee
Janina Goss	Member			Member
Zbigniew Gryglas		Member	Member	
Tomasz Hapunowicz		Chairman	Member	
Marcin Kowalczyk			Member	
Anna Kowalik	Member		Member	Member
Grzegorz Kuczyński	Chairman	Member		
Mieczysław Sawaryn			Member	Chairman
Artur Składanek	Member		Chairman	
Radosław Winiarski	Member		Member	

On June 22, 2022, the Ordinary General Meeting of PGE S.A. appointed the Supervisory Board of the twelfth term of office with the following composition. The first meeting of the Supervisory Board of the new term of office was held on July 12, 2022. On that day, new members of the Supervisory Board Committees were appointed.

From July 12, 2022 till July 26, 2022 the committees worked in following compositions:

Name and surname of the member of the Supervisory Board	Audit Committee	Corporate Governance Committee	Strategy and Development Committee	Appointment and Remuneration Committee
Janina Goss	Member			Member
Tomasz Hapunowicz		Member	Member	
Marcin Kowalczyk			Member	Member
Anna Kowalik	Member	Member	Member	Member
Mieczysław Sawaryn	Member	Member	Member	Chairman
Artur Składanek	Member		Member	
Radosław Winiarski	Member		Member	

At the meeting of the Supervisory Board on July 26, 2022, Mr. Zbigniew Gryglas was appointed to the Committees: Strategy and Development and Corporate Governance.

From July 26, 2022 until the publication date of this report the committees have worked in following compositions:

Name and surname of the member of the Supervisory Board	Audit Committee	Corporate Governance Committee	Strategy and Development Committee	Appointment and Remuneration Committee
Janina Goss	Member			Member
Zbigniew Gryglas		Member	Member	
Tomasz Hapunowicz		Chairman	Member	
Marcin Kowalczyk			Member	Member
Anna Kowalik	Member	Member	Member	Member
Mieczysław Sawaryn	Member	Member	Member	Chairman
Artur Składanek	Chairman		Member	
Radosław Winiarski	Member		Member	

LEGAL ASPECTS

THE ISSUE OF COMPENSATION REGARDING THE CONVERSION OF SHARES

Information on the issue of compensation regarding the conversion of shares are described in note 24.4 to the consolidated financial statements.

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

Significant proceedings pending in front of courts, competent arbitration authority or public administration authority are described in note 24.4 to the consolidated financial statements.

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

Information on termination by ENEA S.A. of agreements for sale of certificates are described in note 24.4 to the consolidated financial statements.

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

Within the Group, in the first half of 2022 PGE S.A. and subsidiaries did not grant guarantees to other entities or to a subsidiary, where a value of guarantees constitutes at least 10% of the Company's equity.

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

Information on issue, redemption and repayment of debt securities and other securities is described in p. 5.1 of the foregoing report and in note 1.3 to the consolidated financial statements.

TRANSACTIONS WITH RELATED ENTITIES

Information about transactions with related entities is presented in note 26 to the consolidated financial statements.

SETTLEMENT OF THE DISPUTE BETWEEN CZECH REPUBLIC AND POLAND ON PROLONGATION OF MINING CONCESSION FOR KWB TURÓW MINE

On February 3, 2022 the prime ministers of the Polish and Czech governments initialled a bilateral agreement setting out the terms for withdrawal of the Czech Republic's case from the Court of Justice of the European Union.

On February 4, 2022 the Czech Republic informed the Court that, pursuant to art. 147 § 1 of the Rules of Procedure, as a result of the settlement of the present dispute concluded with the Republic of Poland, it waives all claims. Accordingly, on February 4, 2022 the President of the Court of Justice issued an order removing the case from the register.

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

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

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

The exploitation of the deposit is carried out in accordance with the conditions resulting from the concession.

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

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

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

On September 16, 2022 PGE received from the ERO a decision of the European Commission stating no objection to the individual support at the level which does not exceed PLN 319.60/MWh granted for both stages of Baltica Offshore wind farm - Baltica 2 and Baltica 3, with a total capacity of 2.5 GW (pursued jointly with Ørsted). EC decision was issued within the process of individual notification of support for investors, required by EU regulations on state aid. Obtaining the decision of the EC is necessary for all projects implemented in the so-called the first phase of the Polish offshore program, that in 2021 received support in contract for difference formula by the decision of the President of the Energy Regulatory Office (ERO).

According to the regulations, the ERO decision specifying the level of support for the project on the basis of the EC decision should be issued within 90 days from the date on which ERO obtained EC decision.

Current report of PGE S.A.:

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

PLANNED TRANSFER OF COAL ASSETS TO THE NATIONAL ENERGY SECURITY AGENCY

On March 1, 2022, the Council of Ministers adopted a resolution on accepting the document: "Transformation of the electricity sector in Poland. Separation of generation coal assets from companies with State Treasury

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

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

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

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

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

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

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

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

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

According to the framework schedule, the commencement of the due diligence process is scheduled for Q3/Q4 2022, and the valuation of the carved-out companies for the fourth quarter 2022. The sale of assets to NABE is planned for the fourth quarter 2022.

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

Current report of PGE S.A.:

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

[SALE OF ELBEST SP. Z O.O. HOTELS TO POLSKI HOLDING HOTELOWY SP. Z O.O. \(PHH\)](#)

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

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

PGE's press release:

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

[Finalisation of the sale of shares in Elbest sp. z o.o.](#)

[RECAPITALIZATION OF THE COMPANY BY WAY OF SHARES ISSUE](#)

PGE'S MANAGEMENT BOARD DECISION ON COMMENCEMENT OF THE PROCESS

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

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

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

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

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

The Extraordinary General Meeting on March 7, 2022 did not adopt a resolution due to the break in the proceeding announced until April 6, 2022. After resuming the proceedings on April 6, 2022 the resolution was adopted.

Current reports of PGE S.A.:

[Commencement of recapitalisation of the Company](#)

[Convening of the Extraordinary General Meeting](#)

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

[Content of the resolutions of the Extraordinary General Meeting of PGE](#)

[Content of the resolutions of the Extraordinary General Meeting of PGE p. 2](#)

SIGNING OF AN INVESTMENT AGREEMENT WITH THE STATE TREASURY

On April 5, 2022 the Company signed an investment agreement with the State Treasury represented by the Prime Minister, in relation to the planned issue of new series E shares of the Company with exclusion of pre-emptive rights of the existing shareholders, which will be a private placement, directed only to selected investors. Pursuant to the Investment Agreement, the State Treasury expresses its intention to subscribe for up to 373,952,165 new shares, issued by the Company for a cash contribution from the Reprivatisation Fund, in the total amount not exceeding PLN 3,197,291,010.75.

The Company has made a commitment to the State Treasury that it will use the New Funds in their entirety for the implementation by the Company and its subsidiaries (PGE Dystrybucja S.A., PGE Energia Odnawialna S.A., PGE Energia Ciepła S.A., Rybnik 2050 sp. z o.o.) of investment projects in three areas: intensification of development of renewable energy sources RES; development of distribution under the Distribution of the Future programme; and decarbonisation through development of low-emission sources. The Investment Agreement governs the rules for the use of the funds and the consequences of a breach of those rules, the

Company's obligations and warranties in connection with the transfer of the funds, the reporting and accounting obligations for the funds and the State Treasury's inspection powers. If the funds are used contrary to the Investment Agreement or the Investment Agreement is improperly performed, the Company shall be obligated to return all or part of the funds or to pay contractual or guarantee penalties to the State Treasury, depending on the type of provision violated.

Current report of PGE S.A.:

[Signing of an investment agreement](#)

ADOPTION OF SUBSCRIPTION RULES BY THE PGE'S MANAGEMENT BOARD

The public offering of shares was carried out pursuant to the resolution of the Extraordinary General Meeting of the Company of April 6, 2022 (Issue Resolution). The Management Board of the Company, acting on the basis of the authorization resulting from the Issue Resolution, adopted the Subscription Rules. The offer was addressed only to investors who received an invitation to participate from an investment company conducting the book-building process for shares.

Detailed rules for subscription in connection with the issue and offer of PGE S.A. shares:

[Subscription rules](#)

CONCLUSION OF A SHARE PLACEMENT AGREEMENT AND COMMENCEMENT OF BOOK BUILDING PROCESS

On April 6, 2022 the Company entered into an agreement with Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna, Branch - Brokerage Office in Warsaw, as the Global Coordinator, Bookrunner and Offering Agent.

At the same time, the book-building process (accelerated book building) was commenced by way of private subscription of 373,952,165 series E ordinary bearer shares issued by the Company.

Current report of PGE S.A.:

[Conclusion of a share placement agreement and commencement of book building process](#)

DETERMINATION OF THE ISSUE PRICE OF SHARES

On April 7, 2022 after completion of the accelerated book building for series E shares, the management Board of the Company set the issue price of Series E Shares at PLN 8.55 per one Series E Share. The price was determined based on the results of the book-building process, as well as taking into account all the circumstances affecting the determination of the issue price, including, in particular, the macroeconomic and economic situation, the situation on capital markets at the time of the public offering, current events and their impact on the Company's business prospects, as well as based on the recommendations of the Offering Agent.

Current report of PGE S.A.:

[Determination of the issue price of shares](#)

CLOSING OF THE SUBSCRIPTION AND ALLOCATION OF SHARES

April 22, 2022 The Management Board of PGE S.A. adopted a resolution on the allocation of all series E shares to investors participating in the subscription process. The State Treasury, which is PGE's majority shareholder, acquired shares with an issue value of approximately PLN 2.5bn. Open pension funds took up shares with an issue value of approx. PLN 450 million, and other investors were allocated shares with an issue value of approx. PLN 250 million.

Current report of PGE S.A.:

[Closing of the subscription and allocation of shares](#)

PGE's press release: [Closing of the subscription and allocation of shares](#)

REGISTRATION OF THE RIGHTS TO THE E SERIES SHARES WITH KDPW

On April 27, 2022, the Central Securities Depository of Poland ("KDPW") issued a statement on the conclusion of a contract with PGE S.A. for the registration of rights to series E shares in the depository for securities.

Current report of PGE S.A.:

[Registration of the rights to the E series shares](#)

ADMISSION AND INTRODUCTION OF THE RIGHTS TO THE E SERIES SHARES TO THE STOCK EXCHANGE TRADING

On April 28, 2022 the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. adopted resolution regarding the admission and introduction to the stock exchange trading on the main market of GPW.

Current report of PGE S.A.:

[Admission and introduction of the rights to the E series shares to the stock exchange trading](#)

ANNOUNCEMENT OF KDPW ON THE REGISTRATION OF THE RIGHTS TO THE E SERIES SHARES

On April 29, 2022 an Announcement of the KDPW was received regarding the information that the rights to series E shares will be registered on May 2, 2022.

Current report of PGE S.A.:

[Announcement of KDPW](#)

COMPLETION OF THE SUBSCRIPTION OF E SERIES SHARES

On May 11, 2022, the Management Board of PGE S.A. provided information on the completed subscription for E series shares.

Current report of PGE S.A.:

[Completion of subscription](#)

[Completion of subscription p.2](#)

REGISTRATION OF SHARE CAPITAL INCREASE AND AMENDMENTS TO THE COMPANY'S ARTICLES OF ASSOCIATION

On May 19, 2022, the Management Board of PGE S.A. learned that on May 18, 2022 t on May 18, 2022 the District Court for the Capital City of Warsaw in Warsaw, 12th Commercial Division of National Court Register registered the amendment of the Company's Articles of Association pursuant to Resolution no. 7 of the Extraordinary General Meeting of the Company dated April 6, 2022 convened on March 7, 2022 and resumed on April 6, 2022.

Current report of PGE S.A.:

[Registration of the share capital increase](#)

CONDITIONAL REGISTRATION OF E SERIES SHARES WITH KDPW

The Management Board of PGE received information on declaration No. 479/2022 of the National Depository for Securities of May 31, 2022 regarding the conclusion of an agreement with the Company on the registration in the depository of securities of 373.952.165 E series shares under ISIN PLPGER000010 code, on the condition of introduction to trading on a regulated market to which other shares of the Issuer bearing the aforementioned ISIN code have been introduced.

Current report of PGE S.A.:

[Conditional registration of shares](#)

WSE RESOLUTIONS

On June 1, 2022 the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. („GPW”) adopted the following resolutions:

- resolution no. 503/2022 regarding the designation of the last day of trading on the main market of GPW of the rights to E series ordinary bearer shares according to which the Management Board of the GPW designated June 3, 2022 as the last date of trading of 373 952 165 rights to E Series shares marked by KDPW with PLPGER000085 code,
- resolution no. 504/2022 regarding the admission and introduction to stock exchange trading on the main market of GPW 373 952 165 E series ordinary bearer shares. Pursuant to the resolution, the GPW Board decided to introduce E Series Shares to trading on the main market on June 6, 2022, subject to the registration of these shares by the KDPW on June 6, 2022 and their coding as PLPGER000010.

The abovementioned resolutions entered into force on the date of its adoption.

Current report of PGE S.A.:

[WSE resolutions](#)

REGISTRATION OF CHANGE OF COMPANY'S REGISTERED OFFICE ADDRESS AND AMENDMENTS TO THE COMPANY'S STATUTES

On July 1, 2022 the District Court for the Capital City of Warsaw in Warsaw, 12th Commercial Division of National Court Register registered the amendments to the Company's Statutes pursuant to resolution no. 4 of the Extraordinary General Meeting of the Company dated April 6, 2022.

As a result of registration of changes, the registered office of the Company was changed from Warsaw to Lublin and the new address of the company's registered office is as follows: aleja Kraśnicka 27, 20-718 Lublin.

The Management Board of the Company also informed about the amendments in the Company's Statutes.

Current report of PGE S.A.:

[Registration of change of Company's registered office address and amendments to the Company's Statutes](#)

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

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

PGE is currently implementing investments in the Baltic Sea with a total capacity of approx. 3.5 GW (including 2.5 GW with Ørsted) on the basis of three location permits secured in 2012. Works carried out in these areas are on schedule. Important administrative decisions concerning, among others, environmental permits for

onshore infrastructure related to power evacuation and subsequently construction permits are expected to be secured in the coming months. Tenders for individual investment stages are in progress.

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

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

PGE's press releases:

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

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

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

[PROVISION FOR CLAIMS FROM CONTRACTORS OF ENESTA SP. Z O.O.](#)

In 2021, ENESTA sp. z o.o. terminated unfavourable contracts for the supply of electricity and natural gas. Therefore, as at December 31, 2021, a provision was created for claims from contractors in the amount of PLN 279 million. In 2022, some contractors brought their claims to court. After unsuccessful attempts to reach an agreement with its counterparties, ENESTA applied for restructuring proceedings. On June 21, 2022, restructuring proceedings were opened - a notice in the National Debt Register. As at June 30, 2022, ENESTA recalculated the provisions and an additional provision of PLN 82 million was create. In addition, receivables from counterparties who have taken the cases to court have been covered by a PLN 161 million impairment loss. On account of claims from counterparties in excess of the value of provisions and impairment losses created, ENESTA recognised contingent liabilities in the amount of PLN 105 million.

[AFFIRMATION OF PGE'S RATING BY FITCH AT BBB+ WITH STABLE OUTLOOK](#)

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

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

PGE's press release:

[Affirmation of rating at BBB+](#)

[RECOMMENDATION NOT TO PAY DIVIDEND FOR 2021](#)

On March 22, 2022 the Management Board decided on the recommendation not to pay dividend for 2021 to the PGE's shareholders. Decision was taken in accordance with the dividend policy and is a result of analysis of Company's indebtedness, expected capital expenditures and potential acquisitions (in line with the PGE Group's Strategy until 2030 with 2050 perspective), in the context of current market volatility and uncertainty.

Current report of PGE S.A.:

[Recommendation not to pay dividend](#)

ASSUMPTIONS FOR THE UPDATE OF POLAND'S ENERGY POLICY 2040

On March 29, 2022, the Council of Ministers adopted assumptions to update Poland's Energy Policy 2040 - enhancing energy security and independence, submitted by the Minister of Climate and Environment.

The government updated the assumptions for Poland's Energy Policy 2040 in order to neutralise or reduce risks related to potential crisis situations in the country and internationally. This is also in alignment with the main objective of the energy policy, i.e. to guarantee energy security while ensuring the competitiveness of the economy and reducing the environmental impact of the energy sector.

The present international situation affects many aspects of energy policy and makes it necessary to change the approach to ensuring energy security towards greater diversification and independence. The revision of PEP2040 will aim to choose the right path in the new geopolitical and economic situation, also keeping in mind the protection of consumers from excessive energy price increases and from escalating energy poverty.

The updated PEP2040 must also take into account energy sovereignty, a particular element of which is to ensure rapid independence of the national economy from imported fossil fuels (coal, oil and natural gas) and derivatives (LPG, diesel, petrol, paraffin) from Russia and other countries subject to economic sanctions. The idea is to diversify supplies, invest in production capacities, line infrastructure and storage as well as in alternative fuels.

In the other pillars of Poland's energy policy - just transition, building a zero-carbon system and improving air quality - measures to reduce the demand for fossil fuels from Russia and other countries subject to economic sanctions will be accelerated in order to increase Poland's energy security while aiming to build innovation in the economy and strengthen it.

Key changes in PEP2040:

- expanding technological diversification and capacities based on domestic sources,
- further development of renewable energy sources,
- improving energy efficiency,
- further diversifying supplies and providing alternatives to hydrocarbons,
- aligning investment decisions on gas-fired generation capacity with fuel availability,
- use of coal-fired units,
- implementation of nuclear energy,
- development of grids and energy storage,
- negotiating changes to EU regulations.

SIGNING OF AN AGREEMENT FOR ACQUISITION OF WIND FARMS WITH A TOTAL CAPACITY OF 84.2 MW

On April 1, 2022 PGE Energia Odnawialna S.A. and Vanadium Holdco Limited entered into a conditional sale agreement, under which PGE acquired 100% of the shares in the capital of Collfield Investments sp. z. o.o. ("Collfield"), a company holding of 100% of the shares in SPVs operating three wind farms with a total capacity of 84.2 MW. The condition precedent of the Transaction was obtaining consent of the Office of Competition and Consumer Protection, which was obtained on June 10, 2022. The acquisition by PGE EO S.A. of 100% of shares in the company was closed on June 21, 2022. Transaction value amounted to PLN 939 million. The Transaction value also includes cash in the accounts of Collfield and its subsidiaries in amount of PLN 183 million.

The Transaction is part of the implementation of the PGE Group's Strategy, which assumes, inter alia, over 1 GW of new capacity in onshore wind farms by 2030, including through acquisitions. After the transaction closing, the installed capacity of the PGE Group in this technology increased by 12% up to over 770 MW. The acquisition will enable the PGE Group to maintain the position of the largest domestic producer of electricity from renewable sources.

Current report of PGE S.A.:

[Signing of a conditional agreement](#)

[The fulfilment of the condition precedent](#)

[Transaction closing](#)

[CONTRACT SIGNED FOR IMPLEMENTATION OF BILLING AND CRM SYSTEM FOR PGE GROUP CUSTOMERS](#)

On April 29, 2022, PGE Systemy S.A., a PGE Group company, signed a contract with the contractor A2 Customer Care from Atende SA Group selected in the tender - for the development and implementation of the CRM Billing system in the Group.

The order covers implementation of a comprehensive, central IT solution to support key business processes at PGE Group being performed by PGE Obrót S.A. and PGE Dystrybucja S.A., consisting of two billing systems - separate for each of the companies - and a CRM system for PGE Obrót. The new solution will replace the existing billing and CRM systems for customer service at PGE Group. Implementation works will begin later this year. The project is expected to be completed in 2025.

PGE's press release:

[Contract for implementation of billing and CRM systems](#)

[ISSUING A DEBIT NOTE TO THE CONSORTIUM CONSTRUCTING UNIT NO. 7 IN TURÓW POWER PLANT](#)

On May 26, 2022 in connection with failure to meet the availability factor of the unit in Turów power plant in the first year of the guarantee period, PGE GiEK issued a debit note to the consortium for PLN 562 million. In a letter dated June 9, 2022, the General Contractor rejected the debit note sent as unfounded and refused to pay the amount requested. The value of the note was fully recognised as a revaluation write-off.

[IMPLEMENTATION BY PGE PALIWA SP. Z O.O. OF THE DECISION OF THE PRESIDENT OF THE COUNCIL OF MINISTERS CONCERNING THE PURCHASE OF COAL BY HOUSEHOLDS](#)

PGE Paliwa sp. z o.o. (a PGE Group company) on July 13, 2022 received a decision from the Prime Minister recommending the purchase of 2.5 million tonnes of thermal coal with parameters similar to the quality parameters used by households by the end of August 2022 and its import into the country by the end of October 2022. On August 8, 2022, PGE Paliwa received a decision from the Prime Minister amending the previously issued decision and instructing the company to purchase the aforementioned coal in an amount of at least 3 million tonnes by the end of October 2022 and to import it into the country by the end of April 2023.

The company is in the process of implementing the decision. The decision is being implemented on market terms.

The implementation of the decision will result in a temporary increase in PGE Group's cash requirements and a potential temporary increase in debt in connection with the settlement of coal purchase and resale transactions. In the current conditions, the company does not expect the implemented actions to have a material impact on PGE Group's consolidated financial result.

[CONDITIONAL AGREEMENT FOR SALE OF SHARES IN PGG](#)

On August 3, 2022 a Conditional Agreement was signed for the sale of shares of Polska Grupa Górnicza S.A. (the "Shares Sale Agreement"), („PGG”). The sellers in the Shares Sale Agreement include: PGE GiEK, ECARB Sp. z o.o., PGNiG Termika S.A., ENEA S.A., Polski Fundusz Rozwoju S.A., Towarzystwo Finansowe Silesia Sp. z o.o. and WĘGLOKOKS S.A., and the purchaser is the State Treasury of Republic of Poland (the "State Treasury").

According to the Shares Sale Agreement, PGE GiEK will sell to the State Treasury all possessed shares in PGG, i.e. 6 000 000 ordinary registered shares (representing 15.32% in the PGG's share capital), for the amount of

PLN 1 for all possessed shares. The value of the investment in PGG was fully written down, therefore the transaction will not have a significant impact on future consolidated financial statements of the PGE Capital Group.

The transfer of the ownership of shares will take place provided that the National Support Centre for Agriculture (KOWR) will not exercise the pre-emption right.

Current report of PGE S.A.:

[Conditional agreement for sale of shares in PGG](#)

[INSPECTION PROCEEDINGS CARRIED OUT BY THE OFFICE OF COMPETITION AND CONSUMER PROTECTION AT PGE OBRÓT S.A.](#)

[ADDRESS BY THE PRESIDENT OF THE OFFICE OF COMPETITION AND CONSUMER PROTECTION UNDER ART. 49A OF THE ACT ON COMPETITION AND CONSUMER PROTECTION \(ADDRESS WITHOUT THE COMMENCEMENT OF PROCEEDINGS\)](#)

The subject of the proceedings was the raising of objections by the Office of Competition and Consumer Protection concerning the insufficient presentation of information regarding the offers on the website - the lack of information on the comparison of fees and prices for the promotional offer in relation to the price list resulting from the basic consumer tariff. Furthermore, PGE Obrót S.A. was asked to provide general information on the LUMI brand and noted the need to present an appropriate explanation on the website regarding prices during the anti-inflation shield period.

The recommendations of the Office of Competition and Consumer Protection have been implemented and there is no threat of a penalty against the company.

[OFFICE OF COMPETITION AND CONSUMER PROTECTION INVESTIGATIONS/PROCEEDINGS FOR RECOGNITION OF STANDARD TERMS AND CONDITIONS AS PROHIBITED](#)

The Office of Competition and Consumer Protection called on PGE Obrót S.A. to provide explanations regarding the content of the terms and conditions of the offers, concerning the provisions on the calculation of contractual penalties, and to submit the relevant terms and conditions. Through a decision of June 20, 2022, as a result of the investigation, proceedings were initiated to declare the provisions of the template as prohibited.

In the event of an unfavourable decision in the above case, there is a risk of a penalty of up to 10% of the company's annual turnover. At the same time, the company has started to cooperate with the Office of Competition and Consumer Protection in order to end the case amicably, on the basis of art. 23c of the Act on Competition and Consumer Protection (voluntary undertaking by an entrepreneur to take or abandon certain actions aimed at ending a violation of a prohibition), without imposing a penalty.

[IMPAIRMENT TESTS ON PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS, RIGHT-OF-USE ASSETS AND GOODWILL](#)

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

In the current reporting period, the Group analysed impairment indications and identified factors that could result in changes to the asset values in the above segments.

The results of tests for impairment of property, plant and equipment are presented in Note 3 to the consolidated financial statements.

TARIFFING PROCESS

ELECTRICITY MARKET

PGE Obrót S.A. as an energy company conducting economic activity in the field of electricity trading, being at the same time a supplier of last resort is required to set tariffs for electricity for recipients from tariff group G (households), which is subject to mandatory approval by the President of the Energy Regulatory Office. Thus, the retail electricity market is to a large extent a regulated market, where the electricity seller does not have complete freedom in shaping its price offer.

The electricity undertaking will calculate electricity prices on the basis of the planned justified costs of purchasing this energy and the justified costs of electricity trading.

The ERO President notes that justified costs are not the same as costs in accounting terms and in tariff proceedings the regulator is guided by what is happening on the market and compares companies with the same business profile. This means that, when estimating the reference price, the regulator takes into account all the risks, but also the opportunities and possibilities that the company in question had to purchase energy at a competitive price.

The above means that trading companies subject to tariffs, such as PGE Obrót S.A., are subjected to strong pressure in the form of the tariff approval procedure and it cannot be certain whether the actual costs incurred will be fully covered in the approved tariff, taking into account the current dynamics of changes in the electricity markets.

Despite the rise in electricity prices during 2022, PGE Obrót S.A. did not apply for an increase in the tariff for Group G customers for the present year, also because it had secured the volume of energy sold back in 2021. This is because there were no factual and legal grounds for such action. On the other hand, the increase in wholesale electricity prices and thus the costs of purchasing electricity during the current year 2022 was unprecedented and resulted, inter alia, from the Russian military invasion of Ukraine, the increase in fuel prices (including coal and gas) and the high level of prices of CO₂ emission allowances. This situation will be reflected in a much higher level of justified costs: purchase of electricity and business activity of the enterprise adopted for the calculation of tariffs for 2023.

Despite such a significant increase in prices, and thus justified costs of economic activity of energy companies, tariffed electricity vendors also cannot be sure what position the ERO President will take in the tariff proceedings for 2023 and what level of costs in the tariff, which will translate into the price of electricity, will be accepted by the authority. Furthermore, it can be inferred from media reports that the Council of Ministers will propose legislative solutions to limit the increase in electricity prices, e.g. by setting a maximum electricity price ("electricity price freeze") and compensating vendors, as was the case at the end of 2018 for the electricity market or a solution similar to the one implemented at the end of 2021 for gaseous fuel tariffs.

Final solutions in the above scope are currently unknown.

HEAT MARKET

The provisions of the Energy Law introducing the so-called simplified tariffing method and the provisions of the Regulation of the Minister of Climate of April 7, 2020 on detailed rules for shaping and calculating tariffs and settlements for heat supply are the legal basis for determining the planned revenue from heat sales for the purpose of calculating prices and fee rates in the heat tariff for cogeneration units.

When looking at next year's CHP plant's revenue, it is important to keep in mind primarily the following:

- limitations of the simplified tariffing method and the interpretation of the President of URE regarding the increase of the reference index for units commissioned after November 3, 2010,
- planned amendment to the Regulation on detailed rules for shaping and calculating tariffs and billing for heat supply, which may introduce a limited possibility of applying an increased reference index - downward adjustment,
- unstable macroeconomic environment, fuel prices and unavailability, price of CO₂.

It can also be deduced from media reports that the ERO President may significantly limit price increases for system heat. Industry websites report that the maximum increase could be 40%. Smaller district heating plants are to be compensated for the difference between the amount from the previous heating season and the amount projected for this year, taking into account the 40% increase. The announcements made by competent authorities mean that CHP plants are currently operating in an environment of not only market uncertainty, but also legal and regulatory uncertainty.

MARGIN DEPOSITS

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

Margin deposits consist of an initial margin and a variation margin. In determining the required value of the margin, the clearinghouse (IRGiT) takes into account the possible compensation between the initial and variation margins.

The variation margin is responsible for the on-going alignment of the portfolio value with market values, can take positive (surplus) as well as negative values (margin requirement) and is subject to daily updates. The clearinghouse accepts both monetary and non-monetary collateral - bank guarantees, CO₂, property rights, sureties and declaration of submission to enforcement in the form of a notarial deed in accordance with Art. 777 of the Civil Code.

PGE Group companies benefit from the possibility of mutual offsetting within the Group.

Despite the significant increase in the amount of collateral deposits in the recent period, no threat has been identified.

Recently, the amount of collateral deposits has increased significantly, but their level has been monitored on an ongoing basis and did not pose a threat to the ability to service the liabilities of PGE Capital Group companies. The PGE Group also used many non-cash collaterals available, in accordance with the IRGiT regulations, in order to minimise collaterals in the form of cash.

As of September 1, 2022, IRGiT introduced changes to settlements regarding the order and rules for recognising non-cash collateral. The revised provisions indicate that the declarations of submission to enforcement, including the surety provided as security, are recognised first of all non-cash collaterals posted and reduce the value of the required collaterals, which form the base for the calculation of recognizing other non-cash collaterals.

PGE Group also enters into forward transactions on ICE Exchange, for which the underlying instrument is CO₂ emission allowances. Margin deposits are required to secure open positions in futures contracts. The margins consist of the Initial Margin and the daily adjustment of the price to the market settlement value (Variation Margin). For a long position, a fall in the current day's clearing prices compared to the previous day's clearing prices means the necessity to make Variation Margin deposits, while an increase in prices compared to the previous day means that you will receive a Variation Margin.

The PGE Group makes settlements related to CO₂ trading on an ongoing basis.

5. Other elements of the report

5.1. Significant changes in organisation of the Capital Group

Changes which occurred in the PGE Capital Group's structure in the period from January 1, 2022 until the publication date of this report, are presented in note 1.3 to consolidated financial statements and described below.

ESTABLISHMENT OF COMPANIES

Segment	Entity	Date of establishment/ registration in the National Court Register (NCR)	Comment
Other operations	PGE Inwest 20 sp. z o.o.	March 2, 2022	On October 4, 2021 PGE S.A. set up 6 one-person limited liability companies with headquarters in Warsaw with names: PGE Inwest 20 sp. z o.o., PGE Inwest 21 sp. z o.o., PGE Inwest 22 sp. z o.o., PGE Inwest 23 sp. z o.o., PGE Inwest 24 sp. z o.o. and PGE Inwest 25 sp. z o.o. Share capital of the companies amount to PLN 25 000 each.
	PGE Inwest 21 sp. z o.o.	March 2, 2022	
	PGE Inwest 22 sp. z o.o.	March 2, 2022	
	PGE Inwest 23 sp. z o.o.	March 24, 2022	
	PGE Inwest 24 sp. z o.o.	March 16, 2022	
	PGE Inwest 25 sp. z o.o.	March 3, 2022	

ACQUISITION OR DISPOSAL OF SHARES BY THE COMPANIES

Segment	Shares of the company	Date of transaction/ registration in the NCR	Comment
Renewables	Elektrownia Wiatrowa Baltica-4 sp. z o.o. („EWB 4”), Elektrownia Wiatrowa Baltica-5 sp. z o.o. („EWB 5”) and Elektrownia Wiatrowa Baltica-6 sp. z o.o. („EWB 6”) – sale by PGE S.A. of 33.8% shares in EWB 4, EWB 5 and EWB 6 (conditional share sale agreement)	November 18, 2021 The ownership of the shares in EWB 4, EWB 5 and EWB 6 was transferred to ENEA S.A. on August 1, 2022	On November 18, 2021 a conditional agreement was signed between PGE S.A. as vendor and ENEA S.A., based in Poznań, as buyer to sell some of the shares held by PGE S.A. in EWB 4, EWB 5 and EWB 6, i.e. 95 shares of EWB 4, 95 shares of EWB 5 and 422 shares of EWB 6, with a total nominal value of PLN 95 000 in the case of EWB 4, PLN 95 000 in the case of EWB 5 and PLN 422 000 in the case of EWB 6, constituting 33.8% of the share capital of EWB 4, EWB 5 and EWB 6, respectively. The entry of this conditional share sale agreement into force and transfer of ownership to ENEA S.A. were subject to compliance with conditions precedent.
Renewables	PGE Baltica 4 sp. z o.o. with its seat in Warsaw (“PGE Baltica 4”) – sale by PGE S.A. of 44.96% shares in PGE Baltica 4 (conditional share sale agreement)	November 18, 2021 As at the date of preparation of this report, conditions precedent have not been met.	On November 18, 2021 a conditional agreement was signed between PGE S.A. as vendor and TAURON Polska Energia S.A. as buyer to sell some of the shares held by PGE S.A. in PGE Baltica 4, i.e. 526 shares, with a total nominal value of PLN 526 000, constituting 44.96% of the share capital. The entry of this conditional share sale agreement into force and transfer of ownership to TAURON Polska Energia S.A. are subject to compliance with conditions precedent.
Other Operations	Elbest sp. z o.o. with its seat in Bełchatów (“Elbest”) – sale by PGE S.A. of 100% shares in Elbest (conditional share sale agreement)	December 15, 2021 On March 4, 2022, the ownership title was transferred to PHH.	On December 15, 2021 a conditional agreement was signed between PGE S.A. as vendor and Polski Holding Hotelowy sp. z o.o. based in Warsaw as buyer to sell all the shares held by PGE S.A. in Elbest, i.e. 116 812 shares, with a total nominal value of PLN 116 812 000, constituting 100% of the share capital. The entry of this conditional share sale agreement into force and transfer of ownership to PHH was subject to compliance with conditions precedent. After meeting the conditions precedent, on March 4, 2022, the ownership of the above-mentioned Elbest shares was transferred to PHH.
Other Operations	4Mobility S.A. with its seat in Warsaw (“4Mobility”) – increase of the share capital of 4Mobility and acquisition of all new shares by another shareholder, i.e. by EFF B.V. (the Netherlands)	January 14, 2022/ July 15, 2022	On January 14, 2022 the Extraordinary General Meeting of 4Mobility adopted resolutions to increase share capital from PLN 364 316 to PLN 494 316, i.e. by PLN 130 000, through the issue of 1 300 000 ordinary shares series H, with a nominal value of PLN 0.10 each. All of the new shares were offered by way of a private subscription to EFF B.V., based in Maastricht (Netherlands) – the existing shareholder of 4Mobility. As a result of the share capital increase, PGE Nowa Energia sp. z o.o. in liquidation stake in 4Mobility decreased from 51.47% to 37.93%, meaning that PGE Nowa Energia sp. z o.o. in liquidation is no longer the parent company of 4Mobility.

Segment	Shares of the company	Date of transaction/ registration in the NCR	Comment
Renewables	Mithra A sp. z o.o. with its seat in Poznań, Mithra B sp. z o.o. with its seat in Poznań, Mithra L sp. z o.o. with its seat in Poznań, Mithra V sp. z o.o. with its seat in Warsaw (Mithra companies) – acquisition by PGE Energia Odnawialna S.A. 100% shares in the share capital of Mithra companies (share sale agreements)	February 4, 2022	On February 4, 2022 PGE Energia Odnawialna S.A. as a buyer and a natural person (sole partner of Mithra companies) as the seller concluded 4 share sale agreements in Mithra companies, i.e. 100 shares in Mithra companies, with a total nominal value of PLN 400 000 in case of Mithra A sp. z o.o., PLN 328 000 in case of Mithra B sp. z o.o., PLN 200 000 in case of Mithra L sp. z o.o. and PLN 5 000 in case of Mithra V sp. z o.o., constituting 100% in the share capitals of Mithra companies. Transfer of ownership of shares to PGE Energia Odnawialna S.A. took place on February 4, 2022.
Other Operations	Towarzystwo Funduszy Inwestycyjnych Energia S.A. with its seat in Warsaw (TFI Energia) – sale by PGE S.A. of 100% shares in TFI Energia (preliminary share sale agreement)	March 17, 2022 The ownership of the shares was transferred to PZU on July 15, 2022	On March 17, 2022 PGE S.A. as a seller and Powszechny Zakład Ubezpieczeń S.A. as a buyer signed a preliminary share sale agreement for sale of 100% shares in TFI Energia held by PGE S.A. The finalization of the sale of shares required the approvals of the Polish Financial Supervision Authority and the President of the Office of Competition and Consumer Protection.
Renewables	Collfield Investments sp. z o.o. with its seat in Cracow – acquisition by PGE Energia Odnawialna S.A. 100% shares in Collfield Investments holding 100% of the shares in 3 SPVs	April 1, 2022 The ownership of the shares was transferred to PGE Energia Odnawialna S.A. on June 21, 2022	On April 1, 2022 PGE Energia Odnawialna S.A. as a buyer and Vanadium Holdco Limited as a seller, belonging to Green Investment Group Fund, which in turn is part of a global fund Macquarie with its seat in Australia, signed a conditional share sale agreement, under which PGE acquired 100% of the shares in the capital of Collfield Investments, a company holding of 100% of the shares in SPVs operating three wind farms with a total capacity of 84.2 MW, i.e. in companies Future Energy sp. z o.o., „Elwiatr Pruszyński” sp. z o.o. and Radzyn Clean Energy Poland sp. z o.o. The condition precedent of the Transaction was obtaining consent of the Office of Competition and Consumer Protection.
Other Operations	Przedsiębiorstwo Usługowo - Handlowe „Torec” sp. z o.o. with its seat in Toruń (PUH Torec) – sale by PGE Toruń S.A. 100% shares in PUH Torec (conditional share sale agreement)	April 4, 2022	On April 4, 2022 a conditional sale agreement was concluded for all of the assets owned by PGE Toruń S.A. (PGE Energia Ciepła S.A. holds 100% of the company's shares) shares in PUH Torec. The conditions for the transfer of ownership of shares specified in the above-mentioned agreement, i.e. the transfer of the sale price to the seller and the adoption of a resolution on the redemption of shares by the Shareholders' Meeting of PUH Torec, have been fulfilled, therefore, from April 21, 2022, PUH Torec is not part of the PGE Capital Group.

Segment	Shares of the company	Date of transaction/ registration in the NCR	Comment
-	Polska Grupa Górnicza S.A. with its seat in Katowice (PGG) – sale by PGE GiEK S.A. of all shares in PGG (conditional share sale agreement)	August 3, 2022 Condition precedent not fulfilled - as at the date of preparation of this report.	On August 3, 2022, a conditional agreement was concluded between all PGG shareholders, including PGE GiEK S.A. and the State Treasury, for the sale to the State Treasury of all PGG shares, representing 100% of PGG's share capital. As a result of the concluded conditional share sale agreement, PGE GiEK S.A. will sell shares representing 15.32% in the share capital of PGG. The transfer of the ownership of shares will take place provided that the National Support Centre for Agriculture (KOWR) will not exercise the pre-emption right, pursuant to art. 3a section 4 of the Act of April 11, 2003 on the shaping of the agricultural system, within the period specified in Art. 3a sec. 4 of this Act.

INCREASE OF SHARE CAPITAL OF SUBSIDIARIES

Segment	Entity	Date of registration in the NCR	Comment
Renewables	PGE Baltica 1 sp. z o.o. (currently: Elektrownia Wiatrowa Baltica-8 sp. z o.o.)	January 12, 2022	On November 4, 2021 the Extraordinary Assembly of Partners of PGE Baltica 1 sp. z o.o. adopted resolution on a share capital increase from PLN 20 000 to PLN 986 000, i.e. by PLN 966 000, through issue of new 966 shares of the company with a nominal value of PLN 1 000 each. The share capital increase was taken up and paid by PGE S.A. in cash. PGE S.A. holds 100% in the share capital.
Renewables	PGE Baltica 2 sp. z o.o.	May 24, 2022	On December 20, 2021 the Extraordinary Assembly of Partners of PGE Baltica 2 sp. z o.o. adopted resolution on a share capital increase from PLN 606 216 000 to PLN 610 358 000, i.e. by PLN 4 142 000, through issue of new 4 142 shares of the company with a nominal value of PLN 1 000 each. The share capital increase was taken up and paid by PGE S.A. in cash. PGE S.A. holds 100% in the share capital.
Renewables	PGE Baltica 3 sp. z o.o.	June 2, 2022	On December 20, 2021 the Extraordinary Assembly of Partners of PGE Baltica 3 sp. z o.o. adopted resolution on a share capital increase from PLN 774 491 000 to PLN 782 304 000, i.e. by PLN 7 813 000, through issue of new 7 813 shares of the company with a nominal value of PLN 1 000 each. The share capital increase was taken up and paid by PGE S.A. in cash. PGE S.A. holds 100% in the share capital.
Renewables	PGE Baltica 5 sp. z o.o.	June 2, 2022	On December 20, 2021 the Extraordinary Assembly of Partners of PGE Baltica 5 sp. z o.o. adopted resolution on a share capital increase from PLN 46 768 000 to PLN 53 853 000, i.e. by PLN 7 085 000, through issue of new 7 085 shares of the company with a nominal value of PLN 1 000 each. The share capital increase was taken up and paid by PGE Baltica 3 sp. z o.o. in cash. PGE Baltica 3 sp. z o.o. holds 100% in the share capital.
Renewables	PGE Baltica 6 sp. z o.o.	May 12, 2022	On December 20, 2021 the Extraordinary Assembly of Partners of PGE Baltica 6 sp. z o.o. adopted resolution on a share capital increase from PLN 36 516 000 to PLN 39 933 000, i.e. by PLN

			3 417 000, through issue of new 3 417 shares of the company with a nominal value of PLN 1 000 each. The share capital increase was taken up and paid by PGE Baltica 2 sp. z o.o. in cash. PGE Baltica 2 sp. z o.o. holds 100% in the share capital.
Renewables	PGE Soleo 1 sp. z o.o. (currently: PGE Soleo Kleszczów sp. z o.o.)	May 12, 2022	<p>On December 21, 2021, the Extraordinary Assembly of Partners of PGE Soleo 1 sp.z o.o. adopted resolutions on the amendment of the Founding Deed (change of the company's name to PGE Soleo Kleszczów sp.z o.o. and its seat to Kleszczów) and on the increase of the company's share capital from PLN 100 000 to PLN 4 200 000, i.e. by PLN 4 100 000, through the creation of new 4 100 company shares with a par value of PLN 1 000 each. The increase in the company's share capital was acquired as follows:</p> <ul style="list-style-type: none"> ▪ PGE Energia Odnawialna S.A. took up 2 000 newly issued shares with a nominal value of PLN 1 000 each, with a total nominal value of PLN 2 000 000 and covered them in full with a cash contribution of PLN 2 000 000, ▪ Kleszczów commune acquired 2 100 newly issued shares with a nominal value of PLN 1 000 each, with a total nominal value of PLN 2 100 000 and covered them in full with a cash contribution of PLN 2 100 000. <p>As a result of the above-mentioned acquisition of shares in the company and increase of the share capital of the company, PGE Energia Odnawialna S.A. and the Kleszczów Commune hold shares in the company, each representing 50% of the share capital, and the company currently has the status of a jointly controlled company. Currently, the company's name is: PGE Soleo Kleszczów sp. z o.o., and its seat is Kleszczów (Kleszczów commune, łódzkie voivodship).</p>
Renewables	Elektrownia Wiatrowa Baltica-2 sp. z o.o.	April 20, 2022	<p>On December 23, 2021 the Extraordinary Assembly of Partners of Elektrownia Wiatrowa Baltica-2 sp. z o.o. adopted resolution on a share capital increase from PLN 199 895 000 to PLN 199 905 000, i.e. by PLN 10 000, through issue of new 20 shares of the company with a nominal value of PLN 500 each. The increase in the company's share capital was acquired and paid for by the company's current shareholders as follows:</p> <ul style="list-style-type: none"> • PGE Baltica 6 sp. z o.o. took up 10 shares and covered them with a cash contribution of PLN 5 000, i.e. at the nominal value of these shares, • Ørsted Baltica 2 Holding sp. z o.o. with its seat in Warsaw took up 10 shares and covered them with a cash contribution of PLN 69 572 451.01, where the excess of the value of the contribution made over the nominal value of the shares taken up in the amount of PLN 69 567 451.01 was transferred to the company's supplementary capital (agio), in accordance with Art. 154 § 3 of the Commercial Companies Code. <p>PGE Baltica 6 sp. z o.o. and Ørsted Baltica 2 Holding sp. z o.o. each own 50% of the share capital of Elektrownia Wiatrowa Baltica-2 sp. z o.o.</p>
Renewables	Elektrownia Wiatrowa Baltica-3 sp. z o.o.	May 27, 2022	<p>On December 23, 2021 the Extraordinary Assembly of Partners of Elektrownia Wiatrowa Baltica-3 sp. z o.o. adopted resolution on a share capital increase from PLN 254 844 000 to PLN 254 854 000, i.e. by PLN 10 000 PLN, , through issue of new 20 shares of the company with a nominal value of PLN 500 each. The increase in the company's share capital was acquired and paid for by the company's current shareholders as follows:</p>

			<ul style="list-style-type: none"> • PGE Baltica 5 sp. z o.o. took up 10 shares and covered them with a cash contribution of PLN 5 000, i.e. at the nominal value of these shares, • Ørsted Baltica 3 Holding sp. z o.o. with its seat in Warsaw took up 10 shares and covered them with a cash contribution of PLN 71 454 737.75 PLN, where the excess of the value of the contribution made over the nominal value of the shares taken up in the amount of PLN 71 449 737.75 PLN was transferred to the company's supplementary capital (agio), in accordance with Art. 154 § 3 of the Commercial Companies Code. <p>PGE Baltica 5 sp. z o.o. and Ørsted Baltica 3 Holding sp. z o.o. each own 50% of the share capital of Elektrownia Wiatrowa Baltica-3 sp. z o.o.</p>
Other Operations	PGE Inwest 14 sp. z o.o.	April 13, 2022	On February 8, 2022 the Extraordinary Assembly of Partners of the company adopted resolution on a share capital increase from PLN 4 434 000 to PLN 7 434 000, i.e. by PLN 3 000 000. The share capital increase was taken up and paid by PGE S.A. in cash. PGE S.A. holds 100% in the share capital.
Other Operations	PGE Inwest 9 sp. z o.o.	Not yet registered in the NCR.	March 31, 2022 the Extraordinary Assembly of Partners of the company adopted resolution on a share capital increase from PLN 50 000 PLN to PLN 9 750 000, i.e. by PLN 9 700 000 PLN. The share capital increase was taken up and paid by PGE S.A. in cash. PGE S.A. holds 100% in the share capital.
Other Operations	PGE Inwest 12 sp. z o.o.	June 6, 2022	On April 6, 2022 the Extraordinary Assembly of Partners of the company adopted resolution on a share capital increase from PLN 50 000 PLN to PLN 3 550 000, i.e. by PLN 3 500 000 PLN. The share capital increase was taken up and paid by PGE S.A. in cash. PGE S.A. holds 100% in the share capital.
Renewables	Elektrownia Wiatrowa Baltica-2 sp. z o.o.	Not yet registered in the NCR.	<p>On June 30, 2022 the Extraordinary Assembly of Partners of Elektrownia Wiatrowa Baltica-2 sp. z o.o. adopted resolution on a share capital increase from PLN 199 905 000 PLN to PLN 199 915 000 PLN, i.e. by PLN 10 000, through issue of new 20 shares of the company with a nominal value of PLN 500 each. The increase in the company's share capital was acquired and paid for by the company's current shareholders as follows:</p> <ul style="list-style-type: none"> ▪ PGE Baltica 6 sp. z o.o. took up 10 shares and covered them with a cash contribution of PLN 5 000, i.e. at the nominal value of these shares, ▪ Ørsted Baltica 2 Holding sp. z o.o. with its seat in Warsaw took up 10 shares and covered them with a cash contribution of DKK 30 425 917.09 and PLN 20 281 653.04 PLN, where the excess of the value of the contribution made over the nominal value of the shares taken up in the amount of PLN 38 716 602.79 was transferred to the company's supplementary capital (agio), in accordance with Art. 154 § 3 of the Commercial Companies Code. <p>PGE Baltica 6 sp. z o.o. and Ørsted Baltica 2 Holding sp. z o.o. each own 50% of the share capital of Elektrownia Wiatrowa Baltica-2 sp. z o.o.</p>
Renewables	Elektrownia Wiatrowa Baltica-3 sp. z o.o.	Not yet registered in the NCR.	On June 30, 2022 the Extraordinary Assembly of Partners of Elektrownia Wiatrowa Baltica-3 sp. z o.o. adopted resolution on a share capital increase from PLN 254 854 000 to PLN 254 864 000, i.e. by PLN 10 000, through issue of new 20 shares of the company with a nominal value of PLN

500 each. The increase in the company's share capital was acquired and paid for by the company's current shareholders as follows:

- PGE Baltica 5 sp. z o.o. took up 10 shares and covered them with a cash contribution of PLN 5 000, i.e. at the nominal value of these shares,
- Ørsted Baltica 3 Holding sp. z o.o. with its seat in Warsaw took up 10 shares and covered them with a cash contribution of DKK 26 482 822.99 and PLN 9 620 352.12, where the excess of the value of the contribution made over the nominal value of the shares taken up in the amount of PLN 25 665 547.87 was transferred to the company's supplementary capital (agio), in accordance with Art. 154 § 3 of the Commercial Companies Code .

PGE Baltica 5 sp. z o.o. and Ørsted Baltica 3 Holding sp. z o.o. each own 50% of the share capital of Elektrownia Wiatrowa Baltica-2 sp. z o.o.

ADDITIONAL PAYMENTS FOR COMPANIES SHARES

Segment	Entity	Transaction date	Comment
Other Operations	PGE Inwest 12 sp. z o.o.	March 21 – 30, 2022	On March 21, 2022 the Extraordinary Assembly of Partners of the company adopted a resolution to obligate the sole shareholder of the company, i.e. PGE S.A., to make an additional payment to its shares within the meaning of Article 177 of the Commercial Companies Code, in the total amount of PLN 30 000, i.e. in the amount of PLN 600 to each share held by PGE S.A., by April 30, 2022. In accordance with the above resolution of the Extraordinary Assembly of Partners, the additional payment was made by PGE S.A. on March 30, 2022.
Renewables	PGE Klaster sp. z o.o.	March 23, 2022 (return of additional payments by December 31, 2026)	On March 23, 2022 the Extraordinary Assembly of Partners of the company adopted a resolution on the return of additional payments in the amount of PLN 248 000 000 contributed by the sole shareholder of the company, i.e. PGE Energia Odnawialna S.A., imposed by the resolutions of the Company's Assemblies of Partners of March 29, 2018, October 23, 2018 and July 2, 2019. The refunds will be made in quarterly instalments in the amount of PLN 70 000 000 in the first quarter of 2022, i.e. until March 31, 2022, and then PLN 10 000 000 in each subsequent quarter, starting from April 1, 2022, until the payments are fully repaid no later than December 31, 2026.
Other Operations	PGE Inwest 9 sp. z o.o.	March 28 – 30, 2022	On March 28, 2022 the Extraordinary Assembly of Partners of the company adopted a resolution to obligate the sole shareholder of the company, i.e. PGE S.A., to make an additional payment to its shares within the meaning of Article 177 of the Commercial Companies Code, in the total amount of PLN 60 000, i.e. in the amount of PLN 1 200 to each share held by PGE S.A., by April 30, 2022. In accordance with the above resolution of the Extraordinary Assembly of Partners, the additional payment was made by PGE S.A. on March 30, 2022.

MERGERS

Segment	Acquiring company/acquired company	Date of transaction/ registration in the National Court Register	Comment
District Heating	PGE Energia Ciepła S.A. - /Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. with its seat in Zgierz	November 3, 2021/ January 3, 2022 (merger date)	On November 3, 2021 the Extraordinary General Meeting of PGE Energia Ciepła S.A. (Acquiring company) and the Extraordinary Assembly of Partners of Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. with its seat in Zgierz (acquired company) adopted resolutions on the merger of the companies in mode of art. 492 § 1 p. 1 of the Polish Commercial Companies Code (merger through acquisition), through transferring of all assets of the acquired company to the acquiring company without issue of new shares in exchange for the shares in the share capital of the acquired company pursuant to art. 516 § 6 of the Polish Commercial Companies Code and dissolution of the acquired company without its liquidation. PGE Energia Ciepła S.A. was the sole shareholder of Przedsiębiorstwo Energetyki Ciepłej sp. z o.o.
Other Operations	PGE Dystrybucja S.A./ Przedsiębiorstwo Transportowo-Uługowe „ETRA” sp. z o.o. with its seat in Białystok (ETRA)	March 15, 2022/ March 21, 2022 (merger date)	On March 15, 2022 the Extraordinary Assembly of Partners of ETRA (acquired company) adopted resolution on the merger with PGE Dystrybucja S.A. (acquiring company) in mode of art. 492 § 1 p. 1 of the Polish Commercial Companies Code (merger through acquisition), through transferring of all assets of the acquired company to the acquiring company without issue of new shares in exchange for the shares in the share capital of the acquired company, pursuant to art. 516 § 6 of the Polish Commercial Companies Code and dissolution of the acquired company without its liquidation. PGE Dystrybucja S.A. was the sole shareholder of ETRA.
Other Operations	PGE Energia Odnawialna S.A./ Bio-Energia sp. z o.o with its seat in Warsaw (Bio-Energia)	May 20, 2022/ June 30, 2022 (merger date)	On May 20, 2022 the Extraordinary General Meeting of PGE Energia Odnawialna S.A. Acquiring company) and the Extraordinary Assembly of Partners of Bio-Energia (acquired company) adopted resolutions on the merger of the companies in mode of art. 492 § 1 p. 1 of the Polish Commercial Companies Code (merger through acquisition), through transferring of all assets of the acquired company to the acquiring company without issue of new shares in exchange for the shares in the share capital of the acquired company pursuant to art. 516 § 6 of the Polish Commercial Companies Code and dissolution of the acquired company without its liquidation. PGE Energia Odnawialna S.A. was the sole shareholder of Bio-Energia.

LIQUIDATION OF COMPANIES

Segment	Company in liquidation	Date of transaction/ registration in the National Court Register	Comment
Supply	PGE Trading GmbH in liquidation with seat in Berlin ("PGE Trading")	March 1, 2021/ PGE Trading has not been removed from the commercial register kept by the District Court in Berlin-Charlottenburg	On March 1, 2021 the Extraordinary Assembly of Partners of PGE Trading, in which PGE holds 100% of the share capital, adopted resolution on dissolution of PGE Trading and appointment of a liquidator to carry out liquidation activities of PGE Trading.
Other Operations	PGE Nowa Energia sp. z o.o. in liquidation with seat in Warsaw (PGE Nowa Energia)	March 31, 2022/ PGE Nowa Energia is not yet removed from the register of entrepreneurs of the National Court Register	On March 31, 2022 the Extraordinary Assembly of Partners of PGE Nowa Energia, in which PGE holds 100% of the share capital, adopted resolution on dissolution of PGE Nowa Energia and appointment of a liquidator to carry out liquidation activities of PGE Nowa Energia.

5.2. Publication of financial forecasts

PGE S.A. did not publish financial forecasts.

5.3. Information about shares and other securities

SHAREHOLDERS WITH A SIGNIFICANT STAKE

On the ground of the letter from the Ministry of the State Treasury of April 27, 2016, the State Treasury holds 1 072 984 098 ordinary shares of the Company, representing 57.39% of the Company's share capital and entitling to 1 072 984 098 votes on the General Meeting of the Company, constituting 57.39% of total votes.

Table: Shareholders holding directly or indirectly by subsidiaries at least 5% of the total votes at the General Meeting of PGE S.A. at June 30, 2022:

Shareholder	Number of shares	Number of votes	% in total votes on General Meeting
State Treasury	1 072 984 098	1 072 984 098	57.39%
Others	796 776 731	796 776 731	42.61%
Total	1 869 760 829	1 869 760 829	100.00%

On April 6, 2022, the Extraordinary General Meeting of PGE Polska Grupa Energetyczna S.A. adopted Resolution No. 7 on decreasing the share capital by way of reducing the par value of shares and simultaneously increasing the share capital by way of issuing series E shares under the private subscription procedure, depriving the existing shareholders entirely of the preemptive right to all series E shares, applying for admission and introduction of series E shares or rights to series E shares to trading on the regulated market of Giełda Papierów Wartościowych w Warszawie S.A. [Warsaw Stock Exchange], dematerialising series E shares or rights to series E shares, as well as amending the Company Statutes.

In connection with § 1 - 3 of Resolution No. 7 of the Extraordinary General Meeting of PGE of April 6, 2022, § 7 of the Company Statutes is amended in such a way that it will have the following wording:

„The share capital of the Company shall be PLN 19,183,746,098.70 (say: nineteen billion one hundred and eighty-three million seven hundred and forty-six thousand and ninety-eight zloty and seventy groszy) and shall be divided into 2,243,712,994 (say: two billion two hundred and forty-three million seven hundred and twelve thousand nine hundred and ninety-four) shares with a par value of PLN 8.55 (say: eight zloty and fifty-five groszy) each, including:

- 1,470,576,500 series "A" bearer shares,
- 259,513,500 series "B" bearer shares,
- 73,228,888 series "C" bearer shares,
- 66,441,941 series "D" bearer shares,
- 373,952,165 series "E" bearer shares.

An application for an appropriate entry on amendment of the Company's Articles of Association has been submitted to the National Court Register.

May 18, 2022 changes in the share capital of PGE S.A. were registered in the National Court Register, about which the Company informed in the current report No. 29/2022 of May 19, 2022.

The State Treasury also acquired shares of a new issue under an investment agreement with which PGE S.A. signed with the State Treasury on April 5, 2022.

On May 20, 2022, the Minister of State Assets, representing the State Treasury, sent a notification informing about the change in the number of shares and the share in the total number of votes held by the State Treasury in the Company. Currently, the State Treasury holds 1 365 601 493 shares, constituting 60.86% of

the Company's share capital and entitling to exercise 1 365 601 493 votes, which constitutes 60.86% of the total number of votes.

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

Table: Shareholders holding directly or indirectly by subsidiaries at least 5% of the total votes at the General Meeting of PGE S.A. as at the publication date of this report:

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

TREASURY SHARES

As at June 30, 2022 PGE S.A. and subsidiaries did not hold any treasury shares.

SHARES OF THE PARENT COMPANY OWNED BY THE MEMBERS OF MANAGEMENT AND SUPERVISORY AUTHORITIES

According to the best knowledge of the Management Board of the Company, none of the members of management and supervisory authorities of the Company did not hold shares of the parent company as of the date of publishing of the report for the first half of 2022.

5.4. Significant off-balance sheet items

Significant off-balance sheet items are described in notes 11 and 24 to the consolidated financial statements.

6. Statement of the Management Board on the reliable preparation of the financial statements

To the best knowledge of the Management Board of PGE S.A., the half-yearly financial report, containing interim condensed consolidated financial statements of PGE Capital Group, interim condensed standalone financial statements for PGE S.A. and comparative data were prepared in accordance with the governing accounting principles, present a fair, true and reliable view of the material and financial situation of PGE Capital Group and its financial result.

The report of the Management Board on the activities of PGE Capital Group presents a true view of the development, achievements and situation of the Capital Group.

7. Statement on the entity authorised to audit the financial statements

The Management Board of PGE S.A. declares that the auditing company, which reviews the interim consolidated financial statements and interim condensed standalone financial statements for PGE S.A., has been appointed in accordance with provisions of the law. The entity and the statutory auditors, who performed the review, fulfilled all the requirements for issuing an unbiased and independent report on the review, in accordance with the governing provisions and professional standards.

8. Approval of the Management Board's Report

The foregoing Management Board's Report on activities of PGE Capital Group was approved for publication by the Management Board of the parent company on September 20, 2022.

Warsaw, September 20, 2022

Signatures of members of the Management Board of PGE Polska Grupa Energetyczna S.A.

**President
of the Management
Board**

Wojciech Dąbrowski

**Vice-President
of the Management
Board**

Wanda Buk

**Vice-President
of the Management
Board**

Paweł Cioch

**Vice-President
of the Management
Board**

Lechosław Rojewski

**Vice-President
of the Management
Board**

Paweł Śliwa

**Vice-President
of the Management
Board**

Ryszard Wasilek

Glossary

Ancillary control services (ACS)	services provided to the transmission system operator, which are indispensable for the proper functioning of the National Power System and ensure the keeping of required reliability and quality standards.
Achievable capacity	the maximum sustained capacity of a generating unit or generator, maintained continuously by a thermal generator for at least 15 hours or by a hydroelectric generator for at least five hours, at standardized operating conditions, as confirmed by tests.
ARA	USD hard coal price index in EU. Loco in harbours Amsterdam-Rotterdam-Antwerp
Balancing market	a technical platform for balancing electricity supply and demand on the market. The differences between the planned (announced supply schedules) and the actually delivered/off-taken volumes of electricity are settled here. The purpose of the balancing market is to balance transactions concluded between individual market participants and actual electricity demand. The participants of the balancing market can be the generators, customers for electricity understood as entities connected to a network located in the balancing market area (including off-takers and network customers), trading companies, electricity exchanges and the TSO as the balancing company.
Base, baseload	standard product on the electricity market: a constant hourly power supply per day in a given period, for example week, month, quarter or year.
BAT	Best Available Technology
Best Practices	Documents „Best Practice for WSE Listed Companies 2016” adopted by the resolution of the WSE Supervisory Board of October 13, 2015 and effective from January 1, 2016 until June 30, 2021 and „Best Practice for WSE Listed Companies 2016 2021” adopted by the resolution of the WSE Supervisory Board of March 29, 2021 and effective from July 1, 2021.
Biomass	solid or liquid substances of plant or animal origin, subject to biodegradation, obtained from agricultural or forestry products, waste and remains or industries processing their products as well as certain other biodegradable waste in particular agricultural raw materials.
Black energy	popular name for energy generated as a result of combustion of black coal or lignite.
CCGT	Combined Cycle Gas Turbine
Circular economy	system that minimises the consumption of resources and the level of waste as well as emissions and energy losses by creating a closed loop of processes in which waste from one process is used as resources in other processes so as to maximally reduce the quantity of production waste
Co-combustion	the generation of electricity or heat based on a process of combined, simultaneous combustion in one device of biomass or biogas together with other fuels; part of the energy thus generated can be deemed to be energy generated with the use of renewable sources.
Co-generation	the simultaneous generation of heat and electricity or mechanical energy in the course of one and the same technological process.
Constrained generation	the generation of electricity to ensure the quality and reliability of the national power system; this applies to generating units in which generation must continue due to the technical limitations of the operation of the power system and the necessity of ensuring its adequate reliability.
CVC fund	Corporate Venture Capital; in the CVC model, portfolio companies, aside from financial support, receive the opportunity to verify their ideas in a corporate setting
Distribution	transport of energy through distribution grid of high (110 kV), medium (15kV) and low (400V) voltage in order to supply the customers.

Distribution System Operator (DSO)	a power company engaging in the distribution of gaseous fuels or electricity, responsible for traffic in the gas or electricity distribution systems, current and long-term security of operation of the system, the operation, maintenance, repairs and indispensable expansion of the distribution network, including connections to other gas or power systems.
Energy cluster	civil-law arrangement that may include natural persons, legal entities, scientific units, research institutes or local government units, concerning the generation, distribution or trade in energy and energy demand balancing, with this energy being from renewable sources or other sources or fuels, within a distribution grid with nominal voltage below 110 kV, within the operational area of the given cluster, not exceeding the area of one district (powiat) in the meaning of the act on district authorities) or 5 municipalities (gmina) in the meaning of the act on municipal authorities; an energy cluster is represented by a coordinator, which is a cooperative, association, foundation appointed for this purpose or any member of the energy cluster indicated in the civil-law arrangement
ERO	Energy Regulatory Office (pol. URE).
EUA	European Union Allowances: transferable CO ₂ emission allowances; one EUA allows an operator to release one tonne of CO ₂ .
EU ETS	European Union Greenhouse Gas Emission Trading Scheme) EU emission trading scheme. Its operating rules are set out in the ETS Directive, amended by the Directive 2009/29/EC of the European Parliament and of the Council of April 23, 2009 (OJ EU L. of 2009, No. 140, p. 63–87).
EV	Electric vehicle
FIT/FIP	Feed-in-Tariff (FIT) and Feed-in-Premium (FIP): system of subsidies to the market price of electricity performed by Zarządca Rozliczeń S.A.
Generating unit	a technically and commercially defined set of equipment belonging to a power company and used to generate electricity or heat and to transmit power.
GJ	Gigajoule, a unit of work/heat in the SI system, 1 GJ = 1000/3.6 kWh = approximately 278 kWh.
GPZ	main power supply point, a type of transformer station used for the processing or distribution of electricity or solely for the distribution of electricity.
Green certificate	popular name for energy generated from renewable energy sources.
GW	gigawatt, a unit of capacity in the SI system, 1 GW = 10 ⁹ W.
GWe	one gigawatt of electric capacity.
GWt	one gigawatt of heat capacity.
HCl	hydrogen chloride.
Hg	mercury.
HICP	Harmonised Index of Consumer Prices
High Voltage Network (HV)	a network with a nominal voltage of 110 kV.
IED	Industrial Emissions Directive
IGCC	Integrated Gasification Combined Cycle.
Installed capacity	the formal value of active power recorded in the design documentation of a generating system as being the maximum achievable capacity of that system, confirmed by the acceptance protocols of that system (a historical value, it does not change over time).
IRIESP	the Transmission Network Operation and Maintenance Manual required to be prepared by a transmission system operator pursuant to the Energy Law; instructions prepared for power networks that specify in detail the terms and conditions of using these networks by system users as well as terms and conditions for traffic handling, operation and planning the development of these networks; sections on transmission system balancing and system limitation management,

	including information on comments received from system users and their consideration, are submitted to the ERO President for approval by way of a decision.
IRZ	Cold Intervention Reserve Service – service consisting of maintaining power units ready for energy production. Energy is produced on request of PSE S.A.
KRI	Key Risk Indicator
KSE	the National Power System, a set of equipment for the distribution, transmission and generation of electricity, forming a system to allow the supply of electricity in the territory of Poland.
KSP	the National Transmission System, a set of equipment for the transmission of electricity in the territory of Poland.
kV	kilo volt, an SI unit of electric potential difference, current and electromotive force; 1kV= 103 V.
kWh	kilowatt-hour, a unit of electric energy in the SI system defined as the volume of electricity used by the 1 kW equipment over one hour. 1 kWh = 3,600,000 J = 3.6 MJ.
kWp	a power unit dedicated to determining the power of photovoltaic panels, means the amount of electricity in the peak of production.
Low Voltage Network (LV)	a network with a nominal voltage not exceeding 1 kV.
LTC	long-term contracts on the purchase of capacity and electricity entered into between Polskie Sieci Elektroenergetyczne S.A. and electricity generators in the years 1994-2001.
Medium-voltage network (MV)	an energy network with a nominal voltage higher than 1 kV but lower than 110 kV.
MEV	Minimum Energy Volumes.
MSR	Market Stability Reserve (relating to CO ₂)
MW	a unit of capacity in the SI system, 1 MW = 10 ⁶ W.
MWe	one megawatt of electric power.
MWt	one megawatt of heat power.
NAP	National emissions Allocation Plan, prepared separately for the national emission trading system and for the EU emission trading system by the National Administrator of the Emission Trading System.
NAP II	National CO ₂ emissions Allocation Plan for the years 2008-2012 prepared for the EU emission trading system adopted by the Ordinance of the Council of Ministers of July 1, 2008 (Dz. U. of 2008, No. 202, item 1248).
NH ₃	ammonia
Nm ³	normal cubic meter; a unit of volume from outside the SI system signifying the quantity of dry gas in 1 m ³ of space at a pressure of 101.325 Pa and a temperature of 0°C.
NO _x	nitrogen oxides.
N:W ratio	Ration of volume of overburden removed in m ³ to the mass of extracted coal in tons
OTF	Organised Trading Facilities
Operational Capacity Reserve (ORM)	ORM constitutes of generation capacities of active Production Scheduling Units (JGWA) in operation or layover, representing excess capacity over electricity demand available to the TSO under the Energy Sale Agreements and on the Balancing Market in unforced generation
Peak, peakload	a standard product on the electricity market; a constant power supply from Monday to Friday, each hour between 7:00 a.m. and 10:00 p.m. (15-hour standard for the

	Polish market) or between 8:00 a.m. and 8:00 p.m. (12-hour standard for the German market) in a given period, for example week, month, quarter or year.
Peak power pumped storage plants	special type of hydro-power plant allowing for electricity storage. It uses the upper reservoir, to which water is pumped from the lower reservoir using electricity (usually excessive in system). The pumped storage facilities provide ancillary control services for the national power system. In periods of increased demand for electricity, water from the upper reservoir is released through the turbine. This way, electricity is produced.
PJ	Petajoule, a unit of work/heat in the SI system, 1 PJ = approx. 278 GWh
Property rights	negotiable exchange-traded rights under green and co-generation certificates
Prosumer	end customer who purchases electricity under a comprehensive agreement and generates electricity only from renewable sources at a micro-installations for own purposes, unrelated to economic activities
PSCMI1	Polish Steam Coal Market Index 1 - average level of prices of coal dust sold to industrial-scale power plants in Poland
RAB	Regulatory Asset Base.
Red certificate	a certificate confirming generation of electricity in co-generation with heat.
Red energy Regulator	popular name for electricity co-generated with heat. the President of ERO, fulfilling the tasks assigned to him in the energy law. The regulator is responsible for, among others, giving out licenses for energy companies, approval of tariffs for energy companies, appointing Transmission System Operators and Distribution System Operators.
Renewable Energy Source (RES)	a source of generation using wind power, solar radiation, geothermal energy, waves, sea currents and tides, flow of rivers and energy obtained from biomass, landfill biogas as well as biogas generated in sewage collection or treatment processes or the disintegration of stored plant or animal remains.
RIG	Readiness Interventional Reserve - the power plant's readiness to provide the active power generation service or its consumption at the request of PSE.
SAIDI	System Average Interruption Duration Index - index of average system interruption time (long, very long and disastrous), expressed in minutes per customer per year, which is the sum of the interruption duration multiplied by the number of consumers exposed to the effects of this interruption during the year, divided by the total number of off-takers. SAIDI does not include interruptions lasting less than three minutes and is determined separately for planned and unplanned interruptions. It applies to breakdowns in the low (LV), medium (MV) and high voltage (HV), wherein SAIDI in quality tariff does not include interruptions on low voltage.
SAIFI	System Average Interruption Frequency Index - index of average system amount of interruptions (long, very long and disastrous), determined as number of off-takers exposed to the effects of all such interruptions during the year divided by the total number of off-takers. SAIFI does not include interruptions lasting less than three minutes and is determined separately for planned and unplanned interruptions. It applies to breakdowns in the low (LV), medium (MV) and high voltage (HV), wherein SAIFI in quality tariff does not include interruptions on low voltage .
SCR	Selective catalytic reduction
SNCR	Selective non-catalytic reduction
Start-up	early-stage company established in order to build new products or services and characterised by a high level of uncertainty. The most common features of start-ups are: short operational history (up to 10 years), innovativeness, scalability, higher risk than in the case of traditional businesses but also potential higher returns on investment
Tariff	the list of prices and rates and terms of application of the same, devised by an energy enterprise and introduced as binding on the customers specified therein in the manner defined by an act of parliament.
Tariff group	a group of customers off-taking electricity or heat or using services related to electricity or heat supply to whom a single set of prices or charges and terms are applied.

TGE	Towarowa Giełda Energii S.A. (Polish Power Exchange), a commodity exchange on which trading can take place in electricity, liquid or gas fuels, extraction gas, emission allowances and property rights whose price depends directly or indirectly on electric energy, liquid or gas fuels and emission allowances, admitted to commodity exchange trading.
TPA, TPA rule	Third Party Access, the owner or operator of the network infrastructure to third parties in order to supply goods/services to third party customers.
Transmission of electricity	transport of electricity through high voltage (220 and 400 kV) transmission network from generators to distributors.
Transmission System Operator (TSO)	a power company engaging in the transmission of gaseous fuels or electric energy, responsible for traffic in a gas or power transmission system, current and long-term security of operation of that system, the operation, maintenance, repair and indispensable expansion of the transmission system, including connections with other gas or power systems. In Poland, for the period from July 2, 2014 till December 31, 2030 Polskie Sieci Elektroenergetyczne S.A. was chosen as a TSO in the field of electricity transmission.
TWh	terawatt hour, a multiple unit for measuring of electricity unit in the system SI. 1 TWh is 10 ⁹ kWh.
Ultra-high-voltage network (UHV)	an energy network with a voltage equal to 220 kV or higher.
V (volt)	electrical potential unit, electric voltage and electromotive force in the International System of Units (SI), $1 \text{ V} = 1\text{J}/1\text{C} = (1 \text{ kg} \times \text{m}^2) / (\text{A} \times \text{s}^3)$.
W (watt)	a unit of power in the International Systems of Units (SI), $1 \text{ W} = 1\text{J}/1\text{s} = 1 \text{ kg} \times \text{m}^2 \times \text{s}^{-3}$.
Yellow certificate	a certificate confirming generation of energy in gas-fired power plants and CCGT power plants.
Yellow energy	popular name for energy generated in gas-fired power plants and CCGT power plants.

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