BlackRock.

Investment Stewardship Group

Voting Bulletin: PGE Polska Grupa Energetyczna SA

As part of our fiduciary duty, BlackRock's Investment Stewardship team (BIS) advocates for sound corporate governance and business practices that are aligned with long-term sustainable financial performance. This objective underpins all our engagements and votes at company meetings.

We engage company leadership on key topics emphasizing governance practices including management of environmental and social factors that potentially have material economic, operational or reputational ramifications for the company.

We determine our engagement priorities based on our observation of market developments and emerging governance themes, and evolve them year over year as necessary. The BIS team's key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management

Our approach to investment stewardship is grounded in an expectation that the board will oversee and advise management, influencing management's approach to key business issues. When effective corporate governance is lacking, we believe that voting against the responsible director(s) is often the most impactful action a shareholder can take.

We are committed to enhancing the transparency of our stewardship practices. Where we believe it will help to understand our voting decisions at shareholder meetings, we will publish a Voting Bulletin explaining the rationale for how we have voted on select resolutions, and (where relevant) provide information around our engagement with the issuer.

Company	**PGE Polska Grupa Energetyczna SA**
Market	Poland
Meeting Date	26th June 2020
Key Resolutions[1]	**Item 11:** Approve Remuneration Policy **Item 12:** Approve Discharge of Anna Kowalik (Supervisory Board Chairman)
Board Recommendation	**Item 11:** FOR **Item 12:** FOR
BlackRock Vote	BIS voted AGAINST the remuneration policy for the lack of transparency and AGAINST the approval of the discharge of Anna Kowalik for the company's lack of progress on climate-related reporting.

[1] Full meeting agenda and resolutions can be accessed at: https://www.gkpge.pl/Investor-Relations/Shareholders-Meetings/2020

Overview

BIS believes that as companies face material climate risks, they must demonstrate that management have assessed how climate may impact operations and have determined an appropriate business strategy. As we describe in our commentaries on our Approach to Engagement on Climate Risk and Emissions, Engagement, and Transition to a Low-Carbon Economy, we expect robust disclosures of climate-related risks and opportunities in line with the recommendations of the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD). Greater transparency will contribute to improved market-level data, better engagements with shareholders, and more informed voting decisions aligned with long-term value creation.

In our engagements with companies on managing climate-related risks and opportunities and adapting to the energy transition, we are mindful of both the need for an acceleration of the market's approach to disclosure, and the challenges inherent to that task. We recognize that producing comprehensive disclosures requires a significant investment in resources and time on the part of a company. We also recognize that each company is unique, starting from its own baseline, with its own capacities and limitations. We seek to achieve a balance between recognizing a company's current position, while encouraging the appropriate urgency in advancing reporting and the practices underlying it.

Climate Risk

PGE Polska Grupa Energetyczna SA (PGE) is a Polish power company that is controlled by the Polish Government (57%) and accounts for approximatively 39% of the electricity produced in the country. The company is involved in the production, sale, and distribution of electricity across six business lines: conventional power generation, wholesale, retail, distribution, renewable power generation and nuclear power generation.

As a fiduciary on behalf of our clients, BIS has engaged with PGE over the past several years on a range of governance and material sustainability topics, including climate-related disclosures.

PGE has set a target to reduce its net emissions ratio (in terms of tons of CO2 per MWh) from 0.98 tons of CO2/MWh in 2013 to 0.78 tons of CO2/MWh in 2025.[2] PGE has also set an ambition to support the implementation of the 25% target share in Polish electricity production from renewable energy sources by 2030. However, the share of coal in PGE's production mix and the carbon intensity of the electricity it produces remain high (>0.84tCO2/MWh in 2019).[3] Moreover, the construction of two new coal power units is ongoing (lignite unit at Turow and a hard coal plant at Opole).

PGE discusses climate related challenges in the company's 2019 report on non-financial data but lacks some of the key features we would expect such as TCFD aligned reporting to further describe the governance around climate-related risks and opportunities, the impacts on the strategy and risk management, the business model's resilience under different energy transition scenarios and relevant scope 1,2 & 3 metrics and targets. The current reporting provides some insights about the company's operational carbon emissions and the management's perspectives on the challenges of the European Union's climate goals but is not aligned with the TCFD framework. Hence, these disclosures fall short of our expectations. Moreover, the existing carbon intensity target remains significantly higher than the average carbon intensity of power generation in Europe.[4]

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[2] For more information, see: https://www.gkpge.pl/Investor-Relations/content/download/51577/plik/sprawozdanie-niefinansowe-gkpge-en-2019.pdf

[3] See previous footnote

[4] According to the European Energy Agency, the CO2 emission intensity of electricity generation was <300gCO2/kWh in 2016 and on a decreasing trend: https://www.eea.europa.eu/data-and-maps/daviz/co2-emission-intensity-5#tab-googlechartid_chart_11_filters=%7B%22rowFilters%22%3A%7B%7D%3B%22columnFilters%22%3A%7B%22pre_config_ugeo%22%3A%5B%22European%20Union%20(current%20composition)%22%5D%7D%7D

The company's inadequate public disclosure is increasingly putting it at odds with its global peers regarding long-term climate adaption strategies and raises concerns about how PGE is managing climate risk and the transition to a lower-carbon economy. We expect greater action on target-setting and conveying the justification for company's approach relative to its peers.

This is in line with our view that the risks of climate change and the transition to a lower carbon economy present material regulatory, reputational, and legal risks to companies, particularly those such as PGE with carbon intensive business models. As a fiduciary for our clients, we see it as material to better understand how these risks are being adequately disclosed and overseen.

We are encouraged by the company's indications that it intends to enhance its climate related disclosures and is considering spinning-off its coal assets (mining and power generation) and refocusing PGE on cleaner energies, supply and distribution.[5] However, there is currently no clear timeframe for this. Depending on the recommendations of the Polish Government expected in the next few months, the spin-off could significantly change the structure and enhance the carbon profile of the company.

We look forward to seeing the enhanced disclosures and commitments in the near future. **However, the company's limited progress in explicitly aligning its reporting with the TCFD recommendations and lack of public commitments to move towards TCFD-aligned reporting falls short of our expectations of large carbon emitters with a previous history of engagement with BIS on this topic.**

Rationale for BlackRock Vote

Item 11: Approve Remuneration Policy (AGAINST)

The policy contains insufficient details concerning incentives and performance-related elements such as performance conditions and targets, vesting and holding periods and participants.

We acknowledge that the Polish law implementing the Shareholder Rights Directive II was only recently approved (October 15, 2019 and effective from November 30, 2019) and understand that reporting practices on those issues are not yet well established in Poland. However, we felt that the current level of transparency was insufficient for us to support the approval of the remuneration policy.

Item 12: Approve Discharge of Anna Kowalik (Supervisory Board Chairman) (AGAINST)

PGE is not an official TCFD supporter and has made no public commitment regarding the alignment of its disclosures with the recommendations of the TCFD. As discussed above, despite sections in the company's 2019 annual and sustainability reports dedicated to GHG emissions and climate change, these climate-related disclosures do not demonstrate sufficient progress towards PGE aligning its reporting with the TCFD recommendations.

In line with our approach of holding directors accountable when a company is not effectively addressing a material issue in the absence of a dedicated Supervisory board committee, we voted against the discharge of Anna Kowalik for lack of progress in relation to climate-risk reporting. Anna Kowalik is the Chair of the Supervisory Board and the most senior non-executive director responsible for the oversight of climate-related issues.

BIS voted in favour of all other management proposals.

We will continue to engage with the company on its governance practices and reporting. Absent progress on public climate-related disclosures in alignment with the TCFD recommendations, we will continue to signal our concerns by voting against relevant board members who are responsible for such oversight.

[5] For more information, see https://www.gkpge.pl/Investor-Relations/financial-data/2020#tab-Q1