

Enclosure to the resolution of the
Supervisory Board of PGE Polska Grupa
Energetyczna S.A.
no./IX/2014 of 2014

**THE REPORT OF THE SUPERVISORY BOARD
OF PGE POLSKA GRUPA ENERGETYCZNA S.A.
ON THE EVALUATION OF THE COMPANY'S POSITION IN THE YEAR 2013,
INCLUDING AN EVALUATION OF THE COMPANY'S INTERNAL CONTROL
SYSTEM AND RISK MANAGEMENT SYSTEM**

PGE Polska Grupa Energetyczna S.A. ("PGE", "the Company") is bound by the corporate governance principles specified in "The Good Practices of Companies Listed on the Warsaw Stock Exchange" ("the Good Practices") adopted by a resolution of the Board of the Warsaw Stock Exchange.

This report has been drawn up based on chapter III item 1 sub-item 1) of the Good Practices; it contains a brief evaluation of the Company's position, including an evaluation of the internal control system and an evaluation of the risk management system. This evaluation has been prepared based on the documents submitted by the Management Board, discussions conducted with the members of the Management Board during the meetings of the Supervisory Board and discussions during the meetings of the permanent committees operating within the Supervisory Board, as well as PGE Polska Grupa Energetyczna S.A. "The IFRS-consistent standalone financial statements of PGE Polska Grupa Energetyczna S.A. for the year ended 31 December 2013" and "The Management Board's report on the activities of PGE Polska Grupa Energetyczna S.A. for the year 2013".

I. AN EVALUATION OF THE COMPANY'S POSITION IN 2013.

1. Significant events

The Supervisory Board evaluated the Company's position in 2013, inter alia, on the basis of the following: "The IFRS-consistent standalone financial statements of PGE Polska Grupa Energetyczna S.A. for the year ended 31 December 2013" and "The Management Board's report on the activities of PGE Polska Grupa Energetyczna S.A. for the year 2013".

Taking into consideration the continuously changing market conditions and challenges faced by the conventional power generation sector, the Supervisory Board was informed that PGE was verifying its strategy and carrying out a detailed review of the pending projects in order to ensure that the PGE Capital Group would follow the optimum development path, taking advantage of all market opportunities within the limits determined by the Group's financial and organizational potential.

The Supervisory Board evaluates positively the activities undertaken by PGE in 2013.

1.1. The implementation of the Company's strategy in 2013.

- In 2013 PGE S.A. coordinated the implementation of the PGE Capital Group's strategic projects in the key operating segments, i.e. the generation of power from conventional and renewable sources, lignite mining, the sale and distribution of electricity to end users, the generation and sale of heat, as well as the wholesale of electricity on the domestic market. The aforementioned projects concentrated on improving operating efficiency and creating value for shareholders.

The year 2013 was characterized by a large number of changes in the market and regulatory environment which exerted a considerable impact on the functioning of the PGE Capital Group. These changes included in particular the following:

- a further fall in the energy wholesale prices connected, first of all, with a slower rise in demand for electricity, a higher supply of renewable energy, as well as a fall in the prices of emission allowances and hard coal;
- preparations for the implementation of the operating power reserve mechanism as of 1 January 2014;
- work on the European Commission's the 2030 policy framework for climate and energy and activities aimed at the introduction of stricter provisions into the EU climate and energy policy, i.e. BAT/BREF reference documents (stricter environmental protection requirements resulting from the best available technologies);
- the presentation of a proposal for a new support system for renewable energy sources and cogeneration.

In the light of the new market and regulatory conditions, the PGE Capital Group continued preparations for the execution of its strategic investment projects and for future challenges in the following areas:

- conventional power generation - the construction and operation of new, effective and high-efficiency generation units fired with fuels acquired from the domestic resources;
- nuclear power generation - the performance of the nuclear power plant construction programme;
- renewable energy generation - the implementation of undertakings within the scope of the Group's investment projects portfolio and acquisitions;
- electricity distribution - investment projects and the modernization of the power grid.

Furthermore, the PGE Capital Group continued intensive work on the development of a programme providing for the adjustment of its power generation assets to the environmental requirements under Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions - integrated pollution prevention and control (IED).

1.2. The finalization of the acquisition processes:

- On 31 July 2013 PGE was merged with its subsidiary PGE Energia Jądrowa S.A., which was entered in the commercial register maintained by the District Court for the Capital City of Warsaw in Warsaw. The objective of the merger was to simplify the organizational structure of the PGE Capital Group, to reduce costs related to the maintenance of a separate business entity, and to increase the effectiveness of the PGE Corporate Centre's management of preparations for the nuclear power plant construction project.
- On 28 June 2013 and 31 July 2013 PGE carried out an acquisition of the wind energy generation assets located in Poland and owned by DONG Energy Wind Power A/S as well as Iberdrola Renovables Energia, S.A.U. and the European Bank for Reconstruction and Development.

1.3. The execution of the project for the development of the PGE Capital Group's Operating Model,

In connection with the PGE Capital Group Operating Model Development Project initiated in 2012, on 20 December 2013 the PGE Management Board adopted a document entitled "The PGE Capital Group Operating Model", which signified the completion of stage II of the aforementioned Project. By the date of this report the document had been adopted by the

largest companies within the PGE Capital Group. Simultaneously with the adoption of the Operating Model, the Project entered its stage III whose objective is the implementation of the solutions proposed in the approved document. The execution of 57 projects is to bring about a permanent implementation of the planned changes in PGE's business processes.

1.4. Implementation of the SAP system in the PGE Capital Group

In 2013 the Company continued the process of implementing the centralized and integrated SAP ERP (Enterprise Resource Planning) information system. The implementation process had started in June 2012. The implementation of the system is to improve the efficiency of management and decision making processes at the Company's various organizational levels.

1.5. The Shared Services Centre Development Programme in the areas of IT and telecommunication ("CUW ICT Programme")

The objective of the CUW ICT Programme is the achievement of the PGE Capital Group's strategic objectives related to the consolidation of the ICT services, which are currently distributed and provided by PGE Systemy S.A. with respect to IT and by Exatel S.A. with respect to telecommunication. The consolidation of these areas is aimed at acquiring measurable business benefits such as an improvement in the PGE Capital Group's operating efficiency, a streamlining of processes, an improvement in information flow and access to information, an optimum utilization of the available technologies and ICT resources as well as an improvement of the quality of provided services. Phase I of the Programme comprising the development of concepts, assumptions and standards for CUW ICT was completed in 2012, and its result was the adoption of the ICT policy by the companies of the PGE Capital Group. Currently the execution of phase II, the transfer of services and responsibilities from the particular companies to PGE Systemy S.A., is coming to an end. The next step will be the centralization and optimization of IT processes, solutions and infrastructure.

2. A description of the activities of the Capital Group

PGE is the parent company in the PGE Capital Group.

The PGE Capital Group's business activities are currently organized in five segments:

- Conventional Power Generation comprises the prospecting for and mining of lignite as well as the generation of electricity and heat in the Group's power plants and cogeneration plants;
- Renewable Power Generation, which comprises the generation of electricity from renewable sources and in pumped storage hydropower plants;
- Wholesale Trade of electricity and related products as well as fuels;
- Distribution of electricity;
- Retail Sales of electricity.

The wholesale trade of electricity and related products is conducted directly in PGE. It is the Company's core activity. Within the scope of the remaining activities, PGE provides so-called supporting services for the benefit of the companies belonging to the PGE Capital Group, leases IT systems and rents office space.

In 2013 the PGE Capital Group's power producers sold electricity to PGE through the regulated markets and power exchanges (within the scope of the regulations of Article 49a clauses 1 and 2 of the Energy Law, i.e. the so-called "power exchange obligation") and directly to external customers. When on 31 March 2013 the Warsaw Stock Exchange (GPW) shut down its commodities trading system, the exchange trading in electricity was transferred to the Polish Power Exchange ("TGE"). Energy purchased by PGE on the regulated markets and power exchanges as well as from external contractors was resold to the companies from the PGE Capital Group such as the Retail Sales Company and the Distribution Company, the contractors from beyond the PGE Group, on the

domestic and foreign markets. The Retail Sales company from the PGE Capital Group made electricity purchases also from the local power generation sources located at the area where the company performs the role of the sales company ex officio. A slow economy during the 12 months ended 31 December 2013 contributed to the continued low demand for electricity in the National Electricity Power System. The demand for electricity in that period was by about 0.6% higher than during the 12 months ended 31 December 2012.

In 2013 PGE purchased hard coal for the power plants as well as CHP plants belonging to the PGE Capital Group from a number of suppliers. The major hard coal supplier is Kompania Węglowa S.A., with over 69% share in annual hard coal deliveries to PGE. Kompania Węglowa S.A. is the largest producer of hard coal in Poland. It has a 50% share in the hard coal production market, and a 56% share in the market of hard coal used power generation.

Apart from the above five major business lines, the PGE Capital Group conducts activities also in other areas, including telecommunication. The Group comprises also other companies whose major business activities consists in providing auxiliary services to companies from the power and mining sectors. Such services comprise, among others,

- construction, repair and modernisation work as well as investment work related to power generation equipment,
- the performance of comprehensive diagnostic tests and measurements of power generation machines and equipment,
- the management of by-products of coal and lignite combustion, the development and implementation of technologies based on the utilisation of such products and the restoration of derelict industrial areas,
- medical and social services.

3. Changes in the organization of the Company and the Capital Group

In connection with the PGE Management Board's decision of 15 January 2013 to initiate the PGE Capital Group programme of restructuring and asset disposal aimed at the acquisition of required business effects by way of disposing of, winding up or consolidating selected companies and assets, after conducting business analyses, the Company defined 19 projects within the aforementioned programme. The objective of these projects is the implementation of adopted recommendations concerning 28 companies belonging to the PGE Capital Group.

In 2013 the programme activities included analytical works concerning all companies covered by the programme as well as some implementation tasks related to selected entities, in particular:

- The finalized shares/interests sales transactions related to the following entities:
 - Monnari Trade S.A. - sale on the Warsaw Stock Exchange;
 - Miraculum S.A. - sale on the Warsaw Stock Exchange;
 - BOŚ S.A. - sale on the Warsaw Stock Exchange;
 - BHE Dychów sp. z o.o. - sale to an external investor;
 - Bełchatowsko Kleszczowski Park Przemysłowo Technologiczny sp. z o.o. - sale to an external investor;
 - Wytwórnia Sprzętu Komunikacyjnego PZL-Kalisz S.A. - sale to an external investor.
- The finalized shares/interests sales transactions within the PGE Capital Group:
 - PGE Gubin sp. z o.o. - PGE sold its shares in the company to PGE GiEK S.A.;
 - ENERGO-TEL S.A. - Niezależny Operator Międzystrefowy sp. z o.o. sold ENERGO-TEL S.A. shares to EXATEL S.A.

- The finalized shares/interests purchase transactions related to the following entities:
 - PGE GiEK S.A. - purchase of shares in the company from the State Treasury / other share purchase transactions with other minority shareholders are still in progress;
 - PGE GiEK S.A. - transfer of shares in the company from PGE Obrót S.A. to PGE;
 - PGE Obrót S.A. - buyout of shares from minority shareholders and redemption of treasury shares;
 - PEC Bełchatów sp z o.o.- purchase of 4% of shares in the company.
- The completed consolidation processes:
 - acquisition of EPO sp. z o.o. by "ELTUR-WAPORE" sp. z o.o. - merger of the companies under a new business name of EPORE sp. z o.o.;
 - E-Telbank sp. z o. o - merger between E-Telbank sp. z o.o. and EXATEL S.A.
- The completed internal restructuring processes:
 - MEGA-SERWIS sp. z o.o. - transfer of service operations from ELBEST sp. z o.o.;
 - Transfer of 100% of shares in ELMEN sp. z o.o. and 51% of shares in Energoserwis Kleszczów sp. z o.o. from ELBIS sp. z o.o. to PGE GiEK S.A.;
 - PGE GiEK S.A. acquired minority shareholdings (1.34%) in PTS BETRANS sp. z o.o. from PGE Dystrybucja S.A., PGE Obrót S.A. and PGE Energia Odnawialna S.A.;
 - An agreement on the sale of the means of transport from ETRA sp. z o.o. to PGE Dystrybucja S.A.

According to the plan, all the works are to be completed in the middle of 2015 and their effect will be the generation of benefits for the PGE Capital Group in the form of both revenues from the planned transactions and cost reductions achieved due to the implemented changes. In 2014 the restructuring programme activities will be continued within the scope of 14 projects:

- 9 projects related to the sale of shares/share packages;
- 2 consolidated projects;
- 2 restructuring projects;
- 1 company liquidation project.

4. The economic and financial position

During the period ended 31 December 2013 PGE did not stop any of its significant activities.

In 2013 the Company recorded:

- balance sheet total of PLN 31,378.8 million
- equity of PLN 29,985.7 million
- net profit of PLN 2,337.6 million

Table: Basic financial ratios

| | For years ended 31 December | |
|-----------------------------------|-----------------------------|-----------|
| | 2013 | 2012 |
| PROFITABILITY RATIOS | | |
| ROE - return on equity (%) | 8% | 3% |

gross profit (loss) / equity

| | | |
|--------------------------|------------|-----------|
| Net profit margin | 19% | 7% |
|--------------------------|------------|-----------|

net profit (loss) / net sales revenues

EBITDA

| | | |
|---|-----------|-----------|
| operating profit (loss) + depreciation / net sales revenues | 8% | 5% |
|---|-----------|-----------|

LIQUIDITY AND FINANCIAL STRUCTURE RATIOS
Current ratio

| | | |
|--------------------------------------|-----------|----------|
| current assets / current liabilities | 10 | 3 |
|--------------------------------------|-----------|----------|

Total debt ratio

| | | |
|----------------------------------|-----------|-----------|
| total liabilities / total assets | 4% | 4% |
|----------------------------------|-----------|-----------|

Net debt / EBITDA

| | | |
|--|--------------|--------------|
| (interest bearing liabilities - cash) / operating profit (loss) + depreciation | -1.21 | -1.21 |
|--|--------------|--------------|

ECONOMIC ACTIVITY RATIOS**Receivables - days**

| | | |
|---|-----------|-----------|
| average net trade receivables x days / net sales revenues | 22 | 23 |
|---|-----------|-----------|

Payables - days

| | | |
|--|-----------|-----------|
| average trade payables x days / cost of products, goods and materials sold | 10 | 16 |
|--|-----------|-----------|

Inventory turnover

| | | |
|---|----------|-----------|
| inventory x days / cost of products, goods and materials sold | 9 | 18 |
|---|----------|-----------|

4.1 Statement of comprehensive income

| PLN thousand | 2013 | 2012 | change % |
|---------------------------|------------------|----------------|-------------|
| Sales revenues | 12,407,774 | 10,529,765 | 18% |
| Cost of own sales | 11,269,343 | 10,010,962 | 13% |
| Gross sales result | 1,138,431 | 518,803 | 119% |

| | | | |
|--|------------------|----------------|-------------|
| <i>% of income from total sales</i> | 9% | 5% | |
| Selling expenses and General and administrative expenses | 178,887 | 159,886 | 12% |
| Profit on sales | 959,544 | 358,917 | 167% |
| Reversal of provision for Alpiq Holding AG | 3,543 | 166,688 | -98% |
| Other operating revenue | 12,767 | 18,138 | -30% |
| Other operating expenses | 9,760 | 3,227 | 202% |
| EBIT | 966,094 | 540,516 | 79% |
| <i>% of income from total sales</i> | 8% | 5% | |
| Revenue from dividends | 1,278,989 | 437 | 292,575% |
| Other finance income | 322,013 | 535,217 | -40% |
| Finance costs | 26,688 | 104,478 | -74% |
| Gross profit | 2,540,408 | 971,692 | 161% |
| <i>% of income from total sales</i> | 20% | 9% | |
| Income tax expense | 202,849 | 199,521 | 2% |
| Net profit | 2,337,559 | 772,171 | 203% |
| <i>% of income from total sales</i> | 19% | 7% | |
| EBITDA | 983,889 | 560,965 | 75% |
| <i>% of income from total sales</i> | 8% | 5% | |

In consequence of two events which occurred in 2013, the data for total revenues achieved in 2012 were adjusted for the purpose of their comparability with the 2013 data. These events included the following:

1. The merger of PGE with PGE Energia Jądrowa S.A. effected on 31 July 2013,
2. Changes in the principles of assessing the value of purchased emissions allowances.

These events are described in detail in note 11 to the PGE standalone financial statements for the year 2013.

PGE's gross profit on sales in the financial year ended 31 December 2013 amounted to **PLN 1,138,431,000**, which constituted a 119% rise over the result achieved in the financial year ended 31 December 2012. This increase resulted mainly from higher electricity wholesale volumes and a sales margin five times higher than that of 2012. The achieved level of gross profit on sales was also influenced considerably by revenues from the service called the Generation Capacity Commercial Management. PGE recorded a 20% increase in these revenues over the result of 2013.

In 2013 total selling expenses of PGE amounted to PLN 178,887,000, which constituted an increase of PLN 19,000,000 over the 2012 level. The higher level of the general and administrative expenses was determined by an increase in advertising costs resulting, among other things, from intensified image-related activities aimed at the improvement of PGE brand awareness and the target group's

knowledge of power generation issues, as well as an increase in personnel costs resulting from changes in the PGE organizational structure effected within the scope of the Operational Model project.

In 2013 the result on other operating activities amounted to PLN 6,550,000, PLN 175,049,000 less than in the previous year, which results mainly from the settlement of a dispute with a foreign business partner and the reversal of related provisions: PLN 166,688,000 in 2012 and PLN 3,544,000 in 2013.

In 2013 the result on financing activities was PLN 1,574,414,000, a rise of PLN 1,143,138,000 over the result achieved a year before. This amount was determined mainly by an increase in revenues from dividends of PLN 1,278,989,000 and a simultaneous decrease in revenues from interest bearing deposits of PLN 111,494,000 and a PLN 101,710,000 fall in profit from bonds held by the Company.

4.2 Statement of financial position

At the end of 2013 the value of the Company's fixed assets was PLN 27,914,383,000. This amount had increased by PLN 961,695,000 during the course of the year. Changes in the fixed assets structure resulted mainly from consolidation and acquisition undertakings. The value of interests and shares held in the subsidiaries rose by PLN 1,275,421,000 mostly in consequence of the acquisition of an increase in the share capital of PGE Energia Odnawialna S.A., the merger of PGE with its subsidiary PGE Energia Jądrowa S.A. as well as the acquisition of interests and shares in companies managing and operating wind farms.

In 2013 r. the value of current assets reached the level of PLN 3,464,427,000 and rose by PLN 70,377,000 in comparison to 2012. Changes in the current assets structure resulted mostly from the redemption of bonds by PGE Górnictwo i Energetyka Konwencjonalna S.A., which caused a fall in the value of fixed assets by PLN 1,026,776,000. In connection with changes in the principles of determining the value of purchased emissions allowances, the Company recorded an increase in the fair value of short-term financial assets to the level of PLN 104,248,000. A PLN 1,229,565,000 increase in cash is correlated with the PLN 1bn PGE bond issue. As at 31 December 2013 the value of the Company's inventories was by PLN 210,533,000 lower than a year before. This was caused mainly by a lower number of property rights and CO₂ emission allowances held by PGE and recognized as inventories as at the balance sheet date.

4.3 Statement of cash flows

Cash and cash equivalents as at 31 December 2013 equalled PLN 2,188,096,000 and were PLN 1,228,323,000 higher than at the end of the corresponding period of 2012.

Net cash flows from operating activities The operating activities in the 12-month period ended 31 December 2013 generated positive cash flows of PLN 468,951,000. These positive cash flows were influenced by EBIT of PLN 966,095,000 which comprised electricity wholesale results and the provision of services under the PGE GiEK S.A. generation capacities commercial management agreement.

Net cash flows from investing activities. Positive net cash flows from investing activities for the reporting period ended 31 December 2013 amounted to PLN 1,533,445,000.

The positive balance of cash flows from investing activities results first of all from net cash flows related to the Company's acquiring bonds issued by the companies belonging to the PGE Capital Group. In 2013 PGE acquired such bonds for the total amount of PLN 27,124,754,000. For comparison, in 2012 it had been the amount of PLN 12,041,273,000. A PLN 2,103,395,000 fall in cash flows from investing activities was the consequence of the PGE CG companies reducing their debt to the parent company in the form of bonds for the amount of PLN 1,391,800,000.

Net cash flows from financing activities. Net cash flows from financing activities in 2013 amounted to PLN (-) 774,073,000 versus PLN (-) 3,285,752,000 of net cash flows from financing activities in 2012. This is the effect of dividends paid to shareholders. In 2013 PGE paid dividends for the total amount of PLN 1,607,944,000.

4.4 Financial resources management

During the 2013 reporting period PGE and its subsidiaries financed their activities mainly from funds generated by their economic activities, credits, and bond issues.

In 2013 PGE Polska Grupa Energetyczna S.A. did not carry out any share issues.

On 27 June 2013 PGE carried out a PLN 1bn bond issue addressed to investors active on the Polish capital market. The acquired funds were allocated for the purchase of wind farms from the companies DONG and Iberdrola. The maturity date of the bond issue is 27 June 2018.

The Company acquired bonds issued by companies belonging to the PGE Capital Group. The funds acquired within the intra-group bond issue programme were used to finance current operations as well as particular investment projects executed by the PGE Capital Group companies.

Cash and cash equivalents held by PGE as well as the open credit limits ensure sufficient funds for financing the Company's current operations.

5. Description of significant agreements

The section below describes the agreements which, according to PGE, are the agreements entered into within the scope of ordinary business activities and are of significant importance for the Company's activities.

5.1. Agreement for sales of electricity to PGE Obrót S.A.

In 2013 PGE continued sales of electricity to PGE Obrót S.A. on the basis of framework agreement for sales of electricity concluded in 2007. The energy sold is intended for covering of the needs of end-users at PGE Obrót S.A. The sale is performed on the basis of transaction agreements covering the needs reported by PGE Obrót S.A. In 2013 sales revenues under this agreement amounted to PLN 6,930.0 million, which represented 55.8% of total sales revenues.

5.2. EFET energy sales agreement with ENERGA - OBRÓT S.A.

In 2013 an important revenue source was an energy sales agreement entered into with ENERGA-OBRÓT S.A. in October 2012 on the basis of an EFET master contract. The agreement generated revenues of PLN 1,559,200,000, which constituted 22.5% of PGE's total operating revenues.

5.3. Agreements with power generators within the PGE Capital Group

In view of the amendment to the Energy Law effective as of 9 August 2010 and regulating, through article 49a, the procedure of selling energy by entities which generate energy (the so-called "power

exchange obligation"), in 2013 the agreement entered into between PGE and PGE Górnictwo i Energetyka Konwencjonalna S.A. for the purchase of electricity not covered by the aforementioned obligation remained in force. This is an agreement for an indefinite period of time. Under this agreement, electricity is purchased on the basis of transaction arrangements.

5.4. Agreements for the delivery of hard coal

In 2013 these plants were supplied with coal by PGE Polska Grupa Energetyczna S.A. on the basis of agreements entered into mainly with domestic producers of coal. The major hard coal supplier is Kompania Węglowa S.A., with over 69% share in annual hard coal deliveries to PGE Capital Group. The other hard coal suppliers were Kompania Węglowa S.A., Jastrzębska Spółka Węglowa S.A., Katowicki Holding Węglowy S.A., SUEK Polska Sp. z o.o., HAWEX Sp. z o.o.

From July 2013 to September 2013 the Company conducted the process of transferring hard coal supply agreements to PGE GiEK S.A. Since October 2013 all purchases of raw materials required by PGE GiEK S.A. for power generation purposes are handled by PGE under the generation capacities commercial management agreement concluded in April 2012.

5.5. Agreement with Powszechna Kasa Oszczędności Bank Polski S.A. ("PKO BP")

On 20 January 2014 PGE and PGE Górnictwo i Energetyka Konwencjonalna S.A. entered into an agreement with PKO BP. The subject of the agreement is PKO BP's providing PGE GiEK S.A. with a bank guarantee up to the maximum amount of PLN 2,548,607,000. The guarantee's beneficiary will be the general contractor of the power generation units no. 5 and 6 in the Opole Power Plant (the investment project of PGE GiEK S.A.).

At a request of PGE GiEK S.A., the subject of the agreement is the establishment:

a) of a payment guarantee up to the maximum amount of PLN 1,300,310,000 (PGE GiEK S.A. undertook to provide the general contractor of the power generation units no. 5 and 6 in the Opole Power Plant with a payment guarantee covering 15% of the total project price and the guarantee granted by PKO BP will cover 75% of all project-related liabilities; a payment guarantee for the remaining part of the price has been secured under guarantee agreement concluded with other banks);

b) a construction works payment guarantee up to 100% of the granted guarantee facility.

The agreement provides for the following security:

a) PGE's sureties up to 120% of the factual guarantee amount;

b) a declaration of voluntary submission to enforcement proceedings issued by PGE GiEK S.A. (up to 120% of the guarantee amount) and a declaration of voluntary submission to enforcement proceedings issued by PGE as a surety (up to 120% of the factual guarantee amount).

6. Important factors for the development of PGE and PGE Capital Group

According to the Management Board, the factors listed below will influence the Company's and the Capital Group's financial results at least in the next quarter of the year:

- the volume of demand for electricity and heat;
- the prices of electricity on the wholesale and retail markets;
- the prices of property rights;
- the availability and prices of fuels used in the generation of electricity and heat, in particular the prices of hard coal, natural gas and biomass;

- the availability of cross-border transmission capacities;
- seasonality and weather conditions;
- increased power generation capacities in the national power system, including those based on renewable energy sources;
- changes in the macroeconomic environment of the PGE Capital Group, particularly in interest rates and currency exchange rates, which influence the evaluation of the Group's assets and liabilities;
- the prices of CO₂ emission allowances;
- the termination of the process of allocating free emission allowances to the power plants of the PGE Capital Group for the years 2013-2020;
- the European Commission's decision to move the sale of some emission allowances from the period 2013-2015 to the period 2019-2020 (so-called "backloading") or to remove a part of emission allowances from the market (so-called "setaside");
- a failure to acquire free emissions allowances for the year 2013 for power generation installations as at the time of the settlement of factual emissions for 2013 (i.e. by the end of April 2014);
- the lack of national regulations concerning emissions allowances trading;
- amendments to the Energy Law, in particular with respect to the optimization of the renewable energy sources and cogeneration support systems;
- reviews of the national energy policy;
- amendments to the Environmental Protection Act, in particular with respect to the implementation of the Industrial Emissions Directive;
- the results of the explanatory proceedings conducted by the President of the Energy Regulatory Office with respect to the issue of certificates of origin for energy generated from biomass in some branches of PGE GiEK S.A.;
- the decisions of the President of the Energy Regulatory Office concerning the implementation of the Power Purchase Agreements Act and the court's ruling on the disputes between the President of the Energy Regulatory Office and the energy producers from the PGE Capital Group entitled to receive compensations under the PPA Act with regard to the annual adjustments of the stranded costs for 2008 and annual adjustments of the stranded costs and annual adjustments of costs incurred by gas-fired units in 2009, 2010, 2011 and 2012 (cf. Note No. 26.1 of the consolidated financial statements);
- the execution of operations improvement projects within the PGE Capital Group;
- possible adverse settlements of legal and tax disputes or other contingent liability disputes; the most important of them have been presented in Note 20 to the consolidated financial statements.

7. Risks and threats to PGE and PGE Capital Group

The business activities of PGE and other major companies belonging to the PGE Capital Group, for which PGE is the parent company, similarly to the activities of other entities operating in the power generation sector, are exposed to a number of risks and threats, both external ones related to the market, legal or regulatory environments and internal ones related to the conduct of business operation.

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

- the risk related to the macroeconomic situation in Poland and abroad;
- the risk of intensifying competition (the freedom of choosing an electricity provider);
- the risk of lower demand for electricity and heat;
- the political risk;

- the risk of an inconsistent legal environment;
- the risk of changes to the system of support for cogeneration and renewable energy sources;
- the risk related to the requirement to hold a licence;
- the risk connected with a potential breach of anti-monopoly regulations;
- the risk related to the CO₂ emission reduction programme;
- the risk of limitations in the emission of substances other than CO₂;
- the risk of interruptions in fuel supplies and insufficient fuel stocks;
- the risk related to the costs of reclaiming previously mined areas;
- the risk related to the atmospheric factors;
- the risk related to overhauls, repairs, upgrades and investment projects;
- the risk of unregulated legal situations of real estates;
- the risk related to the acquisition and costs of external financing;
- the risk related to the decisions of the President of the Energy Regulatory Office within the execution of the Long-term Power Purchase Agreements Law;
- the risk of transfer prices;
- the risk of insufficient insurance coverage;
- the risk related to court, arbitration and administrative proceedings and claims of employees;
- the risk of asset value loss;
- the risk of goods prices;
- the interest rate risk;
- the foreign exchange risk;
- the liquidity risk;
- the credit risk.

II. AN EVALUATION OF THE INTERNAL CONTROL SYSTEM AND AN EVALUATION OF THE RISK MANAGEMENT SYSTEM.

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

The key elements of PGE's internal control and risk management systems include the following:

- a) the Company's internal processes, both automatic and manual control mechanisms limiting the level of risks related to the achievement of business objectives,
- b) the formalised risk management process allowing the Company the orderly and comprehensive - on the basis of the methodology common for the whole Capital Group - identification, measurement and current management of financial and non-financial risks occurring during the course of business operations. Risk management is to provide information on threats to the achievement of business objectives and to limit the negative consequences of such threats; this should support the fulfilment of the strategic objectives, the current operations, the achievement of planned and adopted financial objectives as well as to ensure the conduct of activities in accordance with the law and the formal internal regulations. Risk management allows PGE to take preventive or corrective action in response to threats to the fulfilment of business objectives. Risk management is a central function which, nevertheless, covers the whole Group and is supported by all companies belonging to the Group.

PGE's central risk management team determines the methodology of risk management and is responsible for its implementation. The major objective of the team's activities is to generate up-to-date and reliable knowledge of threats to PGE CG's operation and to contribute to the limitation of such threats' potential consequences. In order to ensure the achievement of this objective, PGE, in cooperation with the companies belonging to PGE CG, is responsible in particular for the execution of the following tasks:

- the identification of risks and preparation of registers of risks for the particular business segments,
- the measurement and quantification of risks as well as the preparation of risk maps for the particular business segments,
- the development of risk management models for the particular business segments; risk analysis, including the determination of risk management strategies, methods and tools,
- the monitoring and reporting of risk management results.

The so-called risk owners (the companies belonging to the PGE Capital Group, PGE's organisational units) are responsible for current risk management, in accordance with the determined methodology.

- c) the internal audit whose objective is carry out an independent and objective evaluation of the internal control and risk management systems. PGE's internal audit functions on the basis of the internal audit regulations developed in accordance with the international standards of professional internal audit practices. Audits comprise planned and summary audit tasks both in the parent company and the Group's other companies. Audit results are reported to the PGE Management Board. Recommendations resulting from conducted audits are successively implemented by the responsible entities (the PGE Capital Group companies, PGE's organisational units), and their implementation status is monitored periodically.
- d) the dedicated function of investigative control focusing on the identification of malfeasances and the conduct of evidence and protective proceedings in PGE and PGE CG;
- e) the controlling function; in its scope, periodic managerial reports are evaluated with respect to the rationality of information included in them, in particular within the context of analysing deviations from the assumptions adopted in financial plans.

In particular, the following internal control and risk management tools are used in the process of drawing up the Company's financial statements: internal procedures regulating the process, the mechanisms of managing IT systems used in financial information recording and reporting as well as their protective mechanisms, the principles of supervision over the preparation of financial statements, the principles of the verification and evaluation of financial statements, internal audits and corporate risk management as well as other elements of control. An independent evaluation of the reliability and correctness of the financial statements prepared by PGE and the companies subject to the process of consolidation is carried out by certified auditors. Two firms have been selected to audit the 2013 financial statements prepared in the key companies of the PGE Capital Group. They will be responsible for the review of half-annual financial statements as well as the preliminary and major audit of the financial statements. PGE CG operates a multi-stage process of approving financial statements, including also the participation of the Supervisory Boards. It is the Supervisory Board that evaluates the separate and consolidated financial statements of PGE. The separate financial statements of the companies subject to the process of consolidation are evaluated by their respective Supervisory Boards. The financial statements are approved by the General Meetings of the particular companies.

According to the Company Statutes, the Supervisory Board exercises permanent supervision over the Company's operations in all areas of activity.

Once a year the Supervisory Board adopts its own plan of work taking into consideration the necessity of the Board's becoming familiar with important materials describing the Company's financial position and providing information on possible risks.

The Supervisory Board supervises the Company's internal control system mainly through its Audit Committee. The major objective of the Audit Committee is providing the Supervisory Board with recommendations and opinions concerning matters belonging to its scope of operation, inter alia, the examination of the correctness and effectiveness of conducting internal financial inspections in the Company and PGE CG and cooperation with the Company's auditors.

The Supervisory Board evaluates positively the internal control system as well as the risk management used in PGE in 2013.

Chairperson of the Supervisory Board
of PGE Polska Grupa Energetyczna S.A.
/-/ [an illegible signature]
Barbara Dybek

Members of the Supervisory Board

| | |
|------------------------|------------------------------|
| Jacek Barylski | /-/ [an illegible signature] |
| Jarosław Gołębiewski | /-/ [an illegible signature] |
| Czesław Grzesiak | |
| Anna Kowalik | /-/ [an illegible signature] |
| Piotr Machnikowski | /-/ [an illegible signature] |
| Małgorzata Mika-Bryska | /-/ [an illegible signature] |
| Małgorzata Molas | /-/ [an illegible signature] |
| Krzysztof Trochimiuk | /-/ [an illegible signature] |