

A REPORT ON THE ACTIVITIES OF THE SUPERVISORY BOARD OF PGE POLSKA GRUPA ENERGETYCZNA S.A. IN THE YEAR 2016

1. Information on the Supervisory Board's term of office and activities undertaken in the previous year of the term.

The current 10th joint term of office of the Supervisory Board of PGE Polska Grupa Energetyczna S.A. (hereinafter also "Company", "PGE S.A." or "PGE") commenced on 25 June 2015 to last for three years.

2. The composition of the Supervisory Board, duties fulfilled by the particular members, changes in the composition of the Supervisory Board during the course of the financial year.

Before 28 January 2016 the Supervisory Board had functioned in the following composition:

Anna Kowalik	Chairperson of the Supervisory Board
Jacek Barylski	Vice Chairperson of the Supervisory Board
Małgorzata Molas	Secretary of the Supervisory Board
Małgorzata Mika-Bryska	Member of the Supervisory Board
Jarosław Gołębiowski	Member of the Supervisory Board - independent member
Piotr Machnikowski	Member of the Supervisory Board - independent member
Marek Ściążko	Member of the Supervisory Board - independent member
Jacek Fotek	Member of the Supervisory Board - independent member

On 28 January 2016 the State Treasury, represented by the Minister of the State Treasury, appointed Mr Marek Pastuszko to the Supervisory Board on the basis of a written declaration submitted to the Management Board. On 29 January 2016 Mr Marek Pastuszko was delegated by the PGE Supervisory Board to perform temporarily the duties of the Member of the Management Board for Corporate Affairs. Subsequently, on 25 February 2016 Mr Marek Pastuszko submitted his resignation from the position of Member of the PGE Supervisory Board.

On 5 February 2016 the Company received Mr Piotr Machnikowski's resignation from membership in the PGE Supervisory Board.

On 1 March 2016 the Extraordinary General Meeting adopted resolution concerning the following:

- the dismissal of the following members of the Supervisory Board: Mr Jacek Barylski, Ms Małgorzata Molas, Mr Jarosław Gołębiowski, Mr Jacek Fotek and Mr Marek Ściążko;
- the appointment of the following people to the Supervisory Board: Mr Jarosław Głowacki, Ms Janina Goss, Mr Mateusz Gramza, Mr Mieczysław Sawaryn, Mr Artur Składanek and Mr Grzegorz Kuczyński.

Furthermore, on 01 March 2016 the State Treasury, represented by the Minister of the State Treasury, appointed Mr Paweł Śliwa to the Supervisory Board on the basis of a written declaration submitted to the Management Board. On 22 March 2016 Mr Paweł Śliwa submitted his resignation from the position of Member of the PGE Supervisory Board.

On 5 September 2016 the Extraordinary General Meeting appointed Mr Witold Kozłowski to perform the duties of Member of the PGE Supervisory Board and dismissed Ms Małgorzata Mika-Bryska from the Supervisory Board. Simultaneously, on 5 September 2016 the Minister of Energy, representing the State Treasury, appointed Mr Radosław Osiński to the Supervisory Board on the basis of a written declaration submitted to the Management Board.

As at 31 December 2016 the Supervisory Board functioned in the following composition:

Anna Kowalik	Chairperson of the Supervisory Board
Radosław Osiński	Vice Chairperson of the Supervisory Board - non-independent member
Grzegorz Kuczyński	Secretary of the Supervisory Board - independent member
Jarosław Głowacki	Member of the Supervisory Board - independent member
Janina Goss	Member of the Supervisory Board - independent member
Mateusz Gramza	Member of the Supervisory Board - independent member
Witold Kozłowski	Member of the Supervisory Board - independent member
Mieczysław Sawaryn	Member of the Supervisory Board - independent member
Artur Składanek	Member of the Supervisory Board - independent member

3. Information on the number of meetings held and resolutions adopted by the Supervisory Board.

In 2016 the Supervisory Board held 17 meetings and adopted 103 resolutions.

4. Information on the Supervisory Board members' attendance at meetings and participation in voting on resolutions as well as their justified or unjustified absences.

#	Date of meeting	Number of Board Members present	Number of Board Members absent	Resolutions on justification of absences
1.	29.01.2016	9	0	-
2.	16.02.2016	7*	0	-
3.	18.02.2016	7*	0	-
	Continued 23.02.2016	6*	1	Resolution no. 69/X/2016
	Continued 24.02.2016	7*	0	-
	Continued 25.02.2016	7*	0	-
	Continued 26.02.2016	6	1	Resolution no. 69/X/2016

4.	02.03.2016	8	1	Resolution no. 82/X/2016
5.	07.03.2016	9	0	-
6.	18.03.2016	8	1	Resolution no. 82/X/2016
	Continued 21.03.2016	8**	0	-
	Continued 22.03.2016	8**	0	-
7.	25.04.2016 at 9:00 am	8	0	-
8.	25.04.2016 at 11:00 am	8	0	-
9.	31.05.2016	8	0	
10.	22.06.2016	6	2	Resolution no. 125/X/2016 Resolution no. 126/X/2016
11.	05.07.2016	6	2	Resolution no. 127/X/2016 Resolution no. 131/X/2016
12.	30.08.2016	7	1	Resolution no. 131/X/2016
13.	06.09.2016	8	1	Resolution no. 133/X/2016
14.	13.09.2016	8	1	Resolution no. 144/X/2016
15.	18.10.2016	7	2	Resolution no. 145/X/2016 Resolution no. 146/X/2016
16.	30.11.2016	9	0	-
17.	06.12.2016	9	0	-

* From 29 January 2016 to 25 February 2016 Mr Marek Pastuszko, Member of the Supervisory Board, was delegated to perform temporarily the duties of a Member of the Management Board.

** Mr Paweł Śliwa, Member of the Supervisory Board, in connection with his participation in the recruitment procedure for the position of Vice President of the Management Board for Innovation, pursuant to § 6 clause 2 of the Regulations of the

Supervisory Board of PGE Polska Grupa Energetyczna S.A., excluded himself from the work of the Supervisory Board until the completion of the recruitment procedure.

5. Important issues dealt with by the Supervisory Board; conducted inspections and clarifying investigations.

During its meetings held in 2016, the Supervisory Board dealt, among others, with the following issues:

within the scope of the Supervisory Board's activities as provided for by the Company Statutes:

- conducted an evaluation of The EU-IFRS-compliant standalone financial statements of PGE Polska Grupa Energetyczna S.A. for the year ended 31 December 2015;
- conducted an evaluation of The Management Board's report on the activities of the Capital Group of PGE Polska Grupa Energetyczna S.A. for the year ended 31 December 2015;
- conducted an evaluation of The EU-IFRS-compliant consolidated financial statements of PGE Polska Grupa Energetyczna S.A. for the year ended 31 December 2015;
- conducted an evaluation of The Management Board's report on the activities of the Capital Group of PGE Polska Grupa Energetyczna S.A. for the year ended 31 December 2015;
- conducted an evaluation of the Management Board's motion addressed to the General Meeting concerning the distribution of net profit for the financial year 2015, the determination of the dividend record date and the dividend payment date;
- adopted the Supervisory Board's report on the results of the evaluation of “The EU-IFRS-compliant standalone financial statements of PGE Polska Grupa Energetyczna S.A. for the year ended 31 December 2015”, “The Management Board's report on the activities of PGE Polska Grupa Energetyczna S.A. for the year ended 31 December 2015” and the motion of the Management Board of PGE Polska Grupa Energetyczna S.A. to the General Meeting concerning the distribution of net profit for the financial year 2015, the determination of the dividend record date and the dividend payment date;
- adopted the Supervisory Board's report on the results of the evaluation of “The EU-IFRS-compliant consolidated financial statements of the Capital Group of PGE Polska Grupa Energetyczna S.A. for the year ended 31 December 2015” and “The Management Board's report on the activities of the Capital Group of PGE Polska Grupa Energetyczna S.A. for the year ended 31 December 2015”;
- gave its consent to the participation of PGE Polska Grupa Energetyczna S.A. in the project providing for the construction of Poland’s first electric vehicle – the company ElektroMobilityPoland S.A.;
- gave its consent to donations for the benefit of the Polish National Foundation;

- gave its consent to the incurrence of a financial liability by PGE Polska Grupa Energetyczna S.A. in the form of a credit from the European Bank for Reconstruction and Development;
- gave its consent to the implementation of the project related to involvement in the company Polska Grupa Górnicza sp. z o.o.;
- determined the composition of the permanent committees of the Supervisory Board of the 10th term of office;
- determined the consolidated text of the Company Statutes after the Extraordinary General Meeting.

within the scope of the activities of the Management Board of PGE Polska Grupa Energetyczna S.A.:

- recommended that the General Meeting grant discharge to the Members of the Management Board for the performance of their duties in 2015;
- gave its consent to the Members of the Management Board to hold positions in other companies' governing bodies;
- effected changes in the composition of the Management Board of PGE Polska Grupa Energetyczna S.A. of the 9th term of office by dismissing the Vice Presidents of the Management Board,
- carried out two recruitment procedures for the positions in the Management Board of PGE Polska Grupa Energetyczna S.A.

One of them was conducted in February 2016 and concerned the following positions in the Management Board:

- Vice President of the Management Board for Financial Affairs,
- Vice President of the Management Board for Corporate Affairs, and
- Vice President of the Management Board for Development Affairs.

In consequence of the aforementioned procedure, the Supervisory Board appointed the following people as Members of the Management Board of PGE Polska Grupa Energetyczna S.A. of the 9th term of office:

- Mr Marek Pastuszko as Vice President of the Management Board for Corporate Affairs (on 25 February 2016)
- Mr Emil Wojtowicz as Vice President of the Management Board for Financial Affairs (on 26 February 2016, from 15 March 2016),
- Mr Ryszard Wasilko as Vice President of the Management Board for Development Affairs (on 26 February 2016, from 7 March 2016).

In March 2016 the second recruitment procedure was held for the following positions in the Management Board:

- President of the Management Board,
- Vice President of the Management Board for Commercial Affairs,
- Vice President of the Management Board for Innovation, and
- Vice President of the Management Board for Market Development and International Relations.

In consequence of the aforementioned procedure, on 22 March 2016 the Supervisory Board appointed the following people as Members of the Management Board of PGE Polska Grupa Energetyczna S.A. of the 9th term of office:

- Mr Henryk Baranowski as President of the Management Board,
- Mr Bolesław Jankowski as Vice President of the Management Board for Commercial Affairs,
- Mr Paweł Śliwa as Vice President of the Management Board for Innovation,
- Ms Marta Gajęcka as Vice President of the Management Board for Market Development and International Relations.

within the scope of the application of Corporate Governance:

- adopted "A report on the activities of the Supervisory Board of PGE Polska Grupa Energetyczna S.A. in 2015;
- adopted "A report of the Supervisory Board of PGE Polska Grupa Energetyczna S.A. on the evaluation of the Company's position in 2015, including an evaluation of the internal risk management control system and the internal audit function".

within the scope of the activities of PGE Polska Grupa Energetyczna S.A. and the PGE Capital Group:

- became acquainted with the Management Board's information on the Company's position on the capital market;
- became acquainted, on a regular basis, with resolutions adopted by the Management Board of PGE Polska Grupa Energetyczna S.A.;
- became acquainted with the Management Board's information on current and planned capital investment projects;
- became acquainted with the Management Board's information on the structure of employment in PGE Polska Grupa Energetyczna S.A.;
- became acquainted with the report on the implementation of the Development and Innovation Strategy of the PGE Capital Group in 2016;
- became acquainted with a summary of the activities of the Purchasing Department of PGE Polska Grupa Energetyczna S.A. for the year 2015 and the activities planned for the year 2016 divided into the matters related to the tasks carried out for the benefit of the

PGE Capital Group and the matters related to the tasks carried out for the benefit of PGE S.A.;

- became acquainted with the Management Board's information on court disputes having material impact on the functioning of the PGE Capital Group;
- became acquainted, on a regular basis, with the Management Board's information concerning the social dialogue within the PGE Capital Group;
- became acquainted with the report on the effectiveness of the Company's sponsoring activities in 2015;
- became acquainted with the Management Board's information on the activities of the PGE Foundation;
- became acquainted with the Management Board's information on the dates of the publication of periodic reports in 2016 and the restricted periods.

within the scope of the financial activities of the Company and the PGE Capital Group:

- became acquainted with the Management Board's information on the PGE Capital Group's financial plan for the years 2016-2017;
- became acquainted, on a regular basis, with the Management Board's information on the economic and financial position of the Company and the PGE Capital Group;
- became acquainted, on a regular basis, with reports concerning the costs of external consulting services in the Company and the PGE Capital Group;
- became acquainted with the Management Board's information on bonds issued and acquired by the Company, as well as bonds issued for bank guarantors.

within the scope of the investment activities of the Company and the PGE Capital Group:

- became acquainted with the Management Board's information on the PGE Capital Group's consolidated real investments plan for the year 2016;
- became acquainted with reports on the implementation of the mega capital expenditure projects and covering the particular quarters of 2016:
 - a) the construction of power generation units 5 and 6 in the Opole Power Plant,
 - b) the construction of power generation unit 11 in the Turów Power Plant,
 - c) the construction of a new combined cycle unit in the Gorzów Cogeneration Plant;
- became acquainted with information concerning activities related to the programme for the construction of Poland's first nuclear power plant;

- became acquainted with reports on the execution of investment plans of the companies belonging to the PGE Capital Group in 2015;
- became acquainted, on a regular basis, with reports on the execution of capital expenditure plans of the companies belonging to the PGE Capital Group in the particular quarters of 2016;
- became acquainted with the Management Board's information on the implementation of strategic investment projects in 2015, as well as became acquainted, on a regular basis, with information on the execution of the strategic investment projects in the particular quarters of 2016.

within the scope of the conducted inspections and and explanatory proceedings:

The Supervisory Board did not adopt any resolutions concerning inspections or clarifying investigations.

6. Information on the implementation of resolutions of the General Meeting related to the activities of the Supervisory Board – if applicable.

In 2016 the Extraordinary General Meeting adopted resolution no. 5 of 5 September 2016 concerning changes in the Company Statutes and an authorization for the Supervisory Board to determine the consolidated text of the Company Statutes.

The Supervisory Board implemented the aforementioned resolution of the General Meeting on 6 December 2016, adopting resolution no. 149/X/2016 concerning the determination of the consolidated text of the Statutes of PGE Polska Grupa Energetyczna S.A.

7. Information on the execution of a strategic or corrective programme.

The Company was implementing the updated strategy adopted by the Supervisory Board on 6 September 2016 in the form of resolution no. 132/X/2016 concerning the approval of the updated strategy of the PGE Capital Group.

8. Information on the Supervisory Board's suspension of members of the Management Board in their duties and delegation of members of the Supervisory Board to perform the duties of members of the Management Board.

In 2016 the Supervisory Board did not adopt any resolutions concerning the suspension of members of the Management Board in their duties.

On 29 January 2016 the Supervisory Board adopted resolution no. 53/X/2016 concerning the delegation of the Member of the Supervisory Board of PGE Polska Grupa Energetyczna S.A., Mr Marek Pastuszko, to perform temporarily the duties of the Member of the Management Board for Corporate Affairs for a period of 3 months.

9. Information on the Supervisory Board's decisions concerning the selection of a certified auditor and commissioned expert's opinions.

On 13 September 2016 the Supervisory Board adopted resolution no. 139/X/2016 concerning the determination, within the joint procedure for "The selection of a certified auditor responsible for auditing the standalone and consolidated financial statements of the selected companies belonging to the Capital Group of PGE Polska Grupa Energetyczna S.A. for the years 2017-2019", of the following: the content of a relevant announcement, the criteria for the selection of a certified auditor, and the offer evaluation method. Adopting the aforementioned resolution, the Supervisory Board referred in it to the new guidelines of the Minister of Energy, issued on 31 August 2016, related to the principles and procedures of selecting certified auditors responsible for auditing the financial statements of companies in which the State Treasury holds shares and the Minister of Energy exercises rights assigned to shares of interests and took into consideration the content of the Public Procurement Act.

10. An analysis and evaluation of the functioning of the entities belonging to the capital group in relation to an evaluation of the consolidated financial statements of the capital group.

Based on information provided on a regular basis by the Management Board, after a thorough analysis, the Supervisory Board ascertains that the companies belonging to the Capital Group were consistently implementing the updated strategy adopted by the Supervisory Board on 6 September 2016 on the basis of resolution no. 132/X/2016 concerning the approval of the updated strategy of the PGE Capital Group and were carrying out the corporate centre policy.

11. An evaluation of the utilisation of the company's fixed assets, with particular consideration given to real property.

The office building.

The office building constructed in 1951 with a floor area of 22,825.46 m², pursuant to decision 396/96 of 14 June 1996 constituting the Company's separate property, located in Warsaw (00-496) at 2 Mysia Street on a plot of land held under the right of perpetual usufruct, with an surface area of 4.285,00 m², register no. 109/3 and 110/1 plot 5-05-02. For the aforementioned real property, the District Court for Warsaw Mokotów in Warsaw, the 10th Land and Mortgage Register Division, 58 Solidarności Avenue, holds a land and mortgage register no. WA4M/00168674/5.

Lease of office space in the building at 2 Mysia Street.

At the end of 2016 the area of the leased office space was approximately 2900 m².

Major tenants – PGE Systemy S.A. and Polskie Sieci Elektroenergetyczne S.A. (jointly 1400 m²).

Important tenants – PGE Obsługa Księgowo-Kadrowa sp. z o.o.; PGE Dom Maklerski S.A.; (jointly approximately 900 m²).

Other tenants – Energo-Tel S.A.; Exatel S.A.; Fundacja PGE; (a group of companies) PGE Inwest sp. z o.o.; Vien-War sp. zo.o.; PGE Trading S.A.; Orange Polska S.A.; Polkomtel S.A.

Proceeds from lease:

Total proceeds from lease in 2016 – approximately PLN 5 800 000.

Including: major tenants – PLN 4 100 000; important tenants - PLN 1 100 000.

12. Evaluation of the fulfilment of the independence criteria by the Members of the Supervisory Board

On 1 January 2016 the new 2016 edition of “The Good Practices of Companies Listed on the Warsaw Stock Exchange” came into effect. The document had been adopted by the Supervisory Board of the Warsaw Stock Exchange in its resolution no. 26/1413/2015 of 13 October 2015 (hereinafter “The Good Practices of Companies Listed on the Warsaw Stock Exchange”). On the basis of principle II.Z.5. and principle II.Z.6 of The Good Practices of Companies Listed on the Warsaw Stock Exchange, the Supervisory Board evaluates whether there occur any relations or circumstances which may have impact on the fulfilment of the independence criteria by a given member of the Supervisory Board. An evaluation of the fulfilment of the independence criteria by the Members of the Supervisory Board is presented by the Supervisory Board pursuant to principle II.Z.10.2.

The Supervisory Board ascertains the following status of the fulfilment of the independence criteria:

The former Members of the PGE Supervisory Board performing their duties in 2016	
Name and surname	Fulfilment of independence criterion
Jacek Barylski	NO
Małgorzata Molas	NO
Jarosław Gołębiowski	YES
Mateusz Gramza	YES
Małgorzata Mika-Bryska	YES until 31 March 2016 – from 1 April 2016 Małgorzata Mika-Bryska is an employee of the Ministry of Energy, which constitutes a relationship with a shareholder possessing over 5% of shares, which indicates that the independence criteria are not fulfilled. YES - from June 2016 to 5 September 2016 (dismissal from the Supervisory Board by the Extraordinary General Meeting).
Piotr Machnikowski	YES
Jacek Fotek	YES
Marek Pastuszko	NO
Marek Ściążko	YES
Paweł Śliwa	YES

The present Members of the PGE Supervisory Board performing their duties also in 2016	
Name and surname	Fulfilment of independence criterion
Anna Kowalik	NO
Jarosław Głowacki	YES
Janina Goss	YES
Grzegorz Kuczyński	YES

Witold Kozłowski	YES
Radosław Osiński	NO
Mieczysław Sawaryn	YES
Artur Składanek	YES

In light of the conducted evaluation, the Supervisory Board ascertains that in 2016 the Company complied with principle II.Z.3. of "The Good Practices of Companies Listed on the Warsaw Stock Exchange", according to which at least two members of a supervisory board are to meet the independence criteria referred to in principles II.Z.4.

13. Committees operating within the Supervisory Board of PGE Polska Grupa Energetyczna S.A.

Pursuant to the Company Statutes, the Supervisory Board Regulations or a resolution of the General Meeting may provide for the appointment of committees within the structure of the Supervisory Board, in particular an audit committee and a remuneration committee. According to the effective Supervisory Board Regulations, the Supervisory Board may appoint permanent or ad hoc committees operating as collective advisory and opinion-making bodies of the Supervisory Board. Committees' objective is in particular providing the Supervisory Board with recommendations and opinions on matters belonging to their respective scopes of operation. Committees are appointed by the Supervisory Board from among its members. A committee consists of from 2 to 5 people. A committee elects its Chairperson from among its members. The Chairperson convenes meetings of a committee, manages the activities of a committee and represents it in relation with the Company's governing bodies and employees. The mandate of a committee's member expires simultaneously with the expiry of the mandate of a member of the Supervisory Board, the submission of a notice of resignation from membership in a committee or the dismissal from the composition of a committee by the Supervisory Board. Each member of the Supervisory Board is entitled to participate in meetings of any committee. The Chairperson of a committee may invite to its meetings members of the Management Board, the Company's employees and other people whose participation in meetings is justified. A committee makes decisions by way of consensus.

The Supervisory Board has the following permanent committees: the Audit Committee, Strategy and Development Committee, Appointment and Remuneration Committee and Corporate Governance Committee. The committees mentioned above were appointed based on resolutions of the Supervisory Board of 6 December 2007.

The Audit Committee

The Audit Committee is responsible for the examination of the correctness and efficiency of the performance of internal financial audits in the Company and the PGE Capital Group as well as for cooperation with the Company's auditors.

The Audit Committee is responsible in particular for the following:

- monitoring the work of the Company's certified auditors and presenting to the

Supervisory Board recommendations concerning the selection and remuneration of the Company's certified auditors,

- before the audit of the Company's yearly financial statements, discussing with the Company's certified auditors the scope of their audit and monitoring their work,
- reviewing the Company's periodic and yearly financial (stand-alone and consolidated) financial statements, with emphasis put in particular on the following: all changes in accounting standards, principles and policies, major areas subject to evaluation, significant corrections resulting from an audit, declarations of the continuation of the activities, compliance with the effective accounting regulations,
- discussing with all proper people all problems or reservations which may have resulted from the audit of financial statements,
- analysing letters to the Management Board drawn up by the Company's certified auditors and the Management Board's responses, as well as examining the independence and objectivity of audits conducted by certified auditors,
- providing opinions on the Company's policy concerning dividend, profit distribution and issue of securities,
- reviewing the managerial accounting system,
- reviewing the internal control system (including the mechanisms of financial, operating, legal compliance, risk assessment and managerial controls) and annual reports,
- analysing the Company's internal auditors' reports and the main observations of other internal analysts as well as the Management Board's responses to such observations, including an examination of internal auditors' degree of independence,
- reviewing, on an annual basis, the internal audit programme, coordinating work of internal and external auditors as well as examining internal auditors' operating conditions,
- cooperating with the Company's organizational units responsible for audit and controlling as well as evaluating their work on a periodic basis,
- considering all other issues related to the Company's audit which have drawn the attention of the Audit Committee or the Supervisory Board,
- notifying the Supervisory Board of all important issues related to the activities of the Audit Committee.

In 2016 the Audit committee held 9 meetings. At its meetings, the Audit Committee analysed, among other things, the Company's standalone financial statements, the Management Board's report on the Company's activities, the consolidated financial statements of the PGE Capital Group and the Management Board's report on the activities

of the PGE Capital Group. The Audit Committee held also regular meetings with the representatives of the auditor – KPMG Audyt sp. z o.o sp. k.

Furthermore, the Audit Committee analysed the Company's standalone financial statements for the first half of 2016 and also the consolidated financial statements of the PGE Capital Group for the same period.

The Audit Committee became also acquainted with the following:

- Information on conducted audits and investigative control activities in the 1st half of 2016.
- Information on the status of inspections carried out in the PGE Capital Group in the first three quarters of 2016 and the implementation of recommendations.
- Materials related to risk management in the PGE Capital Group and the risk profile of the PGE Capital Group in 2017.
- A report on the activities of internal audit in the PGE Capital Group in 2015.
- Information on transformations in the area of audit and control – the concept of organizing internal audit in the PGE Capital Group.
- A draft financial plan for the Company and the PGE Capital Group for 2016.

The Audit Committee also evaluated positively the Audit Department's report on its activities in the first half of 2016.

The Audit Committee also supported the Supervisory Board in the implementation of resolution no. 139/X/2016 concerning the determination, within the joint procedure for "The selection of a certified auditor responsible for auditing the standalone and consolidated financial statements of the selected companies belonging to the Capital Group of PGE Polska Grupa Energetyczna S.A. for the years 2017-2019", of the following: the content of a relevant announcement, the criteria for the selection of a certified auditor, and the offer evaluation method. The representatives of the Audit Committee participated in the opening of applications for permits to participate in procedures, the opening of bids, and in negotiations.

The Corporate Governance Committee

The Corporate Governance Committee is responsible for the following:

- evaluating the implementation of the principles of corporate governance in the Company and notifying the Supervisory Board of initiatives for changes in this area,
- providing opinions on the Company's normative acts and other documents influencing corporate governance and submitted to the Supervisory Board,
- initiating and developing proposals for changes in the Supervisory Board's normative acts.

In 2016 the Corporate Governance Committee held one meeting. The Corporate Governance Committee monitored information on corporate governance and "The Good Practices of Companies Listed on the Warsaw Stock Exchange" effective in that period, which had been adopted by a resolution of the Board of the Warsaw Stock Exchange in Warsaw.

In 2016 the Strategy and Development Committee and the Corporate Governance Committee held one joint meeting during which the participants discussed a report on the implementation of the Development and Innovation Strategy in the PGE Capital Group in the third quarter of 2016 and the consolidated text of the Company Statutes, including the amendments adopted by the Extraordinary General Meeting held on 5 September 2016.

The Strategy and Development Committee

The Strategy and Development Committee is responsible for providing opinions and presenting recommendations to the Supervisory Board with respect to planned investments having significant influence on the Company's assets. In particular, the duties of the Strategy and Development Committee include provision of opinions on strategies and strategic plans submitted to the Supervisory Board by the Management Board.

In 2016 the Strategy and Development Committee held 2 meetings. Among other things, the Strategy and Development Committee discussed materials concerning the directions of updating the strategy of the PGE Capital Group.

The Appointment and Remuneration Committee

The Appointment and Remuneration Committee shall be responsible for supporting the process of achieving the Company's strategic objectives by presenting to the Supervisory Board opinions and proposals concerning the shaping of the management structure, including organizational solutions, the remuneration system and the recruitment of the personnel possessing required qualifications.

The Appointment and Remuneration Committee is responsible in particular for the following:

- initiating and providing opinions on solutions concerning the system of appointing members of the Management Board,
- providing opinions on the Management Board's proposed solutions concerning the Company's management system aimed at ensuring the effectiveness, coherence and security of the Company's system of management;
- in accordance with the Company's interests, periodically reviewing and recommending the rules of determining motivational remuneration for members of the Management Board and the senior management personnel, reviewing periodically the system of remuneration for members of the Management Board and the senior management personnel reporting directly to members of the Management Board, including managerial contracts and motivational systems as well as submitting to the Supervisory Board proposals concerning their development within the context of achieving the Company's strategic objectives,
- presenting to the Supervisory Board opinions concerning justifications for granting remunerations dependent on results within the context of evaluating progress in the performance of particular tasks and achievement

- of particular objectives,
- evaluating the Company's human resources management system.

In 2016 the Appointment and Remuneration Committee held three meetings. In 2016 the Appointment and Remuneration Committee worked on the basis of its plan of duties prepared by the Supervisory Board. The Appointment and Remuneration Committee worked on the proposal of the principles of granting variable remuneration (bonus) to those Members of the Management Board with whom the Company had entered into agreements for the provision of managerial services and participated in drawing up a catalogue of general managerial objectives whose achievement would determine the level of supplementary remuneration for the Members of the Management Board.

Table: The composition of the Supervisory Board committees in 2016.

Name and surname	The Audit Committee	The Corporate Governance Committee	The Strategy and Development Committee	The Appointment and Remuneration Committee
Janina Goss	Member from 02.03.2016			Member from 02.03.2016
Jacek Barylski		Member until 01.03.2016		Chairperson until 01.03.2016
Jacek Fotek	Member until 01.03.2016			
Jarosław Głowacki		Member from 02.03.2016	Member from 02.03.2016	
Jarosław Gołębiewski	Chairperson until 01.03.2016		Member until 01.03.2016	
Mateusz Gramza	Member from 07.03.2016 until 06.04.2017	Member from 02.03.2016 until 07.03.2016		Member from 02.03.2016 until 06.04.2017
Anna Kowalik	Member			Member
Piotr Machnikowski		Chairperson until 05.02.2016		Member until 05.02.2016



Małgorzata Mika-Bryska		Member until 05.09.2016	Member until 05.09.2016
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Małgorzata Molas			Member until 01.03.2016	Member until 01.03.2016
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Grzegorz Kuczyński	Member from 02.03.2016 Chairperson from 18.03.2016	Member from 02.03.2016		
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Witold Kozłowski		Member from 13.09.2016 Chairperson from 25.10.2016		Member from 13.09.2016
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Radosław Osiński			Member from 13.09.2016 Chairperson from 25.10.2016	Member from 13.09.2016
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Mieczysław Sawaryn			Member from 02.03.2016	Member from 02.03.2016 Chairperson from 08.08.2016
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Artur Składanek		Member from 07.03.2016	Member from 02.03.2016	
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Paweł Śliwa		Member from 02.03.2016 until 22.03.2016		Member from 02.03.2016 until 22.03.2016
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Marek Ściążko			Member until 01.03.2016	
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14. The Supervisory Board's comments concerning its cooperation with the Management Board.

The Supervisory Board requests that the General Meeting grant discharge to the members of the Management Board for the performance of their duties in the year 2016:

Marek Woszczyk	from 01.01.2016 until 30.03.2016
Jacek Drozd	from 01.01.2016 until 29.01.2016
Grzegorz Krystek	from 01.01.2016 until 30.03.2016
Dariusz Marzec	from 01.01.2016 until 29.01.2016
Henryk Baranowski	from 31.03.2016 until 31.12.2016
Marta Gajęcka	from 31.03.2016 until 31.12.2016
Paweł Śliwa	from 31.03.2016 until 31.12.2016
Marek Pastuszko	from 25.02.2016 until 31.12.2016
Ryszard Wasilko	from 07.03.2016 until 31.12.2016
Emil Wojtowicz	from 15.03.2016 until 31.12.2016

The Supervisory Board requests also that the General Meeting grant discharge to the following members of the Supervisory Board, delegated to perform temporarily the responsibilities of a Member of the Management Board, for the performance of their duties in the year 2016:

Marek Pastuszko	from 29.01.2016 until 25.02.2016.
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In a ballot, the Supervisory Board did not adopt a resolution recommending the General Meeting to grant discharge to Bolesław Jankowski, Vice President of the Management Board, for the performance of his duties in the financial year 2016.

15. A self-evaluation of the Supervisory Board's work.

This report presents the main directions of the Supervisory Board's activities in the financial year 2016. The members of the Supervisory Board performed their duties with due diligence, using their knowledge and experience in the area of managing and supervision of commercial law companies.

The members of the Supervisory Board had properly diversified competencies and high qualifications allowing them to exercise effective supervision over the Company, taking into consideration its business profile and scale of operations. Most of the members of the Supervisory Board were people with higher legal education (legal counsels and attorneys); some of them were people with economic or technical education, familiar with the power generation sector. It should be emphasized that the composition of the Supervisory Board was diversified also with respect to gender. In the opinion of the Supervisory Board, the process of communication between the Supervisory Board and the Management Board was undisturbed. The members of the Management Board participated in the meetings of the Supervisory Board, presented the Management Board's motions addressed to the Supervisory Board, provided answers to questions asked by the members of the Supervisory Board and implemented the recommendations of the Supervisory Board.

The number of the meetings held by the Supervisory Board in 2016, the large attendance at the meetings, the number and variety of matters discussed and decisions made by the Supervisory Board at the meetings prove that the Supervisory Board exercised effective and continuous supervision over the Company's operations in all areas of its business activities.

In view of the above, submitting this report, the Supervisory Board requests that its members be granted discharge for the performance of their duties in the financial year 2016:

Jacek Barylski	from 01.01.2016 until 01.03.2016
Jacek Fotek	from 01.01.2016 until 01.03.2016
Anna Kowalik	from 01.01.2016 until 31.12.2016
Małgorzata Mika-Bryska	from 01.01.2016 until 05.09.2016
Jarosław Gołębiowski	from 01.01.2016 until 01.03.2016
Piotr Machnikowski	from 01.01.2016 until 05.02.2016
Małgorzata Molas	from 01.01.2016 until 01.03.2016
Marek Ściążko	from 01.01.2016 until 01.03.2016
Radosław Osiński	from 05.09.2016 until 31.12.2016
Grzegorz Kuczyński	from 01.03.2016 until 31.12.2016
Jarosław Głowacki	from 01.03.2016 until 31.12.2016
Janina Goss	from 01.03.2016 until 31.12.2016
Mateusz Gramza	from 01.03.2016 until 31.12.2016
Witold Kozłowski	from 05.09.2016 until 31.12.2016
Mieczysław Sawaryn	from 01.03.2016 until 31.12.2016
Artur Składanek	from 01.03.2016 until 31.12.2016
Paweł Śliwa	from 01.03.2016 until 22.03.2016

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

Members of the Supervisory Board:

Jarosław Głowacki/-/ [an illegible signature].....
Janina Goss/-/ [an illegible signature].....
Witold Kozłowski-----.....
Grzegorz Kuczyński/-/ [an illegible signature].....
Radosław Osiński/-/ [an illegible signature].....
Mieczysław Sawaryn/-/ [an illegible signature].....
Artur Składanek/-/ [an illegible signature].....

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LEGAL COUNSEL
Bartłomiej Korusiewicz
Ld-P-270
/-/ [an illegible signature]

[An oblong stamp:]
PGE Polska Grupa Energetyczna S.A.
Legal Department
Director
Iwona Warszewicz
/-/ [an illegible signature]