

THE REPORT OF THE SUPERVISORY BOARD OF PGE POLSKA GRUPA ENERGETYCZNA S.A. ON THE EVALUATION OF THE COMPANY'S POSITION IN THE YEAR 2014, INCLUDING OPINIONS ON THE COMPANY'S INTERNAL CONTROL SYSTEM AND MATERIAL RISK MANAGEMENT SYSTEM.

PGE Polska Grupa Energetyczna S.A. ("PGE S.A.", "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 held with the members of the Management Board during the meetings of the Supervisory Board and discussions held during the meetings of the permanent committees operating within the Supervisory Board, as well as the following documents submitted to the Supervisory Board of PGE Polska Grupa Energetyczna S.A.: "PGE Polska Grupa Energetyczna S.A. The EU-IFRS-consistent standalone financial statements for the year ended 31 December 2014" and "The Management Board's report on the activities of PGE Polska Grupa Energetyczna S.A. for the year ended 31 December 2014".

I. EVALUATION OF THE COMPANY'S POSITION IN 2014.

1. Significant events

The Supervisory Board evaluated the Company's position in the year 2014 on the basis of the following documents: "PGE Polska Grupa Energetyczna S.A. The EU-IFRS-consistent standalone financial statements for the year ended 31 December 2014" and "The Management Board's report on the activities of PGE Polska Grupa Energetyczna S.A. for the year ended 31 December 2014".

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

On the basis of resolution no. 169/21/2014, on 9 May 2014 the Management Board of PGE S.A. adopted a document entitled "The Strategy of PGE Polska Grupa Energetyczna S.A. for the years 2014 -2020". The document was also approved by the Supervisory Board in its resolution no. 213/IX/2014 of 13 May 2014. Consequently, in 2014 PGE S.A. coordinated the following projects within the key operating segments approved for implementation in accordance with the aforementioned strategy:

<p>1.1 The Conventional Power Generation Business Line Optimisation Programme</p>	<ul style="list-style-type: none"> • the programme's objective is the preparation of the Conventional Power Generation segment for operations in the circumstance of changing market conditions and challenges ensuing from new investment projects. • in 2014 the Company launched the programme stage comprising the implementation of initiatives allowing the Conventional Power Generation segment to adjust its operating costs to market changes and simultaneously to utilise its potential to generate new revenues.
<p>1.2 The Operating Effectiveness Improvement Programme in PGE Dystribucja S.A.</p>	<ul style="list-style-type: none"> • the objective of the programme is the performance of activities resulting in the reduction of the SAIDI index and allowing the optimisation of power grid maintenance costs. • the main activities include an increase in the number of operating tasks, in particular improvement in the operation of remotely controlled connections and introduction of an MV line prioritisation system. <p>The first effects of the programme are expected in 2015.</p>
<p>1.3 The Tax Capital Group ("PGK")</p>	<ul style="list-style-type: none"> • the objective of establishing PGK is to facilitate the effective management of the Group by way of, among other things, optimisation of tax settlements of the companies belonging to PGK and reduction of fiscal risks. • PGK comprises 32 companies belonging to the PGE Group. • the agreement establishing PGK was executed on 18 September 2014; established for the period of 25 years, PGK started operations on 1 January 2015.
<p>1.4 The Operating Model</p>	<ul style="list-style-type: none"> • the objective of the project is to increase organisational effectiveness of the whole PGE Group through the centralisation of the managerial, decision-

making, and planning functions in the Corporate Centre, with a simultaneous synergistic combination of the potential of the most important components of the Group's value, i.e. capital, experience, competence and knowledge, located within the particular Business Lines.

- the Operating Model comprises a portfolio of 51 implementation projects whose effect will be a permanent implementation of prepared changes in the business processes.

1.5
The Code of the PGE Group

- the objective of the project is to introduce the so-called statutory mechanisms of managing the companies belonging to the PGE Group allowing the effective and efficient management of the companies with a simultaneous minimisation of legal risks.

1.6
Cash Management

- the objective of the project is to centralise liquidity management in the PGE Group by way of implementing the true and non-refundable cash pooling system.

- the project's effects will include the following:

- optimised cash flows and improved effectiveness of liquidity management in the PGE Group,
- reduced internal debts due to the use of the PGE Group's own funds,
- ensured short-term financial security for the PGE Group companies,
- reduced costs of bank services.

The cash pooling agreements were entered into on 22 December 2014 between the 16 companies belonging to the PGE Group and two individual banks, i.e. Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Polska Kasa Opieki S.A.

1.7
The Human Resource Management Strategy ("HMR Strategy")

- the objective of the project is to support the business strategy in the effective accomplishment of its goal by way of the following:

- improving the effectiveness of human resource management,
- ensuring strategic human resource management (separating transactional functions from strategic management),
- optimising and standardising processes to maximise benefits through the operating scale and specialisation (integrating IT tools and systems), to develop a uniform operating standard, and to optimise the use of the resources.

In 2014 the HMR Strategy was adopted by the PGE Group companies.

1.8 The Shared Services Centre ("SSC") Development Project	<ul style="list-style-type: none"> the objectives of building an SSC in the areas of accounting, payroll and personnel administration include the following: <ul style="list-style-type: none"> to standardise, unify and improve processes, to introduce an organisational management system focused on processes and internal customer services, to ensure the effective use of the unified IT tools, to improve the use of employees' competences and knowledge within the PGE Group. <p>On 1 January 2015 PGE Obsługa Księgowo-Kadrowa sp. z o.o. commenced the provision of payroll and accounting services to selected companies belonging to the PGE Group.</p>
1.9 The SAP Programme	<ul style="list-style-type: none"> the project's objectives include the following: <ul style="list-style-type: none"> to increase operating effectiveness by standardising processes within the Group, increasing process effectiveness, optimising the use of technical assets, improving the effectiveness of managing the system's maintenance and development, to increase transparency by creating a uniform economic events recording system, ensuring access to current and coherent managerial information, improving and accelerating decision-making processes, to create a foundation for the further development of shared services centres within the PGE Group, the integration of the purchase systems, the maintenance of the leading position in the market despite intensifying competition. <p>In 2015 the process of implementing the modules of Accounting and Logistics, Human Resource Management, and Asset Management in the major companies of the PGE Group will continue.</p>
1.10 Construction of new power generation units in the PGE Opole Power Plant	<ul style="list-style-type: none"> construction of two power generation units, each with a capacity of 900 MW. budget: approx. PLN 11bn (net, exclusive of financing costs).
1.11 Construction of a new power generation unit in the PGE Turów Power Plant	<ul style="list-style-type: none"> construction of a power generation unit with a capacity of 490 MW. budget: approx. PLN 3.65bn (net, exclusive of financing costs).
1.12 Construction of a new power generation unit in the PGE Gorzów Cogeneration Plant	<ul style="list-style-type: none"> construction of a cogeneration unit with an electrical capacity of 138MWe and thermal capacity of 88 MWt budget: approx. PLN 625m (net, exclusive of financing costs).

<p>1.13 Investments in conventional energy sources - completed in 2014.</p>	<p>a cogeneration unit generating electricity and heat based on piston combustion engines - the PGE Rzeszów Cogeneration Plant. ● capacity: 29 MWe and 26 MWt.</p>
<p>1.14 Investment in renewable energy sources - completed in 2014.</p>	<p>Wojciechowo wind farm ● capacity: 28 MW (14 turbines, each with a capacity of 2 MW).</p>
<p>1.15 Investment in renewable energy sources - projects in progress.</p>	<p>Karwice wind farm ● budget: approx. PLN 256m (net, exclusive of financing costs). ● capacity: 40 MW (16 turbines, each with a capacity of 2.5 MW). Gniewino Lotnisko wind farm ● budget: approx. PLN 530m (net, exclusive of financing costs). ● capacity: 90 MW (30 turbines, each with a capacity of 3 MW). Resko II wind farm ● budget: approx. PLN 386m (net, exclusive of financing costs). ● capacity: 76 MW (38 turbines, each with a capacity of 2 MW). Kisielice II wind farm ● budget: approx. PLN 87m (net, exclusive of financing costs). ● capacity: 12 MW (6 turbines, each with a capacity of 2 MW). After the completion of the aforementioned investment projects the combined installed capacity of the PGE Group's wind farms is to reach the level of approximately 530 MW.</p>

<p>1.16 Modernisation and replacement investments</p>	<p>Comprehensive modernisation of units 7-12 in the Bełchatów Power Plant</p> <ul style="list-style-type: none"> • budget: approx. PLN 4.7bn (net, exclusive of financing costs). <p>Modernisation of the flue gas desulphurisation plant for units 3-12 in the Bełchatów Power Plant</p> <ul style="list-style-type: none"> • budget: approx. PLN 162m (net, exclusive of financing costs). <p>Change in the furnace waste storage technology for units 1-12 in the Bełchatów Power Plant</p> <ul style="list-style-type: none"> • budget: approx. PLN 454m (net, exclusive of financing costs). <p>NOx emission reduction at units 1, 2 and 4 in the Opole Power Plant</p> <ul style="list-style-type: none"> • budget: approx. PLN 148m (net, exclusive of financing costs). <p>Construction of a flue gas desulphurisation plant for units 4-6 in the Turów Power Plant</p> <ul style="list-style-type: none"> • budget: approx. PLN 530m (net, exclusive of financing costs). <p>Construction of an overburden conveyor line in the Bełchatów Lignite Mine (Szczerców Field)</p> <ul style="list-style-type: none"> • budget: approx. PLN 108m (net, exclusive of financing costs).
<p>1.17 The updated commercial strategy</p>	<p>The project will comprise the following deliverables:</p> <ul style="list-style-type: none"> • a value chain management strategy • a wholesale sales strategy • a retail sales strategy • a risk management strategy <p>The project will be carried out in 2015.</p>
<p>1.18 The grid losses reduction project</p>	<ul style="list-style-type: none"> • the objective of the project is to reduce the costs of purchasing electricity to cover the balancing difference. • the effect of the activities performed so far is a significant fall in the balancing difference over the period of 4 years, from 6.87% in 2011 to 6.32% in 2014.
<p>1.19 CRM Billing</p>	<ul style="list-style-type: none"> • the objective of the project is to implement customer billing and service systems in the companies PGE Obrót S.A. and PGE Dystrybucja S.A. • the project's effects will include the following: <ul style="list-style-type: none"> - improved operating effectiveness and tool-based support in the areas of customer billing and service, - improved competitive position due to a developed product offer, - improved customer service quality. • the aforementioned objectives will be achieved by way of implementing IT tools supporting billing, settlement, debt recovery, sales, after sales, customer relations management, customer service processes as well as exchanging measurement data technical

operations information.

<p>1.20 The Sector Programme Cooperation with the National Centre for Research and Development ("NCRD")</p>	<ul style="list-style-type: none"> ● the objective of the conducted activities is to strengthen the PGE Group's innovativeness and to prepare it for effective acquisition of funds for research and development from public aid sources. ● the main activities: <ul style="list-style-type: none"> - the PGE Management's approving documents regulating activities in the field of business development innovations allowing the initiation and effective management of research and development projects in the PGE Group, - identifying strategic areas of research and development in which the PGE Group intends to launch its research and development projects, - establishing bilateral cooperation with NCRD, - together with the Consortium led by the Polish Electrical Energy Committee, submitting a feasibility study of a Power Engineering Sector Research Programme to NCRD.
<p>1.21 A portfolio of research and development projects</p>	<ul style="list-style-type: none"> ● in the area of mining and conventional power generation, a number of research and development undertakings were carried out in cooperation with universities of science and technology as well as domestic and foreign research institutes. ● the main activities performed within the projects: <ul style="list-style-type: none"> - analyses of technologies reducing volumes of emissions from coal combustion processes, - possible changes in furnace waste storage technologies, - the use of alternative fuels, including municipal waste, in the process of power generation, - the implementation of a management and monitoring system for electricity consumption at process lines.

2. Business activities of the PGE Capital Group

PGE S.A. is the parent company in the PGE Capital Group.

The PGE Group's business activities are currently organised in the following five segments:

- Conventional Power Generation (previously: Mining and Generation), which comprises the mining of lignite and generation of heat and electricity from conventional sources, as well as the transmission and distribution of heat;
- Renewable Power Generation, which comprises the generation of electricity from renewable sources and in pumped storage hydropower plants;
- Wholesale Trade in electricity and related products as well as fuels;
- Distribution of electricity;
- Retail Sales of electricity.

The wholesale trade in electricity and related products is conducted directly in PGE S.A. It is the Company's core activity. Within the scope of the remaining activities,

PGE S.A. provides so-called supporting services for the benefit of the companies belonging to the PGE Group, leases IT systems and office space.

In 2014 the PGE Group's power producers sold electricity to PGE S.A. 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 ("WSE") shut down its commodities trading system, exchange trading in electricity was transferred to the Polish Power Exchange ("PPE"). Energy purchased by PGE S.A. on the regulated markets and power exchanges as well as from external contractors was resold to the companies from the PGE Group such as PGE Obrót S.A. and PGE Dystrybucja S.A., contractors from beyond the PGE Group, and on the domestic and foreign markets. PGE Obrót S.A. bought energy also from local generation sources located in the territory where the company fulfils the function of an official seller. In 2014 gross electricity consumption rose 0.49% as compared to the previous year. In the fourth quarter the year-to-year growth was 0.9%. During the course of the year the dynamics of electricity consumption was strongly diversified, which resulted first of all from relatively high temperatures in the first quarter. After adjusting for the impact of the weather and calendar factors, demand for electricity rose about 1.0% in 2014. Despite higher electricity consumption, the domestic generation of power fell by 3.65% year-to-year, which was caused by a change in the cross-border exchange balance.

In 2014 PGE S.A. purchased hard coal for the power plants as well as cogeneration plants belonging to the PGE Capital Group from a number of suppliers. The major hard coal supplier is Kompania Węglowa S.A., with a 72% share in annual hard coal deliveries to PGE. Kompania Węglowa S.A. is the largest producer of hard coal in Poland.

Besides the five aforementioned business lines, the PGE Group conducts also business activities in other sectors, including telecommunication. The PGE Group comprises also other companies whose major business activities consist in providing auxiliary services to companies from the power and mining sectors. Such services include, among others, the following:

- 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 welfare services.

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

3.1 In 2014 PGE S.A. changed its equity participation in the following entities:

- on 14 February 2014 the Extraordinary General Meeting of PGE Dom Maklerski S.A. adopted a resolution on increasing the Company's share capital from PLN 16,500,000 to PLN 36,500,000, i.e. by the amount of PLN 20,000,000, by issuing 20,000 new registered shares with a par and issue value of PLN 1000.00 each. All shares in the company's increased capital were subscribed for by PGE S.A. in return for a contribution in cash. On 16 April

2014 the share capital increase was registered in the KRS register of entrepreneurs.

- On 19 March 2014, in Sundsvall (Sweden), the companies Bolagsrätt Sundsvall AB and PGE S.A. entered into an agreement for the sale of shares in the company Goldcup 5812 AB (publ) with its registered office in Stockholm (Sweden). Under this share sale agreement, PGE S.A. subscribed for 500,000 shares in the company Goldcup 5812 AB (publ), which constitutes 100% of its share capital. PGE S.A. paid for the acquired shares on 8 April 2014. The current business name of Goldcup 5812 AB (publ) is PGE Sweden AB (publ).
- On 10 April 2014 the Extraordinary General Meeting of the company PGE EJ 1 sp. z o.o. adopted a resolution concerning an obligation of the sole shareholder, i.e. PGE S.A., to make additional share-related payments in the amount of PLN 15,000,000, which constitutes 20.55% of the nominal value of shares held by PGE S.A. in the company. The additional payments were effected on 11 April 2014.
- On 16 May 2014 the Extraordinary General Meeting of PGE Sweden AB (publ) adopted a resolution on increasing the Company's share capital from SEK 500,000 to SEK 191,000,000, i.e. by the amount of SEK 190,500,000, by issuing 190,500,000 registered shares with a par value and issue price of SEK 1.00 each. All shares in the company's increased capital were subscribed for by PGE S.A. in return for a contribution in cash. On 10 June 2014 the share capital increase was registered in the Swedish Companies Register.
- On 23 June 2014 the Extraordinary General Meeting of PGE Dom Maklerski S.A. adopted a resolution on increasing the Company's share capital from PLN 36,500,000 to PLN 37,000,000, i.e. by the amount of PLN 500,000, by issuing 500 registered shares with a par value of PLN 25.00 each and an issue price of PLN 120,000 each. All shares in the company's increased capital were subscribed for by PGE S.A. in return for a contribution in cash. On 02 September 2014 the share capital increase was registered in the KRS register of entrepreneurs.
- On 18 August 2014 the Extraordinary General Meeting of PGE Sweden AB (publ) adopted a resolution on increasing the Company's share capital from SEK 191,000,000 to SEK 245,000,000, i.e. by the amount of SEK 54,000,000, by issuing 54,000,000 registered shares with a par value and issue price of SEK 1.00 each. All shares in the company's increased capital were acquired by PGE S.A. in return for a contribution in cash. On 26 August 2014 the share capital increase was registered in the Swedish Companies Register.
- On 29 August 2014 PGE S.A. entered into share sale agreements under which it acquired 100% of shares in the following subsidiaries of PGE Górnictwo i Energetyka Konwencjonalna S.A.:

ELBEST sp. z o.o., PTS Betrans sp. z o.o., ELBIS sp. z o.o., BESTGUM POLSKA sp. z o.o., MegaSerwis sp. z o.o., TOP SERWIS sp. z o.o., ELTUR-SERWIS sp. z o.o., MEGAZEC sp. z o.o., and ELMEN sp. z o.o.

On 31 August 2014 the title to these shares was transferred to PGE S.A., pursuant to the provisions of the aforementioned share sale agreements.

- On 10 September 2014 PGE S.A. and PGE Obrót S.A. with its registered office in Rzeszów entered into contracts of donation. The subject of these contracts was 874,905,583 ordinary bearer shares in the company PGE Dystrybucja S.A. with its registered office in Lublin, with a par value of PLN 10.00 each (the

combined par value of the shares acquired by PGE S.A. is PLN 8,749,055,830 and 34,473,704 registered shares in the company PGE Górnictwo i Energetyka Konwencjonalna S.A. with its registered office in Bełchatów, with a par value of PLN 10.00 (the combined par value of the shares acquired by PGE S.A. is PLN 344,737,040). The aforementioned shares constitute 89.91% in the share capital of PGE Dystrybucja S.A. and 4.95% in the share capital of PGE Górnictwo i Energetyka Konwencjonalna S.A. respectively. In consequence of these donations, PGE S.A. became the sole shareholder in PGE Dystrybucja S.A. Currently PGE S.A. holds 99.21% of shares in the share capital of PGE Górnictwo i Energetyka Konwencjonalna S.A. In consequence of these donations, PGE Obrót S.A. lost the status of a shareholder in the company PGE Dystrybucja S.A. and the company PGE Górnictwo i Energetyka Konwencjonalna S.A.

- On 15 July 2014 PGE S.A. established 14 special purpose limited liability companies with the following business names (the dates of registration in the National Court Register are given in the parentheses): PGE Inwest 2 sp. z o.o. (19 August 2014); PGE Inwest 3 sp. z o.o. (25 August 2014); PGE Inwest 4 sp. z o.o. (25 August 2014); PGE Inwest 5 sp. z o.o. (19 August 2014); PGE Inwest 6 sp. z o.o. (27 August 2014); PGE Inwest 7 sp. z o.o. (05 September 2014); PGE Inwest 8 sp. z o.o. (12 September 2014); PGE Inwest 9 sp. z o.o. (26 August 2014); PGE Inwest 10 sp. z o.o. (26 August 2014); PGE Inwest 11 sp. z o.o. (12 September 2014); PGE Inwest 12 sp. z o.o. (19 August 2014); PGE Inwest 13 sp. z o.o. (25 August 2014); PGE Inwest 14 sp. z o.o. (12 September 2014); PGE Inwest 15 sp. z o.o. (21 August 2014) with a share capital of PLN 10,000 each.
- On 12 September 2014 the Extraordinary General Meeting of PGE Energia Natury S.A. adopted a resolution on increasing the Company's share capital from PLN 6,000,000 to PLN 51,300,000, i.e. by the amount of PLN 45,300,000, by issuing 45,300 new registered shares with a par and issue value of PLN 1000 each. All shares in the increased share capital were acquired by PGE S.A. in return for a contribution in kind in the form of 100% of shares in the companies PGE Energia Natury Bukowo sp. z o.o., PGE Energia Natury Karnice sp. z o.o. and PGE Energia Natury Olecko sp. z o.o. On 8 October 2014 the share capital increase was registered in the KRS register of entrepreneurs.
- On 8 October 2014 PGE S.A. established a single-person limited liability company with the following business name: PGE Inwest 16 sp. z o.o. On 29 October 2014 the company was registered in the KRS register of entrepreneurs.
- On 6 November 2014 PGE S.A. and Polskie Towarzystwo Przesyłu i Rozdziału Energii Elektrycznej [The Polish Electricity Transmission and Distribution Association] with its registered office in Poznań entered into an agreement for the sale of 1300 shares held by the Association in the company Exatel S.A., which constitutes 0.02% in the company's share capital. On 6 November 2014 the property title to the shares was transferred to PGE S.A. In consequence of the transaction, PGE S.A. became the sole shareholder in the company.

In 2014, under share sale agreements, PGE S.A. acquired from the minority shareholders in PGE Górnictwo i Energetyka Konwencjonalna S.A. the combined number of 4,414,276 shares in PGE Górnictwo i Energetyka Konwencjonalna S.A. (constituting 0.6338% of the share capital in PGE Górnictwo i Energetyka Konwencjonalna S.A.). Currently PGE S.A. holds 99.21% of shares in the share

capital of PGE Górnictwo i Energetyka Konwencjonalna S.A. (including treasury shares held by PGE Górnictwo i Energetyka Konwencjonalna S.A.).

In 2014 the companies of the PGE Group changed their equity participation in the following entities:

3.2 Transformation of the companies in the Conventional Power Generation segment

On 10 January 2014 the Extraordinary General Meeting of the company EPW Energia Olecko sp. z o.o. (PGE S.A. held 81% of shares, and ENERGA Wytwarzanie sp. z o.o. held 19% of shares in the share capital) adopted a resolution concerning the division of EPW Energia Olecko sp. z o.o. (division by separation) by transferring a part of the assets of EPW Olecko sp. z o.o. constituting an organised part of the enterprise operating as a branch under the business name of EPW Energia Olecko sp. z o.o. Branch in Kętrzyn to the existing company, i.e. EPW 1 sp. z o.o. with its registered office in Pruszcz Gdański (a subsidiary of ENERGA Wytwarzanie sp. z o.o. belonging to ENERGA S.A. Capital Group). In connection with the procedure of division by separation, the company's share capital was decreased by PLN 380,000, i.e. from PLN 2,000,000 to PLN 1,620,000, and the number of shares was reduced by 380 shares with a par value of PLN 1000.00 each, attributable to the shareholder ENERGA Wytwarzanie sp. z o.o., which are the subject of exchange for 250 new shares in the increased share capital of the company EPW 1 sp. z o.o.

On 7 February 2014 the court registered a decrease in the share capital of EPW Energia Olecko sp. z o.o. and entered the information about the division by separation into the register.

On 11 February 2014 the court registered an increase in the share capital of EPW 1 sp. z o.o., which acquired a part of the assets of EPW Energia Olecko sp. z o.o., thus ending the process of dividing the company EPW Energia Olecko sp. z o.o. In consequence of the aforementioned division, PGE S.A. became the sole shareholder in EPW Energia Olecko sp. z o.o.

On 25 March 2014 the business name of the company EPW Energia Olecko sp. z o.o. was changed into PGE Energia Natury Olecko sp. z o.o.

On 10 January 2014 the Extraordinary General Meeting of the company EPW Energia sp. z o.o. (PGE S.A. held 32.7% of shares, and ENERGA Wytwarzanie sp. z o.o. held 67.3% of shares in the share capital) adopted a resolution concerning the division of EPW Energia sp. z o.o. (division by separation) by transferring two parts of its assets constituting organised parts of the enterprise:

- operating as branches under the following business names: EPW Energia sp. z o.o. Branch "Kisielice/Malbork" Wrocławek and EPW Energia sp. z o.o. Branch "Galicja" Orzechowce to the company PGE Energia Natury sp. z o.o.;
- operating as a branch under the following business name: EPW Energia sp. z o.o. Branch "Pipeline" Pruszcz Gdański to the company EPW Parsówek sp. z o.o. with its registered office in Pruszcz Gdański (a subsidiary of ENERGA Wytwarzanie sp. z o.o. belonging to ENERGA S.A. Capital Group).

In connection with the procedure of division, the company's share capital was decreased by PLN 337,174,000, i.e. from PLN 894,376,000 to PLN 557,202,000, and the number of shares was reduced by 337,174 shares, with a nominal par value

of PLN 1000.00 each, attributable in the number of 44,713 shares to the shareholder ENERGA Wytwarzanie sp. z o.o., which are the subject of exchange for 18,000 shares in the company EPW Parsówek sp. z o.o. and attributable in the number of 292,461 shares to the shareholder PGE S.A., which are the subject of exchange for 331,921 shares in the company PGE Energia Naturity sp. z o.o.

In connection with the above circumstances, on 10 January 2014 the Extraordinary General Meetings were also held in the companies EPW Parsówek sp. z o.o. and PGE Energia Naturity sp. z o.o. to deal with increases of the companies' share capitals by PLN 18,000,000 and PLN 331,921,000, respectively. The new shares in the increased share capital of the company PGE Energia Naturity sp. z o.o. were allocated to PGE S.A., and the new shares in the company EPW Parsówek sp. z o.o. were allocated to ENERGA Wytwarzanie sp. z o.o.

On 4 February 2014 the court registered an increase in the share capital of the company acquiring one part of the assets of the company EPW Energia sp. z o.o., i.e. the company EPW Parsówek sp. z o.o.

On 10 February 2014 the court registered a decrease in the share capital of EPW Energia Olecko sp. z o.o. and entered the information about the division by separation into the register.

On 28 February 2014 the court registered an increase in the share capital of the company acquiring the other part of the assets of the company EPW Energia sp. z o.o., i.e. the company PGE Energia Naturity sp. z o.o. A relevant entry in the National Court Register concerning the increase of the share capital finalised the process of dividing the company EPW Energie sp. z o.o. In consequence of the aforementioned division, the company ENERGA Wytwarzanie sp. z o.o. became the sole shareholder in the company EPW Energia sp. z o.o.

3.3 Other changes

- On 14 October 2013 the Extraordinary General Meeting of the company Niezależny Operator Międzystrefowy sp. z o.o. adopted a resolution concerning a decrease in the share capital by way of voluntary redemption for consideration to be exercised by the sole shareholder, i.e. the company Exatel S.A. The share capital was decreased from PLN 30,000,000 to PLN 22,500,000, i.e. by PLN 7,500,000 by way of redemption of 7500 shares with a par value of PLN 100.00 each. On 6 March 2014 the decrease in the share capital was entered in the National Court Register.
- On 05 March 2014 the Extraordinary General Meeting of the company ELBIS sp. z o.o. adopted a resolution concerning a decrease in the share capital by way of voluntary redemption for consideration to be exercised by the sole shareholder, i.e. the company PGE GiEK S.A. The share capital was decreased from PLN 46,070,000 to PLN 6,449,800, i.e. by PLN 39,620,200. The change in the share capital was effected by decreasing the par value of one share from PLN 1000 to PLN 140.00, i.e. by PLN 860 for each share. The decrease in the par value apply to all 46,070 shares held by PGE GiEK S.A. On 21 August 2014 the decrease in the share capital was entered in the National Court Register.
- On 15 April 2014 PGE Obrót S.A. and Przedsiębiorstwo Energetyczne "ESV" S.A. with its registered office in Siechnice entered into an agreement for the sale of 600 shares in the company Energetyka Wiśłosan sp. z o.o. held by PGE Obrót S.A. and constituting 19.65% of the company's share capital. On 25 April 2014 the company Przedsiębiorstwo Energetyczne "ESV" S.A. effected a

payment for the shares and on the same day the property title to the shares was transferred to the new owner.

- On 9 July 2014 Exatel S.A. and Telestrada S.A. with its registered office in Warsaw entered into a conditional agreement for the sale of 100% of shares in the company Niezależny Operator Międzystrefowy sp. z o.o. with its registered office in Warsaw. On 26 September 2014 the General Meeting of Exatel S.A. gave its consent to the sale of 100% of the company's shares. On 29 September 2014 the company Telestrada S.A. effected a payment for the shares and on the same day the property title to the shares was transferred to the new owner.
- On 21 August 2014 PGE Dystrybucja S.A. and TECHNITEL POLSKA S.A. with its registered office in Łódź entered into an agreement for the sale of 2639 shares in the company Zakład Obsługi Energetyki sp. z o.o. held by PGE Dystrybucja S.A. and constituting 100% of the company's share capital. On 22 August 2014 the company TECHNITEL POLSKA S.A. effected a payment for the shares and on the same day the property title to the shares was transferred to the new owner.
- On 5 September 2014 the Extraordinary General Meeting of the company PGE Dystrybucja S.A. adopted a resolution concerning the redemption of all held treasury shares, i.e. 131,873 shares. In connection with the redemption of the treasury shares, the Extraordinary General Meeting adopted a resolution concerning a decrease in the company's share capital by PLN 1,318,730, i.e. from PLN 9,730,742,890 to PLN 9,729,424,160. On 30 December 2014 the decrease in the share capital was entered in the National Court Register.
- On 11 September 2014 the Extraordinary General Meeting of the company PGE Energia Odnawialna S.A. adopted a resolution concerning the merger of the company PGE Energia Odnawialna S.A. (the acquiring company) with the company Żuromin sp. z o.o. (the company being acquired) by way of transferring all assets in the company being acquired to the acquiring company without releasing new shares in return for shares in the company being acquired, pursuant to Article 514 of the Commercial Companies Code. PGE Energia Odnawialna S.A. had held 100% of shares in the share capital of Żuromin sp. z o.o. On 30 September 2014 the merger of the companies was entered in the National Court Register.
- On 24 October 2014 the Extraordinary General Meeting of the company Eolica Wojciechowo sp. z o.o. (PGE Energia Odnawialna holds 100% of shares) adopted a resolution concerning an increase in the company's share capital from PLN 9,550,000 to PLN 35,100,000 i.e. by PLN 25,550,000 by way of establishing 51,100 new shares with a par value of PLN 500.00 each. All newly established shares in the increased share capital were acquired by the company PGE Energia Odnawialna S.A. in return for a contribution in cash. On 21 November 2014 the increase in the share capital was entered in the National Court Register.
- On 7 November 2014 the companies PGE Energia Odnawialna S.A. (the acquiring company) and PELPLIN sp. z o.o. (the company being acquired) signed a Merger Plan. The merger between the company PELPLIN Sp. z o.o. and PGE Energia Odnawialna S.A. will be carried out under Article 492 § 1 item 1 of the Commercial Companies Code, i.e. by way of transferring all assets of the company being acquired to PGE Energia Odnawialna S.A. as the acquiring company without releasing shares in the acquiring company in return

for shares in the company being acquired, in accordance with the provisions of Article 514 of the Commercial Companies Code.

- On 2 December 2014 the company PGE Obrót S.A. entered into two share sale agreements with the companies PGE Dystrybucja S.A. and PGE GiEK S.A. for the sale of 44,014 shares in the company ENESTA sp. z o.o., which constitutes 87.33% of shares in the share capital of ENESTA sp. z o.o. PGE Obrót S.A. acquired all shares in ENESTA sp. z o.o. held by PGE Dystrybucja S.A. and PGE GiEK S.A., i.e. 42,764 shares and 1250 shares, respectively. The property title to the shares was transferred to the company PGE Obrót S.A. on the day of executing the share sale agreements.
- On 23 December 2014 the company PGE GiEK S.A. and the company Grupa Azoty Zakłady Azotowe "Puławy" S.A. entered into a share sale agreement whose subject was 11,074 shares in the company Elektrownia Puławy sp. z o.o. constituting 50% of the company's share capital. Under this sale agreement, PGE GiEK S.A. sold all shares held in the company Elektrownia Puławy sp. z o.o. The property title to the shares was transferred to the company Grupa Azoty Zakłady Azotowe „Puławy” S.A. on the day of executing the share sale agreement.

On 15 October 2014 the Extraordinary General Meeting of PGE GiEK S.A. adopted a resolution concerning a forced buyout of shares held by minority shareholders for the benefit of the majority shareholder, i.e. PGE S.A., pursuant to Article 418 of the Commercial Companies Code. The forced buyout comprised 2,772,703 shares held by minority shareholders and constituting 0.3981% of the total share capital of PGE GiEK S.A.

In 2014 PGE GiEK S.A., by way of a forced buyout of shares under Article 418¹ § 4 of the Commercial Companies Code, acquired from minority shareholders the total of 637,561 treasury shares constituting 0.0915% of the share capital of PGE GiEK S.A.

In 2014 the PGE Group did not suspend or stop business activities in any significant area of operation.

3.4 Changes in the organisation of the PGE Capital Group after the balance sheet date

The changes which occurred in the PGE Group after the balance sheet date are presented below:

- on 1 January 2015 the company PGE Energia Natury sp. z o.o. established the following branches: Branch "Galicja" with its registered office in Orzechowce, Branch "Kisielice/Malbork" with its registered office in Malbork.
- On 13 January 2015 the Management Board of PGE GiEK S.A. adopted a decision to merge PGE GiEK S.A. (the acquiring company) with the company PGE Gubin sp. z o.o. (the company being acquired). The Extraordinary General Meeting of PGE Gubin sp. z o.o. adopted a resolution concerning the company's merger with PGE GiEK S.A. on 14 January 2015. The merger will be carried out under Article 492 § 1 item 1 in connection with Article 515 § 1 of the Commercial Companies Code, i.e. by transferring all assets of the company being acquired to the acquiring company without increasing the share capital of the acquiring company. The merger does not cause new circumstances requiring a disclosure in the Statutes of the acquiring company. The Statutes of PGE GiEK S.A. will not be changed in connection with this merger.

An application for the registration of the merger was filed with the National Court Register on 16 January 2015. The merger was entered in the register of entrepreneurs of the National Court Register on 26 February 2015.

4. The economic and financial position

During the period ended 31 December 2014 PGE S.A. did not suspend or stop business activities in any significant area of operation.

In 2014 the Company recorded:

- balance sheet total of PLN 37.349 million
- equity of PLN 33.102 million
- net profit of PLN 5.453 million

Table: Basic financial ratios

	Year ended 31 December 2014	Year ended 31 December 2013
Net return of sales (%) net financial result x 100% / net revenues	56%	17%
Return on equity (%) net financial result x 100% / (equity)	16%	7%
Trade receivables turnover (days) average gross trade receivables x 365 days / net revenues	25	22
Debt ratio (%) liabilities x 100% / total liabilities and equity	11%	4%
Liquidity ratios current assets / current liabilities	9	10

4.1. Statement of comprehensive income

Key financial data	Unit	Year ended 31 December 2014	Year ended 31 December 2013 <i>adjusted data</i>	change %
Sales revenues	PLN million	9.671	12.408	-22%
Earnings before interests and taxes (EBIT)	PLN million	476	966	-51%
Earnings before interest, tax, depreciation and amortisation (EBITDA)	PLN million	489	984	-50%

Gross profit on sales		650	1.139	-43%
Gross profit		5.477	2.323	135.77%
Net profit for reporting period		5.453	2.121	157.1%
EBITDA margin	%	5%	8%	
Net debt/LTM EBITDA*	x	1.68x	-1.19x	

**LTM EBITDA - EBITDA for the past 12 months from the balance sheet date*

Gross profit on sales in 2014 amounted to PLN 650m as compared to PLN 1138m in 2013, which shows a fall by approximately 43%. This lower profit results mainly from the poorer electricity sales, which decreased by PLN 467m: from PLN 658m in 2013 to PLN 191m in 2014. In 2014 the Company's electricity sales volume fell by about 12 TWh. Additionally, rising energy prices during the course of 2014 and the previously contracted fixed prices of energy sold to the companies of the PGE Group lowered the electricity sales margins, which contributed to the lower electricity sales results than those achieved in 2013. The largest impact on the rising energy prices had the prices of peak hours, which, in consequence of the implementation of the operating power reserve mechanism, reached much higher levels in relation to the baseload hour prices than in the previous years. In 2013 the average energy price in the spot market for peak hours on working days reached the level of PLN 177.43/MWh, while in 2014 it was PLN 232.65/MWh.

In 2014 the sales and distribution costs amounted to PLN 23m, which was 35% more than in 2013. The higher costs of sales and distribution resulted mainly from higher commissions, mainly those paid to PGE Dom Maklerski S.A.

In 2014 the general and administrative expenses amounted to PLN 150m, which constituted a 7% decrease in comparison to the 2013 result. The cost reduction was caused by lower costs of managerial contracts and consulting services.

In 2014 the result on other operating activities was negative and equalled (-) PLN 1m as compared to PLN 6m in 2013.

The Company's other operating revenues amounted to PLN 10m, which indicates a 38% fall over the amount of PLN 16m achieved in 2013.

The Company's financial revenues in 2014 amounted to PLN 5543m as compared to PLN 1384m a year earlier. The main item increasing the value of financial revenues was a donation of shares in PGE Dystrybucja S.A. and PGE GiEK S.A. from PGE Obrót S.A., less a revaluation write-down on shares in PGE Obrót S.A., for the total amount of PLN 4281m.

Furthermore, in financial costs, PGE S.A. recognised a revaluation write-down concerning bonds of the company Autostrada Wielkopolska S.A. in the amount of (-) PLN 386m.

In consequence of the aforementioned events, the gross profit of PGE S.A. for 2014 reached the level of PLN 5477m as compared to PLN 2323m in 2013.

4.2. Statement of financial position

The Company's fixed assets as at 31 December 2014 and 31 December 2013 equalled PLN 33,097m and PLN 27,692m, respectively.

Fixed assets - increase by PLN 5400m

Increase	<ul style="list-style-type: none"> • a donation of shares in the companies PGE Dystrybucja S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A., less a revaluation write-down on shares in PGE Obrót S.A., for the total amount of PLN 4281m • a PLN 835m rise in the purchase of bonds issued by the subsidiaries • an acquisition of shares in the subsidiaries of PGE GiEK S.A.; a rise by PLN 224m • capitalisation of the subsidiaries (PGE EJ 1 sp. z o.o., PGE Sweden AB, PGE Dom Maklerski S.A.); a rise by PLN 267m • acquisition of shares from minority shareholders in PGE Górnictwo i Energetyka Konwencjonalna S.A.; a rise by PLN 112m • recognition of deferred tax assets of PLN 22m
Decrease	<ul style="list-style-type: none"> • a revaluation write-down concerning bonds of the company Autostrada Wielkopolska S.A. in the amount of (-) PLN 358m

PGE S.A. purchases bonds issued by the companies belonging to the PGE Group. Funds acquired from bond issues are used to finance investment projects, repay financial liabilities secured with an assignment of long-term electricity and capacity sales agreements, and finance current operations.

The Company's current assets as at 31 December 2014 and 31 December 2013 equalled PLN 4252m and PLN 3456m, respectively.

Current assets - increase by PLN 787m

Increase	<ul style="list-style-type: none"> • an increase in cash and cash equivalents by PLN 798m • an increase in inventories by PLN 159m, including a PLN 152m increase in the net value of CO2 emission allowances and a PLN 7m increase in the net value of energy origin certificates • an increase in other short-term assets by PLN 110m, including a PLN 105m increase in the advance payment to the subsidiary PGE Dom Maklerski S.A. for electricity purchases
Decrease	<ul style="list-style-type: none"> • a decrease in trade receivables by (-) PLN 173m • a (-) PLN 93m decrease in the item of short-term financial assets recognised at fair value based on the financial result <ul style="list-style-type: none"> ▪ commodity forward contracts: (-) PLN 96m ▪ currency forward contracts: (-) PLN 3m • a (-) PLN 14m decrease in other loans and financial receivables

4.3. Statement of cash flows

Total net cash flows from operating activities in 2014 amounted to PLN 530m as compared to PLN 469m in 2013.

Negative net cash flows from investing activities in 2014 amounted to PLN 320m as compared to positive net cash flows of PLN 1533m in 2013. The level of cash

flows from investing activities in 2014 was influenced first of all by net cash flows related to the acquisition of bonds issued by the companies belonging to the PGE Group. In 2014 there occurred a cash outflow related to the purchase and redemption of bonds issued by the PGE Group companies for the amount of (-) PLN 906m, while in 2013 the Company achieved inflows of PLN 1357m.

Positive net cash flows from financing activities in 2014 amounted to PLN 581m as compared to negative net cash flows of PLN 744m in 2013. The level of net cash flows from financing activities in 2014 was determined mainly by incurred loans and credits, issued bonds and paid dividends. In 2014 inflows from loans, credits and bond issues amounted to PLN 2720m, which was PLN 1726m more than in 2013. In 2014 the Company paid its shareholders PLN 2057m in dividends, which was PLN 449m more than in 2013.

4.4. Financial resources management

During the 2014 reporting period PGE S.A. and its subsidiaries financed their activities mainly from funds generated by their economic activities, credits, and bond issues.

In 2014 PGE Polska Grupa Energetyczna S.A. did not carry out any share issues.

As at 31 December 2014 PGE Górnictwo i Energetyka Konwencjonalna S.A. held issued bonds for the combined nominal amount of PLN 2670 million; the bonds had been subscribed for by PGE S.A. under the following bond issue agreements:

- The bond issue agreement entered into with ING Bank Śląski S.A. on 13 September 2010 providing for the issue of bonds up to the combined amount of PLN 4091m. On 29 November 2013 the Company signed an annex to the agency agreement extending the programme agreement until 31 December 2017. As at 31 December 2014 the nominal value of bonds subscribed for by PGE S.A. under this agreement was **PLN 1350m**.
- The bond issue agreement entered into with Powszechna Kasa Oszczędności Bank Polski S.A. on 30 November 2009 providing for the issue of bonds up to the combined amount of PLN 3700m. The agreement is to expire on 31 December 2017. As at 31 December 2014 the nominal value of bonds subscribed for by PGE S.A. under this agreement was **PLN 550m**.
- The bond issue agreement entered into with ING Bank Śląski S.A. on 20 June 2011 providing for the issue of bonds addressed to PGE S.A. The agreement is to expire on 31 December 2025. As at 31 December 2014 the nominal value of bonds acquired by PGE S.A. under this agreement was **PLN 770m**.

As at 31 December 2014 PGE S.A. held bonds issued by **PGE Energia Odnawialna S.A.** under the bond issue agreement entered into with ING Bank Śląski S.A. on 20 June 2011. The programme provides for the issue of bonds up to the combined amount of PLN 1200m. The agreement is to expire on 31 December 2016. As at 31 December 2014 the nominal value of bonds subscribed for by PGE S.A. under this agreement was PLN 735m.

As at 31 December 2014 PGE S.A. held bonds issued by the companies belonging to the group of PGE Energia Natury S.A. under the bond issue agreement entered into with ING Bank Śląski S.A. on 20 September 2013. The agreement provides for the issue of bonds up to the combined amount of PLN 400m. The agreement was entered into for an indefinite period of time. On 24 January 2014 the parties signed

annex no. 1 to this agreement, increasing the programme amount up to PLN 700m. On 27 January 2014 the companies PGE Energia Naturity PEW sp. z o.o. and PGE Energia Naturity sp. z o.o. entered into this agreement as new parties. As at 31 December 2014 the nominal values of bonds subscribed for by PGE S.A. was as follows:

- bonds issued by PGE Energia Naturity PEW Sp. z o.o. - **PLN 270m**;
- bonds issued by PGE Energia Naturity Omikron sp. z o.o. - **PLN 145m**;
- bonds issued by PGE Energia Naturity Kappa sp. z o.o. - **PLN 50m**;
- bonds issued by PGE Energia Naturity sp. z o.o. - **PLN 3m**;

PGE S.A. bond issue programme up to the amount of PLN 5000m addressed to the PGE Group companies

In 2014 PGE S.A. was a party to the agency agreement entered into on 11 May 2009 with ING Bank Śląski S.A. for the establishment of a bond issue programme addressed to the PGE Group companies. The maximum amount of the programme is PLN 5000m. Within the programme, PGE S.A. may issue coupon bonds or zero coupon bonds.

As at 31 December 2014 the Company did not have any liabilities related to bonds issued under this programme.

The PGE S.A. market bond issue up to the amount of PLN 5000m

On 29 August 2011 PGE S.A. entered into an indefinite period agreement with Bank Polska Kasa Opieki S.A. and ING Bank Śląski S.A. for the establishment of a bond issue programme ("Programme").

The maximum amount of debt under bond issues (constituting the maximum allowable combined amount of issued and not redeemed bonds) within the Programme may not be higher than PLN 5000m.

On 27 June 2013 the parties to the agreement carried out a non-public issue of five-year coupon bearer bonds with a variable interest rate. The bond maturity rate is 27 June 2018. On 29 June 2013 bonds with a par value of PLN 1000 were admitted to trading in the Alternative Trading System organised by the company BondSpot S.A. and the Alternative Trading System organised by the Warsaw Stock Exchange.

As at 31 December 2014 the Company's liabilities under the bond issue programme equalled **PLN 1bn**.

The EUR 2bn Medium-term Bond Issue Programme

On 22 May 2014 PGE S.A. and PGE Sweden AB (publ), the company owned in whole by PGE S.A., entered into a medium-term eurobond issue agreement. Within the scope of the programme, PGE Sweden AB (publ) may issue eurobonds up to the amount of EUR 2bn with a minimum maturity period of 1 year. On 9 June 2014 PGE Sweden AB (publ) issued eurobonds for the total amount of EUR 500m with a five-year maturity period, and on 1 August 2014 it issued eurobonds for the total amount of EUR 138m and with a maturity period of 15 years.

The Company's cash assets and open credit lines guarantee sufficient funds for the financing of the Company's current operations.

5. Description of significant agreements

The section below describes agreements which, according to the Supervisory Board of PGE S.A., are 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 2014 PGE S.A. continued sales of electricity to PGE Obrót S.A. under the framework agreement for the sales of electricity entered into in 2007. Sold energy is to meet the demand of end-users of PGE Obrót S.A. Energy is sold on the basis of transaction arrangements covering demand reported by PGE Obrót S.A.

5.2. Agreements with power plants within the PGE Group

In connection with the amendment to the Energy Law effective as of 9 August 2010 and regulating, through Article 49a, the power exchange obligation, since 2012 PGE S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A. have been bound by an agreement for the purchase of electricity not covered by the aforementioned obligation. Concluded for an indefinite period of time, the agreement provides for the purchase of electricity on the basis of transaction arrangements.

The sale of electricity generated by power plants operated by PGE Górnictwo i Energetyka Konwencjonalna S.A. and by PGE Elektrownia Opole S.A. has been conducted on the organised markets pursuant to Article 49a of the Energy Law.

5.3. Agreements for the delivery of hard coal

In 2014 the power generation plants operated by PGE Górnictwo i Energetyka Konwencjonalna S.A. were supplied with hard coal by PGE S.A. on the basis of the Company's fuel supply agreements, mostly with domestic coal producers. The major supplier of hard coal is Kompania Węglowa S.A. The other suppliers are Jastrzębska Spółka Węglowa S.A., Katowicki Holding Węglowy S.A., SUEK Polska Sp. z o. o., HAWEX Sp. z o.o.

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

On 20 January 2014 PGE S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A. entered into an agreement with PKO BP with its registered office in Warsaw. The subject of the agreement is PKO BP's providing PGE Górnictwo i Energetyka Konwencjonalna 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 5 and 6 in the Opole Power Plant (the investment project of PGE Górnictwo i Energetyka Konwencjonalna S.A.).

The subject of the agreement is the provision, to the order of PGE Górnictwo i Energetyka Konwencjonalna S.A., of the following:

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 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 agreements entered into with other banks);

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

The agreement provides for security in the form of the Company's surety up to 120% of the granted guarantee, a declaration of voluntary submission to enforcement proceedings issued by PGE Górnictwo i Energetyka Konwencjonalna S.A. (up to 120% of the guarantee amount) and a declaration of voluntary submission to enforcement proceedings issued by PGE S.A. as a surety (up to 120 % of the factual guarantee amount).

5.5. Agreements for guarantee lines, sureties and guarantees related to the Opole II Project

On 20 January 2014 PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE S.A. entered into three separate guarantee lines agreements with the following banks:

- Powszechna Kasa Oszczędności Bank Polski S.A. with its registered office in Warsaw;
- Bank Polska Kasa Opieki S.A. with its registered office in Warsaw;
- BNP Paribas Bank Polska S.A. with its registered office in Warsaw.

These guarantee line agreements provide for the establishment of three guarantee limits for the combined amount of PLN 3,398,143,144 under which the bank will grant PGE Górnictwo i Energetyka Konwencjonalna S.A. bank guarantees securing the company's liabilities. The beneficiary of guarantees to be issued by the banks to the order of PGE GiEK S.A. will be the general contractor of works related to the construction of the power generation units 5 and 6 in the Opole Power Plant.

6. Factors important for the development of PGE S.A. and the PGE Group

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

Market environment

Demand	<ul style="list-style-type: none"> • the volume of demand for electricity and heat • seasonality and weather conditions
Energy market	<ul style="list-style-type: none"> • the prices of electricity on the wholesale and retail markets • the prices and tariffs on the electricity and heat retail market • heat transmission and distribution tariffs and electricity distribution tariffs
Related markets	<ul style="list-style-type: none"> • the prices of property rights (energy origin certificates) • 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, as well as fuel transport costs • the prices of CO2 emission allowances
Power generation infrastructure	<ul style="list-style-type: none"> • the availability of cross-boarder transmission capacities • increased power generation capacities in the national power system, including those based on renewable energy sources and cogeneration • the development and modernisation of power grids

Macroeconomic environment

- the GDP growth rate, especially in the industrial production sector
- interest rates and currency exchange rates, which influence the valuation of the Group's assets and liabilities

Regulatory environment

Domestic

- the implementation level and possible changes of the state's energy policy
- changes in the range of the system services such as:
 - modifications of the current mechanism of the system service called the Operating Power Reserve
 - the launching of the Supplemental Contingency Reserve service
 - the launching of the subsequent packages of demand reduction services
- amendments to the Energy Law, in particular with respect to the optimisation of the renewable energy sources and cogeneration support systems as well as other acts
- 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 Górnictwo i Energetyka Konwencjonalna S.A. ("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 Group entitled to receive compensations under the PPA Act with regard to the annual adjustments of the stranded costs for the years 2009 and 2010 as well as annual adjustments of the stranded costs and annual adjustments of costs incurred by gas-fired units in the years 2009-2012
- the issue of implementing the directive establishing a scheme for greenhouse gas emission allowance trading into the national legal system, including the matter of CO2 derogations. Currently the process of acquiring free allowances in return for the execution of investment projects included in the National Investment Plan does not have an unambiguous legal basis.
- the issue of the implementation of the energy efficiency directive into the national legal system
- the issue of the implementation of a quality tariff in the distribution system; in consequence of this implementation, regulated revenue levels will depend on the SAIDI and SAIFI indexes
- the draft Water Management Act with respect to additional financial burdens to be imposed on power utilities for the use of water for power generation purposes
- possible adverse settlement of legal disputes

International

- the regulations of the 2030 climate and energy package -

the decisions of the climate summit in October 2014, in particular: the objective of at least a 40% CO₂ emission reduction, the objective of a 27% share in the energy mix for RES, the objective of a 27% increase in energy efficiency, a possibility of granting the energy sector free CO₂ emission allowances (so-called derogations), a possibility of acquiring funds for modernisation projects in the energy sector. There is an urgent necessity to develop precise rules of allocating available assistance.

- the BAT ("best available techniques") revision process – uncertainty with respect to future SO₂, NO_x, dust and other pollutants (including mercury) emission standards after 2020
 - the draft NEC ("National Emission Ceilings") Directive on the annual capping of national emissions of air pollutants and its impact on the energy sector
 - works on Poland's joining the market coupling mechanism
-

7. Risks and threats to PGE S.A. and the PGE Capital Group

The business activities of the PGE Capital Group, 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 operations.

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

- market (product) risks related to the prices and volumes of the Group's products and services, in particular:
 - the market prices of electricity and related products,
 - the sales volumes of electricity and heat,
 - tariffs (regulated prices),
- property risks related to the development and maintenance of the Group's generation assets, in particular:
 - breakdowns,
 - damage to assets,
 - development and investments,
- operational risks related to the course of the Group's economic processes, in particular:
 - generation costs,
 - generation of electricity and heat,
 - fuel management,
 - human resources,
 - social dialogues,
- regulatory and legal risks related to the Group's fulfilment of requirements imposed by both external and internal legal environments, in particular:
 - legal changes in the support systems,
 - the quantity of PM and CO₂ allowances to be bought,
 - compensations for the termination of Power Purchase Agreements,
 - environmental protection,

- the unresolved legal status of real properties,
- concessions,
- discriminatory actions,
- financial risks related to the Group's financial management, in particular:
 - credit risks,
 - liquidity risks,
 - interest rate risks,
 - currency risks.

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

PGE S.A. 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 the Company's internal control and risk management systems include the following:

- the Company's internal processes, both automatic and manual control mechanisms limiting the level of risks related to the achievement of business objectives,
- the Group's risk management process allows, on the basis of the methodology common for the whole Group, the orderly and comprehensive identification, measurement and current management of financial and non-financial risks occurring during the course of business operations, in particular the reduction and control of significant and quantifiable specific risks based on the concept of economic capital. The objective of these activities is to maintain risks accompanying the activities of the PGE Group and exerting considerable influence on its value at an appropriate level with respect to determined business objectives by limiting negative consequences of such threats or taking pre-emptive or corrective measures.

PGE S.A. manages the PGE Group, creates and implements solutions in the area of risk management architecture. In particular, it develops risk management policies, standards and practices, prepares and develops internal IT tools supporting the process, determines appetite for risk and relevant limits, and monitors their levels.

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

- the internal audit whose objective is to carry out an independent and objective evaluation of the internal control and risk management systems. The Company'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 PGE Group's other companies. Audit results are reported to the Management Board of PGE S.A. Periodically (i.e. once every six months) the Chairperson of the Audit Committee functioning within the Supervisory Board of PGE S.A. receives information on audits carried out in a given reporting period. Subsequently, the Chairperson of the Audit Committee forwards such information to the Supervisory Board of PGE S.A. Recommendations resulting from conducted audits are successively implemented by the responsible entities (the Group's companies, PGE's organisational units), and their implementation status is monitored periodically.

- the dedicated function of investigative control focusing on the identification of malfeasances and the conduct of evidence and protective proceedings in PGE S.A. and the PGE Group;
- 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 S.A. and the companies subject to the process of consolidation is carried out by certified auditors. Two firms have been selected to audit the 2014 financial statements prepared in the key companies of the PGE 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. The PGE Group 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 standalone and consolidated financial statements of PGE S.A. The standalone 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 Supervisory 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, i.e. the examination of the correctness and



Supervisory Board

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effectiveness of conducting internal financial inspections in the Company and the PGE Group as well as cooperation with the Company's auditors.

The Supervisory Board evaluates positively activities undertaken by PGE S.A. in 2014 as well as the internal control system and the risk management system applied in PGE S.A. in 2014.

Chairperson of the Supervisory Board
of PGE Polska Grupa Energetyczna S.A.

Barbara Dybek

Members of the Supervisory Board:

Jacek Barylski
Jarosław Gołębiewski
Czesław Grzesiak
Anna Kowalik
Piotr Machnikowski
Małgorzata Mika-Bryska
Małgorzata Molas
Krzysztof Trochimiuk