

MANAGEMENT BOARD'S REPORT
ON ACTIVITIES OF PGE POLSKA GRUPA ENERGETYCZNA S.A.
FOR THE YEAR 2012





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1. General information about the Company and PGE Capital Group

PGE Polska Grupa Energetyczna S.A. (the „Company”, “PGE S.A.”) is the parent company of PGE Capital Group („PGE Capital Group”, the „Group”, „PGE Group”). PGE Capital Group is **the largest vertically integrated company in energy sector in Poland with respect to revenues, installed capacity and electricity produced**. The Group in its current shape was established in 2007. The organisational form presented below is a result of organizational restructuring and legal and formal consolidation that have been implemented in the company since 2007.

PGE Polska Grupa Energetyczna S.A. runs its activities through its headquarter with no branches.

The controlling entity of the Company is the State Treasury, which held 61.89% of the share capital as at December 31, 2012 (according to the notification from the State Treasury, about which the Company informed in the current report no. 7/2012 dated March 1, 2012).

Apart from activities of head offices and holdings, Company's core business activity also includes trading of electricity and related products.

Activity with regard to the electricity trading is carried out pursuant to the requirements resulting from the Energy Law of April 10, 1997.

1.1. Changes in organisation of the Company and of the PGE Capital Group

The changes, which occurred in the Company's organisation during 12-month period ended December 31, 2012, are presented in Note 18 to standalone financial statements and described below.

In 2012 **PGE S.A.** changed its equity interest in the following entities:

- on December 23, 2011 the Extraordinary General Meeting of Shareholders of PGE Energia Jądrowa S.A. decided to increase the share capital of the company from PLN 87,500,000 to PLN 103,500,000, i.e. by PLN 16,000,000, through issue of 640,000 inscribed shares with the nominal price of PLN 25. All shares in the increased share capital were taken up by PGE Polska Grupa Energetyczna S.A. in exchange for cash contribution. The increase of the share capital was registered in the National Court Register on January 19, 2012.
- in the first quarter of 2012 PGE Polska Grupa Energetyczna S.A. acquired from the minority shareholders a total number of 3,750 inscribed shares of PGE Górnictwo i Energetyka Konwencjonalna S.A. (constituting in total 0.0005% share in the share capital of the company). The purchase of inscribed shares by PGE S.A. resulted from the Privatisation agreement, upon



which the employees of PGE Zespół Elektrociepłowni Bydgoszcz S.A. (currently PGE GiEK S.A. branch Zespół Elektrociepłowni Bydgoszcz) were entitled to sell the allotted block of shares to the majority shareholder.

- on March 12, 2012 District Court for Łódź Śródmieście in Łódź, XX Commercial Division of National Registry Court issued a decision on entry of merger of PGE Górnictwo i Energetyka Konwencjonalna S.A. with PGE Elektrownia Opole S.A. The share of PGE Group companies in the share capital of PGE Górnictwo i Energetyka Konwencjonalna S.A. is as follows: PGE Polska Grupa Energetyczna S.A. (91.20%) and PGE Obrót S.A. (7.37%).
- on December 30, 2011 datio in solutum agreement was signed between PGE Polska Grupa Energetyczna S.A. and PGE Energia Odnawialna S.A., that settles the dividend liability of PGE Energia Odnawialna S.A. towards PGE Polska Grupa Energetyczna S.A. On the ground of the above agreement, after fulfillment of its provisions, the ownership right of 103,196 ordinary registered shares of PGE Górnictwo i Energetyka Konwencjonalna S.A. (representing 0.016% of the share capital) will be transferred to PGE Polska Grupa Energetyczna S.A. in order to release PGE Energia Odnawialna S.A. from the commitment to pay part of the due dividend. On March 15, 2012 the change referring to transfer of shares was registered in the stockholders' ledger of PGE Górnictwo i Energetyka Konwencjonalna S.A. From that day PGE Energia Odnawialna S.A. is no longer a shareholder in PGE Górnictwo i Energetyka Konwencjonalna S.A.
- On January 18, 2012 the Extraordinary General Meeting of PGE Obrót S.A. adopted a resolution on compulsory buy-out of company's minorities pursuant to art. 418 of the Polish Commercial Companies Code, concerning the buy-out of shares constituting 0.24% in the share capital of PGE Obrót S.A. by PGE Polska Grupa Energetyczna S.A. As a result of the execution of the above resolution, in April 2012 PGE purchased 11,716 shares of PGE Obrót S.A. In addition, on the ground of a sale agreement on May 7, 2012 PGE purchased from the State Treasury 46 shares of PGE Obrót S.A., constituting 0.00093% of the company's share capital. Additionally on August 20, 2012 and October 12, 2012 PGE Obrót S.A. executed a compulsory buy-out of 4,159 shares and 11,809 shares of PGE Obrót S.A. respectively. The buy-out price was paid in full to the shareholders and as a result the company became an owner of 15,968 shares intended for redemption pursuant to art. 418¹ § 4 of the Polish Commercial Companies Code.

In connection with the above buy-outs, currently the company owns 16,852 treasury shares, which were purchased by way of compulsory buy-out pursuant to art. 418¹ § 4 and 243 shares not allotted to the shareholders of the company during the consolidation process of PGE Capital Group companies. As a result the company currently holds 17,095 treasury shares constituting



0.346% in the share capital of the company. The compulsory buy-out procedures (pursuant to art. 418¹ § 4 of the Polish Commercial Companies Code) are being executed towards the remaining minority shareholders of the company (0.104% of total shares).

In connection with the above transactions, PGE Polska Grupa Energetyczna S.A. currently holds 99.55 % in the share capital of PGE Obrót S.A.

- on May 10, 2012 Ordinary General Meeting of PGE Dystrybucja S.A. adopted a resolution on compulsory buy-out of series I bearer shares, belonging to the minority shareholders of PGE Dystrybucja S.A., representing 0.02% in the company's share capital. On July 24, 2012 PGE, a shareholder, submitted funds to the account of PGE Dystrybucja S.A. for the buy-out of 192,126 shares from the minority shareholders by way of compulsory buy-out. In addition, on August 30, 2012 PGE purchased from the State Treasury 2,713 shares constituting 0.000278% of the share capital of PGE Dystrybucja S.A. As a result of the transactions the only shareholders of PGE Dystrybucja S.A. are PGE Obrót S.A. (89.911% in the share capital) and PGE Polska Grupa Energetyczna S.A. (10.075% in the share capital). Additionally, the company holds 131,873 treasury shares intended for redemption (0.014% of the share capital).
- on June 13, 2012, on the ground of decision of the General Meeting of PGE Systemy S.A., the share capital of the company was raised from PLN 5,000,000 to PLN 125,000,000, i.e. by PLN 120,000,000. 12,000,000 newly issued series D shares with a par value of PLN 10 each were taken up by the sole shareholder i.e. PGE Polska Grupa Energetyczna S.A. The increase of the share capital was registered on July 16, 2012.
- on September 7, 2012 the Extraordinary General Meeting of Shareholders of PGE Energia Jądrowa S.A. decided to increase the share capital of the company from PLN 103,500,000 to PLN 113,500,000, i.e. by PLN 10,000,000, through issue of 400,000 inscribed shares with the nominal price of PLN 25. All shares in the increased share capital were taken up by PGE Polska Grupa Energetyczna S.A. in exchange for cash contribution. The increase of the share capital was registered in the National Court Register on October 4, 2012
- in December 2012 PGE Polska Grupa Energetyczna S.A. purchased from minority shareholders a total of 418,027 shares of EXATEL S.A., constituting 5.00% in the share capital of the company.

Additionally, on January 23, 2013 PGE Polska Grupa Energetyczna S.A. purchased from a minority shareholder 3,885 shares of EXATEL S.A., constituting 0.0465% in the share capital of the company.



After the above transactions PGE Polska Grupa Energetyczna S.A. currently holds 99.98% in the share capital of EXATEL S.A.

On February 1, 2012 PGE Polska Grupa Energetyczna S.A. established PGE Dom Maklerski S.A. with the registered office in Warsaw and is a 100% shareholder. On April 19, 2012 the company was registered in the National Court Register.

The liquidation process of ELECTRA Bohemia s.r.o. with its registered office in Czech Republic has started on July 6, 2012. PGE Polska Grupa Energetyczna S.A. holds 100% in the share capital of the company.

On August 1, 2012 ELECTRA Deutschland GmbH changed the name and seat of the company. Current name and seat is as follows: PGE Trading GmbH with the registered office in Berlin.

On October 22, 2012 PGE Serwis sp. z o.o. was deleted from the entrepreneurs register.

1.2. Changes in the organisation of the Company after the balance sheet date

In the year 2012, PGE S.A. did not discontinue any of its significant activities. No changes occurred in the organization of the Company after the balance sheet date. Note 41 to the standalone financial statements contains information about significant events during the reporting period.



1.3. Main projects implemented in PGE Capital Group in 2012

In March 2012 the composition of the Management Board was supplemented by 2 persons. As from March 5, 2012 Mr Krzysztof Kilian was appointed the President of the Management Board and Mrs Bogusława Matuszewska was appointed the Vice-President of the Management Board.

The new Management Board set a primary goal which consists not only in a final reorganisation of the Group's formal and legal structure, but mainly in increasing the operational performance of the entire Group, so that it can be managed efficiently. With this assumption in mind, several key projects have been launched, which will translate into short, medium and long-term performance of the entire Capital Group and its ability to create value in the longer perspective. Projects being vital for the success of the entire PGE Capital Group are described below.

At the same time, taking into consideration alternating market conditions and challenges ahead of conventional generation, PGE verifies its strategy and thoroughly reviews current investment projects in view to ensure optimal development path for PGE Group that makes the most of market opportunities, with account taken to both the financial and organisational capabilities.

To stay ahead of the competition in a market where electricity prices are determined by variable costs of energy generation and in face of the increasing share of generation from renewable sources – highly subsidized and frequently characterised by the elimination of variable costs – retaining strict cost discipline and reducing the share of fixed costs in the total cost of electricity generation will be key. PGE takes active measures in this respect, in particular in mine - power plant facilities which generate electricity from their own lignite resources.

Furthermore, PGE takes steps to secure a regulatory coverage of fixed costs of the least efficient conventional power plants while simultaneously keeping or improving the stability and safety of the power system. Among these efforts, Polskie Sieci Elektroenergetyczne S.A. ("PSE S.A.") issued an updated Traffic Operation and Transmission Grid Manual which will enable Elektrownia Dolna Odra to be used much more efficiently – in both economic and power system aspects.

1.3.1. PGE Capital Group Operating Model

The objective underlying the development of the Operating Model for PGE Group assumes integrated operations of Business Segments and the Corporate Centre. The essential aims of the implemented project include building stronger links between operating activities and striving to take advantage of synergy effects to be achieved by centralised functions of management, decision-making, planning and analysis. The target development of the Operating Model should facilitate the coordination of management of margin and investment activities at the Capital Group level.



By the date of this report on the operations of GK PGE Management Board, the Project have been completed in the stages of developing a vision for functional areas along with modelling target processes and designing organizational units responsible for their implementation in the new operating structure. One of the important components of the Project is developing a key competency model for employees of the Group. A series of workshops were held with the aim to build management skills necessary to the implementation of organizational changes for both top management and employees on key specialist positions. Furthermore, a system of management by objectives compatible with the new organizational model has been updated and designed.

Next stages of the Project's execution in the nearest months include implementation of the new Operating Model throughout the Capital Group, developing updated organizational structures of the PGE Group and updating documentation regarding the transformation process and corporate documents

1.3.2. Implementation of SAP system

In June 2012, the PGE Capital Group launched the implementation of a centralised and integrated information system of ERP class (Enterprise Resource Planning) designed by the SAP company. The implementation is one of the prime internal projects (ERP Programme) which will enable to enhance management processes at various levels of the group's organisation and which is strictly linked to the introduction of the Operating Model in the Group. The primary objectives of the Programme include in particular the standardisation of processes, and consequently, a better organisational performance throughout all the group, improvement and acceleration of the decision-making process, a more efficient use of assets, designing a uniform reporting and analysis environment, and achieving more transparency in the functioning of the Group's companies.

The implementation process in the PGE Capital Group is led by the PGE Systemy S.A. and selected external subcontractors. Contracts preceding the ERP Programme execution and involving the selection of technology and subcontractors were signed in the period from December 2011 to June 2012.

The ERP Programme involves the following business processes: financial accounting, fixed assets accounts, cash management, controlling, storage management, sale, real estate management, property management, investment management, human capital management, data consolidation and reporting, business analyses.

The Programme, which will introduce the ERP system, covers the following companies of the PGE Capital Group: PGE Polska Grupa Energetyczna S.A., PGE Górnictwo i Energetyka Konwencjonalna



S.A., PGE Dystrybucja S.A., PGE Obrót S.A., PGE Energia Odnawialna S.A., PGE Energia Jądrowa S.A., PGE Systemy S.A., Exatel S.A.

1.3.3. Shared Services Centre Development Plan

The Shared Services Centre Development Plan in the area of telecommunications and IT ("ICT SSC") has been redesigned with regard to concept and way of implementation. This plan provides for strategic objectives for the PGE Capital Group with respect to consolidation of ICT services by PGE Systemy S.A. and by Exatel S.A., respectively with regard to IT and telecommunications. Consolidation in these areas is aimed at achieving tangible business advantages – **better performance of the Capital Group operations, enhanced processes and improved flow and access to information** as well as **maximisation of technology, ICT resources and higher quality of provided services**.

The Project's implementation bases on three major phases:

I. Development of concepts, assumptions and operating standards for ICT SSCs

A phase with the object to prepare PGE Systemy S.A. organisation for tasks related to fulfilling the role of an ICT SSC for the PGE Capital Group had been worked out, launched and completed during period from March to the end of December 2012. Key procedures designed to ensure production continuity and prepare the company to the execution of 2013 goals, were developed and implemented within the organisation. Strategic actions were undertaken with regard to the organization of the development management area (project management), maintenance of ICT services and support for the user (development of a Central Service Desk). In addition, the PGE Capital Group adopted a new Accounting Model (defining rules with respect to financial settlements for services rendered by PGE Systemy S.A. to the companies of the PGE Capital Group) together with official principles regarding the operation of ICT SSCs, i.e. the ICT Policy.

II. Taking over of services and responsibility from the companies

In the fourth quarter of 2012, the 2nd phase of ICT SSC development was launched in order for the ICT services to be taken over by a specially designed processing unit, i.e. PGE Systemy S.A. According to the plan, IT responsibilities of the companies PGE Dystrybucja S.A., PGE Obrót S.A., PGE GiEK S.A., PGE Energia Odnawialna S.A. and PGE S.A. will be taken over by December 31, 2013.

III. Transformation and optimization of provided services

The phase of ICT optimization in the PGE Capital Group was primarily designed to achieve benefits of synergy effects in the ICT area as a result of centrally managed services provided to entities within



PGE Capital Group, mainly through standardisation and consolidation of IT infrastructure, solutions and resources.

Along with developing ICT CCSs, PGE Systemy S.A. runs numerous other IT projects which are crucial for the PGE Group. Key IT projects include: SAP system implementation, modernization (centralisation) of corporate mail, implementations covering IT Service Management, Dom Maklerski operational system, GIS (Geographic Information System) and redesigning systems supporting the process of Connecting New Customer.

Activities carried out from March 2012 mainly aim at developing a new organisational unit and efficient implementation of all necessary processes with simultaneous assurance of continuity of services and their quality parameters.

1.4. Turów Complex optimisation

To stay ahead of the competition in a market where electricity prices are determined by variable costs of energy generation and in face of the increasing share of generation from renewable sources – highly subsidized and frequently characterised by the elimination of variable costs – retaining strict cost discipline and reducing the share of fixed costs in the total cost of electricity generation will be key. PGE S.A. takes active measures in this respect, in particular in mine - power plant facilities which generate electricity from their own lignite resources. In January 2013, an optimization project was launched for Kopalnia Węgla Brunatnego Turów and Elektrownia Turów. The aim of the project is to define actions which, after implementation, will increase competitiveness of the Turów Complex, ensure profitability of the facility operations and, what's important, will create conditions for its further development and new investments.

In the first half of 2013 similar projects will be also commenced in other branches of PGE GiEK S.A., including Bełchatów Complex.



2. Activity of PGE S.A.

2.1. Factors and events affecting results

2.1.1. Macroeconomic situation

PGE S.A. and Group companies run their activities mainly in Poland. Therefore they have been and will be dependent on macroeconomic trends existing in Poland. At the same time, in connection with the growing integration, the domestic economy is more and more vulnerable to the changes in the economic situation in European Union as well as in the international markets. Condition of the European economy, impact of future regulatory decisions and unstable legal environment makes assessments of development prospects in the European energy sector subject to significant unpredictability.

As a rule, there is a positive correlation between the growth of electricity demand and economic growth. Thus, the macroeconomic situation of Poland has an impact on financial results achieved by the PGE Group. Falling electricity prices in Poland and in Europe as a consequence of weaker demand for electricity and considerably higher share of subsidized renewable energy sources in the total energy output reduced the profitability levels of conventional sources of electricity generation, and in certain cases even led to their total elimination. This is particularly relevant to gas-fired power plants and the least efficient coal-fired plants.

Weakening economic conditions resulted in **decreased demand for electricity** in the National Power System in the 12 months of 2012, that was **by approximately 0.6%** lower in comparison to the 12 months of 2011. In addition, lower energy export along with the growing import of energy from Sweden and Ukraine, contributed to the decrease in energy prices and production in the power plants.



Table: Key economic ratios connected with the Polish economy

Key data	2012	2011
Real GDP growth (% of growth) ¹	2.0*	4.3
Annual CPI rate (% of growth) ²	3.7	4.3
Domestic electricity consumption(% of growth) ³	-0.6	1.9
Domestic electricity consumption (TWh) ³	157.0	157.9

* estimates by Polish Statistical Office (GUS)

Source: ¹ Polish Central Statistical Office, real growth of GDP in constant previous year's price, with corresponding period of preceding year = 100; ² Polish Central Statistical Office, inflation rate, with corresponding period of preceding year = 100; ³ PSE S.A. (former PSE Operator S.A.)

2.1.2. Electricity prices

In present conditions, the regulated electricity market is based on the operation of power exchanges and trading platforms. The market includes the Polish Power Exchange ("TGE" – Towarowa Giełda Energii), the Warsaw Stock Exchange Energy Market ("WSE EM"), GFI Brokers ("GFI") and Tradition Financial Services ("TFS") trading platforms. The leading exchange market is the Polish Power Exchange (TGE) with a turnover in 2012 reaching approx. 64% of the regulated market sales, while the WSE EM share amounted to less than 4%. Other trading operations were carried out on platforms, with the leading position of TFS – approx. 27% of the regulated market, while GFI's share slightly exceeded 5%.

Trading conditions on the electricity wholesale market are subject to constant changes. The introduction of the so-called "power exchange obligation", i.e. electricity generators' obligation to sell energy on power exchange markets or regulated markets (art. 49a clause 1 and 2 of the Energy Law) brought about increasing turnovers on TGE, in particular in the futures and forward contracts segment, which in 2012 made up nearly 90% of the whole market. With a gradual decrease in the number of generators subject to the mentioned "power exchange obligation", a fall in the TGE's share in the regulated electricity market should be expected. The process was already noticeable in 2012 when TGE's share in the futures and forward market dropped to 61% compared to 69% in the previous year.

As of April 2013, TGE will become the only electricity market for SPOT transactions in Poland, as the Warsaw Stock Exchange will cease to provide facilities for commodity trading.



The **SPOT market on TGE** is based on the Day Ahead Market and the Intra Day Market, where transactions for hourly contracts and block transactions in baseload, peakload and off-peak hours are concluded.

The **futures and forward market** is the basic trading place on the regulated energy market. On TGE, market participants can make futures and forward contracts with deliveries in periods throughout the year, each quarter, month or week. Furthermore, trading platforms enable deliveries at the weekend or on any particular day.

Table: Trading volume on individual markets in years 2010-2012.

Trading volume	Unit	2012	2011	2010
SPOT market, of which:	TWh	21.3	21.6	13.3
TGE	TWh	19.1	19.7	7.6
Futures and forward market, of which:	TWh	183.6	154.5	104.4
TGE	TWh	112.9	106.9	74.1

A separate type of market is formed by the Balancing Market ("BM") which fulfils the functions of a technical market enabling to physically perform sale/purchase contracts made by traders and to balance in real-time demands for electricity with its output in the National Power System (NPS). The existence of the balancing market is indispensable for the operation of the energy market; the participation of centrally dispatched units and other entities dealing with energy balancing is mandatory. With the exception of the dedicated technical function, the Balancing Market in Poland is used for the sale or purchase of energy. In 2012, the energy volume provided and received on the Balancing Market amounted to 3.7 TWh.

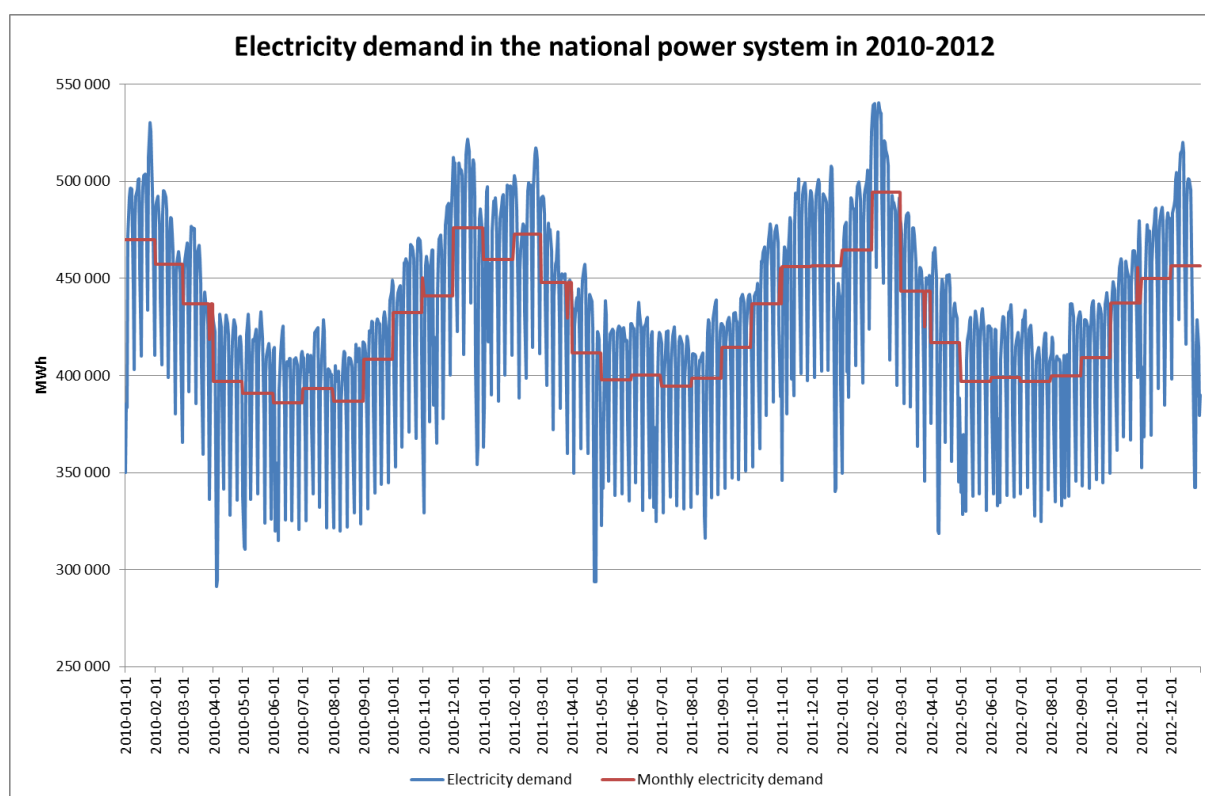
Domestic market

Prices noted on the electricity market in 2012 were significantly lower than prices in the year 2011. Average prices in all quarters of 2012 were clearly lower than in the same quarters of the previous year. The most visible differences were noted in the 2nd and 4th quarters when price levels from 2012 were lower than in the same periods of 2011 by respectively 38.38 PLN/MWh and 35.13 PLN/MWh.



A decline in prices on the wholesale energy market was caused by several reasons:

- Lower dynamics of the increasing demand for electricity, which according to PSE S.A. data for 2012, resulted in decreased demand by approx. 0.6% in relation to the year 2011.
- Lower exports of energy along with rising imports from Sweden and Ukraine. The foreign trade balance went down by nearly 14% year-on-year.
- Increased capacity from renewable sources of energy. According to PSE S.A. data, the total installed capacity in wind plants at the end of 2012 amounted to 2,500 MW compared to 1,776 MW in the previous year (generation capacity increased by approx. 724 MW).





SPOT market

From the beginning of 2012 the spot energy market saw lower prices with a yearly average amounting to 173.58 PLN/MWh (IRDN24 Index). In almost every month of 2012 electricity prices were clearly below the price levels noted in 2011 and 2010. For example, prices quoted in April and November were lower than prices in 2011 by respectively: 43.68 PLN/MWh, 59.41 PLN/MWh. Only in February the average monthly price exceeded the price from February 2011 by 19.28 PLN/MWh and amounted to 209.07 PLN/MWh. Price levels increase was owed to weather conditions in that month, and in particular to low temperatures which substantially differed from the long-term average and, consequently, to a higher demand for energy.

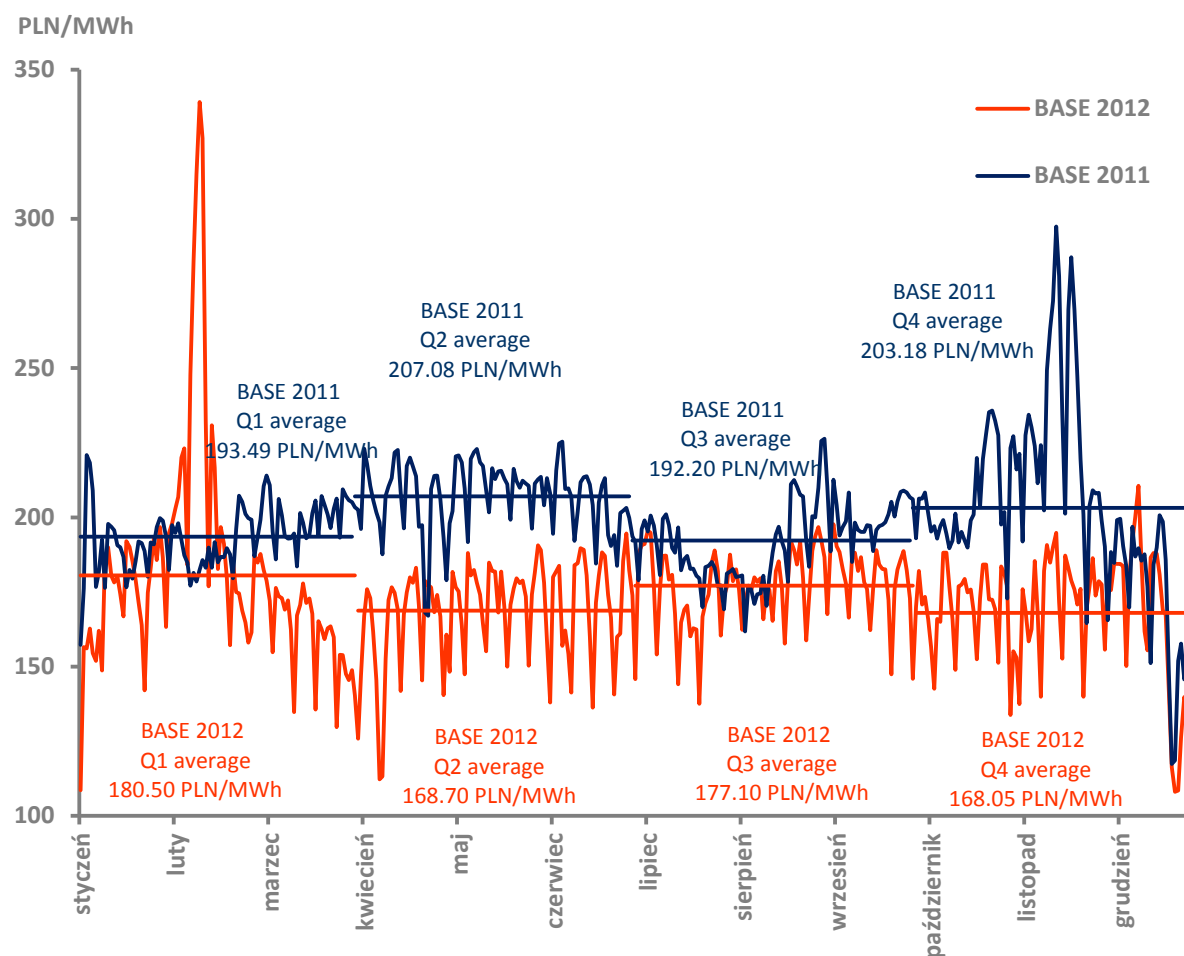
A drop in price levels throughout the year 2012 should be explained by increased generation capacity available in the NPS and imports of energy from Sweden carried out in the whole period. At the same time, a diminishing difference in price levels quoted on TGE and the European Energy Exchange ("EEX") did not favour exports – which typically have a crucial impact on prices in Poland – in volumes of 2011.

A significant power reserve in the National Power System was reflected by price levels on the Balancing Market, which only in extraordinary circumstances clearly exceeded prices on TGE. The National Power System resources have a significant impact on the electricity supply, and thus on the price level. With growing generations from renewable sources, the importance of the segment is rising as, in favourable conditions, it can periodically replace conventional units. It applies mainly to energy generated by wind plants, where the average hourly output varied from 13.8 MW/h in July to 29.5 MW/h in December.

Lower prices on the Polish market in 2012 were also partly due to the overall conditions of the electricity and fuel market. It should also be noted that prices on the EEX exchange were lower than in the previous year as a result of the so-called "nuclear crisis" following a major damage suffered by the Fukushima plant. Thus, despite the relatively extended availability of cross-border transmission capacities, convergent prices in Germany and in Poland were not so crucial for the price levels development on the domestic market.



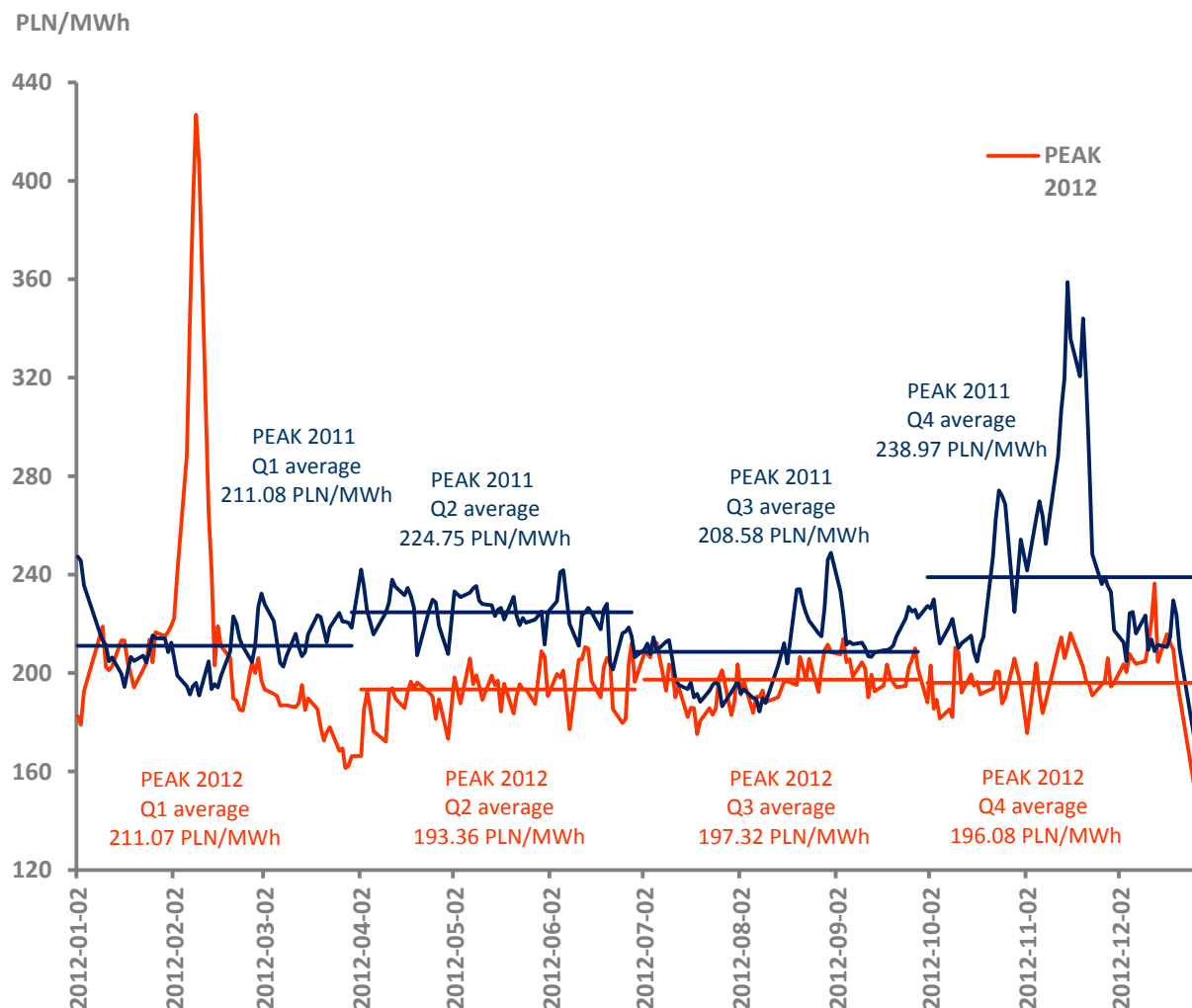
Chart: Daily and quarterly baseload prices in SPOT transactions in 2011-2012 (TGE)*



* arithmetic average price from all power exchange transactions concluded at the session and calculated for the whole day according to delivery date (index IRDN24)



Chart: Daily and quarterly peak prices in SPOT transactions in 2011-2012 (TGE)*



* arithmetic average price from all power exchange transactions concluded at the session and calculated for the whole day according to delivery date (index IRDN24)

In 2012, the turnover volume on the Balancing Market rose by 2.5% compared to 2011. Prices on this market slightly exceeded prices on the main market (178.74 PLN/MWh), and, additionally, were characterised by higher volatility. This stemmed from the fact that this market is also used for commercial transactions.



Futures and forward market

The significance of the futures and forward market in Poland has risen with every successive year. The number of quoted contracts has gone up and individual products have been contracted earlier. In 2012, volumes of energy contracted on the futures and forward market with delivery in the year amounted to 159.3 TWh. Along with energy traded on the hourly and daily market, the turnover volume with deliveries in 2012 made up 180.6 TWh, which exceeded by 23.6 TWh the demand for electricity oscillating around the level of 157 TWh.

Futures and forward contracts in 2012 accounted for nearly 90% of total sales on the regulated energy market. Transactions were mainly conducted on the TGE and TFS markets (60.8% and 30.5% respectively). Turnover on the two other platforms (GFI, WSE EM) jointly represented merely 8.7%.

Price levels on the SPOT market in 2012, showing a downward trend from February, had a decisive impact on prices on the futures and forward market. Gradually decreasing prices affected all products traded in that period. Regardless of delivery dates, electricity sales in futures and forward transactions on the regulated market in 2012 were higher by 19% compared to the previous year and accounted for approx. 183.6 TWh. The highest share in sales was noticed in transactions involving baseload and peakload yearly products, which covered 76% of the volume transacted.

Total sales of energy for the year 2013 in the period before the end of 2012 amounted to 137.6 TWh, of which 131.0 TWh were used in 2012. Sales included mostly transactions involving yearly baseload products, whose volume in the year preceding delivery was 101.1 TWh (11.5 GW capacity). Quotations of the product reflected the changing conditions affecting prices levels on the market. In the whole year, the Cal13 product lost approx. 45 PLN/MWh in value (decrease from 214 PLN/MWh in January to 169 PLN/MWh at the end of December). The same applied to yearly contracts with deliveries in 2014 (decrease from 223.75 PLN/MWh to 178.5 PLN/MWh).

International market

Based on past experiences, conditions on electricity markets in neighbouring countries have a significant impact on the Polish electricity market. Price levels, their mutual links and availability of substitutes determine the market situation in terms of prices. The demand and supply of energy on the domestic market are influenced by active cross-border exchanges. As was observed in 2011, price levels and demand for energy imported from neighbouring countries favours a rise in prices in Poland, particularly in periods when PSE S.A. offers large capacities for cross-border exchange on daily auctions (up to 1,756 MW in one hour). Furthermore, energy imports from Sweden and Ukraine could effectively reduce price levels as the traded volume reached 820 MW.

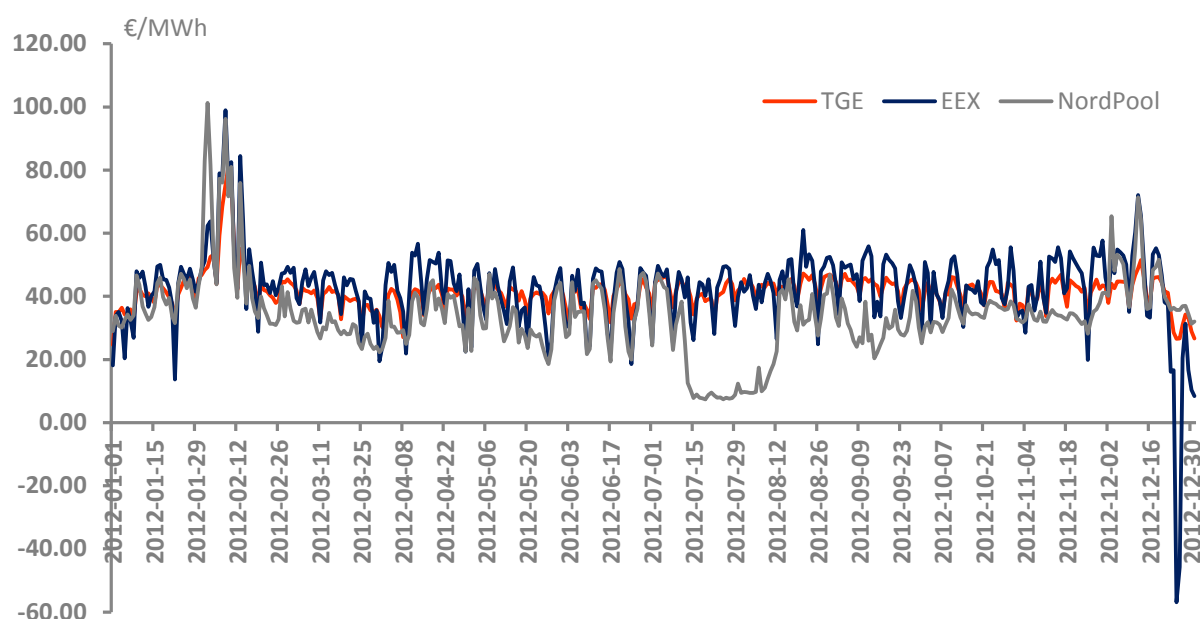


In 2012, EEX prices did not differ as clearly from TGE prices as in the previous year. Similarly to the Polish market, price levels on the German market were significantly lower compared to prices in 2011 and showed a downward trend in the first two quarters with the exception of a rise in February. Falling demand for energy, increased generations from renewable sources and the increasingly sharper drop in CO₂ emission rights led to low price levels. A spectacular decline in price levels, noticed in the second half of December when even negative price values could be observed, was caused by: low energy consumption in the Christmas period and a very high generations from wind plants.

The Scandinavian market was hit by an even greater fall where prices went down from 48.46 EUR/MWh in 2011 to 34.21 EUR/MWh. This was partly due to a very high level in water reservoirs, which reached 90% in the second half of 2012. As a result, at the turn of July and August prices fell to 8 EUR/MWh. Ultimately, price levels in Sweden rose to approx. 40 EUR/MWh due to end-of-year low temperatures. Unusual price fluctuations were noted in February 2012 when prices rose to even 100 EUR/MWh. This could be explained by harsh weather conditions and the situation in Oskarshamn 3 nuclear power plant.



Chart: Comparison of SPOT electricity prices on TGE and international markets



Owing to lower prices on neighbouring markets the total volume of energy exported from Poland as part of 2012 turnover amounted to approx. 5.2 TWh, of which nearly 2.4 TWh could be attributed to the connection of PSE-O HzT50 (Germany). The remaining exports represented 1.5 TWh – Czech Republic, 1.2 TWh – Slovakia and only 127.3 GWh – Sweden. As a consequence of lower price levels in Scandinavia, imports from Sweden nearly doubled compared to 2011 and amounted to 2.7 TWh. Furthermore, throughout the year 2012 energy was imported from Ukraine through a connection launched at the end of 2011 (0.8 TWh). This energy as well as imports from Sweden contributed to the limited use of generation capacities available in Poland. Total imports of energy to Poland through all cross-border connections in 2012 accounted for 3.5 TWh.



2.1.3. Balance of energy of PGE

Sales of electricity

Table: Sales of electricity

TWh	2012	2011	% change
Sales of electricity	40.30	38.81	4%
Sales on the domestic wholesale market	38.72	37.17	4%
Sales abroad	0.43	0.57	-25%
Electricity sales on the Balancing Market and to Balancing Group	1.15	1.07	7%

In the 12-month period ended December 31, 2012 PGE S.A. sold 40.30 TWh of electricity, what constituted an increase by 4% as compared to sales in the same period of 2011 (38.81 TWh). The growth of sales on the wholesale market resulted from development of trade operations.

Purchases of electricity

Table: Purchases of electricity.

TWh	2012	2011	% change
Electricity purchases volume	40.30	38.81	4%
Purchase on domestic wholesale market	39.27	37.70	4%
Import	-	0.01	-
Electricity purchases on the Balancing Market and from Balancing Group	1.03	1.10	-6%

Electricity purchase in 2012 was by 4% or 1.5 TWh higher than in 2011 and was achieved on the domestic wholesale market. Most of purchases was executed on domestic wholesale market from companies outside of PGE Group, mainly on power exchange (34.1 TWh in 2012). The increased purchases result from development of trade operations and optimisation of the purchase portfolio.



2.2. Financial results of PGE S.A.

2.2.1. Statement of comprehensive income

Table: Statement of comprehensive income

in PLN thousand	Jan-Dec 2012	Jan-Dec 2011	% change
Sales revenues	10,604,261.1	10,137,893.2	5%
Cost of goods sold	10,085,579.9	9,786,839.5	3%
Gross sales result	518,681.2	351,053.7	48%
% total sales revenues	4.9%	3.5%	
Selling expenses and general and administrative expenses	145,903.1	139,761.5	4%
Profit on sales	372,778.1	211,292.2	76%
Other operating revenues	184,802.1	5,637.3	3178%
Other operating expenses	2,642.0	40,851.5	-94%
EBIT	554,938.2	176,078.0	215%
% total sales revenues	5.2%	1.7%	
Financial revenues	535,170.3	4,888,979.3	-89%
Financial expenses	104,582.7	105,359.1	-1%
Gross profit	985,525.8	4,959,698.2	-80%
% total sales revenues	9.3%	48.9%	
Income tax	201,528.1	406,142.7	-50%
Net profit	783,997.7	4,553,555.5	-83%
% total sales revenues	7.4%	44.9%	
EBITDA	574,209.9	199,493.3	188%
% total sales revenues	5.4%	2.0%	

Profit on sales by PGE Polska Grupa Energetyczna S.A. amounted to **PLN 372.8 million** in the financial year ended December 31, 2012 and increased by 76% as compared to financial year ended December 31, 2011. The increase was caused by broader scope of services rendered for the generators from PGE Group regarding management of generation capacities. The net profit of PGE S.A. amounted to **PLN 784.0 million** in the financial year ended December 31, 2012. The biggest difference in comparison to the previous year was in financial revenues (PLN 4,476.7 million). It is a result of lack of collection of dividend from the main Group companies and profit from sale of Polkomtel achieved in 2011.



Amount and structure of revenues

Table: Total revenues

in PLN thousand	Jan-Dec 2012	Jan-Dec 2011	% change
Total revenues	11,324,233.5	15,032,509.8	-25%
Revenues from sales of finished goods and merchandise	10,129,170.8	9,889,873.8	2%
Revenues from sales of services	466,630.0	239,571.7	95%
Revenues from rental	8,460.3	8,447.7	0%
Other operating revenues	184,802.1	5,637.3	3178%
Financial revenues	535,170.3	4,888,979.3	-89%

In 2012 total revenues of PGE S.A. amounted to PLN **11,324.2 million**, what means **decline by 25%** as compared to 2011.

The increase of revenues from sales of finished goods and merchandise by 2% as compared to 2011 mainly resulted from increase in revenues from electricity sales. Increased revenues from sales of services mainly resulted from execution of agreement on Commercial Management of Generation Capacities with PGE GiEK S.A. that came into force as from May 2012.

Table: Revenues from electricity sales

in PLN thousand	Jan-Dec 2012	Jan-Dec 2011	% change
Revenues from electricity sales	8,327,416.1	7,825,186.6	6%
Sales on domestic wholesale market	8,031,400.8	7,492,777.4	7%
Sales abroad	79,859.7	120,345.6	-34%
Electricity sales on the Balancing Market and to Balancing Group	216,155.6	212,063.6	2%

The increase in revenues from the sales of electricity by PLN **502.2 million**, is a result of higher volume of energy sold by 1.5 TWh and higher average price of energy sold. The average sale price of electricity in 2012 amounted to 206.65 PLN/MWh.



Table: Revenues from sale of related products

in PLN thousand	Jan-Dec 2012	Jan-Dec 2011	% change
Revenues from sale of related products	2,213,111.7	2,248,285.8	-2%
1. Sales of goods	1,801,753.9	2,064,685.8	-13%
a. certificates of origin	1,149,378.2	1,139,348.6	1%
b. CO ₂ allowances	652,375.7	925,337.2	-29%
2. Sales of services	411,357.8	183,600.0	124%

Sales of goods in 2011 mainly included:

- I. sales of property rights (certificates of origin of electricity)
- II. trading of CO₂ allowances that was executed in 2 segments: for the needs of generators from PGE Group and for the needs of the external contractors.

Decreased revenues in that category in 2012 resulted mainly from lower prices of CO₂ emission rights.

Sales of electricity-related services in 2012 mainly included: agreement on Commercial Management of Generation Capacities with PGE GiEK S.A., that replaced agreement for management of sales of electricity for PGE GiEK S.A. and PGE Elektrownia Opole S.A. as from May 2012.

Growth of revenues in that category in 2012 resulted mainly from increased scope of services for the generators from PGE Group, what resulted in increased margin.

Table: Revenues from other operations

in PLN thousand	Jan-Dec 2012	Jan-Dec 2011	% change
Revenues from other operations	63,732.5	64,419.4	-1%
Sales of support services	45,204.2	45,051.1	0%
Revenues from commercial rental	8,460.3	8,447.7	0%
Other sales	10,068.0	10,920.6	-8%



Within other operations, PGE S.A. recorded the slight decrease in revenues, mainly on lease of assets. While revenues from support services for the Group companies and revenues from commercial rental a slightly increased. The support agreements have been in effect since January 2008 and were signed following the “Agreement concerning the principles for the cooperation of PGE S.A. with PGE Capital Group Companies”, that is, the document specifying the principles and scope of the cooperation of Group Companies in order to build a highly effective organisation implementing the strategy of Polska Grupa Energetyczna S.A.

Revenues from other operations in 2012 increased. The main reason was reversal and revaluation of provision for the claims of Alpiq Holding AG (formerly Atel) relating to expenses for reservation of interconnectors capacities in amount of PLN 166.7 million.

In 2012 PGE S.A. recorded decline in financial revenues that resulted from lower revenues from dividends and profit from sale of Polkomtel S.A. achieved in 2011 (PLN 4,476.7 million).

Territorial structure of sales revenues is presented below.

Table: Sales revenues by geographic regions

in PLN thousand	Total net revenues				
	2012	% share	2011	% share	% change
Total revenues	10,604,261.1	100.0%	10,137,893.2	100.0%	5%
Domestic market	10,292,742.0	97.1%	9,826,882.4	96.9%	5%
EU countries	311,519.1	2.9%	311,010.9	3.1%	0%
Other countries	0.0	0.0%	0.0	0.0%	-

In 2012 just like in 2011 PGE S.A. earned revenues mainly on domestic market. In 2012 they constituted for 97.1% of total sales revenues, while in 2011 – 96.9%. The trading with EU countries accounted for approximately 3% of total revenues both in 2012 and in 2011.



Intra-EU trade includes:

- sales of electricity by a subsidiary PGE Trading GmbH and under bilateral agreements with other entities from EU countries;
- trading of CO₂ emission rights.

Amount and structure of expenses

Table: Total expenses

in PLN thousand	Jan-Dec 2012	Jan-Dec 2011	% change
Total expenses	10,338,707.7	10,072,811.6	3%
Cost of goods sold	10,085,580.0	9,786,839.5	3%
Selling expenses and general and administrative expenses	145,903.0	139,761.5	4%
Other operating expenses	2,642.0	40,851.5	-94%
Financial expenses	104,582.7	105,359.1	-1%

In 2012, the total operations expenses of PGE S.A. totaled **PLN 10.338,7 million** and were by approx. 3% higher than in the previous year.

Cost of goods sold in 2012 amounted to **PLN 10,085.6 million**, what means decline by 3% compared with 2011. The increase of cost of goods sold was affected by higher costs of electricity purchases by PLN 509.9 million as compared to 2011 (increase by 6.6%). Higher cost of electricity purchases was a result of increased volume of energy purchased (by 1.5 TWh) along with the average electricity purchase prices higher by 5.32 PLN/MWh as compared to the previous year. Higher electricity purchase prices in 2012 were affected by increased market prices.

In 2012 total selling expenses of PGE S.A. amounted to **PLN 12.4 million**, i.e. were lower by PLN 4.9 million as compared to the previous year. Lower expenses were affected by change in allocation of costs and lack of settlement fee for PSE Operator S.A. related to transmission of energy purchased and sold.

The general and administrative expenses of PGE S.A. in 2011 amounted to **PLN 133.5 million** and were higher by PLN 11.1 million as compared to the previous year. The growth of the general and administrative expenses was affected by increased salaries due to changes in the employment



structure of employees and management and payments related to termination of employment contracts and contracts for management services.

The other operating expenses declined in 2012 by **PLN 38.2 million** as compared to 2011. In 2011 a provision in amount of PLN 36.1 million was raised for dispute with a foreign contractor relating to execution of trade agreements – such provision was not recognized in 2012.

Financial expenses in 2012 were lower by **PLN 0.8 million** as compared to the previous year – expenses related to issue of bonds (interests and commissions) were lower by PLN 65.6 million, and at the same time a revaluation write off on shares in AWSA Holland II B.V. in amount of PLN 64.5 million was recognised in 2012.

2.2.2. Statement of financial position

Table: Assets

in PLN thousand	Jan-Dec 2012	Jan-Dec 2011	% change
Non-current assets	27,003,854.8	27,675,044.9	-2%
Tangible fixed assets	203,673.2	216,271.7	-6%
Intangible assets	6,687.0	17,537.7	-62%
Loans and receivables	3,627,204.2	4,783,678.8	-24%
Shares in subsidiaries	23,163,156.1	22,587,593.6	3%
Available for sale long-term financial assets	3,134.4	69,963.2	-96%
Deferred tax	-	-	-
Current assets	3,386,702.7	5,541,512.7	-39%
Inventory	505,525.2	32,466.4	1457%
Income tax receivables	-	-	-
Shares in subsidiaries	25,477.1	406,201.2	-94%
Short-term financial assets at fair value through profit or loss	5,525.8	-	-
Trade receivables	739,278.6	616,658.4	20%
Other loans and receivables	1,086,546.5	3,331,624.4	-67%
Available for sale short-term financial assets	36,717.2	39,067.2	-6%
Other short-term assets	34,350.7	94,672.2	-64%
Cash and cash equivalents	953,281.7	1,020,822.9	-7%
TOTAL ASSETS	30,390,557.5	33,216,557.6	-9%



Assets of PGE S.A. as at December 31, 2012 and as at December 31, 2011 amounted respectively to PLN 30,390.6 million and PLN 33,216.6 million.

The drop of assets mainly resulted from lower bank deposits and cash by PLN **2,168.6 million** and bonds purchased lower by **PLN 1,142.1 million**. As at December 31, 2012 the Company held bonds issued by PGE GiEK S.A., PGE Energia Odnawialna S.A. and Autostrada Wielkopolska S.A. Detailed description of the financial instruments held by PGE S.A., including bonds in particular, is presented in Note 38 to the financial statements.

Increase in inventory in comparison to the previous year is a result of increase in CO₂ emission rights.

Table: Equity and liabilities

in PLN thousand	Jan-Dec 2012	Jan-Dec 2011	% change
Equity	29,296,533.9	31,935,144.3	-8%
Share capital	18,697,608.3	18,697,837.3	0%
Revaluation reserve	-	(777.0)	-100%
Own shares	-	(229.0)	-100%
Reserve capital	9,687,595.8	8,553,142.6	13%
Other capital reserves	49,779.3	49,779.3	0%
Retained earnings	861,550.6	4,635,391.1	-81%
Long-term liabilities	88,443.2	50,238.7	76%
Other liabilities	-	-	-
Provisions	22,201.6	18,784.0	18%
Provision for deferred income tax	66,241.6	31,454.7	111%
Short-term liabilities	1,005,580.4	1,231,174.4	-18%
Trade liabilities	478,992.0	423,572.9	13%
Financial liabilities at fair value through profit or loss	148.4	-	-
Interest-bearing loans, borrowings and lease	142,784.9	-	-
Other financial liabilities	4,047.6	4,480.6	-10%
Other non-financial liabilities	46,656.9	45,016.8	4%
Income tax liabilities	69,614.9	318,174.2	-78%
Accruals	36,171.9	286.6	12521%
Short-term provisions	227,163.8	439,643.3	-48%
TOTAL EQUITY AND LIABILITIES	30,390,557.5	33,216,557.4	-9%



As at December 31, 2012 and as at December 31, 2011 the total equity of PGE S.A. amounted to PLN **29,296.5 million** and **PLN 31,935.1 million**, what constitutes respectively 96.4% and 96.1% of the total equity and liabilities. The treasury shares are described in detail in p. 7.10.

The payment of dividend from 2011 profit to the shareholders significantly affected the change of total equity. Detailed description of changes in the share capital and in other capitals of PGE S.A. is presented in Note 23 to the financial statements.

Short-term liabilities decreased by PLN 225.6 million as compared to the previous year, mainly due to payment of income tax liabilities in amount of PLN 248.6 million.

Increase of deferred income as compared to the previous year is a result of settlement of transmission fees reimbursed by Vattenfall AB.

2.2.3. Statement of cash flows

Cash and cash equivalents as at December 31, 2012 amounted to **PLN 953.0 million** and were lower by **PLN 65.2 million** than at the end of the corresponding period of 2011.

Total net cash flows from operating activities for the 12-month period ended December 31, 2012 amounted to **PLN (-) 411.8 million** as compared to PLN (-) 50.9 million for the 12-month period ended December 31, 2011.

The negative cash flows from operating activities were mainly caused by decline by PLN 3,974.2 million of gross profit from continued operations for the 12-month period ended December 31, 2012 as compared to the 12-month period ended December 31, 2011, that was mainly connected with lack of dividend income from Group companies in 2012 and profit on disinvestments in 2011. Additionally, growth in inventory and in receivables as well as payment of the income tax also affected the negative cash flows from operating activities in the analysed period.

Positive net cash flow from investing activities for the reporting period ended December 31, 2012 amounted to **PLN 3,631.3 million** versus PLN 4,120.2 million in 2011.

The balance of cash flow from investing activities for the 12-month period of 2012 consisted mainly of net cash flow related to sale and purchase of financial assets in amount of PLN 3,046.7 million, interest received in amount of PLN 344.8 million and income from repayment of loans granted and reimbursement of prepayments for transmission services in amount of PLN 202.1 million.

Net cash flow from financial activities in 2012 amounted to **PLN (-) 3,284.8 million**, versus PLN (-) 3,309.4 million of net cash flow from financial activities in 2011.



The above result for 2012 was affected mainly by dividend payment in amount of PLN (-) 3,421.7 million and income from loans incurred in amount of PLN 142.8 million.

2.3. Description of significant agreements

The agreements, which, in opinion of PGE S.A., were concluded in ordinary course of activities and are significant for operations of PGE S.A., are described below.

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

In 2012 PGE S.A. continued sales of electricity to PGE Obrót S.A. on the basis of frame agreement for sales of electricity concluded in 2007.

The energy sold is intended for covering of the needs of end-users at PGE Obrót S.A. The sale is performed on the basis of transaction agreements covering the needs reported by PGE Obrót S.A.

In 2012 the sales revenues under this agreement amounted to **PLN 6,557.6 million**, what represented **61.8%** of sales revenues.

2.3.2. Agreements with electricity generators from the PGE Group

In connection with the realisation of amendment to the Energy Law, effective from August 9, 2010, which regulates - through art. 49a – the mode of electricity sales by the generators (so called “power exchange obligation”), in 2012 PGE had valid agreement with PGE Górnictwo i Energetyka Konwencjonalna S.A. for purchase of the energy, which is not subject to the above obligation. The agreement is concluded for the indefinite period, purchase of electricity takes place on the basis of transaction agreements.

Sale of electricity generated by power plants from PGE Górnictwo i Energetyka Konwencjonalna S.A. and by PGE Elektrownia Opole S.A. (currently PGE GiEK S.A. Branch Elektrownia Opole) was conducted on the organised markets pursuant to art. 49a of the Energy Law.

Additionally, the purchase of electricity was conducted on the basis of EFET agreements between PGE S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE Elektrownia Opole S.A.

2.3.3. Hard coal delivery agreements

Year 2012 was the next year of the centralised coal purchases for PGE Group power plants and CHPs.

Coal supplies for these entities in 2012 were provided by PGE S.A., based on the contracts concluded mainly with the domestic coal producers. The coal was purchased from Kompania Węglowa S.A., Jastrzębska Spółka Węglowa S.A., Katowicki Holding Węglowy S.A., SUEK Polska Sp. z o. o., HAWEX



Sp. z o.o., EKO ENERGIA Szczecin Sp. z o.o., and within overdue deliveries from 2011 from PHU Energokrak Sp. z o.o. and Carbo Proces Recykling Sp. z o. o.

The main supplier of hard coal is Kompania Węglowa S.A. with an approximate share of 65% in the yearly demand for this raw material.

Considering the significant share of Kompania Węglowa S.A. in hard coal supplies, lack of this supplier would cause a necessity of new purchase contracts on the market.

2.4. Transactions with related entities

Information about transactions with related entities are presented in Note 34 to the financial statements.

2.5. Information concerning proceedings in front of court, body appropriate for arbitration proceedings or in front of public administration authorities

Significant proceedings pending in front of courts, competent arbitration authority or public administration authority are described in Note 30 to the financial statements.

2.6. Publication of financial forecasts

PGE S.A. did not publish forecasts of the Company's and Group's financial results for the year 2012.

2.7. Entity authorised to audit of financial statements

An entity authorised to audit stand-alone financial statements of PGE S.A. and consolidated financial statements of PGE Capital Group is KPMG Audyt Sp. z o.o.

The financial statement audit agreement was signed on November 15, 2010 for period of four years and covers the audit of stand-alone and consolidated financial statements for 2010-2013, as well as reviews of interim half-year consolidated financial statements prepared for the periods ended June 30 in years 2011-2014.

Costs related to the services rendered by KPMG Audyt Sp. z o.o. in years 2011-2012 are presented in the table below.



Table: Fee payable to an entity authorised to audit of financial statements

PLN thousand	2012	2011
Fee of KPMG Audyt Sp. z o.o., including:	296.6	296.6
Audit and reviews of the financial statements	279.6	296.6

2.8. Management of financial resources and financial liquidity

During the reporting period PGE S.A. and the subsidiaries financed their activities mainly from funds generated from operating activities, as well as from credits and issues of bonds.

As a the end of 2012 the Company held significant financial surplus.

In 2012 generated funds from issues of bonds, interests on cash and cash equivalents and from deposits and loans granted. The generated funds were allocated for financing of investment projects in PGE Capital Group.

Table: Indebtedness

in PLN thousand	2012	2011	% change
Bank loans	142,784.9	-	-
Debt securities	-	-	-
Indebtedness	142,784.9	-	-
Cash	953,281.7	1,020,822.9	-7%

Cash held by PGE S.A. and unused credit limits ensure funds sufficient for financing of current operating activities of the Company.



2.8.1. Main financial ratios

Table: Key financial ratios

Table: Key financial ratios	For years ended December 31,	
	2012	2011
Return on sales ROS (in %)		
Net profit x 100% / net revenues	7.4%	44.9%
Return on equity ROE (in %)		
Net profit x 100% / (equity – net profit)	2.7%	16.6%
Debt ratio (in %)		
Liabilities x 100% / total equity and liabilities	3.6%	3.9%
Current ratio		
Current assets / short-term liabilities	3.4	4.5

2.8.2. Rating

PGE S.A. holds ratings assigned by two rating agencies: Fitch Ratings Ltd and Moody's Investors Service Limited.

Last report by Moody's Investors Service Limited dated December 16, 2011 affirmed the rating at A3 with stable outlook.

On August 10, 2012 Fitch Ratings affirmed the Company's Issuer Default Rating ("IDR") and senior unsecured rating at BBB+. The outlooks are stable. The agency also assigned Company a National Long-term rating of AA-(pol) with a stable outlook. According to a Fitch Ratings definition national rating AA determinates that an issuer or bond issue represent very low risk in comparison with other issuers or bond issues in Poland. Risk is only insignificantly higher than risk represented by issuers or bond issues with the highest rankings in Poland.

2.8.3. Bonds issued

As the central organisational unit of the PGE Capital Group, PGE S.A. provides individual companies of the Group with funds for investments and current activities. The funds are transferred by purchase of both zero-coupon and coupon bonds. To this end, the companies of the Capital Group have concluded agency agreements with banks with regard to bond issue services.



As at December 31, 2012 PGE Górnictwo i Energetyka Konwencjonalna S.A. had bonds issued for a total nominal value of PLN 3,459.8 million that were purchased by PGE S.A. under the following bond programs:

- the Agency agreement with ING Bank Śląski S.A. concluded on September 13, 2010 (agreement consolidated programs of the companies comprising PGE GiEK S.A., with ING Bank Śląski S.A. as Agent) allowing for issue of bonds of up to PLN 4,091 million. The maturity date of the agreement is December 31, 2013. As at December 31, 2012 the nominal value of the bonds acquired by PGE S.A. under this agreement amounted to PLN 1,607.2 million.
- the Agency agreement for the issue of bonds of up to PLN 3.7 billion concluded on November 30, 2009 between PGE Elektrownia Bełchatów S.A. and PKO Bank Polski S.A. The maturity date is on December 1, 2014. As at December 31, 2012 the nominal value of the bonds issued acquired by PGE S.A. under this agreement amounted to PLN 1,852.6 million.
- Bond Issue program signed with ING Bank Śląski S.A. on June 20, 2011 allowing for issue of bonds directed to PGE S.A. of up to PLN 11,027 million. The maturity date falls on December 31, 2025. As at December 31, 2012 PGE GiEK S.A. did not have any bonds issued under this program.

As at December 31, 2012 PGE Energia Odnawialna S.A. had bonds issued and purchased by PGE S.A. under the following bond program:

- Bond Issue program signed with ING Bank Śląski S.A. on June 20, 2011 allowing for issue of bonds directed to PGE S.A. of up to PLN 1,200 million. The maturity date falls on December 31, 2016. As at December 31, 2012 the nominal value of the bonds issued acquired by PGE S.A. under this program amounted to PLN 915 million.

PGE S.A. Bond Issue programme of up to PLN 5 billion, for PGE Group companies

During 2012, PGE S.A. had a binding Agency Agreement with ING Bank Śląski S.A. regarding the establishment of the bond issue made to companies of the PGE Group PGE S.A. concluded on May 11, 2009. The maximum amount of the programme for the Group is PLN 5 billion. Under the Program for the Group, PGE S.A. may issue coupon or zero coupon bonds.

As at December 31, 2012 the Company did not have any bonds issued under the programme.



PGE market Bond issue program of up to PLN 5 billion

On August 29, 2011 the Company concluded an agreement for indefinite period with Bank Polska Kasa Opieki S.A. and ING Bank Śląski S.A. The bond issue program was established on the ground of the above agreement.

The maximum indebtedness amount from the bonds issued (representing a maximum aggregate nominal value of bonds issued and outstanding) under the program cannot exceed PLN 5 billion.

As at December 31, 2012 the Company did not have any bonds issued under the program.

PGE Bond issue program of up to PLN 10 billion

On November 9, 2010 the Company signed two agreements concerning the bond issue programme:

- Bond Purchase Commitment Agreement ("Commitment Agreement");
- Bond Issue Programme Agreement ("Programme Agreement").

The maximum programme amount (representing a maximum aggregate nominal amount of bonds issued and outstanding under the programme) is PLN 10 billion. The programme was signed for a period of 36 months from the agreements signing date and shall expire no later than on November 8, 2013. As at December 31, 2012 the bonds were subject to underwriting of up to PLN 1.5 billion (for details see Note 38.4.5.2 to the financial statements).

As at December 31, 2012 the Company did not have any debt related to bonds under the programme.

2.8.4. Bank loans and advances

Bank loans and advances as at December 31, 2012 amounted to PLN 142.8 million. As at December 31, 2012 all loans incurred were current account credits. As at December 31, 2011 the Company did not have outstanding liabilities from credits and loans.

As at December 31, 2012 value of the outstanding lines in current account credits amounted to PLN 657 million.

In 2012 PGE S.A. did not terminate any credit agreements.



In 2012 PGE Polska Grupa Energetyczna S.A. granted following loans.

Table: Loans granted in 2012

Creditor	Debtor	Advance for the entity form the PGE Group (YES/NO)	Agreement signing date (yyyy-mm-dd)	Maturity date (yyyy-mm-dd)	Amount	Currency code	Fixed/ floating rate
PGE S.A.	PGE Systemy S.A.	YES	2012-04-30	2012-06-30	3,000,000	PLN	fixed
PGE S.A.	PGE Inwest Sp. z o.o.	YES	2012-06-29*	2012-12-31	2,266,747	PLN	fixed

* Annex to the agreement signed on June 29, 2012. On the ground of the annex the maturity date prolonged to December 31, 2012

As at December 31, 2012 the above loans were repaid in full.



2.8.5. Guarantees

Guarantees granted by PGE Group companies are presented in Note 30 to the financial statements.

The total amount of guarantees granted by PGE S.A. and mandatory on December 31, 2012 amounted to EUR 4.3 million and CZK 30.0 million.

Table: Main guarantees granted and valid as at December 31, 2012

Company	Entity whose liabilities are subject to guarantee	Entity entitled to guarantee	Beginning date of a guarantee (yyyy-mm-dd)	Maturity of a guarantee (yyyy-mm-dd)	Form of security	Value of guarantee	Currency code
PGE S.A.	PGE Trading GmbH	OTE a.s. – Czech Republic	2011-12-08	2013-06-30	Bank guarantee ordered by PGE S.A. for liabilities of PGE Trading GmbH	30,000,000	CZK
PGE S.A.	PGE Trading GmbH	CAO GmbH – Germany	2011-12-14	2014-02-03	Bank guarantee ordered by PGE S.A. for liabilities of PGE Trading GmbH	1,000,000	EUR
PGE S.A.	PGE Trading GmbH	ČEZ, a.s	2011-07-01	2013-01-31	Guarantee	900,000	EUR
PGE S.A.	PGE Trading GmbH	OKTE a.s. – Slovakia	2011-12-09	2013-03-29	Bank guarantee ordered by PGE S.A. for liabilities of PGE Trading GmbH	700,000	EUR
PGE S.A.	PGE Trading GmbH	Vattenfall Energy Trading GmbH	2012-04-02	2015-01-01	Guarantee	500,000	EUR



PGE S.A.	PGE Trading GmbH	E.ON Energy Trading SE	2012-04-02	2015-01-01	Guarantee	500,000	EUR
PGE S.A.	PGE Trading GmbH	EDF Trading Limited	2012-10-01	2015-01-30	Guarantee	500,000	EUR



2.8.6. Significant off-balance sheet items

Significant off-balance sheet items are described in Note 30 to the financial statements.

2.8.7. Evaluation of investment capacities

On-going and future investments are and will be financed from funds generated by the core activity of the PGE Group, funds obtained from the issue of bonds and from external financing. Financial results achieved by the PGE Group and debt level in 2012 confirm that the Group owns sufficient resources to achieve its investment goals, including capital investments.



3. Financial and market risk management

In their business activity, PGE S.A. and Group companies become parties to various types of agreements and financial contracts subject to non-financial risks.

During regular business activity, PGE S.A. and Group's operations, financial results and cash flows are exposed to various types of financial and market risks, including interest rate risk, foreign currency risk, price risk, credit risk, and liquidity risk. Each risk could have a negative impact on business activities, financial standing and performance of operations.

3.1. Interest rate risk

PGE S.A. and the companies of the PGE Capital Group are exposed to interest rate risk since their operating and investing activities are financed from debt borrowed at a variable interest rate or through investments in financial assets remunerated at a floating or fixed interest rate. On the other hand, financing activities through debt borrowed at a fixed interest rate is associated with the risk of lost profits when interest rates fall.

The rates of floating rate financial instruments are updated in periods of time shorter than one year. Interest earned on financial instruments with a fixed interest rate are constant throughout the period preceding their maturity.

Cash and cash equivalents are reflected in the group of floating rate instruments. Most of the cash and cash equivalents are short-term deposits (less than 3 months) at a fixed interest rate. Due to the risk of changing rates in the process of negotiating interest rate levels in subsequent periods, the Group presents them in the group of higher risk.

PGE S.A. and the Group are exposed to the risk of changes in the fair value of SWAP derivatives resulting from changes in interest rates.



3.2. Foreign exchange risk

PGE and the PGE Group companies are affected by two types of exposure to foreign exchange risk:

Exposure to transaction risk

It stems from the fact that a part of the cash flows from the core business of the companies is denominated or indexed to foreign exchange rates. Furthermore, transaction risk is created as a result of using foreign currencies to capital investments and to finance operations. Due to changes in foreign exchange rates, the foreign exchange risk translates into the variability of future cash flows denominated/indexed in foreign currencies.

Translation exposure

It arises from converting balance sheet items denominated in foreign currencies into the currency of the financial statements, i.e. the Polish zloty. Similarly to the transaction exposure, a lack of assurance as to the level of future exchange rates to be applied in the conversion of data in the financial statements on the balance sheet day leads to uncertainty as to the value of the items in Polish zloty on the balance sheet day and related revenues and/or financial costs due to exchange rate differences shown in the total income statement.

Major elements which constitute sources of exposure to foreign exchange risk of PGE and the Group are presented below:

- Capital expenses denominated/indexed to foreign exchange rates;
- Debt of the companies belonging to the Group and denominated in foreign currencies;
- Electricity sale transactions in exports denominated in foreign currencies;
- Electricity purchase transactions denominated in foreign currencies and electricity purchase transactions where part of the purchase price is indexed to the exchange rate;
- Fees for the purchase transmission capacity denominated/indexed to foreign exchange rates;
- Sales of CO₂ emission rights denominated/indexed to foreign exchange rates;
- Purchases of CO₂ emission rights denominated/indexed to foreign exchange rates;
- Expenses related to the current use of capital goods denominated/indexed to foreign exchange rates;
- Invested financial assets denominated in foreign currencies.



3.3. Commodity price risk

Due to the nature of their operations PGE S.A. and the companies in the PGE Capital Group are exposed to cash flow and financial results volatility caused by changes in prices of the following risk items:

- Electricity;
- Heat energy;
- Hard coal;
- Natural gas;
- CO₂ emission rights;
- Property rights to certificates of origin for electricity generated from renewable energy sources ("green certificates") or from cogeneration ("red/yellow certificates").

3.4. Credit Risk

The credit risk is related with potential credit defaults such as a counterparty's insolvency, incomplete repayment or significant delay in the repayment of a debt or other default on contractual terms.

PGE and the companies of the PGE Capital Group are exposed to credit risk arising in the following areas:

- Core business of the companies – sources of credit risk include inter alia transactions for the sale or purchase of electricity and heat, purchases and sales of mining fuels, etc.
- Investing activities undertaken by the companies – the credit risk is generated by transactions within investment projects where successful completion is subject to the financial standing of the Group's suppliers.
- Market risk management in the Group - the credit risk is linked to possible non-performance of obligations by the other party in a derivative transaction to the detriment of a company belonging to the PGE Capital Group if the fair value of the derivative transaction is positive from the Group's point of view.



- Investing the companies' available funds – the credit risk arises if available funds are invested by the PGE S.A. and the companies of the PGE Capital Group in financial instruments involving credit risk, i.e. financial instruments other than issued by the State Treasury.

The following classes of financial instruments are vulnerable to credit risk exposure and have distinct credit risk characteristics:

- Current and long-term deposits;
- Acquired bonds, bills of exchange and other bonds;
- Trade receivables;
- Loans granted;
- Other financial receivables;
- Cash and cash equivalents;
- Derivatives;
- Granted guarantees.

The maximum exposure to credit risk related to financial assets of PGE S.A. and the Group is equal to the carrying values of these items.

The primary objective of credit risk management is to approve and control the credit risk at a level which is defined based on major business targets with respect to traded electricity and related products. The credit risk management of a counterparty in PGE S.A. and units belonging to the PGE Capital Group, which are exposed to losses to the largest extent because of a counterparty's credit risk, bases on policies and procedures adopted to this respect. In order to reduce a counterparty's credit risk, trading operations with customers generating a potentially high credit risk are subject to limits assigned on the basis of credit ratings. Customers displaying a weak financial standing may be required to provide a security. Securities with a high recovery rate are preferred. Payments from contractors and credit risk exposure are monitored on a regular basis. Recovery procedures and processes are applied in order to minimise losses related to untimely payments from a counterparty.



3.5. Liquidity risk

PGE S.A. and the Group companies run active cash investment policy. This means that they monitor their financial surplus, forecast future cash flows and carry out their investment strategy on the basis thereof.

PGE S.A. and the Group companies are individually responsible for their current liquidity, which is mainly based on current account credits. The Group has implemented a central financing process. PGE S.A. issues bonds, which are acquired, without limitation, by entities with financial surplus. Funds from the issue are then used to acquire bonds issued by those of PGE Group companies that indicate need for external sources of financing.



4. Risks and threats of the PGE Capital Group

The activity of major PGE Capital Group companies, as well as other entities operating in the electrical and power sector, is exposed to a number of external risks and threats connected with market, regulatory and legal environment, as well as internal risks and threats accompanying their operations.

Key risks and threats, to which the PGE S.A. and PGE Capital Group's activity is exposed, are described below.

4.1. Risk factors connected with market environment and general macroeconomic situation in Poland and in the world

4.1.1. Risk connected with macroeconomic situation

The operations of PGE S.A. and PGE Group are affected mainly by macroeconomic factors related to Polish economy, such as interest rates, PLN exchange rate, inflation rate, unemployment rate, Polish GDP, changes in directions of the economic and tax policy of the state, and also volatility of prices of electricity, fuel, CO₂ emission rights, and availability of materials used for production of electric power and heat. Other than factors associated with Polish economy, our operations are also affected by macroeconomic conditions in other countries, particularly other Member States of the European Union. Any deterioration of the general economic conditions in Poland or in the world may considerably and negatively impact the operations, performance or financial standing of the Company and of the Group.

4.1.2. Risk relating to an increasing competition

Given the on-going development of the retail market, increasing activity of energy sellers and growing number of customers who change their energy supplier, the PGE Group is exposed to the risk of losing its existing customers in the retail market and the risk of decreased margin achieved on sale to the existing customers.

4.1.3. Risk of a decrease in demand for electricity and heat

The PGE S.A. and PGE Capital Group's income is substantially dependant on the consumption of power and heat by the users. In a long run, power consumption is expected to grow. However, there is no guarantee that such a growth will occur and that the rate of growth will achieve an assumed level.



Demand for electricity may decline, in particular, as a result of:

- economic slowdown,
- possible reduction of energy consumption level by off-takers of low economic standing,
- development of new energy saving technologies,
- weather conditions.

Decreasing growth rate of demand for electricity and limited access to interconnectors limiting opportunities for exporting electricity produced by the Group may have a significant adverse impact on the activity and financial results of PGE S.A. and of the Group companies.

Uncertainty regarding future economic situation in the world's economy, intensified by the financial crisis in European countries, may negatively affect the domestic consumption and investments, subsequently leading to decreased demand for electricity and drop of electricity prices, what was observed in 2012.

4.2. Risk factors connected with regulatory and legal environment

4.2.1. Political risk

The activity of the PGE S.A. and the Group in key operating areas, i.e. lignite mining, generation, distribution and sale of electricity and heat, is subject to legislation, government regulation and government policy adopted by Polish authorities and agencies, authorities of the European Communities and the European Union, and other states. Changes in such legislation, regulations and/or policies may be influenced by political factors, which in turn may affect business activity of the Group including, inter alia, the regulation of electricity prices, heat prices and distribution services for off takers, in particular households. It is particularly relevant for investments in the generating segment as they are characterised by high capital expenses and a long implementation period (in case of nuclear power plants it is 10 years and more including the preparation phase). A stable and coherent energy policy based on capacity balancing and supporting an assumed target fuel mix, and at the same time involving mechanisms enabling the State to carry out necessary investments, not necessarily profitable from a purely business perspective but required in order to secure the energy security of the State, will lead to the completion of all necessary investment projects in the generation segment.



4.2.2. Risk of instability of legal environment

The Company's and Group's activities are subject to numerous Polish and European laws and regulations and international law. The provisions of the laws, regulations, decisions, positions, opinions and actions of relevant authorities important for the Group's activity are subject to changes. In particular, the Energy Law was repeatedly amended, and some of the amendments introduced significant changes with respect to core business areas. Types, directions and scopes of such amendments may have an unpredictable impact on the Company's and Group's activity.

Moreover, **environment protection regulations become more strict**, and adjustment to these changes may be connected with the additional significant expenditures. Non-compliance with regard to environment protection requirements may lead to PGE Group responsibility, including financial sanctions or periodical or even permanent suspension of exploitation of particular installations.

4.2.3. Risk associated with amendments to the support schemes for renewable and cogeneration sources

In previous years, generators in Group, who provided electricity in combination with heat (cogeneration), benefited from a scheme supporting highly efficient generators. Under the applicable regulations, the scheme supporting highly efficient cogeneration based on certificates of origin (the so-called yellow certificates – for installations fired with gaseous fuels or of a total installed capacity below 1 MW, and red certificates – for units fired with fuels other than gas, of a total installed capacity of more than 1 MW) operated until the end of 2012 (energy produced in 2012 will be settled by March 31, 2013). As from December 31, 2012 the support expired.

The amendments to the Energy Law, which are currently discussed at the Ministry of Economy, assume the possibility of renewal of the support scheme for cogeneration sources, but neither the form nor the duration or beginning date of the new support scheme have been definitively determined. The rules governing these issues should enter into force yet this year. Any amendment to the legislation affecting the process of acquiring the certificates of origin is usually associated with the need to adapt the technical infrastructure or measures necessary for the acquisition of the certificates to the requirements set out in new provisions. Delays in the adaptation process or lack of adaptive measures by the Group's generators may lead to substantial financial losses (e.g. due to formal or procedural reasons) caused by a subsequent refusal by the President of the Energy Regulatory Office to issue the energy certificates.



The proposed amendments **create the risk that the support scheme for cogeneration units will not be renewed or will be extended under less favourable conditions than the current requirements relating to the certificates of origin**; consequently, it would adversely affect revenues and returns of cogeneration units of the Group who are benefiting from support schemes.

The same applies to the Group's units generating electricity from renewable energy sources as they also benefit from the support scheme. According to the draft new renewable energy act, which is currently in the legislation process, the present support scheme designed for units generating electricity from renewable sources and stipulated by the Energy Law will be changed, i.e. it will differentiate various types of renewable energy, installed capacity of energy generating equipment and the date of installation commissioning or upgrade. In the publicly available project of the act, less support is foreseen for technology processes which now generate the highest share of electricity from renewable sources (wind power plants, co-combustion) while renewable energy installations of more than 15 years and multi-fuel firing combustion plants (co-combustion) of more than 5 years will no longer be eligible for the certificates of origin. If the proposed provisions with respect to renewable energy sources are passed in their current form, they will adversely impact the profitability of both existing and planned renewable energy plants in the PGE Capital Group. Furthermore, support for renewable energy sources leads to risks of not obtaining the certificates of origin (the so-called green certificates). They are granted by the decision of the President of the Energy Regulatory Office who nevertheless is entitled to challenge quantities and methods of certified energy generation by a generator and consequently to withhold a decision to grant all or some of the certificates.

4.2.4. Risk connected with the requirement for licenses

The Company's and Group's core activities are subject to a number of licenses, including licenses for the electricity and heat generation, the distribution of electricity and heat, the electricity and heat trading, the fuel gas trading, as well as for the lignite mining. In order to continue business activity, the Group needs to maintain and extend existing licenses. Any withdrawal or limitation of licenses or the imposition of additional conditions under the license may cause that PGE S.A. and the Group companies will not be able to run their activities, their activities will be significantly limited or substantially influenced otherwise.



4.2.5. Risk resulting from the potential violation of antitrust regulations

Distribution company of the PGE Group is a natural monopolist in the area of electricity distribution services. In addition the PGE Group is the main electricity producer in Poland (approximately 40% share in the electricity generation market) and is one of the biggest electricity sellers in Poland. Given its monopolist or dominant position in relevant markets, the PGE Group is subject to limitations in the form of a ban on overusing its dominant position based on antitrust regulations of the Polish law and the law of the European Union. In the case of any violation thereof, antitrust authorities (the President of the Office for Consumer and Competition Protection, European Commission) may order to take up defined actions or enforce sanctions in the form of financial penalties.

4.2.6. Risk connected with the programme of CO₂ emissions reduction

In Poland CO₂ emission rights are granted for the particular branches and enterprises by way of decree of the Council of Ministers through National Allocation Plan ("NAP") from the pool granted by the European Commission ("EC"). The allocation system assumes that the enterprises which used up their limits must acquire emission rights (EUA, CER or ERU) on the market or take steps in order to improve the CO₂ emission rate. Threat of too low limits of allowances in relation to needs creates significant concern for the energy generators, because they are granted a separate allowances allocation. If the allowances granted to them are not sufficient to accomplish the planned generation level, they will be forced to reduce the production (to adjust emissions to the granted limits) or incur additional costs related to purchase of missing allowances.

Poland's application for the allocation under the EU Emissions Trading System of free emission allowances to the Polish energy sector in the 3rd settlement period starting after the year 2012 was conditionally approved by the European Commission. In the third settlement period, allocations of free allowances to plants generating electricity will be gradually reduced until their total expiry in 2020.

At the European level, a strong group is lobbying for an increase of the Community CO₂ reduction target, in particular after 2020. In accordance with the 2008 climate package, the European Union and the Member States undertook to reduce their CO₂ emissions by 20% (Poland by 15%) by the year 2020 in relation to the base year (1990); the level of CO₂ emission reduction after that period is subject to on-going negotiation. Poland does not support the plan proposed by the European Commission leading to a practically emission-free energy generation (Energy Roadmap 2050) and, so far, has vetoed the proposed path of CO₂ emission reduction in the EU economy by 80% in the year



2050. Considering the present trend, it should be expected that further proposals by the European Commission will aim at raising the CO₂ emission reduction targets and promoting the increase in emission rights' prices.

The above issues may lead to significant growth of electricity prices on Polish market, what could result in decline of volume of electricity sales and negatively affect the future financial situation of the PGE S.A. and the Group. At the same time, from 2014, the opening of the regional market will create a substantial risk of revenue losses caused by a lack of competitiveness of generation sources using lignite and hard coal on which PGE Capital Group bases its operations.

4.2.7. Risk of restrictions with respect to emissions to the environment of substances other than CO₂ and of more stringent BAT standards

Operations conducted by the companies of the Group, including in particular electricity and heat generation, are connected with emissions of not only CO₂, but also NO_x, SO₂, dusts and other substances. In order to minimize their impact on the environment and to protect it, EU and national authorities introduce relevant legislation applying, among others, to the energy and mining sector. Issues of environmental protection and related obligations are stipulated in the so-called "integrated permits" or sectoral permits, and installations which are obliged to obtain the permits must also comply with the requirements of the Best Available Techniques ("BAT") and this means substantial capital expenses. In addition to general conditions relating to pollution emissions, the permits provide for quotas of gas or dust emissions to the air, permissible noise levels, requirements regarding water extraction, quantities of sewage and solid waste and define the general rules for waste generation and handling.

Regulations with respect to environmental protection are subject to very frequent amendments and, therefore, **the implementation of more stringent environmental requirements into Polish law should be anticipated in the nearest perspective.** Predicting the exact nature and scope of the amendments discussed is not possible. At the beginning of 2013, Directive of 24 November 2010 on industrial emissions (integrated pollution prevention and control), called IED, was to be transposed to national law, however legislative work is still ongoing. IED Directive sets out stricter requirements with respect to pollution emission limits (including emissions of sulphur dioxide, nitrogen oxides and dusts from energy combustion plants) compared to regulations previously in force (LCP Directive among others) and extends the role of BAT reference documents (the so-called BREFs). Another risk is associated with the possible adoption of the so-called BAT Conclusions, which will provide for



much more stringent emission standards than those defined in the IED Directive; the new standards will be mandatory.

The European Commission is presently working on the amendment to the so-called framework directive and the Commission's Decision 2000/532/EC of 3 May 2000 establishing the list of hazardous waste. At present, some of the combustion by-products, including in particular slags, bottom ash and boiler combustion ash, are not classified as hazardous waste. Following the amendments they may be considered as such. Their amended status may have significantly adverse financial consequences for the operators concerned because of higher charges for waste storage, higher costs of rehabilitation of combustion by-products landfills and the ban on sales of combustion waste to external parties which, consequently, will compel operators to store all combustion by-products by themselves.

More restrictive emission standards may force the PGE Group to incur substantial capital expenses in order to adapt to new requirements. At the same time, some of our facilities, landfill sites or installations may not be able to adapt to newly applicable requirements or will be able to adapt only with a delay causing negative impacts to our activities, financial results and situation or development prospects.

4.3. Risk factors connected with the operating activity of the PGE Capital Group

4.3.1. Risk of disruption of fuel supplies and insufficient stocks of fuel

The generation of electricity and heat by Group power plants, CHP plants and heat plants depends on fuel supplies, including lignite, hard coal and gas. There is a risk of disruptions in fuel supplies to generating units, mainly for technical reasons (breakdown), natural reasons (calamities, difficult weather conditions), social reasons (strikes), economic and political reasons (limited supply of fuel or transport services and imposing unfavourable conditions of supply and transport) and other reasons. Any break or limitation in fuel supplies may cause a break or significant limitation in electricity or heat generation.

Moreover, the Energy Law obliges every electricity or heat generating enterprise to maintain a stock of fuel in an amount that can guarantee the continuity of electricity and heat supply. The ERO President imposes fines (of up to 15% of income) for the failure to maintain the required level of fuel stocks. The shortage of required level of fuel stocks may also result in the suspension or reduction of electricity or heat generation.



4.3.2. Risk connected with weather conditions

Weather conditions influence technical and economic conditions of energy and heat generation and distribution and create seasonable demand for energy. Such factors may cause limitations to energy generation, mainly as a result of water in basins that is used for cooling the generating units getting too hot or too low, as well as limitations to transmission capacities of the system. In addition, bad weather conditions, including in particular the force of wind in the case of wind farms and water surface in the case of water power plants, have a significant impact on energy production from renewable sources. While, large rains cause problems with the dehydration of opencast lignite mines. Extreme weather conditions break lines or damage electrical and power devices very often, which results in breaks of and limitations to power supply. It must be added that all the above phenomena are mostly unpredictable and in consequence may cause lowering of PGE Group income and claims by the off-takers for compensations or for discounts. Removal of damages in the grid is also connected with additional expenses relating to reconstruction of the damaged elements.

4.3.3. Risk relating to obtaining and cost of external financing (downgrade or withdrawal of the rating of PGE)

A part of the Company's and Group's activities is financed from external sources (bank loans, bonds, etc.). PGE S.A. and Group companies are parties to many financial agreements of the complex legal structure. It is possible that in future it will be difficult to obtain new finance at an amount and terms desired by the Group. This may be caused by still unstable situation in the financial and capital markets in Poland and abroad, poor general economic situation in Poland and abroad, or other reasons that are unpredictable now. Such circumstances may negatively affect the terms of financing, in particular may lead to the growth of costs of such financing (higher interest rates, commissions, etc.). Higher costs of financing may affect the PGE S.A. and the Group's results.

PGE S.A. has received positive evaluations from rating agencies confirming its high reliability connected with investment in its debt securities. Nonetheless, rating agencies may at any time downgrade or inform PGE S.A. of their intention to downgrade the rating. The rating agencies may also completely withdraw their ratings which may have the same consequences as a downgrade in PGE's ratings. Any decrease in PGE's rating may increase the costs of external financing, limit access to capital markets and adversely affect the capacity of PGE Group companies to sell their products or contract economic transaction, especially long-term ones. This may in turn decrease the liquidity of PGE S.A. and adversely affect the operating results and financial condition of PGE S.A. and the Group companies.



4.3.4. Risk of transfer prices

The Company and its subsidiaries have concluded, and continue to conclude, many transactions with the other PGE Group members. These transactions specifically relate to the sale of fuels, electricity, emission allowances, certificates of origin and certain services. Even though the Company and the Group companies carefully follow the arm's length principle in dealings with related parties, and even though they are implementing unified standards regarding the compiling of documentation and procedures in this regard, we cannot preclude potential disputes with the tax authorities in this regard.

4.3.5. Risk of insufficient insurance protection

The activity of the PGE S.A. and PGE Capital Group is exposed to a number of risks connected with natural calamities, breakdowns and damages. The Group's business activity is also connected with third party liability towards third persons for personal injuries, property damages or so called pure financial loss. The Group maintains insurance policies covering only certain types of damages and there is a risk of insufficient insurance coverage. In addition, there are risks that are not subject to any insurance protection or in the case of which compensations, if any, are not likely to fulfil claims or loss. Consequences of such events will be charged to costs of PGE S.A. and particular Group companies, what may have a negative impact on their results.

4.3.6. Risk relating to court, arbitration and administrative proceedings

PGE S.A. and PGE Group companies are parties to court, arbitration or administrative proceedings that are important for the Group's activity. The Group takes up actions aiming at the settlement of such cases in favour of PGE S.A. and PGE Group companies, but there is a risk that they will be resolved unfavourably. There is also a risk that in future other proceedings will be initiated against PGE S.A. and other PGE Group companies, which will be resolved unfavourably for us, which may have an adverse impact on the Company's and Group's activity and financial results.

Over 100 company and inter-company trade unions are present in the PGE S.A. and PGE Group companies and approximately 25 thousand employees are members thereof. Pursuant to the current provisions of law, trade unions influence the legislative process. They are also able to exert pressure on employers in a number of ways, including in the form of collective labour disputes. PGE S.A. and PGE Group companies are parties to a number of corporate and sector collective bargaining agreements. Furthermore, management boards of many Group companies have entered into social agreements with trade unions which confer considerable power upon employees and trade unions.



The necessity to consult or co-ordinate certain actions with the trade unions may delay, or even render impossible, such actions and may lead to collective disputes, involving strikes or other labour protests. Furthermore, should any significant redundancy program be required in the PGE Group in the future, the obligation to make high severance payments to employees may delay or limit our ability to carry out such redundancy program or may increase its cost.

Risks relating to court, arbitration and administrative proceedings and employees' claim that are essential for the activity of PGE S.A. are described in Note 30 to the financial statements.

5. Other significant events of the reporting period and subsequent events

5.1. Consolidation Programme

On January 2, 2012 the merger of PGE Energia Odnawialna S.A. with Elektrownia Wiatrowa Kamieńsk sp. z o.o. and Dychowskie Przedsiębiorstwo Eksploatacji Elektrowni „Eldeks” sp. z o.o. was registered.

On March 12, 2012 District Court for Łódź Śródmieście in Łódź, XX Commercial Division of National Registry Court issued a decision on entry of merger of PGE Górnictwo i Energetyka Konwencjonalna S.A. with PGE Elektrownia Opole S.A.

The above mentioned changes are a continuation of the Consolidation Programme, which has been carried out in PGE Capital Group. As a result of the execution of the Consolidation Programme, the following formal and legal mergers took place in the given segments in 2010: (i) mining and conventional generation; (ii) renewable energy; (iii) distribution of electricity; (iv) retail sale of electricity; as well as the merger of PGE Górnictwo i Energetyka S.A., PGE Energia S.A. and PGE Electra S.A. with PGE Polska Grupa Energetyczna S.A.

Legal aspects of the Consolidation Programme

As a result of implementation of the Consolidation Programme, on August 3 and August 16, 2010 the extraordinary general meetings of the involved PGE Group entities, adopted resolutions concerning the mergers (merger resolutions). Few shareholders brought actions for statement of invalidity of the resolution together with the request for overruling of the merger resolutions. The lawsuits related to the merger resolution of PGE Elektrownia Opole S.A. and some merger resolutions within Conventional Generation segment (cases conducted by PGE Górnictwo i Energetyka Konwencjonalna S.A.) and merger resolution adopted by the shareholders of PGE Górnictwo i Energetyka S.A. (case conducted by PGE S.A.).



So far, in all lawfully concluded trials, the Courts dismissed in full the plaintiffs' appeals, confirming the viewpoint of the PGE companies that the shareholders' objections are apparent and the shareholders aim at contesting the exchange parity of shares, what is unallowable under appeal against the resolutions. The shareholders used their proceeding rights and filed cassation appeals in cases against PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE Elektrownia Opole S.A. and PGE Polska Grupa Energetyczna S.A.

The Supreme Court refused to accept the cassation appeals for examination or dismissed the plaintiff's cassation appeals.

In the last case for statement of invalidity of the merger resolution (eventually overruling), pending before the court of second instance, the court dismissed the plaintiff's appeal. There is a risk of a cassation appeal with the Supreme Court.

Irrespective of appeals of merger resolutions, there were also appeals against the verdict on entry to National Court Register of the merger of PGE Górnictwo i Energetyka Konwencjonalna S.A. with the acquired companies within the Conventional Generation segment and against the verdict on entry to National Court Register of the merger of PGE Polska Grupa Energetyczna S.A. with the acquired companies. Ultimately the Appeal Court dismissed the appeals, and the entries of mergers became final and valid.

In the period from September to December 2012, petitions to call for a pre-trial settlement were filed with the District Court for Warsaw Śródmieście pursuant to which PGE Polska Grupa Energetyczna S.A. has been requested to pay a compensation in the total amount of approx. PLN 5.5 million. The petitioners, who are former shareholders of PGE Górnictwo i Energetyka S.A. with its registered office in Łódź, base their claim on the understatement of the share exchange ratio when the shares of the acquired company, i.e. PGE Górnictwo i Energetyka S.A., had been exchanged for the shares of the acquiring company, i.e. PGE Polska Grupa Energetyczna S.A.

In the period from August to October 2012, similar petitions were filed with the District Court in Bełchatów. The petitioners called PGE Górnictwo i Energetyka Konwencjonalna S.A. in Bełchatów for a pre-trial settlement by the payment of a compensation to their benefit in a total amount of more than PLN 24 million. The petitioners are former shareholders of PGE Elektrownia Opole S.A. Compensation claims presented in the petitions are based on the right to report reservations regarding the understatement of the share exchange ratio when the shares of the acquired company, i.e. PGE Elektrownia Opole S.A., had been exchanged for the shares of the acquiring



company, i.e. PGE Górnictwo i Energetyka Konwencjonalna S.A. In the petitioners' view, the adopted share exchange ratio had been understated.

By the date of this report, no amicable settlement has been reached in any of the above mentioned cases. PGE S.A. finds the claims groundless, however further claims cannot be ruled out.

5.2. Concept of non-core asset management within the PGE Capital Group

In 2012, the PGE Capital Group took further actions under the “Concept of Non-Core Asset Management within the PGE Capital Group”. The aim of the programme is to ensure transparent separation of core business activities from other activities as well as disposal and restructuring of non-core assets.

In the year 2012, shares in 5 companies were sold (including in Megamed), 6 other non-core assets were sold (flats and land property), 4 holiday centres were sold and the decommissioning process of one holiday centre was completed.

As part of the Non-Core Project in the years 2009 - 2012 71 non-core assets were sold in total: all share packages in 35 non-core companies were sold, liquidation or bankruptcy processes were completed for 12 companies, shares in 1 company were redeemed, 23 other non-core assets were sold.

In December 2012, intensive efforts were undertaken to launch the WEKTOR Project, which in 2013 replaced the Non-Core Project and covered all subsidiaries and companies with a minority share in the PGE Capital Group. The primary objective of the WEKTOR Project is to further improve the performance of the PGE Capital Group by:

- building-up synergy at the Capital Group level,
- focusing on core business activities with a strong Corporate Centre,
- supporting the process management model of the Capital Group through function modelling,
- increased flexibility of implemented management processes,
- reduction of operating expenses,
- increasing returns on assets,
- enhancing competitiveness of the PGE Capital Group.



At the same time, actions will be taken in view of preparing the disposal of other non-generation areas and non-separated assets which are not intended for use as part of core business activities of the companies operating in the PGE Capital Group.

5.3. Restructuring of Poland-Sweden DC line

At the end of 2010 some changes to the EU law were implemented, including Third Party Access, what resulted in concluding of Market Coupling Agreement in December 2010 between PSE S.A., Svenska Kraftnat, SwePol Link AB, SwePol Link Poland, Nordpool and TGE. The agreement formally released transmission capacities. Market coupling implementation on SwePol Link connection, business conditions of its operation, regulatory as well as operating (significant limitation of transmission capacities) triggered the necessity of the ownership restructuring. In December 2011 the shareholders of SwePol Link AB, i.e. PGE Polska Grupa Energetyczna S.A. (49%), Svenska Kraftnat (51%) and Vattenfall (which had liabilities toward SwePol Link), signed a Letter of Intent which included declaration of will to restructure the DC line Poland-Sweden.

Restructuring consisted in sale of assets and acquisition of line assets by the Polish and Swedish transmission operators.

From the formal point of view, the SwePol Link AB company was owned by only two entities, but due to past complex legal and business relationships of the parties involved, a few stakeholders (Stakeholders Group) of the project took part in the whole process of restructuring and negotiations. Apart from PGE S.A. and SvK, SPL and SPP they were: PSE S.A., Vattenfall AB and the Swedish and Polish regulators. The main task of the Stakeholders Group was to agree on a target model for the connection of SwePol Link (in general) and making detailed arrangements concerning the road map, including necessary ownership transformations (formal and financial matters in particular), and also conditions for Vattenfall AB to withdraw from the business relationship with SwePol.

As a result of discussions and meetings of Stakeholders, which began in 2010, the final concept for the restructuring of the project as well as the process of effecting the transaction itself was reached in 2012. As a consequence, PGE S.A. took a strategic decision to start to implement the scenario involving the sale of the property owned by the SwePol Link AB company to the Polish and Swedish transmission system operators – PSE S.A. and Svenska Kraftnat respectively (in practice, the only possible purchasers of the asset and expressed a strategic consent to liquidate the SwePol Link AB and SwePol Link Poland companies.



From the perspective of PGE Polska Grupa Energetyczna S.A., the key issue in the SwePol restructuring was the return by Vattenfall of advances for transmission charges to PGE S.A. Since the beginning of the restructuring, Vattenfall has questioned the above claim raised by PGE S.A. Following negotiations, Vattenfall finally acknowledged the PGE S.A. position and the advances for transmission charges were returned under an agreement signed between Vattenfall and PGE S.A.

On August 31, 2012, on the ground of agreements concluded on August 23, 2012 between PSE S.A., Svenska Kraftnat, SwePol Link AB, SwePol Link Poland, PGE and Vattenfall, SwePol AB and SwePol Poland sp. z o.o. sold their assets to Polish operator PSE S.A. and Swedish operator Svenska Kraftnat. As a result of this transaction PGE Polska Grupa Energetyczna S.A. received refund of the prepayments for transmission fees in amount of SEK 413.6 million (PLN 206 million). This transaction allowed PGE S.A. to withdraw from the activity, which has not been profitable any more.

The consequence of the sale of assets will be liquidation of SwePol Link Poland and SwePol Link AB. The Extraordinary Assembly of Partners of SwePol Link AB decided to dissolve and liquidate the company. The Assembly of Partners also adopted a resolution on approval of Directors' Board proposal on liquidation of a subsidiary, i.e. SwePol Link Poland sp. z o.o.

On October 30, 2012 the Extraordinary Assembly of Partners of SwePol Link Poland sp. z o.o. adopted resolutions on liquidation of the company and appointment of a liquidator.

5.4. Adoption of the PGE Capital Group strategy for 2012-2035

On February 9, 2012 the Supervisory Board of PGE S.A. approved "PGE Group Strategy for 2012-2035".

5.5. Activities related to nuclear energy

Determination of site localization for the nuclear power plant

After selection of three potential localizations for the nuclear power plant in November 2011, the preparatory activities for localization and environmental research were continued, including obtaining necessary permits for the access to the research fields. Within these activities, a lease agreement with Forest Inspectorate in Choczewo was signed with regard to the whole area subject to research. An agreement was also signed with Pomorska Specjalna Strefa Ekonomiczna in Żarnowiec (Pomeranian Special Economic Zone). Simultaneously, analyses and settlements of the lease conditions were carried on and with the administrators of the land covered by the research, what will enable the access to Żarnowiec localization when the research begins. In December 2012, Pomeranian voivodship marshall issued decision on determination of localization regarding to



properties in Krokowa municipality (region Kartoszyño) and in Gniewino municipality (region Nadole).

Tender for performer of environmental and site characterisation

On February 7, 2013 PGE EJ 1 sp. z o.o. signed an agreement with syndicate of WorleyParsons Nuclear Services JSC, WorleyParsons International Inc. and WorleyParsons Group Inc. The subject-matter of the agreement is the environmental research, site characterisation and services connected with obtaining permits and rights which are necessary in the investment process.

Selection of Owner's Engineer

The contract awards conducted in course of negotiations with announcement (according to the Public Procurement Law) for selection of Owner's Engineer was conducted in 2012. The tender has been continued in 2013.

Selection of technology, integrated proceeding

In 2012 the additional analyses were carried out with regard to optimal approach to selection and possibilities of connecting key aspects of the project such as selection of technology, selection of EPC general contractor, selection of business and strategic partners or provision of financing. These works were connected with the analysis of possibility of application of integrated tender i.e. one proceeding for key supplies and services for the nuclear project: technology and EPC provider, fuel supplies, support services concerning the utilization and repairs during the first years after commissioning of the power plant, capital engagement of the potential strategic partner or business partners and obtaining of debt financing from Export Credit Agencies and commercial banks.

5.6. Dispute between PGE S.A. and ATEL (currently Alpiq)

Since 2009 PGE Polska Grupa Energetyczna S.A. was a party to arbitration proceedings with the company Alpiq. The proceeding was held before the Arbitration Tribunal in Vienna. The subject of the arbitration proceeding was the claim of Alpiq, raised against PGE, resulting from the default on a electricity supply agreement signed on 28 October 1997. Initially claims submitted by Alpiq amounted to EUR 72 million. At the further stage of proceedings, along with the exchange of pleadings, the compensation claim amount increased to EUR 155 million plus interest due. After exchange of post-hearing briefs the claim was finally set at EUR 168 million plus interest due. The arbitration proceeding was held in written form and was based on the exchange of pleadings



between the parties and presentation to the Tribunal of evidence by witnesses, experts and statements by the parties.

On September 12, 2012, the Arbitration Tribunal issued a final judgment in this case and obliged PGE to pay to Alpiq an amount of EUR 43,203,986.60 plus interest due in amount of EUR 4,054,923.55. Aggregate value of the liability accounts for EUR 47,258,910.15. At the same time, the Tribunal awarded PGE S.A. with amount of EUR 1,462,622.23 as the reimbursement of arbitration proceeding costs from Alpiq. The ultimate amount that PGE S.A. is obliged to pay to Alpiq, after deducting the arbitration proceeding costs, amounts to EUR 45,796,287.92. With account taken to the Alpiq claim (EUR 168 million plus interest due) and unpredictability of the verdict by the Austrian Arbitration Tribunal, the above should be treated as a Company's success. It should be emphasized that arbitrators in complex cases, often issue verdicts based on general rules of fairness, i.e. judging half of the amount in plaintiff's favour. Meanwhile PGE S.A. won this dispute in more than 70%.

At the early stage of proceeding, on the basis of available information and to the best of its knowledge, PGE S.A. made a estimation of claims which were likely to be reasonably considered justified by the Arbitration Tribunal. The Company established a provision for the claim thus estimated, in the amount exceeding EUR 94 million as at August 31, 2012.

After the verdict issue date and receipt date of the verdict the Company reversed the surplus of provisions created. As at December 31, 2012 the Company recognizes in the provisions line above amount plus remuneration of a law firm that acted as a proxy in the proceeding.

Currently PGE and Alpiq are discussing the definitive method of fulfilment of the Tribunal's verdict.

5.7. Termination of the privatisation agreement of Energa S.A.

On September 29, 2010 Management Board of PGE Polska Grupa Energetyczna S.A. executed with the State Treasury represented by the Minister of Treasury the agreement for the sale of shares of Energa S.A., a company with its registered office in Gdańsk. The agreement concerned the purchase of 4,183,285,468 shares of Energa S.A. constituting 84.19% of its share capital. The purchase price amounted to PLN 7,529.9 million.

Effectiveness of the transaction was subject to obtaining consent of the President of the Antimonopoly Office for the concentration (condition precedent). On January 13, 2011 the President of Office of Competition and Consumer Protection ("UOKiK") issued decision, prohibiting the purchase of Energa S.A. shares by PGE Polska Grupa Energetyczna S.A. In connection with the above, on January 18, 2011 PGE S.A. executed with the State Treasury represented by the Minister of



Treasury an annex to the agreement. In the annex, termination date of the agreement has been set for 12 months since the date of the agreement, and the course of termination date of the agreement was suspended until the date of the legally valid conclusion of the appeal proceeding against the decision of the President of the UOKiK.

On January 28, 2011 the appeal was submitted to the District Court in Warsaw, Court of Competition and Consumer Protection ("CCCP"). PGE S.A. submitted the appeal against the decision of President of UOKiK. PGE S.A. appealed for the change of the decision in whole and verdict allowing for the concentration of PGE S.A. and Energa S.A., or alternatively for abolition of the decision.

On May 14, 2012 the Regional Court in Warsaw – the Court of Competition and Consumer Protection, passed a judgement that dismissed the appeal made by PGE Polska Grupa Energetyczna S.A. against the decision of the President of UOKiK of January 13, 2011, prohibiting the execution of the concentration involving the taking control over Energa S.A. by PGE Polska Grupa Energetyczna S.A. claiming that there are no grounds to acknowledge the said appeal. The Company did not appeal against that decision and as a result verdict became final and valid on June 12, 2012 and the agreement was terminated (see Note 41.2 to the financial statements).

5.8. Signing of a framework agreement on the exploration for and extraction of shale gas

On July 4, 2012 PGE signed a framework agreement on the exploration for and extraction of shale gas ("Agreement"). The parties to the Agreement are PGE Polska Grupa Energetyczna S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG"), ENEA S.A., KGHM Polska Miedź S.A. and TAURON Polska Energia S.A) (jointly "Parties").

The subject-matter of the Agreement is settlement of conditions of co-operation in the exploration, evaluation and extraction of shale gas in geological formations for which concessions have been granted for the exploration and evaluation of deposits of crude oil and natural gas in relation to the Wejherowo concession held by PGNiG (the "Wejherowo Concession"). With respect to the Wejherowo Concession, there will be close cooperation involving an area of approximately 160 km² ("Co-operation area").

Estimated expenditures on exploration, evaluation and extraction with respect to the first three zones (the Kochanowo, Częstkowo and Tępcz pads) within the Co-operation area are projected to be in the amount of PLN 1.72 billion. Details regarding the terms of cooperation, including a detailed project budget and timeline, the shares of the Parties in financing the expenditures arising from the



agreed-on budget, shares in the project's profits and the principles of responsibility, including contractual penalties in the case of the failure, in particular by PGNiG are to be agreed by the maturity date of the Agreement.

On November 12, 2012 the Parties signed an Annex to the Agreement. On its base the Parties decided to prolong the date for determination of detailed terms of co-operation.

On February 21, 2013 the Parties signed a second Annex to the Agreement. The Parties decided to prolong the validation of the Agreement until May 4, 2012 in order to agree on detailed terms of co-operation.

At the same time, in case such specific arrangements are not determined by May 4, 2013, the Agreement may be terminated by each of the Parties. In addition, if within three months after reaching such arrangements the Parties have not received all of the required corporate approvals, or if by December 31, 2013 the required antimonopoly clearances have not been received, the Agreement will expire.

5.9. Signing of a Letter of Intent with KGHM Polska Miedź S.A., Tauron Polska Energia S.A. and ENEA S.A. on joint participation in preparation, construction and exploitation of the first Polish nuclear power plant

On September 5, 2012 PGE S.A. signed a Letter of Intent regarding participation in preparation, construction and exploitation of the nuclear power plant ("Project"). The parties of the Letter of Intent are: PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A., Tauron Polska Energia S.A. and ENEA S.A. (jointly "Parties").

On the grounds of the signed Letter of Intent the Parties started works on co-operation in creating a draft sale-purchase agreement regarding shares in special purpose company PGE EJ1 sp. z o.o. ("Special Purpose Company").

Letter of Intent was valid until December 31, 2012.

On December 28, 2012 the Parties decided to prolong the validation of the Letter of Intent until March 31, 2013.



5.10. Agreement on purchase of wind farms from DONG Energy

On February 19, 2013 PGE Polska Grupa Energetyczna S.A. ("PGE") and Energa Hydro Sp. z o.o. (subsidiary of Energa S.A.) signed an agreement with Danish DONG Energy Wind Power A/S ("DONG") on acquisition of DONG's wind farms portfolio in Poland.

On the ground of the agreement PGE acquires operating wind farms with installed capacity of 60.5 MW, with contracted off-take of electricity and certificates and pipeline of projects with planned capacity of approximately 555 MW, including 130 MW at an advanced stage of development. Energa Hydro Sp. z o.o. acquires a wind farm with installed capacity of 51 MW and pipeline of wind projects with planned capacity of approximately 220 MW.

The aggregate value of the transaction amounts to approximately PLN 1 billion.

Transaction also includes takeover of DONG employees in Poland, who will significantly improve PGE Group's potential in development of renewables segment.

Transaction is subject to approval for concentration from the Office of Competition and Consumer Protection.

5.11. Agreement on purchase of wind farms from Iberdrola

On February 26, 2013 PGE S.A. and Energa Hydro Sp. z o.o. (subsidiary of Energa S.A.) signed an agreement with Iberdrola Renovables Energía, S.A.U. on acquisition of 75% of shares in Iberdrola Renewables Polska Sp. z o.o., a company managing wind farms portfolio in Poland. PGE and Energa intend to acquire additional 25% of shares in Iberdrola Renewables Polska Sp. z o.o., that are currently owned by European Bank for Reconstruction and Development ("EBRD").

On the ground of the agreement PGE S.A. acquires operating wind farms with installed capacity of 70.5 MW, with contracted off-take of electricity and certificates and pipeline of projects with planned capacity of 36 MW at an advanced stage of development. Energa acquires wind farms with installed capacity of 114 MW and pipeline of wind projects.

The transaction value of the purchase of 75% of shares in Iberdrola Renewables Polska Sp. z o.o. amounts to approximately PLN 840 million, what translates into the transaction value of approximately PLN 1.1 billion for a 100% stake.

The acquisition of wind farms from Iberdrola is a next step in the strategic development of PGE Capital Group in on-shore wind energy. Transaction also includes takeover of part of Iberdrola Renewables employees in Poland.



Transaction is subject to approval for concentration from the Office of Competition and Consumer Protection.



6. Company's and PGE Capital Group's development perspectives

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

In the opinion of the Company Management Board, the following factors will influence the Company's and the Group's results and performance within at least next year:

- demand for electricity and heat;
- electricity prices on wholesale and retail market;
- prices of property rights;
- availability and prices of fuels used in generation of electricity and heat, in particular prices of hard coal, fuel gas and biomass;
- availability of cross-border transmission capacities;
- growth of generating capacity in national electro-energy system, including renewable energy;
- changes in Group's macroeconomic environment, including in particular interest rates and exchange rates, values of which affect evaluation of assets and liabilities shown by the Group;
- availability and costs of CO₂ emission rights;
- completion of the granting the free allowances for 2013-2020 for the generators from PGE Group;
- decision of the European Commission on transfer of part of emission rights from period 2013-2015 for 2018-2020 (so called back loading) or withdrawal of part of emission rights from the market (so called set-aside);
- amendments to the Energy Law and others acts;
- update of the Poland's energy policy;
- results of explanatory proceedings before the ERO President in case of issue of certificates of origin of energy produced from biomass for some of the branches of PGE GiEK S.A.;
- decisions of the ERO President related to realisation of LTC Act and court's rulings on the disputes between the President of the Energy Regulatory Office and generators from the PGE Group entitled to receive compensations under LTC Act with regard to the annual adjustments of the stranded costs for 2008 and annual adjustments of the stranded costs and annual adjustments of costs generated in gas-fuelled units for 2009, 2010 and 2011;



- verdict regarding the environmental decision for power units 5 and 6 in PGE GiEK S.A. Branch Elektrownia Opole;
- realisation of operationalization projects in PGE Capital Group;
- seasonality and weather conditions;
- possible different decision in law, tax and other contingent liabilities disputes.

6.2. Execution of the PGE Capital Group's strategy in 2012

Following its strategy in 2012, the PGE Capital Group continued operations in existing business segments, i.e. electricity generation from conventional and renewable sources, lignite mining, sale and distribution of electricity to final customers, heat generation and sale, electricity wholesale trading on the domestic market and preparation for the construction of a nuclear power plant.

The implementation of the efficiency improvement plan commenced in particular business segments, the development of Centres of Common Services was started and sale of non-core assets continued.

Taking into account the strong market position of the PGE Capital Group in current areas of operation, in 2012 the company also sought development opportunities on new markets, mostly through actions in the renewable energy segment but also through expansion on the wholesale market of electricity, gas and CO₂ emission rights in Poland and internationally. Furthermore, the PGE Capital Group was involved in the assessment of unconventional gas extraction projects.

In 2012, the Group continued preparations for the execution of the following investment projects:

- construction of new hard coal units with an installed capacity of 2x900 MW in Elektrownia Opole;
- construction of a new unit with an installed capacity of 460 MW in Elektrownia Turów;
- construction of steam-gas units in Elektrownia Pomorzany (240 MW), Elektrociepłownia Gorzów (135 MW), Zespół Elektrociepłowni Bydgoszcz (240 MW) and Elektrociepłownia Puławy (600 – 840 MW);
- preparation for construction of a nuclear power plant.

It should be noted that, in 2012, the market and regulatory environment were subject to dynamic changes. Technological development in renewable energy sources, distributed generation and performance improving actions were fostered in accordance with the EU energy and climate policy. In the situation of the economic slowdown it led to a lower than projected demand for electricity in Poland and falls in electricity prices on wholesale markets.



Furthermore, issues related to support schemes for certain technological processes, i.e. cogeneration or biomass co-combustion have not been resolved in 2012. Such market conditions and lack of coherent, system-related regulatory solutions causes the substantial growth of risk related to investments in system generation assets.

The conditions described above and their anticipated long-term character were reflected in actions undertaken in 2012 by the Management Board of PGE S.A. with a view to adapt the Group to volatile external conditions, by inter alia updating the strategy of the PGE Capital Group, designing an operating model for the PGE Capital Group, optimisation of the investment portfolio and comprehensive approach to cost optimisation.



7. Statement on implementation of Corporate Governance

This Statement on implementation of corporate governance in PGE Polska Grupa Energetyczna S.A. in 2012 was prepared on the basis of art. 91 section 5 point 4 of the Regulation of the Minister of Finance dated February 19, 2009 on current and periodic information published by issuers of securities and on conditions under which such information may be recognized as being equivalent to information required by the regulations of law of a state which is not a member state (Dziennik Ustaw of 2009, no. 33, item 259 as amended) and the resolution of the Management Board of the Warsaw Stock Exchange no. 718/2009 of December 16, 2009.

7.1. Corporate governance principles which the Company was obliged to follow in 2012

In 2012 PGE Polska Grupa Energetyczna S.A. was obliged to follow the corporate governance principles described in “Best Practices of WSE Listed Companies” (further: Best Practices), adopted with the Resolution of the Board of the Warsaw Stock Exchange (“WSE”) no. 12/1170/2007 on July 4, 2007 and amended on May 19, 2010 by the Resolution of the Board of the WSE no. 17/1249/2010, that came into force on July 1, 2010, and later amended by the Resolution of the Board of the WSE no. 15/1282/2011 of August 31, 2011 and by the Resolution of the Board of the WSE no. 20/1287/2011 of October 19, 2011, which both came into force on January 1, 2012. On November 21, 2012 the Board of the WSE adopted further changes in Resolution no. 19/307/2012, which came into force on January 1, 2013 and should be obliged by the issuer starting from that date.

Management Board passed a resolution approving Best Practices for application in the Company. The Management Board of the Company acts with due diligence to obey the principles of Best Practices.

For the full text of the Best Practices, see the official corporate governance website of the Warsaw Stock Exchange: www.corp-gov.gpw.pl.

7.2. Information on exceptions in application of the corporate governance principles

In 2012 the Company applied the corporate governance principles with the exception of principle no. 5 included in Chapter I ‘Recommendations for Best Practice for Listed Companies’.



This principle constitutes that “A company should have a remuneration policy and rules of defining the policy. The remuneration policy should in particular determine the form, structure, and level of remuneration of members of supervisory and management bodies. European Commission Recommendation of December 14, 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC) and European Commission Recommendation of April 30, 2009 complementing that Recommendation (2009/385/EC) should apply in defining the remuneration policy for members of supervisory and management bodies of the company”.

So far, the Company has not worked out an uniform remuneration policy and rules of defining the policy. The Company and its subsidiaries are bound to apply the provisions of various collective agreements, which significantly restricts the freedom of designing the remuneration policy. With regard to the members of the Supervisory Board, the provisions of the of the Act on remuneration of managers of certain legal entities are applied, limiting the Supervisory Board members remuneration to one average salary in the enterprises sector, without payments from the profit in the fourth quarter indicated in the above Act. In relation to the Management Board members, the given Act does not apply as they perform the services for the Company on the ground of the agreements for rendering of the management services.

7.3. Shareholders of the Company

A. Shareholders with a significant stake

According to the company's knowledge, as at December 31, 2012, the sole shareholder with a significant stake was the State Treasury with **1,157,124,546** shares accounting for **61.89% of the share capital of the Company**, which entitle the State Treasury to 1,157,124,546 votes, accounting for 61.89% of the total number of votes at the General Meeting (the notification by the State Treasury of March 1, 2012, about which the Company informed in the current report no. 7/2012 dated March 1, 2012).

In the notification the Minister of the State Treasury disclosed that on February 29, 2012 the State Treasury, after the accelerated book building, sold 131,000,000 ordinary shares representing 7.01% of the Company's share capital.

Prior to the transaction, the State Treasury held 1,288,124,546 shares in the Company, representing 68.89% of the Company's share capital and entitling to 1,288,124,546 votes at general meeting of the Company, representing 68.89% of the total number of votes at general meeting of the Company.



B. Limitations regarding the transfer of ownership of the Company's securities

There are no limitations regarding the transfer of ownership of the Company's securities, that the Company is aware of.

C. Shareholders with special control powers

Company shares are ordinary, bearer shares listed at the regulated market of the Warsaw Stock Exchange. Company shares are not privileged.

Despite the fact that the Company shares are not privileged, the Statutes provides for special powers for the State Treasury as long as it is the shareholder of the Company. In accordance with statutory provisions, the State Treasury may demand in writing that the Management Board convene the General Meeting, demand that certain matters be placed on the agenda, submit draft resolutions pertaining to matters placed on the agenda of the General Meeting or matters which may be placed on the agenda, and obtain copies of announcements printed in the Monitor Sądowy i Gospodarczy - Official Gazette Publishing Office.

In accordance with the Statutes of the Company, the State Treasury is authorised to appoint one member of the Supervisory Board by means of a written statement submitted to the Company at the General Meeting or outside the General Meeting, through the Management Board, where the State Treasury may exercise this power regardless of the voting right when appointing other members of the Supervisory Board.

On the ground of the Statutes, the State Treasury holds special right with regard to selection of the Supervisory Board members. Selection of half of members of the Supervisory Board, including Chairperson of the Supervisory Board, appointed by the General Meeting shall be elected from among persons indicated by the State Treasury. This State Treasury's right is valid until its stake in the Company falls below 20%.



7.4. Company's bodies

The scope of competence of the General Meeting, the Supervisory Board and the Management Board has been set out by the provisions of the Code of Commercial Partnerships and Companies, the Company's Statutes, the Regulations of the General Meeting, of the Supervisory Board and of the Management Board. Activities of the above mentioned bodies of PGE Polska Grupa Energetyczna S.A. are also subject to the corporate governance principles established by the Warsaw Stock Exchange.

The Company's Statutes, the Regulations of the General Meeting, of the Supervisory Board and of the Management Board of the Company are available on the PGE website: www.gkpge.pl.

7.4.1. The General Meeting of the Company

A. Rules for amendments to the Company's Statutes

In accordance with provisions of the Code of Commercial Companies, any amendments to the Company's Statutes require a resolution to be passed by the General Meeting and an entry to the register of entrepreneurs. A resolution on amendments to the Company's Statutes is made with a majority of three fourth votes. The General Meeting of the Company may authorise the Supervisory Board to agree on the uniform text of the amended Company's Statutes or introduce other editing changes as specified in the resolution of the General Meeting. Amendments to the Company's Statutes shall be valid from the day an entry is made to the register of entrepreneurs.

B. Limitations regarding exercise of the voting rights from the existing shares

Until the registration of the changes to the Statutes that were approved by the General Meeting of June 29, 2011, there were no limitations regarding exercise of the voting rights from shares of the Company.

On June 29, 2011 the General Meeting adopted the changes to the Company Statutes, introducing modifications regarding the limitations regarding exercise of the voting rights in shares. The voting right of shareholders shall be limited in such manner that at the General Meeting, none of them may exercise more than 10% of the total number of votes existing in the Company as at the date of holding the General Meeting, subject to the provision that for the purposes of determining the obligations of entities acquiring considerable blocks of shares as provided for in the Act on public offerings, conditions for introducing financial instruments to an organised trading system and public companies of July 29, 2005, such limitation of the voting right shall be regarded as non-existent.



The above limitation does not apply to the State Treasury and shareholders acting with the State Treasury on the basis of agreements concerning the joint exercise of the voting right related to shares.

In addition, for the purposes of limiting the voting right, votes belonging to shareholders between whom there exists a relationship of domination or dependence (Shareholders Group) shall be cumulated; in the event that the cumulated number of votes exceeds 10% (ten per cent) of the total number of votes in the Company, it shall be subject to reduction.

The accumulation of votes shall consist in the summing of the number of votes remaining at the disposal of shareholders belonging to a Shareholders Group.

The reduction of votes shall consist in decreasing the total number of votes in the Company to which shareholders belonging to a Shareholders Group are entitled at the General Meeting to the threshold of 10% (ten per cent) of the total number of votes in the Company.

The accumulation and reduction of votes together with the detailed description of the shareholders between whom there exists a relationship of domination or dependence are governed by the principles included in the Company's Statutes.

Moreover, each shareholder who intends to participate in the General Meeting, directly or by proxy, shall be obliged, without a separate call, to notify the Management Board or the Chairperson of the General Meeting of the fact that he holds, directly or indirectly more than 10% (ten per cent) of the total number of votes in the Company. A person who has failed to comply or has complied improperly with that obligation to provide information may exercise the voting right exclusively from one share until the remedy of such failure to; the exercise of the voting right from the other shares by such person shall be ineffective.

Irrespective of the above provision, in order to establish a basis for the accumulation and reduction of votes, a shareholder, the Management Board, the Supervisory Board and the particular members of these bodies may demand that a shareholder provide information whether he is a person having the status of a dominant or dependent entity with respect to another shareholder. The right referred to in the preceding sentence shall also cover the right to demand that a shareholder disclose the number of votes that such shareholder holds independently or together with other shareholders.

At the time when the share of the Company's share capital held by the State Treasury falls below 5%, the limitation of the above voting right shall expire.



C. Rules of operations of the General Meeting

Rules of the General Meeting are determined in the Code of Commercial Companies and the Company's Statutes. The additional issues related to the activities of the General Meeting are regulated by the Rules of the General Meeting approved on March 30, 2010 by the Extraordinary General Meeting.

The Company's Statutes and the Rules of the General Meeting are available on the PGE's website at www.gkpge.pl.

a) Convening and cancelling the General Meeting.

The General Meeting is convened in circumstances described in the Code of Commercial Companies and the Company's Statutes. The detailed method of convening and cancelling the General Meeting is defined in the Rules of the General Meeting.

The General Meeting of Shareholders is held as an ordinary or Extraordinary General Meeting and is generally convened by the Management Board. The Supervisory Board may convene ordinary General Meeting if the Management Board fails to convene the Meeting on the date specified in the Code of Commercial Companies and the Statutes. The Supervisory Board may convene an extraordinary General Meeting at any time if advisable.

Shareholder or Shareholders representing at least half of the share capital or at least half of total votes in the Company may convene the extraordinary General Meeting. The Shareholder or Shareholders shall appoint the chairman of that General Meeting.

The Management Board shall convene the General Meeting on its own initiative, at the written demand of the Supervisory Board or demand of the shareholder or shareholders representing at least one twentieth of the share capital or at the written demand of the State Treasury as long as the State Treasury remains a shareholder of the Company. The shareholder or shareholders representing at least one twentieth of the share capital submit the demand for convening the General Meeting to the Management Board in writing or by e-mail.

The General Meeting should be convened within two weeks of the demand by the Supervisory Board, shareholder or the State Treasury. If the General Meeting is not convened within two weeks of the demand, the registry court may authorise the shareholder or shareholders making such a demand to convene the Extraordinary General Meeting and appoints the Chairman of this General Meeting.



The Ordinary General Meeting of Shareholders should take place no later than within six months of the end of the financial year. The shareholder or shareholders representing at least one twentieth of the share capital may demand that certain matters be placed on the agenda of the next General Meeting. The demand should be presented to the Management Board no later than twenty one days before the proposed date of the meeting. The demand should include a justification or draft resolution on the proposed matter of the agenda. The demand may be submitted in writing or by e-mail. If the demand is made after the date referred to in art. 401 § 1 of the Code of Commercial Companies (i.e. twenty one days), then it is treated as a request to convene the extraordinary General Meeting.

The Management Board shall immediately, however no later than eighteen days before the scheduled date of the General Meeting, announce changes to the agenda, in the manner appropriate for convening of the General Meeting.

Before the date of the General Meeting, the shareholder or shareholders representing at least one twentieth of the share capital may present the Company in writing or by e-mail with draft resolutions on the matters introduced to the agenda of the General Meeting or matters to be introduced to the agenda. The Company shall immediately announce the draft resolutions on its website.

The General Meeting of Shareholders is convened by an announcement made on the Company's website and in the manner prescribed for provision of current information pursuant to provisions of the Act dated July 29, 2005 on public offering, conditions governing the introduction of financial Instruments to organised trading, and public companies (Dziennik Ustaw of 2009, no. 185, item 1439).

The General Meeting takes place at the Company's registered office.

Materials issued to shareholders in connection with the General Meeting, in particular draft resolutions proposed for voting by the General Meeting and other essential materials are provided by the Company in the time sufficient to evaluate such materials, on the corporate website of the Company at www.gkpge.pl.

Cancelling of the General Meeting or changing the date of the Meeting supervenes through announcement on the company's website. The Company makes efforts to ensure that cancelling of the General Meeting or changing the date of the Meeting creates the least negative results for the Company and the shareholders.



Cancelling of the General Meeting is possible only on the petitioners' permission or when holding of the meeting faces extraordinary obstacles or is nonrepresentational.

Cancelling of the General Meeting and changing the date of the Meeting shall occur promptly after occurrence of rationale justifying the cancelling or change of date, but not later than seven days before the date of the General Meeting, except when it is not possible or excessively difficult under the given circumstances, then the cancelling or change of date may occur at any time before the General Meeting date.

b) Competencies of the General Meeting of the Company.

According to the Company's Statutes the General Meeting's main competences include adoption of resolutions on the following matters:

- review and approval of the report of the Management Board on the activities of the Company, financial statements and the consolidated financial statements for the past financial year,
- granting approval of fulfilment of duties by the Members of the Supervisory Board and Members of the Management Board,
- decision on the distribution of profit or covering the loss,
- appointment and recall of Members of the Supervisory Board and determination of rules of remuneration for the Members of the Supervisory Board,
- acquisition and lease of the undertaking or its organised part and placing a limited material right thereon,
- concluding credit, loan, suretyship or similar agreement with a member of the Management Board, Supervisory Board, proxy, liquidator or in the name of any of such persons,
- increase and reduction of the share capital of the Company,
- issue of convertible bonds or preferential bonds, issue of subscription warrants,
- decisions regarding claims for repair of damage caused during founding of the company and management or supervision over the company,
- merger, transformation and division of the Company,
- redemption of shares,
- amendment to the Statutes and change of the subject of activities of the Company,
- dissolution and liquidation of the Company.



The sale and purchase of real property, perpetual usufruct or share in real properties does not require a resolution of the General Meeting.

The General Meeting of Shareholders may vote on resolutions pertaining only to matters included on the detailed agenda, with reservation to art. 404 of the Code of Commercial Companies.

c) Participation in the General Meeting of the Company

The right to participate in the General Meeting is available only to persons who are shareholders of the Company sixteen days before the date of the General Meeting (date of registration of participation in the General Meeting). Lienors and users, who have the voting right, may participate in the General Meeting, if they are registered in the stockholders' ledger as at the date of registration of participation in the General Meeting.

A shareholder may participate in the General Meeting provided that the shareholder presents a personal certificate confirming the right to participate in the General Meeting issued by the entity which keeps the securities account.

A shareholder participates in the General Meeting and exercises the right to vote in person or through the Proxy. Proxy to participate in the General Meeting and exercise the right to vote must be granted in writing or in electronic form. Proxy granted in electronic form should be sent to the e-mail address of the Company stated in the announcement on the General Meeting. From the date the General Meeting is convened, the Company provides a form with a specimen of proxy in electronic form on its website. The Proxy of a shareholder exercises all the rights of the shareholder unless proxy provides otherwise. If the shareholder has shares recorded in more than one securities account, the shareholder may appoint a Proxy to exercise rights in shares recorded in each account.

Members of the Management Board and the Supervisory Board may participate in the General Meeting.

Members of the Supervisory Board and the Management Board provide to participants of the General Meeting explanations and information relating to the Company, within the scope of their competencies and the scope necessary to decide on matters discussed by the General Meeting.

During the General Meeting, each shareholder may propose draft resolutions regarding matters entered on the agenda.



d) Voting at the General Meeting of the Company

Resolutions of the General Meeting are passed with the absolute majority of votes, subject to other provisions of the Code of Commercial Companies and the Company's Statutes.

One Company share carries the right to one vote at the General Meeting of Shareholders.

The shareholders may participate and exercise the right to vote at the General Meeting of Shareholders in person or through their plenipotentiaries.

A shareholder may cast different votes for each of his/her shares.

Subject to governing provisions of the law and of the Statutes, the voting shall be open. A secret voting is administered during appointments and motions for recalling or prosecuting members of Company's authorities or liquidators, and during voting on personal matters. A secret voting should be also administered when requested by at least one of the shareholders present or represented at the General Meeting. The General Meeting may pass a resolution to override secret voting for matters pertaining to founding of a commission appointed by the General Meeting.



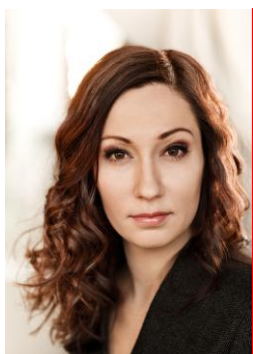
7.4.2. Supervisory Board

A. Members of the Supervisory Board



Marcin Zieliński
Chairman of the Supervisory Board

Graduate of the Law and Administration Faculty at the University of Warsaw holding a postgraduate degree in Finance from the Warsaw School of Economics and National School of Public Administrations. In the years 2003-2004, he completed professional legislation training for civil servants. Since February 2008, he has been appointed Director of the Ownership Supervision and Privatization Department 3 and currently holds the position of Director of Privatization Department at the Ministry of State Treasury. At present, he is Deputy Chairman of the Industrial Development Agency. From May 2009 to February 2010, he was Deputy Chairman of the Supervisory Board of PHZ Baltona S.A. From May to September 2010, he was Member of the Supervisory Board of Nordis Chłodnie Polskie Sp. z o.o. Former Member of the Supervisory Boards of Stocznia Gdynia S.A. and Elektrownia Żarnowiec S.A. He is Chairman of the Supervisory Board of PGE Trading GmbH.



Małgorzata Dec
Vice-Chairman of the Supervisory Board

Doctor of Economics. Graduate of the Warsaw School of Economics. At present, Director of the Analysis Department at the Ministry of State Treasury and Supervisory Board Member of Huta "Pokój" S.A. steelworks. Previously, she held expert and management positions, e.g. at the Social Insurance Institution, she chaired the Supervisory Boards of RUCH S.A. and Nafta Polska S.A. companies, and she was Member of the Supervisory Boards of: Polskie Radio – Radio Gdansk S.A. regional division, Nordis Chłodnie Polskie Sp. z o.o., and Warszawski Rolno-Spożywczy Rynek Hurtowy S.A. According to the submitted statement, Ms Małgorzata Dec is related to a shareholder holding shares representing not less than 5% of all voting rights at the General Meeting, i.e. to State Treasury, through employment at the Ministry of State Treasury.



Katarzyna Prus
Secretary of the Supervisory Board

Graduate of the Law and Administration Faculty at the University of Warsaw. Legal Adviser. Since 1996, Ms Katarzyna Prus has worked at the Ministry of State Treasury. At present, Head of the Legal and Litigation Department. Since 2001, she has been appointed to the examination boards set up for candidates to supervisory boards in State Treasury companies. Former Chairman of the Supervisory Boards of Zespół Elektrociepłowni Poznańskich S.A., Uzdrawisko "Łądek-Długopole" S.A., Przedsiębiorstwo Spedycji Międzynarodowej C. Hartwig-Katowice S.A. and Member of the Supervisory Board of Południowy Koncern Energetyczny S.A. In October 2006, she became Member, and then in 2008, Chairman of the Supervisory Board of Fabryka Elementów Złącznych S.A. According to the submitted statement, Ms Katarzyna Prus is related to a shareholder holding shares representing not less than 5% of all voting rights at the General Meeting, i.e. State Treasury, through employment at the Ministry of State Treasury.



Maciej Bałtowski
Member of the Supervisory Board

Full professor at the Faculty of Economics of Maria Curie-Skłodowska University in Lublin. Author of numerous research studies and articles on issues related to economic transition, privatization and owner supervision by State Treasury. In the years 2001-2003, expert to the Parliamentary State Treasury Committee. Co-author of several draft bills amending the Commercialization and Privatization Act. Former Chairman of the Supervisory Boards at: Wschodni Bank Cukrownictwa S.A., Lubelska Fabryka Wag FAWAG S.A., and Miejskie Przedsiębiorstwo Wodociągów i Kanalizacji Sp. z o.o. Since November 2010, member of the Supreme Audit Office Board.



Jacek Barylski
Member of the Supervisory Board

A graduate of the Law and Administration Faculty at the University of Łódź with a postgraduate degree in Finance from the Warsaw School of Economics. Legal Adviser. At present, Head of Guarantees Department at the Ministry of Finance. He also heads the Steering Committee for the implementation of the government project "Supporting Private Enterprises Using Sureties and Guarantees of the Bank Gospodarstwa Krajowego." Furthermore, he was Member of the Supervisory Boards of the companies: Polski Monopol Loteryjny Sp. z o.o., PKP Cargo S.A. and Warszawski Rolno-Spożywczy Rynek Hurtowy S.A. Since 2003, Member of the Supervisory Board of PKP S.A.



Czesław Grzesiak
Member of the Supervisory Board

Graduate of the Law and Administration Faculty at the University of Poznań (field: law). Since 1995, Member of the Management Board, and since 2004 Vice-President of the Management Board of TESCO (Polska) Sp. z o.o. (current main employment). Moreover he performs duties in other companies from TESCO Capital Group: President of the Management Boards of SAVIA – Karpaty Sp. z o.o., Genesis Sp. z o.o., and Promesa Sp. z o.o., Vice-President of the Management Board of Kabaty Investments TESCO (Polska) Sp. z o.o. and Member of the Management Boards of TESCO Dystrybucja Sp. z o.o. and Jasper Sp. z o.o. Vice-President of the Management Boards of the Polish Confederation of Private Employers "Lewiatan" and member of the Board of the Polish Organization of Commerce and Distribution. Member of the Economic Council of Wałbrzych Agglomeration.



Grzegorz Krystek
Member of the Supervisory Board

Graduate of the Warsaw University of Technology, London Business School, HEC in Paris and Norwegian School of Economics and Business Administration in Bergen (MBA). He participated in privatization and restructuring projects in the energy sector in Poland and abroad in New York State Electric & Gas, Westinghouse, Apache Corporation, Arthur Andersen, Elektrim and Vertis. He participated in development of CO2 emission rights market in Europe and gas and energy markets in Europe. He cooperated with Regulators in USA, Europe and Poland. In the years 2003-2004, co-author of the National Emission Reduction Plan. Expert in Council of European Energy Regulators (CEER). Since 2004, Vice-President at Hasbrouck. Member of the Supervisory Boards of: PGE, ZE PAK, Elektrim Megadex, Elektrim-Volt, EM Yachts. Current main employment – company „Partner”.



From January 1, 2012 until May 30, 2012 the Supervisory Board has acted in the following 9-person composition:

Name and surname of the member of the Supervisory Board	Position
Marcin Zieliński	Chairman of the Supervisory Board
Maciej Bałtowski	Vice-Chairman of the Supervisory Board
Jacek Barylski	Supervisory Board Member
Małgorzata Dec	Supervisory Board Member
Czesław Grzesiak	Supervisory Board Member
Grzegorz Krystek	Supervisory Board Member
Katarzyna Prus	Secretary of the Supervisory Board
Zbigniew Szmuniewski	Supervisory Board Member
Krzysztof Żuk	Supervisory Board Member

On May 30, 2012 the General Meeting set the number of Supervisory Board Members to 7 persons and appointed the following persons to the 9th term of the Supervisory Board as from May 31, 2012:

Name and surname of the member of the Supervisory Board	Position
Marcin Zieliński	Chairman of the Supervisory Board
Małgorzata Dec	Vice-Chairman of the Supervisory Board
Jacek Barylski	Supervisory Board Member
Maciej Bałtowski	Supervisory Board Member
Czesław Grzesiak	Supervisory Board Member
Grzegorz Krystek	Supervisory Board Member
Katarzyna Prus	Secretary of the Supervisory Board



On June 6, 2012 the Supervisory Board adopted a resolution on appointment of Mrs Małgorzata Dec for the position of Vice-Chairman of the Supervisory Board and a resolution on appointment of Mrs Katarzyna Prus for the position of Secretary of the Supervisory Board.

a) Rules of appointing and recalling of the supervisory personnel

According to the valid Statutes, Members of the Supervisory Board are appointed for a joint term of office of three years. The Supervisory Board consists of five to nine members appointed and recalled by the General Meeting. The number of members of the Supervisory Board shall always be an odd number. The Supervisory Board elected by way of group voting shall consist of five members. The number of members of the Supervisory Board shall be determined by the General Meeting in a separate resolution. Member of the Supervisory Board may be appointed and dismissed by the General Meeting at all Times, with the exception of the Supervisory Board member appointed by the State Treasury by way of a written declaration submitted to the Management Board. Moreover, a half of members of the Supervisory Board (except the Supervisory Board member mentioned in the previous sentence), including Chairperson of the Supervisory Board, shall be elected from among persons identified by the State Treasury, until its stake in the share capital falls below 20%. At the time when this right of the State Treasury expires, another shareholder with the highest stake in the Company's share capital acquires that right, provided that he holds at least 20% in the Company's share capital.

The State Treasury is entitled to appoint and dismiss one Supervisory Board member by way of a written declaration submitted to the Management Board. Such appointment or dismissal shall become effective as at the time of a relevant declaration to the Management Board and shall not require a resolution of the General Meeting. This right of the State Treasury shall expire at the time when the State Treasury ceases to be a shareholder in the Company. According to the provisions of the Statutes, the Supervisory Board shall include at least one person appointed by the General Meeting from among persons meeting the criteria of independence specified in the principles of corporate governance adopted by the Board of the WSE. Proposing a candidate for this position a shareholder nominating such candidate shall be obliged to submit to the minutes of the General Meeting such candidate's written declaration confirming his/her independence.

The State Treasury's failure to appoint one member of the Supervisory Board or the General Meeting's failure to elect members of the Management Board meeting the criteria of independence or the absence of such persons in the composition of the Supervisory Board shall not prevent the Supervisory Board from adopting valid resolutions.



At the same time, if the entitled shareholder fails to exercise the right to appoint one member of the Supervisory Board by way of a written declaration submitted to the Management Board, the Supervisory Board may act in the composition appointed by the General Meeting.

According to the provisions of the Statutes in the event that, in consequence of the expiry of a mandate of a member of the Supervisory Board, the number of members of the Supervisory Board falls below the minimum specified in the Statutes, the Management Board shall convene the General Meeting immediately in order to supplement the composition of the Supervisory Board. In the event of the expiry of a mandate of at least one member of the Supervisory Board elected by way of group voting, the State Treasury shall recover its individual right to appoint one Supervisory Board member by way of a written declaration.

b) Activities and organisation of the Supervisory Board

The operating procedure of the Supervisory Board is described in the Statutes of the Company and in the Rules of the Supervisory Board of PGE Polska Grupa Energetyczna S.A.

The Supervisory Board performs its obligations collectively, however, it may delegate individual members for temporary and independent performance of certain supervisory activities. The Supervisory Board meets as required, not less often than once every two months.

The first meeting of the Supervisory Board of the new term of office is convened by the chairman of the General Meeting during which the Board was appointed, before the General Meeting concludes the session. The meeting date cannot occur more than two weeks after the date of the General Meeting. If the meeting is not convened as described above, the first meeting of the Supervisory Board shall be convened by the Management Board within four weeks of the date of the General Meeting.

Meetings of the Supervisory Board are convened by the Chairman of the Supervisory Board or the Vice-Chairman in the absence of the Chairman. The meeting of the Supervisory Board is convened by sending out a written invitation to all members of the Supervisory Board at least seven days before the schedule date of the meeting. This period of seven days may be shortened to two days for major reasons. The Meeting of the Supervisory Board may be also convened on demand of each Member of the Supervisory Board or the motion of the Management Board (the person filing the motion proposes the agenda). Then the meeting should be convened within two weeks. If the Chairman of the Supervisory Board fails to convene the meeting within that period, the person filing the motion may convene the meeting on his/her own, stating the date, place and proposed agenda. The agenda



may be changed if all members of the Supervisory Board are present at the meeting and no one objects to the change.

The Supervisory Board passes resolutions if at least half of the members of the Supervisory Board are present at the meeting and all the members have been invited. The Supervisory Board passes resolutions in an open voting. A secret voting is administered when requested by a member of the Supervisory Board, and during voting on personal matters. Resolutions of the Supervisory Board may be made in writing or using means of direct remote communications. The latter cannot be used for resolutions on the appointment or recalling of the Vice-Chairman and Secretary of the Supervisory Board, and appointment, recalling or suspending a Member of the Management Board. Resolutions of the Supervisory Board are passed with an absolute majority of votes. If there are equal votes at the meeting of the Supervisory Board, the Chairman of the Supervisory Board has the decisive vote.

Members of the Management Board and other persons in an advisory capacity, invited by the Chairman or Vice-Chairman of the Supervisory Board, may participate in the meeting of the Supervisory Board.

In order to perform its duties, the Supervisory Board may require the Management Board to provide information on all material issues pertaining to activities of the Company and risks related to such activities.

The Supervisory Board prepares a report on its activities. The report is submitted to the General Meeting of Shareholders.

c) Competencies of the Supervisory Board

The Supervisory Board maintains a continuous supervision over activities of the Company in all areas of the Company's activities.

In accordance with the Statutes, the Supervisory Board:

- reviews the report of the Management Board on the activities of the Company and the unit financial statements for the past financial year for compliance with the books, documents and the actual status. This also applies to the consolidated financial statements of the capital group if any;
- reviews the motions of the Management Board on the division of profit or covering the loss;
- presents the General Meeting with a written report on the results of activities referred to in the aforementioned two points;



- appoints the statutory auditor to audit the unit financial statements and the consolidated financial statements of the capital group if any;
- approves the annual and long-term financial plans of the Company, specifies the scope and dates of presentation of such plans by the Management Board;
- approves the development strategy of the Company;
- approves the rules which lays down detailed operating procedure of the Supervisory Board;
- approves the rules of the Management Board of the Company;
- sets remuneration and other terms of agreements and concludes agreements with the members of the Management Board (including the President of the Management Board), subject to competencies of the General Meeting resulting from the binding laws;
- provides opinions on all the motions for resolutions submitted by the Management Board to the General Meeting;
- delegates members of the Supervisory Board to perform, on a temporary basis, activities of the members of the Management Board who cannot fulfil their duties;
- grants consent for the members of the Management Board to hold positions in authorities of other companies.

In addition, in accordance with the Statutes, the Supervisory Board grants a consent for:

- purchase (taking up) or administration over the following assets: (a) real properties, perpetual usufruct or shares in real properties; (b) fixed assets other than real property; (c) shares, stocks or other titles of participation in companies – worth or exceeding EUR 5,000,000;
- encumbering eligible assets as listed above with a limited material right for the amount (sum of the collateral) equal or in excess of EUR 5,000,000;
- entering into the following agreements by the Company: (a) agreements of donation or release from debt worth at least EUR 5,000, (b) agreements not related to the statutory subject of activities of the Company worth at least EUR 5,000;
- granting of guaranties and suretyship to entities other than companies and co-operatives which are direct and indirect subsidiaries (as defined by the Code of Commercial Companies);
- entering into contracts for construction or establishing a connection with the power systems of other countries;
- entering into contracts other than listed above or incurring of obligations other than listed above worth or exceeding EUR 100,000,000 with the following exceptions:
 - entering into contracts with direct or indirect subsidiaries (as defined by the Code of Commercial Companies),



- entering into contracts or incurring of obligations consisting in trading of electricity, related products and rights connected with them, and fuels,
- payment of an advance against the expected dividend.



B. Committees

In accordance with the Company's Statutes, the Rules of the Supervisory Board or a resolution of the General Meeting may provide for establishment of committees within the Supervisory Board, in particular the audit committee and the appointment and remuneration committee. The current Rules of the Supervisory Board provide that the Supervisory Board may appoint standing or ad hoc committees, acting as collective advisory and opinion-making bodies of the Supervisory Board. The particular goal of the committees is to provide the Supervisory Board with opinions and recommendations on matters within the competencies of the committees. The committees are established by the Supervisory Board out of its members. The committee consists of 2 to 5 persons. The committee appoints a chairman out of its members. The chairman convenes meetings of the committee, manages works of the committee and represents the committee in relations with the authorities and employees of the Company. The mandate of a committee member expires with the expiry of the mandate of the member of the Supervisory Board, resignation from membership in the committee or recalling from the committee by the Supervisory Board. Each Member of the Supervisory Board may participate in committee meetings. The committee chairman may invite to the meetings members of the Management Board, Company employees and other persons whose participation is advisable. Decisions of the committee are made on a consensus basis.

The following standing committees are currently part of the Supervisory Board: the Audit Committee, the Strategy and Development Committee, the Appointment and Remuneration Committee, and the Corporate Governance Committee. The above mentioned committees were appointed by the resolutions of the Supervisory Board of December 6, 2007.

Following the expiry of the mandates of the Supervisory Board Members of the 8th term, on May 30, 2012, the mandates of the members of the above mentioned committees expired too.

The Members of the Supervisory Board of the 9th term were appointed by the General Meeting as from May 31, 2012. Therefore, on June 6, 2012, the Board adopted a resolution on the procedure for the election of the standing committees acting within the Supervisory Board of the 9th term.

I. The Audit Committee

The Audit Committee is responsible for auditing the whether internal financial controls are performed in a correct and effective manner in the Company and the PGE Capital Group. The Audit Committee also co-operates with statutory auditors of the Company.



In particular, the Audit Committee:

- monitors the work of statutory auditors of the Company and presents the Supervisory Board with recommendations on the appointment and remunerating statutory auditors of the Company,
- discusses the scope of audit with the statutory auditors of the Company before the audit of the annual financial statements and monitors the work of the statutory auditors of the Company,
- reviews interim and annual financial statements of the Company (stand-alone and consolidated), focusing in particular on:
 - all the changes of accounting standards, principles and practices,
 - main areas to be audited,
 - major corrections resulting from the audit,
 - statements on the going concern,
 - compliance with governing provisions on book-keeping.
- discusses with the competent persons all the issues or reservations which might arise out of the audit of the financial statements,
- analyses letters addressed to the Management Board by the statutory auditors and responses of the Management Board; checks independence and objectiveness of audits conducted by the statutory auditors,
- expresses opinions on the Company's policy on dividends, profit distribution and issue of securities,
- reviews the management accounting system,
- reviews the internal control system (including the mechanisms of financial and operational control, legal compliance, risk assessment and management control) and the annual report,
- analyses reports of internal auditors of the Company and main conclusions of other internal analysts and responses of the Management Board to such conclusions; examines the level of independence of internal auditors,
- performs an annual review of the internal audit programme, co-ordinates the work of internal and external auditors and examines the operating conditions of internal auditors,
- co-operates with the organisational units of the Company responsible for the audit and control and performs a periodical evaluation of their work,



- reviews all the other issues related to the audit of the Company, highlighted by the Committee or the Supervisory Board,
- informs the Supervisory Board of any major issues related to the activities of the Audit Committee.

Until May 30, 2012 the Audit Committee consisted of:

Name and surname	Position
Małgorzata Dec	Chairman of the Committee
Maciej Bałtowski	Committee member
Grzegorz Krystek	Committee member
Zbigniew Szmuniewski	Committee member
Krzysztof Żuk	Committee member

From June 6, 2012, in accordance with the resolution no 03/IX/2012, the Audit Committee consisted of:

Name and surname	Position
Małgorzata Dec	Chairman of the Committee
Maciej Bałtowski	Committee member
Grzegorz Krystek	Committee member
Marcin Zieliński	Committee member



II. The Corporate Governance Committee

The Corporate Governance Committee:

- evaluates the implementation of the corporate governance principles in the Company and presents the Supervisory Board with initiatives in this area,
- provides opinions on normative acts and other documents of the Company presented to the Supervisory Board, which considerably affect the corporate governance,
- initiates and prepares proposals of changes for normative acts of the Supervisory Board.

Until May 30, 2012 the Corporate Governance Committee consisted of:

Name and surname	Position
Katarzyna Prus	Chairman of the Committee
Maciej Bałtowski	Committee member
Jacek Barylski	Committee member
Czesław Grzesiak	Committee member

From June 6, 2012, in accordance with the resolution no 03/IX/2012, the Corporate Governance Committee consisted of:

Name and surname	Position
Katarzyna Prus	Chairman of the Committee
Maciej Bałtowski	Committee member
Jacek Barylski	Committee member
Czesław Grzesiak	Committee member



III. The Strategy and Development Committee

The Strategy and Development Committee provides opinions and recommendations to the Supervisory Board regarding planned investments which considerably affect the Company's assets. In particular, the Strategy and Development Committee:

- provides opinions on the strategy and strategic plans submitted to the Supervisory Board by the Management Board.

Until May 30, 2012 the Strategy and Development Committee consisted of:

Name and surname	Position
Grzegorz Krystek	Chairman of the Committee
Małgorzata Dec	Committee member
Zbigniew Szmuniewski	Committee member
Marcin Zieliński	Committee member
Krzysztof Żuk	Committee member

From June 6, 2012, in accordance with the resolution no 03/IX/2012, the Strategy and Development Committee consisted of:

Name and surname	Position
Grzegorz Krystek	Chairman of the Committee
Małgorzata Dec	Committee member
Czesław Grzesiak	Committee member
Marcin Zieliński	Committee member



IV. The Appointment and Remuneration Committee

The Appointment and Remuneration Committee is responsible for facilitating achievement of strategic goals of the Company by presenting the Supervisory Board with opinions and motions on the development of the management structure, including remuneration system and selection of properly qualified personnel.

In particular, the Appointment and Remuneration Committee:

- initiates and provides opinions on the system of appointing the members of the Management Board;
- provides opinions on the Company management system solutions proposed by the Management Board, aimed at ensuring the effectiveness, cohesion and security of Company management,
- performs a periodic review and recommends the rules of fixing motivational remuneration for the members the Management Board and top management, taking into account the interest of the Company,
- performs a periodic review of the system of remunerating the members of the Management Board and the managerial staff reporting directly to the members of the Management Board, including the manager contracts and motivational systems, and presents the Supervisory Board with proposals of developing such systems in the context of pursuing the strategic objectives of the Company,
- presents the Supervisory Board with opinions justifying the award of remuneration dependent on results in the context of evaluation of the level of achievement of specific tasks and goals of the Company,
- evaluates the human resources management system in the Company.

Until May 30, 2012 the Appointment and Remuneration Committee consisted of:

Name and surname	Position
Maciej Bałtowski	Chairman of the Committee
Jacek Barylski	Committee member
Czesław Grzesiak	Committee member
Katarzyna Prus	Committee member
Marcin Zieliński	Committee member



From June 6, 2012, in accordance with the resolution no 03/IX/2012, the Appointment and Remuneration Committee consisted of:

Name and surname	Position
Maciej Bałtowski	Chairman of the Committee
Jacek Barylski	Committee member
Czesław Grzesiak	Committee member
Katarzyna Prus	Committee member
Marcin Zieliński	Committee member



C. Rules with respect to the determination of remuneration for the Supervisory Board Members of PGE S.A.

The amounts of remuneration of the Supervisory Board Members of PGE S.A. are determined based on the Public Sector Salary Cap Act, pursuant to which the remuneration may not exceed the amount of one average monthly salary in the enterprise sector without payments of profit bonuses in the 4th quarter of the year, as specified in the Public Sector Salary Cap Act.

Table: Amounts of remuneration and benefits received by the Supervisory Board Members of PGE S.A. who in 2012 performed their functions in PGE S.A. and in companies of the PGE Capital Group other than PGE S.A.

Name and surname of a Supervisory Board member	Position	Remuneration and benefits achieved by the Supervisory Board members in PGE S.A. in 2012 (in PLN)	Remuneration achieved by the Supervisory Board members in Group entities other than PGE S.A. in 2012 (in EUR)
Marcin Zieliński	Chairman of the Supervisory Board	41,454.96 ¹	42,000.00
Małgorzata Dec	Vice-Chairman of the Supervisory Board	41,454.96 ¹	-
Maciej Bałtowski	Supervisory Board Member	43,176.96 ^{1,2}	-
Jacek Barylski	Supervisory Board Member	41,454.96 ¹	-
Czesław Grzesiak	Supervisory Board Member	41,454.96 ¹	-
Grzegorz Krystek	Supervisory Board Member	41,454.96 ¹	-
Katarzyna Prus	Secretary of the Supervisory Board	41,454.96 ¹	-
Zbigniew Szmuniński		17,272.90 ¹	-
Krzysztof Żuk		17,272.90 ¹	-

¹ includes remuneration for the period of performing duties in the Supervisory Board

² includes income connected with the participation in workshop

Total remuneration and benefits paid out by the Company to the members of the Supervisory Board of PGE S.A. in 2012 amounted to **PLN 326.5 thousand**.



7.4.3. Management Board

A. Members of the Management Board



Krzysztof Kilian
President of the Management Board

Appointed to the position of the President of the Management Board as from March 5, 2012. Graduate of the Faculty of Mechanical Engineering and Technology at Gdańsk University of Technology (1983), Warsaw Banking Institute and US Department of Treasury (Asset and Liability Management, Bank Management). In the years 2008-2011, he was the 1st Vice-President of the Management Board for Marketing and Customer Relations management in Polkomtel S.A. Previously, he ran his own consulting business, co-working with TDA Capital, Prokom Software, Asseco (1999-2008) and others). He was adviser to the President of Bank Handlowy (1993-1997), and worked as senior adviser for Poland in Morgan Stanley Dean Witter in London (1997-1998). He also held positions in the public administration: adviser to minister, deputy director of the Minister's Office at the Ministry of Privatisation (1991); General Manager, Director of the Chancellery of the Prime Minister (1991-1992) and Minister of Communications (1992-1993). He has experience of working for supervisory bodies – he was member of the Supervisory Boards of: PL.2012, PKO Bank Polski S.A., TFI PZU S.A., PGF S.A., Poczta Polsk S.A., Fundacja Edukacji Bankowej, KGHM S.A., BPH S.A.



Bogusława Matuszewska
Vice-President of the Management Board for Strategy and Development

Appointed to the position of the Vice-President of the Management Board as from March 5, 2012.

She holds a M.Sc. engineering degree in the field of telecommunications from Wrocław University of Technology. Furthermore, she completed post graduate studies and obtained an MBA degree at the Wrocław Academy of Economy. She also completed post graduate studies in practical social psychology at the University of Social Sciences and Humanities. In addition, she obtained a certificate in coaching from the reputed Hudson Institute belonging to the International Coaching Federation. She started her professional career in the Zakłady Elektroniczne ELWRO plant in Wrocław. She also worked for Northern Telecom ELWRO JV Wrocław. In the years 1994-1999, as Director for ZWUT S.A., she was in charge of the south-west area. In 1999, she took the position of Sales Director in the division for alternative operators at ZWUT S.A., and then became Sales Director in the TP group division at Siemens Sp. z o.o. In the years 2007-2009, she was President of the Management Board of Siemens Enterprise Communications Sp. z o.o. In February 2009, she was appointed Member of the Board of Polkomtel S.A. responsible for sales. From June 2010 to December 2011, she held the position of Vice-President of Polkomtel S.A. responsible for IT and sales.



Wojciech Ostrowski
Vice-President of the Management Board for Finance

Appointed to the position of the Vice-President for Finance as from March 17, 2011.

Graduate of the Warsaw School of Economics in Warsaw, in the field of economics of production. He obtained post graduate degrees from the Warsaw School of Economics, in the field of oil sector management and company goodwill management. In his professional career to date, he fulfilled functions in the following companies: Deputy Director of the Financial Management Office at PKN Orlen S.A., Vice President of Management Board, Financial Director for Unipetrol a.s. based in Prague and Member of the Management Board of the companies: Share Service Center, Unipetrol RPA i Česká Rafinérská. He was also President of the Management Board at Orlen Insurance Ltd.

**Piotr Szymanek****Vice-President of the Management Board for Corporate Affairs**

Appointed to the position of Vice-President of the Management Board for Corporate Affairs as from July 21, 2008.

Graduate of Law and Administration at Warsaw University and in the field of Managing an Undertaking on the European Union Market at the Warsaw School of Economics. Legal Adviser. He ran his own Legal Consulting Office working for major entities of the insurance and financial sector. He gained professional experience in legal service for energy sector companies, legal consultancy services and legislation working for Stołeczne Przedsiębiorstwo Energetyki Ciepłej S.A. and Polskie Siecie Elektroenergetyczne S.A. Moreover, he held managerial positions in various financial institutions: Powszechny Zakład Ubezpieczeń S.A., Bank Współpracy Europejskiej S.A., Bank Pekao S.A. and Polski Bank Inwestycyjny S.A.

**Paweł Smoleń****Vice-President of the Management Board for Operations**

Appointed to the position of Vice-President of the Management Board for Operations as from October 1, 2012.

Graduate of the Material Engineering Department of Warsaw University of Technology. He also obtained a post graduate degree in Marketing and Market Analysis at the Warsaw School of Economics. Member of associations of certified auditors in Poland (National Chamber of Statutory Auditors) and Great Britain (ACCA). Until September 2012, he worked in Berlin as Member of the Management Board of the production division of the Vattenfall Group, Director for central management of productive assets. Previously, from July to December 2010, he was Member of the Management Board of Business Group Vattenfall Central Europe (Germany and Poland) as Director for Strategy, Development and Energy Business (including portfolio management). In the years 2007-2010, he was President of the Management Board of Vattenfall Heat Poland (formerly Elektrociepłownie Warszawskie), and in the years 2001-2007, Member of the Board, Production and Finance Director of this company. In the years 1992-2001, he worked for the consulting company Arthur Andersen as partner responsible for power industry. In the years 2008-2012, he was President of the Management Board of the Confederation of Private Employers in the Energy Sector. At present, he is Member of the Management Board and Vice-President of the Confederation of Private Employers "Lewiatan." Board Member of numerous business organizations, also from the energy sector (including PTEZ), and social organisations.



In 2012, the Management Board of the Company consisted of:

Name and surname of the Member of the Management Board	Position
Krzysztof Kilian	President of the Management Board since March 5, 2012
Bogusława Matuszewska	Vice-President of the Management Board since March 5, 2012 Vice-President of the Management Board for IT and Trading since April 19, 2012 Vice-President of the Management Board for Strategy and Development since October 23, 2012
Wojciech Ostrowski	Vice-President of the Management Board for Finance
Paweł Skowroński	Acting CEO from December 15, 2011 until March 4, 2012 Vice-President of the Management Board for Operations until July 3, 2012
Paweł Smoleń	Vice-President of the Management Board for Operations since October 1, 2012
Piotr Szymanek	Vice-President of the Management Board for Corporate Affairs

a) Rules of appointing and recalling the management personnel

The Management Board consists of two to seven members: the President and other Members acting as Vice-Presidents. Members of the Management Board are appointed for a joint term of office of three years.

The Management Board or individual members of the Management Board are appointed and recalled by the Supervisory Board. In addition, each Member of the Management Board may be recalled or suspended by the General Meeting or, for major reasons, suspended by the Supervisory Board. A resolution of the Supervisory Board on the suspension of a Member of the Management Board must include a justification. The Supervisory Board may delegate members of the Supervisory Board to perform activities of the Members of the Management Board on a temporary basis. A Member of the Management Board submits his/her resignation in writing to the Supervisory Board at the address of the registered office of the Company.



b) Competencies of the Management Board

The Management Board administers affairs of the Company and represents the Company in all court and out-of-court affairs. The Management Board deals with all the matters related to managing the affairs of the Company, not reserved by the law or Statutes for the General Meeting or the Supervisory Board.

Co-operation of two Members of the Management Board or one member of the Management Board with a proxy is required to make statements on behalf of the Company. Statements made to the Company and letters served the Company may be performed by one Member of the Management Board or a proxy.

Pursuant to the Statutes of the Company, resolutions of the Management Board are required for all matters that go beyond the scope of ordinary acts of the Company. Furthermore, resolutions of the Management Board are required for any matter referred by the Management Board to the Supervisory Board, and matters not reserved for the Board's competencies.

The Statutes does not provide for detailed regulations which authorise Members of the Management Board to decide on the issue or buy-out of shares.

c) Activities and organisation of work of the Management Board

The Management Board manages Company's affairs in a transparent and effective manner based on and within the limits of the governing provisions of the law, including the Code of Commercial Companies, provisions of the Company's Statutes, Rules of the Management Board and other internal regulations governing in the Company.

The works of the Management Board are headed by the President of the Management Board. The Management Board meets when required, not less often than once a week. Meetings of the Management Board are convened by the President of the Management Board on his/her own initiative or on the motion of a Member of the Management Board. The notification of the meeting date is distributed to the members of the Management Board at least two working days before the planned date of the meeting. In reasonable circumstances, the meeting may be convened one day prior to the scheduled meeting. When the President of the Management Board is absent, meetings of the Management Board are convened by the appointed member of the Management Board. The agenda can be changed if all members of the Management Board are present at the meeting and all the members agree to such a change.



Minutes are taken for each meeting of the Management Board and signed by the members of the Management Board present at the meeting. The minutes are stored in the Book of Minutes.

Resolutions of the Management Board are passed with an absolute majority of votes in an open voting. In case of voting parity, the President of the Management Board has the decisive vote. A secret voting is administered for personnel matters and when requested by a member of the Management Board. All members of the Management Board must be properly notified of the scheduled meeting for the resolutions to be valid. A member of the Management Board voting against a resolution may present an opposing opinion with a justification. Resolutions may be made in writing or using means of direct remote communications

Competencies of members of the Management Board regarding the ordinary management to operating areas in which individual members of the Management Board perform the leading role. For the functions performed, each member of the Management Board is assigned appropriate scope of responsibilities for the Company's affairs.

B. Rules with respect to the determination of remuneration for the Management Board Members of PGE Polska Grupa Energetyczna S.A.

In the whole reporting period, i.e. from January 1, 2012 to December 31, 2011, Members of the Management Board of PGE S.A. were remunerated based on Management Services Contracts signed with the Company.

The contracts were concluded pursuant to the provisions defined in art. 3 section 2 of the Act on Remuneration for Managers of Certain Legal Entities (the "Public Sector Salary Cap Act").

Contractual provisions regarding remuneration are based on the remuneration rules set out by the Supervisory Board.

Management Services Contracts contain non-competition clauses which are binding during the term of the contract and following termination thereof.

The Management Board Members purchased, at their own expense, a liability insurance with regard to their managing duties for the Company.



Table: Remuneration and benefits received in 2012 by the Members of the Management Board of PGE S.A., from PGE S.A. and companies in the PGE Capital Group other than PGE S.A.

Name and surname of the member of the Management Board	Position	Remuneration and benefits achieved by the Management Board members in PGE S.A. in 2012 (in PLN)	Remuneration achieved by the Management Board members in Group entities other than PGE S.A. in 2012 (in PLN)
Krzysztof Kilian	President of the Management Board	1,104,944.56 ^{1, 2}	0.00
Bogusława Matuszewska	Vice-President of the Management Board	798,000.00 ¹	0.00
Wojciech Ostrowski	Vice-President of the Management Board	1,119,793.34 ^{1, 2}	229,467.20 ¹
Paweł Smoleń	Vice-President of the Management Board	180,000.00 ¹	0.00
Piotr Szymanek	Vice-President of the Management Board	1,127,061.71 ¹	233,107.38 ^{1, 4}
Paweł Skowroński		1,098,203.48 ^{1, 3}	179,562.80 ¹
Marek Szostek		367,632.56 ^{1, 3}	480,001.62 ^{1, 3}
Wojciech Topolnicki		93,255.57 ³	0.00
Marek Trawiński		166,025.98 ³	269,109.79 ³
Tomasz Zadroga		366,878.60 ^{1, 3}	840,785.40 ³

¹ item including remuneration for the period of service at the Management Board,

² item including benefits,

³ item including notice pay (following dismissal from the position in the Management board) and/or severance payment and/or payment due to contractual provisions regarding non-competition,

⁴ item including remuneration for the period of service at the Supervisory Board.

The remuneration and benefits paid by the Company to Management Board members amounted to **PLN 6.4 million** in 2012.

In cost perspective (including provisions), the remuneration of all persons who acted as Management Board members, jointly with the post-employment benefits, amounted to **PLN 8.5 million** in 2012 (see Note 34.3. to the financial statements).



7.5. Shares of the parent company and shares in related entities owned by the members of management and supervisory authorities

According to the best knowledge of the Management Board of the Company, members of management and supervisory authorities of the Company as of the date of submission of this report and as of the date of publishing of the consolidated report for the third quarter of 2012 held following number of shares.

Table: PGE S.A. shares held and managed directly by the members of management and supervisory authorities of the Company

Shareholder	Number of shares as of date of publishing of the consolidated report for Q3 2012 (i.e. Nov 14, 2012) (pieces)	Change in number of owned shares (pieces)	Number of shares as of submission date of the annual report (pieces)	Nominal value of shares as of submission date of the annual report (PLN)
The Management Board	0	no change	0	0
The Supervisory Board	628	no change	628	6,280
Grzegorz Krystek	350	no change	350	3,500
Katarzyna Prus	278	no change	278	2,780

Table: Shares in related entities held by the members of management and supervisory authorities of the Company

Shareholder	Number of shares in related entities as of submission date of the report (pieces)	Nominal value of shares in related entities as of submission date of the annual report (PLN)
The Management Board	432	345,600
Krzysztof Kilian	432	345,600*
The Supervisory Board	0	0

* on the right of joint possession



Table: PGE S.A. shares held and manager directly by the persons acting on behalf of material direct subsidiaries of PGE S.A.

Company	Name and surname	Position	Number of shares (pieces)	Nominal value of shares as of submission date of the annual report (PLN)
PGE Górnictwo i Energetyka Konwencjonalna S.A.	Jacek Kaczorowski	President of the Management Board	1,390	13,900
	Roman Forma	Vice-President of the Management Board	662	6,620
	Waldemar Szulc	Vice-President of the Management Board	5,090	50,900
	Krzysztof Domagała	Vice-President of the Management Board	7,869	78,690
PGE Systemy S.A.	Bernard Brodecki	Vice-President of the Management Board	608	6,080
PGE Gubin sp. z o.o.	Cezary Bujak	Member of the Management Board	299	2,990



7.6. Description of the basic properties of internal control systems and risk management systems used in the Company during preparation of the financial statements and consolidated financial statements

The Company applies the following mechanisms of internal control and risk management during preparation of the financial statements: internal procedures which regulate the process, management mechanisms for information system used for financial recording and reporting with protection mechanisms, principles of supervision over preparation of financial statements, principles of verification and evaluation of reports, internal audit, corporate risk management and other elements of control.

Basic regulations applicable to preparation of financial statements include:

- International Financial Reporting Standards ("IFRS") approved by the European Union, IFRS-compliant accounting policy of the PGE Capital Group,
- the Accounting Act of September 29, 1994 (as amended) (in the areas not regulated by IFRS),
- the procedure of closing accounting books in PGE Capital Group and
- requirements for preparing financial statements and consolidated financial statements determined in the Regulation of the Minister of Finance dated February 19, 2009 on current and periodic information published by issuers of securities and on conditions under which such information may be recognized as being equivalent to information required by the regulations of law of a state which is not a member state (as amended).

IFRS-compliant accounting policy of the PGE Capital Group is binding for the companies using IFRS for preparation of their statutory financial statements and at preparation of the IFRS-compliant reporting packages for the consolidation. Before every reporting period the companies subject to consolidation receive detailed guidelines with regard to method and closing date of the accounting books, preparation and submitting the reporting packages and template updated for a given period. The aforementioned regulations and guidelines ensure unification of the accounting principles in the PGE Group and method of the preparation of the reporting packages by the companies subject to consolidation. In addition, in the financial reporting area, PGE S.A. and the companies subject to consolidation follow operational procedures/instructions on the accounting document control and recording and procedures of preparing tax documentation when entering into transactions with related entities.



The Company keeps accounting books in the integrated information system. The system ensures division of competencies, coherent entries in the books and control between the general ledger and subsidiary ledgers. The system can be modified to ensure adequacy of the technical solutions to the changing accounting principles and legal standards. The system includes documentation for the end user section and the technical section. The system documentation undergoes regular verification and update. The Company has implemented organisational and system-wide solutions to ensure that the system is properly used and protected, and that the access to data and hardware is secured. The access to financial and accounting system records and financial reporting records is restricted with relevant rights granted to authorised employees as required for their actions and responsibilities. The accounting books in companies subject to consolidation are kept in autonomous information systems. For the consolidation purposes, these companies prepare reporting packages, which are transferred, verified and processed in the system's consolidation module. Regardless of the control mechanisms built into the information systems, management control mechanisms are implemented into the process of preparing financial statements in PGE S.A. and companies subject to consolidation. Such mechanisms include separation of responsibilities, verification of correctness of data received, authorisation by the superior, independent arrangements, etc.

Director of the Accounting Department of the Company is responsible for supervision over the preparation of stand-alone and consolidated financial statements. The management of the particular companies are responsible for preparation of the reporting packages under consolidation.

Statutory auditors perform an independent assessment of reliability and correct preparation of the financial statements of PGE S.A. and financial statements of companies subject to consolidation. Two auditing companies were appointed to audit 2012 financial statements of key companies in the PGE Group. Their duties include review of the half-year financial statements and initial and essential audit of the annual statements. The PGE Group has implemented a multi-stage process of approving financial statements with the participation of Supervisory Boards. Stand-alone and consolidated financial statements of PGE S.A. are evaluated by the Supervisory Board. The Audit Committee operates within the Supervisory Board and is responsible, among others, for reviewing interim and annual financial statements of the Company. Stand-alone financial statements of the companies subject to consolidation are evaluated by the Supervisory Boards of such companies. The financial statements are approved by the General Meetings of the companies.

The Company has implemented internal audit to perform an independent and objective evaluation of the risk management and internal control systems. The internal audit operates on the basis of the



internal audit regulations based on the international standards of professional internal audit practices. The audit performs scheduled and ad hoc auditing tasks both in the parent companies and companies within the Group. Audit results are reported to the Management Board of PGE S.A.

The PGE Group has implemented the corporate risk management process. Risk management is aimed at providing information about threats of failure to achieve business goals, reducing adverse effects of such threats and undertaking preventive or recovery steps. PGE Group risks relating to various operating segments are identified and evaluated; then preventive steps are undertaken. Risk owners are responsible for managing identified risks.

As part of the controlling activities, periodical management reporting is evaluated for reasonable information, in particular in the context of analysis of deviations from assumptions in the financial plans.

7.7. Changes in management rules in the Company and in the Capital Group

There were no significant changes in management rules in PGE S.A. in 2012.

The detailed description of transformations is presented in p. 1.2. 1.2. Changes in organisation of the Capital Group.

Main changes in organisation and management rules in PGE and in PGE Capital Group took place in years 2009-2010, when Consolidation Programme was carried out in PGE Capital Group. Additional information on the above Programme is presented in p. 5.1 Consolidation Programme.

7.8. Control system of employees share scheme

In 2012, PGE S.A. did not maintain any employees share schemes.

7.9. Use of proceeds from issues

In 2012 PGE S.A. did not issue any shares.

In 2012 PGE S.A. did not issue bonds and did not have any liabilities arising thereof.

The Company purchased bonds issued by the Group companies. Proceeds from the issue of bonds under the established bond programs were used for financing of the on-going activities as well as for financing of the investments conducted by PGE Group companies (see p. 2.8.3. Bonds issued).



7.10. Treasury shares

On May 30, 2012 the Annual General Meeting of PGE S.A. adopted resolution on redemption of 22,898 treasury shares, including 12,594 series C shares and 10,304 series D shares, which were purchased by PGE S.A. as a result of merger of PGE S.A. with PGE GiE S.A. and PGE Energia S.A. in 2010. The General Meeting also adopted resolution on decrease of the share capital of the Company by way of redemption of the above mentioned treasury shares.

Above changes were registered in the National Court Register on June 23, 2012.

After the registration of the above reduction, the share capital amount to PLN 18,697,608,290 and is divided into 1,869,760,829 shares with a nominal value of PLN 10 each, including:

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

As at December 31, 2012 the following PGE Group companies held their treasury shares:

- **PGE Obrót S.A. – 17,095 treasury shares** including: 16,852 purchased through squeeze-out pursuant to art. 418¹ § 4 of the Polish Commercial Companies Code (the shares were purchased for redemption) and 243 shares not allotted to the shareholders during the consolidation process of companies from PGE Capital Group.
- **PGE Dystrybucja S.A. – 131,873 treasury shares** including: 131,845 purchased through squeeze-out pursuant to art. 418¹ § 4 of the Polish Commercial Companies Code (the shares were purchased for redemption) and 28 shares not allotted to the shareholders during the consolidation process of companies from PGE Capital Group.
- **PGE Górnictwo i Energetyka Konwencjonalna S.A. – 236,801 treasury shares** purchased through squeeze-out pursuant to art. 418¹ § 4 of the Polish Commercial Companies Code or on the ground of the company's statutes (the shares were purchased for redemption).



7.11. Share capital and ownership structure

As at December 31, 2012 the share capital of PGE S.A. amounts to **PLN 18,697,608,290** and splits into **1,869,760,829 shares** with a nominal value of PLN 10 each.

Table: Share capital of the Company.

Series/ issue	Type of shares	Type of privilege	Number of shares	Value of series/issue at nominal value	Capital payment method
"A"	ordinary	n/a	1,470,576,500	14,705,765,000	contribution in kind/cash
"B"	ordinary	n/a	259,513,500	2,595,135,000	cash
"C"	ordinary	n/a	73,228,888	732,288,880	merger with PGE GiE S.A.
"D"	ordinary	n/a	66,441,941	664,419,410	merger with PGE Energia S.A.
Total			1,869,760,829	18,697,608,290	

Table: Ownership structure of the share capital as at December 31, 2012*

	State Treasury		Other shareholders*		Total	% share in the share capital and votes
	Nominal value of shares	% share in the share capital and votes	Nominal value of shares	% share in the share capital and votes	Nominal value of shares	
Shares as at December 31, 2012	11,571,245,460	61.89	7,126,362,830	38.11	18,697,608,290	100.00

* Ownership structure presented on the basis of information available to the Company.

All of the Company shares have been paid.

Although the Company's shares are not privileged, the Statutes of the Company provide for special rights of the State Treasury until it remains a shareholder of the Company (see Note 23.2 to the financial statements).



Fundacja PGE
Energia z Serca

8. Commitment

8.1. PGE Foundation “Energy from Heart”

The PGE Foundation “Energy from Heart” was established in 2011 (at the initiative of the Founder, i.e. PGE Polska Grupa Energetyczna S.A.), however it started to operate in 2012.

The aim of the Foundation is to ensure transparency of activities, to reorganise and strengthen the social involvement of the company and to build commitment in all groups of stakeholders. As part of its activities, the Foundation plans to introduce a corporate volunteering in the PGE Group.

<http://www.gkpge.pl/fundacja-pge>

RESPECT Index

Since 2011, PGE Polska Grupa Energetyczna S.A. has belonged to the elite of socially responsible companies which are part of the RESPECT Index portfolio.

RESPECT Index is a prestigious project run by the Warsaw Stock Exchange (WSE) in collaboration with external partners. It encompasses those Polish companies listed on the WSE Main Market which observe the highest standards of management with respect to corporate governance, information governance and investor relations with a consideration for economic, social and employee factors. An assessment of companies is conducted every half a year involving a three-step verification process covering the above-mentioned areas (carried out by WSE) and an audit (carried out by the Project partner – the Deloitte company).

Global Compact

Since 2008, PGE Polska Grupa Energetyczna S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A. have taken part in the initiative of the Secretary-General of the United Nations called “Global Compact.”

The involvement in Global Compact, the world’s largest initiative dedicated to corporate responsibility and sustainable development, obligates PGE to adopt many principles, including among others effective combating of employment discrimination, elimination of every case of human rights violation by the company, preventive approach to environmental protection, undertaking initiatives aiming at the promotion of environmental responsibility, the use of environmentally friendly technologies and counteracting corruption in all its forms.



8.2. PGE and work environment

8.2.1. Employees at PGE S.A.

As at **December 31, 2012** employment in PGE Polska Grupa Energetyczna S.A. amounted to **391.6** FTEs and was higher by 19.5 FTEs or by 5% as compared to the end of 2011. The average employment in PGE Polska Grupa Energetyczna S.A. amounted in 2012 to 358.5 FTEs.

Table: Employment

	2012	2011	% change
Total employment in FTEs as at December 31	391.63	372.12	5%
<i>Including managers hired on the basis of contracts</i>	<i>7.00</i>	<i>27.00</i>	<i>-74%</i>
Average annual employment in FTEs	358.52	357.25	0%

The increase in employment by **19,5 FTEs as at the end of 2012** as compared to the end of 2011 is mainly a result of organisational changes in the structure of PGE Polska Grupa Energetyczna S.A. Organisation structure development and current scope of duties for particular organisational units mainly affected employment growth in 2012.

Target structure of PGE S.A. organisation will be worked out within the Operating Model project.

2012 brought changes in employment rules (implemented in the previous year) for directors from agreements for performance of management services to employment contracts.

8.2.2. Freedom of association

The management of PGE Polska Grupa Energetyczna S.A. and the management of respective companies attach a lot of significance to the dialogue with employees and the social organizations which represent them. In the PGE Capital Group there are more than **100 company and intercompany trade union organizations associating over 25 thousand of employees**. Furthermore, the responsible approach to employees is reflected by the fact that, in addition to employment agreements, the employment relationship in the PGE Group involves multi-company and company collective labour agreements and social contracts concluded through dialogue. They define the rights of employees. What's more, numerous non-trade union organizations function in the companies of the PGE Capital Group; they are formed by employees based on their individual interests.



8.2.3. Health and Safety at Work

Acting in accordance with the law in force and in order to protect the health and lives of employees, the PGE S.A. provides health and safety training programmes, carries out medical examinations provided for by the law, employs staff with required skills providing work conditions in accordance with health and safety regulations and equips them with appropriate personal protection equipment.

8.2.4. Human resources development

People constitute the most valuable asset in the PGE Capital Group. PGE S.A. and the Group strives to make the best use of their capabilities and experience.

In line with the model of the PGE Capital Group, its individual business segments draw on the extensive legacy and experience of all the entities in the Group, sharing knowledge and achievements of their employees. Furthermore, the companies promote continuous development of employees through training, courses, and co-funding postgraduate studies. The companies' employees are regularly provided with opportunities to improve qualifications and develop professional skills. The PGE Group is willing to offer training for students who therefore have the opportunity to gain valuable experience and professional qualifications.

One of the most meaningful projects involving the development of the employee capabilities and competence is **"PGE Academy – Integrated Development of Strategic Competence of Employees in the PGE Capital Group."** The primary goal of the project is to support the consolidation processes in the PGE Capital Group through enabling the employees to develop key competencies in the area of management, finance, controlling, negotiations and customer service. Under the project, which is co-financed by the European Social Fund, approx. **1,460 employees of the companies and branches from the entire PGE Group** participate in the training courses. The PGE Academy courses began in August 2011 and will be run until June 2013, while the project results assessment (including the acquired knowledge and skills) will be carried out by the end of 2013.



Table: Beneficiaries of state aid within the framework of the PGE Academy (number of participants since the beginning of the programme until December 31, 2012)

Company	Number of participants
PGE GiEK S.A.	927
PTS Betrans sp. z o.o.	58
PGE Obrót S.A.	578
PGE Dystrybucja S.A.	864
PGE Energia Odnawialna S.A.	151
PGE EJ SA	9
PGE EJ 1 sp. z o.o.	5
PGE S.A.	353
Total	2,945

Additionally, each participant over 45 years of age is provided with individual advice to assist the implementation of knowledge acquired on training courses and to support the development of employee competencies.

8.3. PGE and research and development

Actions taken by the PGE Group in the field of research and development were mainly aimed at:

- I. implementing new technologies in the field of electricity generation,
- II. fulfilling environmental requirements,
- III. reducing production costs.

The following research and development projects were conducted in PGE S.A. in 2012:

- I. the participation in the Polish Clean Coal Technology Platform, which focuses on applications of clean coal technologies from technical, economic and financial, legislative and social perspectives;
- II. activities by the scientific-industrial consortium "Carbon Fuel Cells", whose objective was to build and demonstrate the operation of a carbon fuel cell of a size enabling technical and economic assessments of the project and determination of its commercial potential;
- III. Involvement in the preparation of the project by the Economic Society for Polish Power Plants which focuses on the performance improvement of enriched fines processed in power plants;



- IV.** Developing the concept and feasibility of co-combustion of crude and pre-dried lignite in selected power plants of the PGE Capital Group. The first stage of the research study, which was conducted in 2012, comprised preliminary concepts of drying, storage, transportation and co-combustion installations for dried coal in PGE GiEK S.A.

8.4. PGE S.A. and human rights

As any other company that aims to be recognized as a socially responsible business, PGE S.A. undertakes activities that go beyond the legislative requirements in force. Stipulations of essential conventions regarding human rights have been reflected in the Polish legislation. Compliance with the law constitutes the foundation of integrity in business operations. Therefore, the PGE Capital Group acts in accordance with the applicable standards and recognises them as obvious. The values adopted by the company go beyond the strict observance of legal requirements; they definitively exclude any form of compulsory work or employment of minors.

8.5. PGE S.A. and promotion of other social goals

Sport

Through its involvement in raising the professional standards of the Polish sport, PGE S.A. tries to share the energy with those who use it properly. PGE S.A. supports teams in various sport disciplines which attract the most of the fans: volleyball (PGE Skra Bełchatów and Atom Trefl Sopot), football (PGE GKS Bełchatów), basketball (PGE Turów Zgorzelec), speedway racing (PGE Marma Rzeszów) and handball (SPR Lublin). Among teams sponsored by the Group, there are both famous clubs with rich traditions and new teams which have just started building their position in the world of sport. All of them are eager to win and demonstrate vigorous energy which stimulates action and development. The Group actively supports the most talented sportsmen and promotes sports by engaging in major sporting events.



Culture

Furthermore, the PGE Capital Group shares the positive energy that stems from culture and art – supporting them contributes to the development of local communities, promotes outstanding personalities, gives creative inspiration, brings positive experiences and emotions, and expands knowledge and builds up positive attitudes. Significant and valuable cultural events in the world of music, theatre and film are held under the patronage of the PGE Group. In 2012, PGE S.A. established cooperation with the Museum of Modern Art in Warsaw and was named the Patron of the Museum's Collection. As a result of the collaboration with the National Museum in Warsaw, PGE S.A. took the role of Patron of the Art Gallery of the 20th and 21st century. Furthermore, PGE S.A. was the Patron of the Year of Warsaw Philharmonic and supported the Old Theatre in Lublin. In addition, in 2012, PGE S.A. supported the following events: "VI Festiwal Filmu i Sztuki Dwa Brzegi" film and art festival, "Inne Brzmienia Art'n'Music Festival Lublin-Lviv 2012" festival, 51th Music Festival in Łańcut, Solidarity of Arts 2012 and the projects "Faktyczny Dom Kultury" (Real Community Centre) and "Polska Światłoczuła" (Photosensitive Poland).

9. Statements of the Management Board

9.1. Statement on the reliable preparation of the financial statements

To the best knowledge of the Management Board of PGE Polska Grupa Energetyczna S.A., the annual financial statements and comparable data were prepared in accordance with the governing accounting principles, present a fair, true and reliable view of the material and financial situation of the Company and its financial result.

The report of the Management Board on the activities of PGE Polska Grupa Energetyczna S.A. presents a true view of the development, achievements and situation of the Company, and provides a description of the basic risks and threats.



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

The Management Board of PGE Polska Grupa Energetyczna S.A. declares that the entity authorised to audit the financial statements, which audits the annual financial statements, has been appointed in accordance with provisions of the law. The entity and the statutory auditors fulfilled all the requirements for issuing an unbiased and independent opinion on the audit, in accordance with the governing provisions and professional standards.

Warsaw, March 13, 2013

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

Krzysztof Kilian
President of the
Management Board

Bogusława Matuszewska
Vice-President of the Management
Board

Wojciech Ostrowski
Vice-President of the Management
Board

Paweł Smoleń
Vice-President of the Management
Board

Piotr Szymanek
Vice-President of the Management
Board