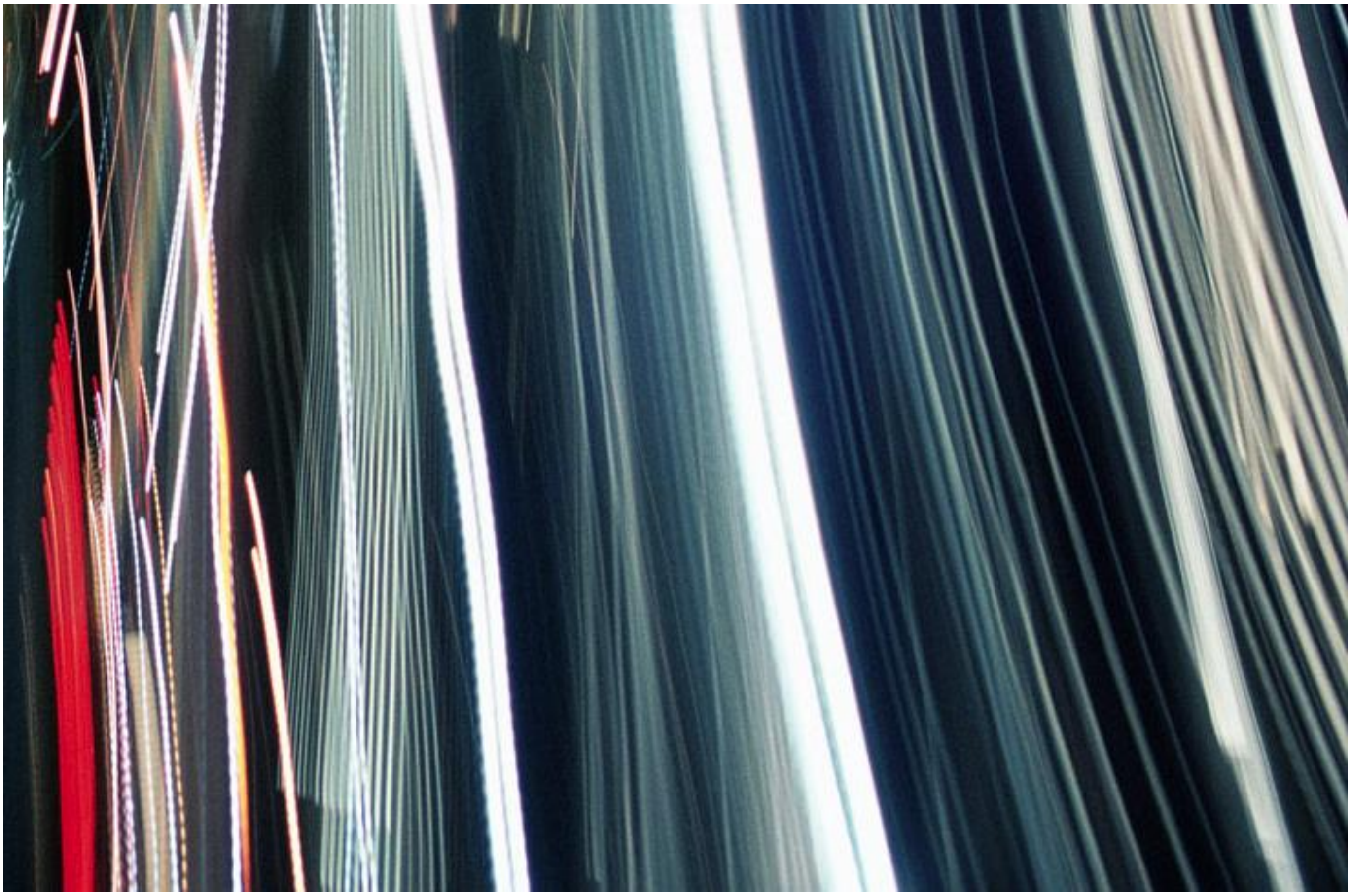


Management Board's report on activities of the Capital Group of PGE Polska Grupa Energetyczna S.A. for the year 2015

ended December 31, 2015

Polska Grupa Energetyczna

Contents

„The market was and will continue to be very difficult. Energy sector will face further challenges."

Marek Woszczyk, President and CEO of PGE Polska Grupa Energetyczna S.A., comments on results, distribution of profit and investments in 2015.

2015 was a year full of interesting developments and challenges. How would you describe performance of the Group?

I think we can be satisfied with our performance in 2015. Our operating and financial results are very good, despite shifting market conditions.

Operating results of all segments were very good which allowed for EBITDA of over 8 billion and 200 million zloty - the highest level in PGE history.

Generation volume amounted to 55.6 TWh and was 1% higher than a year ago while distribution volume increased by 3% year over year and amounted to 33.4 TWh due to higher demand.

Very good performance of Conventional Generation segment results from favourable hedging of energy sales in previous periods. However, we cannot and we do not forget about the impairments of assets of almost 9 billion zloty value. Those resulted from changing environment on commodities market – I mean in particular hard coal market and climate change policies – mostly prospects of carbon allowances.

These write-offs mean that at the bottom line for the first time in the history PGE recorded the loss of 3 billion zloty.

What does it mean for shareholders? Can they count on dividend from 2015 results?

Company is still able to share cash generated last year with our shareholders, because the impairments are non-cash only. That is why we modified our dividend policy to adjust it by impairments. After adjustment, the profit, being basis for the computation of dividend, amounts to almost 4 billion and 287 million zloty.

We want to stay a dividend company, however due to the dynamic market environment it is worthwhile to wait with proposal of profit's distribution until the Ordinary General Meeting, which, like last year, will decide on that matter.

As you have mentioned, PGE's business environment is very dynamic. How would you comment on changes taking place on the market during last 12 months?

The market was difficult and continues to challenge utility companies. European climate policy and new regulations on renewables' support in Poland were the most important topics for the sector in 2015.

We have witnessed declining wholesale electricity prices in forward contracts for 2016 which follow global trends related to falling hard coal prices and changes in installed capacity in system.

At the end of the year changes in remuneration of distribution system operators were announced for next 5-year-period. Quality goals are very ambitious. To large extent they go in line with targets that PGE outlined in its strategy in 2014. That does not mean however these will not require extensive works to achieve them.

PGE is leading a very ambitious investment plan. Could you give us some details what is happening on PGE's main construction sites?

Among the most important investments in our pipeline are two hard coal fired units in Opole power plant, one lignite unit in Turów and gas cogeneration unit in Gorzów. All of these projects employ the best currently available technologies with lowest emission rates. Given that, over time we will be able to change the emission profile of the entire Group.

Opole is progressing in line with the adopted schedule reaching 35% of project advancement. The size of works is really impressive.

Turów unit required substantial redesign to meet the requirements of BAT Conclusions for new units. Currently, engineers are working on project documentation while the excavation work for main objects are carried out.

Our third major project - cogeneration unit in Gorzów – is at the most advanced stage of works. In the first quarter of 2016 we will start its trial run.

Our investment program comprises not only conventional generation. Last year was a period of very intensive works in renewables. We have completed projects of 4 wind farms with a total capacity of 218 MW almost doubling wind power generation capacity reaching total of 529 MW. This allowed us to take the leadership in installed onshore wind capacities in Poland.

Finally, we carried out intensive works in distribution segment which aim to improve the quality of supply. In 2015 we constructed more than 1500 km of distribution lines and almost 3000 were subject of comprehensive modernization. We are constantly focusing on reliability of supply through reducing SAIDI index, defined the length of interruptions in energy supply. During a year we reduced the duration of unplanned electricity outages by 7% despite gusting winds in July 2015.

To sum up our conversation could you give us any view on what shareholders of PGE can expect in 2016?

We can expect pressure on earnings due to the situation on commodity markets - both fossil fuels and energy. Despite optimization initiatives unfortunately we will not be able to offset them fully.

We are well prepared to daily operations of our generation and distribution assets. In my opinion schedule of refurbishments of existing assets as well as new investment projects are well prepared and will go according to plan.

Certainly in 2016 we will have to face new challenges and changing market environment. We expect stabilization of regulatory aspects in terms of support for renewables and we are looking forward to continuation of works on structure of the future capacity market.

I kindly invite you to read our annual statements and reports.

Faithfully,

Marek Woszczyk

President of the Management Board

PGE Polska Grupa Energetyczna S.A.

FY 2015

EBITDA
PLN **8,228** million

Sales revenues
PLN **28,542** million

Net profit
PLN **-3,037** million

Tangible assets
PLNm **49,586**

Net cash from operations
PLN **6,777** million

CAPEX
PLN **9,450** million

Electricity distribution
33.38 TWh

FTEs
38,877

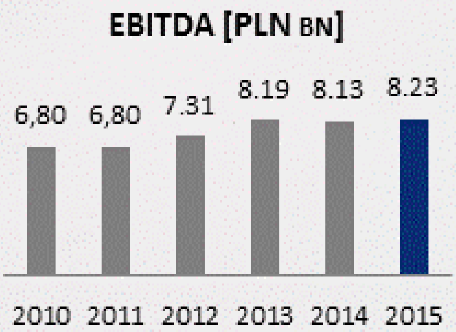
Adjusted net profit to equity
PLN **4,287***
million

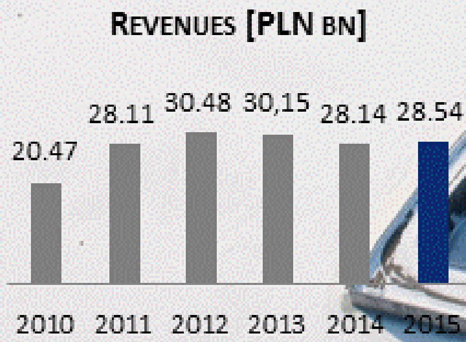
Electricity generation
55.58 TWh

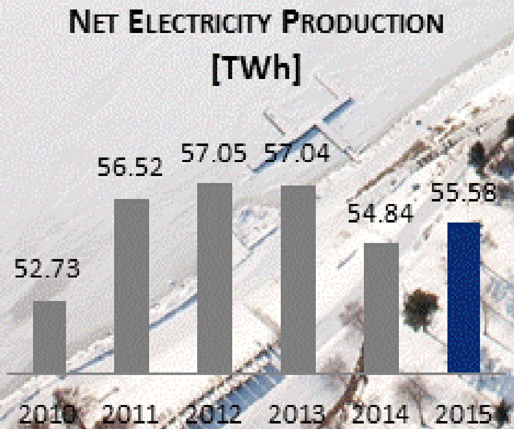
Sales to end-users
39.00 TWh

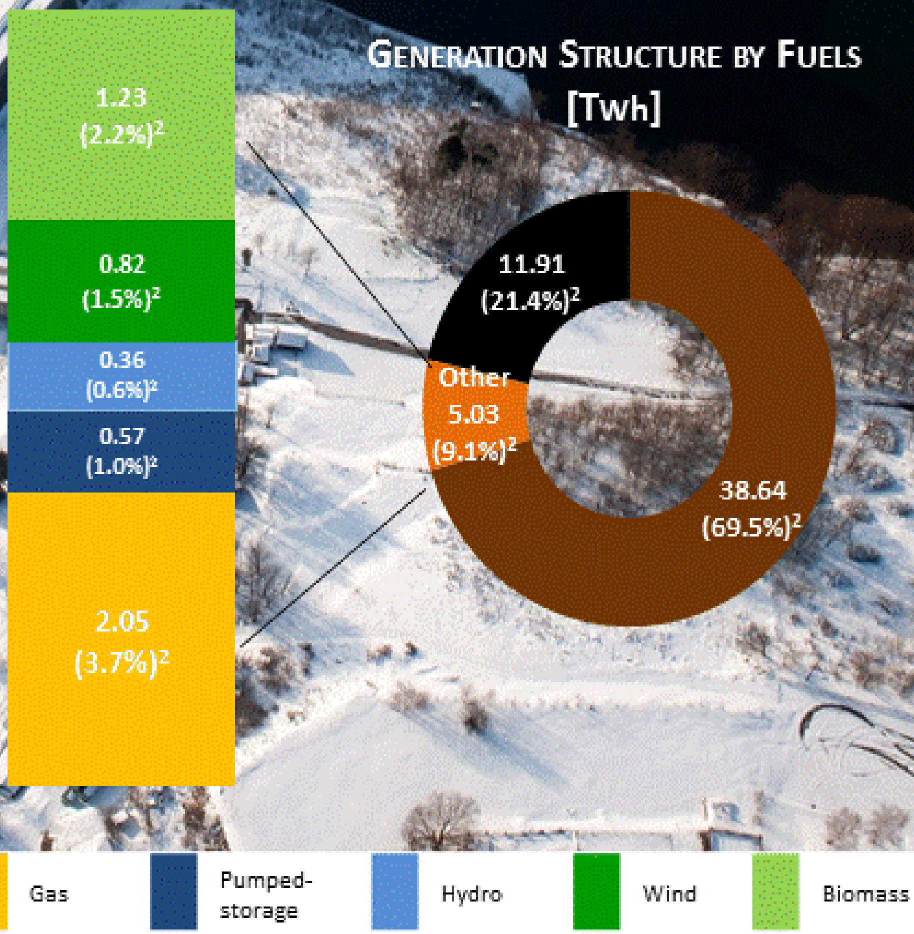
EBITDA margin
29%

Installed capacity
12,770 MW







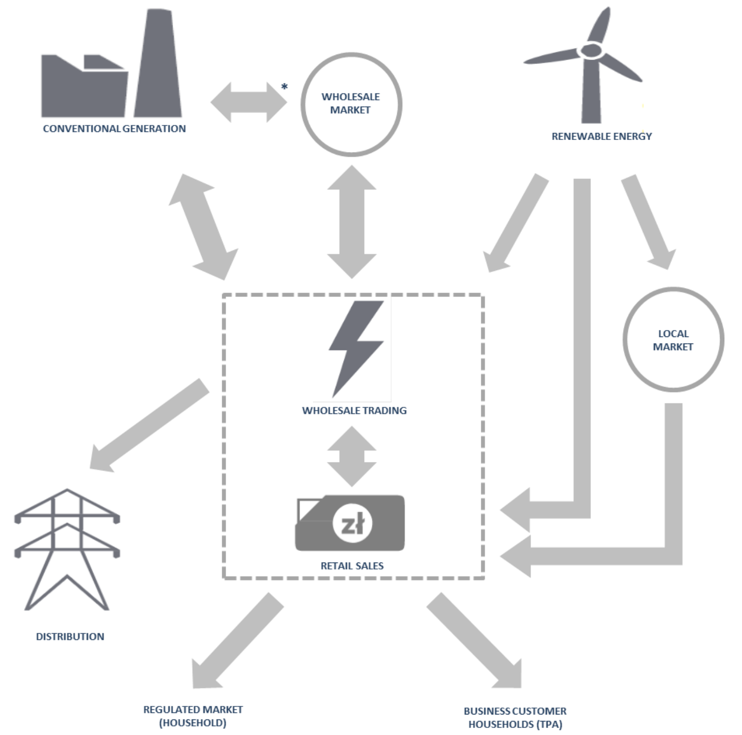


[1]net profit adjusted by impairment of property, plant and equipment

[2]share of fuel in production

BUSINESS MODEL OF PGE CAPITAL GROUP

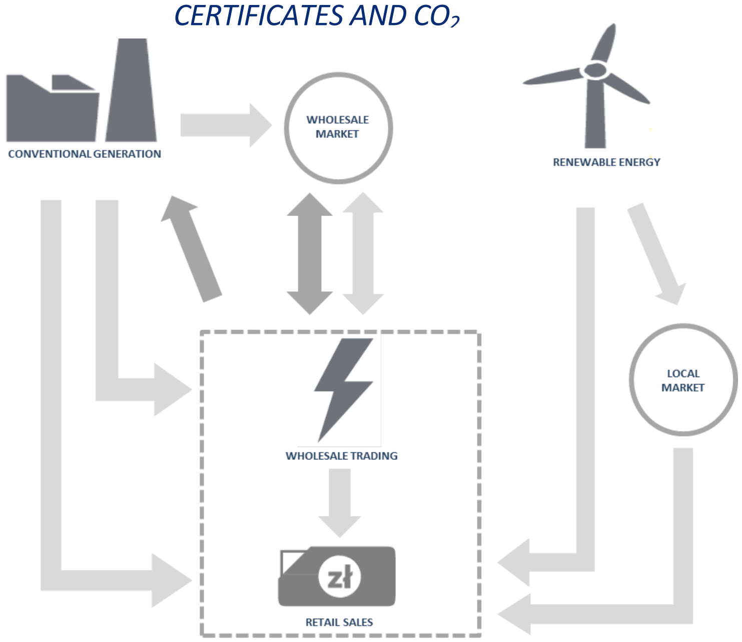
ELECTRICITY



SUPPLY SEGMENT

* Power exchange trading managed by PGE S.A.

CERTIFICATES AND CO_2



CERTIFICATES

CO_2

SUPPLY SEGMENT

	CONVENTIONAL GENERATION	RENEWABLE ENERGY
Operations	Extraction of lignite and generation of electricity and heat from conventional sources and distribution of heat.	Electricity generation from renewable sources and in pumped storage power plants.
Key assets of the segment	4 conventional power plants 8 CHPs 2 lignite mines	12 wind power plants; 1 photovoltaic plant; 29 run-of-river hydro power plants; 4 pumped storage power plants, including 2 with natural flow.
Energy volumes	Annual generation 53.83 TWh	Annual generation 1.75 TWh
Market position	PGE is a leader in lignite mining in Poland (78%), as well as the largest electricity producer (approx. 38% of domestic generation)	PGE is the leading producer of energy from renewable sources with market share of 11%
Revenues [PLNm]	12,715	761
EBITDA [PLNm]	4,698	391
Share in EBITDA of the group [without consolidation adjustments]	57%	5%
Capital expenditures [PLNm]	6,495	931
Assets [PLNm]	32,419	4,767
Installed capacity [MW]	10,636	2,134

	SUPPLY	DISTRIBUTION
Operations	Wholesale trading of electricity on domestic and international market and trading of related products, fuels and CO_2 emission allowances. Sale and supply of electricity and fuels to final off-takers.	Supply of electricity to final off-takers through the grid and HV, MV and LV power infrastructure.
Key assets of the segment	-	283,804 km of distribution lines
Energy volumes	Sales to end-users 39.00 TWh	Electricity distributed 33.38 TWh
Market position	One of the leaders in wholesale trading and retail supply in Poland.	Second energy distributor with regard to number of customers with approx. 26% share in Polish electricity distribution market.
Revenues [PLNm]	15,783	6,083
EBITDA [PLNm]	610	2,461
Share in EBITDA of the group [without consolidation adjustments]	7%	30%
Capital expenditures [PLNm]	31	1,841
Assets [PLNm]	3,762	16,710

JANUARY
- Modernisation of unit 11 (390 MW) in Bełchatów power plant completed

APRIL
- Purchase of shares of PGE EJ 1 by domestic business partners

MAY
- Inauguration of construction of unit 11 (490 MW) in Turów power plant

JUNE
- Modernisation of unit 12 (390 MW) in Bełchatów power plant completed

JULY
- Commissioning of Karwice wind farm (40 MW)
- Commencement of cooperation with National Centre for Research and Development

SEPTEMBER
- Conclusion of syndicated loan agreement (PLN 5.5 billion)

OCTOBER
- Conclusion of loans with European Investment Bank (PLN 2 billion)
- Commisioning of first PV farm in the Group - Żar mountain (0.6 MW)
- Completion of NOx reduction installation in ZEDO

NOVEMBER
- Annex signed to the agreement for construction of unit 11 in Turów power plant

DECEMBER
- Commissioning of Resko II wind farm and start-up of Lotnisko wind farm and Kisielice II wind farm (total capacity of 3 wind farms 178 MW)
- Desulphurisation installation in Bydgoszcz CHP completed
- Conclusion of loan agreement with BGK (PLN 500 million)

1 Description of activity of the Capital Group

Capital Group of PGE Polska Grupa Energetyczna S.A. („PGE Capital Group", the „Group", the "Capital Group", „PGE Group") is the largest vertically integrated company in energy sector in Poland in terms of revenues, installed capacity and electricity produced.

The parent company of PGE Capital Group is PGE Polska Grupa Energetyczna S.A. ("PGE S.A.", the "Company").

PGE Group currently organizes its activities in four main business segments:

- Conventional Generation
- Renewable Energy
- Supply
- Distribution

With view to ensure greater transparency of reporting of companies operations in particular segments, the following changes have been made in their structure in 2015:

- Previous segments of Wholesale Trading and Supply were merged and created Supply segment

Implementation of this change enables elimination of flows between previous segments, allowing for clearer presentation and more effective valuation of the results achieved by the PGE Capital Group. Within this adjustment, data for 2014 were restated for comparability.

- Company Enesta S. A. was shifted from Other Operations to Supply segment

Implementation of this change enables presentation of operational results of the above company according to the character of its activities ensuring more consistent view of the Group's operations in the Supply segment. In 2014, the company is presented in Other Operations segment.

- Companies which run their operations for Conventional Generation segment were shifted from Other Operations to Conventional Generation segment

Above adjustment provides more comparability between the periods through elimination of volatility in settling of services rendered by the ancillary companies. The companies added to the Conventional Generation segment run the following activities:

  - construction, renovation and modernization, investments works with regard to electricity equipment;
  - managing contractor at the implementation of investment projects;
  - comprehensive diagnostic tests and measurements of electro-energy machines and equipment;
  - management of by-products of coal combustion, development and implementation of above technologies usage;
  - rehabilitation of degraded areas.

In the comparable period, the ancillary companies are presented in the Other Operations segment.

The Other Operations segment includes also a company, whose main activities are preparation and execution of nuclear power plant construction project within program of first Polish nuclear power plant and a company which organizes financing for the Group.

In addition, comprises of companies providing IT and telecommunication services, accounting, HR services, transport and other services were included in the Other Operations segment.

1.1 Factors important for the development of the PGE Capital Group

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

Market environment		Description in p.
Demand	• demand for electricity and heat	1.2.1
	• seasonality and weather conditions	1.2.1
Electricity market	• wholesale electricity prices	1.2.6
	• prices and tariffs of electricity and heat on retail sale markets	1.2.5
	• tariffs for transmission and distribution of heat and tariffs for electricity distribution	1.2.5
Related markets	• prices of property rights (certificates of origin of electricity)	1.2.7
	• availability and prices of fuels used in generation of electricity and heat, in particular prices of hard coal, fuel gas and biomass, as well as costs of fuels transportation to the generating units	1.2.4
	• prices of CO_2 emission rights	1.2.8
Power infrastructure	• availability of cross-border transmission capacities	1.2.6
	• growth of generating capacity in national electro-energy system, including renewable energy sources ("RES") and cogeneration	1.2.6
	• development and modernisation of energy grid	
Macroeconomic environment	• GDP dynamics, particularly in industrial production	1.2.1
	• interest rates and exchange rates, values of which affect evaluation of assets and liabilities shown by the Group	

Regulatory environment	
Domestic	• possible changes to the Poland's energy policy as a result of creation of new Energy Policy for Poland up to year 2050 („PEP 2050").
	• changes in scope of services like: ▪ modification of current Operational Capacity Reserve mechanism ▪ implementation of cold reserve mechanism ▪ implementation of further packages for demand reduction services
	• delayed effective date for provisions of the Law on Renewable Energy Sources, changing support scheme for energy generation in renewables
	• results of proceedings conducted by the European Commission with regard to notification of suport chemes for c-generation and renewable Energy sources
	• results of explanatory proceedings before the Energy Regulatory Office ("ERO") President in case of issue of certificates of origin of energy produced from biomass for some of the branches of PGE Górnictwo i Energetyka Konwencjonalna S.A. ("PGE GiEK S.A.")
	• issue of implementation of the Energy Efficiency Directive into the domestic law
	• matter of implementation of quality tariff in distribution, that will make regulated income dependant on, inter alia, SAIDI and SAIFI ratios and connection time
	• possible different decision in law disputes, from which most relevant were presented in Note 30.4 to the consolidated financial statements
International	• regulations of 2030 climate and energy package – including EU climate summit decisions from October 2014 particularly: at least 40% CO_2 reduction targets, 27% RES share target in total energy comsumption, 27% efficiency improvement target, including: ▪ draft revision of the EU Emission Trading System (EU ETS) Directive – formula for compensation mechanisms – Modernisation Fund and free allocation of emission allowances ▪ appeal by Poland to the European Court of Justice regarding a decision to establish a Market Stability Reserve for the CO_2 emission allowance market – possible impact on CO_2 prices and procedure for determining climate policy ▪ draft revision of the Renewable Energy (REDII) Directive, including setting out the

means by which Poland is to contribute to the 27% share of renewable energy in the energy mix at EU level by 2030
    - draft revision of the Energy Efficiency Directive (EED), including setting out the means by which Poland is to contribute to the 27% improvement in energy efficiency at EU level by 2030
- regulations connected with the reduction of emissions of other pollutions, including:
    - process of revising the Best Available Techniques (BAT) – uncertainty regarding the final date for publication of the BAT conclusions and, therefore, the date for adapting production assets to the new requirements. A preferred deadline for adapting to the requirements stemming from the BAT conclusions is 2024, meaning that publication of the BAT conclusions ought to be delayed to the end of 2019
    - Draft National Emission Ceilings (NEC) Directive regarding national limits for the emission of certain pollutants into the air and its impact on the electricity sector, including establishing the final content of provisions regulating the emission ceilings and the means by which national authorities are to implement these
- implementation of the Energy Union concept, including:
    - process of European markets connection, works on standardized model of electricity market, unified trading areas and the trading rules between them. Currently, works are being pursued on connection of Poland to market coupling mechanisms, which is based on combining of energy sale and energy purchase offers from two or more markets, taking into account the transmission capacity available on the connections of these markets and determining the price of electricity based on a common algorithm.
    - a new directive aiming to ensure the security of supply (SoS), which might include a legally binding requirement to expand interconnectors to 10% by 2020 and to 15% by 2030;
    - harmonisation of capacity mechanisms in the EU.

1.2 Factors and events affecting results

1.2.1 Macroeconomic situation

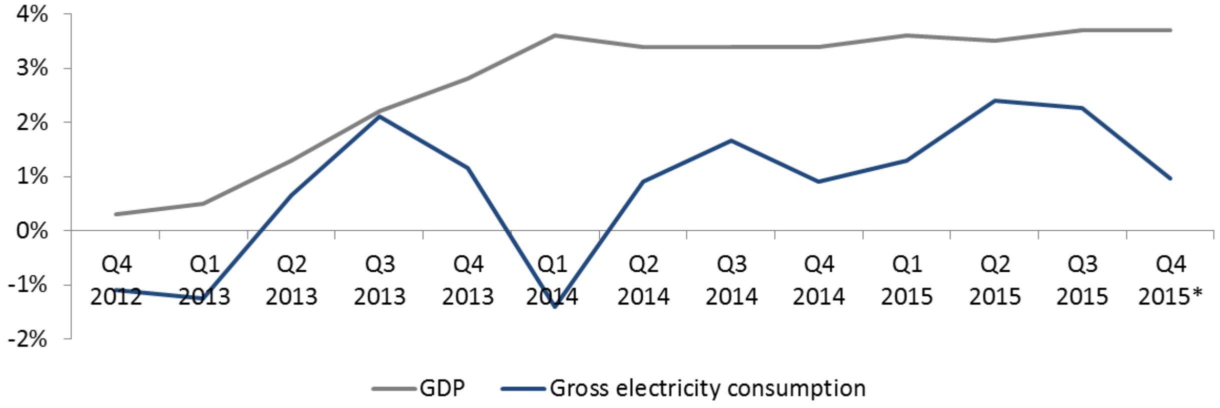
PGE Group's main operating area is Poland, and the domestic macroeconomic backdrop has a substantial impact on Group's results. At the same time, the condition of Poland's economy remains largely tied to the situation across the European Union and in global markets. The Group's financial results are affected by both the situation in specific segments of the economy and the financial markets, which affect the terms of PGE Group's debt financing.

As a rule of thumb, there is a historical correlation between rising electricity demand and economic growth in Poland. Historical data over the long term shows that this link is weakened because of the economy becoming less energy-intensive. In the past ten years, Poland's gross domestic product grew by about four times faster than gross electricity demand. Considering PGE Group's position on the Polish power generation market, as well as its substantial share in the electricity sales and distribution market, changes in power and heat demand may have a significant impact on the Group's results.

In 2015, gross electricity consumption went up 1.7% from 2014. The increase was higher than in the previous year, when consumption went up 0.5% from 2013. Seasonally adjusted for weather conditions and number of working days, year-on-year growth was 0.9% in 2015 and in 2014. The significant impact of weather conditions on the use of electricity results from an extended period of high temperatures in the summer.

Economic trends in 2015 largely remained positive. From the beginning of 2014, quarterly GDP growth remains above 3%. According to the initial estimate published by the Central Statistical Office of Poland, GDP in 2015 was higher by 3.6% in real terms than in the previous year.

Diagram: GDP change vs. change in gross electricity consumption.

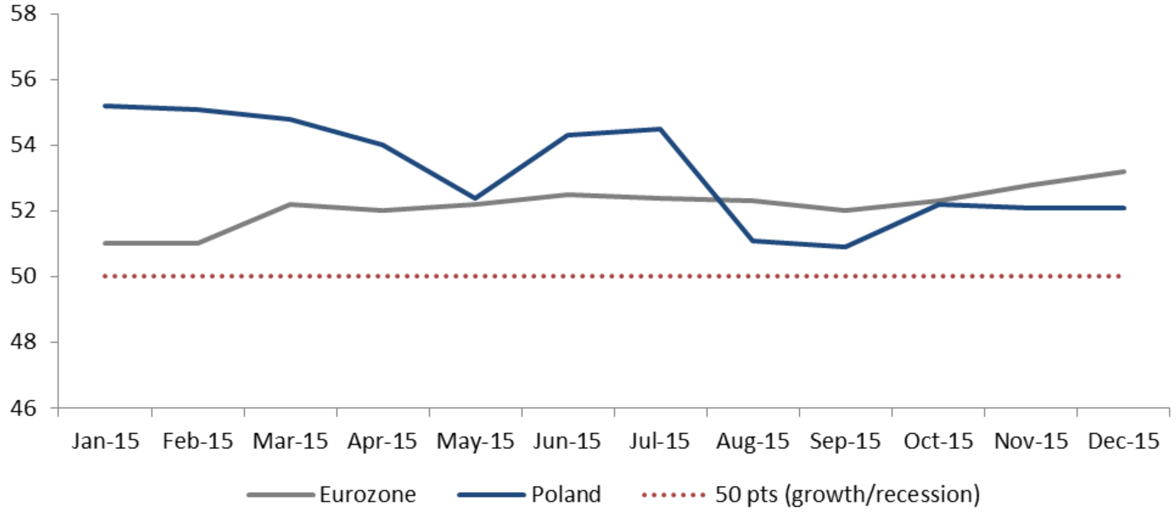


* GDP for the Q4 2015 estimated according to initial estimate of average annual GDP growth in 2015 at 3.6% published by the Central Statistical Office of Poland.

Source: Central Statistical Office of Poland, PSE S.A.

Economic growth and rising electricity consumption were accompanied by moderately optimistic condition of Polish industry, which is responsible for approx. 45% of domestic electricity consumption. The Purchasing Managers' Index (PMI) for industry averaged 53.2 points in 2015. This is above the 50-point threshold, which means the respondents expect the sector's situation to improve. The positive result stems mainly from growing production and employment. The results of the Polish industrial sector should be further strengthened by the Eurozone, whose PMI for 2015 remained at an average level of 52.2 points, showing small but stable growth.

Diagram: Manufacturing PMI in Poland and Eurozone (in points).



Source: Markit Economics

From PGE Group's perspective, another positive development is the stronger growth in overall industrial production. In 2015, it went up by 4.9% on average, compared to 3.4% in the previous year. The change resulted from substantial growth in industrial production (5.9% y/y in 2015 versus 4.6% in 2014). Production dynamics in the whole energy sector decreased again (-2.3% y-o-y in 2015 vs -3.0% in the previous period). The value of industrial manufacturing depends on volumes of goods produced and prices. PPI's dynamics remains negative for more than three years. In 2015 PPI decreased by 1.8% due to low prices of, inter alia fossil fuels, particularly crude oil.

CPI reading remains negative for one and half year. During a year CPI decreased by 0.9% due to, inter alia, decline in prices of food and energy. In 2015 the Monetary Policy Council changed interest rates once. From March 2015, the reference interest rate is 1.5%, while the deposit rate is 0.5%.

Table: Key economic indicators for Poland.

Key economic indicators (% change y-o-y)	**2015**	**2014**
GDP [1]	3.6	3.3
CPI[2]	-0.9	0.0
PPI[2]	-1.8	-1.4
Sold industrial production[2]	4.9	3.4
Sold production – manufacturing[2]	5.9	4.6
Sold production – energy[3]	-2.3	-3.0
Gross domestic electricity consumption[4]	1.7	0.5
Gross domestic electricity consumption (TWh)[4]	161.4	158.7
EUR/PLN[5]	4.18	4.18

Source: [1] Central Statistical Office of Poland, [2] Central Statistical Office of Poland, [3] Central Statistical Office of Poland - Energy generation and supply of electricity, gas, steam and hot water supply, [4] PSE S.A., [5] National Bank of Poland

1.2.2 Competition on the electricity market

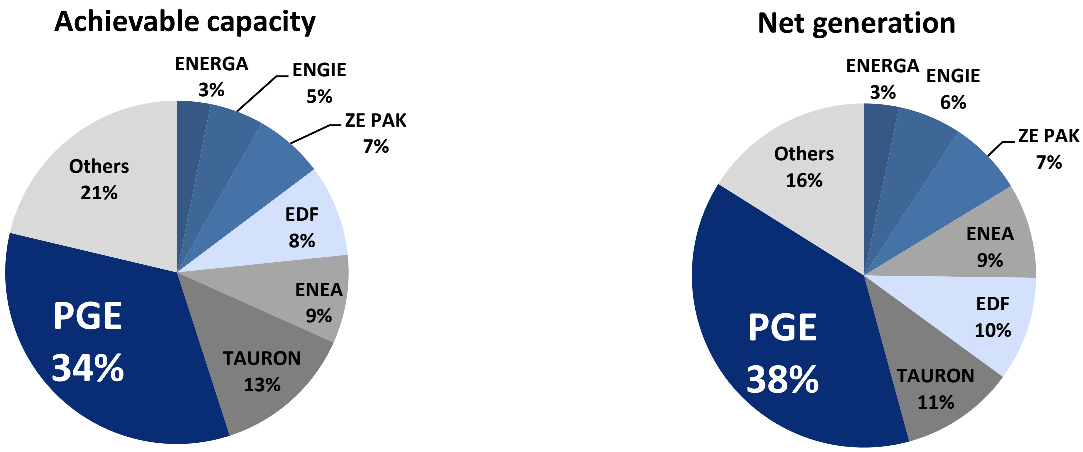
The electricity sector in Poland comprises four operating segments:

- generation of electricity;
- transmission, for which the transmission system operator – Polskie Sieci Elektroenergetyczne S.A. ("PSE S.A.") is responsible;
- distribution;
- retail sales.

The key participants of the electricity market in Poland are four nationwide, vertically integrated energy groups: PGE Group, TAURON Polska Energia S.A. ("TAURON"), ENEA S.A. ("ENEA") and ENERGA S.A. ("ENERGA").

The generation segment includes the four major producers and, though on a smaller scale involved in other energy activities, the following entities: Zespół Elektrowni Pątnów Adamów Konin S.A. ("ZE PAK") and the French companies EDF and ENGIE, through their Polish units EDF Polska S.A. and ENGIE Energia Polska S.A. (formerly GdF SUEZ Polska S.A.). PGE Group, which produces approximately 55 TWh of electricity, or 38% of national production, is the undisputed market leader. The group produces more energy than the next four competitors combined, whilst having the largest maximum capacities, both conventional and renewable. ZE PAK is another entity aside from PGE Group that bases its electricity production on lignite. Fuels used by the other major competitors are dominated by hard coal, which continues to be the main energy source in Poland – nearly half of the electricity produced in the country is sourced from it – and is the key energy source for PGE Group's competitors (TAURON, EDF, ENEA, ENGIE, ENERGA). One-third of electricity production in Poland is lignite-based. The use of other fuels is of relatively low significance from the viewpoint of the national power system.

Chart: Share of largest Polish electricity generators in achievable capacity and net generation in 2014.

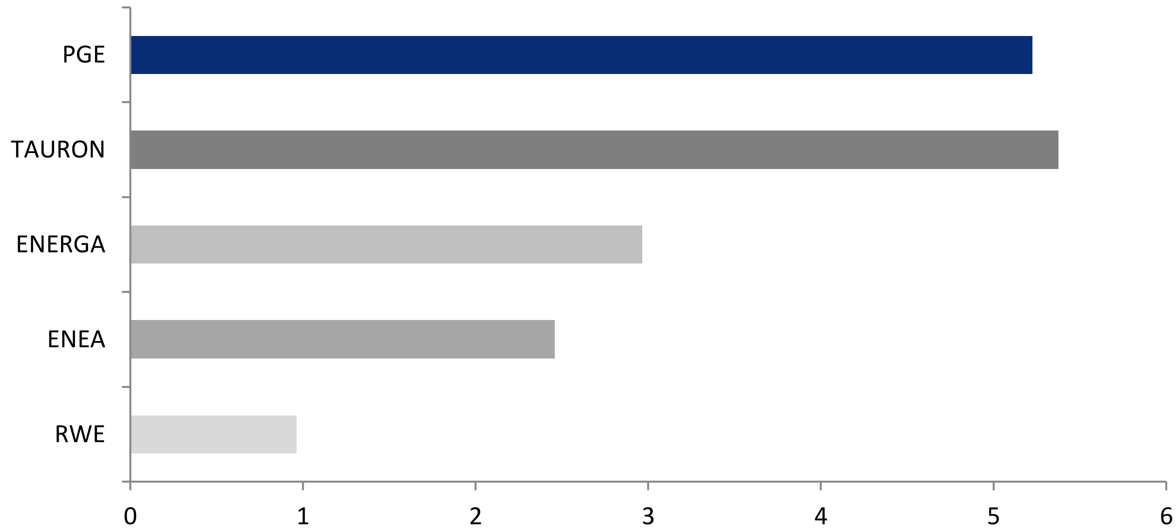


Source: own work based on information published by the companies and Agencja Rynku Energii S.A. („ARE")

Energy production from renewable sources is much more dispersed than the conventional generation market. Energy from biomass is produced at both dedicated installations and in a co-firing process with other energy sources across the country. PGE Group continues to expand and gain an increasingly strong foothold in the wind energy generation area. Having delivered four new wind projects in 2015, PGE Group became an entity with the largest installed wind capacity – 529 MW (through PGE Energia Odnawialna S.A. – "PGE EO S.A."). PGE Group has approximately 10% share of total wind capacity in Poland, which exceeded 5,000 MW in 2015. Other notable wind farm operators include: EDP Renováveis Polska sp. z o.o., RWE Renewables Polska sp. z o.o., Vortex Energy Polska sp. z o.o., Polenergia S.A., TAURON Ekoenergia sp. z o.o., ENERGA Wytwarzanie S.A. and E.ON Energie Odnawialne sp. z o.o. Competition amongst wind installations is connected with an analogous work profile of these production assets, participation in the green certificates market and future participation in auctions in accordance with the new support system.

In the distribution area, the country is divided into regions, with five large distribution system operators ("OSD") on the market, who are required to carve out distribution activities from their other business. Aside from the above-mentioned energy groups, another significant entity is RWE Stoen Operator sp. z o.o., an RWE Group company responsible for electricity distribution in Warsaw. A historical division of the distribution areas has substantial impact on the operating conditions of the business, and this specific situation is reflected in the distribution tariffs approved by the URE president. PGE Group operates in an area that is less urbanised and industrialised, meaning that it has close to 5.3 million clients throughout an area of 120 000 km^2. For comparison, TAURON has a similar number of clients in an area nearly twice smaller and distributes a larger amount of energy.

Chart: Number of off-takers of energy distributed in 2014 (million)

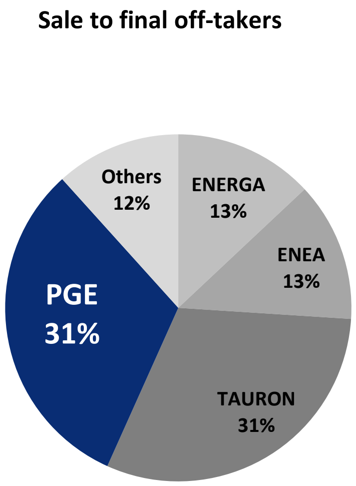


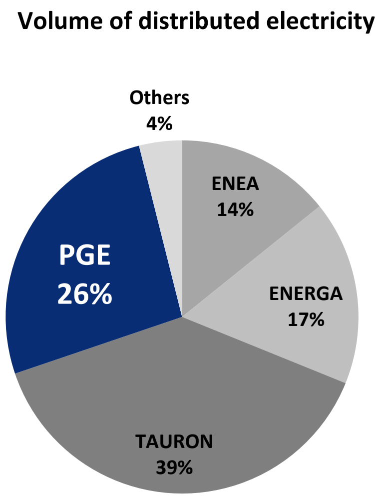
Source: own work based on information published by ARE

Chart: Areas of operation of Polish distribution system operators.

Source: own work based on information published by the companies and ARE

Chart: Share of energy groups in sale and volume of energy distributed to electricity final off-takers in 2014.





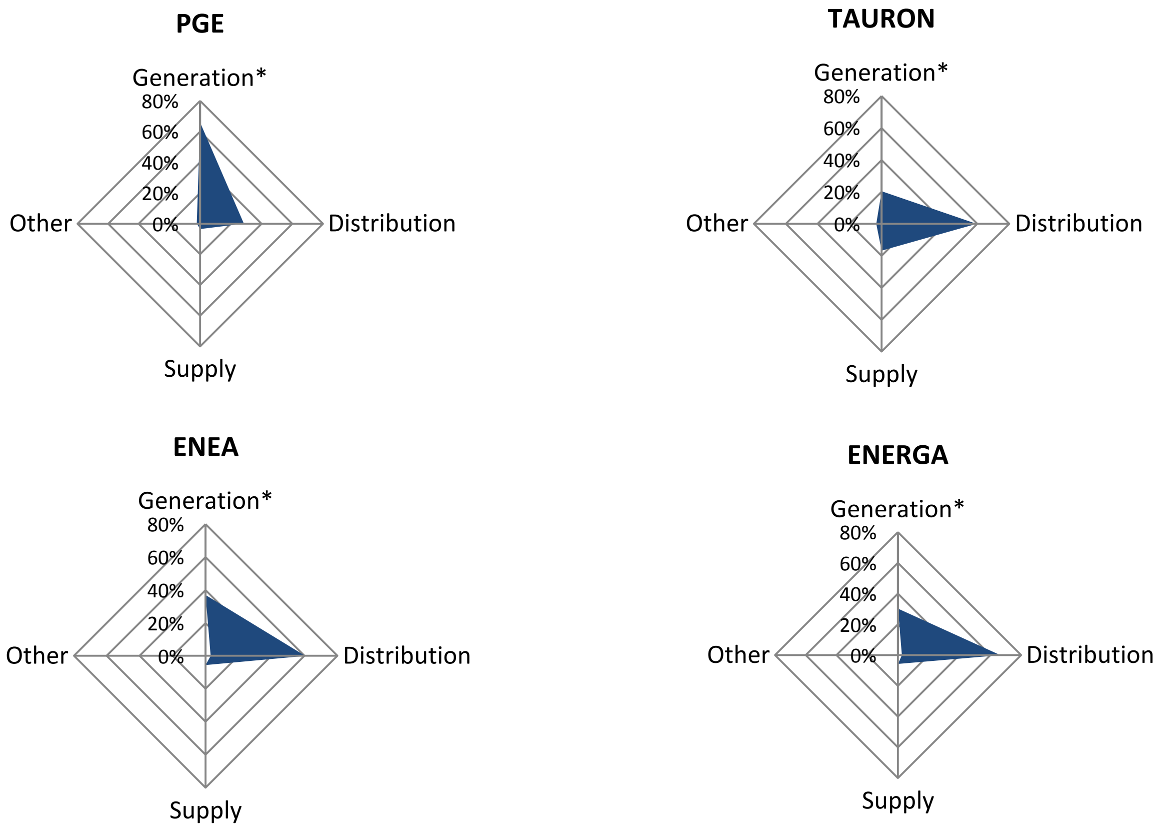
Source: own work based on information published by the companies and ARE

In the retail segment, which covers sales to end customers – individual, small and medium enterprises as well as large industrial customers – most of the sales are conducted by the four largest energy groups and RWE Polska S.A., i.e. groups considered as incumbent sellers of electricity – historically operating in areas coinciding with distribution area and the default sellers for clients who have not decided to switch electricity suppliers. PGE Group and TAURON remain the leaders, having approximately 60% of the market and annual sales of each group at 40 TWh and over five million clients. Despite a growing number of competitors in the segment, including companies for which electricity is not a core product, companies from outside the four largest Polish groups continue to control little market share. The leaders control close to 90% of the market, while other significant players are: RWE, based on sales connected with serving as distributor for the Warsaw area, and EDF, which focuses on sales to businesses.

Energy group profiles

The electricity sector is divided into segments, what is reflected in the operating segments of the respective energy groups. In contrast to the other energy groups in Poland, whose dominant EBITDA driver is the electricity distribution segment, PGE Group derives much of its operating profit from the generation segment, even though the group is the country's second-largest electricity distributor by volume. This allows to optimally deploy its competences and capitalise on opportunities arising in the generation area (both conventional and renewable) as well as in wholesale energy trade, whilst generating high and stable EBITDA on regulated activities. A key feature of all the groups is a relatively small contribution of retail sales to operating profit, which is a result of low sales margins, driven by strong competition in the segment.

Chart: Profiles of Polish energy group (by share of particular business segments in EBITDA for 2014)



* Generation – conventional generation, generation from renewables and heat generation

Source: own work based on information published by the companies

1.2.3 Supply markets

Provision of raw materials

Lignite, hard coal, natural gas and biomass are key fuels used to generate electricity and heat by power plants and heat and power plants belonging to the PGE Group. The cost of fuel procurement constitutes a major share in electricity generation costs. PGE S.A., on the ground of Agreement for Commercial Management of Generation Capacities, secures hard coal, gas and biomass supplies to the branches of the Conventional Generation segment.

Lignite supplies are carried out within a framework of regular cooperation between branches operating in the structure of Conventional Generation segment. The KWB Bełchatów mine supplies lignite to the Bełchatów power plant and the KWB Turów mine supplies it to the Turów power plant. The Group set up internal rules with respect to the performance and settlement of lignite supplies between individual branches of Conventional Generation segment.

The main suppliers of the hard coal for the electricity and heat production needs in the branches of Conventional Generation segment were Kompania Węglowa S.A. and WĘGLOKOKS S.A., whose share in the yearly demand for this raw material amounted respectively to 44% and 25%. Share of the other hard coal suppliers: Jastrzębska Spółka Węglowa S.A. and Katowicki Holding Węglowy S.A. amounted to over a dozen per cent.

Natural gas for electricity and heat production in CHPs of Conventional Generation segment, is mainly supplied on the ground of agreements with the domestic fuel suppliers and through purchases on the OTC market and the TGE exchange (Towarowa Giełda Energii S.A.). PGE Obrót S.A. and Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG S.A.) are the major suppliers.

Biomass is obtained via procurement procedures from suppliers operating on the Polish biomass market.

As regards fuel supplies at PGE Group in 2015, no threats were identified such as could have disrupted continuity of the production process.

Purchases of transmission and distribution services

Under the existing legislation, power undertakings in Poland must have:

- **a valid Agreement for the Provision of Electricity Transmission Services** signed with PSE S.A
- **a valid Agreement for the Provision of Electricity Distribution Services**, signed with a DSO
- or valid agreements concluded both with PSE S.A. and a DSO – if required due to the scope of operations.

In view of the above obligations, companies dealing with generation, trade and distribution of electricity in Poland (including entities in the PGE Group) are, directly or indirectly, dependent on agreements for the provision of transmission services, which provide for rules with regard to the settlement of services rendered to a PSE S.A. and methods for fixing and settling energy divergences of BM Units arising as a result of balancing the domestic electricity demand by the Operator. Agreements for the provision of transmission services are made with the company PSE S.A., which operations include rendering electricity transmission while maintaining the operational security of the National Power System. Pursuant to the provisions of the Energy Law, PSE S.A. as the TSO is responsible for grid flow in the transmission system, current and long-term security of the system, maintenance, repairs and necessary development of the transmission grid, including connection with other power systems.

Power undertakings, which operate under a license and whose active Generation Units are connected to the National Power Grid, must enter into a contract for transmission services ("Contract") with PSE S.A.

Under the Agreement and the Transmission Network Code, a power undertaking is obliged to report on a daily basis any concluded Electricity Sale Contracts to PSE S.A. PSE S.A. as an operator in charge of the performance of the signed agreements and the trade balancing through the Balancing Market, carries out cyclical settlements of deviations of electricity supplied and received. The obligation referred to above creates dependency of a systemic nature which additionally affects companies within the PGE Group to the extent defined by law and determined by the scope and character of their operations.

Termination or expiry of the transmission agreement while the terms of a new transmission services agreement between a power undertaking and PSE S.A. are not agreed leads in practice to a request being filed by one party with the President of the Energy Regulatory Office to establish the terms of the agreement.

An integral part of a transmission Contract is an Agreement on the Terms and Conditions for the Provision of Ancillary Services ("Agreement") with PSE S.A. The Agreement remains in force for one calendar year. The generation units of the PGE Capital Group render selected services from the catalogue of ancillary services to PSE S.A. the extent which has been agreed and provided for in the Agreement.

System services

In 2015, **PGE GiEK S.A.** extended provision of the following system services:

I. **Energy consumption reduction at the PSE S.A. request** ("negawatts"), valid for the next two years (i.e. 2015 and 2016), the service consists of shutting down, specific volumes of electricity supply in 4-hour blocks at a request issued by PSE S.A. in order to ensure the continuous security of the National Power System (KSE).

II. **Generating unit availability** (i.e. GWS – generation forced by grid considerations) during the period from January 1, 2015 to December 31, 2015. This service consists of generating electricity by heat and power plants that have signed agreements to provide the GWS service at the hours and volumes specified in the PSE S.A. request, issued in order to ensure the continuous security of the National Power System.

III. **Cold reserve intervention service** ("IRZ"), consisting of providing PGE GiEK S.A.'s generating units (Units 1 and 2 at Dolna Odra) to PSE S.A. for management and operation for the balancing of active power, in intervention mode, in order to ensure the continuous security of the National Power System, including in particular:

   - maintaining the contractor's generating units on stand-by and, following receipt of a request from PSE S.A., load active power at a level specified in the request,
   - usage of the capacity of the contractor's generating units, which consists of turning the units on and feeding the electricity produced by these units into the grid, at a volume and time specified in PSE S.A. request.

The cold intervention reserve is intended only for the PSE S.A. statutory tasks. The agreement was executed in December 2013, and the IRZ service will be provided in 2016-2017, with an option to extend the agreement for an additional two years.

Use of the above services by PSE S.A. is intended to meet the binding continuity and reliability criteria for electricity supply and to maintain the required quality parameters in respect of the electricity being supplied.

On December 30, 2014, **PGE EO S.A.** signed a new 4-year agreement with PSE S.A. for provision of intervention services. Under the agreement, which covers years 2015-2018, PGE EO S.A. carries out intervention work for PSE S.A. consisting of providing PSE S.A. with the capability to manage and operate the following pumped-storage plants: Żarnowiec, Porąbka Żar, Dychów and Solina, for management, in intervention mode, the balance of active and reactive power in the system and management of power flows in the transmission network.

The services cover:

- active cold intervention reserve service,
- self-start-up service,
- load and reactive power control service,
- power compensation service.

In 2015 purchase of services from PSE S.A. constituted approx. 6% of operating costs incurred by the Group. PSE S.A. is an entity related to PGE S.A. as a subsidiary of the State Treasury.

Electricity trading

In 2015, trading of electricity was realised pursuant to the electricity trading model applied in the PGE Group. Pursuant to the Energy Law the generators from Conventional Generation segment sold electricity on power exchanges (so-called "power exchange obligation"). Moreover Conventional Generation segment and Renewable energy segment were selling electricity to Supply segment and to external customers. Within Supply segment, PGE S.A. was buying energy on power exchange, trading platforms and from generators from the Group, then energy was sold to PGE Obrót S.A., Distribution segment and on domestic market (in bilateral contracts). PGE Obrót S.A. also purchased energy from local markets, i.e. from generating sources located in the areas where the company acts as a supplier of last resort. Simplified model of electricity trading in the Group is presented in p. 3.3.1. of this report.

1.2.4 Fuel purchase costs

Table: Volume and cost of purchase of fuels from third party suppliers in 2015 on a quarterly basis and in the fourh quarter of 2014.

Type of fuel	Q1 2015		Q2 2015		Q3 2015		Q4 2015		Q4 2014	
	Volume (tons ths)	Cost (PLNm)	Volume (tons ths)	Cost (PLNm)	Volume (tons ths)	Cost (PLNm)	Volume (tons ths)	Cost (PLNm)	Volume (tons ths)	Cost (PLNm)
Hard coal	1,119	277	1,248	294	1,414	329	1,807	415	1,712	429
Gas (cubic metres ths)	206,219	196	93,963	77	75,712	35	199,304	176	201,645	198
Biomass	379	105	317	93	236	63	283	72	291	86
Fuel oil*	8	10	6	9	4	4	12	15	13	23
TOTAL		**588**		**473**		**431**		**678**		**736**

*heavy and light

Table: Volume and cost of purchase of fuels from third party suppliers in 2015, 2014 and 2013.

Type of fuel	2015		2014		2013	
	Volume (tons ths)	Cost (PLNm)	Volume (tons ths)	Cost (PLNm)	Volume (tons ths)	Cost (PLNm)
Hard coal	5,588	1,315	6,197	1,536	6,109	1,557
Gas (cubic metres ths)	575,198	484	378,949	258	377,177	271
Biomass	1,215	333	1,236	353	1,061	304
Fuel oil*	30	38	40	75	44	96
TOTAL		**2,170**		**2,222**		**2,228**

*heavy and light

In 2015 the costs of purchasing primary fuels from providers outside the Group amounted to PLN 2,170 million and were lower by PLN 52 million than in 2014, wherein the cost of gas purchases increased by PLN 226 million and the cost of other fuels fell by PLN 278 million.

Costs of purchase of the main fuels in PGE Capital Group were impacted the most by:

- Gas
  - Higher purchase volume by 52% (PLN +134 million)
    The increase of gas purchase volume in 2015 was caused by the reinstated support scheme for gas cogeneration. In 2014 production in gas-fired CHPs was low due to lack of support. Cogeneration support scheme was prolonged until December 31, 2018.

    In addition, increased purchase of gas results from higher production in Rzeszów CHP due to commissioning of new gas-engine unit in November 2014.
  - The higher average price by 24% (PLN +92 million)
    The increase of average gas purchase price in 2015 was caused by change in structure of consumption of methane-rich gas derived from dispatch and from local market.

In connection with the reinstated cogeneration support scheme electricity and heat production was relaunched in units using methane-rich gas derived from dispatch. Support concerns gas-fuelled cogeneration units and improves generation efficiency of these producers. Unit price of methane-rich gas is higher than price of gas from local sources that was used in 2014 what causes increase of gas purchase price in PGE Group despite dropping prices on global markets.

- Hard coal

  Lower purchase volume by 10% (PLN -151 million)

  Lower purchase volume of hard coal results from lower generation in Opole power plant, as a consequence of the outage of unit no 3 being in planned overhaul from October 16 to November 19, 2015 and additionally lower average utilisation of the power units on PSE S.A. request and longer reserve shutdown.

  - The average purchase price lower by 5% (PLN -70 million)
    Lower hard coal price results chiefly from the situation on the mining market that is connected with the oversupply of hard coal and low prices on the international markets, what attributed to the prices drop in Poland.

- Fuel oil
  - Purchase volume lower by 25% (PLN -19 million).
  - Average price lower by 32% (PLN -18 million)
    Lower prices of crude oil and refinery products attributed to the decrease of average purchase price of fuel oil.

- Biomass
  - Average price lower by 4% (PLN -14 million)
  - Lower volume of biomass purchase by 2% (PLN -6 million)

In 2015 approximately 70% of the electricity was produced from internally sourced lignite, whose extraction price is fully controlled by PGE Capital Group.

1.2.5 Tariffs

PGE Group companies earn part of their income based on tariffs approved by the President of the Energy Regulatory Office:

I. tariffs for the sale of electricity to households (G tariff group);
II. tariffs of the distribution companies;
III. tariffs for heat.

Sales of electricity

In 2015 tariffs for sales of energy to the corporate customers (key and business) and to individuals (other than G tariff customers connected to the distribution network of PGE Dystrybucja S.A.) were not subject to approval of the President of the Energy Regulatory Office.

In 2015 sales of electricity to off-takers from the G tariff group, connected to the distribution network of PGE Dystrybucja S.A., was conducted on the basis of electricity Tariff for PGE Obrót S.A. approved by the decision of the President of the Energy Regulatory Office for the period from January 21, 2015 till December 31, 2015. In comparison to the analogical period of 2014 tariffs in G tariff group increased by approximately 0.5%.

Distribution of electricity

Methodology of and assumptions for tariffs determination were published in the document "Tariffs for the DSO for the year 2015", which was prepared and published by the President of the Energy Regulatory Office.

Tariff of PGE Dystrybucja S.A. for 2015 was approved by the President of the Energy Regulatory Office on December 16, 2014 and came into force on January 1, 2015.

Distribution tariffs for 2015 approved by the President of the Energy Regulatory Office, contributed to changes in average payments for customers in particular tariff groups in comparison to year 2014:

- A tariff group – increase by 0.88%;
- B tariff group – increase by 1.29%;
- C+R tariff group – increase by 2.85%;
- G tariff group – increase by 2.61%.

Increase of distribution tariffs takes into account significant increase in fees (quality and transition) transferred from the Transmission System Operator tariff, that increase regulated revenue but do not affect the result of Distribution segment.

On December 17, 2015 the ERO President approved the Tariff of PGE Dystrybucja S.A. for electricity distribution services for the period until December 31, 2016.

The most important change is implementation in tariff for 2016 of quality parameters. It has been settled that the ratios directly impacting the regulated revenue will be following key performance indicators:

- SAIDI – System Average Interruption Duration Index;
- SAIFI – System Average Interruption Frequency Index;
- Connection time („CRP");
- Transfer time of metering and billing data („CPD"), which will be included in the quality regulations as of 2018.

Not meeting the levels of ratios indicated by the ERO President will result in penalty of decreasing the regulated revenue through reduction of return on capital in year t+2. In the initial period no rewards are anticipated for achieving better indicators than the required ones.

Impact of quality parameters realized in 2016 will be included in tariff for 2018. In accordance with the assumptions adopted by the ERO, a penalty may not exceed 2% of regulated revenue and value of 15% of return on capital in a given year.

For the first time in line with the ERO guidelines, it has been possible to include in the tariff costs related to construction of energy infrastructure in the traffic lane, or costs related to the permanent exclusion of land from agricultural production and forestry, etc., what the DSOs have stipulated for many years.

Tariff for heat

Pursuant to the Energy Law, Energy companies holding concessions set tariffs for heat and propose their duration. Tariff is subject to approval of the President of the Energy Regulatory Office, if it is consistent with rules and regulations. Detailed rules for tariffs determination are defined in the Regulation of the Polish Minister of Economy on detailed rules for calculation of tariffs and on settlements with regard to heat supply. Conduction of proceedings concerning heat tariffs approval lies within the competence of regional Branches of the Energy Regulatory Office.

Average sale price of heat in PGE increased by approx. 4.2% in comparison to the prices binding in 2014.

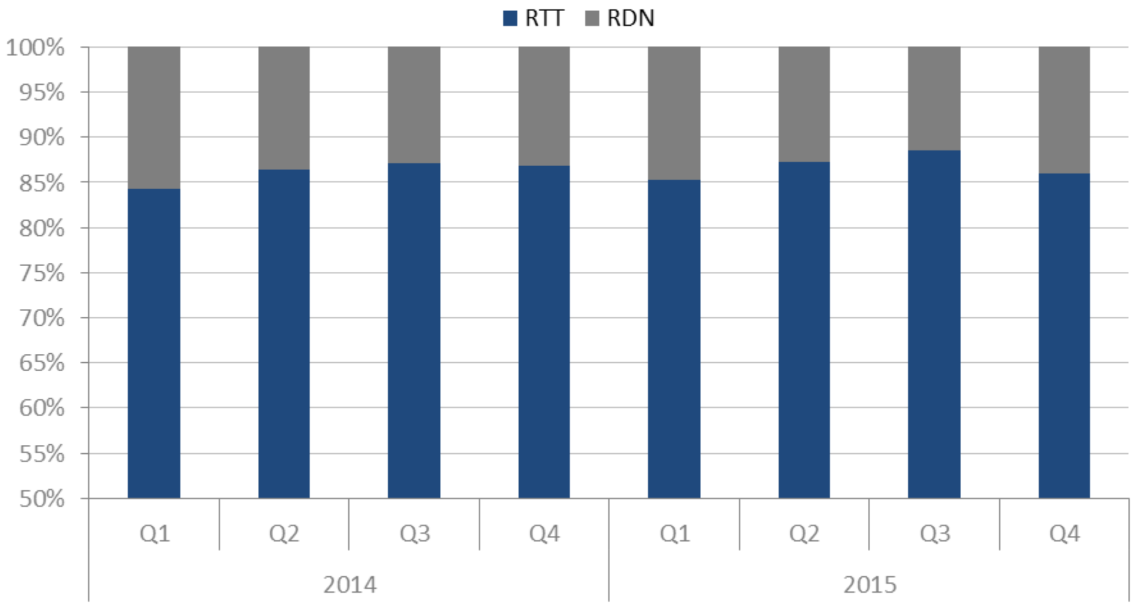
1.2.6 Electricity prices

Domestic market – trading volumes

Liquidity on the day-ahead market of Towarowa Giełda Energii S.A. (TGE) in 2015 increased by 5% y-o-y. The trading volumes on the futures market (RTT) grew by 11% compared to 2014. Trading volume of PEAK products in relation to BASE products constitutes 10%, meaning that the trend from 2014 remained valid. Total combined trading volume for the day-ahead market and the futures market was up by 10% y/y, reaching 189.5 TWh in 2015. This means that TGE trading volumes exceeded domestic electricity consumption, which amounted to 161.4 TWh - according to PSE S.A.

The excess of electricity trading volumes over domestic consumption suggests an increasing share of speculative trading and stronger dynamics in power portfolio management, both of which are having a positive impact on market liquidity.

Chart: Quarterly trading volumes on the day ahead market (RDN) and futures market (RTT) in 2014-2015.



Domestic market - Prices

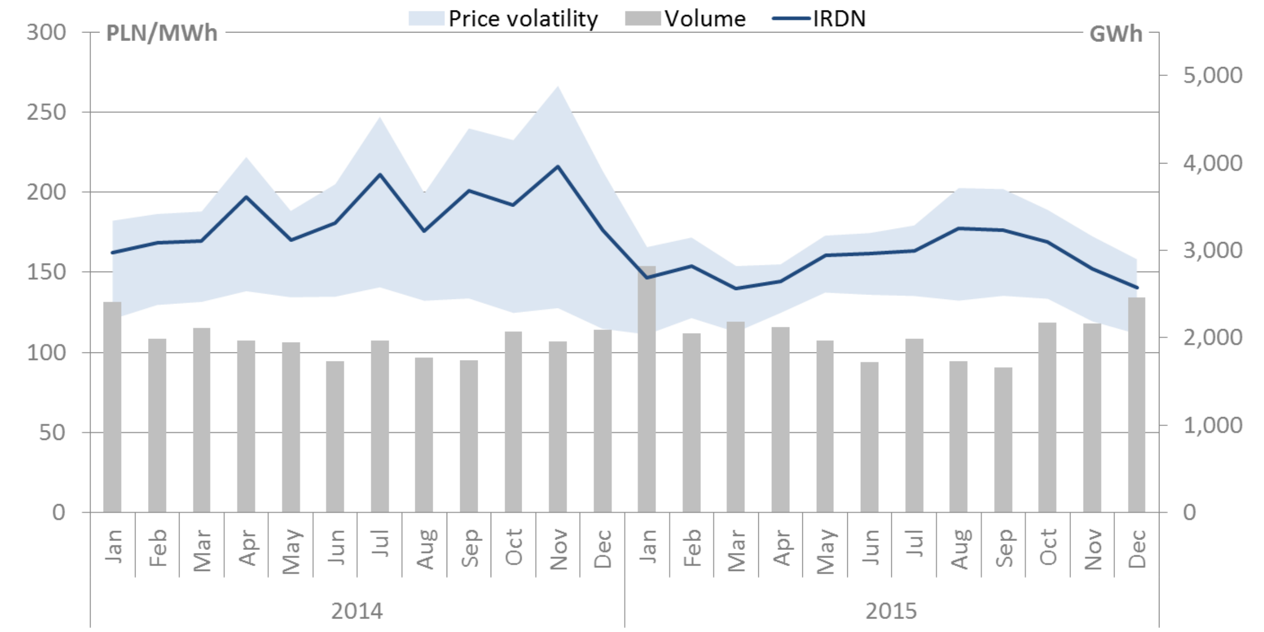
Day-ahead market

In the fourth quarter of 2015, prices on the day-ahead market were in an downward trend. The average day-ahead price (the IRDN index) in the fourth quarter of 2015 was PLN 153.53/MWh compared to PLN 171.72/MWhs in the third quarter of 2015. Trading volume in the fourth quarter amounted to 6.79 TWh. The decrease in prices was caused by continued higher level of power capacity reserve than in the previous quarters, especially in comparison to the third quarter of 2015 when high temperatures led to increases in demand (due to air conditioning and ventilation) with simultaneous limited production capacities in conventional baseload plants. Higher capacity reserve in the fourth quarter of 2015 was influenced by intensified wind generation which – in favourable meteorological conditions - reached 3.47 TWh when in the third quarter it was 1.90 TWh. Energy generated in the wind farms (like whole RES generation) has the priority when Operator needs to balance the system. As a consequence, intensified wind conditions significantly impacts the prices becasue it replaces more expensive units which have been used so far to balance the system.

The average price on the day-ahead market in 2015 years was 15% lower y-o-y. The decline in electricity prices, both in peak and off-peak hours in comparison to 2014, resulted from, among others:

- higher level of operational capacity reserve;
- lower level of planned and unplanned shutdowns of units;
- strong output at wind farms (improved wind conditions and higher installed capacity);
- low level of price changes in neighbouring markets (particularly Sweden).

Chart: Monthly prices and price volatility at the day ahead market in 2014–2015 (TGE)*.

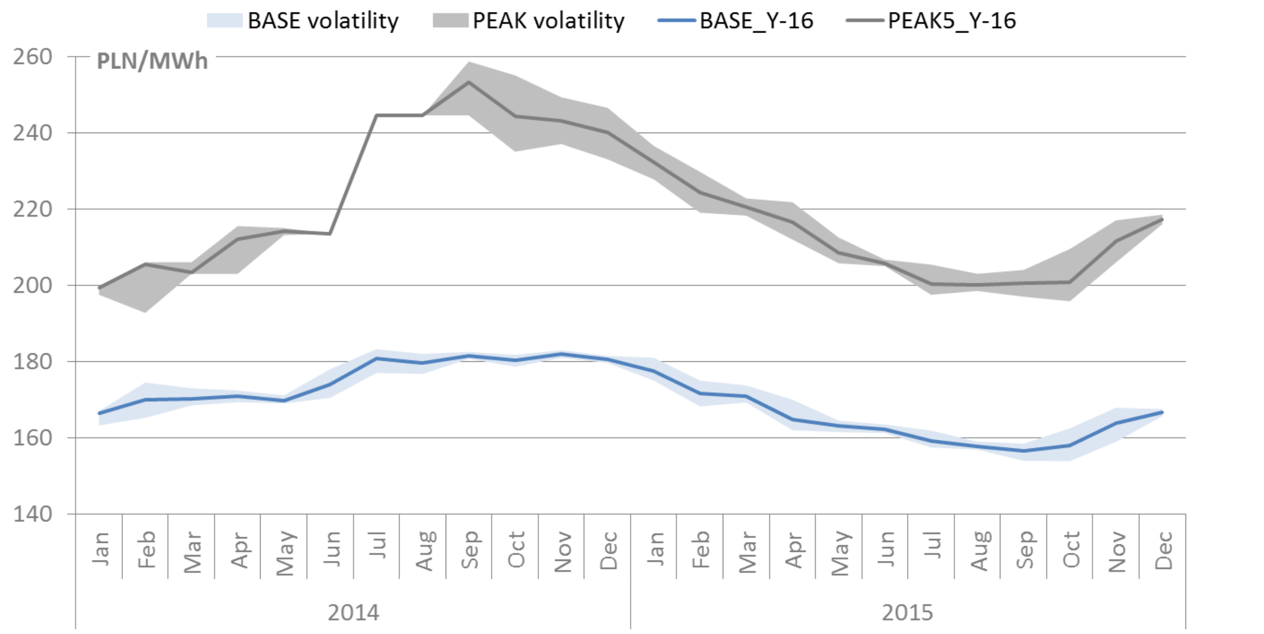


* arithmetic average price from all power exchange transactions concluded at the session (IRDN) and prices spread (sIRDN, offIRDN)

Futures market

In the fourth quarter of 2015, both BASE and PEAK contracts were priced lower y-o-y. The BASE_Y-16 and PEAK5_Y-16 futures contracts for 2016 have been in a downward trend since the beginning of the year while they increased once again in the fourth quarter of 2015. In January 2015, the BASE_Y-16 product was priced at an average of PLN 177.39/MWh, reached its minimum in September (PLN 156.55/MWh) and amounted to PLN 166.76/MWh at the end of December 2015. The analogical trend was observed in the case of the PEAK5_Y-16 product, which was valued at PLN 232.25/MWh in January 2015, its minimum price in September fell to PLN 197.00/MWh and jumped in December to PLN 206.00/MWh. The price increase on the RTT market resulted from: mainly an increase in the prices of CO_2 emission allowances, announcement of changes in settlement rules for the Balancing Market starting from January 2016.

Chart: Monthly prices and price volatility on the futures market in 2014-2015 (TGE).

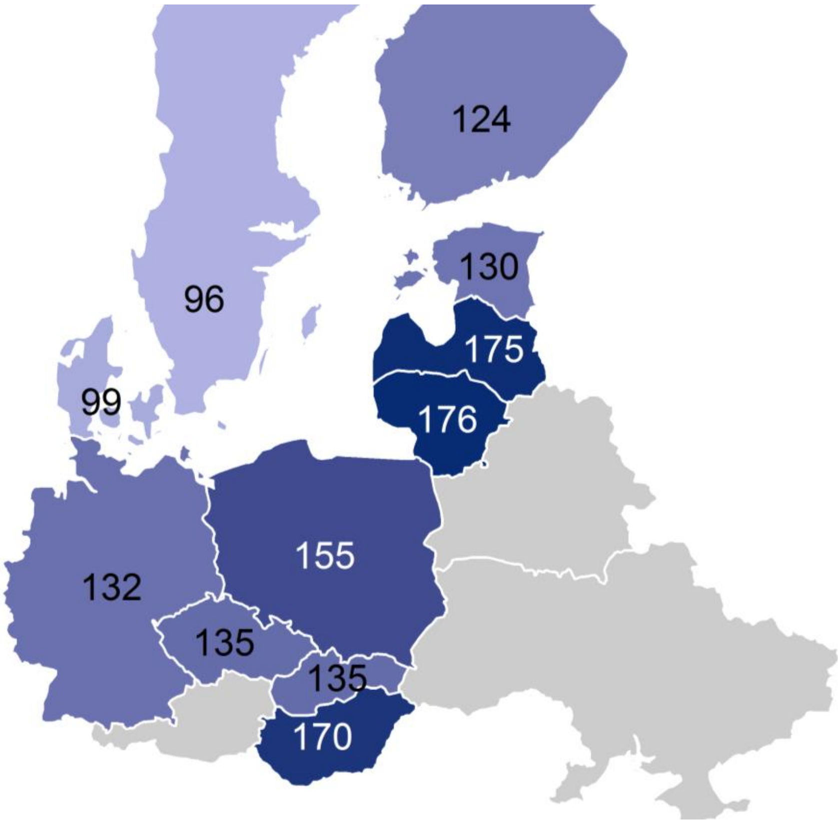


International markets

Wholesale market

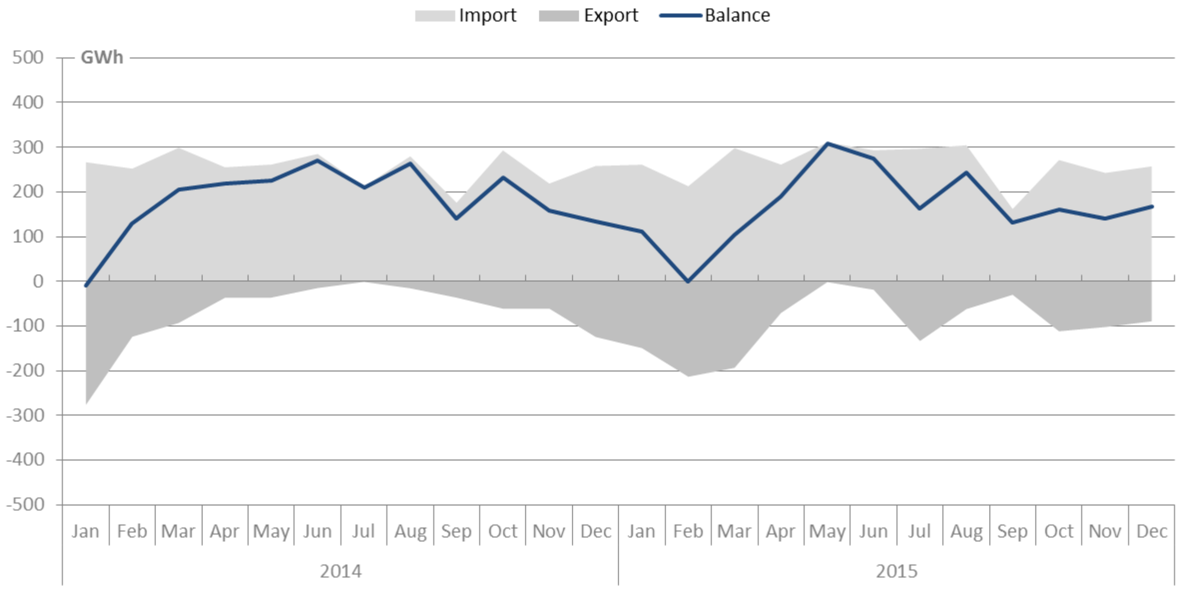
In 2015 wholesale prices on the Polish market remained above those in Sweden, Germany, Czech Republic and Slovakia. The average spot price on the German market fell by 3% y-o-y to PLN 132.39/MWh on account of meteorological conditions in wind generation and decreased prices of hard coal for conventional plants. Swedish spot market showed downward trend due to better hydrological situation and the increase of wind generation, what resulted in the average price of PLN 95.85/MWh - a level close to historic lows. Use of advantages of the low prices on neighboring markets is limited by transmission capacities on interconnectors allowed for trading (impact of so called carousel flows). This means that electricity generated by wind farms in Germany near the Polish border reaches into the Polish system, undesirably blocking a rational trade exchange between Poland and Germany.

Chart: Comparison of average prices on Polish market and on European markets in 2015 (prices in PLN/MWh).



These price relations in the third quarter of 2015 between Poland and its neighbouring markets were reflected in cross-border exchange volumes. Poland remained net energy importer. Invariably, most energy was purchased from Sweden, where the volume of exchange remained at a similar level to 2014, reaching 3.16 TWh. The situation on the international electricity market in 2015 was marked by a 14% decline in imports (lower imports from Ukraine, caused by the political situation there) and a 33% increase in exports (growth of exports to Germany and the Czech Republic in the winter months).

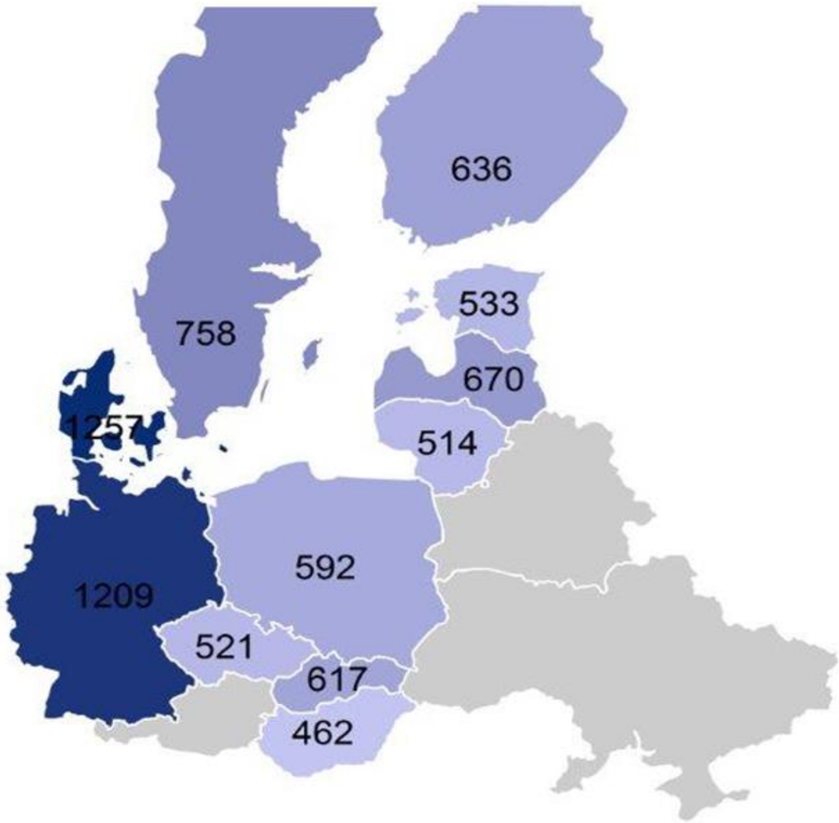
Chart: Monthly imports, exports and cross-border exchange balance in 2014-2015.



Retail market

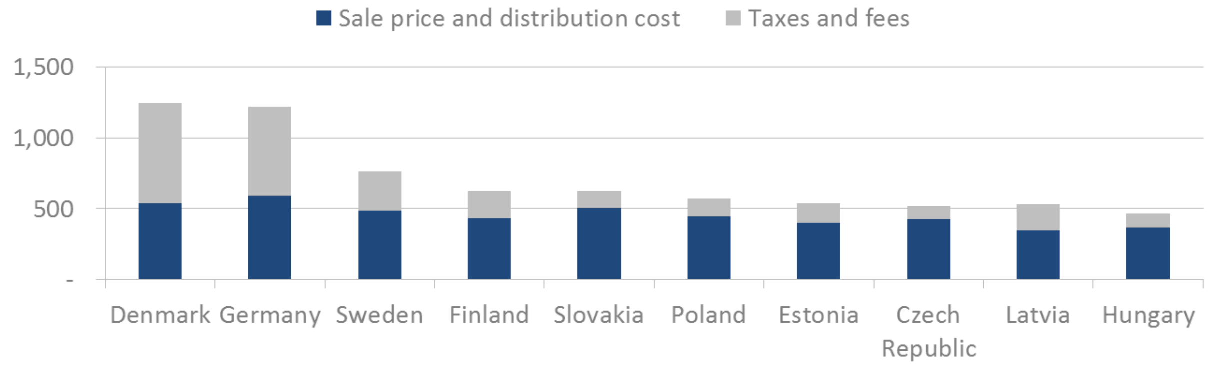
The diversity of electricity prices for retail customers in the European Union depends not only on the level of the wholesale prices of electricity. The fiscal system, regulation mechanisms and support schemes in particular countries all have significant impact on the final price of electricity. In Poland in the first half of 2015, an additional burden for individual customers accounted for 24% of the electricity price, compared to the EU average of 30%. In Denmark and Germany the proportion of additional charges in the price of electricity exceeded 50%.

Diagram: Comparison of average electricity prices for individual customers in selected EU countries in the first half of 2015 (prices in PLN/MWh). Prices include the costs of electricity distribution.



Source: own work based on Energy prices in the EU. Eurostat, the statistical office of the European Union. 92/2015 – 27. EUR/PLN - 4.10

Diagram: The share of additional charges in electricity prices for the individual customers in selected EU countries in the first half of 2015 (prices in PLN/MWh).



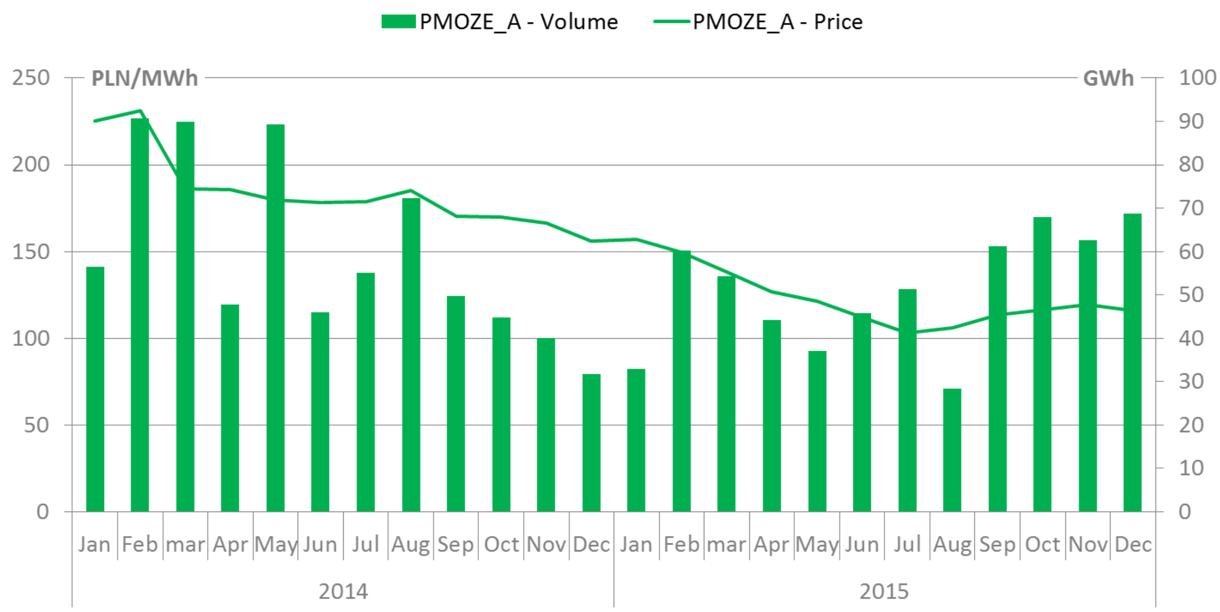
Source: own work based on Energy prices in the EU. Eurostat, the statistical office of the European Union. 92/2015 – 27. EUR/PLN - 4.10

1.2.7 Prices of property rights

Green certificates – Renewable Energy Sources

A decline in the value of property rights deriving from renewable energy sources (PMOZE_A) was observed in the three quarters of 2015. The downtrend initiated in March 2014 continued, as a result of which the average price of property rights reached a minimum of PLN 104.06/MWh in July 2015. In the fourth quarter of 2015, the trend was reversed – the price reached PLN 116.12/MWh in December. The low prices of PMOZE_A certificates resulted from high over-production, which continuously exceeds the volume needed for redemptions on the market. The price growth in the fourth quarter of 2015 was largely connected with a planned introduction of a RES Law from January 1, 2016 and a limitation of production by large water power industry players and units operating co-combustion technology.

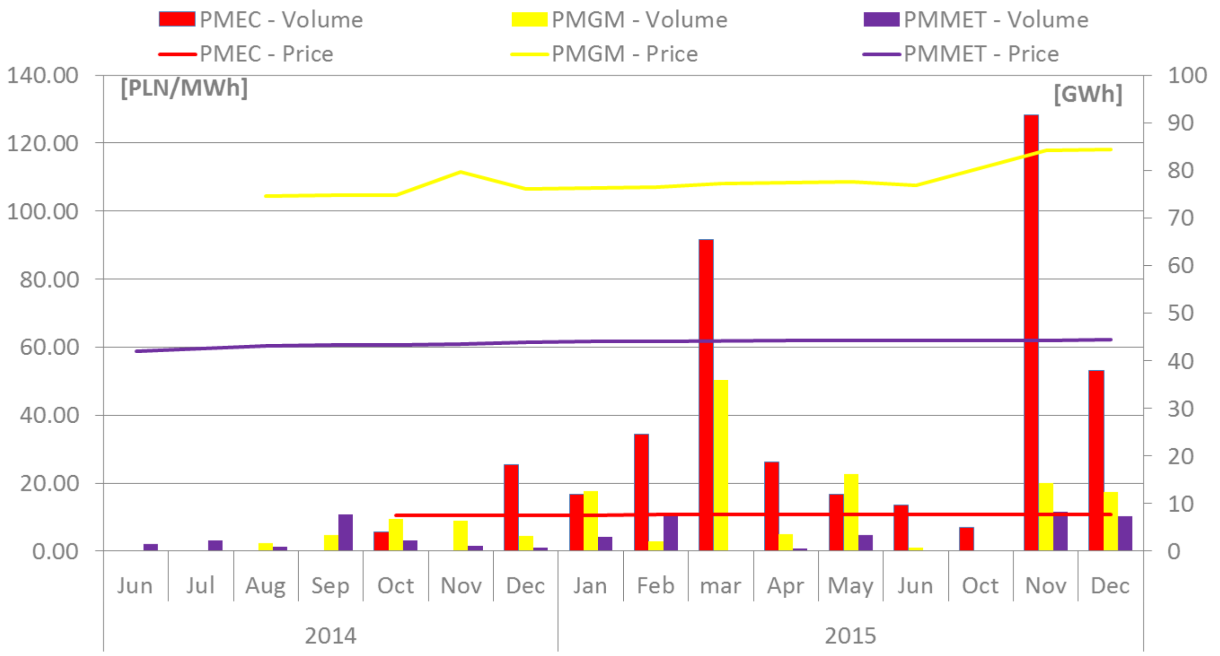
Chart: Monthly prices and trading volumes of green certificates in 2014-2015.



Yellow, red and violet certificates - cogeneration

The prices of yellow (PMGM), purple (PMMET) and red (PMEC) cogeneration certificates remained at levels approximating unit substitute fees. The average price for yellow certificates in the fourth quarter of 2015 reached PLN 117.25/MWh (substitute fee PLN 121.63/MWh), violet certificates PLN 61.70/MWh (substitute fee PLN 63.26/MWh) and red property rights PLN 10.64/MWh (substitute fee PLN 11.00/MWh). The high prices resulted from a supply-side shortfall as compared with demand.

Chart: Prices and trading volumes of cogeneration certificates in 2014 – 2015.



1.2.8 Prices of CO_2 emission rights

Following types of emission rights are available on the market – European Union Allowances (EUA), Certified Emission Reductions (CER) and Emission Reduction Units (ERU). CER-type and ERU-type rights may be redeemed by business operators only to a limited extent, in settlement period 2013-2020 up to 11% of the allocations granted under the National Allocation Plan for years 2008-2012.

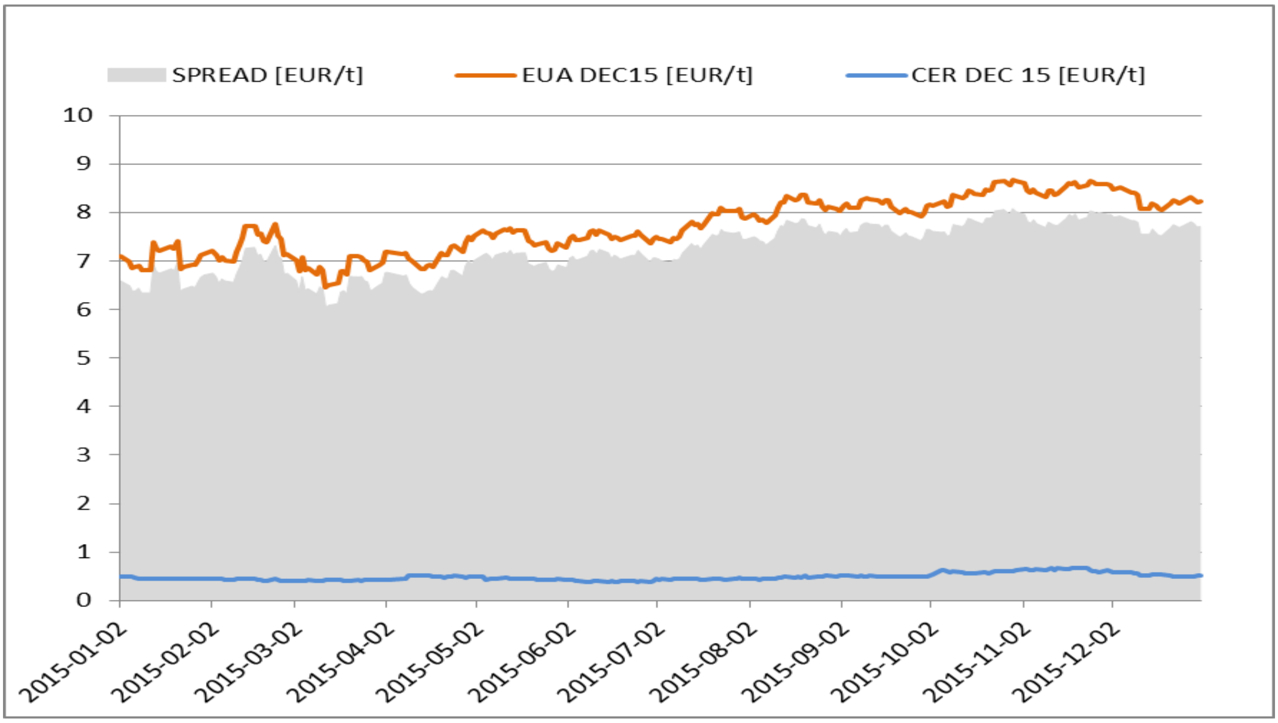
Factor, which affected the volatility of prices of CO_2 emission rights in 2015, was the legislative activities connected with the implementation of the MSR. MSR was projected by the European Commission as a mechanism aimed at consuming the existing surplus and leading to a balance between demand and supply. MSR mechanism is to rely on withdrawal to the reserve each year 12% of the total number of allowances traded in the preceding year. This is to be done until the number of allowances that should be withdrawn, falls below 100 million. If the total pool of allowances on the market will not exceed 400 million, 100 million allowances shall be released annually from the reserve.

In July 2015 a draft amendment to the EU ETS directive was published - it is to define rules in a subsequent settlement period 2021-2030.

In September 2015, proposals for the establishment of MSR from 2019 years were formally approved. At that time, amendments to the Act on trading scheme for greenhouse gas emissions entered into force. The Act determines the rules of trading of CO2 emission rights in the current settlement period i.e. in years 2013 -2020.

The UN COP21 Climate Summit in Paris began on November 30, 2015. Its aim was to develop a new global agreement. On December 12, 2015, representatives of the UN climate convention countries adopted an agreement, the main objective of which is to "keep a global temperature rise this century well below 2 degrees Celsius and to drive efforts to limit the temperature increase even further to 1.5 degrees Celsius above pre-industrial levels." The agreement will be in effect from 2021 to 2030.

Chart: Prices of CO_2 emission rights in 2015.



Source: own work based on the data from Intercontinental Exchange (ICE) - closing prices

In 2015, prices of EUA units in future contracts with delivery in December 2015 were priced in range EUR 6.44-8.68/tonne. In the same period, CER units in future contracts with delivery in December 2015 were priced in range EUR 0.38-0.67/tonne.

In the nearest future the main factor affecting EUA prices will be annual allocation of free-of-charge CO_2 emission allowances and publication of data regarding levels of greenhouse gas emissions from installations covered by the EU ETS in 2015.

1.2.9 Emission rights granted free of charge for years 2013-2020

The Regulation of the Council of Ministers, that sets the allocation of allowances for particular units of electricity producers in period 2013-2020, was adopted on April 8, 2014. Analogically, allocations of allowances for heat producers were set by the Regulation of the Council of Ministers of March 31, 2014.

PGE's installations accounts were credited with free allowances for heat for 2015 and energy for 2014, while free allowances for electricity for 2015 will be received by the Group by the end of April 2016, after verification of reports from investments submitted to the National Investment Plan.

At the same time, redemption of emission rights resulting from CO_2 emissions in 2014 was completed in April 2015.

The following table presents data concerning CO_2 emission from major Group installations in 2015 in comparison to the allocations.

Table: Emission of CO_2 from major Group installations in 2015 in comparison to allocation of CO_2 emission rights for 2015 (in Mg).

Operator	CO_2 emissions in 2015*	Allocation of CO_2 emission rights for 2015**	% of the emission covered by the free allowances
Bełchatów Power Plant	37,051,917	13,501,970	36%
Turów Power Plant	7,595,544	5,431,204	72%
Opole Power Plant	5,821,224	3,118,922	54%
ZEDO	5,457,186	2,543,421	47%
Bydgoszcz CHPs	792,439	608,949	77%
Lublin Wrotków CHP	472,217	328,762	70%
Gorzów CHP	431,355	255,812	59%
Rzeszów CHP	291,174	141,729	49%
Kielce CHP	172,746	105,552	61%
Zgierz CHP	202,509	40,830	20%
TOTAL	**58,288,311**	**26,077,151**	**45%**

* estimates, emissions not verified - the data will be settled and certified by the authorised verifier of CO_2 emission on the ground of yearly reports of volume of CO_2 emissions

** amount of granted CO_2 emission rights will be confirmed in the Regulation of the Council of Ministers in 2016

1.2.10 Termination of long-term contracts (LTC)

Due to the termination of LTCs in accordance with the LTC Act, the producers being earlier the parties to such contracts obtained a right to receive compensations for the coverage of so called stranded costs. Stranded costs were capital expenditures resulting from investments in generating assets made by the generator before May 1, 2004 that a generator is not able to recoup from revenues obtained from sales of generated electricity, spare capacity and ancillary services in a competitive environment after early termination of LTC. The LTC Act limits the total amount of funds that may be paid to all generators to cover stranded costs, discounted as at January 1, 2007, to PLN 11.6 billion, including PLN 6.3 billion for PGE.

Table: Key data relating to PGE Group generators subject to the LTC Act.

Generator	LTC maturity	Maximum amount of stranded and additional costs (in PLN million)
Turów Power Plant	2016	2,571
Opole Power Plant	2012	1,966
ZEDO	2010	633
Lublin Wrotków CHP	2010	617
Rzeszów CHP	2012	422
Gorzów CHP	2009	108
TOTAL		**6,317**

In the period provided for by the LTC Act, i.e. till December 31, 2007, PGE S.A. signed LTC termination agreements with generators being parties to the then applicable LTCs. Therefore generators obtained a right to receive funds to cover their stranded costs.

The impact of LTC compensations on results achieved by the PGE Group is described in Note 35.1 to the consolidated financial statements and in p. 9.14 of this report.

2 Strategy of the PGE Capital Group for years 2014 - 2020 and key activities in 2015

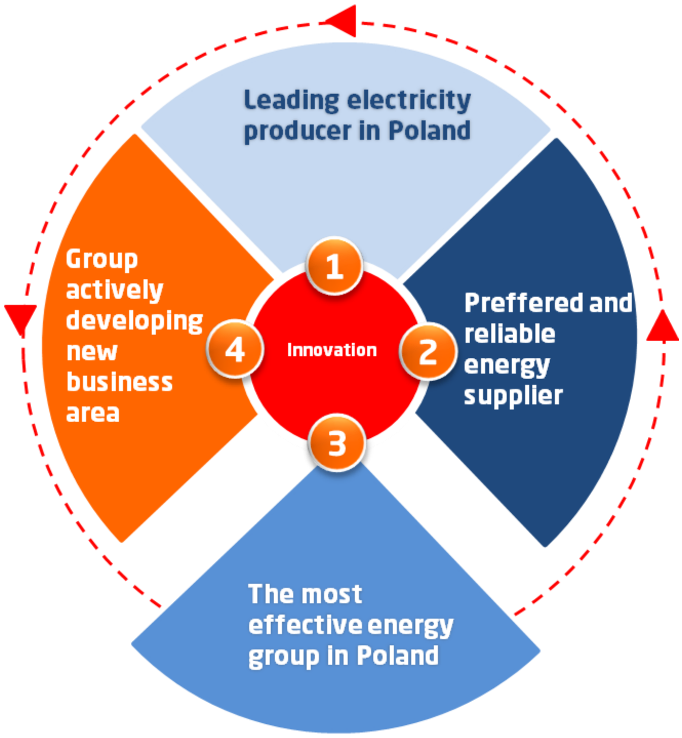
Market and regulatory environment is currently subject to constant changes, which require PGE Group to verify its strategy through prioritisation and potential correction of key aspirations and strategic activities.

In particular, it is required to accelerate restructuring initiatives and efficiency improvement in operations of the whole organisation that are necessary for faster diversification of the Group's generation fleet. The Company analyses its development plans in the context of the market situation and maximization of the CAPEX and OPEX efficiency.

Main areas of analyses are:

- Investment and modernization program
- M&A activities and restructuring
- Optimising of organizational structure and efficiency improvement programs

Diagram: Strategic aspirations of PGE Capital Group.



Leading electricity producer in Poland

In order to strengthen the leading position in electricity generation in Poland, PGE Group strategy assumes significant spending in 2016-2020 for replacement, modernisation and construction of new generation assets. Review of the investment and modernization program is one of the key elements in the process of updating aspirations and strategic actions of the PGE Capital Group.

Key actions in this field include:

- Modernisation and construction of highly efficient conventional units based on domestic fuel resources. By 2019 PGE Group will commission new highly efficient hard coal unit in Opole power plant and by 2020 lignite-fired unit Turów power plant with a total capacity of approx. 2,290 MW.
- Development of cogeneration in connection with the long-term support scheme. Currently, PGE Group is finalising a 138 MWe co-generation project of CCGT unit in Gorzów CHP and is starting realisation of the waste incineration plant in Rzeszów CHP. Development of further projects is conditional upon long-term support system implementation.
- Diversification of generation portfolio through implementation of zero-carbon investments (nuclear, RES) in business models ensuring their economic predictability. PGE Group intends to continue developing project of construction of first Polish nuclear power plant and developing new capacities in wind power plants. Both initiatives will be realized only in business models assuring their economic predictability. Construction of the first nuclear power plant is the key investment lowering the carbon intensity of generation portfolio of PGE Group, however development of the long-term support system is necessary for further project development

with account taken to project financing and interest of the off-takers. Application for the "fundamental decision" to be issued will be possible in 2018 based on the form of support system and results of the integrated proceeding. In 2015 PGE finished construction of wind farms Karwice, Gniewino Lotnisko, Resko II and Kisielice II and currently has 529 MW installed capacity in wind farms. Construction or acquisition of other RES projects will be dependent on the future support system and therefore their potential for creating the PGE Group's value in this segment.

- Maintaining a position of leading operator of the regulatory assets. PGE expands and modernises regulatory assets to fully utilise their potential of cooperation with PSE S.A. Further investments are planned until 2020 to assure highest operating standards and uninterrupted availability of assets.
- Provision of resource base for conventional generation as a strategic option for future growth depending on the direction of EU climate policy. Projects for obtaining concession for lignite extraction from Złoczew deposit and obtaining concession for lignite extraction from Gubin deposit are currently at the stage of obtaining the required administrative permits. Exploitation of lignite deposits will be considered within the development strategy of the whole generation portfolio.

Key projects in 2015	
Construction of new units in Opole power plant	• construction of two power units of 900 MW each • budget: approx. PLN 11 billion (net, without costs of financing) • capital expenditures incurred: approx. PLN 3.3 billion • **fuel**: hard coal • **efficiency**: 45.5% • **contractor**: syndicate of companies: Rafako, Polimex-Mostostal and Mostostal Warszawa; main subcontractor: Alstom • commissioning: unit 5 – H2 2018; unit 6 – H1 2019 • January 31, 2014 – issue of Notice to Proceed • status: commencement of assembly of a steel structure for boiler no. 6 and construction of a concrete coating for cooling tower no. 6; continuing construction of boiler, boiler room and machine room at block no. 5, the concrete coating for cooling tower no. 5 has almost reached the target height. Overall progress of the works as of the end of December was 32.5%.
Construction of new unit in Turów power plant	• construction of power unit with a capacity of 490 MW • budget: approx. PLN 4 billion (net, without costs of financing) • capital expenditures incurred: approx. PLN 0.13 billion • **fuel**: lignite • **efficiency**: 43.1% • **contractor**: syndicate of companies: Mitsubishi-Hitachi Power Systems Europe, Budimex and Tecnicas Reunidas • commissioning: H1 2020 • December 1, 2014 - issue of Notice to Proceed • status: project documentation development stage; excavation work for the main facilities of the new unit are conducted; Amendment to the Agreement signed with regard to basic parameters of new unit no 11, in such way that it would meet BAT conclusions, that are to be effective after 2021
Construction of new unit in Gorzów CHP	• construction of cogeneration CCGT unit with a capacity of 138 MWe and 88 MWt • budget: approx. PLN 607 million (net, without costs of financing) • capital expenditures incurred: approx. PLN 285 million • **fuel**: local nitrogen-rich gas or methane-rich gas (Group E) • **general efficiency:** 84% • **contractor**: Siemens • commissioning: H1 2016 • October 3, 2013 - issue of Notice to Proceed • status: project in advanced stage, installation and electrical work continued. The finishing work at all of the buildings of the new unit is on-going.

Investments in renewable energy sources	**Karwice wind farm** ● budget: ok. PLN 256 million (net, without costs of financing) ● capacity: 40 MW (16 turbines with a capacity of 2.5 MW) ● May 2014 – turnkey contract for construction of the wind farm (Aldesa) ● status: **commissioned** in July 2015 **Resko II wind farm** ● budget: approx. PLN 386 million (net, without costs of financing) ● capacity: 76 MW (38 turbines with a capacity of 2 MW) ● October 2014 - contract for supply of wind turbines (Vestas) ● November 2014 - contract for construction works (Mega, Elektrobudowa) ● status: **commissioned** in December 2015 **Gniewino Lotnisko wind farm** ● budget: approx. PLN 530 million (net, without costs of financing) ● capacity: 90 MW (30 turbines with a capacity of 3 MW) ● June 2014 – contract for supply of wind turbines (Alstom) ● August 2014 – contract for construction works (CJR) ● status: **occupancy permit obtained** in December 2015 **Kisielice II wind farm** ● budget: approx. PLN 87 million (net, without costs of financing) ● capacity: 12 MW (6 turbines with a capacity of 2 MW) ● January 2015 – turnkey contract for construction of the wind farm (Mega) ● status: **occupancy permit obtained** in December 2015

Total installed capacity in PGE Group's wind farms currently amounts to **529 MW**.

Modernisation and replacement projects	**Comprehensive modernization of units 7-12 - Bełchatów power plant** ● **Project's objective:** to extend the life-time of the units up to 320 ths. hours which enables utilization of existing coal resources ● boosting the efficiency of the units by approx. 2 p.p. ● budget: approx. PLN 4.7 billion (net, without costs of financing) ● work progress: units no. 7, 8, 9, 11 and 12 commissioned, unit no. 10 - in modernization ● fuel: lignite ● Completion: 2016 **Modernization of desulphurization installations for units 3-12 - Bełchatów power plant** ● **project's objective:** to decrease the SO_2 emission level to the level required in IED (<=200 mg/Nm^3) ● budget: ca. PLN 162 million (net, without costs of financing) ● fuel: lignite ● completion: 2016 **Change in technology of furnace waste storage for units 1-12 – Bełchatów power plant and construction of installation to transport ash; production and transport of sludge from unit 14 in Bełchatów power plant** ● **project's objective:** to provide the capability for storage of furnace waste produced during the operation of units 1-12 of Bełchatów power plant until exhaustion of lignite resources. In the course of the project, the requirement to fit out unit 14 with new technology for the transport and storage of combustion waste was identified. ● budget for units 1-12: ca. PLN 454 million (net, without costs of financing) ● budget for unit 14: ca. PLN 90 million (net, without costs of financing) ● completion for units 1-12 and unit 14: 2018 **Reduction of NOx emission - units 1, 2 and 4 Opole power plant** ● **project's objective:** to decrease the NO_x emission level to standard required in IED (<=200 mg/Nm^3). ● budget: ca. PLN 148 million (net, without costs of financing) ● fuel: hard coal ● completion: 2016 **Construction of desulphurization installations for units 4-6 – Turów power plant** ● **project's objective:** to decrease the SO_2 emission level to standard required in IED (<=200 mg/Nm^3). ● budget: ca. PLN 530 million (net, without costs of financing) ● fuel: lignite ● completion: 2016 **Construction of overburden line in Bełchatów Lignite Mine (Szczerców Field)** ● **project's objective:** to increase the mine extraction capacity enabling to cover lignite needs of Bełchatów power plant ● budget: ca. PLN 108 million (net, without costs of financing) ● fuel: lignite ● completion: 2016 **Construction of flue gas denitrification installation and flue-gas desulphurisation for OP-230 boilers no. 3 and 4 in Bydgoszcz CHPs** ● **Aim of the project:** Reduction of NO_x and SO_x emissions from boilers no. 3 and 4 to a level allowing for further use after 2017 ● budget to be set ● fuel: hard coal ● completion: 2018 **Modernisation of the Pomorzany power plant** ● **Aim of the project:** Reduction of NO_x and SO_x emissions from Benson OP-206 boilers to a level allowing to meet the requirements of the IED Directive and BAT/BREF conclusions as well as to ensure that the plant remains in operation until about 2040 ● budget to be set ● fuel: hard coal ● completion: 2019

Preferred and reliable energy supplier

PGE Group reorganises the sales process based on effective trading strategy. In every customer segment the PGE Group focuses on understanding the needs of the customers and improvement of customer service quality. In particular it includes:

- corporate customers segment, PGE Group focuses on effective margin management at the Group level and on securing optimal contracts of generating units if PGE Capital Group;
- SME segment, PGE Group focuses on retention of historical customers while maintaining the margin levels, acquisition of new customers through improved customer service and expansion of product offering;
- households segment, PGE Group acquires new customers, expands product offering, lowers the service and sales costs and builds modern IT tools supporting sale processes.

In the Distribution segment, assuring reliability of supply through operational and investment efficiency is the main goal. PGE Group is committed to improve grid reliability - we intend to achieve a goal of 50% SAIDI reduction by 2020 mainly by refocusing the investment outlays on projects to the largest extent limiting the level of undelivered energy and by increasing operational performance.

Key projects in 2015	
Trading strategy update	The following were developed in the course of the project: ● **value chain management strategy**, including: ▪ defined commercial process for managing the value chain ▪ developed decision-making mechanisms and operating procedures for processes that ensure the direct margin optimisation ● **wholesale trading strategy**, including: ▪ developed operational model for wholesale trading ▪ specification of the scope of IT support tools ▪ developed overall wholesale trading strategy and contracting strategy ● **supply strategy**, including: ▪ developed strategy for the retail sales area and customer service ● **risk management strategy**, including: ▪ identification of risks ▪ developed recommendation for a risk management model and methodology with regard to wholesale trade in electricity and related products
Project of network losses reduction	● **the project is intended to** reduce electricity procurement costs for balancing differences ● **activities undertaken**: ▪ replacement of transformers with low-loss units ▪ Grid conversion and modernisation: construction of HV/MV stations, increase of cable cross-sections for HV, MV and LV lines, reduction of MV and LV lines ▪ Maintenance of optimal grid workload, elimination of adverse energy transit in HV lines, optimisation of MV line partitions, reduction of load asymmetries in LV lines ● **the results of the project**: lowering of the balancing difference in 2015 to 5.91% (in 2014 it amounted to 6.32%); Volume of balancing difference in 2015 amounted to 2.38 TWh and was lower than in 2014 by 4.4% with the simultaneous increase of volumes of energy delivered to off-takers by 2.6% in comparison to the previous year
CRM Billing	● **the aim of the program** is **deployment of support systems** for settlements and customer service in Supply and Distribution segments ● **the program will yield**: ▪ improved operational performance and support tools for processes dealing with settlements and customer service ▪ stronger competitive position on the back of an expanded product offering ▪ higher customer service quality ● the above objectives will be attained through the centralisation of operations and deployment of IT tools that support CRM, customer service, settlement processes, post-sales services, receivables management, exchange of metering data and information concerning technical operations ● **Results of the programme's implementation** in 2015: ▪ Launch of a new, centralized "eBOK" portal for PGE Group clients and an "mBOK" application for Android and IOS

The most effective energy group in Poland

PGE Group ambition is to be the most efficient power utility in Poland. It includes improvement of operational efficiency, dialogue with the stakeholders concerning the regulatory environment and implementation of best corporate governance practices. Key actions in this field include:

- Organisation restructuring allowing for costs reduction and revenues increase. Effects of continuation of activities relating to efficiency improvement will have a sustainable influence on EBIT of ca. PLN 1.5 billion after 2016. The target will be achieved through implementation of operational effectiveness improvement programmes in Conventional Generation and Distribution segments, reduction of grid losses and interruptions in supply in distribution and rationalization of fixed costs in renewable energy.
- Active dialogue with the stakeholders concerning the regulatory environment. In particular PGE Group will strive to guarantee economic predictability of investment projects and to create agreements with the key stakeholders who shape the regulatory environment in Poland and in the European Union.
- Implementation of best corporate governance practices regarding human resources management, business decisions support and efficiency management as well as optimization and standardisation of supporting processes.

Key projects in 2015

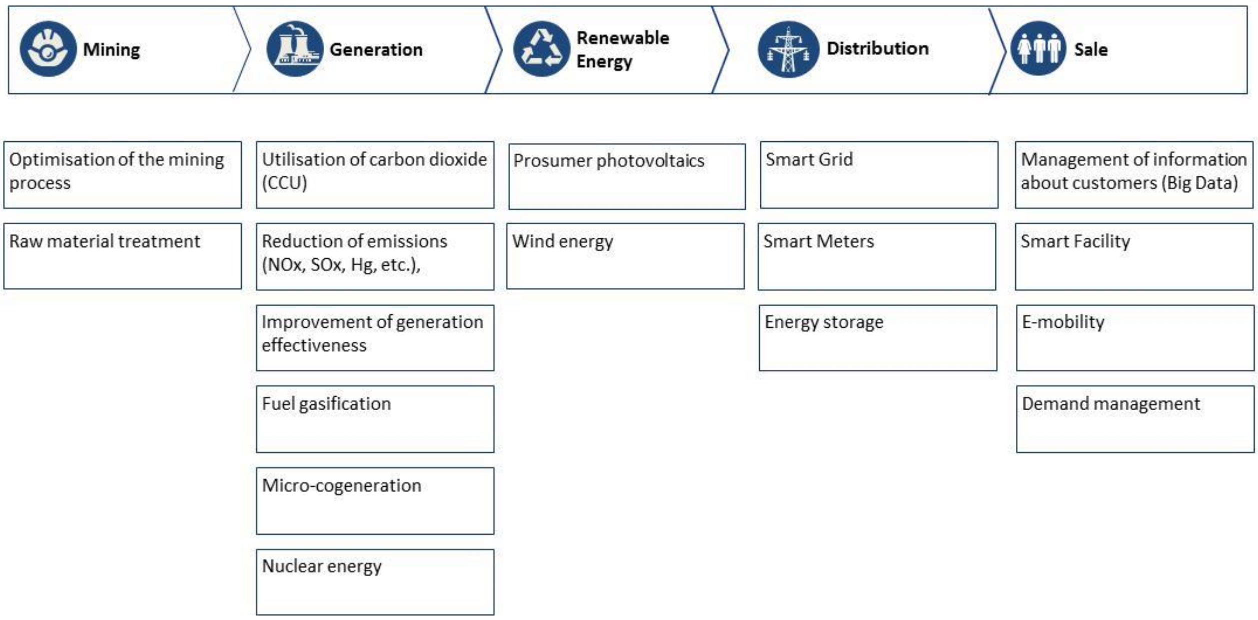
Operating model	• **the aim of this project** is: organisational performance improvement across PGE Group centralisation of management, decision-making and planning functions at the Corporate Centre, alongside a synergetic combination of potential of the Group's key value drivers – capital, experience, competences and knowledge – which are embedded across Business Lines • project defines the structure of interdependencies between Group companies, with details on their competences, scopes of responsibility and operational objectives, understood as interconnected elements of the strategic business goals of the entire Group. The key product of having implemented the Operational Model will be new management processes. • as part of the project, a defined portfolio of 51 implementation projects was launched, the result of which is a permanent deployment of the designed changes to business processes. By the end of December 2015, a vast majority of the proposed changes was implemented (47 designs, with further four being excluded from the scope of the Operating Model implementation). The Operating Model project was finalised through a decision of the Steering Committee.
Human Capital Management Strategy („HCM Strategy")	• **the aim of this project is** supporting the business strategy goals through: ▪ **enhancing the effectiveness of human resources management** ▪ **reinforcing strategic HR management** ▪ **optimisation and standardisation of HR processes in terms of:** maximising the benefits through operational scale and specialisation (integration of IT tools and systems), harmonised operating standards, optimal use of resources • in 2015, activities were carried out relating to widely communicating the Human Capital Management Strategy adopted by the PGE Group, and works began on preparation and implementation of the I group of strategic initiatives. Of key importance in the first period were the Corporate Rules for the HCM Area, which brought standardisation to the HR field across PGE Group. The adopted rules cover the following: employment, mobility, key personnel, training and development, HR controlling, social relations, job design and a new organisational model for PGE Group's HCM area.
Program SAP	• **the aim of the project** is: ▪ **improved operational efficiency through**: standardisation of processes within the Group, the aim of the project, optimisation of the technical assets efficiency, more efficient maintenance and development of the system ▪ **improved transparency through:** creation of uniform records of economic events, access to the ongoing and compact of management information, streamlining and accelerating of decision making process ▪ **base creation for:** creation of SSC within PGE Group Implementation process of modules: Accounting and Logistics, HCM Strategy and Asset Management and SAP Fiori (software enabling mobile access to SAP HCM tools) was continued in the fourth quarter of 2015. Implementation of the Asset Management area is expected to be completed in the next quarter at main PGE Group companies, as is the

	implementation of SAP Fiori. Up to date, the implementation of SAP System have encompassed 18 thousand users within areas Accounting and Logistics, HCM, AM, FC in all companies of PGE Capital Group.
RES consolidation	● **the aim of the project** is: ▪ **concentration of all activities related to the electricity generation from renewable energy sources** (excluding biomass combustion and co-combustion) in a single entity - PGE EO S.A. and decreasing the number of companies and simplifying the structure of RES area ▪ **synergy effects** arising from the management of the RES Wind area, together with the area of RES Water and Pumped-storage Power Plants/Auxiliary Control Services ▪ **realization of investment projects** and running the operations of the assets in the area of RES Wind with optimal usage of human and financial resources ▪ **savings** in the operations of Renewable Energy segment ● A concept of the consolidation of the RES area was devised in March 2015. Following actions were taken within the project: ▪ PGE EO S.A. merged with PELPLIN sp. z o.o PGE EO S.A. merged with PELPLIN sp. z o.o. ▪ PGE EO S.A. acquired assets from PGE Obrót S.A. (6 Small Hydro Power Plants) ▪ PGE EO S.A. took over part of assets of PGE Energia Natury sp. z o.o. (Malbork wind farm 18MW and Kisielice wind farm 40.5MW) ▪ PGE EO S.A. merged with PGE Energia Natury S.A. and Eolica Wojciechowo sp. z o.o. ▪ PGE S.A. made a contribution in kind of 100% shares of PGE EN sp. z o.o. to PGE EO S.A. ▪ PGE EO S.A. merged with subsidiaries: PGE Energia Natury Kappa sp. z o.o., PGE Energia Natury Bukowo sp z o.o., PGE Energia Natury Karnice sp. z o.o., PGE Energia Natury Olecko sp. z o.o.

Group actively developing new business areas

PGE Group's Development and Innovation Strategy 2015-2020, adopted by the Management Board of PGE S.A. in June 2015, defines Strategic Research and Development and New Business Areas ("SOBiR+NB"), within which the Group intends to carry out R&D and innovation projects concerning, among others, the supply of new products or services. The SOBiR+NB areas are aligned with the Group's most important challenges and are identified for each element of the value chain (see the graph below). In addition, in order to scope out the technologies that are available on global markets, three working groups have been established within PGE S.A., dedicated to coal gasification technology, waste management for electricity and heat production as well as coal drying and enrichment. Characterisations and assessments of technology, carried out by teams, will serve as the basis for the defining of expansion projects or projects aimed at implementing solutions that are of most benefit to PGE Group.

Graph: Strategic Research and Development and New Business Areas in PGE Capital Group



Innovation

PGE focuses on initiating and executing R&D projects that fall within the SOBiR+NB areas. In 2015, 53 projects were being conducted within these areas.

Key projects in 2015

„Power-to-Gas" concept	• **Aim of the project**: development of energy storage technology in a "Power-to-Gas" installation, consisting of the conversion of electricity surpluses, produced mainly by wind farms, into hydrogen via an electrolysis process, with potential for further use in different technological configurations. The concept is being developed jointly by PGE S.A. and gas transmission operator Gaz-System S.A.
Cooperation with the National Centre for Research and Development ("NCBiR")	• one of the **key assumptions** of the project is the use by PGE Group of public funds available in the Intelligent Development Operational Programme (POIR), where NCBiR is the implementing authority • **main activities**: ▪ On July 1, 2015 a settlement on execution of Joint Venture was signed. Works on Joint Venture agreement are carried out, which will regulate all formal and legal issues of the program. The aim of the joint undertaking is to address, by implementing a research agenda agreed with NCBiR, the challenges facing PGE Group as the sector's largest entity, thus increasing the level of innovativeness in the Polish energy sector. Agenda is being drafted on the basis of subject areas proposed by PGE S.A., which are aligned with the SOBiR+NB areas and is assumed to complement synergically with the Sectoral Program for the power sector. ▪ In October 2015 NCBiR adopted Feasibility study of the Sector Programme for Energy prepared under the auspices of the Polish Electricity Association. It is a coherent plan of a research agenda, consistent for the entire scope of the energy value chain, the implementation of which is intended to provide answers to the most pressing challenges facing the whole industry. The Sector Programme Report is the first plan of its type prepared and approved by all of the key energy market participants. Works are currently underway to establish the Programme's final research agenda and an organisational framework. ▪ Initiating of cooperation with PZU Group that, through preparing and launching an equity fund mechanism, is intended to support and develop innovative technologies and solutions. PGE S.A. and PZU TFI signed a Letter of intent with regard to support for innovative projects. With NCBiR having selected TFI PZU to manage its fund of funds (formed to implement joint investments with NCBiR under the BRIdge VC programme), negotiations on the details of the arrangement between NCBiR and TFI PZU are on-going in parallel to negotiating the terms for PGE Group's co-investment.

3 Results achieved in PGE Capital Group

3.1 Financial results of PGE Capital Group

Key financial data	Unit	Year ended December 31, 2015	Year ended December 31, 2014 *data restated*	% change	Year ended December 31, 2013 *data restated*	% change
Sales revenues	PLN million	28,542	28,143	1%	30,149	-7%
EBIT	**PLN million**	**-3,589**	**5,096**	**-**	**4,848**	**5%**
EBITDA	**PLN million**	**8,228**	**8,129**	**1%**	**8,190**	**-1%**
Adjusted net profit attributable to equity holders of the parent company *	PLN million	4,287	3,761	14%	4,208	-11%
LTC compensations	PLN million	546	1,785	-69%	638	180%
Revenues from LTC compensations	*PLN million*	546	1,539	-65%	301	411%
Reversal of provisions for LTC (other operating revenues)	*PLN million*	0	246	-	337	-27%
Capital expenditures	**PLN million**	**9,450**	**6,349**	**49%**	**4,357**	**46%**
Net cash from operating activities	PLN million	6,777	6,333	7%	7,941	-20%
Net cash from investing activities	PLN million	-8,594	-6,382	-35%	-5,717	-12%
Net cash from financial activities	PLN million	-1,265	284	-	-1,066	-
Adjusted net earnings per share*	PLN	2.29	2.01	14%	2.25	-11%
EBITDA margin	**%**	**29%**	**29%**		**27%**	
Working capital	PLN million	4,126	6,721	-39%	5,123	31%
Net debt/LTM EBITDA **	**x**	**0.32**	**-0.13**		**-0.37**	

* Net profit adjusted by impairment loss

** LTM EBITDA - Last Twelve Months EBITDA

3.1.1 Consolidated statement of comprehensive income

In 2015 total sales revenues of the Group amounted to PLN 28,542 million compared to PLN 28,143 million in 2014, what means increase by approx. 1%.

Sales revenues – increase by PLN 399 million	
Positive impact	• increased revenues from sales of electricity by PLN 986 million • increased revenues from the distribution services by PLN 273 million • increased revenues from ancillary control services by PLN 98 million • increase of revenues from sale of gas and gas transmission services by PLN 91 million • increase of revenues from sale of heat by PLN 37 million
Negative impact	• decreased revenues from LTC compensations by PLN 993 million • decreased revenues from sales of certificates of energy origin by PLN 49 million • decreased revenues from sales of telecommunication services by PLN 24 million

Cost of goods sold in 2015 amounted to PLN 30,066 million, what means increase by approx. 38% in comparison to 2014.

Cost of goods sold – increase by PLN 8,331 million	
Negative impact	• higher amortisation and depreciation and impairment losses by PLN 8,792 million • higher transmission services by PLN 127 million • higher value of gas sold and gas distribution services by PLN 87 million • higher costs of fees for CO_2 emissions by PLN 86 million • higher costs of production fuel and transport services by PLN 56 million
Positive impact	• lower personnel expenses(changes in provisions relating to Voluntary Leave Programs and actuarial provisions) by PLN 634 million • lower costs of materials used for repair and maintenance by PLN 102 million • higher capitalised costs by PLN 73 million

Gross loss on sales in 2015 amounted to PLN (-) 1,524 million compared to gross profit on sales of PLN 6,408 million in 2014 what means decrease by PLN 7,932 million.

In 2015 distribution and selling expenses of PGE Group amounted to PLN 1,408 million and were lower by approx. 9% in comparison to 2014. The decreased selling and distribution expenses were mainly associated with lower costs of redemption of property rights.

In 2015 general and administrative expenses amounted to PLN 825 million, i.e. decline by approximately 1% in comparison to 2014.

Result on other operating activities in 2015 was positive and amounted to PLN 168 million in comparison to positive result of PLN 1,059 million in 2014.

Other operating revenues of the Group in 2015 amounted to PLN 431 million, what means decrease by approx. 72% in relation to PLN 1,554 million achieved in 2014.

Other operating revenues – decrease by PLN 1,123 million	
Negative impact	• effect of high comparative base - in 2014 a provision for costs of purchase of CO_2 emission rights of PLN 751 million was reversed • lower LTC compensations (disputes) by PLN 246 million • compensations, penalties and fines received lower by PLN 78 million • donations received – decrease by PLN 65 million • impairment of receivables – decline by PLN 44 million
Positive impact	• impact of change in reclamation provision (PLN +93 million)

Other operating expenses of the Group in 2015 amounted to PLN 263 million compared to PLN 495 million in 2014 what means decrease by approx. 47%.

Decrease of other operating expenses by PLN 232 million was mainly caused by the impact of change in reclamation provision resulting from the change in discount.

In 2015 result on financial activities was negative and amounted to PLN (-) 167 million, in comparison to negative result in amount of PLN (-) 483 million in 2014.

The Group's financial revenues in 2015 amounted to PLN 156 million, million what means decrease by approx. 59% in relation to PLN 385 million achieved in 2014.

Financial revenues - decrease by PLN 229 million	
Negative impact	• lower interest by PLN 111 million • lower foreign exchange gains by PLN 101 million • lower level of provisions reversed by PLN 35 million
Positive impact	• profit on disposal of investments by 15 million

Financial expenses of the Group in 2015 amounted to PLN 323 million, what means decrease by 63% in comparison to PLN 868 million achieved in 2014.

Financial expenses - decrease by PLN 545 million	
Positive impact	• in 2014 the Group recognised estimated loss of value of bonds issued by Autostrada Wielkopolska S.A. in amount of PLN 386 million • lower exchange losses by PLN 89 million • recognition of revaluation of CCIRS and IRS hedge transactions in amount of PLN 56 million

Detailed description of CCIRS and IRS transactions is presented in note 27.1.2 to the consolidated financial statements.

As a result of the factors discussed above, the gross loss of the Group in 2015 amounted to PLN (-) 3,756 million, compared to gross profit of PLN 4,613 million in 2014.

Net loss of the PGE Capital Group in 2015 amounted to PLN (-) 3,037 million compared to net profit of PLN 3,657 million in 2014.

Net loss attributable to the equity holders of the parent company in 2015 amounted to PLN (-) 3,032 million, what means decline by PLN 6,670 million in comparison to 2014.

Net profit adjusted by the impairment loss attributable to the equity holders of the parent company in 2015 amounted to PLN 4,287 million and was higher by PL 526 million in comparison to PLN 3,761 million in 2014.

Total comprehensive income of the Group amounted to PLN (-) 2,985 million in 2015, in comparison to PLN 3,273 million in 2014.

3.1.2 Consolidated statement of financial position

Non-current assets of the Group as at December 31, 2015 and as at December 31, 2014 amounted respectively to PLN 49,586 million and PLN 52,298 million.

Non-current assets - decrease by PLN 2,712 million	
Decline	• amortisation and depreciation and impairment losses on assets in amount of PLN 11,987 million • advances for construction in progress PLN 151 million • deferred tax assets by PLN 70 million
Growth	• capital expenditures incurred for property, plant and equipment and intangible assets in amount of PLN 9,450 million, including: ▪ Conventional Generation - PLN 6,495 million ▪ Distribution – PLN 1,841 million ▪ Renewable Energy - PLN 931 million

Current assets of the Group as at December 31, 2015 and as at December 31, 2014 amounted respectively to PLN 11,710 million and 13,907 million.

Current assets - decrease by PLN 2,197 million	
Decline	• cash and cash equivalents by PLN 3,092 million • inventories by PLN 216 million
Growth	• greenhouse gases emission rights by PLN 620 million

	● trade receivables by PLN 187 million ● LTC receivables by PLN 107 million ● receivables due to accrued VAT by PLN 127 million ● excise tax receivables by PLN 61 million ● income tax receivables by PLN 55 million

Changes in cash and cash equivalents are described in part relating to statement of cash flows.

Decline in inventories mainly results from lower CO_2 emission rights intended for trade by PLN 311 million, with increased value of certificates of energy origin by PLN 115 million.

Increase in greenhouse gases emission rights is result of purchase of greenhouse gases emission rights for the own needs of PGE Capital Group.

Total equity of the Group as at December 31, 2015 and as at December 31, 2014 amounted respectively to PLN 40,417 million and PLN 44,884 million.

Non-controlling interest as at December 31, 2015 and as at December 31, 2014 amounted respectively to PLN 96 million and PLN 116 million.

Total equity of the Group in 2015 was negatively affected by recognition of net loss in amount of PLN (-) 3,037 million and 2014 profit distribution and allocation of its part in the amount of PLN 1,462 million for dividend payout.

Long-term liabilities as at December 31, 2015 and as at December 31, 2014 amounted respectively to PLN 13,295 million and PLN 14,135 million.

Long-term liabilities - decrease by PLN 840 million	
Decline	● deferred tax liability by PLN 1,238 million ● long-term provisions by PLN 55 million
Growth	● loans, borrowings, bonds and lease by PLN 430 million

Decrease of deferred tax liability results from tax effect of impairment loss.

Decreased long-term provisions result mainly from the lower actuarial provisions with the increase in provision for reclamation costs.

Short-term liabilities as at December 31, 2015 and as at December 31, 2014 amounted respectively to PLN 7,584 million and PLN 7,186 million.

Short-term liabilities – increase by PLN 398 million	
Growth	● liabilities due to purchase of property, plant and equipment and intangible assets by PLN 513 million ● LTC liabilities by PLN 364 million
Decline	● inventories by PLN 261 million ● income tax liabilities PLN 76 million ● trade receivables by PLN 75 million ● loans, borrowings, bonds by PLN 66 million

Lower short-term provisions mainly result from lower provision for costs of purchase of certificates of energy origin by PLN 175 million and lower provision for employment benefits by PLN 144 million.

3.1.3 Consolidated statement of cash flows

The total net cash flow from operating activities for the 12-month period ended December 31, 2015 amounted to PLN 6,777 million in comparison to PLN 6,333 million in the 12-month period ended December 31, 2014.

Higher cash from operating activities was mainly caused by better operating result, particularly in Conventional Generation segment.

Negative net cash flow from investing activities for the 12-month period ended December 31, 2015 amounted to PLN 8,594 million compared to negative net cash flow in amount of PLN 6,382 million in 2014.

Change in cash flow from investing activities in 2015 was mainly affected by realization of strategic investments program.

Negative net cash flow from financial activities for the 12-month period ended December 31, 2015 amounted to PLN 1,265 million compared to positive net cash flow in amount of PLN 284 million in the 12-month period ended December 31, 2014.

Cash flow from financial activities in 2015 was mainly affected by lower balance of proceeds/repayments from/of bank loans, borrowings, bonds and finance lease amounting to PLN 2,083 million and lower dividend paid to the shareholders by PLN 599 million.

3.1.4 Geographical areas

Table: Breakdown of the Group's income from continuing operations, by geographic area, in 2015, 2014 and 2013.

in PLN million	Total income							
	2015	% share	2014 *data restated*	% share	% change	2013 *data restated*	% share	% share
Domestic market	28,421	100%	27,974	99%	2%	29,611	98%	-6%
EU member states	110	0%	154	1%	-29%	523	2%	-71%
Other countries	11	0%	15	0%	-27%	15	0%	0%
TOTAL	**28,542**	**100%**	**28,143**	**100%**	**1%**	**30,149**	**100%**	**-7%**

In the years 2015, 2014 and 2013, the Group earned income mainly in the domestic market. Changes with regard to revenues from sales are described in p. 3.1.1. of this report.

The increase of revenues on the domestic market resulted mainly from higher electricity generation volume and higher sale price.

The decrease of revenues from sales to the EU member states is connected with lower value of sales by PGE Trading GmbH.

3.2 Operational figures of PGE Capital Group

Table: Key operational figures.

Key figures	Unit	2015	2014	% change	2013	% change
Lignite extraction	Tons m	49.40	49.97	-1%	51.31	-3%
Net electricity production	TWh	55.58	54.84	1%	57.04	-4%
Heat sales	GJ m	18.19	17.94	1%	19.98	-10%
Sales to final customers*	TWh	39.00	39.64	-2%	36.95	7%
Distribution of electricity**	TWh	33.38	32.54	3%	31.78	2%

* sales by PGE Obrót S.A. with additional estimation and with taking into account the sales within PGE Group
** with additional estimation

Key figures	Unit	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q4 2014
Lignite extraction	Tons m	13.10	11.92	12.54	11.84	12.88
Net electricity production	TWh	14.53	13.10	14.11	13.84	14.42
Heat sales	GJ m	7.67	2.93	1.44	6.15	6.56
Sales to final customers*	TWh	9.84	9.42	9.77	9.97	10.27
Distribution of electricity**	TWh	8.41	8.04	8.35	8.58	8.48

* sales by PGE Obrót S.A. with additional estimation and with taking into account the sales within PGE Group
** with additional estimation

3.2.1 Balance of energy of PGE Capital Group

Sales of electricity

Table: Sales of electricity outside the PGE Capital Group (in TWh).

Sales volume	2015	2014	% change	2013	% change
SALES IN TWh, including:	**101.70**	**103.14**	**-1%**	**109.75**	**-6%**
Sales to end-users*	39.05	39.60	-1%	36.91	7%
Sales on the wholesale market, including:	60.89	62.44	-2%	71.37	-13%
Sales on the domestic wholesale market - power exchange	*57.71*	*56.54*	*2%*	*54.73*	*3%*
Other sales on the domestic wholesale market	*3.07*	*3.10*	*-1%*	*15.67*	*-80%*
Sales to foreign customers	*0.11*	*2.80*	*-96%*	*0.97*	*189%*
Sales on the Balancing Market	1.76	1.10	60%	1.47	-25%

* after elimination of internal sales within PGE Group

Sales volume	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q4 2014
SALES IN TWh, including:	**26.16**	**24.06**	**25.66**	**25.82**	**29.17**
Sales to end-users*	9.85	9.42	9.79	9.99	10.26
Sales on the wholesale market, including:	15.90	14.25	15.43	15.31	18.65
Sales on the domestic wholesale market - power exchange	*15.07*	*13.50*	*14.70*	14.44	*15.47*
Other sales on the domestic wholesale market	*0.81*	*0.73*	*0.69*	0.84	*0.72*
Sales to foreign customers	*0.02*	*0.02*	*0.04*	0.03	*2.46*
Sales on the Balancing Market	0.41	0.39	0.44	0.52	0.26

* after elimination of internal sales within PGE Group

Increased sales volume of PGE Capital Group in 2015 on the power exchange is connected with intensified trading activity in the Conventional Generation segment. Furthermore, in 2015 Supply segment operated in strong competition in customers' segments from the tariff groups A, B and C, what resulted in a decrease in the volume of sales to end users compared to 2014.

Purchases of electricity

Table: Purchases of electricity from outside of the PGE Capital Group (in TWh).

Purchases volume	2015	2014	% change	2013	% change
PURCHASES IN TWh, including:	**50.92**	**53.18**	**-4%**	**57.58**	**-8%**
Purchases on the domestic wholesale market – power exchange	40.54	37.82	7%	46.73	*-19%*
Purchases on the domestic wholesale market, other	3.99	5.20	-23%	4.93	*5%*
Purchases from abroad	0.03	2.75	-99%	0.41	*571%*
Purchases from Balancing Market	6.36	7.41	-14%	5.51	*34%*

Purchases volume	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q4 2014
PURCHASES IN TWh, including:	**13.06**	**11.90**	**12.59**	**13.37**	**16.11**
Purchases on the domestic wholesale market – power exchange	10.18	9.74	10.29	10.33	10.33
Purchases on the domestic wholesale market, other	1.24	0.72	0.66	1.37	1.26
Purchases from abroad	0.00	0.02	0.01	0.00	2.46
Purchases from Balancing Market	1.64	1.42	1.63	1.67	2.06

Increased purchases on the domestic wholesale market - power exchange in 2015 results from repo transactions on futures realized by the Conventional Generation segment and higher purchases on the power exchange pursued by the Supply segment.

Decreased purchases on the domestic wholesale market, other in 2015 are due to lower purchases transactions realized on local market by Supply segment. From April 2015 the segment ceased purchases from Połaniec and Ostrołęka power plants. The decrease of purchase on the local market has been compensated by the purchase on the power exchange market.

Production of electricity

Generation volume	2015	2014	% change	2013	% change
ENERGY GENERATION IN TWh, including:	**55.58**	**54.84**	**1%**	**57.04**	**-4%**
Lignite-fired power plants	38.98	39.22	-1%	41.36	-5%
including co-combustion of biomass	*0.34*	*0.39*	*-13%*	*0.27*	*44%*
Coal-fired power plants	11.04	11.35	-3%	11.57	-2%
including co-combustion of biomass	*0.43*	*0.44*	*-2%*	*0.32*	*38%*
Coal-fired CHP plants	1.30	1.10	18%	1.11	-1%
Gas-fired CHP plants	2.05	1.16	77%	1.11	5%
Biomass-fired CHP plants	0.46	0.43	7%	0.44	-2%
Pumped storage power plants	0.57	0.52	10%	0.53	-2%
Hydroelectric plants	0.36	0.42	-14%	0.49	-14%
Wind power plants	0.82	0.64	28%	0.43	49%

Generation volume	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q4 2014
ENERGY GENERATION IN TWh, including:	**14.53**	**13.10**	**14.11**	**13.84**	**14.42**
Lignite-fired power plants	10.13	9.48	10.03	9.34	10.07
including co-combustion of biomass	*0.11*	*0.10*	*0.04*	*0.09*	*0.11*
Coal-fired power plants	2.60	2.54	3.18	2.72	2.81
including co-combustion of biomass	*0.11*	*0.11*	*0.12*	*0.09*	*0.12*
Coal-fired CHP plants	0.41	0.26	0.25	0.38	0.32
Gas-fired CHP plants	0.77	0.33	0.20	0.75	0.76
Biomass-fired CHP plants	0.11	0.12	0.11	0.12	0.08
Pumped storage power plants	0.14	0.08	0.15	0.20	0.13
Hydroelectric plants	0.14	0.13	0.04	0.05	0.08
Wind power plants	0.23	0.16	0.15	0.28	0.17

Level of electricity production in 2015 compared to 2014 was mainly driven by **resumption of generation in gas-fired CHP plants:** (i) in Rzeszów CHP starting from September 2014 and (ii) in Lublin - Wrotków CHP starting from October 2014 due **to the reinstated support for the highly efficient cogeneration**. Furthermore, the improvement in production was also driven by the new cogeneration gas-engine unit commissioned in Rzeszów in November 2014.

An increase in production at coal-fired CHP plants is mainly a result of commissioning, of an extraction-condensing turbo-set in Zgierz CHP in December 2014. Additionally, higher production was reached on unit no. 2 in Pomorzany CHP plant, which remained in the planned overhaul from June 16, 2014 till October 29, 2014 and in Bydgoszcz CHP plants due to higher utilization of CHP plants by PSE S.A.

An increase of production in wind power plants is a result of favourable wind conditions as well as arise from the commissioning in July 2015 of Karwice wind farm with installed capacity of 40 MW and in December 2015 Resko II wind farm with installed capacity of 76 MW. In December 2015 2 additional wind farms became operational: Lotnisko with installed capacity of 90 MW and Kisielice II with installed capacity of 12 MW. Total installed capacity in wind farms amounts currently to 529 MW, including capacity increase of 218 MW in 2015.

Higher production in pumped storage power plants results from the nature of these generation units, which in 2015 were used to a higher extent by PSE S.A.

A decrease in production at lignite-fired power plants is mainly a result of lower production in Turów power plant, what is a consequence of outage of unit in planned overhauls in 2015: unit no. 5 from August 9, 2015 till October 23, 2015 and unit no. 6 from March 20, 2015 till June 19, 2015.

A decrease in production of electricity at coal - fired power plants results from lower production in Opole power plant caused mainly by the outage of unit no 3 being in planned overhaul from October 16, 2015 till November 19, 2015 and from lower utilization of Opole power plant by PSE S.A. in 2015.

A decrease of production in hydroelectric power plants is a consequence of unfavourable hydrological conditions.

3.2.2 Sales of heat

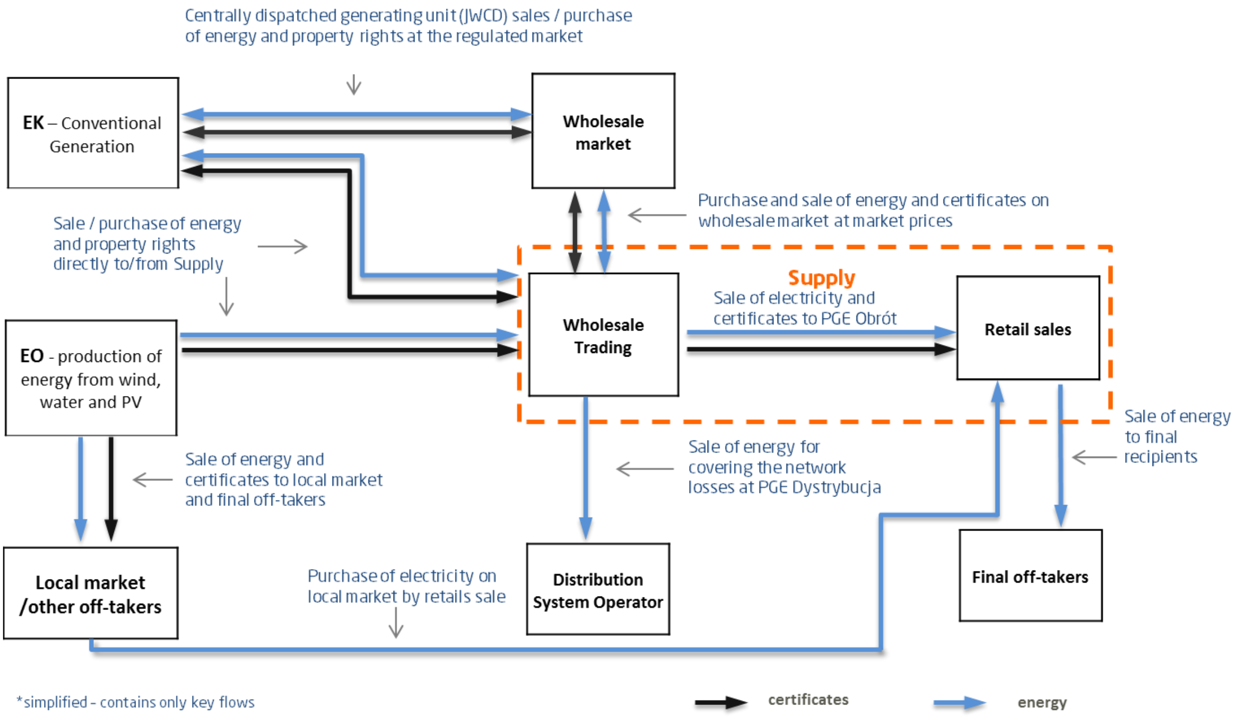
In 2015 the heat sales in PGE Capital Group totalled 18.19 GJ million and was similar to level of sales in 2014.

3.3 Business segments – operational data

3.3.1 Electricity and property rights trading model of PGE Capital Group in 2015u

Simplified flows of main products: electricity and property rights between segments are presented on the scheme below.

Diagram: Electricity and property rights trading model of PGE Capital Group in 2015.



3.3.2 Conventional Generation

3.3.2.1 Assets

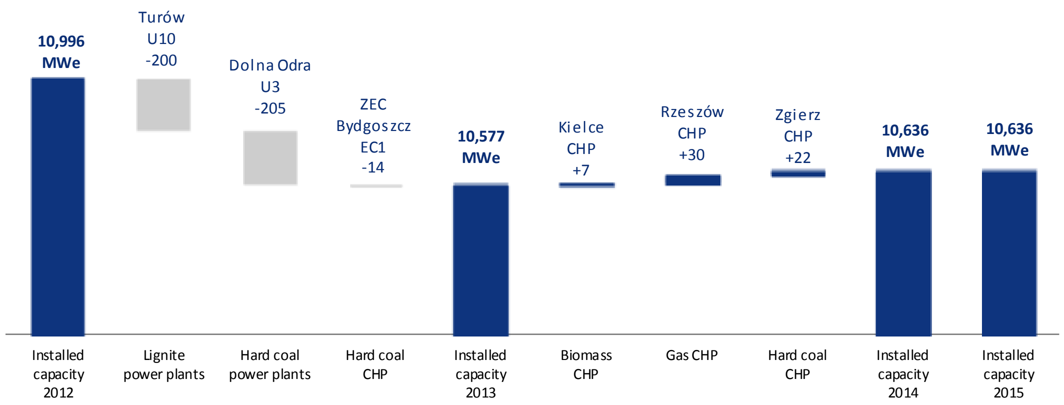
Conventional Generation in PGE Capital Group includes PGE Górnictwo and Energetyka Konwencjonalna S.A. based in Bełchatów. The company comprises 12 branches which are located in nine voivodships of our country. Branches include 2 lignite mines, 4 conventional power plants and 8 CHP plants.

The Group is the leader of lignite mining, with a share in the extraction market of this raw material accounting for 78% of domestic extraction; it is also the largest generator of electricity as it generates approx. 38% of domestic electricity.
The generation is based on lignite extracted from mines owned by the company as well as hard coal, gas and biomass.

Table: Installed capacity and production in branches of Conventional Generation segment.

Branches	Main fuel types	Annual energy generation [GWh]			Annual heat generation [GJ ths.]			Installed capacity [MWe]
		2015	2014	2013	2015	2014	2013	2015
Bełchatów power plant	lignite	31,698	31,515	32,036	1,924	1,904	2,056	5,298
Turów power plant	lignite, biomass	7,278	7,711	9,329	666	492	539	1,499
Opole power plant	hard coal, biomass	6,240	6,816	6,650	116	119	131	1,492
Dolna Odra power plant	hard coal, biomass	4,802	4,536	4,920	314	311	336	1,362
Lublin Wrotków CHP	methane-rich gas, hard coal	972	417	450	2,861	2,845	3,050	247
Rzeszów CHP	methane-rich gas, hard coal	611	264	192	1,728	1,637	1,874	132
Pomorzany CHP	hard coal	597	510	469	2,766	2,739	3,052	134
Gorzów CHP	gas, hard coal	580	586	585	1,389	1,390	1,592	98
Bydgoszcz CHP	hard coal, heavy oil	455	424	480	4,343	4,519	5,088	248
Szczecin CHP	biomass	423	400	430	680	624	734	69
Zgierz CHP	lignite, hard coal, gas	102	20	12	387	363	402	39
Kielce CHP	hard coal, biomass	75	61	43	1,509	1,485	1,694	18
TOTAL		**53,833**	**53,260**	**55,596**	**18,683**	**18,428**	**20,548**	**10,636**

Chart: Change of installed capacity in Conventional Generation.



As a result of complex modernisations of units 11 and 12 in Bełchatów power plant completed in 2015, the total achievable capacity of the power plant increased from 5,380 MW to 5,420 MW. In 2015 the installed capacity of Conventional Generation segment did not change. Previous changes occurred in 2014:

- **Kielce CHP** – completion of construction and commissioning of extraction-condensing turboset with a capacity of 7 MWe with heat exchanger of 14 MWt in February 2014
- **Rzeszów CHP** - completion of construction and commissioning of piston engine-based power and heat cogeneration unit with a capacity of 30 MWe and 26 MWt in November 2014
- **Zgierz CHP** - completion of construction and final reception of extraction-condensing turboset with a capacity of 22 MWe with reserve-peak boiler of 18 MWt in December 2014.

3.3.2.2 Lignite mining

Review of main issues regarding resources

Lignite quality parameters

The quality of lignite in Bełchatów and Turów mines is assessed based on the geological examination. Additionally, boreholes at individual coal layers enabled to carry out actual coal quality tests.

Table: Average quality parameters of lignite found in deposits owned by PGE GiEK S.A. with a reference to balance resources.

Deposit		Average value of heat content (Qir) [kJ/kg]	Average ash content (A^r) [%]	Average sulphur content (S_t^r) [%]
Bełchatów – Field Szczerców		7,560	12.50	1.35
Bełchatów – Field Bełchatów		7,579	11.90	0.73
Turów	Deposit I	9,729	11.37	0.28
	Deposit II	9,523	11.86	0.71
	Deposit III	9,070	14.69	0.62

Lignite resources

Lignite deposit reserves are determined based on a reserves inventory maintained in the reserves register for the given year by February 28 in accordance with the status as at December 31 of the preceding year. Given that works are underway to prepare a reserves register for 2015, the following table presents lignite reserves as of the end of 2014, together with volumes extracted in 2015.

Table: Lignite resources data as at the end of 2014 and lignite output in 2015.

Deposit	Resources - as at the end of 2014 [Mg million]		Output in 2015 [Mg million]
Bełchatów – Field Szczerców(*)	geological	873.51	17.03
	industrial	662.30	
Bełchatów – Field Bełchatów	geological	137.20	25.05
	industrial	91.89	
Turów	geological	372.40	7.32
	industrial	325.25	

Long-term projects

Current lignite deposits in Bełchatów mine and Turów mine ensure a stable output level until 2030. Following that year, output will gradually decrease. Works are conducted with a view to obtain the extraction permit with regard to lignite deposits in "Złoczew" and "Gubin", while utilization thereof will be dependent inter alia on future shape of climate policy and development of coal technologies.

Złoczew deposit

Work relating to the acquisition of a concession for the mining of lignite at the Złoczew deposit is divided into two stages:

- Stage I, i.e. prospecting of the deposit to a degree allowing a Deposit Management Project to be drafted (years 2008-2013);
- Stage II, i.e. drafting of a concession application for the mining of lignite at the Złoczew deposit and obtaining said concession (years 2013-2017).

Activities aimed at obtaining the concession for lignite mining at the Złoczew deposit begun in 2008. The first step was to obtain a prospecting and exploration concession for lignite at the Złoczew despot. The following tasks were completed:

- 272 wells were drilled, with total length of over 45km;
- Lab work on samples collected during drillings;
- Hydrogeological and geological-engineering mapping of the deposit area;
- Unified Geological Data Base;
- Geodesy maps for the deposit area;
- Synthetic lithostratigraphic section for coding and geological modelling purposes.

This work made it possible to draft supplement no. 1 to geological documentation for the lignite deposit Złoczew in category B+C_1 (approved on October 28, 2013) and hydrogeological documentation specifying hydrological conditions in connection with a planned drainage in order to mine lignite at the Złoczew deposit in category B+C_1 (approved on February 7, 2014). This was approved by a decision of the Ministry of the Environment.

Table: Average quality parameters of lignite found in deposit Złoczew with a reference to balance resources.

Deposit	Resources [Mg million]		Average value of heat content (Q_i^r) [kJ/kg]	Average ash content (A^r) [%]	Average sulphur content (S_t^r) [%]
Złoczew	geological	624.57	8,230	10.68	1.06
	industrial	538.54			

According to the schedule, obtaining a concession for the mining of lignite at the Złoczew deposit is expected to take place in January 2017. In 2015, works were continued to obtain documents and studies necessary for the concession application. Analytical works were being conducted on an on-going basis as regards scenarios for the use of coal from the Złoczew deposit as well as other project-related analyses. In October 2015, a final version of the Złoczew Deposit Management Project was handed over (taking into consideration comments submitted by the Regional Mining Authority in Kielce).

In November 2015, a report was prepared on the environmental impact of lignite mining at the Złoczew deposit, and on November 25, 2015 an application was filed with the Regional Directorate for Environmental Protection (RDOŚ) in Łódź regarding issue of a decision on environmental determinants for an undertaking consisting of lignite coal mining at the Złoczew deposit.

On November 20, 2015, the company filed applications to introduce changes in local spatial development frameworks for the following municipalities: Złoczew, Ostrówek, Burzenin and Lututów, to take into consideration the planned undertaking. On November 30. 2015, the Złoczew City and Municipality Council adopted a resolution on commencement of a spatial development study.

Gubin deposit

This project, aimed at obtaining a concession for the mining of lignite at the Gubin deposit, was being carried out until the end of 2014 by PGE Gubin Sp. z o.o., a dedicated company linked to PGE S.A. by capital. Until then, as part of the company's operating activities, a number of studies and documents were drafted, which provided information on the deposit as regards its construction, quality parameters, hydrogeological model, and a Deposit Management Project was also drafted. In 2015, PGE Gubin Sp. z o.o. was dissolved and its legal obligations were assumed by PGE GiEK S.A. The following activities have been completed so far:

- In May 2015, a report was drafted on the undertaking's impact on the environment in accordance with a scope specified by the Regional Directorate for Environmental Protection;
- In July 2015, an application was filed with the Regional Directorate for Environmental Protection for proceedings regarding issue of a decision on environmental determinants;
- In August 2015, the Regional Directorate for Environmental Protection issued a decision to commence proceedings regarding issue of a decision on environmental determinants for the undertaking;
- In January 2016, a decision was obtained that approved geological documentation for part of the Gubin deposit selected for mining (geological documentation for the Gubin lignite deposit no. 2) and supplements to geological documentation for the part of deposit that will not be subject to mining (supplement no. 3 to the comprehensive geological documentation for the Gubin lignite deposit, supplement no. 1 to the geological documentation for the Gubin lignite deposit no. 1.

In October 2015, the Board of the Lubuskie Province passed a resolution on adoption of a study titled "Analysis of current and potential mining of deposits of regional, supra-regional and national significance within the Lubuskie Province together with forecast environmental impact." The document takes into consideration the Gubin 2 deposit as well as plans regarding its development, and has significant impact on the Lubuskie Province's Spatial Development Plan, which is currently being drafted.

Table: Average quality parameters of lignite found in deposit Gubin with a reference to balance resources.

Deposit	Resources		Average value of heat content (Q_i^r)		Average ash content (A^r)		Average sulphur content (S_t^r)	
	[Mg million]		[kJ/kg]		[%]		[%]	
Gubin	geological	1,086.91	deposit II	8,854-9,380	deposit II	13.76-18.20	deposit II	1.50-1.63
	industrial	857.93	deposit IV	9,435-10,225	deposit IV	14.53-16.57	deposit IV	3.97-4.73

Current rehabilitation operations

The law in force provides for the obligation to rehabilitate post-mining land. The rehabilitation duty applies to natural and legal persons who cease production activities on exploited land which consequently loses its use value. Therefore, mines conduct rehabilitation work on post-mining land, where mining activities are discontinued. The entire scope of work comprises two phases:

I. Technical (basic) reclamation phase

II. Biological (detailed) reclamation phase

Technical (basic) reclamation includes the following work:

- proper shaping of post-dump and sedimentation grounds;
- construction of equipment and facilities being part of the surface irrigation system;
- construction of access roads.

Detailed reclamation covers the following work:

- potential neutralisation of unusable grounds;
- introduction of a green layer;
- introduction of wooden plants;
- maintenance of the new plantings.

A. Bełchatów lignite mine

Rehabilitation operations of post-mining land are currently carried out on settling pond no 1 of Field Bełchatów, the external dump of Field Szczerców and other land belonging to Field Bełchatów. Mainly, operations cover advanced rehabilitation of newly prepared dumping areas selected for biological reclamation as well as restoration of land excluded from mining exploitation.

Reclamation of post-production land is performed pursuant to a technological project for the Field Bełchatów and Field Szczerców deposits for 2014-2018, as well as detailed annual technical reclamation designs, drafted for specific land sections as reclamation progresses.

Bełchatów field

The following work was performed in 2015:

- basic reclamation – ground shaping (north sedimentation area no. 1) 6.82 ha;
- detailed reclamation – grass-sod and tree planting (north sedimentation area no. 1) 2.52 ha.

From the beginning of the reclamation process to the end of 2015, the following work was performed:

- basic reclamation covering an area of 1,025.78 ha;
- detailed reclamation covering an area of 369.77 ha.

Szczerców field

The following work was performed in 2015:

- basic reclamation – ground shaping 36.83 ha;
- detailed reclamation – grass-sod and tree planting 83.59 ha.

From the beginning of the reclamation process to the end of 2015, the following work was performed:

- basic reclamation covering an area of 578.76 ha;
- detailed reclamation covering an area of 221.79 ha.

Reclamation targets:

- Bełchatów field internal heap – forested area, tree planting, sporting and leisure area;
- Szczerców field external heap – forested area, sporting and leisure area, farming (growing energy crops), commercial (construction of wind turbines);
- mining excavations at Bełchatów field and Szczerców field – aqueous reclamation, with shores intended for sporting and leisure activities as well as forested areas and tree planting.

Completion of reclamation (year):

- Bełchatów field internal heap – 2020;
- Bełchatów field excavations – 2060;
- Szczerców field excavations – 2064;
- Szczerców field external heap – 2020.

B. Turów lignite mine

Reclamation was carried out on 6.13ha of land. As a result of planting improvements and supplements, 61,337 trees were planted on land previously subject to reclamation. According to current expectations, target reclamation, i.e. following completion of mining, will primarily involve water reservoirs and forests. The KWB Turów mine is conducting analyses in order to select the optimal means of mining in order to reduce the future costs of reclamation, and is working on determining a multi-scenario concept for the development of post-mining land.

<u>Mine Liquidation Fund and provision for rehabilitation of land</u>

Mine Liquidation Fund

Pursuant to the provisions the Geological and Mining Act, business operators extracting minerals in open-pit mines must contribute to the Mine Liquidation Fund an amount equivalent to 10% of the charged exploitation fee; raised funds must be deposited on a separate bank account. The Fund is charged to the costs of open-pit mining operations. The transfer of funds takes place on a monthly basis and the amount contributed depends on the extraction output achieved in the reporting period. Interest earned on the Mine Liquidation Funds increase the value of the Fund.

Provisions for post-mining land rehabilitation

Mines belonging to the Group estimate future expenses to be incurred for the rehabilitation of land where mining operations ended. The amount of the costs is determined based on projected costs of rehabilitation operations and the final pit improvement. This cost is divided into part attributable to stripping cost and mined lignite. The provision is created:

- for the part attributable to mined lignite: in the proportion of the extracted lignite as at the reporting date to the total planned volume of extraction over the period of the lignite deposit exploitation,
- for the part attributable to the stripping cost: in the proportion of the volume of the excavation resulting from stripping of overburden as at the reporting date to the planned excavation volume resulting from stripping of overburden at the end of exploitation period.

The increase in the provision concerning the extraction in the given year is recognized:

- in operating expenses – for the part attributable to the mined lignite,
- in the initial value of property plant and equipment - for the part attributable to the stripping cost.

In case of rehabilitation of ash storages (production waste from electricity production) the cost of provision is recognized in operating expenses in proportion to the extent of particular storage filling.

The cost of reversal of the discount of the provisions is recognized in financial expenses. Changes in the valuation of provisions resulting from the change of assumptions (e.g. in macroeconomic factors, way of conducting the rehabilitation, date, etc.) are recognized in the following way:

- or the provisions recognized as the part of the cost of property, plant and equipment: they are added to or deducted from the costs of the given asset, the amount deducted from the cost of the asset should not exceed its net book value,
- in other cases - as other operating expenses or other operating revenues.

Table: Fund and provision for rehabilitation of land in KWB Bełchatów and KWB Turów.

Liquidation fund and provision for rehabilitation of land [PLN million]	KWB Bełchatów	KWB Turów	Total
Fund as at January 1, 2015	94	27	121
● change due to on-going extraction	8	1	9
● change due to interests from deposits	2	1	3
Fund as at December 31, 2015	104	29	133
Provision as at January 1, 2015*	1,885	1,041	2,926
● change due to significant adjustment of discount rate, inflation rate and other assumptions	-108	-79	-187
● change due to on-going extraction and discount unwinding	150	29	179
Provision as at December 31, 2015	1,927	991	2,918
Fund and provision as at January 1, 2015*	**1,979**	**1,068**	**3,047**
● change due to significant adjustment of discount rate, inflation rate and other assumptions	-108	-79	-187
● change due to on-going extraction and discount unwinding	160	31	191
Fund and provision as at December 31, 2015	**2,031**	**1,020**	**3,051**

* data restated

In accordance with the IAS 16 Property, plant and equipment, a portion of future reclamation costs pertaining to the excavation part that is assigned as overburden is recognised in the balance sheet as property, plant and equipment.

Reclamation cost assets are systematically depreciated on a straight-line basis, based on the volume of coal extracted from the given excavation.

Table: Tangible assets – rehabilitation costs of final excavations in KWB Bełchatów and KWB Turów.

Tangible assets - rehabilitation costs of final excavations [PLN million]	KWB Bełchatów	KWB Turów	Total
Asset as at January 1, 2015*	**822**	**192**	**1,014**
● change due to significant adjustment of discount rate and inflation rate	-45	-53	-98
● change due to amortisation and impairment loss	-188	-38	-226
● change due to capitalisation of overburden	89	0	89
Asset as at December 31, 2015	**678**	**101**	**779**

* data restated

3.3.3 Renewable energy

The PGE Capital Group's operations in renewable energy are managed by the PGE EO S.A. Assets in the segment include:

- 12 wind farms;
- 1 photovoltaic power plant;
- 29 run-of-river hydro power plants;
- 4 pumped-storage power plants, including 2 with natural flow.

Table: Installed capacity and production in power plants of Renewable energy segment.

Power plant	Annual energy generation [GWh]			Installed capacity [MWe]
	2015	2014	2013	2015
Run-of-river hydro power plant	**243.7**	**298.9**	**329.2**	**96.7**
Elektrownia Wodna Dębe*	76.2	100.1	120.0	20.0
Elektrownia Wodna Myczkowce	25.5	20.9	28.5	8.2
Elektrownia Wodna Tresna	20.2	25.7	23.8	21.0
Elektrownia Wodna Porąbka	19.0	23.0	22.8	12.5
Elektrownia Wodna Smardzewice*	13.7	18.9	18.8	3.6
Elektrownia Wodna Oława	9.6	9.6	0.0	3.2
Elektrownia Wodna Raduszec Stary	8.1	11.4	15.4	3.0
Elektrownia Wodna Gorzupia II	6.6	8.3	9.1	1.7
Elektrownia Wodna Grajówka	6.0	8.5	11.4	2.9
Elektrownia Wodna Krapkowice	5.3	6.4	6.1	1.3
Elektrownia Wodna Dobrzeń	5.2	7.0	7.2	1.6
Elektrownia Wodna Krępna	5.0	6.2	5.1	1.3
Elektrownia Wodna Januszkowice	5.0	6.0	4.5	1.4
Elektrownia Wodna Przysieka	4.3	4.7	6.9	1.4
Elektrownia Wodna Żagań II	3.7	5.3	4.6	1.2
Elektrownia Wodna Rakowice	3.5	5.3	6.0	2.0
Elektrownia Wodna Gubin	3.5	4.1	4.0	1.2
Elektrownia Wodna Bukówka	3.2	3.6	5.0	0.8
Elektrownia Wodna Zielisko	3.0	3.2	4.2	1.5
Elektrownia Wodna Żagań I	2.9	3.9	4.1	1.0
Elektrownia Wodna Zasieki	2.9	3.3	4.5	0.8
Elektrownia Wodna Sobolice	2.0	2.5	3.6	0.7
Elektrownia Wodna Żarki Wielkie	1.9	1.8	3.1	0.6
Elektrownia Wodna Nielisz*	1.9	1.9	2.0	0.4
Elektrownia Wodna Szprotawa	1.5	2.3	2.1	0.8
Elektrownia Wodna Kliczków	1.4	1.9	2.8	0.7
Elektrownia Wodna Małomice	1.4	2.1	2.0	0.8
Elektrownia Wodna MEW Myczkowce	1.2	0.9	1.3	0.2
Elektrownia Wodna Gorzupia I	0.0	0.1	0.3	0.9
Pumped-storage power plants	**561.2**	**512.9**	**521.8**	**1,216.0**
Elektrownia Wodna Żarnowiec	343.0	309.0	316.9	716.0
Elektrownia Wodna Porąbka-Żar	218.2	203.9	204.9	500.0
Pumped-storage plants with natural flow **	**120.8**	**123.4**	**165.5**	**291.5**
Elektrownia Wodna Solina	82.0	73.7	94.9	200.2
Elektrownia Wodna Dychów	38.8	49.7	70.6	91.3

* hydro power plant managed in 2014 and 2013 by Retail Sale segment (current name – Supply segment)

**including generation from pump-storage cycle of 5.4 GWh and generation from natural flow of 115.4 GWh. Total generation from pump-storage cycle in 2015 amounted to 566.6 GWh and generation from water totalled 359.1 GWh

Table: Installed capacity and production in power plants of Renewable energy segment.

Power plant	**Annual energy generation [GWh]**			**Installed capacity [MWe]**
	2015	**2014**	**2013**	**2015**
Wind farms	**822.1**	**643.0**	**427.3**	**427.0**
Farma Wiatrowa Żuromin	157.2	145.0	133.1	60.0
Farma Wiatrowa Pelplin	112.4	94.9	97.6	48.0
Farma Wiatrowa Jagniątkowo (formerly Lake Ostrowo)*	88.5	74.7	38.5	30.6
Farma Wiatrowa Kisielice**	82.8	76.1	34.3	40.5
Farma Wiatrowa Wojciechowo***	81.6	51.4	0.0	28.0
Farma Wiatrowa Karnice I*	69.6	59.6	30.4	29.9
Farma Wiatrowa Kamieńsk	64.9	55.0	55.7	30.0
Farma Wiatrowa Karwice****	47.3	0.0	0.0	40.0
Farma Wiatrowa Malbork**	41.5	37.3	18.0	18.0
Farma Wiatrowa Resko I	32.3	27.7	8.3	14.0
Farma Wiatrowa Galicja**	24.1	21.3	11.4	12.0
Farma Wiatrowa Resko II*****	19.9	0.0	0.0	76.0
Photovoltaic power plant Żar	**0.02**	**0.0**	**0.0**	**0.6**
TOTAL:	**1,747.8**	**1,578.2**	**1,443.8**	**2,031.8**

* data for 2013 relate to period July – December 2013

** data for 2013 relate to period August – December 2013

*** data for 2014 relate to period March – December 2014

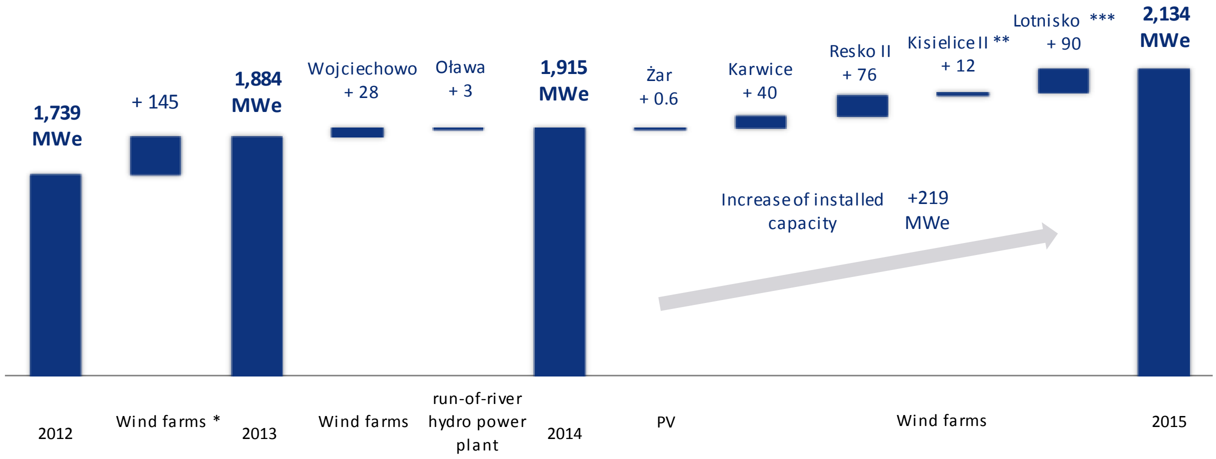
**** data for 2015 relate to period July – December 2015

***** data for 2015 relate to December 2015

In December 2015 Lotnisko wind farm with installed capacity of 90 MW Kisielice II wind farm with installed capacity of 12 MW were commissioned. In January 2016 Lotnisko wind farm obtained concession for electricity generation, while Kisielice II wind farm is waiting for the concession.

Total installed capacity of the wind farms currently amounts to 529 MW.

Chart: Change of installed capacity in Renewable energy.



* Wind farms acquired by PGE Energia Natury as of July 2013 and Resko I wind farm belonging to PGE Energia Odnawialna.

**Wind farm operational in 2015, awaiting concession for electricity generation.

*** Wind farm operational in 2015; concession for electricity generation granted in January 2016.

3.3.4 Distribution

PGE Dystrybucja S.A. operates in the area of 122,433 sq. km and delivers electricity to over 5 million customers.

Table: Volume of distributed energy and number of customers in 2015, 2014 and 2013.

Tariff	Volume of distributed energy [TWh]*			Number of customers according to power take-off points		
	2015	2014	2013	2015	2014	2013
A tariff group	5.21	5.08	4.96	98	86	83
B tariff group	12.30	11.76	11.14	10,977	10,626	10,374
C+R tariff groups	6.63	6.56	6.46	490,847	496,054	501,098
G tariff group	9.24	9.14	9.22	4,761,809	4,718,887	4,682,166
TOTAL	**33.38**	**32.54**	**31.78**	**5,263,731**	**5,225,653**	**5,193,721**

* with additional estimation of sales

Table: Key operational data in 2015, 2014 and 2013.

Operational data	Unit	2015	2014	2013
Number of stations:	pieces	92,258	91,374	90,685
number of transformer stations	pieces	91.874	91,019	90,304
MVA power	MVA	29,500	28,714	28,178
Length of power lines	km	283,804	281,290	279,704
HV lines	km	10,143	10,096	10,079
MV lines	km	109,938	109,054	108,571
LV lines	km	163,723	162,140	161,054
Grid loss ratio *	%	5.9%	6.3%	6.5%
SAIDI ratio **	minutes	442	474	528
Connection time	days	291	307	347

* ratio calculation: (volume of energy inducted to the grid of the Distribution System Operator –volume of energy taken from that grid)/ volume of energy inducted to the grid of the Distribution System Operator

** ratio calculation: (duration of long and very long breaks x number of off-takers exposed to the effects thereof)/number of off-takers

3.3.5 Supply

Within the Supply segment, operations are conducted by PGE Obrót S.A., PGE S.A., PGE Dom Maklerski S.A., PGE Trading GmbH and Enesta sp. z o.o. The segment's operations involve trading in electricity in all the country, wholesale electricity trading on domestic and international market, providing services to the PGE Group companies with regard to management of generation capacities and electricity produced, as well as trading of CO_2 emission rights, certificates and gas.

Revenues are mainly generated from electricity sales to final customers and sales of distribution services under master agreements. The main costs of operation in the segment are costs of electricity purchase and expenses incurred in compliance with the obligation to buy units of ownership which are subject to remittance under the system of support for Renewable Energy Sources, co-generation and energy efficiency. As an alternative, in the case of limited supply or lack property rights a substitute fee may be contributed.

The volume of electricity sales to final customers amounted to 39.00 TWh, what means a 2% decline in comparison to the previous year.

Expenses borne by power undertakings involved in the sale of electricity and relating to the system of support for renewable and co-generation energy sources and resulting from introduction of certificates of energy efficiency is a substantial item in the retail price of electricity paid by the final customer.

Anticipated amendments to the system of support for electricity generation from renewable sources may impact prices of electricity paid by the final customer.

Table: Substitution fees.

Substitution fee	Unit	2015	2014	2013
Renewable energy sources	PLN/MWh	300.03	300.03	297.35
Energy certificate - cogenerated energy (colliery methane)	PLN/MWh	63.26	63.26	60.00
Certificates of origin – energy generated in highly-efficient cogeneration	PLN/MWh	11.00	11.00	29.84
Certificates of origin – energy generated in highly-efficient cogeneration fuelled by gas or with a total installed capacity of the unit below 1 MWe	PLN/MWh	121.63	110.00	149.30
Certificates of energy efficiency	PLN/toe	1 000.00	1 000.00	1 000.00

Table: Obligation to redeem the property rights.

Obligation to redeem the property rights	Unit	2015	2014	2013
Renewable energy sources	%	14.0	13.0	12.0
Energy certificate - cogenerated energy (colliery methane)	%	1.3	1.1	0.9
Certificates of origin – energy generated in highly-efficient cogeneration	%	23.2	23.2	Brak*
Certificates of origin – energy generated in highly-efficient cogeneration fuelled by gas or with a total installed capacity of the unit below 1 MWe	%	4.9	3.9	Brak*
Certificates of energy efficiency	%	1.5	1.5	1.0

* Requirement to purchase of certificates of origin generated in highly-efficient cogeneration (red and yellow certificates) since April 2014

3.4 Business segments – financial data

Table: Breakdown of the Group's income by business segments for years 2015, 2014 and 2013.

in PLN million	Total income				
	2015	**2014**	**% change**	**2013***	**% change**
Conventional Generation	12,715	12,906	-1%	12,211	6%
Renewable Energy	761	767	-1%	734	4%
Supply	15,783	14,431	9%	17,400	-17%
Distribution	6,083	5,781	5%	5,620	3%
Other operations	682	1,854	-63%	1,838	1%
TOTAL	**36,024**	**35,739**	**1%**	**37,803**	**-5%**
Consolidation adjustments	**-7,482**	**-7,596**	**-2%**	**-7,654**	**-1%**
TOTAL AFTER ADJUSTMENTS	**28,542**	**28,143**	**1%**	**30,149**	**-7%**

*data restated

Table: Key financial indicators for each business segment for 2015 (after intrasegmental eliminations).

in PLN million	EBITDA	EBIT	Capital expenditures	Assets of the segment*
	2015			
Conventional Generation	4,698	-5,732	6,495	32,419
Renewable Energy	391	107	931	4,767
Supply	610	585	31	3,762
Distribution	2,461	1,387	1,841	16,710
Other operations	66	-51	216	1,033
TOTAL	**8,226**	**-3,704**	**9,514**	**58,691**
Consolidation adjustments	**2**	**115**	**-64**	**-2,348**
TOTAL AFTER ADJUSTMENTS	**8,228**	**-3,589**	**9,450**	**56,343**

* see note 6.1 to the consolidated financial statements

Table: Key financial indicators for each business segment for 2015 (after intrasegmental eliminations).

w mln PLN	EBITDA	EBIT	Capital expenditures	Assets of the segment*
	2014**			
Conventional Generation	4,983	3,296	4,362	35,358
Renewable Energy	391	174	374	4,110
Supply	246	228	17	3,601
Distribution	2,329	1,306	1,508	15,726
Other operations	161	31	158	1,400
TOTAL	**8,110**	**5,035**	**6,419**	**60,195**
Consolidation adjustments	**19**	**61**	**-70**	**-1,965**
TOTAL AFTER ADJUSTMENTS	**8,129**	**5,096**	**6,349**	**58,230**

* see note 6.1 to the consolidated financial statements

** data restated

Table: Key financial indicators for each business segment for 2013 (after intrasegmental eliminations).

in PLN million	EBITDA	EBIT	Capital expenditures	Purchase of PPE* net, within purchase of new companies	Assets of the segment
			2013**		
Conventional Generation	3,969	1,971	2,722	0	31,525
Renewable Energy	386	188	196	847	3,616
Supply	1,394	1,368	19	0	3,343
Distribution	2,254	1,245	1,335	0	15,185
Other operations	145	29	178	0	1,454
TOTAL	**8,148**	**4,801**	**4,450**	**847**	**55,123**
Consolidation adjustments	**42**	**47**	**-93**	**269**	**-1,584**
TOTAL AFTER ADJUSTMENTS	**8,190**	**4,848**	**4,357**	**1,116**	**53,539**

* PPE – property, plant and equipment

** data restated

3.4.1 Conventional Generation

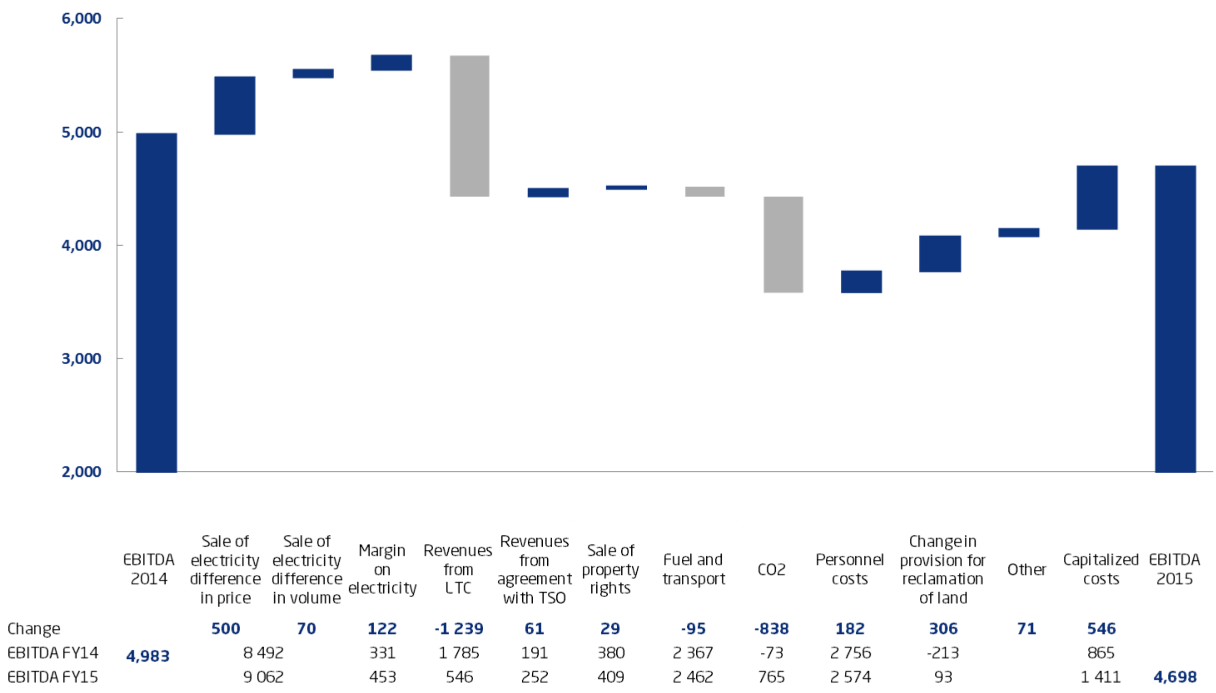
Table: Key figures for Conventional Generation.

in PLN million	2015	2014*	% change	2013*	% change
Sales revenues	12,715	12,906	-1%	12,211	6%
EBIT	-5,732	3,296	-274%	1,971	67%
EBITDA	4,698	4,983	-6%	3,969	26%
Capital expenditures	6,495	4,362	49%	2,722	60%

in PLN million	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q4 2014
Sales revenues	3,517	2,909	3,052	3,237	3,339
EBIT	810	-8,070	789	739	286
EBITDA	1,256	1,203	1,127	1,112	722
Capital expenditures	1,042	1,316	1,656	2,481	1,565

* data restated

Chart: Key changes of EBITDA in Conventional Generation [in PLN million].

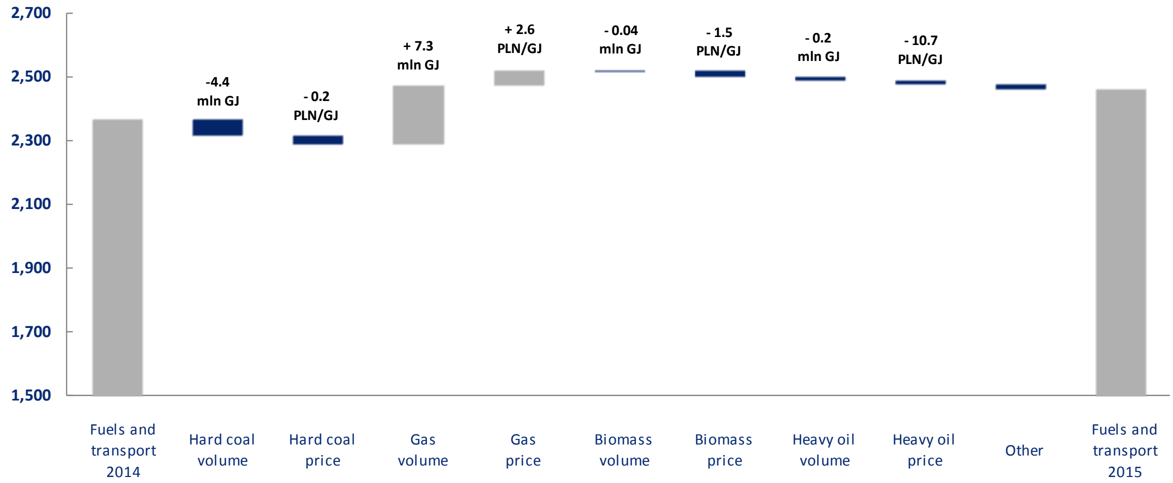


Key factors affecting the results of Conventional Generation segment in 2015 compared to the results of the previous year included:

- Increase of electricity prices, what attributed to the adequate increase of sales revenues. Average sale price of electricity on the power exchange market amounted to PLN 173.36/MWh in 2015 while it amounted to PLN 163.70/MWh in 2014.
- Increased sales volume of electricity from own generation as a result of reinstated production in gas CHPs in September and October 2014 due to reinstatement of support scheme for highly efficient cogeneration.
- Higher result on resale of electricity – change on price PLN 103 million, change on volume PLN 19 million.
- Higher capitalised costs, inter alia due to higher volume of overburden removal in mines and recognition of removal costs as asset.

- Higher revenues from certificates – mainly due to higher production of yellow certificates by 1.1 TWh and higher price of yellow certificates by PLN 7.5/MWh.
- Lower personnel expenses – resulting from reversal of provision for Voluntary Leave Programs in 2015 in amount of PLN 44 million and costs of Voluntary Leave Programs incurred in 2014 in amount of PLN 347 million. Change in actuarial provisions also attributed to the lower personnel expenses – change resulted from change of the discount rate (y-o-y change of PLN 97 million).
- Higher CO_2 costs – as a result of lower amount of allowances granted free of charge and higher volume of electricity generation as well as reversal in 2014 of provision for costs of purchase of CO_2 emission rights of PLN 751 million.
- Higher costs of fuels used, including mainly gas due to higher generation based on that fuel resulting from reinstated support for highly efficient cogeneration (volume used higher by 7.3 GJ million). Main changes on different types of fuel are presented on the chart below.

Chart: Costs of fuels consumption (including transport) in Conventional Generation [in PLN million].



	Fuels and transport 2014	Hard coal volume	Hard coal price	Gas volume	Gas price	Biomass volume	Biomass price	Heavy oil volume	Heavy oil price	Other	Fuels and transport 2015
Change		**-51**	**-25**	**185**	**45**	**-1**	**-20**	**-9**	**-13**	**-16**	
Fuels and transport 2014	**2,367**	1,588		255		350		66			
Fuels and transport 2015		1,512		485		329		44			**2,462**

Capital expenditures

Table: Capital expenditures incurred in Conventional Generation segment in 2015, 2014 and 2013.

PLN million	Capital expenditures				
	2015	**2014***	**% change**	**2013***	**% change**
Investments in generating capacities, including:	5,504	3,646	51%	1,976	85%
▪ Development	3,049	914	234%	69	1,225%
▪ Modernisation and replacement	2,455	2,732	-10%	1,907	43%
Purchase of finished capital goods	64	65	-2%	35	86%
Vehicles	27	9	200%	8	13%
Other	122	64	91%	83	-23%
TOTAL	**5,717**	**3,784**	**51%**	**2,102**	**80%**
Capitalized costs of overburden removal in mines	778	578	35%	621	-7%
TOTAL with capitalized costs of overburden removal in mines	**6,495**	**4,362**	**49%**	**2,723**	**60%**

* in order to sustain comparability in 2014 and 2013 in group part of Other expenditures were reclassified to category Modernisation and replacement in 2015.

PLN million	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q4 2014
Investments in generating capacities, including:	794	1,098	1,424	2,188	1,307
▪ Development	471	587	808	1,183	441
▪ Modernisation and replacement	323	511	616	1,005	886
Purchase of finished capital goods	11	17	17	19	27
Vehicles	7	5	5	10	3
Other	55	-22	23	66	35
TOTAL	**867**	**1,098**	**1,469**	**2,283**	**1,372**
Capitalized costs of overburden removal in mines	175	218	187	198	193
TOTAL with capitalized costs of overburden removal in mines	**1,042**	**1,316**	**1,656**	**2,481**	**1,565**

Highest capital expenditures in 2015 were incurred for the following projects:

- construction of units 5 and 6 in Opole power plant PLN 2,663 million;
- comprehensive modernization of units 7-12 - Bełchatów power plant PLN 1,043 million;
- construction of desulphurization installations of units 4 - 6 in Turów power plant PLN 300 million;
- construction of CCGT unit in Gorzów CHP PLN 196 million;
- construction of unit no. 11 in Turów power plant PLN 101 million.

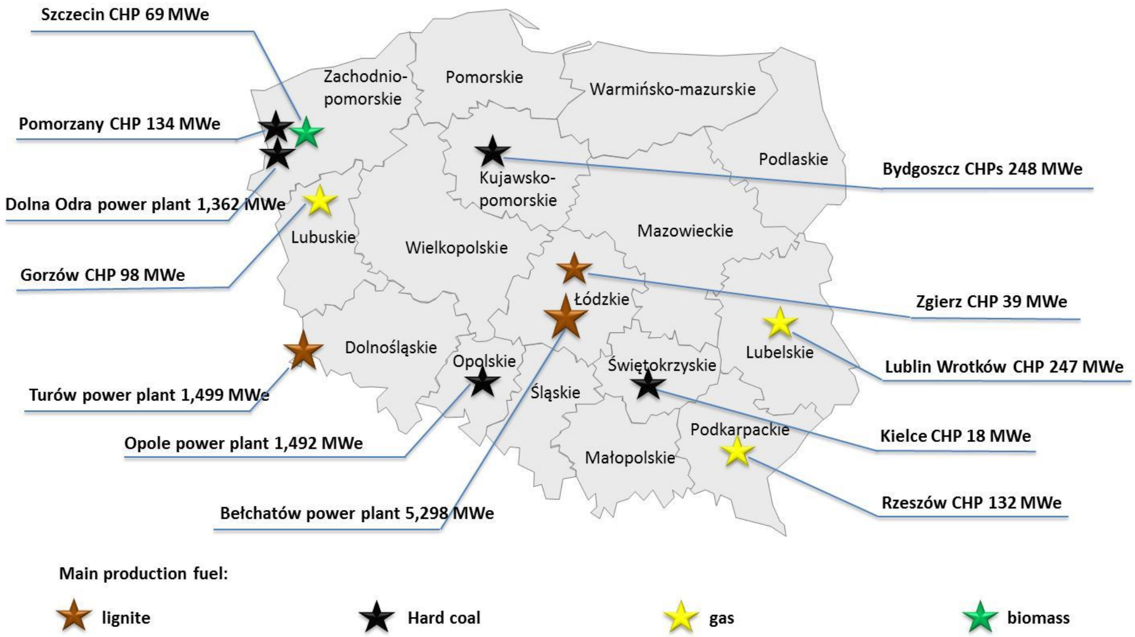
Key developments in 2015 in Conventional Generation:

- in January 2015 unit no. 11 in Bełchatów power plant was commissioned; achievable capacity increased from 370 to 390 MW;
- in June 2015 unit no. 12 in Bełchatów power plant was commissioned; achievable capacity increased from 370 to 390 MW;
- in August 2015 modernisation of NOx reduction installation was completed in units no. 5-8 in Dolna Odra power plant;
- in November 2015 desulphurization installation was commissioned in Bydgoszcz CHPs;
- in December 2015 an agreement was concluded with the General Contractor in the task of preparation and construction of waste incineration plant in Rzeszów CHP;
- in December 2015 an installation reducing emissions of nitrogen oxides was commissioned in boilers no. 4 – 6 Turów power plant.

In 2015 expenditures of companies belonging to PGE Capital Group, which provides direct support services for the Conventional Generation segment, have been included into Conventional Generation segment.

Key investments being pursued within the Conventional Generation segment are described in p. 2 of this report.

Diagram: Main assets of the Conventional Generation segment.



3.4.2 Renewable Energy

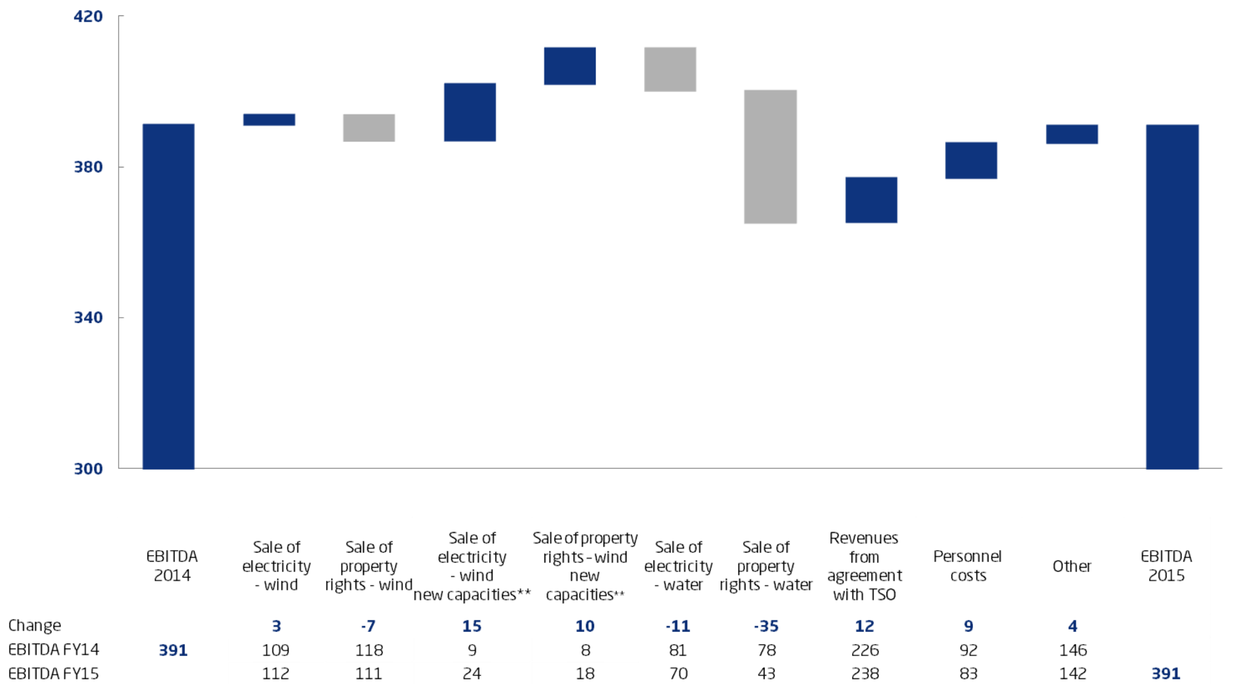
Table: Key figures for Renewable Energy.

PLN million	2015	2014*	% change	2013*	% change
Sales revenues	761	767	-1%	734	4%
EBIT	107	174	-39%	188	-7%
EBITDA	391	391	0%	386	1%
Capital expenditures	931	374	149%	196	91%
Purchase of PPE**, within purchase of new companies	0	0	-	847	-

in PLN million	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q4 2014*
Sales revenues	215	163	168	215	174
EBIT	70	18	17	2	10
EBITDA	125	77	76	113	67
Capital expenditures	68	151	346	366	132

* data restated
** Property, plant and equipment

Chart: Key changes of EBITDA in Renewable Energy [in PLN million].



* excluding revenues and costs relating to balancing market do not affecting EBITDA result
** Wojciechowo wind farm since March 2014, Karwice wind farm since July 2015, Resko II wind farm since December 2015

Key factors affecting the results of Renewable Energy in 2015 compared to the results of the previous year included:

- The decline of revenues from sales of certificates, resulting from the lower realized average sale price in 2015 compared to 2014 by approx. PLN 49.7/MWh. Lower electricity production volume from hydro power plants (by approx. 14%) and related therewith lower certificates production volume due to unfavourable weather conditions, also had significant impact.

- The increase of sales of electricity from wind power plants was caused by the increased volumes generated what is connected with (i) higher availability of generating units, (ii) favourable wind conditions and (iii) commissioning of Karwice wind farm in July 2015 with installed capacity of 40 MW and Resko II wind farm in December 2015 with installed capacity of 76 MW. EBITDA generated by the Karwice wind farm in 2015 amounted to approx. PLN 10 million while EBITDA of Resko II wind farm amounted to approx. PLN 5 million.
- Higher sales revenues from ancillary control services (agreement with PSE S.A.) mainly due to higher rate for intervention reserve of active power.
- Decline in personnel expenses is mainly related to integration of companies in the Renewable Energy segment as well as to employment restructuring.
- Favourable change in item Other results mainly from lower costs of repairs and maintenance as well as external services as a consequence of integration of companies in the Renewable Energy segment. In addition, there was an increase in the other operations resulting mainly from higher compensations (impact of compensations due to outage of turbines in Kisielice wind farm), with the simultaneous increase of costs resulting from agreement for commercial management of generation capacities concluded with PGE S.A. by approx. PLN 6 million.

Capital expenditures

Table: Capital expenditures incurred in Renewable Energy segment in 2015, 2014 and 2013.

in PLN million	Capital expenditures				
	2015	2014	% change	2013	% change
Investments in generating capacities, including:	918	353	160%	188	88%
▪ Development	867	301	188%	133	126%
▪ Modernization and replacement	51	52	-2%	55	-5%
Other	13	21	-38%	8	163%
TOTAL	**931**	**374**	**149%**	**196**	**91%**
Purchase of PPE* net, within purchase of new companies	0	0	-	847	-
TOTAL	**931**	**374**	**149%**	**1.043**	**-64%**

in PLN million	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q4 2014
Investments in generating capacities, including:	67	151	345	355	114
▪ Development	65	138	340	324	85
▪ Modernization and replacement	2	13	5	31	29
Other	1	0	1	11	18
TOTAL	**68**	**151**	**346**	**366**	**132**

* Property, plant and equipment

In 2015 the highest capital expenditures were incurred for the following projects:

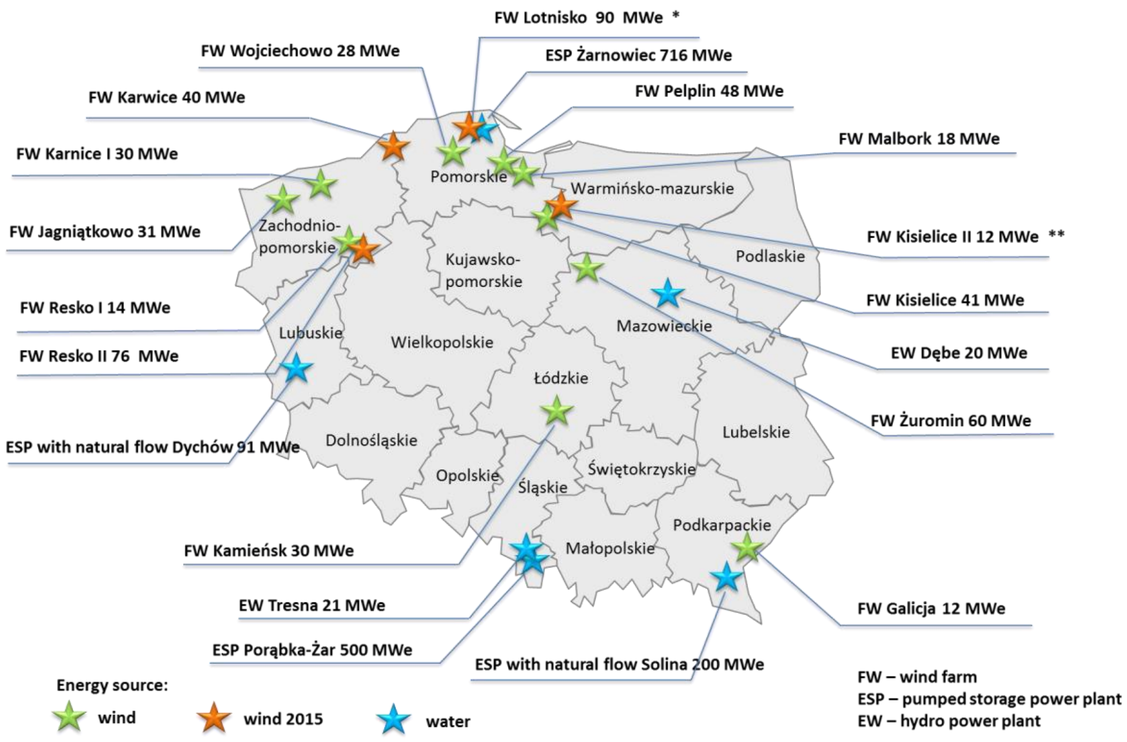
- Construction of Lotnisko wind farm with capacity of 90 MW PLN 381 million;
- Construction of Resko II wind farm with capacity of 76 MW PLN 349 million;
- Construction of Karwice wind farm with capacity of 40 MW PLN 72 million;
- Construction of Kisielice II wind farm with capacity of 12 MW PLN 63 million.

Key conclusions in Renewable Energy segment in 2015 included:

- In July 2015 Karwice wind farm of 40 MW commissioned;
- In September 2015 - commissioning of the first photovoltaics power plant with a capacity of 0.6 MW located on Żar mountain in Międzybrodzie Żywieckie.
- In December 2015 Resko II wind farm of 76 MW was commissioned;
- In December 2015 occupancy permit granted for Lotnisko wind farm of 90 MW;
- In December 2015 occupancy permit granted for Kisielice wind farm of II 12 MW;

Key investments being pursued within the Renewable Energy segment are described in p. 2 of this report.

Diagram: Main assets of the Renewable Energy segment.



*Wind farm operational in 2015, concession for electricity generation obtained in January 2016.

** Wind farm operational in 2015, awaiting concession for electricity generation.

3.4.3 Distribution

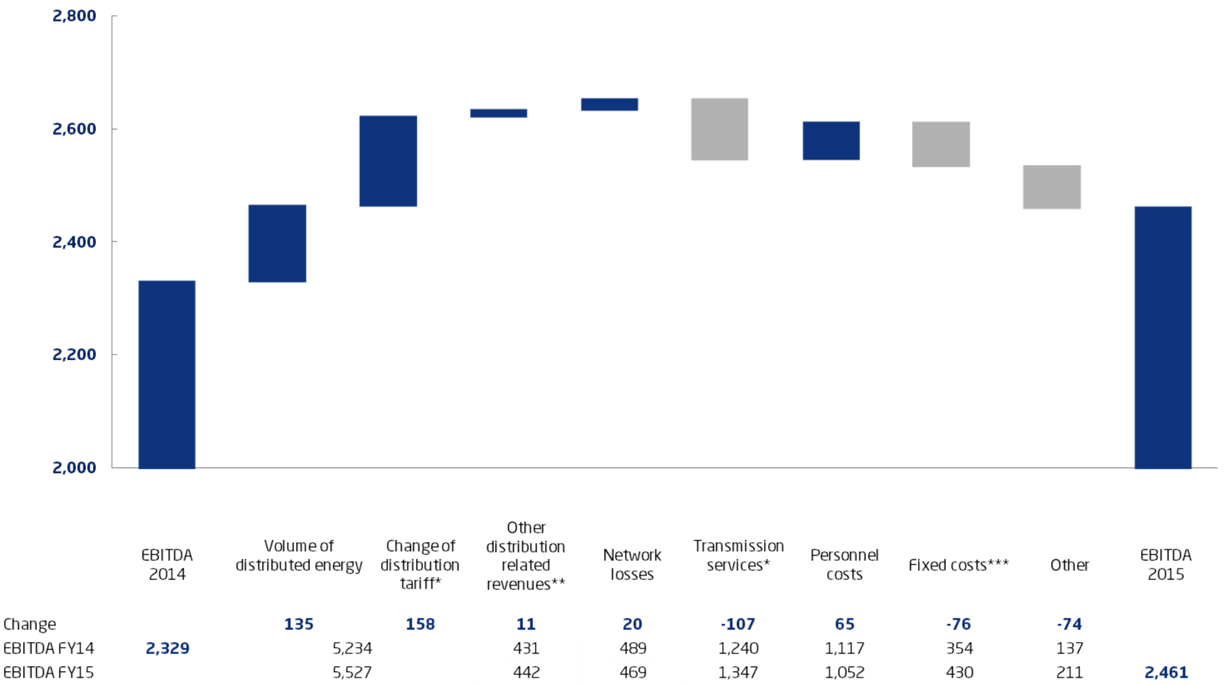
Table: Key figures for Distribution.

in PLN million	2015	2014*	% change	2013	% change
Sales revenues	6,083	5,781	5%	5,616	3%
EBIT	1,387	1,306	6%	1,245	5%
EBITDA	2,461	2,329	6%	2,254	3%
Capital expenditures	1,841	1,508	22%	1,335	13%

in PLN million	Q1 2015*	Q2 2015*	Q3 2015*	Q4 2015	Q4 2014*
Sales revenues	1,541	1,462	1,478	1,602	1,524
EBIT	367	342	360	318	272
EBITDA	632	603	630	596	535
Capital expenditures	263	425	450	703	738

* data restated

Chart: Key changes of EBITDA in Distribution [in PLN million].



* Increase of transmission costs with no impact on result, offset by the increased revenues from distribution services
** Other revenues (reactive power, excess capacity, additional services), revenues from connection fee, sale of transit services
*** Fixed costs (lowered by cost of own use, fixed costs of transmission by PSE S.A. and personnel expenses)

Key factors affecting the results of Distribution in 2015 compared to the results of the previous year included:

- **Increased volume of distributed energy** by 840.2 GWh resulting from – inter alia – higher number of customers measured by power take-off points (by approx. 38.1 thousand) in comparison to 2014.
- **Increase of other revenues from distribution services** resulting mainly from higher revenues from the connection fee in connection with number of completed requests (among others connection of wind farms). The revenues from reactive power and excess capacity were lower due to: (i) price drop and (ii) optimization of off-

takers behaviour in that field, particularly more accurate capacity demand forecasts in relation to power consumption.

- **Lower cost of electricity used to cover balancing difference** due to network losses lower by 0.4 p.p. Lower level of network losses was achieved thanks to implementation of program of electricity network losses reduction, which results in replacement of transformers with the units with low losses, reconstruction and modernization of the grid, maintenance of the optimal grid layout and optimal voltage adjustment. The level of network losses was also affected by increased share of sales in tariff groups A and B to off-takers powered by high voltage and medium voltage lines, in which the network losses connected with supply of energy are lower.
- **Increase of fixed costs** mainly resulting from: (i) increased costs incurred for repairs and exploitation of the grid assets(PLN + 27 million) and (ii) property tax in connection with the expansion of grid assets and increase of rates (PLN + 15 million).
- **Change in other** results mainly from (i) higher provisions regarding compensations for non-contractual use of property and (ii) higher impairment allowances on receivables.

Capital expenditures

Table: Capital expenditures incurred in Distribution segment in 2015, 2014 and 2013.

in PLN million	Capital expenditures				
	2015	2014	% change	2013	% change
MV and LV power networks	553	414	34%	263	57%
110/ MV and MV/MV	223	132	69%	175	-25%
110 kV power lines	52	49	6%	35	40%
Connection of new off-takers	585	499	17%	542	-8%
Purchase of transformers and energy counters	183	172	6%	153	12%
IT, telemechanics and communication	157	135	16%	84	61%
Other	88	107	-18%	83	29%
TOTAL	**1,841**	**1,508**	**22%**	**1,335**	**13%**

in PLN million	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q4 2014
MV and LV power networks	90	120	131	212	212
110/ MV and MV/MV	21	42	45	115	90
110 kV power lines	3	8	7	34	26
Connection of new off-takers	100	154	144	187	171
Purchase of transformers and energy counters	18	47	70	48	80
IT, telemechanics and communication	18	45	38	56	92
Other	13	9	15	51	67
TOTAL	**263**	**425**	**450**	**703**	**738**

Activities related to the implementation of investments pursued in previous reporting periods were continued in 2015.

3.4.4 Supply

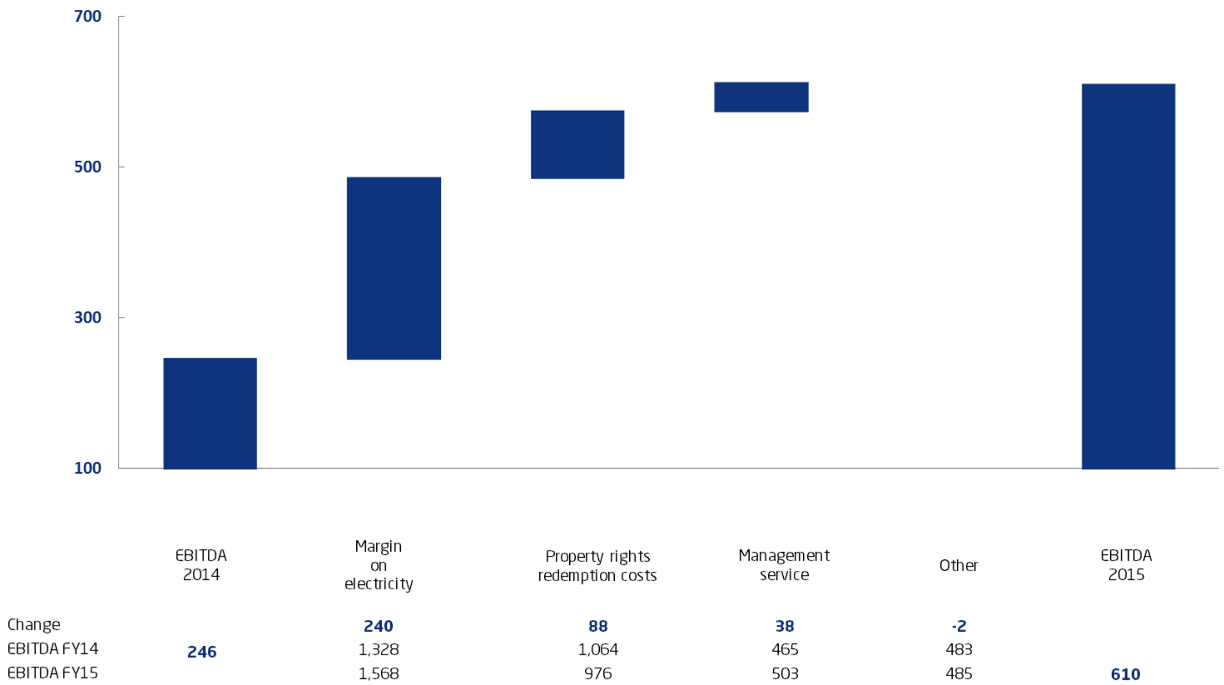
Table: Key figures for Supply.

in PLN million	2015	2014*	% change	2013*	% change
Sales revenues	15,783	14,431	9%	17,400	-17%
EBIT	585	228	157%	1,368	-83%
EBITDA	610	246	148%	1,394	-82%
Capital expenditures	31	17	82%	19	-11%

in PLN million	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q4 2014*
Sales revenues	3,797	3,471	3,802	4,713	3,945
EBIT	153	114	138	180	41
EBITDA	159	120	144	187	46
Capital expenditures	4	9	9	9	7

* data restated

Chart: Key changes of EBITDA in Supply [in PLN million].



Key factors affecting the results of Supply in 2015 compared to the results of the previous year included:

- **Increase of results from electricity** due to higher margin per unit on energy sale due to more favourable spread between the average price of sale and average price of purchase of electricity.
- **Decreased costs of certificates redemption** resulting mainly from the falling prices on the green certificates.
- **Increase of revenues from the Agreement for Commercial Management of Generation Capacities ("ZHZW")** due to higher trading volume – by 2 TWh – under management and higher market prices of sale under so called power exchange obligation. Revenues from PGE GiEK S.A. increased by PLN 32 million. Moreover, from April 2015 ZHZW has included PGE EO S.A. what brought additional income for PGE S.A. in amount of PLN 6 million.

3.4.5 Other operations

Table: Key figures for Other operations.

in PLN million	2015	2014	% change	2013	% change
Sales revenues	682	1 854	-63%	1 838	1%
EBIT	-51	31	-	29	7%
EBITDA	66	161	-59%	145	11%
Capital expenditures	216	158	37%	178	-11%

in PLN million	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q4 2014
Sales revenues	173	167	172	170	536
EBIT	-5	-14	-5	-27	9
EBITDA	20	13	25	8	45
Capital expenditures	33	47	61	75	158

EBITDA lower by PLN 95 million was mainly related to:

- **Shifting of companies rendering ancillary services** (construction, renovation and modernization) to the companies from Conventional Generation segment, from Other Operations in 2014 to Conventional Generation segment in 2015 PLN (-) 66 million;
- **Lower result of PGE EJ 1 sp. z o.o.**, resulting mainly from increased personnel expenses and external services in connection with the realization of further stages of preparatory works for construction of the first nuclear power plant. In addition, result of 2014 was increased due to the bank guarantee called in connection with termination of the agreement with Worley Parsons and a reversal of write-down with regard to debit notes for unpaid invoices issued by Worley Parsons (totally approx. PLN 27 million) PLN (-) 41 million;
- Shifting of **Enesta S. A.** from Other operations in 2014 to Supply segment in 2015 PLN (-) 15 million.

Decline of EBITDA was partly compensated by:

- Higher result by **PGE Systemy S.A.** mainly due to extension of services and launching new services in areas of ERP systems and Security Program and to lower other operating expenses PLN (+) 17 million;
- Higher result by **Elbest sp. z o.o. and Elbest Security sp. z o.o.** caused mainly by decline in payroll costs with regard to additional employee benefits, sale of unprofitable assets, and increasing the sales of security services PLN (+) 10 million.

Capital expenditures

The highest capital expenditures were incurred by:

- PGE Systemy S.A. – for IT infrastructure and software development PLN 105 million;
- PGE EJ 1 sp. z o.o. – for nuclear project development PLN 48 million;
- Exatel S.A. – for telecommunication infrastructure development PLN 58 million.

3.5 Transactions with related entities

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

3.6 Publication of financial forecasts

PGE S.A. did not publish financial forecasts.

On February 3, 2016 PGE S.A. published current report no. 4/2016, in which disclosed EBITDA adjusted by the value of impairment losses and net profit adjusted by the value of impairment losses attributable to equity holders of the parent company for the year 2015. EBITDA and net profit attributable to equity holders of the parent company adjusted by the value of impairment losses in 2015 were achieved at the estimated level and amounted respectively to PLN 8.2 billion and

PLN 4.3 billion. Consolidated net result attributable to equity holders of the parent company in 2015 was estimated at approx. PLN (-) 3.0 billion (loss).

3.7 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 for 2015 is KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k..

The financial statement audit agreement was signed on November 5, 2014 for period of three years and covers the audit of stand-alone and consolidated financial statements for 2014-2016, as well as reviews of interim half-year consolidated financial statements prepared for the periods ended June 30 in years 2015-2017.

An entity authorised to of financial statements, which was responsible for review of stand-alone financial statements of PGE S.A. and consolidated financial statements of the PGE Capital Group for the first half-year 2015 and for audit of annual stand-alone financial statements of PGE S.A. and consolidated financial statements of the PGE Capital Group for 2014 was KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. The entity responsible for half-year review of stand-alone financial statements of PGE S.A. and consolidated financial statements of the PGE Capital Group in 2014 was KPMG Audyt Sp. z o. o.

Table: Fee payable to an entity authorised to audit of financial statements with regard to PGE S.A. (PLN thousand).

Auditor's fee	2015	2014	2013
Audit and reviews of the financial statements	398	555	280
Other	118	709	17

In 2015 KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. audited also financial statements of the following companies from the PGE Capital Group: PGE GiEK S.A., PGE EJ 1 sp. z o.o., PEC Zgierz sp. z o.o., PGE EO S.A, EW Baltica 1 sp. z o.o., EW Baltica 2 sp. z o.o., EW Baltica 3 sp. z o.o., Bio-Energia S.A., PGE Dom Maklerski S.A., PGE Energia Natury sp. z o.o., PGE Energia Natury Omikron sp. z o.o, PGE Energia Natury PEW sp. z o.o., PGE Obsługa Księgowo-Kadrowa sp. z o.o. and ELBEST Security sp. z o.o.

In 2014 spółka KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. audited also financial statements of the following companies from the PGE Capital Group: PGE GiEK S.A., PGE EJ 1 sp. z o.o., PEC Zgierz sp. z o.o., PGE EO S.A., Pelplin sp. z o.o., Eolica Wojciechowo sp. z o.o., EW Baltica 1 sp. z o.o., EW Baltica 2 sp. z o.o., EW Baltica 3 sp. z o.o., Bio-Energia S.A., PGE Dom Maklerski S.A., PGE Energia Natury S.A., PGE Energia Natury sp. z o.o., PGE Energia Natury Karnice sp. z o.o., PGE Energia Natury Bukowo sp z. o.o., PGE Energia Natury Olecko sp. z o.o., PGE Energia Natury Omikron sp. z o.o., PGE Energia Natury Kappa sp. z o.o. and PGE Energia Natury PEW sp. z o.o.

Table: Fee payable to an entity authorised to audit of financial statements with regard to the entities of the Capital Group (PLN thousand).

Auditor's fee	2015	2014	2013
Audit and reviews of the financial statements	846	771	622
Other	114	117	0

3.8 Management of financial resources and financial liquidity

3.8.1 Rating

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

	Moody's	Fitch Ratings
Long-term company rating	Baa1	BBB+
Rating outlook	stable	stable
Date of rating assignment	September 2, 2009	September 2, 2009
Date of the latest rating confirmation	February 12, 2016	May 21, 2015
Date of the latest rating change	May 26, 2014	-
Poland long-term rating	A2	A-

Rating agencies Moody's Investors Service and Fitch Ratings affirmed long-term ratings for PGE S.A. On May 21, 2015 Fitch affirmed PGE's long-term foreign and local currency Issuer Default Ratings at 'BBB+' with a stable outlook. Moody's affirmed its last-year rating at Baa1 with stable outlook on February 12, 2016.

According to Fitch's opinion, affirmation of the rating results from PGE's strong market position in the Polish electricity sector and conservative financial profile. This rating is constrained by the fairly low portion of the regulated business (distribution of electricity) in EBITDA, limited diversification of generation sources and high average carbon dioxide (CO_2) emissions per MWh. Fitch also expects a decline in margins of PGE's core business of conventional generation. In Fitch's opinion, the large capital expenditure plans will increase funds from operations adjusted net leverage to approximately 2x by 2017 and close to 3x by 2020 from close to zero net leverage at the end of March 2015.
Moody's, in its realease of February 12, 2016 appreciates strong position of PGE Group as an integrated power group dominant on the electricity market in Poland, capable of dealing on the market with significantly declining electricity prices due to falling coal prices and carbon prices. Risks indicated by Moody's state that financial flexibility of the Group could erode over time if the power prices decline further and as the Group implements its sizeable capital expenditure. At the same time Moody's indicates that prudent financial policies that balance shareholders and creditors needs will be key in preserving the current ratings. The assigned rating further takes into account an expected increase in leverage due to negative free cash flows arising from a significant capital expenditure programme.

Ratings assigned by both agencies confirm PGE's long-term credibility on the capital and credit markets.

3.8.2 Net debt of the Group and main financial ratios

Table: Group's net debt as at December 31, 2015, December 31, 2014 and December 31, 2013.

in PLN million	December 31, 2015	December 31, 2014 *Data restated*	December 31, 2013 *Data restated*
A. Cash [(1)]	971	1,473	578
B. Cash equivalents	1,800	4,586	4,971
C. Securities held for trading and available for sale [(2)]	0	3	4
D. Liquidity (A) + (B) + (C)	2,771	6,062	5,553
E. Investments held to maturity and loans and receivables [(3)]	1	1	0
F. Short-term debt with banks and current part of long-term debt [(4)]	290	356	526
G. Other short-term financial debt [(5)]	1	1	2
H. Short-term financial debt (F) + (G) [(6)]	291	357	528
I. Short-term financial debt, net (H) - (D) - (E)	**-2,481**	**-5,706**	**-5,025**
J. Long-term bank loans and advances	1,459	1,007	992
K. Bonds issued	3,658	3,680	1,000
L. Other long-term loans and advances or other commitments [(5)]	1	1	2
M. Long-term financial debt (J) + (K) + (L) [(6)]	**5,118**	**4,688**	**1,994**
N. Net financial debt (I) + (M)	**2,637**	**-1,018**	**-3,031**

Comments:	
1)	Excluding restricted cash, attributable primarily to: ● funds received as guarantee for due performance of the funds received by particular branches of PGE GiEK S.A. as tender guarantees; ● funds as collaterals for settlements of PGE Group entities with Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Clearing House)
2)	Including stocks listed in active markets, participation units in investment funds classified as financial assets available for sale and acquired bonds, bills of exchange, bills and participation units in investment funds classified as assets held for trading
3)	Including short-term acquired bonds, bills of exchange, bills classified as investments held to maturity, acquired bonds, bills of exchange and bills, loans granted and deposits classified as loans and receivables
4)	Including loans and bonds
5)	Including payables under lease and lease repo agreements
6)	Excluding other financial commitments measured at depreciated cost

Table: Key financial ratios.

Ratios	Year ended December 31, 2015	Year ended December 31, 2014 *Data restated*	Year ended December 31, 2013 *Data restated*
Return on sales ROS [in %] Net profit x 100% / Net revenues	-10.64%	12.99%	13.17%
Return on sales ROS [in %]- adjusted* Net result x 100% / Net revenues	15.01%	13.44%	14.10%
Return on equity ROE [in %] Net profit x 100% / (equity – net profit)	-6.99%	8.87%	9.97%
Return on equity ROE [in %] – adjusted Net result x 100% / (equity - net result)	9.86%	9.18%	10.67%
Debtor's days Average trade receivables (gross) x 365 days / net revenues	34	33	28
Debt ratio [in %] Liabilities x 100% / total equity and liabilities	34.06%	32.20%	28.48%
Current ratio Current assets / short-term liabilities	1.5	1.9	1.7

*financial results were adjusted by the value of impairment losses

Financial results achieved by PGE S.A. as well as PGE Group companies and unused credit limits ensure funds sufficient for financing of current operating activities of the PGE Group companies.

In order to optimise the cash flows of the Group companies, improve the liquidity management efficiency and secure short-term financing of the entities from the Group, PGE Capital Group introduced one-way real cash-pooling. The cash poling agreements were signed on December 22, 2014.

3.8.3 Bonds issued

As the parent company 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, 2015 **PGE GiEK S.A.** had bonds issued for a total nominal value of **PLN 4,770 million** that were purchased by PGE S.A. under the following bond programs:

- Bond issue program with ING Bank Śląski S.A. of September 13, 2010 allowing for issue of bonds of up to PLN 4,091 million. On November 29, 2013 the company signed an annex to the agency agreement that prolonged the program until December 31, 2017. As at December 31, 2015 the company did not have any bonds issued under the programme.
- Bond issue program with Powszechna Kasa Oszczędności Bank Polski S.A. of November 30, 2009 allowing for issue of bonds of up to PLN 3,700 million. The maturity date is on December 31, 2025. As at December 31, 2015 the company did not have any bonds issued under the programme.
- Bond Issue program signed with ING Bank Śląski S.A. on June 20, 2011 allowing for issue of bonds directed to PGE S.A. The maturity date falls on December 31, 2025. As at December 31, 2015 the nominal value of the bonds acquired by PGE S.A. under this programme amounted to **PLN 4,770 million**.

As at December 31, 2015 **PGE EO S.A.** had bonds issued and purchased by PGE S.A. amounting to **PLN 1,085 million**.

As at December 31, 2015 companies from former PGE Energia Natury group had bonds issued and purchased by PGE S.A. amounting to **PLN 391.5 million**, including:

- PGE Energia Natury Omikron sp. z o.o. with nominal value of **PLN 135 million**,
- PGE Energia Natury PEW sp. z o.o. with nominal value of **PLN 216,5 million**,
- PGE Energia Natury sp. z o.o. with nominal value of **PLN 40 million**.

PGE EO S.A. was issuing bonds under the Bond Issue program signed with ING Bank Śląski S.A. on June 22, 2011 allowing for issue of bonds of up to PLN 1,200 million. The maturity date falls on December 31, 2016. Companies from former PGE Energia Natury group issued bonds under the Bond Issue program signed with ING Bank Śląski S.A. on September 20, 2013 allowing for issue of bonds of up to PLN 400 million. The agreement was signed for an indefinite period. On January 24, 2014 annex was signed, that increased the value of the program to PLN 700 million. On January 27, 2014 PGE Energia Natury PEW Sp. z o.o. and PGE Energia Natury sp. z o.o. entered into the agreement.

On June 30, 2015, **PGE Energia Natury S.A.** and **PGE EO S.A.** were consolidated, as a result of which PGE EO S.A. entered into the rights and assumed the obligations of PGE Energia Natury S.A. (general succession) and became party to an Agency Agreement of September 20, 2013 (initially executed between PGE Energia Natury group companies), as lead issuer. Next, on 12 October 2015, PGE EO S.A. and ING Bank Śląski S.A. executed an Agreement Terminating the Agency Agreement of June 22, 2011. According to its provisions, servicing the bonds issued by the Issuer – PGE EO S.A., but not yet bought back, will be continued under the Agency Agreement of September 20, 2013. October 12, 2015 PGE Energia Odnawialna S.A., PGE Energia Natury Omikron sp. z o.o., PGE Energia Natury Kappa sp. z o.o., PGE Energia Natury PEW sp. z o.o, PGE Energia Natury sp. z o.o., Elektrownia Wiatrowa Baltica-2 sp. z o.o. and Elektrownia Wiatrowa Baltica-3 sp. z o.o. as Issuers and also ING Bank Śląski S.A. as Agent, signed an Annex no. 2 to the Agency Agreement of September 20, 2013. Under this annex, the value of the program was consolidated. Elektrownia Wiatrowa Baltica-2 sp. z o.o. and Elektrownia Wiatrowa Baltica-3 sp. z o.o. were also incorporated into the above mentioned program.

PGE S.A. Bond Issue programme of up to PLN 5,000 million, for PGE Group companies

During 2015, 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, 2015 the Company did not have any bonds issued under the programme.

PGE S.A. market bond issue program of up to PLN **5,000 million**

On August 29, 2011 PGE S.A. 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 ("Program I").

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 5,000 million.

On June 27, 2013 PGE S.A. issued non-public coupon bonds with maturity of 5 years and based on floating interest rate. Maturity date falls on June 27, 2018. On June 29, 2013 bonds in amount of PLN 1,000 million were introduced to trading in alternative trading systems managed by BondSpot S.A. and GPW S.A. (Warsaw Stock Exchange).

As at December 31, 2015 the indebtedness of the Company resulting from the bonds issued under the Program I amounted to **PLN 1,000 million**.

PGE Sweden AB market bond issue program of up to EUR 2,000 million

On May 22, 2014 PGE Sweden AB established EMTN Program (''Program II'') of up to EUR 2,000 million.

A public issue of 5-year coupon bearer bonds with fixed rate took place on June 9, 2014. Maturity date of bonds with a nominal value of EUR 500 million is June 9, 2019. A private placement of 15-year bonds with a nominal value of EUR 138 million took place on August 1, 2014. Maturity date of those bonds is August 1, 2029.

As at December 31, 2015 the indebtedness of the company resulting from the bonds issued under the Program II amounted to **EUR 638 million**. PGE Sweden AB granted loans to PGE S.A. from the proceeds received under the financing.

3.8.4 Bank loans and advances

Table: Information about bank loans and advances agreements signed in 2015.

Company	Party of an agreement	Type of financing	Signing date (yyyy-mm-dd)	Maturity date (yyyy-mm-dd)	Amount (million)	Currency	Fixed/ floating rate
PGE S.A.	Syndicate of banks	Bank loan – term loan*	2015-09-07	2023-09-30	3,630.0	PLN	Floating
PGE S.A.	Syndicate of banks	Bank loan – revolving loan*	2015-09-07	2019-04-30	1,870.0	PLN	Floating
PGE S.A.	European Investment Bank	Bank loan	2015-10-27	2032-08-25	1,500.0	PLN	Fixed/Floating
PGE S.A.	Bank Polska Kasa Opieki S.A.	Current account credit	2015-02-23	2018-02-22	1,000.0	PLN	Floating
PGE S.A.	Powszechna Kasa Oszczędności Bank Polski S.A.	Current account credit	2015-04-30	2018-04-29	1,000.0	PLN	Floating
PGE S.A.	Bank Gospodarstwa Krajowego	Bank loan	2015-12-04	2028-12-31	500.0	PLN	Floating
PGE S.A.	European Investment Bank	Bank loan	2015-10-27	2032-08-25	490.0	PLN	Fixed/Floating

* Two loans – term loan and revolving loan – for the total amount of PLN 5,500 million were granted under one Loan Agreement signed on September 7, 2015.

In 2015 PGE S.A. concluded agreements relating to bank loans and advances, for a total value of PLN 9,990 million.

Table: Information about the bank loans and advances agreements amended in 2015.

Company (Borrower)	Party of an agreement	Type of financing	Signing date (yyyy-mm-dd)	Maturity date (yyyy-mm-dd)	Annex signing date (yyyy-mm-dd)	Amount (million)	Currency	Fixed/ floating rate
PGE S.A.	Bank Gospodarstwa Kra-jowego	Bank loan	2014-12-17	2027-12-31	2015-12-04	1,000.0	PLN	Floating
PGE GiEK S.A.	WFOŚiGW in Wrocław	Loan	2013-12-13	2019-12-30	2015-02-10 2015-02-17 2015-08-11 2015-11-03	104.3	PLN	Fixed
PGE GiEK S.A.	WFOŚiGW in Warsaw	Loan	2013-12-23	2024-09-30	2015-12-10	50.0	PLN	Floating
PGE GiEK S.A.	WFOŚiGW in Warsaw	Loan	2013-12-23	2024-09-30	2015-12-10	50.0	PLN	Floating
PGE GiEK S.A.	WFOŚiGW in Łódź	Loan	2012-12-20	2019-09-30	2015-01-09 2015-10-29	49.0	PLN	Fixed
PGE GiEK S.A.	Bank Ochrony Środowiska	Bank loan	2007-05-18	2019-03-31	2015-07-17	20.0	PLN	Floating
PGE GiEK S.A.	WFOŚiGW in Zielona Góra	Loan	2014-06-30	2021-09-30	2015-05-14	19.8	PLN	Floating
PGE GiEK S.A.	WFOŚiGW in Opole	Loan	2013-06-30	2019-06-15	2015-06-18	13.8	PLN	Floating
PGE S.A.	PGE Trading GmbH	Loan	2015-10-30	2016-01-31	2015-12-28	0.2	EUR	Fixed

In 2015 companies from PGE Group signed annexes to the bank loans and advances for a total value of PLN 1,308 million.

Table: Information about the loans terminated / repaid ahead of schedule / amortised by the PGE Group companies in 2015.

Company (Borrower)	Party of an agreement	Type of financing	Signing date (yyyy-mm-dd)	Maturity date (yyyy-mm-dd)	Repayment date (yyyy-mm-dd)	Amount (million)	Currency	Fixed/ floating rate	Comments
PGE S.A.	Powszechna Kasa Oszczędności Bank Polski S.A.	Current account credit	2013-07-30	2016-07-29	2015-04-29	500.0	PLN	Floating	Termination
PGE S.A.	Credit Agricole Bank Polska S.A.	Current account credit	2013-07-29	2016-07-28	2015-02-26	250.0	PLN	Floating	Termination
PGE S.A.	Bank Millennium S.A.	Current account credit	2013-07-31	2016-07-30	2015-03-19	250.0	PLN	Floating	Termination
PGE GiEK S.A.	Bank Polska Kasa Opieki S.A.	Current account credit	2013-12-10	2016-12-10	2015-05-27	200.0	PLN	Floating	Termination
PGE GiEK S.A.	Bank Polska Kasa Opieki S.A.	Current account credit	2014-11-27	2017-11-27	2015-05-27	200.0	PLN	Floating	Termination
PGE GiEK S.A.	Bank Millennium S.A.	Current account credit	2014-11-27	2017-11-27	2015-06-30	150.0	PLN	Floating	Termination
PGE GiEK S.A.	WFOŚiGW in Łódź	Loan	2013-06-20	2022-05-31	2015-07-15	50.0	PLN	Fixed	Termination
PGE Systemy S.A.	PGE S.A.	Loan	2013-11-07	2017-11-08	2015-11-17	28.0	PLN	Fixed	Repaid ahead of schedule
PGE EO S.A.	PGE Energia Natury Olecko sp. z o.o.	Loan	2015-04-21	2017-03-31	2015-11-30	3.1	PLN	Fixed	Repaid ahead of schedule
PGE EO S.A.	Bank Ochrony Środowiska S.A.	Bank loan	2003-03-20	2015-12-31	2015-05-29	0.50	PLN	Floating	Repaid ahead of schedule
PGE EO S.A.	PGE Energia Natury Karnice sp. z o.o.	Loan	2015-05-08	2017-03-31	2015-11-30	0.40	PLN	Floating	Repaid ahead of schedule
PGE EO S.A.	WFOŚiGW in Łódź	Loan	2006-12-28	2015-06-30	2015-03-31	0.34	PLN	Fixed	Amortisation

In 2015 PGE S.A. and PGE Group companies terminated agreements for total amount of PLN 1,600.0 million, repaid ahead of schedule bank loans and advances amounting to PLN 32.0 million and were granted amortization of a loan in amount of PLN 0.3 million.

3.8.5 Loans granted

In 2015, PGE S.A. and Group companies granted following advances.

Table: Main advances granted in 2015.

Company	Party of an agreement	Type of financing	Signing date (yyyy-mm-dd)	Maturity date (yyyy-mm-dd)	Amount (million)	Currency	Fixed/ floating rate
PGE S.A.	PGE Systemy S.A.	Loan	2015-11-05	2020-11-05	115.0	PLN	Fixed
PGE S.A.	PGE Trading GmbH	Loan	2015-10-30	2016-01-31	0.2	EUR	Fixed

In 2015 PGE Capital Group companies granted advances for a total value of PLN 115.0 million and EUR 0.2 million.

3.8.6 Guarantees

In connection with the establishment of the EMTN Programme, on May 22, 2014 Deed of guarantee was issued by PGE for the liabilities of PGE Sweden AB (publ). Guarantee amounts to EUR 2,500 million and refers to liabilities of PGE Sweden AB (publ) arising from the issue of the Eurobonds under the Programme up to EUR 2,000 million. Guarantee will be valid until December 31, 2041. Financial terms of the guarantee will depend on the terms of Eurobonds issued by PGE Sweden AB (publ) and the remuneration for the guarantee will be reflected in the interest rates applied to loans granted to PGE S.A.

Pursuing the cash management project, on December 22, 2014 PGE S.A. concluded an agreement for the guarantee line in amount of PLN 250 million with Bank Polska Kasa Opieki S.A. Under the agreement PGE S.A. may request issuance of bank guarantees for the liabilities of PGE S.A. and selected companies from the PGE Group.

Table: Main guarantees granted by the PGE Group companies as at December 31, 2015.

Company	Entity entitled to guarantee (Beneficiary)	Entity whose liabilities are subject to guarantee (Debtor)	Form of security	Validity of guarantee yyyy-mm-dd		Value of guarantee (million)	Currency
				Beginning	End		
PGE S.A.	Bondholders	PGE Sweden AB	Guarantee of financial instrument	2014-05-22	2041-12-31	2,500.0	EUR
PGE S.A.	Powszechna Kasa Oszczędności Bank Polski S.A.	PGE GiEK S.A.	Guarantee of financial instrument	2014-01-29	2020-03-31	1,088.2	PLN
PGE S.A.	BNP Paribas Bank Polska S.A.	PGE GiEK S.A.	Guarantee of financial instrument	2014-01-29	2020-03-31	181.4	PLN
PGE S.A.	Bank Polska Kasa Opieki S.A.	PGE GiEK S.A.	Guarantee of financial instrument	2014-01-29	2020-03-31	181.4	PLN
PGE S.A.	Polskie Sieci Elektroenergetyczne S.A.	PGE GiEK S.A.	Guarantee	2015-07-10	2020-07-10	24.0	PLN
PGE S.A.	Marshal of Łódź Voivodship	PGE GiEK S.A.	Guarantee	2015-11-23	2020-11-23	6.0	PLN

The total amount of guarantees granted by the companies of the PGE Capital Group and mandatory on December 31, 2015 amounted to more than EUR 2,500 million and more than PLN 2,500 million.

Table: Main guarantees in PLN received by the PGE Group companies and valid as at December 31, 2015.

Company	Guarantee issuer	Entity for whose liabilities a guarantee was issued (Debtor)	Form of security	Validity of guarantee yyyy-mm-dd		Value of guarantee (million)	Currency
				Beginning	End		
PGE GiEK S.A.	Societe Generale S.A. Poland Branch	ALSTOM Power sp. z o.o.	Performance bond	2014-01-29	2018-08-30	317.2	PLN
PGE GiEK S.A.	Societe Generale S.A. Poland Branch	ALSTOM Power sp. z o.o.	Advance payments guarantee	2014-01-29	2019-05-15	276.5	PLN
PGE GiEK S.A.	Mizuho Bank Ltd	consortium: Mitsubishi Hitachi Power Systems Europe GmbH, Budimex S.A., Tecnicas Reunidas S.A.	Performance bond	2014-07-10	2019-09-30	221.4	PLN
PGE GiEK S.A.	Bank of Tokyo-Mitsubishi UFJ Ltd	Mitsubishi Hitachi Power Systems Europe GmbH	Advance payments bank guarantee	2015-01-09	2020-09-01	219.5	PLN
PGE GiEK S.A.	PKO BP S.A.	Polimex – Mostostal S.A.	Performance bond	2014-01-29	2018-08-30	199.2	PLN
PGE GiEK S.A.	Millennium Insurance Company Ltd	Mostostal Power Development Sp. z o.o.	Performance bond	2014-01-29	2018-08-30	192.6	PLN
PGE GiEK S.A.	XL Insurance Company Plc	Mostostal Power Development Sp. z o.o.	Advance payments guarantee	2014-01-29	2019-05-15	192.6	PLN
PGE GiEK S.A.	Sociele Generale S.A.	ALSTOM Power sp. z o.o.	Performance bond	2015-10-29	2018-08-30	187.0	PLN
PGE GiEK S.A.	Lloyds Bank Plc	ALSTOM Power sp. z o.o.	Advance payments guarantee	2014-01-29	2019-05-15	187.0	PLN

Table: Main guarantees in EUR received by the PGE Group companies and valid as at December 31, 2015.

Company	Guarantee issuer	Entity for whose liabilities a guarantee was issued (Debtor)	Form of security	Validity of guarantee yyyy-mm-dd		Value of guarantee (million)	Currency
				Beginning	End		
PGE EO S.A.	Vestas Northern Europe A/S	Vestas Poland Sp. z o.o.	Corporate guarantee	2013-01-22	2016-09-30	32.4	EUR
PGE EO S.A.	Lloyds Bank Plc	Alstom Renovables Espana SL Alstom Power sp. z o.o.	Performance bond	2014-08-26	2015-12-31	17.3	EUR
PGE EO S.A.	Lloyds Bank Plc	Alstom Renovables Espana SL Alstom Power sp. z o.o.	Performance bond	2014-06-24	2018-01-14	4.3	EUR
PGE EO S.A.	Tryg Garantiforsikring A/S	Vestas Poland sp. z o.o.	Performance bond	2014-10-07	2018-03-12	4.1	EUR
PGE GiEK S.A.	mBank S.A.	ALSTOM Power sp. z o.o. ALSTOM Power Systems GmbH	Due performance during the warranty period	2014-12-17	2018-01-05	1.6	EUR
PGE GiEK S.A.	Bank BGŻ BNP Paribas S.A.	Ansaldo Energia SPA	Performance bond	2013-11-28	2016-12-31	1.0	EUR

The total amount of guarantees received by the companies of the PGE Capital Group and mandatory on December 31, 2015 amounted to more than PLN 3,000 million and more than EUR 60 million. Guarantees were received in connection with investments being pursued and day-to-day operations and include mainly: advance payments guarantees, performance bonds and corporate guarantees.

3.8.7 Significant off-balance sheet items

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

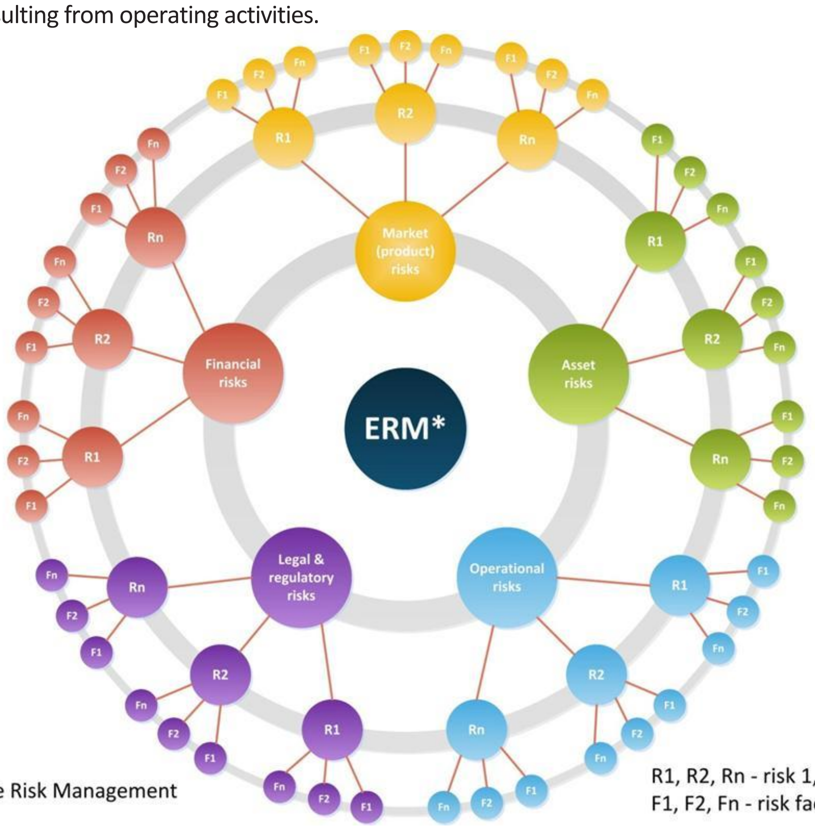
3.8.8 Evaluation of investment capacities

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, both on domestic and international markets, and from other types of external financing, e.g. bank loans. Financial results achieved by the PGE Group and available credit limits secure sufficient resources to achieve its mid-term investment goals, including capital investments. Scale of development of the group's efficiency, particularly lowering the operating expenses, will be significant for the ability to finance the investment program in the long term.

4 Risks and threats of the PGE Capital Group

Risk management

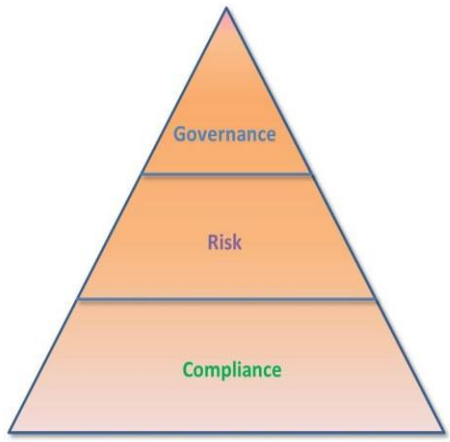
The activity of PGE Capital Group companies, as well as other entities operating in the electrical and power sector, is exposed to a number of external risks and threats connected with market, regulatory and legal environment and internal risks and threats resulting from operating activities.



*ERM - Enterprise Risk Management

R1, R2, Rn - risk 1, 2, n
F1, F2, Fn - risk factor 1, 2, n

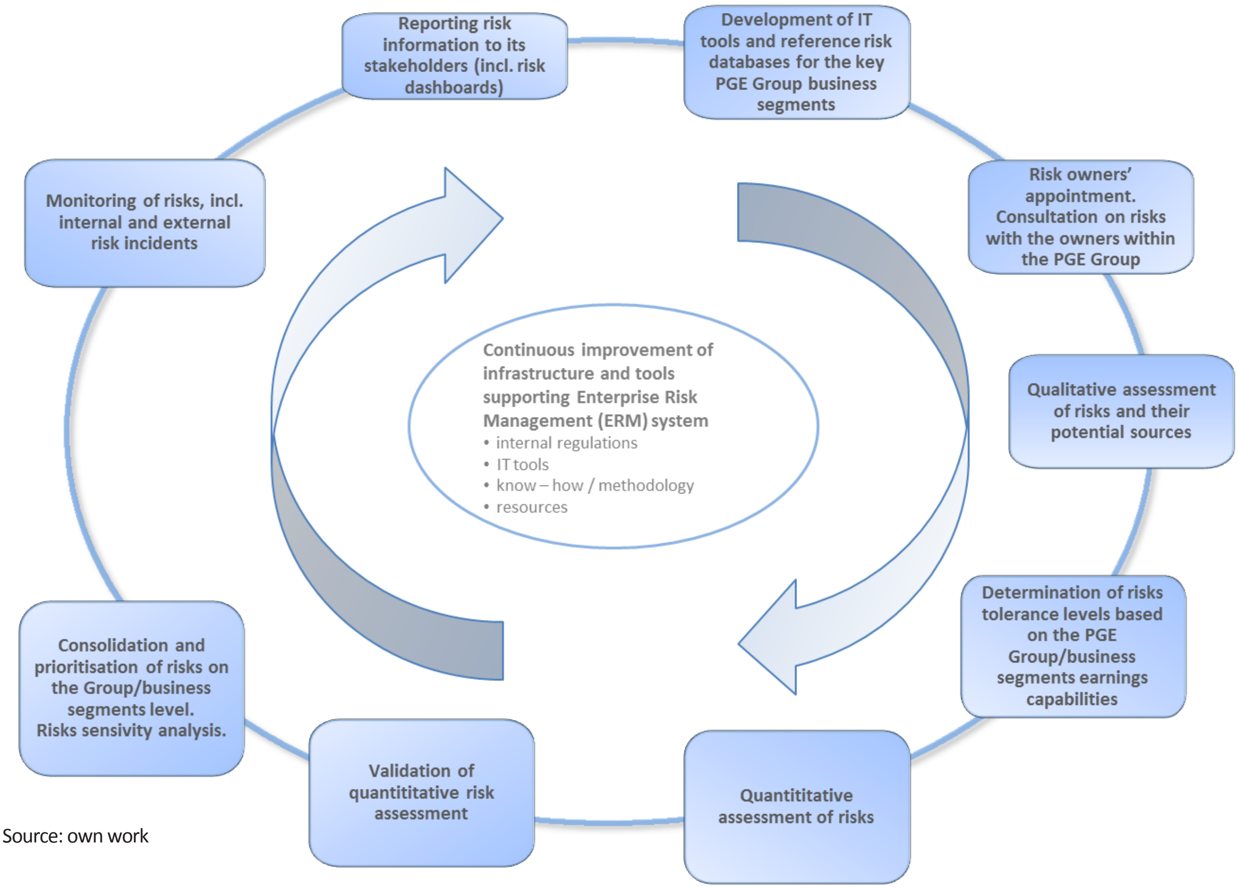
In PGE Group risk management process is pursued based on the GRC (Governance - Risk - Compliance) model, which allows adaptation and integration of each of the Group's operational areas at all levels of management. Having established a top-level Risk Committee, which reports directly to the Management Board, supervision over the effectiveness of risk management processes is ensured across the entire Group. Function definition within corporate risk management enables an independent assessment of specific risks and their impact on PGE Group as well as limiting and controlling major risks using the economic capital concept via risk management instruments. Formation of a separate compliance function within the Group guarantees that PGE Group's activities are in line with legal conditions and ensures observance of the adopted internal standards, at the same time reinforcing the monitoring of legal environment and increasing the effectiveness of identifying potential gaps and initiating adaptive changes.



Source: own work

The PGE Capital Group has consequently developed and improves a comprehensive risk management system so that risks involved in its operations and having a significant impact on the value of the Company are maintained at sustainable levels in relation to assumed business objectives. Further mechanisms are being introduced to improve both the measurement of risk levels and the effectiveness of identifying exposure areas. Thanks to recently undertaken activities within the ERM process, it was possible to identify operating areas particularly exposed to malfeasance and to introduce a two-level assessment of the Group's corporate risks.

The PGE Capital Group risks concerning various areas of operations are identified and kept within the assumed limits by reducing negative effects of such risks and by taking preventive or corrective measures, in accordance with the applied cycle.



Source: own work

The main risks and threats, to which activity of the PGE Group is exposed, are presented below along with their assessment and outlook in the horizon of the next year.

Risk level				Risk outlook			
	low	medi-um	high		decrease	growth	stable

low level medium level high level	Risk does not pose a threat and may be tolerated, Risk which needs preparation of the proper reaction based on analysis of costs and benefits, Intolerable risk, which needs immediate and active reaction, leading simultaneously to limitation of possible consequences and of probability of occurrence thereof		
Market (product) risks Related to prices and volumes of offered products and services	**Prices of electricity and related products** – resulting from a lack of certainty with regard to the future levels and volatility of commodity prices relative to open contract positions - this particularly concerns electricity and associated products (property rights, CO_2 emission allowances and fuels)	high	growth
	Electricity sales volumes – this risk derives from a lack of certainty with regard to the conditions determining the demand and supply of electricity, directly affecting the volume of market sales by PGE Group	high	stable
	Tariffs (regulated prices) – resulting from the requirement to approve rates for distribution services and electricity and heat prices for particular groups of entities	medium	stable
Property risks Related to	**Failures** – connected with the operation and degradation over time of energy equipment and facilities (maintenance and repair work, diagnostics)	medium	decrease

development and maintenance of the assets	**Damage to property** – connected with the physical protection of energy equipment and facilities against destructive external factors (including fire, flood and intentional damage) **Investment and development** – connected with strategic plans for expanding the generation, distribution and sales potential as well as on-going investments
Operational risks Related to pursuing of ongoing economic processes	**Production costs** – connected with the growing costs of fuel procurement, operational works, wage factors, etc. **Electricity and heat production** – connected with production planning and impact of the factors that determine production capacities. **Fuel management** – connected with uncertainty regarding the quality, timeliness and volumes of fuel supply (mainly coal) and the effectiveness of inventory management processes. **HR** – pertaining to provision of employees with the relevant experience and competences, who are capable of performing specific tasks **Social dialogue** – connected with a failure in achieving agreement between the Group's management and employees, what could lead to strikes/collective labour disputes
Regulatory and legal risks Related to compliance with external and internal legal provisions	**Legal changes in support systems** – connected with uncertainty as to the future shape of the support system (or a lack thereof) for production of certified energy **Costs of purchase of certificates and CO_2 allowances** - resulting from the possible changes to the statutory requirement for electricity sellers to purchase a specified quantity of property rights and to uncertainty with regard to volume of CO_2 emission rights granted free of charge in future **Compensation for the termination of long-term contracts (LTCs)** – there is a possibility that the level of adjustments to advances collected for stranded costs, as calculated by the Group, will be questioned by the President of the Energy Regulatory Office (URE), as a result of which the Group will be obligated to return advances received for terminating the LTCs **Environmental protection** – resulting from industry regulations specifying which "environmental" requirements energy installations should meet and what the principles for using the natural environment are. The future, yet unknown, environmental regulations and uncertainty concerning the final shape of the projected regulations (in particular with regard to the revision of BAT / BREF) may translate into a change in the level of capital expenditures of the PGE Group **Unresolved legal status** – connected with difficulties in respect of land acquisition or access to land in the course of new investments (particularly in the Distribution segment) **Concessions** – resulting from the statutory requirement to hold concessions for coal mining as well as for the production and distribution of electricity and heat **Discriminatory activities** – connected with application by the Group of practices that limit or eliminate competition and infringe on legal regulations or consumer interests

Financial risks Related to finance management	**Credit risk** – connected with the potential occurrence of a credit event (e.g. counterparty default, partial and/or late payment of receivables or a different type of breach of contractual conditions, for example failure to deliver/collect goods or failure to pay for any associated damages or contractual penalties).		
	Liquidity risk – connected with the possibility of losing the ability to meet current liabilities and obtaining financing sources for business operations.		
	Interest rate risk – resulting in particular from the negative impact of changes in market interest rates on PGE Group's cash flows generated by floating-rate financial assets and liabilities.		
	Foreign exchange risk – understood in particular as risk that PGE Group's cash flows denominated in currencies other than the functional currency are exposed to due to negative exchange rate movements.		

Risk mitigation measures

Market (product) risks

Market risks impact the revenue side and product and service offerings	**Measures:** PGE Group has drafted and implemented internal procedures for managing foreign exchange risk (price- and volume-related), which include a global risk appetite measure, VaR-based position limits, as well as management of consolidated exposure to commodity pricing risk through mechanisms for protection against risk exceeding acceptable levels. Currency risk management procedures provide consistent guidance for significant PGE Group companies in respect of process organisation in the context of commercial strategy and mid-term planning. PGE Group has devised rules pertaining to a strategy for hedging key exposures in the area of electricity and related product trading that correspond to the adopted risk appetite in the mid-term (up to five years, assuming that the necessary market liquidity is available). Position hedging levels are established with consideration given to the results of analysing pricing risk in respect of electricity and related products. When specifying the target hedging levels, PGE Group takes into consideration its financial standing, including in particular its strategic objectives. PGE Group researches, monitors and analyses the electricity and related products markets in order to optimally use its generation and selling capacities. New products are introduced on the retail market and actively promoted through nationwide marketing campaigns. Maintaining a diverse product portfolio and focusing efforts on tailoring its offering to the market (historic as well as national), the Group diversifies channels used to reach the end-customers (own sales channel, agency sales channel) and diversifies target groups with account take to client's volume potential. efforts aimed at current clients retention are based on a model consisting of a diversified portfolio of customer loyalty schemes and client-acquisition activities. Portfolio includes also special offers dedicated to former clients who moved over to the competitors, as well as industry offerings dedicated to specific types of economic activity. PGE Group also introduces bundled offers. Particular attention is paid to ensuring a high level of customer service by developing employees' competences and building relations with business and retail clients. Having implemented tools to support these processes, the Group effectively manages information flows, which directly translates into comfortable client relations as well as better sales planning and organisation.

Regulatory and legal risks

Regulatory and legal risks mainly impact the compliance area	**Measures**: PGE Group's operations are subject to a host of national, European and international laws and regulations. Monitoring of the changes being introduced or proposed assures minimization of their negative impact on our operations in key business segments, i.e. production of electricity and heat, lignite mining and distribution and sale of electricity and heat. In the period being discussed, the function was further reinforced by establishing a separate compliance function within the Group's structure. PGE S.A. is one of the members of the Polish Electricity Committee that opened its office in Brussels. Through the Committee's operations, PGE S.A. actively influences proceeding and shaping of EU law and engages a dialogue with the EU institutions. PGE S.A. adapts its internal regulations and practices to make sure that the Group's activities are in compliance with the power sector regulations,

	environmental protection regulations and other binding legislation.

Property risks

Property risks affect assets	**Measures:** PGE Group effectively pursues a strategy for building up and modernization of its production capacities. The Group diversifies current structure of the production sources due to energy generation technology. Currently PGE Group is running three key investments (Opole, Turów and Gorzów) alongside a number of grid investments, RES investments as well as modernisation and development projects. We are continuously carrying out maintenance and repair work. Our main generation assets were insured against failure and damage to property. The reliability of the power supply to the end users has been systematically improved.

Operational risks

Operational risks impact the cost side	**Measures**: PGE Group's results are to a large extent dependent on the costs incurred in the course of operations. The Company optimises costs inter alia through monitoring of fuel prices and reserves and securing supply through long-term contracts with suppliers and through price fixing formulas. In turn, inspections, repairs and modernisation of the existing assets translate into ensuring optimal equipment lifecycles and required availability of key components of those assets. Moreover, level of costs is affected by securing CO_2 emission allowances partly free of charge and purchase of lacking allowance with the assumption of securing the margin on sales. An intensive dialogue is also carried out in order to work out the most favourable solutions with regard to employment and optimization of employment costs within PGE Capital Group

Financial risks

Financial risks have an impact on finances	**Measures**: PGE Group manages credit risk stemming from commercial transactions that can generate losses if a counterparty were to default. Prior to executing a transaction, a counterparty assessment is carried out, which involves, among other factors, financial analysis, internal ratings and credit limits that are regularly monitored. Exposures that exceed established limits are hedged in accordance with the Group's credit risk management policy. PGE Group applies a central financing model, which is generally used by PGE S.A. when raising external capital. PGE Group subsidiaries use a variety of intra-group financing sources such as: loans, bonds, bank account consolidation agreements (cash pooling). Liquidity risk is monitored using periodic liquidity planning, i.e. cash flow moving forecasts for operating, investing and financing activities. As regards currency risk and interest rate risk, PGE Group has implemented internal management procedures. PGE Group companies execute derivative transactions involving interest rate- and/or currency-based instruments (IRS, CCIRS) only in order to hedge identified risk exposures. A detailed description of financial risk management instruments and an analysis of their effectiveness are presented in note 28 to the consolidated financial statements.

5 PGE Capital Group on the capital market

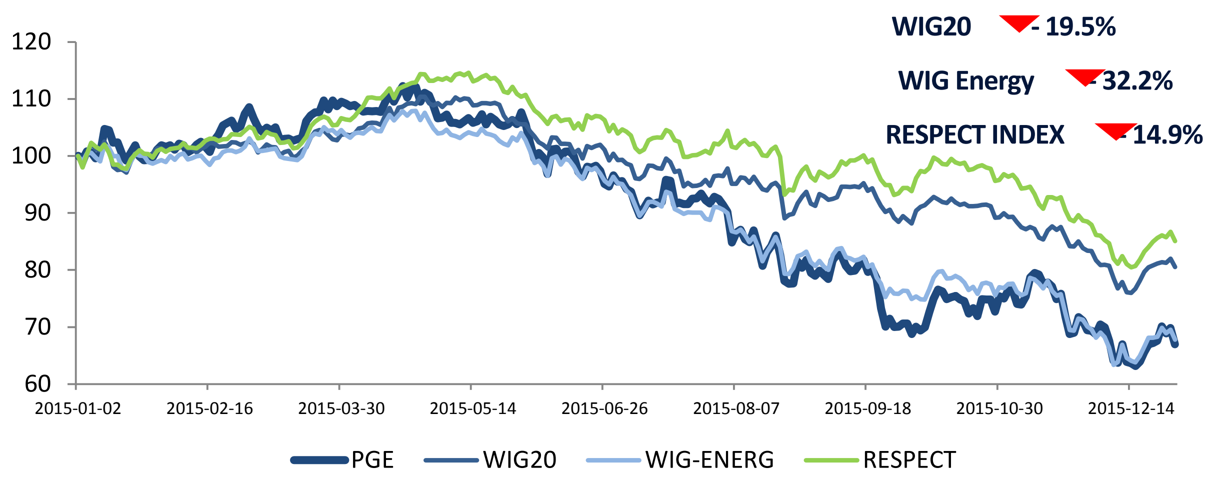
The first listing of rights to shares of PGE S.A. on the Warsaw Stock Exchange (WSE) regulated market took place on November 6, 2009. PGE S.A. shares started to be listed on December 15, 2009.

PGE shares are listed in the continuous trading system on the WSE Main Market. PGE has the largest market capitalization among Polish companies from power sector listed on WSE. With account taken to number of transactions, Company's shares are among the most liquid ones with high interest from investors. PGE shares are included in the most important indexes of the Warsaw Stock Exchange: WIG20 – the index of the largest and most liquid companies, WIG – the index of all companies from the Main Market, and WIG Energia – the index of power sector companies, as well as popular foreign indexes, i.e. MSCI Poland. PGE shares since 2011 have been also included in the index of socially responsible companies – RESPECT Index.

5.1 PGE shares quotations on Warsaw Stock Exchange

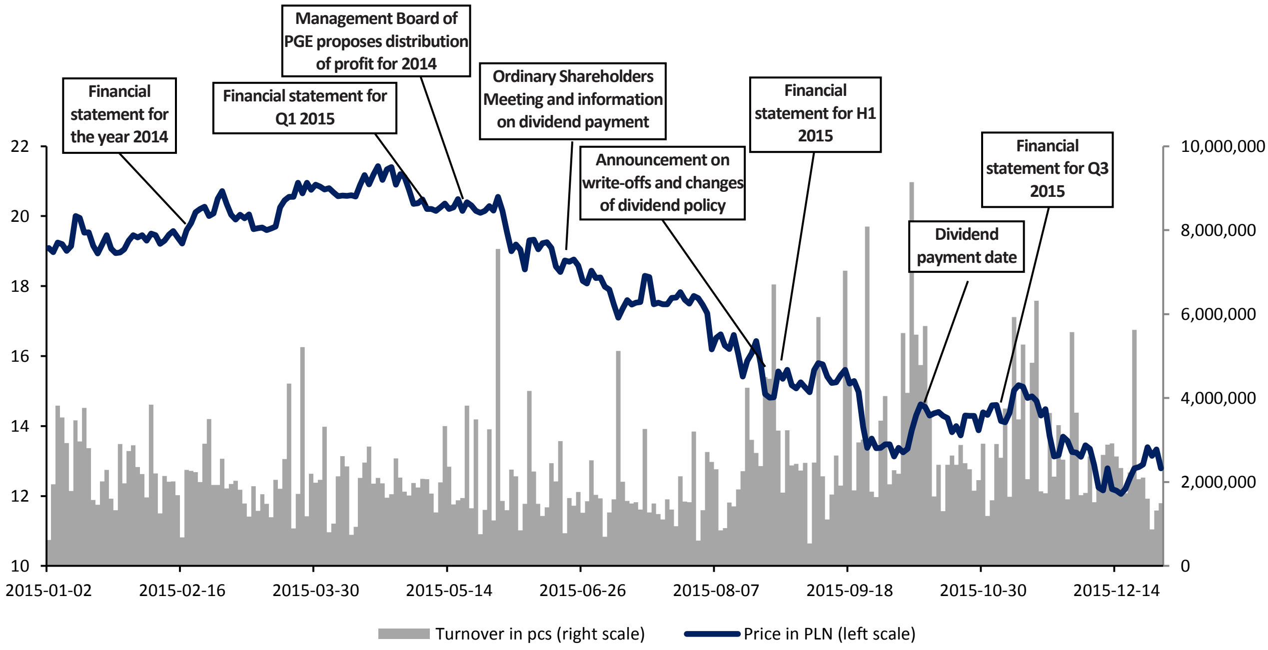
The quotations of PGE shares and the values of the WIG20, WIG Energy and RESPECT indexes on WSE from January 2 to December 30, 2015 (own calculations based of WSE's data).

Chart: PGE share quotations in relation to WIG20, WIG Energy and Respect Indexes



Warsaw Stock Exchange companies and in particular Polish power utilities came under pressure in 2015, declining on average by 32.2% during the year (WIG-Energy)while at the same time WIG20, consisting of 20 biggest companies listed in Poland, decreased by 19.5%. During that time PGE underperformed with by 33% reflecting the generally negative sentiment towards the energy sector. At the end of the year PGE shares were quoted at PLN 12.80, which determined the PGE Group's market capitalization at PLN 23.9 billion. The highest price during the year was PLN 21.4, and the lowest – PLN 12.10.

Chart: PGE share price and volumes in 2015 (PLN).



5.2 PGE S.A. shares

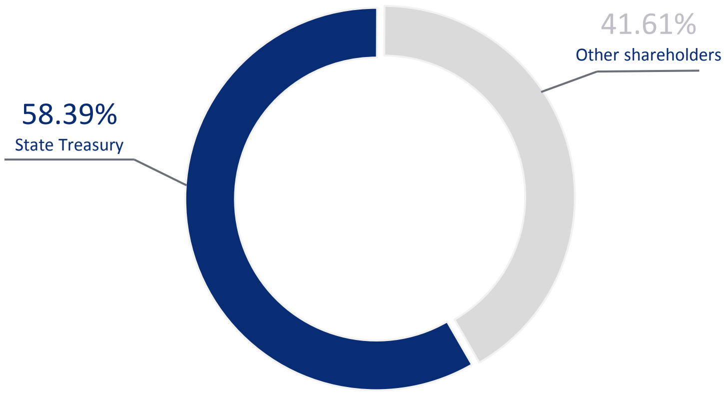
All Company shares are bearer shares. Shares are not privileged, however the Company's Statute provides for special rights for the State Treasury, e.g. with respect to the appointment of members of the Supervisory Board.

Specification	2015
Turnover (PLN)	10,214,951,620
Average number of transactions per session (pcs)	2,731
Maximum price during the year (PLN)	21.43
Minimum price during the year (PLN)	12.06

Source: GPWinfostrefa.pl

Ministry of State Treasury is a main shareholder of PGE S.A. State Treasury holds 1,091,681,706 Company's ordinary shares with nominal value of PLN 10 each, representing 58.39% of company's share capital and entitling to perform 1,091,681,706 votes at the general meeting of the Company. State Treasury stake represents 58.39% of the total number of votes.

Chart: Shareholders of PGE S.A.



Shareholder	No of shares (pcs)	No of votes (pcs)	% of shares and votes (%)
State Treasury	1,091,681,706	1,091,681,706	58.39%
Other shareholders	778,079,123	778,079,123	41.61%
Total	**1,869,760,829**	**1,869,760,829**	**100.00%**

5.3 PGE S.A. Investor Relations

On a regular basis we maintain relationships with investors including organizing meetings with analysts and fund managers. Investor Relations Office dedicated to communication with the capital market provides constant and equal access to information about the Company for all current and potential investors. The concept of IR Office communication is based on a two-way dialogue with the wide market. Every quarter we organize presentations of the Company's financial results. Taking into account the different needs of capital market participants we assure the opportunity to participate in all organized public meetings and general meetings "at distance". We also provide the market with retransmissions available on our IR website and on YouTube channel dedicated to PGE Capital Group. Additionally since 2014 we have enabled investors to watch the video comment of the Company's CEO regarding financial and operating results directly after its publication. We are keeping the active information policy through our IR web page http://www.gkpge.pl/en available in two language versions. Understanding the mobility of our current and potential investors, we created a mobile application that allows for a quick access to current information about the Company.

Every year we execute our shareholding identification study and Company's perception study among investors and analysts which allow us to better address the capital market needs. Received opinions constantly contribute to improvement of our communication and adapting of materials to meet the investors' needs.

Investor Relations team is constantly available for all capital market participants, both by phone and via e-mail. We are making our best to provide investors with most accurate and comprehensive answers for their questions. In order to help our investors to understand the right meaning of technical language characteristic for energy sector we regularly include a dictionary of the most important terms in our published materials. A comprehensive dictionary of the energy industry terms is also available on our IR website http://www.gkpge.pl/en/pge-group/market/dictionary.

5.4 Reporting calendar of PGE Capital Group and PGE S.A.

February 16, 2016 - Consolidated Annual Report of PGE Capital Group for 2015

May 10, 2016 - Quarterly report for the first quarter of 2016

August 9, 2016 - Consolidated hal-year report for the first half of 2016

November 8, 2016 - Quarterly report for the third quarter of 2016

5.5 Dividend policy of PGE S.A.

The dividend policy to be followed by the Company's Management Board will comprise of paying dividends consistent with the level of the Company's development and to allow for the maintenance of a reasonable level of financial liquidity.

The Management Board of PGE discloses that on August 25, 2015 it decided to adopt a new dividend policy.

Previous dividend policy determined Management Board's declaration with regard to dividend proposal to the General Meeting of the Company at the level of 40-50% of consolidated net profit.

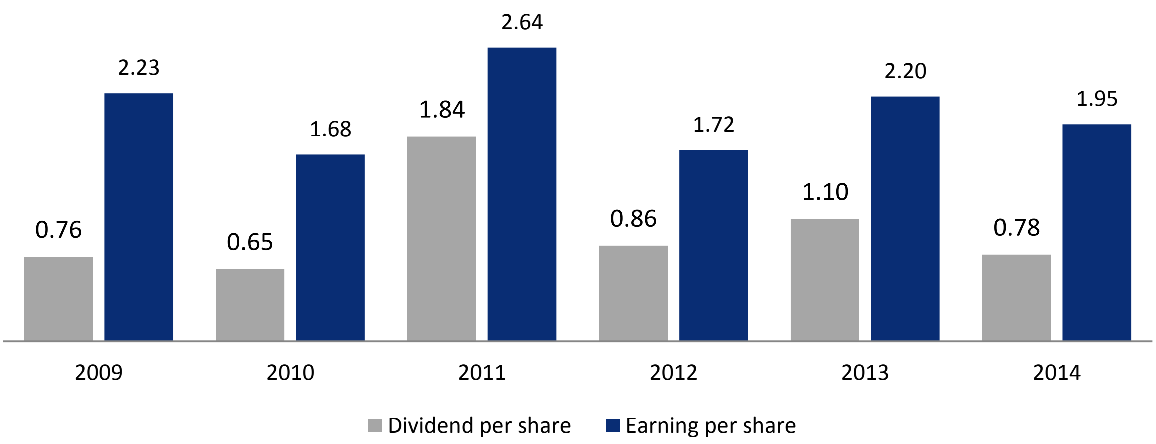
According to the amended policy, the Management Board of PGE intends to make a recommendation to the General Meeting of the Company of dividend for shareholders at the level of 40-50% of the consolidated net profit adjusted by the value of impairment loss.

The amount for each individual dividend distribution will depend, in particular, on the Company's overall indebtedness, expected capital expenditures and prospective acquisitions. The dividend policy will be verified periodically by the Management Board of PGE.

The Ordinary General Meeting of the Company of June 24, 2015 adopted the resolution adopted to allocate a part of Company's net profit for the financial year 2014 in amount of PLN 1,458,413,446.62 for a dividend payout to the Company shareholders, which gives a dividend of 0.78 per one share of the Company. As at the date of the OGM, the dividend applied to 1,869,760,829 shares.

The OGM determined September 24, 2015 as the dividend date. Dividend was paid on October 15, 2015.

Chart: Amounts of per share data - dividends and earnings.



6 Statement on implementation of Corporate Governance

This Statement on implementation of corporate governance in PGE S.A. in 2015 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 2014, item 133) and the resolution of the Management Board of the Warsaw Stock Exchange no. 718/2009 of December 16, 2009.

6.1 Corporate governance principles which the Company was obliged to follow in 2015

In 2015 PGE 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 of PGE S.A. approved 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.gpw.pl/WSE_corporate_governance.

6.2 Information on exceptions in application of the corporate governance principles

In 2015 the Company applied the Best Practices with the exception of:

I. Principle no. 5 included in Chapter I "Recommendations for Best Practice for Listed Companies" regarding remuneration policy and rules of defining the policy for the members of supervisory and management bodies.

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.

II. Principle included in the section IV "Best Practices of Shareholders" p. 10.2 which states that the Company should enable its shareholders to participate in a General Meeting using electronic communication means.

The Management Board of PGE twice proposed to shareholders introduction to the Statute and to the Regulations of the General Meeting provisions enabling organization of general meetings in the way prescribed in Code of Best Practices. Such proposal was not approved by shareholders during Ordinary General Meeting of May 30, 2012 and during Extraordinary General Meeting of June 27, 2013. The Management Board of PGE does not exclude adoption of the above-mentioned rule in future.

In opinion of PGE's Management Board, non-compliance with the above rule will not affect the reliability of the information policy and does not cause a risk of limitations or difficulties for shareholders to participate in general meetings.

6.3 Description of the basic characteristics 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);
- procedure regarding closing of reporting periods in SAP ERP;
- 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 from PGE S.A. 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 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.

Director of the Reporting and Tax Department of the Company is responsible for 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 2015 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 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. and to the Audit Committee.

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.

6.4 Shareholders with a significant stake

Shareholders holding directly or indirectly by subsidiaries at least 5% of the total votes at Company's General Meeting are presented in p. 5.2 of the foregoing report.

6.5 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".

The State Treasury is authorised to appoint one member of the Supervisory Board by means of a written statement submitted to the Management Board of the Company. Such nomination or dismissal takes effect from the date on which the relevant notification is delivered to the Management Board and does not require a General Meeting resolution. 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, appointed by the General Meeting, shall be elected from among persons indicated by the State Treasury. The Supervisory Board selects the Chairperson of the Supervisory Board from among its members wherein the Chairperson of the Supervisory Board 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%.

6.6 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.

6.7 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.

6.8 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.

6.9 Mode of operation of the General Meeting of the Company, its key powers and the rights of shareholders and the manner of their execution

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.

I. Convening and cancelling the General Meeting.

The General Meeting is convened in the manner and 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.

Pursuant to the Statutes of the Company, 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 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. Announcement about the convening of the general Meeting of the Company and 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 at least 26 days before the date of the General Meeting on the corporate website www.gkpge.pl, in the manner specified for submitting current information pursuant to regulations on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies.

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.

II. Competencies of the General Meeting of the Company.

According to the provisions of the Code of Commercial Companies and 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.

III. 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.

IV. 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.

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.

6.10 Composition and the description of operations of the management and supervisory bodies of the Company and committees of the supervisory body

6.10.1 Management Board

I. Members of the Management Board

II. In 2015, the Management Board of the Company consisted o:

Name and surname of the Management Board member	Position
Marek Woszczyk	President of the Management Board since December 23, 2013
Dariusz Marzec	Vice-President of the Management Board for Development since December 24, 2013
Grzegorz Krystek	Vice-President of the Management Board for Operations and Trading since December 23, 2013
Jacek Drozd	Vice-President of the Management Board for Corporate Affairs since December 23, 2013

On January 29, 2016 the Supervisory Board dismissed Mr. Jacek Drozd and Mr. Dariusz Marzec from the Management Board and delegated Mr. Marek Pastuszko, appointed to the Supervisory Board by the statement of the Minister of the State Treasury on January 28, 2016, to temporarily perform the duties of the Vice-President of the Management Board (for the 3-month period).

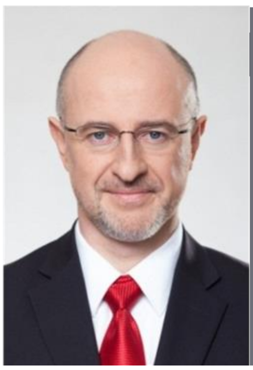
As at the publication date of this report, the Management Board of the Company consists of:

Name and surname of the Management Board member	Position
Marek Woszczyk	President of the Management Board
Grzegorz Krystek	Vice-President of the Management Board for Operations and Trading
Marek Pastuszko	Vice-President of the Management Board for Corporate Affairs - Supervisory Board member delegated to temporarily perform duties of the Management Board member from Jan 29, 2016

Marek Woszczyk – President of the Management Board

Appointed to the position of the President of the Management Board on December 23, 2013.

Graduate of Koźminski University in Warsaw (Executive MBA), Poland's National School of Public Administration and Gdynia Maritime University. A well-known expert in energy sector. While carrying out for many years a management functions in the Energy Regulatory Office (ERO), he played a key role in the transformation of the Polish market of electricity and gas. From the beginning of his professional experience he is involved in the promotion of competition and the creation of a stable and transparent regulatory environment. He coordinated the implementation of legal mechanism which led to liberalization of the domestic electricity and gas market, adapting national legislation to EU regulations. He is an author of various publications on Energy Law. Since April 1998 has worked in the ERO, from 2011 as a President.



Grzegorz Krystek - Vice-President of the Management Board for Operations and Trading

Appointed to the position of the Vice-President of the Management Board on December 23, 2013.

Graduate of Faculty of Electrical Engineering and School of Business (program of leading European Universities: London Business School, HEC in Paris, Norwegian School of Economics and Business Administration in Bergen) at the Warsaw University of Technology. From the beginning of the professional career associated with the power sector. Participated in the largest modernization projects in the Polish energy sector in the 90 and privatization and restructuring projects in the energy sector in Poland and abroad. Gained wide experience in international environment working for Westinghouse, Apache Corp., New York State Electric&Gas Corp., Arthur Andersen and Vertis Environmental Finance. Traded electricity and CO2 on markets of California, PJM (Pennsylvania-Jersey-Maryland) and New England. Manager in Elektrim Energy Group, responsible among other for financing arrangements and construction of Pątnów II power plant, acquisitions of energy assets, elaboration and implementation of restructuring processes of the group's companies and management of energy assets portfolio.

Marek Pastuszko – Vice-President of the Management Board for Corporate Affairs

Supervisory Board member delegated to temporarily perform the duties of the Management Board member from January 29, 2016.
Mr. Marek Pastuszko graduated from Law and Administration Faculty at the University of Warsaw and from postgraduate studies on European Substantive Law at the University of Finance and Management in Warsaw. A legal counsel since 1997.
In years 1991-1999 Mr. Marek Pastuszko worked at Towarzystwo Ubezpieczeń i Reasekuracji Polisa S.A. and Towarzystwo Ubezpieczeń na Życie Polisa S.A. (insurance companies), inter alia, as a General Specialist of property and financial insurance and as a Director of Law and Organization Department. In years 1999-2000 he worked as a legal counsel at PTE Kredyt Banku S.A. (General Pension Society), then in years 2000-2001 as a legal counsel at the law firm Hunton & Willliams, T. Kacymirow, J. Michalski, Z. Mrowiec. During years 2001-2002 Mr. Marek Pastuszko worked in Telekomunikacja Polska S.A. as a Director of Legal Department. In years 2003-2006 he was hired in Art Marketing Syndicate S.A. as a legal counsel and Coordinator of Legal Department. Between September 2006 and December 2008 Mr. Pastuszko worked in PGE Polska Grupa Energetyczna S.A. as a Director of Law Section at the Organisation Department and as a Task Manager of the IPO Project. In addition, between October 2006 and July 2008 he was the President of the Management Board at PGE Energia S.A. Subsequently, in years 2009-2010 he worked as a legal counsel at the international law firm Bird & Bird. Since May 2010 Mr. Marek Pastuszko has held a position of Deputy Director of Legal Department at the Gas Transmission Operator GAZ-SYSTEM S.A. Mr. Marek Pastuszko was also a Supervisory Board member in PSE-Operator S.A., Agencja Rynku Energii S.A., BOT Górnictwo i Energetyka S.A. and PGE RZE Dystrybucja S.A

III. Rules of appointing and recalling the management personnel

From January 1, 2015 to June 24, 2015, the Company's Management Board consisted of between two and seven Management Board members. Through resolution no. 32 of the Ordinary General Meeting of June 24, 2015, the composition of the Management Board was changed, and currently counts from one 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.

IV. 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. In the event that the Management Board comprises one member, declarations of intent on behalf of the Company may be made by the sole Management Board member.

The modus operandi of the Management Board and internal division of competence among Management Board members as regards managing the Company's affairs are specified in regulations of the Management Board.

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. The vote of the President of the Management Board is deciding in the case of the equality of votes.

In accordance with the resolution no. 32 of the Ordinary General Meeting of June 24, 2015, resolutions of the Management Board are required particularly for the following:

- the Company's acquisition or disposal of the following components of assets:
- real property, perpetual usufruct, interest in real property or perpetual usufruct,

- shares, interests or other participation rights.
- incurring credits and loans,
- granting sureties and guarantees by the Company and issuance of promissory notes,
- making donations and releasing from debts,
- concluding agreements not related to the Company's business activities specified in § 3 clause 1 of the Statutes,
- appointing commercial proxies,
- appointing Company proxies authorised to incur liabilities with a value exceeding EUR100,000, excluding (i) the powers of attorney to conclude agreements or incur liabilities related to trade in electricity and gas, related products and rights related thereto, and related to the purchase and sale of fuels and raw materials (ii) powers of attorney ad litem,
- adopting the Regulations of the Management Board,
- approving the Company's Organisational Regulations,
- establishing and closing branches,
- establishing of another company,
- adopting the Company's yearly and long-term financial plans, including investment, marketing and sponsorship plans,
- approving the rules of conducting sponsorship activity,
- adopting the Company's development strategy,
- determining the method of exercising the voting right at general meetings or general meetings of the companies in which the Company holds shares or interests,
- making advanced payments towards planned dividends,
- approving the materials submitted by the Management Board to the Supervisory Board.

Regardless of the above mentioned matters, resolutions of the Management Board are required for any matter referred by the Management Board to the Supervisory Board or the General Meeting.

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.

V. 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. 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. Management Board meetings may take place without having been formally called, provided that all Management Board members were effectively notified about the meeting and none of the Management Board members object to the meeting taking place and to the proposed meeting agenda.

Minutes are taken for each meeting of the Management Board and signed by the members of the Management Board, not excluding persons who filed a dissenting opinion or were temporarily absent when adopting any of the resolutions. 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 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 may present an opposing opinion with a justification to be included in the minutes.

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.

6.10.2 Supervisory Board

I. Members of the Supervisory Board

From January 1, 2015 until June 24, 2015 the Supervisory Board of the ninth term performed the duties in the following composition:

Name and surname	Position
Barbara Dybek	Chairman of the Supervisory Board
Piotr Machnikowski	Vice-Chairman of the Supervisory Board - independent
Anna Kowalik	Secretary of the Supervisory Board
Jacek Barylski	Supervisory Board Member
Jarosław Gołębiewski	Supervisory Board Member - independent
Czesław Grzesiak	Supervisory Board Member - independent
Małgorzata Mika-Bryska	Supervisory Board Member
Małgorzata Molas	Supervisory Board Member
Krzysztof Trochimiuk	Supervisory Board Member

On June 24, 2015 an Ordinary General Meeting was held and adopted resolutions on appointment of members of the Superviosry Board of the tenth term, appointing following persons to the Supervisory Board: Ms. Barbara Dybek, Mrs. Anna Kowalik, Ms. Małgorzata Molas, Mrs. Małgorzata Mika-Bryska, Mr. Jacek Barylski, Mr. Jarosław Gołębiewski, Mr. Piotr Machnikowski and Mr. Krzysztof Trochimiuk.

Afterwards, on September 14, 2015 an Extraordinary General Meeting was held was held and adopted resolutions on changes in the Supervisory Board. As a result of adopted resolutions, Ms. Barbara Dybek (Chairman of the Supervisory Board) and Mr. Krzysztof Trochimiuk were recalled and Mr. Jacek Fotek and Mr. Marek Ściążko were appointed to the Supervisory Board.

On January 28, 2016 the Company received statement in which the Minister of State Treasury appointed Mr. Marek Pastuszko as a member of Supervisory Board of the Company as of January 28, 2016. The statement was submitted pursuant to § 20 section 5 of the Company's Statutes, that entitles the State Treasury to appoint and dismiss one member of the Supervisory Board by way of a written declaration submitted to the Management Board of the Company.

On February 5, 2016 the Company received a resignation from Mr. Piotr Machnikowski, a member of the Company's Supervisory Board. Mr. Piotr Machnikowski submitted his resignation from the Supervisory Board stating that his planned new business duties will prevent him from holding the position of PGE's Supervisory Board member.

As at the publication date of this report, the Supervisory Board consists of:

Name and surname	Position
Anna Kowalik	Chairman of the Supervisory Board (from October 9, 2015)
Jacek Barylski	Vice-Chairman of the Supervisory Board (from October 9, 2015)
Małgorzata Molas	Secretary of the Supervisory Board (from October 9, 2015)
Małgorzata Mika – Bryska	Supervisory Board Member
Jarosław Gołębiewski	Supervisory Board Member - independent
Jacek Fotek	Supervisory Board Member - independent
Marek Ściążko	Supervisory Board Member - independent
Marek Pastuszko	Supervisory Board Member delegated to temporarily perform the duties of the Vice-President of the Management Board for Corporate Affairs from January 29, 2016

Anna Kowalik - Chairman of the Supervisory Board

A graduate of the Faculty of Law and Administration at the University of Warsaw. A legal counsel. In years 1990-1991 she was employed at the Agency for Foreign Investments. As of 1991 employed at the Ministry of Privatization and as of 1996 at the Ministry of State Treasury as a legal counsel in Department of Privatization and Corporate Governance. She has gained experience in supervision of operations of companies with State Treasury shareholdings since 1996 as a member of supervisory boards in the following companies, among others: Polskie Linie Lotnicze LOT S.A, Kombinat Koksochemiczny Zabrze S.A., Pabianickie Zakłady Farmaceutyczne Polfa S.A., Inowrocławskie Zakłady Chemiczne Soda Mątwy S.A. Mrs. Anna Kowalik is also a lecturer in the field of the commercial and civil law at courses for supervisory and management board members. According to the submitted statement, Mrs. Anna Kowalik is affiliated with a shareholder holding shares representing not less than 5% of all voting rights at General Meeting i.e. with State Treasury through employment at the Ministry of State Treasury.

Jacek Barylski – Vice-Chairman of the Supervisory Board

A graduate of the Faculty of Law and Administration at the University of Łódź and Postgraduate Studies in Finance at the Warsaw School of Economics. He is a legal counsel. Currently he holds the position of Director of the Guarantees and Sureties Department in the Ministry of Finance. He is also Chairman of the Steering Committee on the Implementation of the Government's Entrepreneurship Support Programme, which is based on sureties and guarantees granted by Bank Gospodarstwa Krajowego. He was a member of the Supervisory Boards of Polski Monopol Loteryjny Sp. z o.o., PKP Cargo S.A. and Warszawski Rolno-Spożywczy Rynek Hurtowy S.A.

Małgorzata Molas – Secretary of the Supervisory Board

A graduate of the Faculty of Economics at Maria Curie-Skłodowska University. She also graduated from the Academy of Companies Post-Graduate Studies at Warsaw School of Economics. She was a Supervisory Board member of among others Elektromontaż Poznań S.A., Wielkopolska Spółka Gazownictwa sp. z o.o., Przedsiębiorstwo Uzdrowiska Ciechocinek S.A., Zakłady Azotowe Tarnów – Mościce S.A., Towarowa Giełda Energii S.A. At present employed at Polish Ministry of State Treasury. According to the submitted statement, Ms. Małgorzata Molas is affiliated with a shareholder holding shares representing not less than 5% of all voting rights at General Meeting i.e. with State Treasury through employment at the Ministry of State Treasury.

Małgorzata Mika - Bryska - Supervisory Board Member

A graduate of Foreign Trade Faculty at Central School of Planning and Statistics (currently Warsaw School of Economics). She studied according to individual curriculum with extended programme on international economic cooperation. In 1982-1992 she worked at Geofizyka-Kraków and Centrala Handlu Zagranicznego Unitra. Since 1993 she has been serving in the government administration on management positions, currently employed as a Deputy Director at the Energy Department in the Ministry of Economy. In 2003-2012 she held position of the Head of Economic and Trade Section of the Permanent Representation of the Republic of Poland to the European Union and simultaneously took after issues related to the energy sector (oil, gas, electricity, nuclear issues), economic competitiveness and functioning of the EU internal market.

Jarosław Gołębiewski - Supervisory Board Member

A graduate of the Faculty of Economic Sciences at the University of Warsaw. He was a member of Supervisory Boards of the following companies as AMINO S.A. in Poznań, Zakłady Akumulatorowe ZAP S.A. in Piastów and Przędzalnia Czesankowa Elanex in Częstochowa. He held the position of the President of the Management Board of Porta Dor sp. z o.o. from 2010 to 2012 that he had been the President of the Management Board of Active Business Consulting S.A. from 2004 to 2010. In the years 1995-2003 he used to work as a finance controller for Agros Holding S.A.

Jacek Fotek - Supervisory Board Member

A graduate of the Foreign Trade faculty of Warsaw School of Economics. In 2002 he graduated from the University of Quebec at Montreal and earned an MBA diploma. Most of his professional career was dedicated to activities on the money and capital markets. He was one of the creators of the professional interbank money and foreign exchange market in Poland. In 1989-1990 he worked at the National Bank of Poland and operationally managed the foreign curency reserves of the state. In the period from 1990 to 1996 at Bank Handlowy w Warszawie as Chief Dealer supervised all operations of the bank's monetary and foreign exchange market and managed the liquidity, interest rates and foreign exchange positions. Then, during the period 1996-1997, CFO of Polski Bank Rozwoju (Polish Development Bank), supervised the Treasury Department, the Controlling Department and the Strategic Research Bureau.

From 1997 till 1999 Member of the Management Board, Director of the Department of the Treasury in Citibank Poland. In July 1999, he was appointed as a Director of the Internal Audit Department at Bank Handlowy w Warszawie. After the merger with Citigroup, in the years 2001 -2002 he was a director of the Treasury Audit, Capital Markets and Investment Services Bureau, and implemented audit methodology based on a review of risks.

In the period 2003-2009 at PZU Asset Management SA, Vice-President, Supervision Inspector, director responsible for newly created area of financial transactions, risk control, legal and internal supervision. He also was a co-author of the centralized management of the assets of the PZU Group.

In 2009-2012 Mr. Jacek Fotek was the President of the Management Board of BondSpot S.A. He developed the Treasury BondSpot Poland, which has become the main market of the Polish Treasury bonds, the largest such market in the region of

Central Europe, and the wholesale segment of the Catalyst market. After the expiry of his term of office in the Management Board, in July 2012 he was appointed to the Supervisory Board of the company.
From November 2012 to April 2013 he was the President of the Management Board of Invista DM S.A. (Brokerage House).
Since May 2013 Mr. Jacek Fotek has held the position of the President of the Management Board of BondSpot S.A.

Marek Ściążko- Supervisory Board Member

Mr. Marek Ściążko graduated from the Faculty of Technology and Chemical Engineering, University of Technology in Gliwice. From 1991 to 2013 he held a position of Director of the Institute for Chemical Processing of Coal in Zabrze. Currently he is the Secretary of Science at this Institute and the professor at AGH University of Science and Technology at the Department of Energy and Fuels. He completed industrial and scientific internships in the USA, China and Germany in the field of utilization of coal technologies in the energy and chemical industries.

Mr. Marek Ściążko was a Member of the Supervisory Board of TAURON from 2008 to 2015 acting as a member of Strategy and Audit Committees.

He is a member of the Committee for the Power Engineering Sector's Problems and Chemical Engineering Committee set up by the Polish Academy of Sciences. He was also a member of the Section for Mineral Resources Utilization of Mining Committee at the Polish Academy of Sciences.

In years 2014/2015 he participated in the development of innovative projects in the energy sector until 2022. He is the author of dozens of patents in the field of efficient utilization of coal i.e. in the energy sector.

II. 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 Supervisory Board elected by way of group voting shall consist of five members. 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 (State Treasury's entitlement is valid until it remains a shareholder). Moreover, a half of members of the Supervisory Board (except the Supervisory Board member mentioned in the previous sentence), 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.

On June 24, 2015 the Ordinary General Meeting adopted resolution no. 32 which changes the Statutes of PGE S.A. and changes were registered in the National Court Register on August 11, 2015. Changes relate to inter alia competencies of the Supervisory Board and holding Supervisory Board meetings without formal calling. 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 independency.

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.

III. 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. 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.

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.

Supervisory Board meetings may take place without having been formally called, provided that all Supervisory Board members are present at the meeting and none of the Supervisory Board members object to the meeting taking place and to the proposed meeting agenda.

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 Chairman, Vice-Chairman and Secretary of the Supervisory Board, and appointment, recalling or suspending a member of the Management Board.

IV. 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 pursuant to the provisions of the Statutes.

The Statutes of the Company and the Rules of the Supervisory Board are available on the corporate website at www.gkpge.pl.

V. 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.

Table: Composition of the committees in 2015.

Name and surname of the member of the Supervisory Board	Audit Committee	Corporate Governance Committee	Strategy and Development Committee	Appointment and Remuneration Committee
Jacek Barylski		Member		Chairman till October 09, 2015 Member from October 09, 2015 Chairman from January 13, 2016
Barbara Dybek**	Member till September 14, 2015	Member from July 1, 2015 till September 14, 2015	Member from July 1, 2015 till September 14, 2015	
Jacek Fotek	Member from October 9, 2015			
Jarosław Gołębiewski	Chairman		Member	
Czesław Grzesiak*		Member till June 24, 2015	Member till June 24, 2015	Member till June 24, 2015
Anna Kowalik	Member			Member
Piotr Machnikowski		Chairman till July 1, 2015 Member from July 1, 2015		Member from October 09, 2015
Małgorzata Mika-Bryska		Member	Chairman till July 1, 2015 Member from July 1, 2015 till October 13, 2015 Chairman from October 13, 2015	
Małgorzata Molas			Member	Member from October 09, 2015
Marek Ściążko			Member from October 09, 2015	
Krzysztof Trochimiuk **	Member till September 14, 2015			Member till September 14, 2015

* Member of the Supervisory Board till June 24, 2015.

** Member of the Supervisory Board till September 14, 2015

Range of competencies of particular Committees of the Supervisory Board is presented in details in the Rules of the Supervisory Board that is available on the corporate website at www.gkpge.pl

a. The Audit Committee

The Audit Committee is responsible for auditing 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.

b. 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.

c. 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.

d. 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.

6.11 Remuneration of the management of PGE S.A.

6.11.1 Rules with respect to the determination of remuneration for the Management Board Members of PGE S.A.

In 2015 the 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.

Remuneration of the Board consists of a fixed part and a bonus contingent upon the financial results of the Company.

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 2015 by the Members of the Management Board of PGE S.A. from PGE S.A.

Name and surname of the member of the Management Board	Remuneration and benefits achieved by the Management Board members in PGE S.A. in 2015 (in PLN)
Marek Woszczyk	1,602,000.00[1]
Jacek Drozd	1,476,000.00[1]
Grzegorz Krystek	1,422,000.00[1]
Dariusz Marzec	1,422,000.00[1]
Krzysztof Kilian	299,000.00[3]
Piotr Szymanek	339,000.00[3]
Bogusława Matuszewska	165,000.00[3]
Wojciech Ostrowski	165,559.79[2,3]
Paweł Smoleń	6,327.00[2]

1 item including remuneration for the period of service at the Management Board (fixed part / bonus contingent upon the financial results of the Company),

2 item including refund of social security contributions,

3 item including remuneration paid for 3 months after termination of Management Services Contracts (dismissal/resignation) or/and due to non-competition clause,

Members of the Management Board of PGE S.A. in 2015 did not receive remuneration or benefits from companies of the Capital Group other than PGE S.A.

The remuneration and benefits achieved by the Management Board members in 2015 amounted to PLN 6.90 million. In cost perspective (including provisions), in 2015 the remuneration of all persons who acted as Management Board members, jointly with the post-employment benefits, amounted to PLN 6.21 million.

6.11.2 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 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: Remuneration received by the Supervisory Board Members of PGE S.A. who in 2015 performed their functions in PGE S.A. and PGE Group entities other than PGE S.A.

Name and surname of a Supervisory Board member	Remuneration earned by the Supervisory Board members in PGE S.A. in 2015 (in PLN)	Remuneration earned by the Supervisory Board members in PGE Group entities other than PGE S.A. in 2015 (in EUR)
Barbara Dybek	29,248.74	42,000.00
Jacek Barylski	42,120.37[1]	-
Czesław Grzesiak	20,036.56	-
Jacek Fotek	12,321.29	-
Małgorzata Mika - Bryska	41,454.96	-
Anna Kowalik	41,454.96	-
Jarosław Gołębiewski	41,454.96	-
Piotr Machnikowski	42,545.54.[1.]	-
Małgorzata Molas	41,454.96	-
Krzysztof Trochimiuk	29,248.74	-
Marek Ściążko	12,321.29	-

[1] item including refund of social security contributions

Total remuneration earned in 2015 by the members of the Supervisory Board in PGE S.A. amounted to PLN 354 thousand. In cost perspective (including provisions), in 2015 the remuneration of all persons who acted as Supervisory Board members amounted to PLN 407 thousand.

6.12 Information about shares and other securities

6.12.1 Share capital and ownership structure

As at December 31, 2015 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 Company's share capital as at December 31, 2015*.

	State Treasury		Other shareholders *		Total	
	nominal value of shares (PLN)	% share in the share capital and votes	nominal value of shares (PLN)	% share in the share capital and votes	nominal value of shares (PLN)	% share in the share capital and votes
Shares at Dec 31, 2015	10,916,817,060	58.39	7,780,791,230	41.61	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.

6.12.2 Shareholders with a significant stake

According to the information held by the Company[1], the sole shareholder holding at least 5% of the total number of votes on the General Meeting of PGE S.A. was the State Treasury, which held 1,091,681,706 shares of the Company, what constitutes 58.39% of the share capital and entitles to exercise the same amount of the votes at the General Meeting of the Company.

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[1] According to the notification from the Minister of State Treasury of July 8, 2014, about which PGE informed in current report no 35/2014 dated July 9, 2014

Table: Shareholders holding directly or indirectly by subsidiaries at least 5% of the total votes at the General Meeting of PGE S.A.

Shareholder	Number of shares	Number of votes	% in total votes on General Meeting
State Treasury	1,091,681,706	1,091,681,706	58.39%
Others	778,079,123	778,079,123	41.61%
Total	**1,869,760,829**	**1,869,760,829**	**100.00%**

6.12.3 Treasury shares

As at December 31, 2015 PGE S.A. and subsidiaries did not hold any treasury shares.

6.12.4 Shares of the parent company 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 2015 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 2015 (i.e. November 9, 2015)	Change in number of owned shares	Number of shares as of submission date of the annual report	Nominal value of shares as of submission date of the annual report (PLN)
The Management Board	**350**	**no change**	**350**	**3,500**
Grzegorz Krystek	350	no change	350	3,500

Other member of the Management Board and Supervisory Board did not hold PGE S.A. shares.

Members of the Management Board and Supervisory Board did not hold shares in the entities related to PGE S.A.

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

Shareholder	Position	Number of shares as of submission date of the annual report	Nominal value of shares as of submission date of the annual report [PLN]
Management Board of PGE GiEK S.A.		**1,279**	**12,790**
Krzysztof Nowicki	Vice-President of the Management Board	120	1,200
Stanisław Żuk	Vice-President of the Management Board	688	6,880
Robert Imbor	Vice-President of the Management Board	471	4,710

6.12.5 Control system of employees share scheme

In 2015, PGE S.A. did not maintain any employees share schemes.

6.12.6 Use of proceeds from issues

In 2015 PGE S.A. did not issue any shares.

Proceeds from the issue of bonds were used for financing of the on-going activities as well as for financing of the investments conducted by PGE Group companies (see p. *3.8.3. Bonds issued*).

7 Description of the organisation of the PGE Capital Group

Companies comprising the main business segments of PGE Group as at December 31, 2015.

Segment		Company
CONVENTIONAL GENERATION	1.	PGE Górnictwo i Energetyka Konwencjonalna S.A.
	2.	Przedsiębiorstwo Energetyki Cieplnej sp. z o.o.
	3.	MegaSerwis sp. z o.o.
	4.	ELBIS sp. z o.o.
	5.	PUP ELTUR SERWIS sp. z o.o.
	6.	TOP SERWIS sp. z o.o.
	7.	ELMEN sp. z o.o.
	8.	MEGAZEC sp. z o.o.
	9.	EPORE sp. z o.o.
	10.	RAMB sp. z o.o.
	11.	PTS BETRANS sp. z o.o.
	12.	BESTGUM POLSKA sp. z o.o.
	13.	Energoserwis Kleszczów sp. z o.o.
RENEWABLE ENERGY	14.	PGE Energia Odnawialna S.A.
	15.	Elektrownia Wiatrowa Baltica-1 sp. z o.o.
	16.	Elektrownia Wiatrowa Baltica-2 sp. z o.o.
	17.	Elektrownia Wiatrowa Baltica-3 sp. z o.o.
	18.	PGE Energia Natury sp. z o.o.
	19.	PGE Energia Natury Omikron sp. z o.o.
	20.	PGE Energia Natury PEW sp. z o.o.
SUPPLY	21.	PGE Polska Grupa Energetyczna S.A.
	22.	PGE Dom Maklerski S.A.
	23.	PGE Trading GmbH
	24.	PGE Obrót S.A.
	25.	Enesta sp. z o.o.
DISTRIBUTION	26.	PGE Dystrybucja S.A.

7.1 Changes in organisation of the Capital Group

7.1.1 Changes in organisation of the Capital Group in 2015

The changes, which occurred in the PGE Capital Group's structure year 2015 are presented in Note 1.3 to consolidated financial statements and described below.

Shares in subsidiaries and associates

In 2015 **PGE S.A.** changed its equity interest in the following entities:

- On September 11 2014, the Extraordinary General Meeting of PGE GiEK S.A. adopted a resolution on the redemption of all treasury shares held by the company i.e. 2,751,654 shares of the company. In connection with the redemption of treasury shares, the Extraordinary General Meeting adopted a resolution on decrease of the share capital of the company by PLN 27,516,540, i.e. from PLN 6,964,382,240 PLN 6,936,865,700. On March 13, 2015 the redemption of the own shares and decrease of the share capital were registered with the National Court Register. As a result of the above redemption and mandatory buy-out from the minority shareholders, the share of PGE S.A. in the company's share capital reached 99.96%.
- On February 20, 2015 the Extraordinary Assembly of Partners of PGE EJ 1 sp. z o.o. adopted a resolution on increase of the company's share capital from PLN 73,000,000 to PLN 205,860,000, i.e. by PLN 132,860,000, through increasing of the nominal value of the existing shares of the company, from PLN 50 to PLN 141 each

share. Increasing of the nominal value of shares was acquired by PGE S.A. in exchange for cash contribution from earlier surcharges by PGE S.A. that were not returned to PGE S.A. On March 17, 2015 the increase of the share capital was registered with the National Court Register.

- On April 15, 2015 PGE S.A., KGHM Polska Miedź S.A. with its seat in Lubin ("KGHM"), TAURON and ENEA concluded an agreement for the acquisition of shares in PGE EJ 1 sp. z o.o. PGE S.A. held 100% shares in the share capital of PGE EJ 1 sp. z o.o. As a result of the transaction, each of the companies, i.e. KGHM, TAURON and ENEA, acquired 146,000 shares of PGE EJ 1 sp. z o.o., representing 10% of the share capital of PGE EJ 1 sp. z o.o. Following the transaction PGE S.A. currently holds 70% of shares, KGHM 10% of shares, TAURON 10% of shares and ENEA 10% of shares, in the share capital of PGE EJ 1 sp. z o.o.
- On April 23, 2015, an Ordinary Assembly of Partners of PGE Obsługa Księgowo-Kadrowa sp. z o.o. passed a resolution on a share capital increase from PLN 1,050,000 to PLN 2,050,000, i.e. by PLN 1,000,000, through the creation of 20,000 new shares with nominal value of PLN 50 each. The increased share capital was acquired by PGE S.A. in exchange for a cash contribution from the principal of a loan issued to the company and not yet repaid to PGE S.A. On August 21, 2015 the increase of the share capital was registered with the National Court Register.
- On May 5, 2015, an Extraordinary General Meeting of PGE EO S.A. and Extraordinary Assembly of Partners of PGE Energia Natury sp. z o.o. passed resolutions on the split-up of PGE Energia Natury sp. z o.o. (the Split Company) through the transfer of a part of the Split Company's assets, constituting an organised part of enterprise in the form a branch of the Split Company, named PGE Energia Natury sp. z o.o. Oddział "Kisielice/Malbork", based in Malbork, to PGE EO S.A. (the Acquiring Company). The transfer of the organised part of enterprise to the Acquiring Company was carried out through a reduction in the Split Company's share capital and increase of the Acquiring Company's share capital, by cancellation of 234,845 shares in the Split Company with nominal value of PLN 1,000 each and issuance of 3,770,031 new registered shares in the Acquiring Company, with nominal value of PLN 10 each. As the sole shareholder of the Split Company, PGE S.A. acquired all of the newly-issued shares in the Acquiring Company's increased share capital in exchange for the redeemed stock of the Split Company. On June 1, 2015, the split-up of PGE Energia Natury Sp. z o.o. was registered by the National Court Register.
- On June 8, 2015, an Extraordinary Assembly of Partners of PGE Inwest 2 sp. z o.o. adopted a resolution on an increase in the company's share capital from PLN 10,000 to PLN 60,000, i.e. by PLN 50,000, through the issuance of 50 new shares in the company, with nominal value of PLN 1,000 each. The increased share capital was acquired by PGE S.A. in exchange for a cash contribution. On July 31, 2015 the increase of the share capital was registered with the National Court Register.
- On June 22, 2015, Extraordinary General Meetings of PGE EO S.A. and PGE Energia Natury S.A. as well as an Extraordinary Assembly of Partners of Eolica Wojciechowo sp. z o.o. passed resolutions regarding the merger of PGE EO S.A. (the Acquiring Company) on the one hand and PGE Energia Natury S.A. and Eolica Wojciechowo sp. z o.o. (the Acquired Companies) on the other. The merger of the companies was executed through the transfer to the Acquiring Company of all of the assets of the Acquired Companies and subsequent dissolution of the Acquired Companies without liquidation. As regards the merger of the Acquiring Company with Eolica Wojciechowo sp. z o.o., the Acquiring Company's share capital was not increased (pursuant to art. 515 § 1 of the Polish Commercial Companies' Code), while in the case of the merger between the Acquiring Company and PGE Energia Natury S.A. the Acquiring Company's share capital was increased by PLN 478,800,000, through the issuance of 47,880,000 new registered shares with nominal value of PLN 10 each. As the sole shareholder of PGE Energia Natury S.A., PGE S.A. acquired all of the newly-issued registered shares in the Acquiring Company's increased share capital in exchange for its shares of PGE Energia Natury S.A. The merger of the Acquiring Company with the Acquired Companies was registered by the National Court Register on June 30, 2015.

  As a result of the merger of PGE EO S.A. with PGE Energia Natury S.A., the former became the sole shareholder in the following companies:
  - PGE Energia Natury Kappa sp. z o. o.,
  - PGE Energia Natury Omikron sp. z o. o.,
  - PGE Energia Natury PEW sp. z o. o.,
  - PGE Energia Natury Karnice sp. z o. o.,
  - PGE Energia Natury Bukowo sp. z o. o.,
  - PGE Energia Natury Olecko sp. z o. o.
- On June 24, 2015 the Extraordinary Assemblies of Partners of Elbest sp. z o.o. and Elbest Security sp. z o.o. passed resolutions regarding the split-up of Elbest sp. z o.o. (the Split Company) through the transfer of a certain portion of the Split Company's assets that constitutes an organised part of enterprise that, further, is used to pursue economic activities in the area of personnel and property security services (ZCP Ochrona) to Elbest Security sp. z o.o. (the Acquiring Company). The transfer of ZCP Ochrona to the Acquiring Company was

executed through a reduction in the Split Company's share capital and increase of the Acquiring Company's share capital, by cancellation of 5,044 shares in the Split Company, with nominal value of PLN 1,000 each, and issuance of 5,044 shares in the Acquiring Company, with nominal value of PLN 1,000 each. As the sole shareholder of the Split Company, PGE S.A. acquired all of the newly-issued shares in the increased share capital of the Acquiring Company's in exchange for the Split Company's cancelled shares. On July 13, 2015, the split-up of the Split Company was registered by the National Court Register.

- On July 29, 2015 the Extraordinary Assembly of Partners of PGE EJ 1 sp. z o.o. adopted resolution on increase of the share capital of the company from PLN 205,860,000 to PLN 275,859,450, i.e. by PLN 69,999,450, through issue of 496,450 new shares with a nominal value of PLN 141 each. The increase of the share capital was acquired in exchange for cash contribution of the company's partners, i.e. PGE S.A., KGHM, TAURON and ENEA proportionally to their stake in the company. The increase of the share capital was registered by the National Court Register on October 16, 2015.
- On August 19, 2015 the Extraordinary General Meeting of PGE EO S.A. adopted resolution on increase of the share capital of the company from PLN 825,000,310 to PLN 929,218,930, i.e. by PLN 104,218,620, through issue of 10,421,862 new registered shares of the company with a nominal value of PLN 10 each. Newly issued shares were acquired by PGE S.A. in exchange for non-cash contribution in form of 99,576 shares with a nominal value of PLN 1,000 each, with a total nominal value of PLN 99,576,000, in the share capital of PGE Energia Natury sp. z o.o., what constitutes 100% in the share capital of that company, with a value of PLN 104,218,620. On October 8, 2015 the increase of the share capital was registered by the National Court Register.
- On October 8, 2015 the Extraordinary General Meeting of PGE EO S.A. and the Extraordinary Assemblies of Partners of PGE Energia Natury Kappa sp. z o.o., PGE Energia Natury Bukowo sp. z o.o., PGE Energia Natury Karnice sp. z o.o. oraz PGE Energia Natury Olecko sp. z o.o. (subsidiaries of PGE EO S.A.) adopted resolutions on merger of PGE EO S.A. (the Acquiring Company) with PGE Energia Natury Kappa sp. z o.o., PGE Energia Natury Bukowo sp. z o.o., PGE Energia Natury Karnice sp. z o.o. and PGE Energia Natury Olecko sp. z o.o. (the Acquired Companies). Merger of the companies was executed through the transfer to the Acquiring Company of all of the assets of the Acquired Companies without issue of new shares in exchange for the shares of the Acquired Companies and dissolution of the Acquired Companies without liquidation. In connection with the merger of the Acquiring Company with the Acquired Companies, the share capital of the Acquiring Company was not increased (pursuant to art. 515 § 1 of the Code of the Commercial Companies). On November 30, 2015 the merger of companies was registered by the National Court Register.

In the period from January 1, 2015 to December 31, 2015, PGE S.A. purchased from minority shareholders of PGE GiEK S.A., as a result of a mandatory buyback in accordance with art. 418 of the Polish Commercial Companies' Code, a total of 2,512,874 shares in PGE GiEK S.A. (constituting 0.36% of PGE GiEK S.A.'s share capital). Currently PGE S.A. holds shares representing 99.96% of the share capital of PGE GiEK S.A.

In 2015 **PGE Group companies** changed their capital exposure in the following entities:

- On January 13, 2015 the Management Board of PGE GiEK S.A. took decision on merger of PGE GiEK S.A. (the Acquiring Company) with PGE Gubin sp. z o.o. (the Acquired Company). Extraordinary Assembly of Partners of PGE Gubin sp. z o.o. adopted a resolution on merger with PGE GiEK S.A. on January 14, 2015. Merger was carried out by course of art. 492 § 1 p. 1 in connection with art. 515 § 1 of Code of Commercial Companies, i.e. through transfer of all assets of the Acquired Company to the Acquiring Company without raising the share capital of the acquired company and without the exchange of acquired company's shares for the shares of the Acquiring Company. The merger was registered with the National Court Register on February 26, 2015.
- On January 14, 2015, with validity as of December 31, 2014, PGE Energia Odnawialna S.A. concluded an agreement for sale of all shares held in Energetyczne Towarzystwo Finansowo-Leasingowe ENERGO-UTECH S.A. („ENERGO-UTECH"), i.e. 50% of the share capital of that company, to the following companies:

    - Przedsiębiorstwo Usługowe „UTECH" sp. z o.o. with its seat in Poznań („UTECH"),
    - Elektrociepłownia „BĘDZIN" S.A. with its seat in w Będzin („EC Będzin").

  On April 15, 2015, once the conditions precedent indicated in the agreement had been met, EC Będzin purchased 896 shares in ENERGO-UTECH (a 40% stake in ENERGO-UTECH's share capital), whilst UTECH sold 224 shares in ENERGO-UTECH (10% of ENERGO-UTECH's share capital).
  In accordance with the provisions of the Agreement, a cash settlement of the transaction price payable by EC Będzin S.A. took place on April 15, 2015. Settlement of the transaction price payable by UTECH took place as a result of purchase of EC Będzin S.A. shares by PGE EO S.A., on the ground of agreement concluded on April 17, 2015 between PGE EO S.A. and UTECH and settled on April 21, 2015. As a result of the above transaction, as of April 21, 2015 PGE EO S.A. held 311,355 shares of EC Będzin S.A., constituting 9.89% of the share capital. On

November 27, 2015 PGE EO S.A. concluded agreement for sale of 311,355 EC Będzin shares to Utech, that entered into force on November 30, 2015 – transaction was settled on OTC market on December 8, 2015.

- On March 18, 2015 the Extraordinary Assembly of Partners of PELPLIN sp. z o.o. adopted a resolution on merger of the company with PGE EO S.A. (the Acquiring company) with PELPLIN sp. z o.o. (the Acquired company), through transfer of all assets of the Acquired Company to the Acquiring Company without issue of new shares in exchange for Acquired company's shares, pursuant to art. 514 of Code of Commercial Companies. PGE EO S.A. held 100% in the share capital of PELPLIN sp. z o.o. On March 31, 2015 the merger was registered with the National Court Register.
- On April 30, 2015, an Extraordinary General Meeting of BIO – Energia S.A., based in Warsaw (a subsidiary of PGE EO S.A.) passed a resolution on the issue of consent for transformation of the company into a limited company (sp. z o.o.). On June 1, 2015, the company's transformation was completed by the National Court Register. New name of the company is: BIO - ENERGIA sp. z o.o.
- On July 22, 2015 PGE Dystrybucja S.A. and LCT INVEST sp. z o.o. with its seat in Kleosin concluded agreement for sale of 9,000 shares in Przedsiębiorstwo Produkcyjno-Handlowe EKTO sp. z o.o. z with its seat in Białystok, held by PGE Dystrybucja S.A., constituting 100% of the share capital of the company. On July 22, 2015, LCT INVEST sp. z o.o. paid for the shares and on the same day the ownership of shares was transferred to LCT INVEST sp. z o.o.

Other changes

- As of January 1, 2015 following branches were created in PGE Energia Natury sp. z o.o.:
  - Branch „Galicja" with its seat in Orzechowce,
  - Branch „Kisielice/Malbork" with its seat in Malbork.

  In connection with changes in the Renewables segment, the Kisielice/Malbork branch, based in Malbork, was transferred, as an organised part of enterprise, to PGE EO S.A.

- On April 23, 2015, the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, removed the branch from the Court Register entry of PGE EO S.A. Branch ZEW Dębe.

- On May 31, 2015, PGE EO S.A. executed an agreement with PGE Obrót S.A. on the sale of an organised part of enterprise. As a result, the following assets were acquired by PGE EO S.A.:
  - Hydro Plant Dębe
  - Small Hydro Plant Smardzewice
  - Small Hydro Plant Nielisz
  - Small Hydro Plant Radawa
  - Small Hydro Plant Michałów
  - Small Hydro Plant Górecko Kościelne

In 2015 PGE Capital Group did not discontinue any of its substantial operations.

7.1.2 Changes in Group structure after the end of the reporting period

There were no changes in the Group structure after the end of the reporting period.

7.2 Changes in management procedures of the Company and the Capital Group

On July 3, 2014, the Management Board of PGE S.A. approved the PGE Group Code, a fundamental document defining a new corporate governance model, and established PGE Group.

The objective behind adopting new regulations and forming PGE Group was to introduce a so called statutory mechanism for managing PGE Group companies, facilitating efficient and effective corporate management, while minimising legal risks. The statutory management mechanism is a tool for effectively and safely managing the Group through the use of corporate-law instruments (statutes, articles of association, resolutions) and defining the objectives of Group subsidiaries in their statutes. The aim is to safeguard the Group's common (economic and financial) interests).

The PGE Group Code constitutes a legal framework for the process management model being developed at PGE Group.

A distinct advantage of having introduced the PGE Group Code is that it clearly defines the requirement for all PGE Group companies to act in the Group's interest, implement Group strategy and apply the Management System Documents issued by the Corporate Centre.

The PGE Group Code also makes it possible to achieve the key objectives outlined in the Operational Model (i.e. the functioning of all PGE Group companies as one effective business organism) and constitutes an effective tool for implementing the processes outlined in the Model.

Detailed description of the ownership changes is presented in p. 7.1. of this report.

7.3 Branches of the companies of the PGE Capital Group

As at December 31, 2015 the following PGE Group companies had their branches:	
PGE Górnictwo i Energetyka Konwencjonalna S.A. with its registered office in Bełchatów	• Branch Bełchatów power plant • Branch Opole power plant • Branch Turów power plant • Branch ZEDO • Branch Bełchatów lignite mine • Branch Turów lignite mine • Branch Gorzów CHP • Branch Bydgoszcz CHPs • Branch Rzeszów CHP • Branch Kielce CHP • Branch Lublin Wrotków CHP • Branch Zgierz CHP
PGE Energia Odnawialna S.A. with its registered office in Warsaw	• Branch ZEW Solina - Myczkowce in Solina • Branch ZEW Porąbka - Żar in Międzybrodzie Bialskie • Branch ZEW Dychów in Dychów • Branch EW Żarnowiec in Czymanów
PGE Energia Natury sp. z o.o. with its registered office in Warsaw	• Branch „Galicja" with its seat in Orzechowce
PGE Trading GmbH with its registered office in Berlin	• Branch in Prague • Branch in Bratislava
PGE Dystrybucja S.A. with its registered office in Lublin	• Branch Lublin • Branch Łódź-Miasto • Branch Łódź-Teren • Branch Warszawa • Branch Rzeszów • Branch Białystok • Branch Zamość • Branch Skarżysko-Kamienna
PGE Obrót S.A. with its registered office in Rzeszów	• Branch with seat in Lublin • Branch with seat in Łódź • Branch with seat in Warsaw • Branch with seat in Białystok • Branch with seat in Zamość • Branch with seat in Skarżysko-Kamienna
"ELBEST" sp. z o.o. with its registered office in Bełchatów	• Branch Bogatynia • Branch Wawrzkowizna • Branch Krasnobród • Branch Iwonicz-Zdrój
"ELBEST SECURITY" sp. z o.o. with its registered office in Bełchatów	• Branch Rogowiec I • Branch Rogowiec II
Przedsiębiorstwo Transportowo - Sprzętowe „Betrans" sp. z o.o. with its registered office in Bełchatów	• Branch ELTUR-TRANS with seat in Bogatynia • Branch Rogowiec with seat in Rogowiec
Przedsiębiorstwo Usługowo-Produkcyjne „ELTUR-SERWIS" sp. z o.o. with its registered office in Bogatynia	• Branch in Brzezie near Opole
EPORE sp. z o.o. with its registered office in Bogatynia	• Branch Bogatynia • Branch Bełchatów • Branch in Brzezie • Branch Rogowiec* • Branch Żarska Wieś
ELBIS sp. z o.o. with its registered office in Bogatynia	• I Branch with seat in Warsaw

*Branch Rogowiec was liquidated as of January 1, 2016

PGE S.A. and other Group companies do not have branches.

8 Corporate Social Responsibility in PGE Group

8.1 CSR in PGE

8.1.1 Management of impact on environment

PGE Group's approach to responsible business is defined by its business activities and is consistent with the Group's strategy for 2014-2020. The main aspects of the firm's responsibility can be seen in the creation of value for shareholders, ensuring energy security and employment stability as well as taking into consideration the needs and expectations of the society.

PGE Group strives to reduce its impact on the natural environment through modernising its existing infrastructure, increasing the share of renewable energy sources, protecting nature and reclaiming post-production areas. The company also actively participates in biodiversity-related activities, e.g. protecting forests and birds. PGE Group initiates various research and development activities, analyses its impact on the environment and implements tasks aiming to protect it. The projects being executed are multilateral efforts that take into consideration the opinions and needs of the surroundings. This way of thinking about business ensures stable and value-oriented growth for the company and its surroundings. An important aspect of the activities being performed is also support for and cooperation with local communities, aimed at sustainable development.

Involvement in CSR initiatives

Since 2008, PGE S.A. has taken part in the initiative of the Secretary-General of the United Nations called "Global Compact". It is the biggest worldwide initiative for corporate social responsibility and human rights. The involvement in Global Compact means adoption by PGE Group of 10 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 or preventing corruption. Provisions of key conventions regarding respect for human rights are reflected in the Polish legislation. Compliance with the law is the basis of conducting business, thus operating in compliance with applicable standards, PGE S.A. sees as obvious. Participation in Global Compact initiative is one of manifestations of our support for human rights. Participation in the program is at the same time a commitment to prepare annual report on the progress of Global Compact principles compliance. Reports of PGE Group are available on the project website (https://www.unglobalcompact.org/).

Since 2011, PGE S.A. has belonged to the group of socially responsible companies which are listed on the Warsaw Stock Exchange and form the RESPECT Index portfolio. It is the confirmation of compliance with the highest standards of management with respect to corporate governance, ethics, social and environmental factors.

PGE S.A. in 2015 joined the prestigious group of Strategic Partners of Responsible Business Forum – leaders of responsible business in Poland.

PGE S.A. is also one of 99 Polish companies that have so far signed the „Commitment by Polish business to sustainable development." Rules adopted in this declaration are an expression of engagement in sustainable development and PGE's drive towards achieving objectives set out in the Sustainable Development Vision for Polish Business 2050. The project, which is being carried out by the Ministry of Economy, aims not only to integrate Polish businesses around the idea but also to pinpoint the challenges that companies in Poland face.

8.1.2 Dialogue with stakeholders

PGE Group makes every effort to ensure that the information on our business activities reaches all parties concerned. It wishes not only to inform, but first and foremost, to hold a continuing dialogue with partners. Key stakeholders include inter alia employees, shareholders, government administration, local governments, branch and non-governmental organisations, suppliers, partners, customers and local communities in cities where we run our operations.

For each identified group of stakeholders we have a dedicated way of conducting the communications and the dialogue. In each of the companies we had appointed a spokesperson for contacts with the media, which has a bearing on the speed and reliability of the information provided. To the customers PGE Group offer diversified forms of contact, including the stationery customer service centres, electronic customer service centres and the telephone Contact Centre.

Along with our every investment project we hold a dialogue with local governments and communities. PGE Group wants to minimize negative impact of its business operation and to bring benefits to the organisation's environment. The most frequently used channels of communication with our employees are in-house magazines and the PGE Intranet, where we publish all the important information. PGE S.A. conducts regular employee opinion surveys in form of questionnaires in intranet or phone interviews, which check e.g. the employee satisfaction levels.

Communication with our investors as well as establishing and maintaining good relations with them are assured by our investor relations team. To improve the communications efficiency we have introduced, among others, a mobile application for shareholders. We are continuously adjusting our channels of contact with the environment to the individual needs of our interlocutors.

8.1.3 Ethics

PGE Group makes every effort to ensure equal treatment in employment, and to prevent discrimination and mobbing. An example of our commitment in this area is, among others, the Code of Ethics implemented at PGE EJ 1 sp. z o.o. already back in 2011. It is a set of rules and universal values that govern the conduct of both the Management Board and the employees in their everyday and professional lives. Exatel S.A. also implemented the Code of Ethics. PGE S.A., PGE EO S.A. and PGE Obrót S.A. have implemented Internal Anti-Mobbing Policy, communicated to all employees. Every employee can report any experienced or witnessed mobbing incidents. Cyclical workshops are conducted in this area as well. In 2015, PGE S.A. began work on a Procurement Ethics Code – an internal document for employees directly involved in purchasing processes. One element of the Code will be a publicly available set of rules and standards for PGE S.A. suppliers who participate in procurement proceedings. Work on the Code is expected to be completed in 2016.

In November 2015, PGE S.A. launched the construction of a Compliance Management System. The scope of Compliance will cover compliance with the law and internal regulations in areas such as:

- fair business practices – including PGE's ethics rules;
- observance of antitrust regulations and competition and consumer protection laws;
- combating corruption and bribery;
- rules concerning use of the company's resources and combating financial fraud;
- AML rules;
- procurement and public tendering regulations;
- environmental considerations;
- rules regarding information security;
- prevention of conflicts of interest;
- prevention of mobbing;
- rules regarding workplace health and safety and relations with local communities;
- relations with clients;
- relations with suppliers and business partners;
- and rules of fair corporate communications.

One of the key elements of the system will identify ethics rules and specify ethics values. Another product of the work will be an Ethics Code binding on the entire PGE Group.

Fraud prevention and anti-corruption

In order to enforce a fraud prevention policy, PGE S.A. has implemented the Bylaws for Fraud Investigation, a set of principles forming a uniform and consistent system for detection and prevention of fraud. Within the framework of the PGE Capital Group we have developed a system for reporting irregularities suggesting potential fraud. It enables any employee to report – also anonymously – any irregularity suggesting potential occurrence of this phenomenon. A similar validation procedure is also applied to any complaints coming from external sources that might indicate potential fraud.

8.1.4 Co-operation and partnership

PGE Group takes part in the proceedings of numerous international organisations and associations. As a member of the Polish Electricity Association (PKEE) PGE belongs to inter alia Central Europe Energy Partners and EURELECTRIC. This association represents the interests of the European electric power industry and is an authority on the European energy sector. Being part of the Polish Member Committee of the World Energy Council (WEC) PGE S.A. plays the leading role in shaping policies and indicating directions of activities of this organisation. The Governing Board of PKEE includes the representatives of PGE S.A.

PGE S.A. belongs to such Polish energy industry organisations as: the Polish Chamber of Power Industry and Environment Protection, the Polish Association of Energy Trading and the Association of Polish Electrical Engineers. We participate in the proceedings of business organisations, including the Employers of Poland, OECD or Polish Association of Listed Companies. PGE EO S.A. is a member of the Polish Wind Energy Association, Association of Renewable Energy and Hydroelectric Power plants Society. PGE EJ 1 sp. z o.o. in turn is a member of World Nuclear Association and an associated member of FORATOM. It also co-operates with WANO (World Association of Nuclear Operators). PGE EJ 1 sp. z o.o. is also a member of Polish Nucleonic Society. Our companies are active on local, nationwide, as well as on foreign markets.

8.2 Employees

8.2.1 Human Capital Management Strategy of the PGE Group for 2015 – 2020

In order to support the realisation of strategic objectives defined in the Business Strategy, the company has developed the Human Capital Management Strategy for 2015-2020 (HCM). The HCM Strategy, which was adopted in January 2015, is to support further integration of the PGE Capital Group and contribute to building the employee involvement culture. To this end, key initiatives have been defined, the realisation of which is to be supported by modern IT tools (SAP, Port@l HR).

Within the first group of strategic initiatives, on which work began in April 2015, PGE Group focused mainly on creating common corporate rules for HR. Involved in this were eight working teams, consisting of over 80 representatives of the human capital management area from all business lines.

The following regulations were adopted:

- Corporate regulations for HR area cooperation at PGE Group
- Corporate regulations for training and development at PGE Group
- Corporate regulations for the systemic management of Key Personnel
- Corporate regulations for mobility at PGE Group
- Corporate regulations for employment at PGE Group
- Corporate regulations for social relations at PGE Group
- Corporate regulations for HR controlling at PGE Group
- Corporate regulations for workplace architecture at PGE Group

PGE Group intends to continue common work on the creation and implementation of modern HR tools in 2016 and plans to focus on the following: developing corporate regulations for remuneration at PGE Group, development of a competence and employee evaluation model and implementation of these tools in the SAP HRM (human resources management) system. This development system will cover the key personnel.

Table: Employment level*.

In FTEs	Dec 31, 2015	Dec 31, 2014 restated	% change	Dec 31, 2013 restated	% change
Total employment in PGE	**38,876.80**	**39,977.34**	**-3%**	**41,194.89**	**-3%**
Conventional Generation	23,197.78	23,903.16	-3%	24,929.71	-4%
Renewable Energy	518.95	576.83	-10%	583.75	-1%
Supply	2,001.85	2,112.74	-5%	2,051.81	3%
Distribution	10,298.40	10,648.25	-3%	10,937.71	-3%
Other consolidated companies	2,859.82	2,736.36	5%	2,691.91	2%

* without suspended employees

Table: Total number of employees by employment contract and gender (headcount)*.

	Exatel S.A.		PGE Dystrybucja S.A.		PGE Dom Maklerski S.A.		PGE EJ 1 sp. z o.o.		PGE EO S.A.	
	Women	Men	Women	Men	Women	Men	Women	Men	Women	Men
Total number of employees	**343**		**10,382**		**28**		**136**		**527**	
Total number of employees by gender	112	231	1,523	8,859	13	15	57	79	123	404
Employment contract, full-time	104	231	1,497	8,840	12	13	46	70	120	393
Employment contract, part-time	8	0	26	19	1	2	11	9	3	11
Employment contract, indefinite period	106	218	1,507	8,793	13	14	37	50	119	402
Employment contract, definite period	6	13	16	66	0	1	20	29	4	2
Mandate contract		0		79		0		4		26

Contract of specific work	0	2	1	0	5

Table: Total number of employees by employment contract and gender (headcount)*.

	PGE GiEK S.A.		PGE Obrót S.A.		PGE S.A.		PGE Systemy S.A.		PGE Capital Group**
	Women	Men	Women	Men	Wom-en	Men	Women	Men	
Total number of employees	**16,945**		**1,410**		**474**		**464**		**30,709**
Total number of employees by gender	2, 531	14,414	1.023	387	232	242	99	365	**30,709**
Employment contract, full-time	2,518	14,402	1.015	382	222	237	95	364	**30,561**
Employment contract, part-time	13	12	8	5	10	5	4	1	**148**
Employment contract, indefinite period	2,471	14,243	945	348	218	232	86	334	**30,136**
Employment contract, definite period	60	171	78	39	14	10	13	31	**573**
Mandate contract	107		66		4		13		**299**
Contract of specific work	7		0		0		0		**15**

*Including suspended employees

**Number of employees in 9 key companies of PGE Group.

Table: Composition of the Management Board and Supervisory Board of PGE S.A.

Number of persons in the Management Board	**As at December 31, 2015**	**As at annual report publication date**
women	0	0
men	4	3
age: under 30 years	0	0
age: 30–50 years	2	2
age: over 50 years	2	1
TOTAL	**4**	**3**
Number of persons in the Supervisory Board		
women	3	3
men	5	5
age: under 30 years	0	0
age: 30–50 years	4	3
age: over 50 years	4	5
TOTAL	**8**	**8**

8.2.2 Communication with employees – an important aspect of management

Building relations with employees is one of PGE Group's top priorities. The company strives to be actively supporting its employees, providing them with information and holding constructive dialogue. The company is placing emphasis on communicating the changes that were implemented in the HCM area in 2015. To this end, two special editions of the "Pod Parasolem" magazine were published, for all PGE Group employees. They outlined the key objectives of the HCM Strategy and presented current information on the progress of project works. Furthermore, a special section on PGE Group's intranet was launched, where employees can read about the main HCM Strategy objectives and project work progress.

8.2.3 Searching for the best employees

When recruiting and selecting candidates, PGE Group uses its best efforts to ensure that the process is transparent and friendly for the participants and effective for the company. Candidate selection criteria, verification methods as well as reporting are conducted in accordance with existing procedures. These processes are carried out confidentially and in observance of the company's binding procedures. In the interests of employee development, internal recruitment is carried out first. Through this, our company ensures retention of uniquely experienced or qualified staff. If no relevant competence can be found within the company, recruitment processes are expanded to include candidates from the external job market. In the interests of cost effectiveness, some of PGE Group's companies use a common base of HR advisory firms and the same tool for processing candidate data (e-recruiter). As part of one initiative in the HCM strategy, common standards have been developed, which are now reflected in the document "Corporate regulations for employment at PGE Group," which will go into effect at all PGE Group companies in 2016.

Table: Total number and rates of new employee hires and employees who left, by gender and age (headcount).

	Exatel	PGE Dystrybucja S.A.	PGE Dom Maklerski S.A.	PGE EJ 1 sp. z o.o.	PGE EO S.A.
Total number of new employee hires	**24**	**126**	**6**	**80**	**57**
Women	7	24	4	29	15
Men	17	102	2	51	42
Persons under 30 years of age	7	49	1	19	11
Persons between 30 and 50 years old	15	62	5	51	39
Persons over 30 years of age	2	15	0	10	7
Percentage of new employee hires	**7%**	**1%**	**21%**	**59%**	**11%**
Women	2%	0%	14%	21%	3%
Men	5%	1%	7%	38%	8%
Persons under 30 years of age	2%	0%	4%	14%	2%
Persons between 30 and 50 years old	4%	1%	18%	38%	7%
Persons over 30 years of age	1%	0%	0%	7%	1%
Total number of employees who left	**41**	**483**	**2**	**14**	**66**
Women	15	109	1	4	13
Men	26	374	1	10	53
Persons under 30 years of age	4	7	0	1	3
Persons between 30 and 50 years old	31	96	2	9	22
Persons over 30 years of age	6	380	0	4	41
Percentage of employees who left	**12%**	**5%**	**7%**	**10%**	**13%**
Women	4%	1%	4%	3%	2%
Men	8%	4%	4%	7%	10%
Persons under 30 years of age	1%	0%	0%	1%	1%
Persons between 30 and 50 years old	9%	1%	7%	7%	4%
Persons over 30 years of age	2%	4%	0%	3%	8%

Table: Total number and rates of new employee hires and employees who left, by gender and age (headcount).

	PGE GiEK S.A.	PGE Obrót S.A.	PGE S.A.	PGE Systemy S.A.	PGE Capital Group*
Total number of new employee hires	**309**	**92**	**64**	**50**	**808**
Women	80	59	26	18	**262**
Men	229	33	38	32	**546**
Persons under 30 years of age	102	38	26	15	**268**
Persons between 30 and 50 years old	166	51	35	29	**453**
Persons over 30 years of age	41	3	3	6	**87**
Percentage of new employee hires	**2%**	**7%**	**14%**	**11%**	-
Women	0%	4%	5%	4%	-
Men	1%	2%	8%	7%	-
Persons under 30 years of age	1%	3%	5%	3%	-
Persons between 30 and 50 years old	1%	4%	7%	6%	-
Persons over 30 years of age	0%	0%	1%	1%	-
Total number of employees who left	**1,047**	**175**	**43**	**38**	**1,909**
Women	238	135	20	4	**539**
Men	809	40	23	34	**1,370**
Persons under 30 years of age	12	10	6	4	**47**
Persons between 30 and 50 years old	137	46	25	30	**398**
Persons over 30 years of age	898	119	12	4	**1,464**
Percentage of employees who left	**6%**	**12%**	**9%**	**8%**	-
Women	1%	10%	4%	1%	-
Men	5%	3%	5%	7%	-
Persons under 30 years of age	0%	1%	1%	1%	-
Persons between 30 and 50 years old	1%	3%	5%	6%	-
Persons over 30 years of age	5%	8%	3%	1%	-

* regarding employees in 9 key companies of PGE Group.

Internship programmes

PGE Group appreciates the value and competence of young people, therefore it operates internship programmes for students and graduates. To this end, it is actively cooperating with higher-education institutions. The company organises internships and placements for students as well as scientific seminars and conferences. 2015 was the first year in which PGE Group carried out internship programmes for university graduates with the participation of the Ministry of State Treasury. Authors of the best master's thesis or engineer's thesis attended paid internships at PGE Group companies, gaining valuable professional experience. A second programme was carried out in cooperation with the Lesław A. Paga Foundation. Here, PGE Group actively participated in two educational programmes: Energy Academy – which is addressed mainly to people fascinated by energy and wanting to develop their careers in this industry, and Capital Market Leaders Academy. The best Academy participants gain the opportunity of attending paid internships at PGE Group.

A positive response to the internship programmes served as basis for analysis and objectives for a project aimed at electrical fitters working at PGE Dystrybucja S.A. In connection with a forecast generational gap in this area, an educational programme is being planned, with the objective being encouragement of young people with relevant education for work in the energy industry.

"Turn The Power On" – an on-boarding programme for new employees at PGE S.A.

The main objective of the programme is standardisation of activities in the area of adapting new employees at PGE S.A. and developing of a sense of belonging to PGE Group. The on-boarding programme is a process lasting up to six months from commencement of work at the company. According to the programme's objectives, an employee gets to know the work place and organisation. Each new employee in the initial employment period is supported by a guide from his or her organisational cell. The on-boarding programme for new employees at PGE S.A. is meant to support the understanding of PGE Group's complexity. In 2016, the programme will be implemented in other PGE Group companies.

8.2.4 PGE Capital Group – a friendly workplace

PGE Group offer its employees not only interesting professional challenges and extensive trainings package but also comprehensive fringe benefits package. Due to the specifics of the activities of individual business lines, each of the companies separately determines the fringe benefits offered to its employees. The numerous benefits include, importantly, private medical care, additional retirement benefits, electricity allowance or additional life insurances. Moreover, the company provides transport to the workplace for the employees (for example in Bełchatów and Bogatynia), whereas part of the employees take advantage of allowances for public transport tickets. The company also encourages employees to sport activities, therefore, sports committees or sports sections of different kinds are present in many companies. Once a year employees meet at the PGE Sports Championship.

8.2.5 Training and development

PGE Group creates opportunities for employees to raise their qualifications by participating in specialist training sessions, management competence development programmes, post-graduate studies and foreign language courses. The Group largely emphasises specially-designed closed competence development programmes, which are the best form of investment in employees.

HR Business Partner Academy and Academy for HR and Payroll Process Managers.

Courses offered by the Academy are an opportunity to deepen knowledge in the area of managing human capital within an HR-as-a-business-partner model, which is being implemented at PGE Group in accordance with its HCM Strategy. During an annual cycle of workshops, which began in October 2015, a group of more than 80 employees from PGE Group's human capital management area worked on developing their competences and acquiring new skills.

Management competence development programmes at PGE S.A., PGE Systemy S.A. and PGE Obrót S.A.

PGE S.A. continued its Director Development Programme, commenced in 2014, with the main objective being reinforcement of management competences and higher engagement of teams by shaping leaders. In 2015, the programme focused on subjects dealing with effective leadership, maximising team potential, professional communications, change management and business performance. The programme consisted of workshops and inspiring lectures.

Management development programmes were launched at PGE Systemy S.A. in 2015. An overriding objective here was to raise the quality of leadership and management skills as well as to develop a culture of engagement and leadership. These activities are aimed at preparing the management team for the role of the "first HR person". Two programmes were developed for this purpose: Leadership Academy, dedicated to Department Directors and Office Heads, and Management Development Academy, addressed to mid-level management. Their implementation is to take place from 2015 to 2018. In 2015, all of the company's managers were trained in using a management by objectives system and utilising their knowledge within the framework of the company's internal regulations.

The Effective Manager Programme is a series of workshops for management employees of all levels at PGE Obrót S.A. Its main goal is to reinforce management skills based on a set of management competences defined by the company: leadership and the building of an effective organisation. A subsequent and equally important objective of the workshops is reinforcement of communication and cooperation, which are of key importance in activities undertaken to achieve business objectives.

"Business Process Manager" post-graduate studies

In cooperation with the Vistula Finance and Business Academy, PGE Group has designed post-graduate studies in business processes. The aim of the studies is to prepare PGE Group employees for effective implementation of process-based management, with particular consideration given to the optimisation and adaption of processes taking place in the business environment. 30 employees of PGE Group companies participated in the studies in 2015.

"Energy – Basic Knowledge" training sessions

Several editions of the vocational training programme "Energy – Basic Knowledge" were carried out in 2015. It is intended for persons without energy-related education and those wanting to supplement or expand their knowledge of energy. The training sessions were attended by more than 100 employees of PGE S.A., PGE Systemy S.A. and PGE EJ 1 sp. z o.o.

Engaging employees as workshop and meeting leaders

In constructing and designing the various training forms, the Company is utilising an approach whereby employees become internal trainers or co-leaders of activities – therefore also expanding their own competences and sharing their knowledge. Monthly Lunch&Learn meetings are an example of such activities, with the subject being discussed involving various areas of the Group's operations. Another example is workshops that are aimed at supporting implementation of a CRM & Billing software. The cycle of workshops supporting this implementation was intended to aid in creating an open, team-based approach to cooperation, developing of a common business vision for the project and definition of the roles and responsibilities for an effective management model for the entire undertaking consisting of a large-scale implementation of the system. The workshops were attended by over 45 people from several PGE Group companies. An interactive workshop dealing with building strategic awareness for PGE S.A. directors not only created an opportunity to increase engagement in executing strategy but also to exchange information relating to topics of strategic importance to the Group.

Global Management Challenge

Global Management Challenge (GMC) is the world's largest competition based on business simulation. By participating in the contest, teams get an opportunity to manage a company in an international setting and additionally improve their competences in strategic planning, analytical thinking and teamwork. In the contest's 15th edition, in a national final, which took place on March 30, 2015, a team of PGE S.A. employees called "PGE Future" placed second. This success resulted in PGE Group sending five teams to the 16th edition, which has commenced on November 12, 2015.

Table: Average days of training per year per employee by gender, and by employee category (headcount).

	Exatel S.A.	PGE Dystrybucja S.A.	PGE Dom Maklerski S.A.	PGE EJ 1 sp. z o.o.	PGE EO S.A.
Total number of days of training per year	446.00	19,134.00	81.00	654.00	617.00
Average number of days of training in the reported period per employee	**1.30**	**1.84**	**2.89**	**4.81**	**1.17**
Average number of days of training per employee by:					
Women	0.99	1.96	2.85	3.05	1.73
Men	0.91	1.84	44.00	6.56	1.76
Senior management (Management Board and Directors)	1.44	4.29	20.00	8.02	3.05
Managerial posts	2.45	3.13	-	-	2.38
Other employees	0.72	1.72	61.00	4.22	1.89

	PGE GiEK S.A.	PGE Obrót S.A.	PGE S.A.	PGE Systemy S.A.
Total number of days of training per year	12,035.00	2,395.00	502.00	1.825.00
Average number of days of training in the reported period per employee	**0.71**	**1.70**	**1.06**	**3.93**
Average number of days of training per employee by:				
Women	4.40	no data	0.95	5.75
Men	1.23	no data	1.02	5.90
Senior management (Management Board and Directors)	37.73	no data	no data	12.40
Managerial posts	4.77	no data	no data	5.02
Other employees	1.19	no data	no data	3.30

Employee evaluation system

In order to support and motivate employees in fulfilling their tasks, some PGE Group companies operate a management by objectives system. This solution is being applied to PGE S.A. and PGE Obrót S.A. employees as well as some of the management staff at PGE GiEK S.A. In 2016, the company will continue activities aiming to include an ever larger portion of PGE Group employees in this system.

Table: Percentage of employees subject to regular assessment*.

	PGE Dystrybucja S.A.	PGE EJ 1 sp. z o.o.	PGE EO S.A.	PGE GiEK S.A.	PGE Obrót	PGE S.A.	PGE Systemy S.A.
Percentage of persons in companies	1.86%	100%	38.71%	0.47%	100%	100%	100%

* in Exatel S.A. and PGE Dom Maklerski S.A. employees are not subject to assessment scheme.

8.2.6 Voluntary Leave Program

One method of terminating contracts with employees is Voluntary Leave Program (VLP). The essence of the VLP is to encourage employees to voluntarily terminate employment relationship with the company. Such solution is beneficial for both the employee and the employer, because on the one hand it protects the employee against the negative consequences of job loss and on the other hand protects the company against strong social tensions, which are characteristic of the redundancies. Furthermore, VLP usually provides above-standard severance pay, which is an additional incentive for the employee. In 2015 in PGE Group VLP were implemented in particular business lines and the employees used VLP in: PGE GiEK S.A. – 802 employees, PGE Dystrybucja S.A. – 200 employees, PGE Obrót S.A. – 114 employees, PGE EO S.A.,– 49 employees, PGE S.A. – 2 employees.

8.2.7 Social dialogue and freedom of association

There are 112 trade union organisations at PGE Group. In 2015, PGE Group paid much attention to its social partners, including through organising information meetings to discuss PGE Group's situation in the context of the electricity sector in Poland. Their objective was to provide trade union activists with information regarding the business strategy of PGE Group and specific business lines. Discussed during those meetings were forecasts and financial results as well as the situation on the energy market in Poland and Europe, also in the context of the company's condition. These meetings will continue to be hosted once a quarter at all business lines.

Scale, number and dispersion make it a necessity to maintain an active social dialogue policy on all management levels. Dialogue is conducted at central level (common trade union teams from all business lines), at business line level (branch-specific trade union teams) and at employer level, i.e. at each branch. 2015 was in this regard a particularly active year because all outstanding collective disputed were either completed or suspended. Councils / Commissions for Social Dialogue operate within the business lines, that form a negotiations and discussion forum for cases relating to more than one employer. In October 2015, the Steering Committee adopted a document – Corporate Regulations for Social Relations at PGE Group, which is a part of the HCM strategy. At PGE GiEK S.A., works began on a "Pact for increasing productivity and work place safety." The pact will be negotiated in 2016.

Table: Number of employees covered by a collective bargaining agreement (headcount)*.

	PGE Dystrybucja S.A.	PGE EO S.A.	PGE GiEK S.A.	PGE Obrót S.A.	PGE S.A.**
Number of employees covered by a collective bargaining agreement	10,017	327	16,939	1,410	0
Percentage of employees covered by a collective bargaining agreement	96%	62%	100%	100%	0%

* In Exatel S.A., PGE Dom Maklerski S.A., PGE EJ 1 sp. z o.o. and PGE Systemy S.A. employees are not covered by collective bargaining agreements.
** in PGE S.A. collective agreement was terminated, however the contracts of individual employees apply its provisions.

An important event in 2015 was the 1st PGE Group Employer Conference. This type of initiative is intended to create a forum for discussion and exchange of experiences amongst the employers who make up PGE Group. The subjects of discussion cover all issues connected with effectiveness and its improvement as well as topics relating to human capital management. The Employer Conference also marks the commencement of a new, more participative formula for cooperation among the company's different business areas and also between the business side and the HCM area.

Employee safety is always a priority

As a responsible employer, PGE Group strives to ensure that employees have safe working conditions. According to regulations, in order to protect the health and lives of employees, PGE Group companies conduct training on workplace health and safety, provide legally-required medical examinations, hire employees with the requisite qualifications and provide them with the appropriate personal protective equipment. Our constant goal is also the promotion of a safe-work culture among our employees. The initiatives being carried out are largely based on preventive activities as well as exchanging knowledge and experiences. Each Group company has its own workplace health and safety policy. This mainly results from the specific nature of the different business lines. Due to the nature of the work, employees of PGE GiEK S.A. and PGE Dystrybucja S.A. are exposed to the greatest risk. The key initiatives in this area are focused on them. In 2015, PGE Dystrybucja S.A. continued its programme "Improving the workplace safety standards and cultures," the main objective of which being to increase employee awareness of injury prevention methods at work.

Table: Type of injury and rates of injury and absenteeism, and total number of work-related accidents, by company and by gender*.

	Exatel S.A.	PGE Dystrybucja S.A.	PGE Dom Maklerski S.A.	PGE EJ 1 sp. z o.o.	PGE EO S.A.
Total number of accidents at work **:	**1**	**59**	**0**	**1**	**2**
Women	0	4	0	0	1
Men	1	55	0	1	1
Light accidents	**1**	**59**	**0**	**1**	**2**
Women	0	4	0	0	1
Men	1	55	0	1	1
Accident frequency rate	**2.9**	**5.7**	**0**	**7.4**	**3.8**
Accident severity rate	**0**	**65.3**	**0**	**121**	**182.5**
Absence rate	0	3,854	0	121	365
Women	0	187	0	0	275
Men	0	3,667	0	121	90

	PGE GiEK S.A.	PGE Obrót S.A.	PGE S.A.	PGE Systemy S.A.	
Total number of accidents at work **:	**36**	**5**	**1**	**1**	
Women	1	5	1	0	
Men	35	0	0	1	
Light accidents	**36**	**5**	**1**	**1**	
Women	1	5	1	0	
Men	35	0	0	1	
Accident frequency rate	**2.1**	**3.6**	**2.1**	**2.2**	
Accident severity rate	**92.2**	**32.4**	**151**	**49**	
Absence rate	**3,318**	**162**	**151**	**49**	
Women	0	162	151	0	-
Men	3,318	0	0	49	-

* Rate refers to 9 key companies of the PGE Group.

** In 2015 there were no fatalities, multiple or severe accidents.

8.3 Natural environment

8.3.1 Management policy and systems

PGE Group is undertaking a variety of activities to responsibly and consciously strike a balance between economic development and care for the natural environment. In 2014, PGE Group adopted the Environmental Protection Policy, consistent for all PGE Group companies, which defines the directions for managing its impact on the surroundings.
In its projects, PGE Group takes into consideration aspects such as: minimising its negative impact on the environment and protection of natural ecosystems. The company also invests in developing renewable energy sources and modernises its conventional installations to make them as eco-friendly as possible.

In its planning process, PGE Group takes into consideration its impact on the surroundings and minimises the scale of its negative footprint. Plans and new investments are consulted with local communities, municipal authorities and NGOs on a case-by-case basis.

8.3.2 Management of environmental impact across segments

8.3.2.1 Conventional Generation

PGE GiEK S.A. applies PGE Group's Environmental Protection Policy and Integrated Management System Model, which covers among other things an Environment Management System in accordance with PN-EN ISO 14001. The environment management system is deployed at all of the company's locations, including its headquarters. The main objective of the Environment Management System is contributing to protecting the environment and preventing pollution in a manner that takes into consideration both social and economic needs.

The concept of a unified Environment Management System is intended to harmonise documentation and improve effectiveness of managing the environmental protection area. This includes, among other things, central management of environmental aspects across all of the company's locations. This documentation is subject to updating during annual reviews. Furthermore, the EMAS PI:2999 system was positively evaluated at the PGE GiEK S.A. Branch ZEDO.

In the conventional energy area, PGE Group strives to limit its impact on the environment, which includes emissions and noise. It minimises this impact thanks to waste and sewage management as well as rational and effective use of water.

PGE Group is undertaking several initiatives aimed at modernising the existing power blocks and constructing new production capacities that meet the highest environmental standards. Construction of two energy blocks for bituminous coal at PGE GiEK S.A. Branch Elektrownia Opole began in February 2014. With the construction of effective, high-efficiency conventional units based on domestic resources, the project will contribute to increasing the energy security of our country and will have a positive impact on the development of the Opole region. Aside from economic benefits, the investment will help to decrease CO2 emissions by approximately 25% in comparison to the emission levels at the existing bituminous coal blocks. Entry into service of the first block is planned for the second half of 2018 and the second block for the first half of 2019.

Another project is the construction of a bituminous coal power block that began in December 2014 in Turów. The new block will replace blocks that were decommissioned, and the technical parameters of the new installation will meet the environmental protection requirements resulting from national regulations and EU directives. The process of producing electricity and heat will be even more eco-friendly – the production technologies used will enable to generate lower CO2 emissions. Entry into services of the block will take place in the first half of 2020.

PGE Group will spend approximately PLN 16 billion on modernising existing production assets in 2014-2020. These funds will be used to increase the installed capacity and improve efficiency as well as to adapt to requirements relating to sulphur oxide, nitrogen oxide and dust emissions. Because of the on-going modernisation works, the company managed to reduce the energy intensity of production processes for both electricity and heat.

One of the investments intended to reduce sulphur dioxide emissions was the construction, commenced in July 2014, of an installation for wet flue gas desulphurisation at Elektrownia Turów. The technology used will help to reduce SO_2 emissions to a level below 200 mg/Nm3 as well as to reduce the emission of dusts into the atmosphere. The installation entered into service in December 2015.

In order to limit the emission of CO_2 and other substances into the air, PGE Group applies the best currently available technical solutions and specialist equipment at its power and combined heat and power plants.

Table: NOx, SOx, and other significant air emissions by PGE GIEK S.A.

	Weight of significant air emissions [tons]
NOx	57,008.00
SOx	99,409.00
Particulate matter	2,921.00
	Emission for net generation for all production capacities [kg/MWh]:
NOx	1.06
SOx	1.85
Particulate matter	0.05

Energy from biomass

Generation of green energy from renewable sources has a positive impact on the environment by contributing to the reduction of CO_2 and SO_2, it allows to reduce combustion waste (ash, slag, etc.). It also stimulates local biomass producers (including farmers) and enables to reuse fallow land and dry residues from forest production. The forerunners in that field were Opole power plant and ZEDO which started to generate power from biomass in the years 2004-2005. In 2014, the existing generation installation at Kielce CHP was expanded by an extraction-condensing turboset fired with biomass only. Currently, biomass is not being used only at Bydgoszcz CHPs and Bełchatów power plant.

Waste management

The combustion of hard coal, lignite and biomass for energy generation purposes is inseparably linked with combustion by-products created directly in the combustion process (e.g. fly ashes, slag) or in off gas treatment processes (gypsum obtained in technological processes of wet fume desulfurization).

PGE Group improves and increases the scope of combustion by-products use, conducts research and searches for new applications of combustion by-products while respecting the principles of sustainable growth. Long-term studies on the use of such substances have confirmed that they comply with the environmental protection requirements and do not constitute a threat to human life or health. This was confirmed in particular by studies on the physical and chemical, toxicological and ecotoxicological properties carried out in connection with substance registration requirements set out in the REACH regulation.

Due to its properties, waste obtained from hard coal combustion is widely used in the construction and cement industries. All waste produced in installations belonging to PGE GiEK S.A. is reused in recovery operations. As ashes obtained from lignite combustion have very volatile properties, their economic applications are not significant, and they are mainly deposited or used for filling lands that have been adversely transformed. Synthetic gypsum is widely used in the construction and cement industry. Its management is based on long-term cooperation and contracts with regular buyers.

Total weight of waste at PGE GiEK S.A. [t]

Amount of hazardous waste by the utilization method:	**1,203.69**
Recovery (including energy recovery)	804.37
Recycling	269.31
Mass burn	10.10
Other	524.96
Neutralization	**241.52**
Storage in landfills	61.46
Other	180.06
On-site storage and warehousing	157.80
Amount of waste other than hazardous by the utilization method:	**7,784,916.41**
Recovery (including energy recovery)	**2,342,649.75**
Recycling	46.07
Mass burn	0.00
Other	2,342,603.68
Neutralization	**5,365,423.69**
Storage in landfills	5,339,595.29
Other	25,828.40
Storage	**76,842.97**

Protection of waters

PGE GiEK S.A. holds necessary administrative approvals which specify the terms and conditions for operations of waste-water management. Surface water and underground water from own intakes or external suppliers is used for technological purposes. Measurements of the quantity and quality of water used is monitored on an on-going basis. The limit values for water intake, set out in administrative approvals, were not exceeded. Waste water generated as a result of power plant and combined heat and power plant operations is subjected to treatment processes, including multi-stage purification; then water is discharged to surface waters or to sewerage systems on a contractual basis.

Table: Total water discharge by quality and destination [m3]

	PGE GiEK S.A.	PGE EO S.A.	PGE Dystrybucja S.A.
Actual total wastewater:	**16,214,313.20**	**68,286.86**	**974.00**
Total wastewater by:			
Rivers	16,014,247.13	50,366.00	234.00
Lakes	0.00	9,644.86	0.00
Municipal water supplies	200,066.07	8,276.00	0.00
Other*			740.00
Main drainage waters /mine waters	**246,778,569.00**	**n/a**	**n/a**
Cooling waters from open cooling system which do not require purification	**1,202,150,300.76**	**n/a**	**n/a**

* PGE Dystrybucja S.A. conducts discharges on the ground in accordance with its water permit

Rehabilitation and protection of biodiversity

Open-pit mining of lignite leads to land surface transformation on vast areas, and consequently to changes in the natural environment. PGE GiEK S.A. is fully aware that it benefits significantly from the natural environment and therefore measures aiming at rehabilitating post-mining sites are implemented with greatest care. The rehabilitation operations in the mines are planned already at the stage of removing the ground layer, while the technology is selected with a view to optimize the rehabilitation work.

The rehabilitation work carried out so far have contributed to the creation of new forest and water complexes where numerous species of animals and plants found their natural habitat. Land rehabilitation improves the quality of water supplied to surface water reservoirs as result of increased levels of retention, regulated runoff of storm water, limitation of surface runoff and escarpment erosion. Aeration processes in the overburden layers are also limited resulting in lower quantities of sulphate ions and Ph level stabilization.

We are gradually consistently rehabilitating all post-mining land of the Turów Lignite Mine. So far we we have planted 20 million trees and shrubs of more than 100 species. A network of watercourses was created exceeding 200 km in length and 150 sedimentation and retention reservoirs. Another example is the Kamieńsk Mountain, which has been heaped up from 1.4 billion m3 of overburden from the opencast in Bełchatów Lignite Mine. After completion of rehabilitation work and afforestation, this man-made hill today is an attractive all-year-round active leisure site for the local community. The reservoirs on the Widawka River – Wawrzkowizna and Słok lakes – are water sources for the Lignite Mine in Bełchatów, and at the same time an ideal place for sailors and anglers. After the end of production at the Szczerców Field and Bełchatów Field, two new lakes will be formed.

The ecosystems created in the course of reclamation are environments that are constantly evolving, subject to changes and transformations as time passes by, and their biodiversity is constantly increasing. Pioneering plants introduced during reclamation work, because of their impact, pave the way for other, more demanding species.

Continuous improvement of eco-friendly activities at Conventional Generation segment as well as observance of regulations and standard pertaining to natural environment protection are reflected in certified management systems – including Integrated Environment Management Systems based on the standard PN-EN ISO 14001.

The company's branches also feature laboratories that are certified by the Polish Accreditation Centre as regards quality management systems and, among other things, research methodologies for coal, slag and ash in accordance with the standard PN-EN ISO/IEC 17025:2005. These laboratories conduct research into coal, slag and ash for purposes such as emission trading.

Monitoring of environmental impact

Analysis of natural surroundings and environment is an integral part of PGE Group's investments, and its results enable us to plan for proper reclamation of land after the investment is completed.

The Bełchatów plant has been monitoring the forest in its area of activity for over a dozen years. In the course of research during power block modernisations, it was concluded that the production activities have a marginal impact on the biodiversity of lands surrounding the plant and that the planned installations will further limit its impact on the existing fauna and flora. Researchers working at the Turów plant came to similar conclusions.

Noise emission measurements are a part of monitoring of the company's impact on its surroundings. They include scheduled measurements every two years and ad hoc upon request or complaint by external entities. If the permissible levels are exceeded, corrective action is immediately undertaken. Scheduled emission measurements were carried out at most Conventional Generation locations in 2014. Ad hoc visits showed excessive noise emissions at conveyor system routes and engine stations at the Bełchatów bituminous coal mine as well as excessive noise in two towns in connection with the operations of the Turów bituminous coal mine. Comprehensive solutions will enable to eliminate the excesses at KWB Bełchatów in 2016 and at KWB Turów in 2017. Issues relating to excessive noise are also resolved by purchasing properties that are most exposed.

8.3.2.2 Renewable Energy

PGE Group generates approximately 10% of energy from domestic renewable sources and intends to develop this area. In 2015, PGE Group consolidated its renewables production assets in one business line managed by PGE EO S.A. This made it possible to generate synergies from common management of the entire area, with optimal use of resources and, consequently, reduction in management costs.

PGE Group currently includes 33 hydropower plants located at the following rivers: Odra, San, Bóbr, Sola, Nysa Łużycka and Kwisa, among others. These include 29 run-of-river plants with total capacity of 97 MW and four pumped-storage facilities (including two with natural flow) with total capacity of 1,508 MW.

The energy produced at EW Żarnowiec and EW Porąbka-Żar – the largest facilities of this type in Poland – is not renewable, but due to accumulation of energy in upper reservoirs in daily periods with lower energy demand and its use in periods with higher peak-demand, these plants increase the elasticity of the national power system and, therefore, the effectiveness of the energy production system. Higher effectiveness means smaller burden on the environment.

PGE EO S.A. participates in water management development programmes. It cooperates with the Ministry of the Environment, National and Regional Water Management Authorities, the National Fund for Environmental Protection and Water Management and other institutions connected with water management, environmental protection and renewables production. In accordance with environmental protection requirements, both newly-built facilities (e.g. EW Oława at the

Oder river) and existing ones will be fitted with special gaps allowing fish migration. Biodegradable and eco-friendly oils and greases are widely used.

PGE Group is currently the wind energy market leader. It has 14 wind energy facilities with total capacity of 529 MW, which constituted over 10% of all wind installations operating in Poland. The wind farms are located in the following provinces: Eastern Pomerania, Pomerania, Masovia, Łódź, Sub-Carpathian. In 2015, PGE Group launched four new wind farms: Resko II with capacity of 76 MW, Kisielice II with 12 MW, Karwice with 40 MW and Lotnisko with 90 MW.

By intensively developing renewable energy sources, PGE Group is consistently striving to diversify its production sources. In 2015, PGE EO S.A. launched the Group's first photovoltaic installation with 0.6 MW capacity, located in southern Poland, on the Żar mountain mountain in Międzybrodzie Żywieckie. The photovoltaic facility is located 740 metres above sea level, making it the highest such installation in Poland. The plant at Żar mountain features 2,400 photovoltaic panels situated in 16 rows – each with 250 W capacity. The total panel area is 3,500 sq. metres.

PGE Group is also continuing to develop the first offshore wind farm. In 2015, a tender was launched to select a contractor for environmental surveys in the Baltic Sea.

Table: Total weight of waste at PGE EO S.A. [t]

Amount of hazardous waste by the utilization method:	**59.6**
On-site storage and warehousing	14.7
Other	44.9
Amount of waste other than hazardous by the utilization method:	**344.2**
Storage in landfills	33.6
On-site storage and warehousing	248.6
Other	62.0

8.3.2.3 Distribution

Distribution segment spares no effort at making sure that maintenance and operation of power equipment have as little impact on the natural environment as possible. To minimise the impact of overhead power lines on animals pro-environment solutions are taken into consideration when planning new investments and modernising the existing ones.

Low- and medium-voltage overhead power lines, both new ones and those being modernised, are fully (or partially) insulated. In accordance with the existing legal regulations, the company submits all installations that emit electric and magnetic fields to the relevant public administration authorities (this includes HV, MV and LV power stations and base-telecommunications stations).

Distribution segment successively adapts its existing power stations to the requirements concerning protection of the natural environment against uncontrolled oil leaks. Airtight oil containers (oil pans) are built under the 110kV transformers at power stations.

PGE Dystrybucja S.A. undertakes many activities connected with bird protection: lines being built are insulated, assembling marker balls installed on power lines, and special structures preventing landing and nesting on the 110kV line towers or covers on 15/0.4kV transformer stations. Work on nests being repaired or moved above electricity poles to platforms can be conducted from October 16 to February 28, according to an Ordinance of the Environment Minister of September 28, 2004 concerning protected species of animals living in the wild. This is a short period with very difficult weather conditions – snowfall, strong winds and, most importantly, low temperatures. Throughout the winter, energy workers move stork nests above electricity poles, using special platforms. More than 22.6 thousand platforms for white storks have been installed throughout the company's operating area. In November 2014, PGE Dystrybucja S.A. began cooperating with the Centre for Rehabilitation of Protected Animals in Przemyśl. The Centre had in its care about 70 white storks that stayed in Poland due to health reasons. Additionally, PGE's Foundation "Energy from the Heart" financed rehabilitation and around-the-clock veterinary care for the storks.

In cooperation with local State Forest Directorates, our energy personnel together with school-age kids planted more than 80,000 new trees in 2015 as part of the campaign "Forests Full of Energy". This is an ecological campaign devised by PGE Dystrybucja S.A. aimed at developing eco-friendly attitudes among children and youth. It is primarily addressed to local communities. Participants include school children, who as part of school learning also conduct their own ecological projects. This way, together with energy experts, they contribute to establishing sustainable growth of the natural environment, including through seeding "forests full of energy," and participating in Earth Day. In 2015 stand of trees was enriched in following forest districts: Gidle, Radomsko, Smardzewice, Kolumna, Wieluń, Brzeziny, Radzyń Podlaski, Kraśnik, Józefów and Kolbuszowa. The company fully follows PGE Group's Environmental Protection Policy.

Table: Total weight of waste by type and disposal method in PGE Dystrybucja S.A. [t]

Amount of hazardous waste by the utilization method:	**3,603.87**
Passed on to authorised waste management utilities	3,603.87
Amount of waste other than hazardous by the utilization method:	**8,614.53**
Passed on to authorised waste management utilities	8.614.53

8.4 Market

PGE Group continuously fosters security and work standards in order to meet the changing expectations of clients. PGE Group's diversified offering is adaptable to the individual needs of end customers.

In business, we count on innovativeness and the development of new technological solutions. As a responsible seller, PGE Group wants to understand the needs of its clients at each stage of the selling process and to constantly improve the quality of service. Providing clients with access to expert know-how, PGE Group is educating households about ways to save energy.

PGE Group provides services to individual and institutional clients. The electricity sales structure is created based on the unbundling principle, which provides for the separation of distribution activities and electricity sales.

Responsibility for the distribution of electricity to end customers lies with eight branches of PGE Dystrybucja S.A., located in Białystok, Lublin, Łódź (Branch Łódź-Miasto and Branch Łódź-Teren), Rzeszów, Skarżyko-Kamienna, Zamość and Warsaw. The sale of electricity nationwide is being handled by PGE Obrót S.A.

Aside from electricity, the production assets of Conventional Generation segment also generate heat, which is bought by business customers – mainly enterprises dealing in heat distribution on local energy markets.

8.4.1 Reliable energy supplier

Distribution of electricity consists of transporting it through a grid and power equipment with high, medium and low voltage to end customers. This activity is performed by Distribution System Operators (OSD).

PGE Group is constantly working on ensuring supply security, including through operational and investment activities in the energy distribution area. Of key importance to the organisation is reducing the System Average Interruption Duration Index (SAIDI). By 2020, it intends to reduce SAIDI by 50%, i.e. to 265 minutes, in comparison with 2013.

Introducing increasingly effective mechanisms that reduce electricity supply interruptions is one of the main objectives of Distribution segment since the moment the company was founded. A variety of initiatives reducing supply interruptions are meant to help achieve this objective, including:

- "SATURN" – preparation of plans and optimisation of investment processes
- Automation within the medium-voltage grid
- Development of the 110 kV grid
- Medium-voltage connections between the company's branches
- "Herkules" – reduction of expected SAIDI
- Programme for the Integrated Management of Electric Fitters' Work

With the above initiatives, the company is attempting to achieve the following:

- Increase operational rationalisation of the development plan and implementation effectives for the SAIDI-reducing investments,
- Improve the effectiveness of locating and removing failures, including operational procedures for emergency services,
- Diagnose and prepare guidelines for the development of standards dealing with organizing work of the production service teams, modernization of the most failure-prone medium-voltage grid, including grid automation and cuttings resulting from grid status analysis, improvement of organisation and execution of the planned modernisation works.

8.4.2 Customer relations

8.4.2.1 Raising the standards of service

PGE Group is undertaking initiatives aimed at ensuring high service standards. It spares no effort at providing information about its offering in a transparent and comprehensive manner. To this end, Supply segment has created programmes for specific client groups. The company's priority is to develop modern solutions enabling communication between the company and its clients.

Quality Ambassador

Research on client expectations carried out by PGE Group shows that they want PGE customer service offices to have a person who will help them and provide necessary information immediately after entering the office. That is why this idea implemented by PGE Obrót S.A. will be continued. It features a Quality Ambassador, whose job is to maximally shorten the time that the client waits for service, to provide basic information and assist in completing documents. This idea has been implemented at the 12 most frequently visited customer service locations.

Code of Best Practice

On April 16, 2014, PGE Group signed the Code of Best Practice. The document was also signed by the other major electricity sellers in Poland: TAURON, ENEA, ENERGA and RWE Polska. As a participant in the programme, PGE Obrót S.A. has received the certificate "Energy Trading Association's Best Practices for Electricity Sellers." The certificate of a fair electricity provider is issued on the basis of audits and is a guarantee of the high quality of service.

PGE Contact Center and PGE eBOK

One of PGE Group's priorities is development of modern solutions facilitating communication between the company and its clients. This is why in 2014, as part of standardisation and improvement in the quality of service, PGE Obrót S.A. launched single-line telephone customer service – PGE Contact Center.

A subsequent step in developing modern solutions was to implement an electronic customer service point (eBOK). This is a comprehensive system available 24 hours a day that makes it possible for clients to deal with a variety of issues at their convenience. With this system, they can, for example, verify status of their electricity settlements, check account balance and pay invoices. The platform also provides them with access to a variety of documents.

PGE Group also looks towards social media users. The eBOK profile can be linked to Facebook and Google+ accounts. Since December 2015, a mobile version of the application, for Android and iOS, is also available.

PGE eFaktura (eInvoice)

Clients who appreciate convenience and care about the environment can use the PGE eFaktura electronic invoice option, with which they abandon paper invoices delivered by post. With this service, electricity invoices are delivered by email. The billion-and-a-half invoices produced in Poland each year are equal to 255 000 trees. This means that nearly 700 trees are cut down every day just for paper invoices!

Happy or Not

High level of service is one of PGE Group's most important objectives. In order to maintain it, the Group constantly undergoes client evaluations. The Group uses several systems for assessment by clients. One of the methods is a mobile tool called Happy or Not. It lets customers provide feedback right after leaving the customer service desk. In May 2015, the first stage of survey was completed – more than 37 000 opinions from 56 sales locations were collected. As statistics show, over 93% of the respondents are happy with the quality of PGE Group's services.

Services for the disabled

Providing services for disabled persons is a customer service priority at PGE Obrót S.A. The Quality Manual, which contains customer service standards, includes a chapter dedicated to the needs of persons requiring special care and a unique approach in handling issues. PGE Obrót S.A. places emphasis on making sure that the service these people receive is provided in a respectful and dignified manner.

Holohostess

"Holohostess" is a new customer service feature. This is a virtual person who at certain customer service locations answers questions about the company and its products, in Polish and English. The holographic hostess holds a screen displaying personalised content that can be freely changed. Messages can also be handled with hand motions, without touching the screen. A pilot implementation in Łódź and Rzeszów was underway in 2015.

Voice of the client

This is one of the latest ideas at PGE Obrót S.A. to generate client feedback. It encourages clients to send their comments to opinia@gkpge.pl. It is a clear message from the company that client feedback is important to the people managing customer service processes and quality.

The company also notes that this dedicated email address is a simple and effective way of getting in touch. The comments are sent directly to the people managing customer service processes and quality. Because of this, the company can quickly respond to any signals. This is a sort of dialogue that the company is constantly leading with its customers, learning of their opinions and expectations.

Serwis@gkpge.pl

This special email address is another communication channel that facilitates client contact with PGE Group. Messages sent to serwis@gkpge.pl reach employees dealing with customer service locations. This address can be used for offers, extending existing or executing new contracts, as well as issues relating to customer service and other formalities that clients may want to address at PGE Obrót S.A.

Customer-Friendly Company

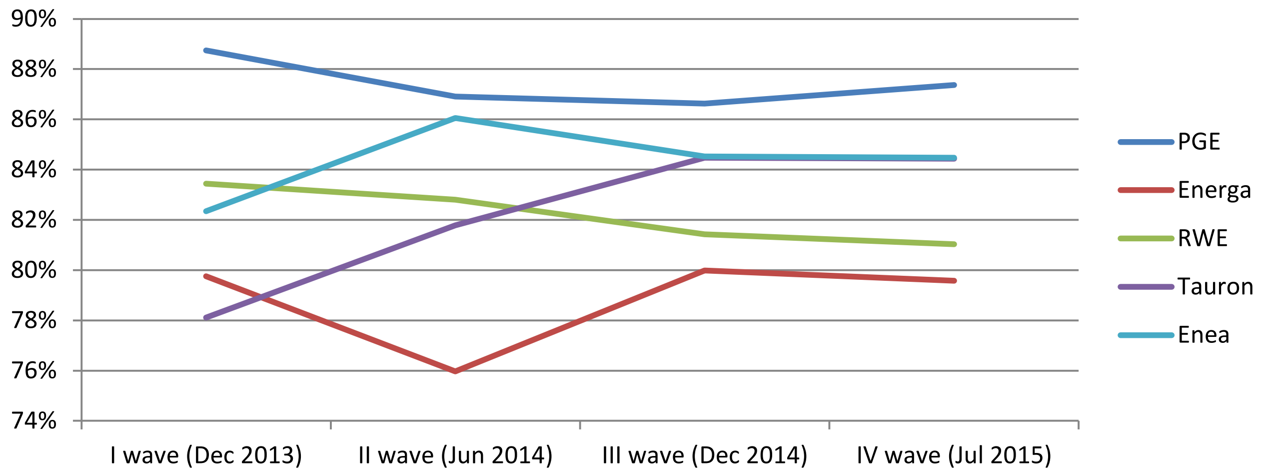
PGE Obrót was named a Customer-Friendly Company for the third time. This is a certificate confirming customer service quality. The name itself reflects our objective in company-client relations: to be a friendly, client-centric company, ready to address client needs and expectations. This year, the company achieved its best score yet – an overall score of more than 90%.

8.4.2.2 Customer satisfaction surveys

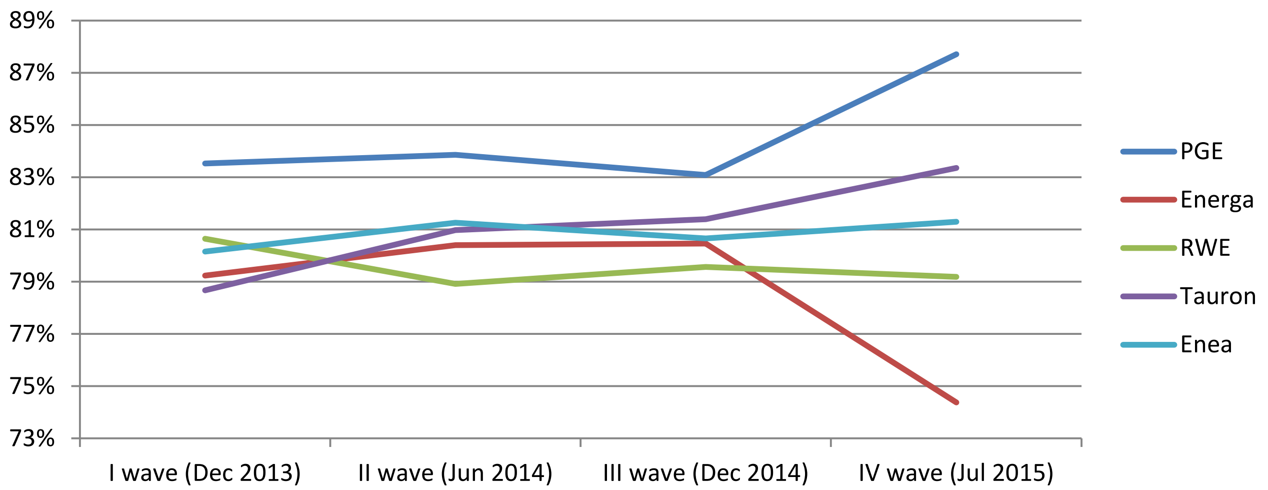
Raising customer service quality is one of the pillars of PGE Group's business strategy. In order to better understand customer needs, cyclical satisfaction surveys are carried out via various communication channels. This helps in continuously improving service quality and building positive relations with clients.

In these cyclical surveys, which are carried out via independent research institutes, PGE Group asks clients about their level of satisfaction with service. The annual surveys show that PGE Group enjoys the highest level of customer satisfaction among the major participants of the electricity market in Poland.

Graph: Customer Satisfaction Index - Tariff G.



Graph: Customer Satisfaction Index - Tariff C.



Source: "Client satisfaction survey after contact with customer service point and Contact Center" 2015, IQS sp. z o.o.

In both service channels, PGE Obrót S.A. is a leader in terms of the CES index, meaning that its clients can resolve issues quickly and effectively (Customer Effort Score) and that the company has the highest score in First Contact Resolution (FCR) in " Client satisfaction survey after contact with customer service point and Contact Center" 2015, IQS Sp. z o.o. amongst competitors: 70-80%.

These very good results in customer service are possible because of the consultants' knowledge, identification of needs, competences and decisiveness as well as an ability to create a friendly atmosphere. C-tariff customers particularly value the consultants' involvement, service effectiveness and identification of client needs.

At the Contact Center, we are receiving the highest notes for courtesy and personal culture of the consultants, simple and understandable language and a friendly atmosphere. The client verification process is also highly assessed. In the C tariff, PGE Group is scoring high on service effectiveness, consultant involvement and identification of needs.

PGE Group tries to develop good business relations with institutional clients. Key customers and business clients particularly appreciate working with PGE Obrót S.A. Nearly 90% of key clients and over 90% of business clients are satisfied. Important factors having impact on selecting PGE Obrót S.A. are non-price-related benefits such as trust and loyalty, resulting from working with the company, flexibility of commercial terms and good relations with service managers.(„Key client satisfaction survey", „Business clients satisfaction survey" 2015, Uglik Research&Consulting and IQS Sp. z o.o.).

Cyclical monitoring of client satisfaction for distribution services was launched in 2015. This covers the process of connecting to the power grid, contact with the 991 number and electrical fitter visits („Connection process satisfaction survey"; „991 contact line satisfaction survey"; „Electrical fitter visit satisfaction survey" 2015, 4P Research Mix). The surveys show that over 90% of respondents are satisfied with the quality of service provided by the fitters.

PGE Group is aware of how complex and time-consuming the process of connecting to the grid is, but thanks to dialogue with clients, critical moments are diagnosed, and most importantly the Group delivers on the deadlines provided in contracts.

Satisfaction of clients using the 991 telephone number is assessed twice a year so as to make sure that contact in matters that are important to clients is effective and that the quality of information is satisfactory. In 2015, more than 85% of clients using the 991 number were satisfied with contact quality and 90% positively assessed the quality of information. Having clients in mind, work is underway on systemic solutions that will in the future make it possible to reduce the call time even further.

8.4.2.3 Offers for customers

Eco Energy – an innovative approach to the use of RES

Out of concern for the needs of institutional customers, a limited PGE Eco Energy offering has been created. PGE Obrót S.A. addressed it to everyone who cares for the natural environment. Electricity provided under this offer comes in 100% from renewable energy sources and is generated in PGE's hydroelectric and wind power plants. Customers who choose to buy the Eco Energy receive the guarantee of a fixed price until the end of 2016. Moreover, a customer choosing this service receives a special certificate confirming his care for the natural environment.

Care of customers in a difficult financial situation

PGE Obrót S.A. also supports vulnerable customers. To those who are not able to pay their bills on time, we offer the payment to be split into instalments. Proceedings in such cases are governed by the Receivables Management Procedure. It is also possible to install a prepayment service meter, which operates similarly to prepaid mobile phones. Such a meter enables a customer to purchase certain amount of energy for an amount of credit of his choosing.

Energy of the future

This is the latest offer, prepared in cooperation with Bank Ochrony Środowiska, with prosumers in mind. Clients who want to produce electricity for their own purposes can install photovoltaic panels on very favourable financial terms. This way, PGE Obrót S.A. is meeting the expectations of property owners, who consciously select eco-friendly solutions that lower the cost of electricity.

Within this offer, clients can use loans and financing. Furthermore, PGE Group provides technical designs, delivery and assembly of the photovoltaic system as well as the support of professionals throughout the process, including post-service.

Recipe for energy

The "Recipe for energy" offer for households at PGE Obrót S.A. is one of the outcomes of a changing market and dynamically developing client needs. It features electricity and gas purchases in a single offer. The full package may be selected or just gas, depending on the needs. Clients can also use "gas assistance" free of charge, which is professional support in the case of a failure.

8.4.3 Client education

Educational programmes at PGE Obrót S.A. directed at clients mainly deal with cost-effective and safe use of electricity at home. Practical tips from the "Education with PGE" series are available on YouTube. The videos have so far generated close to 650,000 views.

Together with major electricity suppliers PGE Group supports the "Check your electricity supplier's credentials!" campaign organised by the Polish Association of Energy Trading under the patronage of the President of the Polish Energy Regulatory Office. The main objective of the campaign is to spread knowledge about the market through increasing the awareness of presence of companies applying unfair market practices particularly with respect to senior citizens. The websites of the Association of Energy Trading and PGE Obrót S.A. feature a Guidebook of Conscious Customer.

8.4.4 Innovations in PGE Group

Research and development activities are directly tied to PGE Group's strategy for years 2014-2020. They tackle the biggest challenges facing the Group – both at present and those relating to its planned growth. To this end, Strategic R&D Areas have been identified across each element of PGE Group's value chain, which is where research and development projects are initiated and executed.

According to the strategy for 2014 – 2020, starting from 2015, PGE plans to commit at least 1.5% of its annual consolidated net profit to research and development activities, at the same time relying on public assistance – both Polish and EU. To improve the effects of its R&D projects, PGE Group collaborates with external partners from Poland and abroad, whose know-how and experience are complementary to PGE's competences.

On October 21, 2015, the Council of the National Research and Development Centre (NCBiR) accepted the Feasibility Study for the Electricity Sector Programme, which was prepared and submitted by energy sector firms operating under the Polish Electricity Association (PKEE). The value of this research agenda was specified as PLN 1 billion, with half of the sum being contributed by the beneficiaries and the other half from the Intelligent Development Operational Programme, which is being implemented by NCBiR.

To effectively manage R&D activities at group-level, PGE has developed the principles for a harmonised approach to identifying, selecting and carrying out projects, and the relevant structures responsible for R&D have been appointed at PGE S.A. and across specific business lines.

At the same time, PGE Group is encouraging its employees to search for new, innovative solutions in their everyday work. PGE Systemy S.A. launched a "System for collecting innovative ideas" (SZPI-lka) in 2015. The aim of the SZPI-lka project is to utilise knowledge and ideas and to build involvement of all employees. Ideas are subject to preliminary assessment in terms of implementation, with this first assessment being carried out by the employee submitting the idea. Initiatives concerning all operating areas of PGE Systemy S.A. can be submitted. Initiatives submitted by employees are verified by a special committee that includes representatives of the HR office, communication office, finance and administration department, legal, head of the area of the relevant initiative, and representatives of PGE S.A. On this basis, a final decision is made as to whether or not the initiative will be implemented.

8.5 Society

8.5.1 PGE Group's impact on community development

In 2014, PGE S.A. adopted a procedure for managing social involvement activities across the entire Group, aimed at ensuring consistency, transparency and effectiveness of PGE Group companies in this field.

PGE Group is an important partner for local communities. The Group develops positive relations with local communities based on joint projects, support for local events and also through investment in the infrastructure of the towns in which it conducts business activities. Its work in this area so far result in projects such as the construction of sports grounds, playgrounds, skate parks or modernisation of community halls. Improvement of security in cities has also been an important aspect. Thanks to donations granted by the Foundation, it was possible to construct new road signs, among other things.

PGE Group supports residents of the towns where it is present on a daily basis through volunteer activities of its employees. PGE's "Pomagamy" employee volunteer programme was responsible for the following tasks accomplished in 2015:

- Construction of an educational/scientific walkway in Bogatynia and Czersk
- Modernisation of a voluntary fire station in the village of Ponikiew Duża
- Construction of playgrounds in Cierpięty, Piotrków Trybunalnski and Gomunice
- Development of a sensory therapy room in Jarosław
- Development of an experience-the-world room in Przeworsk
- Construction of a garden for primary school children in Radomsk
- Development of a food workshop in Bełchatów and Sandomierz
- Fitting of a sports hall in Rozprza
- Development of therapy rooms in Nowy Czarnów, Nowogród and Łódź
- Construction of a radio network at a school

In total, approximately PLN 380,000 was spent in 2015 on projects connected with support for local communities in the field of infrastructure and volunteer projects.

In 2015, PGE Group placed third in an overall ranking and first in the energy-sector category in the "Philanthropic Leaders" competition, having donated to charity a total of PLN 6,049,147. This is a one-spot improvement over the previous year. Amounts donated for social objectives are part of CSR and constitute an investment in the development of local communities.

Local authorities in the municipalities in which PGE Group does business are an important partner. Regional "Energy Forums" are events dedicated to local authorities, organized by PGE Dystrybucja S.A., where the company shares its know-how in the field of electricity distribution and investment processes. These forums take place wherever the company has a branch and are intended to develop dialogue in areas of most importance to us – they create a venue for broaching difficult subjects, enable us to propagate the understanding of distribution system operators' activities and jointly develop mutually beneficial solutions. PGE Group builds relations based on trust, mutual respect and cooperation on projects in the field of local community development.

Good neighbourly relations and involvement in the lives of residents in municipalities which are the potential site for Poland's first nuclear power plant are the key elements of PGE EJ 1 sp. z o.o.'s preparations for this nuclear power investment. In agreement with local municipal authorities, the company is carrying out a variety of educational and informational activities that promote knowledge on the subject of nuclear power and the site characterisation work being conducted in those municipalities that is intended to select the final location for the plant. Local Information Points have been installed in these municipalities, study sessions are hosted and information stands are set up during important local events. PGE EJ 1 sp. z o.o. is also conducting activities for children and youth.

In November 2015, PGE EJ 1 sp. z o.o. launched a Support Programme for Development of Site Municipalities. Its objective is to strengthen partner relations between the company and the local communities and municipal authorities in the municipalities of Choczewo, Gniewino and Krokowa by supporting initiatives that are of importance to citizens and the development of lands covered by investment activities. As part of the programme, all entities planning to carry out educational and information projects that propagate nuclear power knowledge and support municipal investment projects can count on support, also those county offices (Puck and Wejherowo) that are planning activities connected with the local job market and vocational training. Support can also be requested by public institutions, organisations and private individuals. A prerequisite is for the planned activities to have a local nature, to the benefit of all residents. In 2015, PGE EJ 1 sp. z o.o. spent PLN 1,200,000 on supporting projects under this Programme.

8.5.2 PGE Foundation "Energy from Heart"

The PGE Foundation "Energy from Heart" was established in 2011 at the initiative of PGE S.A. The Foundation is a common communication platform for pro-community activities designed for all the companies belonging to the PGE Capital Group. In years 2013-2015, the members of the Management Board of PGE Foundation "Energy from Heart" participated in the project: "Enhancing the quality of public tasks implemented by corporate foundations in Poland", carried out by the Forum of Donors.

In 2015, PGE Foundation – Energy from Heart – together with PGE S.A.'s Corporate Communications Department and with the participation of key companies within PGE Group, organised the second edition of PGE's employee volunteer programme "We Help". Employees received funding in the form of subsidies for their own pro-community projects. Under the programme's first edition, 30 winning projects were completed. The second edition featured 40 projects, which were completed in 2015. Programme will be continued in 2016.

In 2015, PGE Foundation – Energy from Heart launched the "Energy of Innovation" competition in response to some of PGE Group's strategic challenges. This competition is for young scientists – PhD students and those with PhDs received at most five years ago. The innovative projects submitted by them should pertain to PGE Group's areas of activities, i.e. mining, production, renewable energy, nuclear energy, distribution or sale of electricity. They will be graded in terms of project quality and nature as well as commercial and scientific potential. The best ideas have a chance to be implemented in PGE Group's business.

8.5.3 Educating the surroundings

Education in the field of safe and cost-effective use of electricity is an element of PGE Group's business. Through its programmes, PGE Group wants to reach the largest possible number of electricity users and promote good practices among kids, youth and adults.

The programme "Electricity – my safe friend," which has been carried out by the Warsaw branch of PGE Dystrybucja S.A. for several years, was continued in 2015, and a series of lectures and educational meetings called "Safe energy" was hosted by the Łódź-Miasto branch. The doll theatre play "Casper and the Firefly" was intended for the youngest viewers and listeners of kindergarten age. The play, which was developed in the Skarżysko-Kamienna branch last year, is continuing to attract strong interest among kids and teachers. It is considered as an unusual and profound lesion that supports education of the youngest children in the field of safe behaviours. The Lublin Branch of PGE Dystrybucja S.A. began cooperating with the H.Ch. Andersen Theatre in Lublin. The theatre showed that "electricity is not that scary" and – when used wisely – can be a source of fun. This is how a series of theatre workshops – "ENERGY OF THE THEATRE" – came to be, where children get to learn rules of electricity use through play education, drama and para-theatre activities.

In order to increase public awareness of renewable energy sources, PGE EO S.A. prepared the "Energy with a gigawatt" educational campaign aimed at primary-school and older pupils and their parents. The campaign was intended to showcase the benefits of saving electricity and water and provided practical tips in this area.

In August 2015, PGE Obrót S.A. together with the Sanok-based Sub-Carpathian Foundation for Culture Development organised the second annual series of educational play activities for children aged 5-100, with virtual characters: Energoludek, Ekoludek and Profesor Doświadczalski. For participants of the "Energy holidays," games, scientific experiments and movies were prepared.

Furthermore, the Sub-Carpathian Energy Museum, which is located in the headquarters of PGE Obrót S.A. in Rzeszów, is hosting activities for both children and adults, called the "Electromagnetic tales." Aside from visiting the museum, these meetings feature interactive educational activities, scientific shows and experiments dealing with electricity, magnetism and electrostatics.

PGE Group is also promoting nuclear power knowledge, at both national and local level. The educational and information programme "Aware of the atom," which is being carried out by PGE EJ 1 sp. z o.o., can serve as an example. Its objective is to encourage Poles to seek out information about nuclear energy and at the same time to provide know-how enabling everyone to make up their own minds about the subject. The programme features an educational and informational website, www.swiadomieoatomie.pl. PGE EJ 1 sp. z o.o. also organises competitions and educational activities intended for students and university professors under the "Atom for Science" programme. Its goal is to encourage the future generations of engineers and professionals from other, not necessarily technical fields to advance their knowledge in the field of nuclear power. Meetings with students titled "Day with the Atom for Science" are hosted at a number of select universities. In 2015, PGE EJ 1 sp. z o.o. was also partner of yet another, eighth edition of the International School of Nuclear Energy.

An important element of the educational activities carried out by PGE EJ 1 sp. z o.o. in 2015 at both national and local level were viewings of the American documentary Pandora's Promise. The film propagates knowledge about nuclear power and debunks myths that have arisen around this topic. The viewings took place in several cinemas in larger Polish cities, at universities and at potential site municipalities in the Pomerania province. The movie was also featured in a documentary series run by Polish public broadcaster TVP.

Co-operation with universities

PGE Group companies maintain long-term relations with the academia, having multiple partnerships with universities all over Poland. PGE GiEK S.A. works with 12 scientific centres across the country. Agreements with universities cover cooperation in the fields of energy, heat production, environment protection, but also economy, accounting, organisation, management and law.

PGE GiEK S.A. currently works with the following universities: AGH University of Science and Technology in Kraków, University of Łódź, two Szczecin-based schools: Maritime University in Szczecin and West Pomeranian University of Technology Szczecin, as well as technology universities in Łódź, Wrocław, Warsaw, Gdańsk, Opole and Rzeszów, together with the Jacob of Paradyż University of Applied Sciences in Gorzów Wielkopolski and the Social Science Academy in Bełchatów.

8.5.4 Charity activities

For many years, PGE Group has been involved in charitable activities. It provides support through Christmas and related campaigns both directly for the children in need and for institutions (hospices, hospitals, social welfare centres, foundations and locally schools) in more than a dozen Polish cities. Employees of all group companies participate in nationwide initiatives, such as the Great Orchestra of Christmas Charity, Szlachetna Paczka (the Noble Box project), a nationwide Christmas aid campaign, or a drive for helping children survive the winter.

PGE Dystrybucja S.A., PGE EJ 1 sp. z o.o. and PGE GiEK S.A. together with PGE Foundation – Energy from Heart distributed 3500 school bags to the youngest pupils from families in need. This was the 13th edition of the "Energetic school bag" campaign. This year, energetic school bags went to children from the following provinces: Lubelskie, Lubuskie, Łódź, Masovia, Sub-Carpathian, Podlasie, Pomerania, Świętokrzyskie and Warmia-Masuria. In this campaign, companies worked with City and Municipal Welfare Centres which helped to locate the families in greatest need.

As part of charitable activities, employees of PGE Group companies also organise collections of, for example, bottle caps for foundations and associations. These activities are intended mainly to raise funds for rehabilitation equipment for select organisations. In 2015, select PGE Group companies were involved in the "Do you have a bottle cap to help?" project. Exatel S.A. also got involved in helping the Polish Association of People with Haemophilia.

8.6 Culture patronage and sponsorship

PGE Group has been investing in development of culture and arts for many years by sponsoring important cultural events and initiatives. It also supports development of both professional and amateur sports. Providing positive experiences and emotions, PGE Group supports and promotes Polish culture. PGE Group's patronage includes important and valuable cultural events – music, theatre and film. These activities translate into development of local communities and contribute to making places more attractive for residents, tourists and investors.

Cultural patronage and sponsorship

PGE Group shares the positive energy flowing from culture and arts. In 2015, the Group was once again Patron of the Music Festival in Łańcut. The Group supports classical music also by working with the National Philharmonic Hall in Warsaw.

As a sponsor, PGE Group is involved in a variety of local and nationwide initiatives and events. The key events that PGE Group was involved in in 2015 include another edition of the OFF Festival in Katowice. This event has for many years been a synonym for music of the highest level. During the several days, guests can listen to more than 90 artists from all over the world. This is accompanied by events that also promote other art fields. The OFF Festival has received the international award Green'n'Clean and thus is considered an eco-friendly event. In 2015, the OFF Festival was the first in Europe to begin working with one of the most important radios in the world – the US station KEXP.

For many years, PGE Group has been involved with organising the cult Festival of Film and Arts "Dwa Brzegi" in Kazimierz Dolny on the Vistula river. In Lublin, PGE once again supported the Different Sounds ART 'N' Music Festival. New initiatives include the Festival of Magicians and cooperation with the Lublin Museum.

2015 was also a period in which PGE Group was involved in new cultural projects such as PKO OFF Camera in Kraków – a film festival attracting globally acclaims filmmakers. PGE also became a patron of the Royal Lazienki Museum in Warsaw and a strategic partner of the Arnold Szyfman Polish Theatre in Warsaw. In 2015, PGE Group also became the main sponsor of Air Show 2015 – an international air show in Radom.

In all of our activities, we do not forget about children – on 9 May 2015, the PGE National Stadium was site to the 19th Science Picnic, and on 6 December the event "Wymarzone Mikołajki PGE" was hosted at the Brant Hotel near Warsaw. During this charitable event children from orphanages met numerous stars. All of the proceeds raised are transferred to the orphanages.

PGE Group companies are also involved in numerous events of significance to the local communities. The key events in 2015 include initiatives supported by PGE Dystrybucja S.A., PGE GiEK S.A. and PGE Obrót S.A.

PGE Dystrybucja S.A. was partner of several art festivals: the Pearl of Baroque Music Festival, presenting classical music played by the best artists, the Łódź-based Festival of Christian Culture, the POLÓWKA Summer Film Festival in Łódź and the Białystok – A city of good music, organised at the end of summer within the Festival of Eastern Cultures. The company also supported the "Energy of Culture" competition for the most important cultural event of the year in Łódź. Thanks to PGE Dystrybucja's support, residents of the Subcarpathian region had the very colourful World Festival of Polish Folk Bands in Rzeszów, while residents of Łódź enjoyed the Festival of Kinetic Art of Light – LIGHT.MOVE.FESTIVAL., which constitutes an excellent mix of cultural and art events with promotion of innovativeness and modern, eco-friendly technologies.

In 2015, PGE GiEK S.A. sponsored the Great Jazz Gala "Grand Prix Jazz Melomani 2014" in the Grand Theatre in Łódź, the 20th Autumn Theatrical Meet with the BAT, the International Festival of Greek Songs in Zgorzelec, the Anniversary Opera Festival in Bydgoszcz, the Theatrical Meeting in Gorzów – Festival of New Theatre, the Festival for Art Directors and Costume Designers at Opolski Teat Lalki i Aktora im. Alojzego Smolki in Opole, the International Review of Arts by People with Disabilities in Bogatynia, and was involved in various other local initiatives.

PGE Obrót S.A. supported the Festival of Theatre Schools in Łódź, A. Malawski Subcarpathian Philharmonic in Rzeszów, International Festival of Organ and Chamber Music in Leżajsk, 20th Anniversary K. Jamroz International Music Festival in Busko-Zdrój, 28th International Theatre Festival WALIZKA in Łomża, Miłosz Magina International Piano Competition in Łódź, Eurofol in Zamość and Rzeszów Art Festival, being the title sponsor. PGE Obrót also sponsored the publication of NIEMAPY – an illustrated guide to Rzeszów for children. PGE Obrót S.A. sponsored for the second time the Museum Night, supporting seven museums: Nature and Forestry Museum in Białowieża National Park, Lublin Museum, Regional Science and Technology Centre, Staszic Museum in Hrubieszowo, Kurpie Culture Museum in Ostrołęka, Cinematography Museum in Łódź and Glass Heritage Museum in Krosno. Moreover, during the Museum Night, PGE Obrót S.A. opened up its Museum of Sub-Carpathian Energy, located at its headquarters. Aside from viewing the museum, together with the Rzeszów branch of PGE Dystrybucja S.A., PGE Obrót S.A. organised shows and scientific experiments dealing with electricity and electrostatics.

Sports sponsoring

PGE Group promotes professional and amateur sport. It supports both well-established clubs and those that are just starting to develop. Through its commitment in development of the Polish sport, PGE Group tries to share the energy with those who use it properly. PGE Group 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 (PGE Stal Mielec). Clubs sponsored by the Group energetically pursue success what stimulates action and development.

The Group actively supports the most talented sportsmen, like bronze medallist of the 2012 Olympics - Zofia Klepacka. PGE promotes sports by engaging in major sporting events. In 2015, PGE Group commenced two new national sponsorship projects, with one being cooperation with the largest sports facility in Poland – PGE National Stadium (PGE Narodowy), and the second one – cooperation with PGE Ekstraliga, the best speedway league in the world.

PGE Group also supports initiatives in the area of amateur sport, thus activating young people to continuous development.

9 Other significant events of the reporting period and subsequent events

9.1 The analysis of impairment of property, plant and equipment, intangible assets and goodwill

Property, plant and equipment is the most significant group of assets of the PGE Group. Due to changeable macroeconomic conditions the PGE Group regularly verifies the impairment indicators of its assets. When assessing the market situation the PGE Group uses both its own analytical tools and independent think tanks' support.

9.1.1 The analysis of impairment of property, plant and equipment of Conventional Generation segment

In first half of 2015 the PGE Group identified a number of factors that could have had significant impact on a change in the value of power generating assets of Conventional Generation segment held by the Group. In the PGE Group's opinion, the most important factors influencing the recoverable amount of assets are:

- decline in the futures and spot prices of electricity in Poland and abroad

  In 2015 the prices of futures contracts for BASE and PEAK products decreased by 8%. Lower prices on spot markets in Germany and Scandinavia result in maintaining competitiveness of the energy import to Poland.

- restrictive climate policy of the EU

  The increasingly restrictive approach of the EU to the climate policy is reflected in the legislative processes currently in progress, intended to prevent the climate change, reduce the impact of polluting emissions, and enhance power efficiency. The introduction of new emission standards has resulted in the Industrial Emissions Directive (IED), reference documents concerning the best available techniques (BAT conclusions) for large combustion sources, and the Market Stability Reserve (MSR). Energy produced from renewable energy sources is, and is going to be subsidized through a system of certification of origin and auction system. It should be expected that new tools for electric power industry decarbonization will be created within these initiatives, including a shift of part of production from coal-fired units to renewable energy sources. The most significant consequence will be a drop in competitiveness of lignite-based power plants, which are characterized by high CO_2 emission coefficients expressed in MWh.

- oversupply of hard coal on the domestic market

  Oversupply of coal and sharpened price competition on the domestic market result in significant decrease of hard coal prices. This causes a significant reduction of fuel costs in power plants based on hard coal and worsened competitiveness of power plants based on lignite. In the PGE Group's opinion, this situation is permanent what is reflected in the persistently low quotations of futures on the global market and low transaction prices observed on the Polish market. Oversupply of hard coal results in a decline in expectations regarding profit margins generated by lignite power plants in the medium and long term.

As a result of the above events, the PGE Group has reduced its forecasts of the expected future cash flows and identified the impairment risk concerning its conventional power generating assets.

The impairment tests of cash-generating units ("CGU") were carried out as at June 30, 2015 and as at December 31, 2015 in order to determine their recoverable amount. Determination of fair value for very large groups of assets for which no active market exists and there are few comparable transactions, is in practice very difficult. In case of whole power plants and mines, for which there is a need to specify the value on the local market, the observed fair values do not exist.

Therefore, the recoverable amount was determined based on an estimated value in use of the tested assets calculated using the discounted cash flow method on the basis of financial projections for the years 2015 – 2030. For the power generating units with a deemed economic useful lives going beyond 2030, the residual value for the remaining life was determined. According to the PGE Group, adoption of the financial projections longer than five years is reasonable due to the significant and long-term impact of estimated changes in the regulatory environment of the Group. Through the adoption of longer projections the recoverable value may be estimated more reliably.

The assumptions

While performing the impairment test as at June 30, 2015, the key assumptions influencing the recoverable amount of tested CGUs were as follows:

- recognizing:
  - Branch Kopalnia Węgla Brunatnego Bełchatów and Branch Elektrownia Bełchatów („Bełchatów complex")
  - Branch Kopalnia Węgla Brunatnego Turów and Branch Elektrownia Turów („Turów complex"),

  as one CGU due to the technological and economical connections between these branches
- recognizing as three separate CGUs: Elektrownia Dolna Odra, Elektrociepłownia Szczecin and Elektrociepłownia Pomorzany being a part of Branch Zespół Elektrowni Dolna Odra,
- electricity prices forecasts for the years 2015-2030 assuming an increase in the wholesale market price by more than 20% till 2020 and a smaller increase in the following years (in fixed prices),
- CO2 emission rights prices forecasts for the years 2015-2030 assuming a twofold increase in market prices till 2020 and a smaller increase in the following years (in fixed prices),
- hard coal prices forecasts for the years 2015-2030 assuming a relatively constant level of coal market prices in the years 2015-2018, increase of prices in the years 2019-2020 and a stabilization of prices in the following years (in fixed prices),
- the assumptions on the number of CO2 emission rights for the production of electricity received free of charge for the years 2015-2020 for particular CGUs in accordance with the Application of Poland for temporary allocation of free of charge emission rights for modernization of electricity production on the basis of article 10c paragraph 5 of Directive 2003/87/EC of the European Parliament and of the Council (so-called derogations application), which meets the requirements of Commission Decision of July 13, 2012. In terms of heat production, free of charge rights has been taken into account in line with the list of allocations of CO2 emission rights for heat in the reference period 2013-2020, published by Ministry of the Environment,
- taking into account free allocations of CO2 emission rights in the period 2021-2030 forecasted based on allocation method applied until now,
- taking into account the so-called capacity market, ie. remunerating power generating units and reducing the demand, necessary to ensure security of electricity supply in the National Power System, since 2023; the remuneration was assumed based on the performance of the capacity market in the UK,
- taking into account the system of support for high-performance cogeneration in the whole period of forecast,
- taking into account the optimization of employment costs, resulting among others from the current employment plan,
- maintenance of production capacities at the current level, as a result of replacement investments,
- taking into account development investments, which were started,
- adopting weighted average cost of capital after tax (WACC) at the level of 7.26%,
- receipt of compensation for the early termination of long-term contracts (so called LTC) by eligible producers.

The forecasts of electricity, CO_2 emission rights, hard coal prices, production and demand for electricity come from a study prepared by an independent expert. The most probable forecast of energy prices was adopted, wherein for the year 2016 the prices arising from signed contracts were adopted, when applicable.

It must be noted that as at June 30, 2015 and as at the date of preparation of these financial statements, there are no specific projects and plans for the Polish market, on the manner and timing of the so-called capacity market after 2023 and for support for natural gas-fired generation units for the period after 2018. Nevertheless, the PGE Group believes their assumptions are reasonable in the view of the anticipated and desired changes in the regulatory environment. The assumptions that have been reflected in the projected cash flows represent, in the PGE Group's opinion, a reasonable scenario of the way how and the period when they will function. Nevertheless, it cannot be excluded that the final shape and duration of these solutions may significantly differ from the ones adopted.

Tabela: Wyniki przeprowadzonych testów dla CGU, dla których stwierdzono utratę wartości:

As at June 30, 2015	Value tested	Impairment loss	Value after impairment loss
Power generating units of Conventional Generation segment			
Bełchatów complex	17,188	-3,136	14,052
Turów complex	5,561	-5,116	445
Opole power plant	4,408	0	4,408
Szczecin CHP	516	0	516
Bydgoszcz CHP	417	-417	0
Lublin-Wrotków CHP	400	0	400
Rzeszów CHP	300	0	300
Gorzów CHP	296	0	296
Kielce CHP	157	-157	0
Pomorzany CHP	70	0	70
Dolna Odra power plant	0	0	0
Zgierz CHP	0	0	0
Other assets allocated to segment	16	-16	0
TOTAL	**29,329**	**-8,842**	**20,487**

The above value tested is the carrying value of the testes assets as at June 30, 2015 decreased by the value of rehabilitation provision as at that date.

As a result of the conducted test as at June 30, 2015, the PGE Group deemed impairment of power generating assets of PLN 8,842 million.

Revaluation of the recoverable value of the power generating assets as at December 31, 2015

In the PGE Group's opinion, the long-term assumptions adopted as at June 30, 2015 during the asset impairment tests are mostly still correct also at the date of preparation of this report. Due to the fact that some of the assumptions, particularly the short-term ones, have been verified, the tests conducted have been updated according to the situation as at December 31, 2015. Subjected to the update were mainly the first two years of the forecast (i.e. the years 2016 and 2017). Also the plans regarding the investment expenditure over the period covered by the forecast have been updated, as well as the electricity sales goals, and the valuation of the resources that are to be collected for the rehabilitation of post-exploitation mining properties. The result obtained was set against the carrying amounts as at December 31, 2015.

The revaluation of the recoverable amount has not provided a basis for reversing the impairment losses recognized before nor need for creating new impairment losses in relation to the whole cash generating units.

In addition, during the year 2015 the Group recognized impairment losses concerning the assets belonging to Conventional Generation segment of PLN 145 million. Total impairment loss of PLN 8,987 million was included in the statement of comprehensive income in costs of goods sold.

The changes in market conditions and the regulatory environment described above caused that the competitive position of the PGE Group has been weakened. The expected decrease in margins especially concerns units using lignite as a fuel, which do not benefit from a reduction in hard coal prices. In addition, these power plants emit more CO_2 per energy unit produced, therefore they are affected to a larger extent by the predicted rise in prices of the emission rights.

Sensitivity analysis

The results of a sensitivity analysis for individual units showed that the electricity prices, CO_2 emission rights prices, weighted average cost of capital and the assumption regarding the introduction of so-called capacity market in Poland have the greatest impact on the value in use of the tested assets. The change in the purchase price of hard coal influences the value in use to a lesser extent.

The table below presents the sensitivity analysis of impairment tests concerning Conventional Generation segment assets for changes in key assumption as at December 31, 2015.

Parametr	Change	Impairment in PLN billions	
		Increase in impairment allowance	Decrease in impairment allowance
Change in electricity prices throughout the forecast period	+ 1%	-	1.0
	- 1%	1.0	-
Change in WACC	+ 0,5 p.p.	0.8	-
	- 0,5 p.p.	-	0.9
Change in CO_2 emission rights prices throughout the forecast period	+ 1%	0.4	-
	- 1%	-	0.4
Assumption regarding so-called capacity market	no capacity market after 2023	5.0	-

9.1.2 Impairment of the power generating assets of the Renewable energy segment

The goodwill of PLN 286 million presented in the financial statements is attributed to the Renewables segment.

The PGE Group regularly verifies the recoverable amount of goodwill together with the cash-generating units (CGUs) to which it is allocated.

Total value of property, plant and equipment and intangible assets assigned to the segment amounts to PLN 4,410 million as at December 31, 2015. The recoverable amount of the assets was determined based on the estimated value in use of the assets tested using the discounted cash flow method on the basis of the financial projections for the years 2015-2030. For wind farms, the projection period adopted corresponds to the exploitation period assumed for a given project. As a result, for the CGUs comprising wind farms, the projection periods are longer and end between 2032 and 2034. The Group is of the opinion that adoption of the financial projections longer than five years is reasonable due to significant and long-term impact of estimated changes in the regulatory environment. Through the adoption of longer projections the recoverable amount may be estimated more reliably.

The main assumptions influencing the estimation of the value in use of the CGUs tested comply with the assumptions adopted for the verification of the value of the Conventional Generation segment assets. The assumptions characteristic of this segment include:

- recognition as a single CGU of:
  - pumped-storage power plants,
  - other hydroelectric power plants,
  - wind farms.
- a system of support for renewable energy sources (RES) in compliance with the assumptions of the new act on RESs, i.e. on the assumption that support in the form of certificates will be given to hydroelectric power plants with installed capacity not exceeding 5 MW,
- the assumption that the production of electricity and energy origin rights on the basis of historical data and expert estimates made for the investment needs and taking into consideration the availability of particular units.

The estimated recoverable amount of analyzed assets was significantly higher than theirs carrying amount, and therefore no impairment loss of goodwill and operating power generating units was recognized.

Independently from performed tests, the PGE Group has reviewed its investment projects portfolio of wind farms. As a result of the review, projects with low probability of implementation were identified. Consequently, the PGE Group recognized an impairment allowance of fixed assets under construction of PLN 52 million.

Sensitivity analysis

The results of the sensitivity analysis show that changes in estimates regarding the prices of sale of energy origin rights, electricity prices and weighted average cost of capital have the most significant impact on the recoverable amount of the measured assets. Given the assumptions adopted, the PGE Group estimates that an impairment of assets in the Renewables segment would take place in the case of:

- an increase in the WACC by over 2.0 p.p.;
- a decrease in the electricity price by over 17% throughout the whole projection period;
- a decrease in the price of energy origin rights by over 44% throughout the whole projection period.

9.1.3 Property, plant and equipment in Distribution segment

As at December 31, 2015 carrying amount of property, plant and equipment related to the distribution activity amounted to more than PLN 15 billion and represented over 32% of the total consolidated assets. Their recoverable amount depends mainly on tariffs granted by the Energy Regulatory Office. Regulated revenue (tariff) determined annually in the financial projections provides covering justified costs: operating, depreciation and amortisation, taxes, purchase of energy to cover the balancing difference and transferred costs. It provides also a return on equity involved in the distribution activity at a justified level. Return on equity and depreciation charges are dependent on the so called Regulatory Asset Base.

As at the date of preparation of this report, the PGE Group has not identified the indications for impairment of property, plant and equipment in Distribution segment.

9.2 Activities related to nuclear energy

Business partnership

On September 3, 2014 PGE S.A., TAURON, ENEA and KGHM ("Business Partners") concluded a Partners' Agreement.

On April 15, in accordance with the Partners' Agreement, an agreement was concluded for the sale of shares in PGE EJ 1 sp. z o.o., and as a result each of the Business Partners acquired 10 % of shares in PGE EJ 1 sp. z o.o.

As a result of the sale of shares to the Business Partners by PGE S.A., PGE S.A. holds 70% in the share capital of PGE EJ 1 sp. z o.o., and each of the Business Partners holds 10% in the share capital of PGE EJ 1 sp. z o.o. In May 2015, the National Court Register registered a new version of the Articles of Association, resulting from the provisions of the Partners' Agreement, and in May and June 2015 the Supervisory Board of PGE EJ 1 sp. z o.o. was expanded to include representatives of the Business Partners.

According to assumptions, PGE Group will be the leader of the project of construction and operating of the first nuclear power plant in Poland with capacity of approx. 3,000 MW and PGE EJ 1 sp. z o.o. will be a future operator of the power plant.

According to the Partners' Agreement, the Parties jointly undertake to finance operations under the initial phase of the Program (the "Development Stage"), proportionally to their shareholdings. The Development Stage is to determine such elements as potential partners, including strategic partner, technology providers, EPC contractor (Engineering, Procurement, Construction), a provider of nuclear fuel and obtaining financing for the Program, as well as organizational and competence preparation of PGE EJ 1 sp. z o.o. to the future role of nuclear power plant operator, responsible for its safe and efficient operation (the "integrated proceeding"). The localization of the nuclear power plant will also be indicated at the Development Stage. PGE S.A. financial commitment in the Development Stage will not exceed amount of approx. PLN 700 million.

The Parties of the Partners' Agreement anticipate that further decision on the Program, including decision on declaration of further participation of particular Parties in the next stage of the Program, will be made directly before the settlement of the integrated proceeding.

Financing

During 2015 works were conducted on initial financing structure of the Program based on updated assumptions regarding capital expenditure and operating costs for the nuclear power plant and revised financing model for the investment. Works were supported by the external consultant.

In 2015 further meetings were held as part of the initial dialogue with syndicates interested in participating in the Program in order to define future business-capital relations, as well as initial talks with the financing institutions interested in participation in nuclear projects.

In the first quarter of 2016, for the needs of the integrated proceeding, works in that area are assumed to be continued.

Support schemes

In the first half of 2015 PGE S.A. carried out consultations and discussions with the Ministry of Economy regarding potential support mechanisms dedicated to nuclear energy.

The Company, having described and justified a catalogue of potential support mechanisms, singled out contracts for difference as the mechanism that should be dedicated to nuclear energy. It is assumed that this type of mechanism should apply market tools in a manner similar to the contracts-for-difference mechanism used in the United Kingdom, using the best regulatory and legal solutions applied in Poland so far.

Further work together with the Polish government is expected to continue, aimed at devising detailed solutions (a model) for support mechanisms for nuclear energy, including joint approval of the presented solutions (justification and general shape of the mechanism), as well as developing detailed economic, financial and legal solutions.

In the second quarter of 2015, an adviser was engaged to carry out analysis of the economic, financial and legal options regarding the structure and terms for a contract for difference for the Polish nuclear plant project.

In the third quarter of 2015 PGE S.A. submitted to the Ministry of Economy a report titled "Contract for Difference (CfD) as recommended mechanism of securing economical predictability and profitability of Polish nuclear project implementation - Justification of recommendations from the variant analysis of alternative options for economic, financial and legal structure and conditions of CfD in the context of the Polish nuclear power plant project".

In the fourth quarter of 2015, a workshop was held for the inter-departmental government group at the Ministry of Economy regarding the contract for difference model and additional potential mechanisms dedicated to nuclear power. CfD contract was presented as a recommended mechanism for ensuring economic predictability and profitability of the Polish nuclear project, together with analysis of the available economic, financial and legal options.

In the first quarter of 2016, work with the Government is expected to continue as regards setting out conditions for the Polish nuclear project.

Project management, integration, safety

Work with the Technical Advisor – AMEC Foster Wheeler Nuclear UK Limited – continued in the reported period pursuant to a contract signed on September 11, 2014. The Technical Advisor is to support PGE Group in completing objectives and meeting investor requirements in relation to the technology supplier / EPC general contractor and the other contractors involved in key works. In cooperation with the Technical Adviser number of products - necessary for the proper planning, preparation and the construction of a nuclear power plant – were delivered and accepted.

The cooperation will continue in the framework of authorisations issued and planned to be issued.

PGE EJ 1 sp. z o.o. began working with an outside consultant on designing and implementing safety architecture in accordance with SABSA methodology and Information Security Management System (in compliance with ISO 27001).

In 2015, we adopted an updated organizational – management model for the preparation of the construction of the first Polish nuclear power plant, according to which the work will be carried out in the form of the program, under which key projects will be pursued ("Program").

Site, infrastructure and the environment

In connection with having terminated an agreement with WorleyParsons on December 23, 2014, PGE EJ 1 sp. z o.o. was implementing new assumptions relating to the selection of a site for the nuclear plant and obtaining a decision on environmental determinants and a decision on establishing the site, both of which are necessary for the investment process.

In 2015, the company continued working on selecting two alternative sites for the nuclear plant, which will be assessed in terms of environmental impact. Subject to analysis were three locations pre-selected based on a multi-criteria evaluation: Choczewo, Lubiatowo-Kopalino and Żarnowiec. In order to identify the most serious environmental risks, surveys were carried out with regard to habitats, hydrogeological conditions and impact on Natura 2000 areas. As a result of these activities, two locations were selected: Żarnowiec and Lubiatowo-Kopalino, which will be subject to a full programme of site and environmental surveys, an integral element of the process to select a site for the nuclear plant

In the first half of 2015, PGE EJ 1 sp. z o.o. prepared a draft Project Outline Specification and on August 5, 2015 commenced environmental impact procedure through submitting to the General Director for Environment Protection ("GDEP") a request for issue of decision on environmental determinants and for determination of the scope of the environmental impact report. In December 2015, the General Directorate for Environmental Protection (GDOŚ) launched a cross-border consultation procedure in order to establish a scope for the environmental impact assessment.

The company also carried out tasks aimed at preparing numerous investments accompanying construction of the nuclear plant, such as energy connections, roads, railway, employee facilities, water and sewage infrastructure. Preliminary concepts and scopes were drafted for each investment, and consultations began with local, regional and national authorities regarding inclusion of these investments in spatial development plans or in the regional contract for the Pomeranian Province.

In the third quarter of 2015, works commenced on mobilising site and environmental surveys. Survey scope and methodologies were developed and consulted with experts and the relevant environmental and nuclear administration authorities. Elbis sp. z o.o., a PGE Group company, was commissioned to perform the full range of surveys in collaboration with pre-selected subcontractors. The surveys are to be carried out in 2016-2018.

Integrated proceeding (including technology and O&M)

Work on the documentation and processes required in order to launch the integrated proceeding was continued in 2015, including follow-up sessions under preliminary dialogue with the potential participants of the integrated proceeding were held and dealt with investment and financing issues. Initial declarations of participation in the integrated proceeding were submitted by these entities in October 2015.

Preparatory work on integrated proceeding will be continued in the first quarter of 2016.

Licensing (permits / approvals)

In 2015, work was continued with the Technical Advisor on preparing and accepting a plan for obtaining the permits and approvals required in the investment process.

On the basis of the request by PGE EJ 1 sp. z o.o. filed with GDEP, administrative procedures were initiated to issue a decision on the environmental conditions for the construction and operation of nuclear power plant and for the processing of the cross-border environmental impact of the project. Issue of the decision on the scope of the report on the environmental impact is one of the elements of these procedures.

These activities will be continued in the first quarter of 2016.

In 2015 meetings were held with the supervisory authorities: Office of Technical Inspection ("UDT"), The General Office of Building Control ("GUNB") and were focused on issues related to the norms and standards applicable in the design, construction, commissioning and operation of a nuclear power plant. PGE EJ 1 sp. z o.o. is carrying on a dialogue with the National Atomic Energy Agency regarding rules for obtaining decisions and opinions for the purposes of preparing and constructing the nuclear plant, and in particular decisions and opinions that will be necessary to obtain prior to issue of the main decision.

Legal and regulatory affairs

In the first half of 2015, PGE Group companies took part in community consultations led by the Ministry of the Economy as regards forecast environmental impact of the draft of the national programme for radioactive waste and spent fuel management.

In 2015, consultations were held pertaining to the following legal bills, among other things:

- parliamentary draft of a legislative bill amending the Environmental Protection Law and certain other bills;
- a draft legislative bill amending the Act on Local Government and amending certain other bills;
- a draft legislative bill on amending the Act on Disclosure of Information on the Environment and Environmental Protection, Society Participation in Environmental Protection and Environmental Impact Assessments,
- a draft Building Code,
- a draft National Programme for the Development of Low-Carbon Economy,
- a draft Polish Energy Policy until 2050.

Stakeholder relations, education and communication

The investment process is being supported by a range of communication activities that have been on-going since 2011 at both national (including the educational and informational website www.swiadomieoatomie.pl and a newsletter) and local level (e.g. Location Information Points).

In 2015, PGE EJ 1 sp. z o.o. continued its communication activities at both national and local level.

In January 2015, the second edition of the Atom for Science programme was launched, aiming to promote young scientists and popularise knowledge about nuclear energy.

A programme for supporting development of the municipalities where the nuclear plant site might be located was launched. Its aim is to strengthen partnership-based relations between PGE Group and the local communities and authorities of the three municipalities by providing support to initiatives that are of significance to the residents and development of the region. Under this programme, funds were disbursed in 2015 for first projects, including projects relating to infrastructure development and safety improvement in the three municipalities.

PGE EJ 1 sp. z o.o. also continues to carry out cyclical public opinion polls at national and local level with the aim of monitoring the level of support for the nuclear power plant development project as well as expectations relating to communication activities. Results of the polling were presented, showing continuingly strong support (66-78%) for the construction of Poland's first nuclear power plant in municipalities where it might eventually be located and their surrounding areas.

Launch of the 3rd edition of the Atom for Science programme is scheduled for the first quarter of 2016.

9.3 Legal aspects

Claims for annulment of the resolutions of the General Meetings of PGE S.A.

- On April 1, 2014 PGE S.A. received a copy of lawsuit filed to the District Court in Warsaw by one of the shareholders. In the lawsuit, the shareholder is seeking for annulment of the resolutions 1, 2 and 4 of the Extraordinary General Meeting of the Company held on February 6, 2014. The Company filed response to the claim. On June 22, 2015 the District Court in Warsaw dismissed in full the shareholder's claim. On July 28, 2015 the shareholder appealed against that verdict. The Company filed reply to that appeal.
- On August 21, 2015 PGE S.A. received a copy of lawsuit filed to the District Court in Warsaw by one of the shareholders. In the lawsuit, the shareholder is seeking for annulment of the resolution 5 of the Ordinary General Meeting of the Company held on June 24, 2015. On September 21, 2015 the Company filed response to the claim.
- On September 17, 2014 PGE S.A. received a copy of lawsuit filed to the District Court in Warsaw by one of the shareholders. In the lawsuit, the shareholder is seeking for annulment of the resolution 4 of the Ordinary General Meeting of the Company held on June 6, 2014. The Company filed response to the claim.

  On August 13, 2015 the District Court in Warsaw dismissed in full the shareholder's claim. The verdict is not final and binding. On December 7, 2015 PGE S.A. received copy of the appeal by the Claimant. On December 21, 2015 the Company filed response to the appeal.
- On October 23, 2015 PGE S.A. received a copy of lawsuit filed to the District Court in Warsaw by one of the shareholders. In the lawsuit, the shareholder is seeking for annulment of the resolution 1 of the Extraordinary General Meeting of the Company held on September 14, 2015 concerning the election of the Chairperson of the Extraordinary General Meeting. On November 23, 2015 the Company filed response to the claim.

The issue of compensation regarding the conversion of shares

Former shareholders of PGE Górnictwo i Energetyka S.A. filed petitions calling PGE S.A. for a pre-trial settlement with respect of the payment of damages for incorrectly set – as they claim – share exchange ratio of PGE Górnictwo i Energetyka S.A. shares for the shares of PGE S.A. in the consolidation process which took place in 2010. The total value of claims resulting from petitions for pre-trial settlements by former shareholders of PGE Górnictwo i Energetyka S.A. is over PLN 10 million.

Notwithstanding the foregoing, on November 12, 2014 Socrates Investment S.A. (the purchaser of the liabilities from former shareholders of PGE Górnictwo i Energetyka S.A.) filed a lawsuit for compensation in total amount exceeding PLN 493 million (plus interests) for the damage resulting from incorrectly (in opinion of the Socrates Investment S.A.) set share exchange ratio in the consolidation process of PGE Górnictwo i Energetyka S.A. with PGE S.A.

The Company filed its reply to the lawsuit on March 28, 2015. In September 2015 Socrates Investment S.A. presented its letter constituting a response to the Company's reply to the lawsuit.

PGE S.A. does not accept the claims of Socrates Investment S.A. and of the other shareholders filing for a pre-trial settlement. The claims are unsubstantiated. In the opinion of PGE S.A. the whole consolidation process was executed in fair and proper manner. The value of the shares of companies subject to the mergers was assessed by the independent company - PwC Polska sp. z o.o. Additionally, plan of the companies' merger, including the exchange ratio with respect to shares of the acquired company for the shares of the acquiring company were examined for accuracy and reliability by an expert appointed by the registration court; no irregularities were found. Then, an independent court registered the merger of the companies.

Compensations from WorleyParsons

In 2013, PGE EJ 1 sp. z o.o. signed an agreement for environmental studies, site characterisation and services related to obtaining permits and permissions necessary in the investment process associated with the construction of a nuclear power plant with a consortium of WorleyParsons Nuclear Services JSC, WorleyParsons International Inc. and WorleyParsons Group Inc. ("WorleyParsons", the "Contractor"), in the amount of PLN 253 million net (including basic range of PLN 167 million). Due to delays in the implementation of the agreement, in 2013 the company accrued to WorleyParsons a contractual penalty in the amount of PLN 7 million. In addition, in connection with a further improper execution of services in 2014, the company accrued contractual penalties in the total amount of PLN 43 million. On December 23, 2014, PGE EJ 1 sp. z o.o. terminated the contract for reasons attributable to the Contractor.

Contractual penalties of 2013 were deducted from the remuneration payable to WorleyParsons in 2014. Penalties for 2014 in the total amount of PLN 30 million were deducted from the remuneration payable to WorleyParsons and the bank guarantee. After all deductions and amounts received by the company from the bank guarantee, the company is entitled to claim towards WorleyParsons for payment of PLN 14 million as a penalty by way of delay.

On August 7, 2015 PGE EJ 1 sp. z o.o. filed with the District Court in Warsaw, Commercial Division a claim against WorleyParsons for the payment of nearly PLN 15 million plus statutory interest for late payment of the amount due. The claimed amount includes the amount of the outstanding contractual penalties and interest for delay capitalized as at the date of filing the claim.

On January 8, 2016, PGE EJ 1 sp. z o.o. received a statement of defence from WorleyParsons.

On November 13, 2015, PGE EJ 1 sp. z o.o. received a payment demand from WorleyParsons for PLN 59 million due for, according to the claimant, remuneration and cost reimbursement that were incorrectly, according to the claimant, collected by the Company from the bank guarantee. The court obligated PGE EJ 1 sp. z o.o. to submit a statement of defence within three months from receipt.

9.4 Description of material agreements - conclusion of long-term loan agreement with the syndicate of bank

On September 7, 2015 PGE S.A. concluded a long-term loan agreement with a syndicate of banks composed of: BNP Paribas S.A. Branch in Poland, Société Générale S.A., Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Bank Zachodni WBK S.A., mBank S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Polska Kasa Opieki S.A. (Organisers and Lenders) and Bank Handlowy w Warszawie S.A. (as the Facility Agent).

Subject matter of the agreement is granting a loan in two parts i.e. term loan facility of up to PLN 3,630 million and revolving loan facility of up to PLN 1,870 million. The agreement expires on September 30, 2023, wherein final repayment date of the revolving loan facility falls on April 30, 2019 and final repayment date of the term loan facility falls on September 30, 2023. Interest rate on the loans will be based on the floating rate based on the relevant WIBOR rate (reference rate) plus margin. The agreement does not provide for contractual penalties.

The agreement meets criteria of the material agreement since it exceeds value of 10% of PGE's equity. The aggregate value of other agreements concluded by PGE and its subsidiaries with the Banks during 12 months preceding the signing of the Agreement amounted to approx. PLN 3.2 billion.

9.5 PLN 2 billion loan from the European Investment Bank

On October 27, 2015 PGE S.A. concluded two loan agreements with the European Investment Bank for the total amount of nearly PLN 2 billion.

The amount of PLN 1.5 billion, obtained on the basis of the first of the two agreements, will be intended for projects relating to the modernization and development of distribution grid. The funds from the second agreement, which amount to remaining PLN 0.5 billion, will be intended to finance and refinance the construction of cogeneration units in PGE GiEK's Gorzów CHP as well as in PGE GiEK's Rzeszów CHP. The European Investment Bank loans will be available for disbursement over a period of up to 22 months from the date of signing of the agreements. By the agreed terms, the funds shall be repaid within 15 years from the date of the last tranche.

9.6 Completed modernisation of unit no. 9 in Bełchatów power plant

On February 6, 2015 a modernisation of unit no. 9 in Bełchatów power plant was completed. It is one of the last units intended for modernization within the program of complex reconstruction and modernization of units 3-12. Currently unit no. 10 is being modernized.

9.7 Awards and distinctions

Key awards and recognitions received by employees and PGE Group companies in 2015:

PGE S.A.

- PGE: "Pillar of the State Budget"
- PGE: "Company that is changing Polish industry"
- PGE: "Pearl of the Polish Economy 2015"
- "Top Brand 2015" – PGE once again named most-popular brand in its industry
- PGE named "Innovator of 2015" by WPROST
- PGE on the podium of the "Philanthropic Leaders" competition
- PGE as recipient of the "CSR Leaf" award from Polityka
- "Platinum Megawatts" for PGE and "Anniversary Megawatt" for CEO Marek Woszczyk
- PGE S.A. awarded a gold prize in SAP Quality Awards, in the Business Transformation category for Central and Eastern Europe
- PGE S.A. awarded for the best management report on activities
- PGE S.A. named among the world's largest companies – Platts Top 250
- PGE's "eco-mural" in Solina awarded the Golden Drum 2015

PGE GiEK S.A.

- "Pillar of the Polish Economy" award given to the following PGE GiEK S.A. branches: KWB Bełchatów, ZEDO, Elektrownia Turów and Elektrownia Opole
- "Settlement 2014" statuette given to PGE GiEK S.A.
- KWB Bełchatów lignite mine named best investor in the Łódź region

PGE Obrót S.A.

- PGE Obrót named "Customer-Friendly Company"
- "Golden Hundred" – first place in the Sub-Carpathian region by net earnings and sales revenue
- Salesperson of the Year – award given for operating in compliance with the Energy Trading Association's Good Practices for Electricity Sellers and for high service quality
- MANAGER AWARD for the "Energy in the account" deal

PGE Dystrybucja S.A.

- Titles received in regional competitions for largest companies in the Lublin region, organised by Dziennik Wschodni and Kurier Lubelski: "Largest Employer," "Largest Investor," "Largest Profit," "Largest Revenue," and "Largest Company""

PGE Systemy S.A.

- Named "Leader in Protecting Confidential, Business and Personal Data" by the National Association for Protection of Confidential Information

Exatel S.A.

- „CRM Excellence Award"

9.8 Change of accounting policy

On the ground of the resolution of PGE's Management Board, „Accounting policy compliant with IFRS for the Companies of PGE Polska Grupa Energetyczna S.A. Capital Group" has been amended. Starting from the financial statements for the first half of 2015, the impairment of property, plant and equipment, intangible assets and goodwill are recognized in costs of goods sold, while in costs by type in item "Depreciation, amortization and impairment losses". Before the change of accounting policy impairment of property, plant and equipment had been recognized in other operating expenses.

Amended accounting policy applies IFRS in a better way and provides higher transparency and comparability of the financial statements with the European energy groups.

9.9 Change of dividend policy

The Management Board of PGE decided to adopt a new dividend policy. Previous dividend policy determined Management Board's declaration with regard to dividend proposal to the General Meeting of the Company at the level of 40-50% of consolidated net profit.

According to the amended policy, the Management Board of PGE intends to make a recommendation to the General Meeting of the Company of dividend for shareholders at the level of 40-50% of the consolidated net profit adjusted by the value of impairment loss. Management Board of PGE reserves that for each individual distribution, the amount of the dividend will depend, in particular, on the Company's overall indebtedness, expected capital expenditures and prospective acquisitions. The dividend policy will be verified periodically by the Management Board of PGE.

9.10 Changes in the statutes

On August 12, 2015 the District Court of the City of Warsaw, XII Commercial Division of the National Court Register registered the changes to the Company's Statutes made on the ground of the resolution no 32 of the Ordinary General Meeting of the Company of June 24, 2015.

Changes related mainly to:

- amendments of the editorial, legislative and formal character
- introduction of an open catalogue of the most common activities beyond ordinary management, as activities requiring the resolution of the Management Board, aiming to clarify the rules for internal management of the Company's affairs
- change of minimal composition of the Management Board (previously 2 persons, currently 1 person)
- extending competencies of the Supervisory Board and clarifying and supplementing the competence to evaluate the Management Board's reports on the activities of the PGE Capital Group and to appoint the statutory auditor.
- establishing a duty for a shareholder of the Company to submit a written statement confirming that the candidate meets the independence criteria
- adding a provision that meetings of the Supervisory Board may be held without a formal convening
- clarification of the rules for remuneration of a Supervisory Board member temporarily delegated to perform the duties of the Management Board member
- introduction of guidelines with regard to calculation of value of liabilities resulting from agreements and other commitments.

The Supervisory Board determined a consolidated text of the Statutes of the Company and adopted it in a resolution of August 26, 2015.

9.11 Commissioning and start-up of new wind farms

In 2015 the following wind farms were commissioned:

- Karwice wind farm with installed capacity of 40 MW, for which concession for electricity generation was obtained on July 24, 2015;
- Resko II wind farm with installed capacity of 76 MW, for which concession for electricity generation was obtained in December 2015;
- Lotnisko wind farm with installed capacity of 90 MW, for which concession for electricity generation was obtained in January 2016;
- Kisielice II wind farm with installed capacity of 12 MW, which awaits concession for electricity generation.

9.12 Extension of operation time of unit no. 1 in Bełchatów power plant

On October 27, 2015 the Management Board of PGE GiEK S.A. issued approval for extension of operation time of unit no. 1 in Bełchatów power plant beyond December 31, 2015 as a "peak-reserve" source. Number of operation hours of the unit is limited to 1,500 per year.

9.13 Fitch Ratings assigned a rating for planned Eurobonds issue

On September 10, 2015 Fitch Ratings assigned an expected foreign currency senior unsecured rating of 'BBB+ (EXP)' to PGE Sweden AB (publ)'s planned Eurobonds issue under EUR 2,000,000,000 Euro Medium Term Note Programme established on May 22, 2014.

9.14 Decisions of the President of the Energy Regulatory Office related to realisation of LTC Act

Some generating entities, currently branches of PGE GiEK S.A., became entitled to receive funds to cover stranded costs (so-called "LTC compensation") pursuant to the LTC Act. The LTC Act is ambiguous in many points and raise important questions of interpretation. The calculation of the estimated results of each entity and resulting compensations, annual adjustments of stranded costs and final adjustments as well as resulting revenues recognized in the statement of comprehensive income was performed by the Group with the best of its knowledge in this area and with support of external experts.

Until the preparation date of this report, producers from PGE Group received decisions on annual adjustments of stranded costs and costs related to natural gas fired entities for 2008-2014. The part of these decisions were disadvantageous for the particular entities and the Group believes that they were issued in violation of the Long-Term Contracts Act. As a consequence, since 2009, a number of proceedings have been pending before the Regional Court in Warsaw - Competition and Consumer Protection Court ("CCP Court") and before the Court of Appeal. These proceedings are currently at various levels of advancement.

In 2015:

- In connection with expiry of the period in which the ERO President could file a cassation appeal relating to a ruling by the Court of Appeal on determining the annual adjustment for stranded costs due to PGE GiEK S.A. for 2010 and to PGE GiEK S.A. Branch Elektrownia Opole for 2009, these proceedings were completed. The claim value in these proceedings totalled PLN 635 million.
- On February 20, 2015, the Supreme Court issued an order that a cassation appeal be deferred in the matter of determining the annual adjustment for stranded costs due to PGE GiEK S.A. Branch Elektrownia Opole (claim value of PLN 179 million), PGE GiEK S.A. Branch ZEDO (claim value of PLN 42 million) and PGE GiEK S.A. Branch Elektrociepłownia Lublin Wrotków for 2008 (claim value of PLN 27 million) and for PGE GiEK S.A. Branch Elektrociepłownia Rzeszów for 2009 (claim value of PLN 45 million) until a resolution is reached by the European Court of Justice in PGE GiEK S.A. Branch ZEDO's 2009 (claim value of PLN 93 million) case.
- A favourable judgment was passed by the Competition and Consumer Protection Court in a case pertaining to the annual adjustment for costs arising in gas-fired units at PGE GiEK S.A. Branch Elektrociepłownia Rzeszów for 2012. The judgment has not become final. The ERO President has filed an appeal with the Court of Appeal. The value of the matter at issue is PLN 7 million.
- The ERO President has filed a cassation appeal with the Supreme Court regarding a ruling by the Court of Appeal in a case concerning determining the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. Branch Elektrociepłownia Lublin Wrotków for 2009. On May 22, 2015, the Supreme Court issued a decision to postpone examination of a cassation appeal until the European Court of Justice rules in a case involving PGE GiEK S.A. Branch ZEDO for 2009. Claim value in this case amounts to nearly PLN 7 million.
- PGE GiEK S.A. filed a cassation appeal with the Supreme Court relating to a ruling by the Court of Appeal in a matter on determining the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. for 2010. Claim value amounts to PLN 5 million.
- PGE GiEK S.A. filed a cassation appeal with the Supreme Court, regarding the verdict of the Court of Appeal in case of determining the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. Branch Elektrociepłownia Rzeszów for 2009. Claim value in this case amounts to PLN 4 million.
- In December 2015 PGE GiEK S.A. filed a cassation appeal with the Supreme Court, regarding verdict of the Court of Appeal in a case concerning determining the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. Branch Elektrociepłownia Rzeszów for 2011. Claim value in this case amounts to nearly PLN 6 million.

On August 6, 2015 PGE GiEK S.A. received an administrative decision of the ERO President concerning the annual adjustment of the stranded costs for the year 2014. Annual adjustment of the stranded costs generated in generating units PGE GiEK S.A. Branch Elektrownia Turów and PGE GiEK S.A. Branch Elektrownia Opole for the year 2014 amounts to app. PLN (+) 559 million. The company does not dispute this amount. Advances for 2014 amounted to PLN 299 million.

On August 24, 2015 the Management Board of PGE GiEK S.A. filed with the ERO President a request for advance for the generating units PGE GiEK S.A. Branch Elektrownia Turów and PGE GiEK S.A. Branch Elektrownia Opole amounting to approx. PLN 229 million. The amount is equal to the maximal value of stranded costs for PGE GiEK S.A. for 2016, that was updated by the ERO President decision of July 21, 2015.

On July 31, 2015 a lawsuit was sent to the District Court in Warsaw in case filed by PGE GiEK S.A. against the State Treasury – ERO President for compensation for lost profits of the company, due to issue of unfavourable decisions regarding stranded costs for 2008. On January 7, 2016, the company lodged an application in court to change the action for damages as regards the amount of compensation. Currently, the amount of compensation is PLN 57 million.

On July 30, 2015 PGE GIEK S.A. sent to the State Treasury - President of ERO an application for a summons to a conciliation hearing addressed in case of payment to the company the amount of PLN 468.3 thousand as compensation for lost profits in connection with the issue of an unfavourable decision for 2011. On October 23, 2015 no settlement was reached at the conciliation meeting.

On January 27, 2016 the court case was conducted at the Court of Justice of the European Union on pre-judicial question submitted to the Court of Justice by the Supreme Court. All parties presented their statements. PGE GiEK S.A. awaits a verdict of the Court of Justice of the European Union.

The Court of Appeal set a court date of February 19, 2016 in a case relating to the amount of annual correction of stranded costs due for GiEK S.A. Branch Elektrownia Opole for 2010. The value of the dispute is approximately PLN 142 million.

Impact on the financial statements for the period ended December 31, 2015

In the financial statements for the period ended December 31, 2015, the Group recognized LTC revenue in sales revenue in the amount of PLN 546 million.

The value of disputes in all matters relating to the years 2008 – 2012 amounts to PLN 1,660 million, including the value of disputes favourably resolved for PGE Group by the Court of Appeal and a favourable final judgment by the CCP Court in the amount of PLN 1,429 million.

In the period 2008 – 2015 the PGE Capital Group recognised LTC revenues in total amount of PLN 7,086 million.

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

As at December 31, 2015 PGE S.A. and its subsidiaries were not a party of any proceedings concerning payables or debts whose total value would constitute at least 10% of the Company's equity.

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

9.16 Information on issue, redemption and repayment of debt securities and other securities

Information on issue, redemption and repayment of debt securities and other securities were described in Note 27 to the consolidated financial statements and p. 7.1. of the foregoing report.

10 Statements of the Management Board

10.1 Statement on the reliable preparation of the financial statements

To the best knowledge of the Management Board of PGE S.A., the annual consolidated 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 PGE Capital Group and its financial result.

The report of the Management Board on the activities of PGE Capital Group presents a true view of the development, achievements and situation of the Capital Group, and provides a description of the basic risks and threats.

10.2 Statement on the entity authorised to audit the financial statements

The Management Board of PGE S.A. declares that the entity authorised to audit the financial statements, which audits the annual consolidated 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.

11 Approval of the Management Board's Report

The foregoing Management Board's Report on activities of the Capital Group of PGE Polska Grupa Energetyczna S.A. was approved for publication by the Management Board of the parent company on February 16, 2016.

Warsaw, February 16, 2016

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

President
of the Management Board **Marek Woszczyk**

Vice-President
of the Management Board **Grzegorz Krystek**

Vice-President
of the Management Board **Marek Pastuszko**

OVERVIEW OF GRI G4 AND GLOBAL COMPACT INDICATORS

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G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender.	**GC-6**	131
Material aspect: Diversity and Equal Opportunity			
G4-DMA	DMA Diversity and Equal Opportunity		125-126
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	**GC-6**	126

Social indicators: society			
DMA Anti-corruption			
G4-DMA	DMA Anti-corruption	**GC-10**	91-95; 122-123
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	**GC-10**	In 2015 44% of PGE business units ere subject of analysis. Following units from the Group were taken into consideration PGE S.A .; PGE GiEK S.A .; PGE EO S.A .; PGE Obrót S.A .; PGE Dystrybucja S.A.; PGE EJ1 Sp. z o.o.; EXATEL S.A .; PGE Systemy S.A .; PGE Dom Maklerski S.A.
Social indicators: Product Responsibility			
Material Aspect: Product and Service Labeling			
G4-DMA	DMA Product and Service Labeling		141-142
G4-PR5	Results of surveys measuring customer satisfaction		141-142
Material Aspect: Customer Privacy			
G4-DMA	DMA Customer privacy		139-141
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data		In 2015 there was one such case in PGE Obrót. The customer was excused and the disciplinary conversation with the employee was carried out.
Material Aspect: Availability of Products and Services			
G4-DMA	DMA Availability Product and Service		139- 141
G4-EU29	Average power outage duration		60

GLOSSARY

Ancillary control services (ACS)	services provided to the transmission system operator, which are indispensable for the proper functioning of the national power system and ensure the keeping of required reliability and quality standards.
Achievable capacity	the maximum sustained capacity of a generating unit or generator, maintained continuously by a thermal generator for at least 15 hours or by a hydroelectric generator for at least five hours, at standardized operating conditions, as confirmed by tests.
Balancing market	a technical platform for balancing electricity supply and demand on the market. The differences between the planned (announced supply schedules) and the actually delivered/offtaken volumes of electricity are settled here. The purpose of the balancing market is to balance transactions concluded between individual market participants and actual electricity demand. The participants of the balancing market can be the generators, customers for electricity understood as entities connected to a network located in the balancing market area (including offtakers and network customers), trading companies, electricity exchanges and the TSO as the balancing company.
Base, baseload	standard product on the electricity market: a constant hourly power supply per day in a given period, for example week, month, quarter or year.
Biomass	solid or liquid substances of plant or animal origin, subject to biodegradation, obtained from agricultural or forestry products, waste and remains or industries processing their products as well as certain other biodegradable waste in particular agricultural raw materials.
Black energy	popular name for energy generated as a result of combustion of black coal or lignite.
CCS	Carbon Capture and Storage Technology used to capture CO_2 from the emissions of fossil fuel power plants followed by its underground storage.
CDM	Clean Development Mechanisms, one of the flexible mechanisms introduced under Article 12 of the Kyoto Protocol.
CER	Certified Emission Reduction.
Co-combustion	the generation of electricity or heat based on a process of combined, simultaneous combustion in one device of biomass or biogas together with other fuels; part of the energy thus generated can be deemed to be energy generated with the use of renewable sources.
Co-generation	the simultaneous generation of heat and electricity or mechanical energy in the course of one and the same technological process.
Constrained generation	the generation of electricity to ensure the quality and reliability of the national power system; this applies to generating units in which generation must continue due to the technical limitations of the operation of the power system and the necessity of ensuring its adequate reliability.
Distribution	transport of energy through distribution grid of high (110 kV), medium (15kV) and low (400V) voltage in order to supply the customers.
Distribution System Operator (DSO)	a power company engaging in the distribution of gaseous fuels or electricity, responsible for traffic in the gas or electricity distribution systems, current and long-term security of operation of the system, the operation, maintenance, repairs and indispensable expansion of the distribution network, including connections to other gas or power systems.
ERO	Energy Regulatory Office (pol. URE).
ERU	Emission Reduction Units.
EUA	European Union Allowances: transferable CO_2 emission allowances; one EUA allows an operator to release one tonne of CO_2.
EU ETS	European Union Greenhouse Gas Emission Trading Scheme) EU emission trading scheme. Its operating rules are set out in the ETS Directive, amended by the Directive 2009/29/EC of the European Parliament and of the Council of April 23, 2009 (OJ EU L. of 2009, No. 140, p. 63—87).
Generating unit	a technically and commercially defined set of equipment belonging to a power company and used to generate electricity or heat and to transmit power.
GJ	Gigajoule, a unit of work/heat in the SI system, 1 GJ = 1000/3.6 kWh = approximately 278 kWh.
GPZ	main power supply point, a type of transformer station used for the processing or distribution of electricity or solely for the distribution of electricity.
Green certificate	popular name for energy generated from renewable energy sources.
GW	gigawatt, a unit of capacity in the SI system, 1 GW = 109 W.
Gwe	one gigawatt of electric capacity.
GWt	one gigawatt of heat capacity.
HICP	Harmonised Index of Consumer Process
High Voltage Network (HV)	a network with a nominal voltage of 110 kV.
Highly efficient co-generation	the generation of electric or mechanical power and useful heat through co-generation, in such a way as to ensure savings of primary energy used in: (i) a co-generation unit in the amount not lower than 10 per cent. as compared to generation of electric power and heat in separated systems with reference efficiency for separated

	generation; or (ii) co-generation unit with an installed capacity under 1 MW as compared to generation of electric power and heat in separated systems with reference efficiency for separated generation.
IGCC	Integrated Gasification Combined Cycle.
Installed capacity	the formal value of active power recorded in the design documentation of a generating system as being the maximum achievable capacity of that system, confirmed by the acceptance protocols of that system (a historical value, it does not change over time.
IRiESP	the Transmission Network Operation and Maintenance Manual required to be prepared by a transmission system operator pursuant to the Energy Law; instructions prepared for power networks that specify in detail the terms and conditions of using these networks by system users as well as terms and conditions for traffic handling, operation and planning the development of these networks; sections on transmission system balancing and system limitation management, including information on comments received from system users and their consideration, are submitted to the ERO President for approval by way of a decision.
JI	Joint Implementation: one of the flexibility mechanisms introduced under Article 6 of the Kyoto Protocol.
Kyoto Protocol	the Kyoto Protocol to the United Nations Framework Convention on Climate Change of December 11, 1997 (Dz.U. of 2005, No. 203, Item 1684), in force since February 16, 2005.
KSE	the National Power System, a set of equipment for the distribution, transmission and generation of electricity, forming a system to allow the supply of electricity in the territory of Poland.
KSP	the National Transmission System, a set of equipment for the transmission of electricity in the territory of Poland.
kV	kilo volt, an SI unit of electric potential difference, current and electromotive force; 1kV= 103 V.
kWh	kilowatt-hour, a unit of electric energy in the SI system defined as the volume of electricity used by the 1 kW equipment over one hour. 1 kWh = 3,600,000 J = 3.6 MJ.
Low Voltage Network (LV)	a network with a nominal voltage not exceeding 1 kV.
LTC	Long-term contracts on the purchase of capacity and electricity entered into between Polskie Sieci Elektroenergetyczne S.A. and electricity generators in the years 1994-2001.
Medium-voltage network (MV)	an energy network with a nominal voltage higher than 1 kV but lower than 110 kV.
MEV	Minimum Energy Volumes.
MW	a unit of capacity in the SI system, 1 MW = 106 W.
Mwe	one megawatt of electric power.
MWt	one megawatt of heat power.
NAP	National emissions Allocation Plan, prepared separately for the national emission trading system and for the EU emission trading system by the National Administrator of the Emission Trading System.
NAP II	National CO2 emissions Allocation Plan for the years 2008-2012 prepared for the EU emission trading system adopted by the Ordinance of the Council of Ministers of July 1, 2008 (Dz. U. of 2008, No. 202, item 1248).
Nm^3	normal cubic meter; a unit of volume from outside the SI system signifying the quantity of dry gas in 1 m3 of space at a pressure of 101.325 Pa and a temperature of 0°C.
NO_x	nitrogen oxides.
Peak, peakload	a standard product on the electricity market; a constant power supply from Monday to Friday, each hour between 7:00 a.m. and 10:00 p.m. (15-hour standard for the Polish market) or between 8:00 a.m. and 8:00 p.m. (12-hour standard for the German market) in a given period, for example week, month, quarter or year.
Peak power pumped storage plants	a special kind of hydroelectric power plants. In addition to river flow and the difference in the water table levels they need two bodies of water connected with a channel or a pipeline. The power station is situated next to the lower lake or at the dam of the upper lake. The pumped storage facilities provide ancillary control services for the national power system. Their functions are to secure stability, provide passive energy, store excessive power in the system and supply power to the system in peak time. The pumped storage plants that have a natural inflow of water to the upper lake also generate electricity from renewable sources. The main offtaker of electricity produced by the peak power pumped storage power stations and their services is TSO
Property rights	negotiable exchange-traded rights under green and co-generation certificates
RAB	Regulatory Asset Base.
Red certificate	a certificate confirming generation of electricity in co-generation with heat.
Red energy	popular name for electricity co-generated with heat.
Regulator	the President of ERO, fulfilling the tasks assigned to him in the energy law. The regulator is responsible for, among others, giving out licenses for energy companies, approval of energy tariffs, appointing Transmission System Operators and Distribution System Operators.
Renewable Energy Source (RES)	a source of generation using wind power, solar radiation, geothermal energy, waves, sea currents and tides, flow of rivers and energy obtained from biomass, landfill biogas as well as biogas generated in sewage collection or treatment processes or the disintegration of stored plant or animal remains.

Tariff	the list of prices and rates and terms of application of the same, devised by an energy enterprise and introduced as binding on the customers specified therein in the manner defined by an act of parliament.
Tariff group	a group of customers offtaking electricity or heat or using services related to electricity or heat supply to whom a single set of prices or charges and terms are applied.
TFS	Tradition Financial Services, an electricity trading platform used for concluding various transactions, purchase and sale of conventional energy, property rights, renewable energy and CO2 emission allowances.
TGE	Towarowa Giełda Energii S.A. (Polish Power Exchange), a commodity exchange on which trading can take place in electricity, liquid or gas fuels, extraction gas, emission allowances and property rights whose price depends directly or indirectly on electric energy, liquid or gas fuels and emission allowances, admitted to commodity exchange trading.
TPA, TPA rule	Third Party Access, the owner or operator of the network infrastructure to third parties in order to supply goods/services to third party customers.
Transmission	transport of electricity through high voltage (220 and 400 kV) transmission network from generators to distributors.
Transmission System Operator (TSO)	a power company engaging in the transmission of gaseous fuels or electric energy, responsible for traffic in a gas or power transmission system, current and long-term security of operation of that system, the operation, maintenance, repair and indispensable expansion of the transmission system, including connections with other gas or power systems. In Poland, for the period from July 2, 2014 till December 31, 2030 Polskie Sieci Elektroenergetyczne S.A. was chosen as a TSO in the field of energy transmission.
TWh	terawatt hour, a multiple unit for measuring of electricity unit in the system SI. 1 TWh is 109 kWh.
Ultra-high-voltage network (UHV)	an energy network with a voltage equal to 220 kV or higher.
V (volt)	electrical potential unit, electric voltage and electromotive force in the International System of Units (SI), 1 V= 1J/1C = (1 kg x m^2) / (A x s3).
W (watt)	a unit of power in the International Systems of Units (SI), 1 W = 1J/1s = 1 kg x m^2 x s-3.
Yellow certificate	a certificate confirming generation of energy in gas-fired power plants and CCGT power plants.
Yellow energy	popular name for energy generated in gas-fired power plants and CCGT power plants.