

MANAGEMENT BOARD'S REPORT ON ACTIVITIES
OF PGE POLSKA GRUPA ENERGETYCZNA S.A.
FOR THE YEAR 2013





CONTENTS

1. GENERAL INFORMATION ABOUT PGE S.A.	6
1.1. ACTIVITIES OF THE COMPANY	6
1.2. IMPLEMENTATION OF STRATEGY AND PROSPECTS FOR DEVELOPMENT OF COMPANY AND THE GROUP	6
1.2.1. Implementation of the PGE Capital Group's strategy in 2013	6
1.2.2. Factors important for the development of the Company and PGE Capital Group	12
2. FACTORS AND EVENTS AFFECTING THE OPERATIONS OF PGE S.A.	15
2.1. MACROECONOMIC SITUATION	15
2.1.1. Electricity prices	15
2.2. FINANCIAL RESULTS OF PGE S.A.	23
2.2.1. Statement of comprehensive income	23
2.2.2. Statement of financial position	27
2.2.3. Statement of cash flows	29
2.3. DESCRIPTION OF SIGNIFICANT AGREEMENTS	30
2.3.1. Agreement for sales of electricity to PGE Obrót S.A.	30
2.3.2. EFET Framework Agreement for sale of electricity to ENERGA – OBRÓT SA	30
2.3.3. Agreements with electricity generators from the PGE Group	30
2.3.4. Hard coal delivery agreements	30
2.3.5. Agreement with Powszechna Kasa Oszczędności Bank Polski S.A. ("PKO BP")	31
2.4. TRANSACTIONS WITH RELATED ENTITIES	31
2.5. INFORMATION CONCERNING PROCEEDINGS IN FRONT OF COURT, BODY APPROPRIATE FOR ARBITRATION PROCEEDINGS OR IN FRONT OF PUBLIC ADMINISTRATION AUTHORITIES	31
2.6. PUBLICATION OF FINANCIAL FORECASTS	31
2.7. ENTITY AUTHORISED TO AUDIT OF FINANCIAL STATEMENTS	31
2.8. MANAGEMENT OF FINANCIAL RESOURCES AND FINANCIAL LIQUIDITY	32
2.8.1. Rating	32
2.8.2. Main financial ratios	34
2.8.3. Bonds issued	35
2.8.4. Bank loans and advances	37
2.8.5. Loans granted	38
2.8.6. Guarantees	39
2.8.7. Evaluation of investment capacities	40
3. RISKS AND THREATS OF THE PGE CAPITAL GROUP	41



3.1. RISK FACTORS CONNECTED WITH MARKET ENVIRONMENT AND GENERAL MACROECONOMIC SITUATION IN POLAND AND IN THE WORLD	41
3.1.1. Risk connected with macroeconomic situation	41
3.1.2. Risk relating to an increasing competition	41
3.1.3. Risk of a decrease in demand for electricity and heat.....	42
3.2. RISK FACTORS CONNECTED WITH REGULATORY AND LEGAL ENVIRONMENT.....	42
3.2.1. Political risk	42
3.2.2. Risk of instability of legal environment	42
3.2.3. Risk associated with amendments to the support schemes for renewable and cogeneration sources	43
3.2.4. Risk connected with the requirement for licenses.....	43
3.2.5. Risk resulting from the potential violation of antitrust regulations	44
3.2.6. Risk connected with the programme of CO ₂ emissions reduction	44
3.2.7. Risk of more stringent restrictions with respect to emissions to the environment of substances other than CO ₂	45
3.3. RISK FACTORS CONNECTED WITH THE OPERATING ACTIVITY OF THE PGE CAPITAL GROUP.....	46
3.3.1. Risk of disruption of fuel supplies and insufficient stocks of fuel	46
3.3.2. Risk connected with mining site rehabilitation expenses.....	46
3.3.3. Risk connected with weather conditions	47
3.3.4. Risk relating to maintenance, repairs, modernisations and investments	47
3.3.5. Risk of unsettled legal status of the real estates.....	47
3.3.6. Risk relating to obtaining and cost of external financing (downgrade or withdrawal of the rating of PGE)	48
3.3.7. Risk associated with the decisions of the President of the Energy Regulatory Office regarding the implementation of LTC Act	48
3.3.8. Risk of transfer prices	48
3.3.9. Risk of insufficient insurance protection	49
3.3.10. Risk relating to court, arbitration and administrative proceedings and employees' claims	49
3.3.11. Risk of asset impairment	50
3.4. FINANCIAL AND MARKET RISKS	50
3.4.1. Commodity price risk.....	50
3.4.2. Interest rate risk	50
3.4.3. Foreign exchange risk.....	51
3.4.4. Liquidity risk	52
3.4.5. Credit Risk.....	52

4. OTHER EVENTS OF THE REPORTING PERIOD AND SUBSEQUENT EVENTS ...54



4.1. AGREEMENT ON THE EXPLORATION FOR AND EXTRACTION OF SHALE GAS.....	54
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5. STATEMENT ON IMPLEMENTATION OF CORPORATE GOVERNANCE55

5.1. CORPORATE GOVERNANCE PRINCIPLES WHICH THE COMPANY WAS OBLIGED TO FOLLOW IN 2013.....	55
5.2. INFORMATION ON EXCEPTIONS IN APPLICATION OF THE CORPORATE GOVERNANCE PRINCIPLES.....	55
5.3. DESCRIPTION OF THE BASIC PROPERTIES OF INTERNAL CONTROL SYSTEMS AND RISK MANAGEMENT SYSTEMS USED IN THE COMPANY DURING PREPARATION OF THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS	57
5.4. SHAREHOLDERS WITH A SIGNIFICANT STAKE	59
5.5. SHAREHOLDERS WITH SPECIAL CONTROL POWERS	59
5.6. LIMITATIONS REGARDING EXERCISE OF THE VOTING RIGHTS FROM THE EXISTING SHARES	60
5.7. LIMITATIONS REGARDING THE TRANSFER OF OWNERSHIP OF THE COMPANY'S SECURITIES	61
5.8. RULES FOR AMENDMENTS TO THE COMPANY'S STATUTES.....	61
5.9. MODE OF OPERATION OF THE GENERAL MEETING OF THE COMPANY, ITS KEY POWERS AND THE RIGHTS OF SHAREHOLDERS AND THE MANNER OF THEIR EXECUTION	61
5.10. COMPOSITION AND THE DESCRIPTION OF OPERATIONS OF THE MANAGEMENT AND SUPERVISORY BODIES OF THE COMPANY AND COMMITTEES OF THE SUPERVISORY BODY	65
5.10.1. Management Board	65
5.10.2. Supervisory Board.....	69

6. ORGANISATION OF PGE S.A.....80

6.1. CHANGES IN ORGANISATION OF THE COMPANY IN 2013	81
6.2. CHANGES IN THE ORGANISATION OF THE COMPANY AND THE CAPITAL GROUP AFTER THE BALANCE SHEET DATE 83	
6.3. CHANGES IN MANAGEMENT RULES IN THE COMPANY AND IN THE CAPITAL GROUP.....	84
6.4. REMUNERATION OF THE MANAGEMENT OF PGE S.A.	84
6.4.1. Rules with respect to the determination of remuneration for the Management Board Members of PGE S.A. 84	
6.4.2. Rules with respect to the determination of remuneration for the Supervisory Board Members of PGE S.A. 86	

7. INFORMATION ABOUT SHARES AND OTHER SECURITIES87

7.1.1. Share capital and ownership structure.....	87
7.1.2. Treasury shares	87
7.1.3. Shares of the parent company owned by the members of management and supervisory authorities	87



7.1.4.	Control system of employees share scheme.....	89
7.1.5.	Use of proceeds from issues	89

8. COMMITMENT90

8.1.	PGE FOUNDATION "ENERGY FROM HEART"	90
8.2.	PGE AND WORK ENVIRONMENT	91
8.2.1.	Employees at PGE S.A.....	91
8.2.2.	Freedom of association	91
8.2.3.	Health and Safety at Work	91
8.2.4.	Human resources development.....	92
8.3.	PGE AND THE NATURAL ENVIRONMENT	93
8.4.	PGE AND RESEARCH AND DEVELOPMENT	94
8.5.	PGE AND CUSTOMER RELATIONS	94
8.6.	PGE AND EDUCATION	95
8.6.1.	Proprietary educational programmes	95
8.6.2.	Educational and information activities in the PGE EJ 1 sp. z o.o. nuclear company.....	96
8.7.	PGE AND HUMAN RIGHTS	97
8.8.	PGE AND PROMOTION OF OTHER SOCIAL GOALS	97

9. STATEMENTS OF THE MANAGEMENT BOARD.....100

9.1.	STATEMENT ON THE RELIABLE PREPARATION OF THE FINANCIAL STATEMENTS.....	100
9.2.	STATEMENT ON THE ENTITY AUTHORISED TO AUDIT THE FINANCIAL STATEMENTS	100



1. General information about PGE S.A.

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

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

The controlling entity of the Company is the State Treasury, which held 61.89% of the share capital as at December 31, 2013 (according to the notification from the State Treasury of March 1, 2012, about which the Company informed in the current report no. 7/2012 dated March 1, 2012).

1.1. Activities of the Company

Core operations of the Company comprise:

- Activity comprising of tasks of the parent company of the Capital Group, including development strategy and strategic management of the Capital Group, focusing on efficient management of the Group portfolio,
- Wholesale trading of electricity on the market and in the Capital Group; Activity with regard to the electricity trading is carried out pursuant to the requirements resulting from the Energy Law of April 10, 1997 and related regulations, as amended,
- Trading of related products i.e. emission rights (CO₂) and energy certificates of origin (Property Rights), executed mainly in order to fulfill legal obligations of purchase and redemption of these assets by the Group companies,
- Rendering of services for the Group companies with regard to commercial management of generation capacities and electricity produced, running of the balancing group and rendering scheduling coordinator services for the PGE Group companies.

1.2. Implementation of strategy and prospects for development of Company and the Group

1.2.1. Implementation of the PGE Capital Group's strategy in 2013

In 2013, the PGE Capital Group carried out strategic projects in key areas of operation, i.e. electricity generation from conventional and renewable sources, lignite mining, sale and distribution of electricity to final customers, generation and sale of heat, and wholesale trading in electricity on the domestic market.

In 2013, numerous changes in the market and regulatory environment had a significant impact on the operations of the PGE Capital Group, including in particular:



- Further decrease of wholesale electricity prices, mainly as result of slower growth in demand for electricity, an increase in the supply from renewable energy sources and a fall in prices of CO₂ emission rights and hard coal;
- Preparations for the implementation of the operational reserve mechanism as of January 1, 2014;
- Work on the 2030 Framework of the European Commission and measures aiming at tightening the climate and energy policy, i.e. BAT/BREFS reference documents (tightening of environmental protection requirements arising out of the best available techniques);
- Submission of a bill draft regarding the new support scheme applying to renewable energy sources and co-generation.

In the light of the new market conditions and regulations, the PGE Capital Group continued preparations for the execution of strategic investment projects and adaptation to challenges in the area of:

- conventional energy through the construction and operation of new, highly-efficient generation units using national fuel resources;
- nuclear power through the execution of the nuclear power plant construction program aimed at the diversification of the PGE Capital Group's generation portfolio, and therefore supporting the implementation of the European Union's climate policy objectives;
- renewable energy through undertakings of investment projects within the existing portfolio and through acquisitions;
- distribution of electricity through investments and power grid modernisation in order to ensure safe and uninterrupted supply of power to customers.

In addition, intensive efforts were undertaken in order to design a plan for the adjustment of the PGE Capital Group's generation assets to the environmental requirements under the Directive 2010/75/EU of the European Parliament and of the Council of November 24, 2010 on industrial emissions – integrated pollution prevention and control (the so-called IED Directive).

The dynamically changing market conditions and their anticipated long-term nature were also reflected in other operational activities undertaken by the PGE Capital Group. The implementation process with regard to the new operating model for the PGE Capital Group was continued and further intensive measures were taken in view of improving efficiency, including the initiation of an extensive optimization program aimed at the company's operations and investments in the area of conventional generation and distribution.

1.2.1.1 Purchase and integration of wind farms in PGE Capital Group

In 2013 the acquisition of wind farms was completed that are the next step in the implementation of the PGE Capital Group strategy with regard to the on-shore wind energy.

In 2013 PGE S.A. acquired wind farms located in Poland belonging to DONG Energy Wind Power A/S and Iberdrola Renovables Energía, S.A.U. and European Bank for Reconstruction and Development ("EBRD").



Value of both transactions (Enterprise Value) for PGE S.A. amounts to approx. PLN 1.05 billion. Transactions were conducted jointly with Energa Hydro sp. z o.o. (currently Energa Wytwarzanie sp. z o.o.)

After taking control over new assets, the parties commenced operations resulting from the agreements between PGE S.A. and Energa Wytwarzanie sp. z o.o. settled in the Consortium Agreement and Co-operation Agreement. These agreements determine the rules for division of assets between the parties after closing of the transactions. Division of assets was completed on February 28, 2014.

At the same time, an integration process of newly acquired assets into the Group structure has begun. It aims at improvement of organisational efficiency and use potential feasible synergies as a result of acquisition of assets and organizational structures including human capital (competences, knowledge, experience and know-how of the team. Optimisation activities connected with the streamlining of capital structure and consolidation of special purpose vehicles will be continued in 2014.

With the account taken to assets acquired in 2013 and finished developer's projects, PGE Group was operating wind farms with a total installed capacity of 283 MW as at the end of 2013.

1.2.1.2 Restructuring of the Company and the PGE Group

In 2013, projects aimed at reorganizing and restructuring of the PGE Capital Group operations were continued. Wide-ranging activities included a detailed analysis of the mutual business and operational relations, construction of a new Operating Model for PGE Capital Group, consolidation of IT services, continuation of the implementation of a centralised and integrated ERP (Enterprise Resource Planning system) designed by SAP.

Merger with PGE EJ S.A.

On July 31, 2013 the District Court of the City of Warsaw registered the merger of PGE S.A. with its subsidiary PGE Energia Jądrowa S.A. PGE Energia Jądrowa S.A. was a subsidiary of PGE S.A. that was responsible for preparation of project of construction of nuclear power plant.

The goals of the merger included: simplifying the capital structure of the PGE Group, reduction of costs associated with maintaining a separate entity and increasing the efficiency of managing the preparation of the project of building a nuclear power plant from the level of the Corporate Centre.

Operational activities related to nuclear energy are carried out by PGE EJ 1 sp. z o.o. with the participation of PGE S.A. These activities include:

Environmental and site characterization

On February 7, 2013 PGE EJ 1 sp. z o.o. signed an agreement with syndicate of WorleyParsons companies ("Contractor"). The subject-matter of the agreement is the environmental research, site characterisation and services connected with obtaining permits and rights which are necessary in the investment process. On March 8, 2013 the Contractor received authorisation for commencement of the works with the indications for Choczewo and Żarnowiec localisations, which will be subject to the research.



In September 2013 the Contractor finished so called mobilisation stage, which included detailed planning of the work and preparation for the implementation thereof, inter alia quality management, work safety, risk management, stakeholder management, subcontracting, environmental protection, development of specific methodologies for natural inventory, project implementation plan and schedule for carrying out the work.

The completion of mobilisation stage allowed for the start of the next phase of the project including, among others, land and sea natural inventory, preparation of facilities and infrastructure for the implementation of the research locations, obtaining permits for field work and the installation of a meteorological mast, detailed planning of the field work for seismic, hydrological and hydrogeological monitoring system.

Selection of Owner's Engineer

In April 2013 invitation for submission of final offers was sent to four bidders. In the second half of 2013 the communication with the bidders was continued i.e. answering bidders' questions with regard to the contract and the proposed provisions of the agreement. The opening of the final offers took place on February 17, 2014.

Selection of technology, integrated proceeding

In 2012 a decision was taken on application of integrated tender proceeding, which covers key supplies and services for the nuclear project.

Currently the first phase of the proceeding – initial dialogue – is being executed. The end of this phase of the proceeding will allow elaboration of a full summary and the management boards of PGE S.A. and PGE EJ 1 sp. o.o. will be able to decide on the final shape, scope, approach and formula of integrated proceeding. Resumption of initial dialogue is planned for the second quarter of 2014.

Power grid analyses

The works are carried out with regard to the preparation of variant network analyses such as analysis to determine the possibility of connecting the nuclear power plant to National Power System and the scope of its necessary expansion beyond PSE S.A. Development Plan by 2025. These analyses are performed alternatively for different locations and nuclear technologies. According to the agreement, works were completed with regard to the verification of computational models and the first results of the outflow results for location of station EE Żarnowiec were obtained. Completion of the first phase of works is planned for the first quarter of 2014.

Business partnership

On September 23, 2013 PGE S.A., KGHM Polska Miedź S.A., Tauron Polska Energia S.A. and ENEA S.A., agreed the future ownership structure and functioning of the SPV - PGE EJ 1 Sp. z o.o. As a result, PGE S.A. intends to sell to other companies a package of 438,000 shares, constituting a total of 30% of the share capital of PGE EJ 1 Sp. z o.o. (controlling stake of 70% will stay in PGE). KGHM Polska Miedź S.A., Tauron Polska Energia S.A. and ENEA S.A. will acquire 146,000 shares each, representing 10% in the share capital of PGE EJ1 Sp. z o.o.

After obtaining corporate approvals parties will sign an agreement of partners (shareholders) of PGE EJ 1 Sp. z o.o. and will apply for the necessary approvals to Polish Office of Competition and



Consumer Protection. The other condition precedent which was agreed by the partners - adoption of the Polish Nuclear Energy Programme, in a form of a resolution of the Council of Ministers – was fulfilled on January 28, 2014.

Project of building PGE Capital Group Operating Model

Project of building PGE Capital Group Operating Model launched in 2012 describes the mutual business relationships and rules of business conduction in PGE Capital Group in functional division between Corporate Center and Business Lines. Operating Model defines the structure of the interactions between the Group companies specifying their competences, responsibilities and operational objectives, understood as interrelated components of the strategic business objectives of the entire Group. The implementation of the Operational Model will fundamentally result in establishment of new management processes.

The main target of the Operating Model implementation is also to increase the value and improve operational efficiency of the whole Group. This target will be achieved mainly through centralization of management, decision making and planning functions with the simultaneous synergistic combination of potential major components of the Group value - capital, experience, skills and knowledge – located in the Business Lines.

New operational model will also allow for optimization of investment operations, run by all Group companies, and proper coordination of margin creation management in the Group's value chain.

At the end of 2013, the Management Board of PGE S.A. approved the document named "PGE Capital Group Operating Model" that was a final result of analytical and conception works carried since 2012. Until the date of this report, this document was adopted by the major companies of PGE Capital Group.

With the adoption of the above document, Project entered the stage of implementation with a view to implementing solutions designed in the adopted document. Portfolio of implementation projects was launched what will result in permanent implementation of changes proposed to the business processes.

Shared Services Centre Development in PGE Capital Group

Shared Services Centre Development („IT SSC”) implements strategic targets of the whole Group in the scope of consolidation of IT services in PGE Systemy S.A. Consolidation of these areas is aimed at achieving measurable business benefits –through optimal use of technology and IT resources of the Group. The program will also result in higher quality of provided services – possible thanks to central management of these services.

First phase of the program, including development of concept, assumptions and operating standards for IT SSC, was finished in 2012 by adoption of the IT Policy by the Group companies.

Currently a second phase comes to an end – transferring services and responsibilities from particular companies to PGE Systemy S.A. This stage is assumed to be finished by the end of 2013. Centralisation and optimisation of processes, solutions and IT infrastructure will be a next stage of the program.



Implementation of SAP system in PGE Capital Group

The implementation of a centralised and integrated information system of ERP class (Enterprise Resource Planning) designed by the SAP company that begun in June 2012 was continued in 2013. In order to ensure cohesion of SAP implementation in the PGE Group companies, the project was managed by the SAP Program Bureau in PGE S.A.

Its implementation will provide more efficient management processes and decision making on different organisational levels of the Group and will particularly allow for:

- Increased operational efficiencies of the PGE Group;
- standardization of reporting and analyses;
- increased efficiency of assets utilisation.

The ERP Programme involves significant part of business processes in PGE Group starting from financials (accounting, fixed assets accounts, cash management, controlling) through asset management (storage management, sale, real estate management, investment management) and human capital management to data consolidation, reporting and business analysed.

The works are being implemented in stages by PGE Systemy S.A. and selected external sub-contractors.

The finalisation of all works under "Implementation of SAP system in PGE Capital Group" is expected in December 2015.

1.2.1.3 Program of restructuring of PGE Capital Group disposal of assets

On January 15, 2013 the Management Board of PGE S.A. decided to launch *Program of restructuring of PGE Capital Group disposal of assets*. The goal of the program is achievement of the business effect through sale, liquidation and consolidation of selected companies and assets. After business analyses, 19 projects were defined within the program. They aim at the implementation of approved recommendations with regard to 28 companies from the PGE Capital Group.

In 2013, analyses were carried out for all companies included in the Program and implementation works were realized with regard to selected entities, particularly the following actions were taken:

- Completion of share sales:
 - Monnari Trade S.A. – sold on WSE;
 - Miraculum S.A. - sold on WSE;
 - BOŚ S.A. - sold on WSE;
 - BHE Dychów sp. z o.o. – sale to an external investor;
 - Bełchatowsko Kleszczowski Park Przemysłowo Technologiczny sp. z o.o. - sale to an external investor;
 - Wytwórnia Sprzętu Komunikacyjnego PZL-Kalisz S.A. - sale to an external investor.
- Completion of transactions on shares within PGE Capital Group:
 - PGE Gubin sp. z o.o. – sale of shares by PGE S.A. to PGE GiEK S.A.;
 - ENERGO-TEL S.A. - sale of shares by Niezależny Operator Międzystrefowy sp. z o.o. to EXATEL S.A.



- Completion of share purchases:
 - PGE GiEK S.A. – purchase of shares from the State Treasury / buy-out of shares from minority shareholders - in progress;
 - PGE GiEK S.A. – transfer of package of shares from PGE Obrót S.A. to PGE S.A.;
 - PGE Obrót S.A. - buy-out of shares from minority shareholders and redemption of treasury shares;
 - PEC Bełchatów sp z o.o.- 4% stake in the company completed.
- Completed consolidations:
 - Acquisition of EPO sp. z o.o. by ELTUR-WAPORE sp. z o.o. – merger of the companies under new name – EPORE sp. z o.o.;
 - E-Telbank sp. z o.o - merger of E-Telbank sp. z o.o. with EXATEL S.A.
- Completed internal transformations:
 - MEGA-SERWIS sp. z o.o. – transfer of servicing operations from ELBEST sp. z o.o.;
 - Transfer of 100% shares of ELMEN sp. z o.o. and 51% shares of Energoserwis Kleszczów sp. z o.o. from ELBIS sp. z o.o. to PGE GiEK S.A.;
 - Purchase by PGE GiEK S.A. of minority share (1.34%) in PTS BETRANS sp. z o.o., held by PGE Dystrybucja S.A., PGE Obrót S.A. and PGE Energia Odnawialna S.A.;
 - Conclusion of an agreement for sale of means of transport from ETRA sp. z o.o. to PGE Dystrybucja S.A.

The works are to be completed by mid-2015 and will result in generation of benefits for the Group, both in form of income from the completed transactions and in form of reduction of costs due to the implemented changes. In 2014, the implementation works will be continued in 14 projects:

- 9 projects with a view to sale of shares/ packages of shares;
- 2 consolidation projects;
- 2 restructuring projects;
- 1 project intended for liquidation of a company.

1.2.2. Factors important for the development of the Company and PGE Capital Group

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

Market environment

- Demand
 - demand for electricity and heat;
 - seasonality and weather conditions;
- Electricity market
 - Wholesale electricity prices;
 - Prices and tariffs on retail sale market;
 - Tariffs for transmission and distribution of electricity and heat.
- Related markets
 - prices of property rights;



- availability and prices of fuels used in generation of electricity and heat, in particular prices of hard coal, fuel gas and biomass;
- prices of CO2 emission rights;
- Power infrastructure
 - availability of cross-border transmission capacities;
 - connection of Poland to market coupling mechanisms;
 - growth of generating capacity in national electro-energy system, including renewable energy;
- Macroeconomic environment
 - interest rates and exchange rates, values of which affect evaluation of assets and liabilities shown by the Group;
 - GDP dynamics, particularly in industrial production;
- Implementation of efficiency and investment programs in PGE Group.

Regulatory environment

- Domestic:
 - update of the Poland's Energy Policy ("PEP") – prolonged works over PEP 2015 (current PEP is from 2009);
 - implementation of Operational Reserve mechanism;
 - implementation of cold reserve mechanism;
 - lack of national regulations with regard to emission rights trading system – possible lack of free allowances at the time of settlement of actual 2013 emission (i.e. until the end of April 2014);
 - completion of the granting the free allowances for 2013-2020 for the generators from PGE Group;
 - amendments to the Energy Law, particularly in scope of optimisation of support scheme for renewable energy sources and for co-generation and amendments to other acts - lack of clear framework for renewable energy sources and co-generation support in long-term perspective;
 - amendments to the Law on Environmental Protection, particularly in scope of implementation of Industrial Emissions Directive – lack of implementation of derogation regulations with regard to large combustion sources;
 - results of explanatory proceedings before the ERO President in case of issue of certificates of origin of energy produced from biomass for some of the branches of PGE GiEK S.A.;
 - decisions of the ERO President related to realisation of LTC Act and court's rulings on the disputes between the ERO President and generators from the PGE Group entitled to receive compensations under LTC Act with regard to the annual adjustments of the stranded costs for 2008 and annual adjustments of the stranded costs and annual



adjustments of costs generated in gas-fuelled units for 2009-2012 (see Note 45.1 to the consolidated financial statements);

- possible different decision in law, tax and other contingent liabilities disputes, from which most relevant were presented in Note 38 to the consolidated financial statements;
 - lack of implementation of Energy Efficiency Directive („EED”) into the domestic law.
- International:
- regulations of 2030 climate and energy package – including determination of CO₂ reduction targets, RES share targets, proposal of Stabilisation Capacity Mechanism;
 - revision of BAT – uncertainty with regard to future norms of SO₂, NO_x and dust emissions from 2019;
 - NEC directive draft with regard to national limits of emissions of pollution to the atmosphere and its impact on the power sector;
 - adjustment of ETS directive and auctioning regulations in view of reallocation of part of allowances for 2013-2015 to 2019-2020 (so called „backloading”) with view to impact of this process on the prices of emission rights.



2. Factors and events affecting the operations of PGE S.A.

2.1. Macroeconomic situation

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

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

Economic conditions in the 12-month period ended December 31, 2013 resulted in **slight increase of demand for electricity** in the National Power System. Demand was by **approximately 0.6% higher** in comparison to the 12-month period ended December 31, 2012.

Table: Key economic ratios connected with the Polish economy.

Key data	2013	2012
Real GDP growth (% of growth) ¹	1.6*	1.9
Annual CPI rate (% of growth) ²	0.9	3.7
Domestic electricity consumption (% of growth) ³	0.6	-0.6
Domestic electricity consumption (TWh) ³	158.0	157.0

* initial estimates by Polish Central Statistical Office

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

2.1.1. Electricity prices

Domestic market

In 2013 electricity market, in a regulated segment, was based on the operation of power exchanges and trading platforms. After Warsaw Stock Exchange stopped the trading of commodities as of March 31, 2013, exchange trading of electricity has been concentrated on commodity exchange run by Towarowa Giełda Energii S.A. („TGE”).



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

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

According to TGE data, in 2013 total sales of electricity in spot and forward transactions amounted to 176.5 TWh what means 34% growth as compared to 2012; including sales on spot market in amount of 22.2 TWh and was by 16% higher as compared to 2012, while sales on futures and forward market amounted to 154.3 TWh what means 37% growth in comparison to 2012.

In 2013 futures and forward trading on TGE accounted for almost 74% of the organised futures and forward market, while in 2012 it reached 61%.

Table: Trading volume on particular markets in years 2010-2013.

Trading volume	Unit	2013	2012	2011	2010
SPOT market, of which:	TWh	22.6	21.3	21.6	13.3
TGE	TWh	22.2	19.1	19.7	7.6
Futures and forward market, of which:	TWh	208.4	184.9	155.2	114.0
TGE	TWh	154.3	112.9	106.9	74.1
SPOT+ futures and forward market, of which:	TWh	231.0	206.2	176.8	127.3
TGE		176.5	132.0	126.6	81.7

Balancing market

In 2013 the trading volume on the Balancing Market reached 3.67 TWh and was lower by 2% than in 2012.

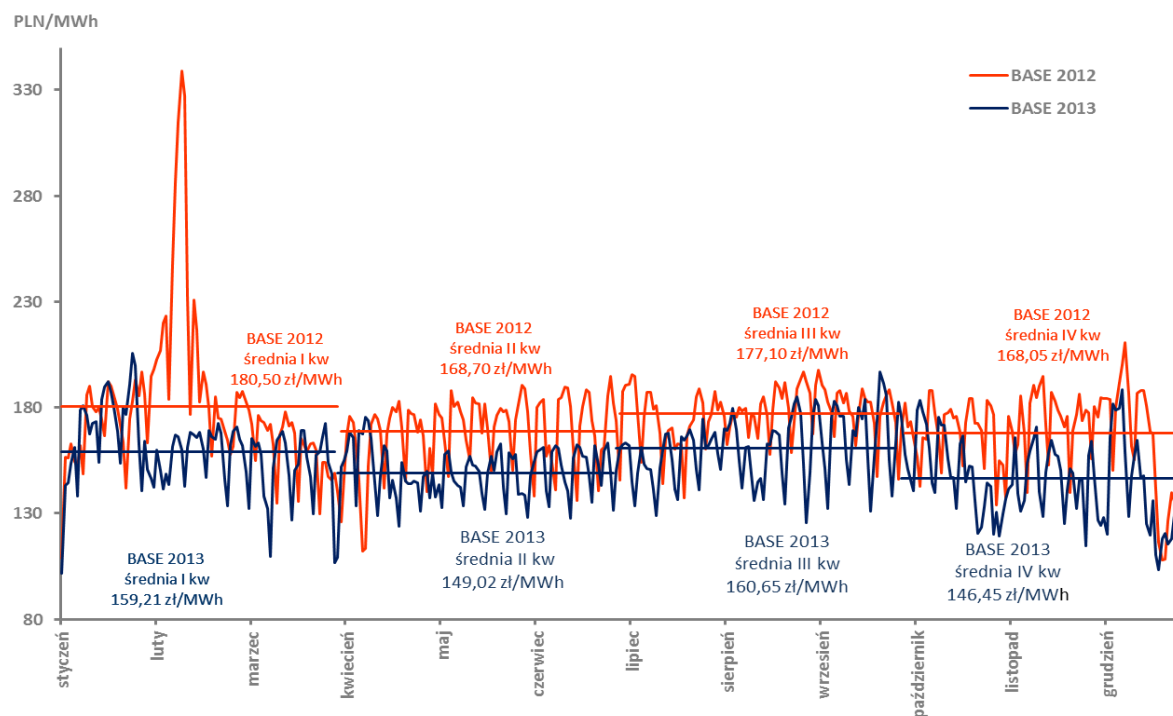
Average price for 2013 reached 156.51 PLN/MWh and was by 12 % lower than in 2012.

SPOT market

In 2013 SPOT prices were in a continued downward trend that began in 2012. Average SPOT price in 2013 in Poland amounted to 153.82 PLN/MWh (IRDN24), what means that it was lower by 11% than in 2012. Average prices for particular months of 2013 were lower than in corresponding months of 2012.

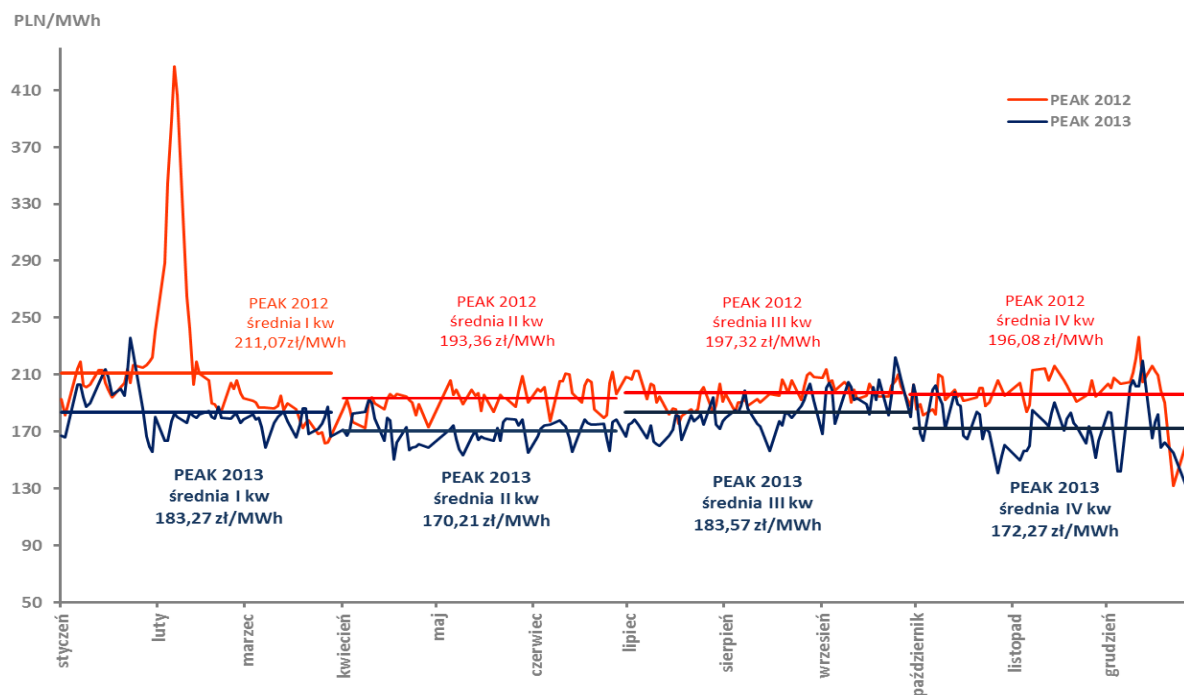


Chart: Daily and quarterly baseload prices in SPOT transactions in 2012-2013 (TGE)*.



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

Chart: Daily and quarterly peak prices in SPOT transactions in 2012-2013 (TGE)*.



* arithmetic average price from all power exchange transactions concluded at the session and calculated according to delivery date (index IRDN8.22)

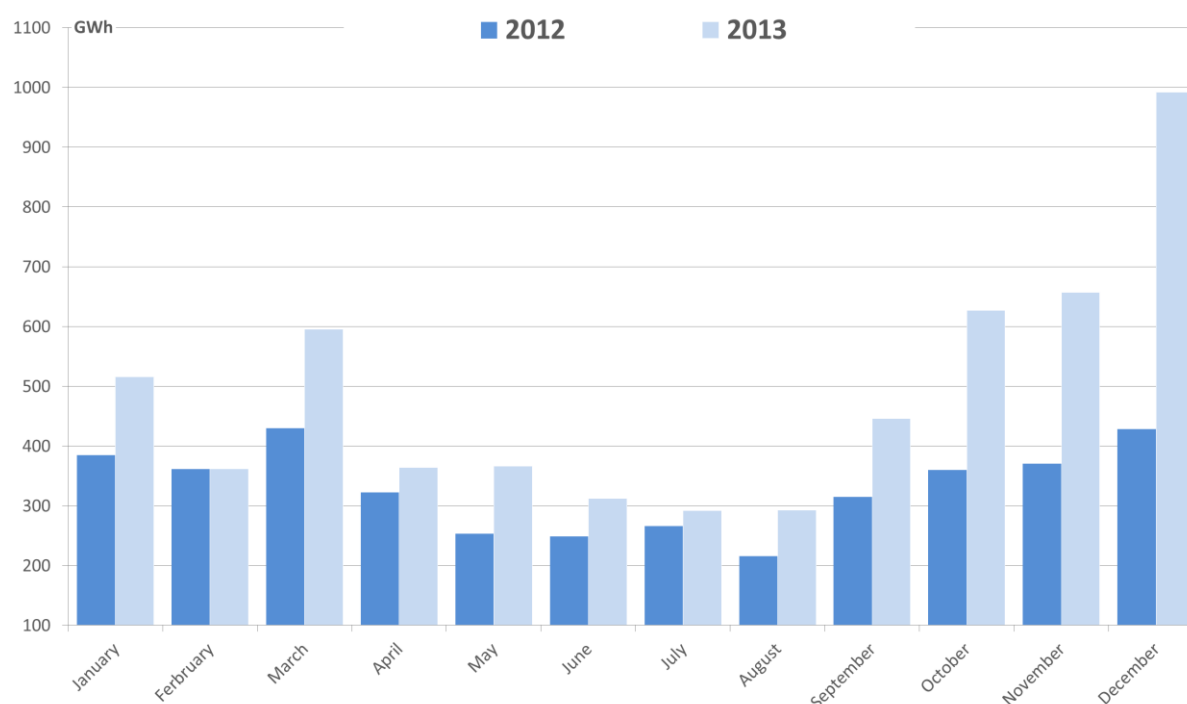


Downward trend was visible from January 2013 (166.47 PLN/MWh) till May 2013 (147.35 PLN/MWh). Then prices bounced back when highest price was recorded in September (165.83 PLN/MWh) and another decrease of prices was observed in the fourth quarter with the lowest average price in December (140.12 PLN/MWh).

Similarly, peak prices showed negative dynamics. Average price in 2013 amounted to 177.43 PLN/MWh in comparison to 199.54 PLN/MWh in 2012 what means drop by 11%. In each month of 2013 prices were lower than the prices in analogical months of 2012 and volatility ranged from (-)3% in March to (-)28% in February.

Electricity prices were affected by increasing wind generation. According to data published by PSE S.A. the wind generation reached more than 5.8 TWh i.e. was by 47.2% higher than in 2012. Wind generation in period October-December 2013 doubled as compared to generation in corresponding period of 2012.

Chart: Wind generation in particular months of 2012 and 2013



Relatively low prices on spot market in Germany also affected Polish prices and limited the export from Poland. Thus, despite slight increase in electricity consumption in 2013 as compared to 2012 (0.6%), above factors along with lower costs of CO₂ emission rights and hard-coal in 2013 resulted in sustaining of low electricity prices on Polish market.

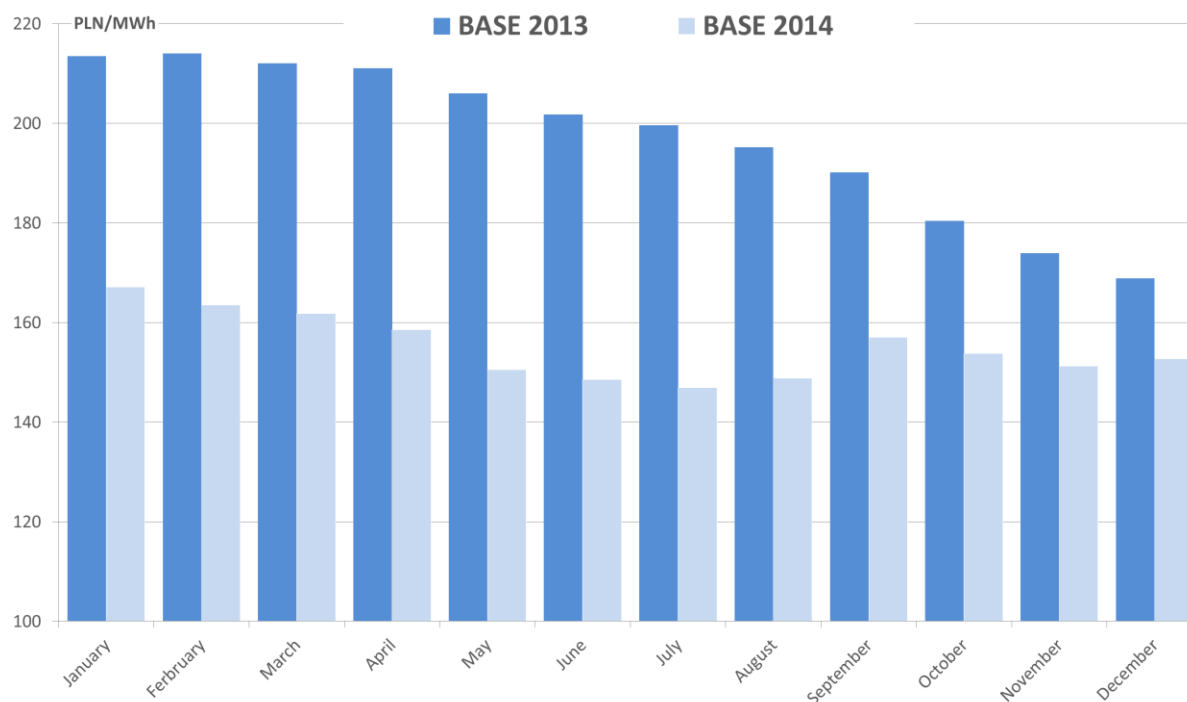
Futures and forward market

Volume of energy contracted on TGE with delivery in 2013 amounted to 135.9 TWh, including 112.7 TWh on futures and forward market and 23.2 TWh on spot market. Aggregate volume of trading of electricity on TGE and poee constituted 86% of yearly demand of National Power System that amounted to 158.70 TWh in 2013.



Despite gradual improvement of economic situation, the decrease of prices of CO₂ emission rights, decrease of hard-coal prices and increased capacity in renewables contributed to fall of yearly baseload prices from 213.50 PLN/MWh in January 2012 for BASE_Y-13 to 152.64 PLN/MWh in December 2013 for BASE_Y-14, with the lowest level of BASE_Y-14 at 146.93 PLN/MWh in June 2013.

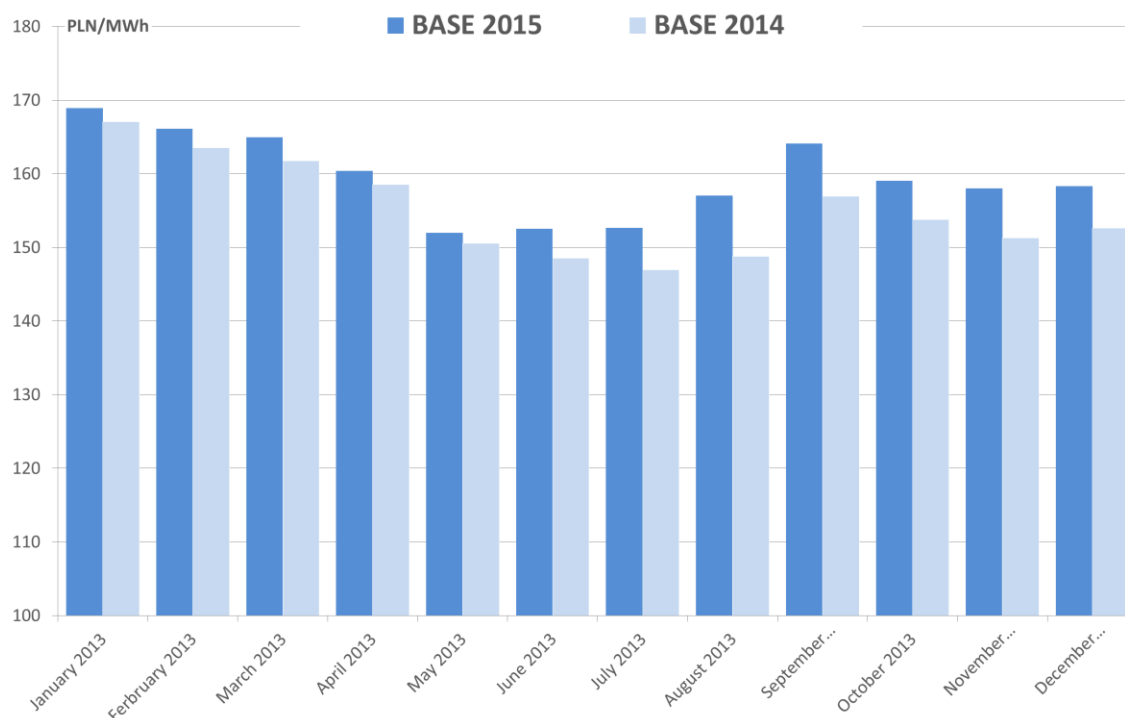
Chart: volatility of prices of BASE_Y_2014 in particular months of 2013 in relation to prices of BASE_Y_2013 in particular months of 2012.



The prices of BASE_Y-15 after the increase at the break of August and September resisted the strong declines which BASE_Y-14.

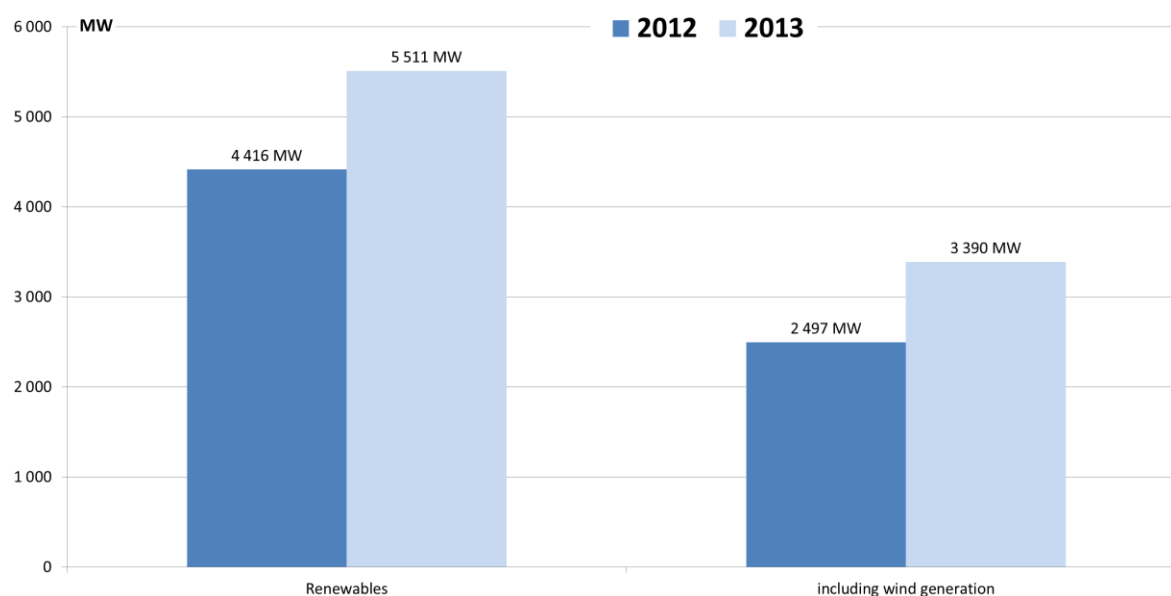


Chart: volatility of prices of BASE_Y_2015 in relation to prices of BASE_Y_2014 in particular months of 2013.



Level of SPOT prices recorded in 2013 fundamentally affected the forward and future prices, that were in downward trend until the end of third quarter of 2013. Increased capacity in renewable energy sources has the significant impact on the low electricity prices on Polish market.

Chart: Installed capacity in renewables, including wind generation.



Similar impact of renewables on electricity prices is observed in Germany, where the valuation of BASE_Y-15 has been lower than in Poland since many months.



International market

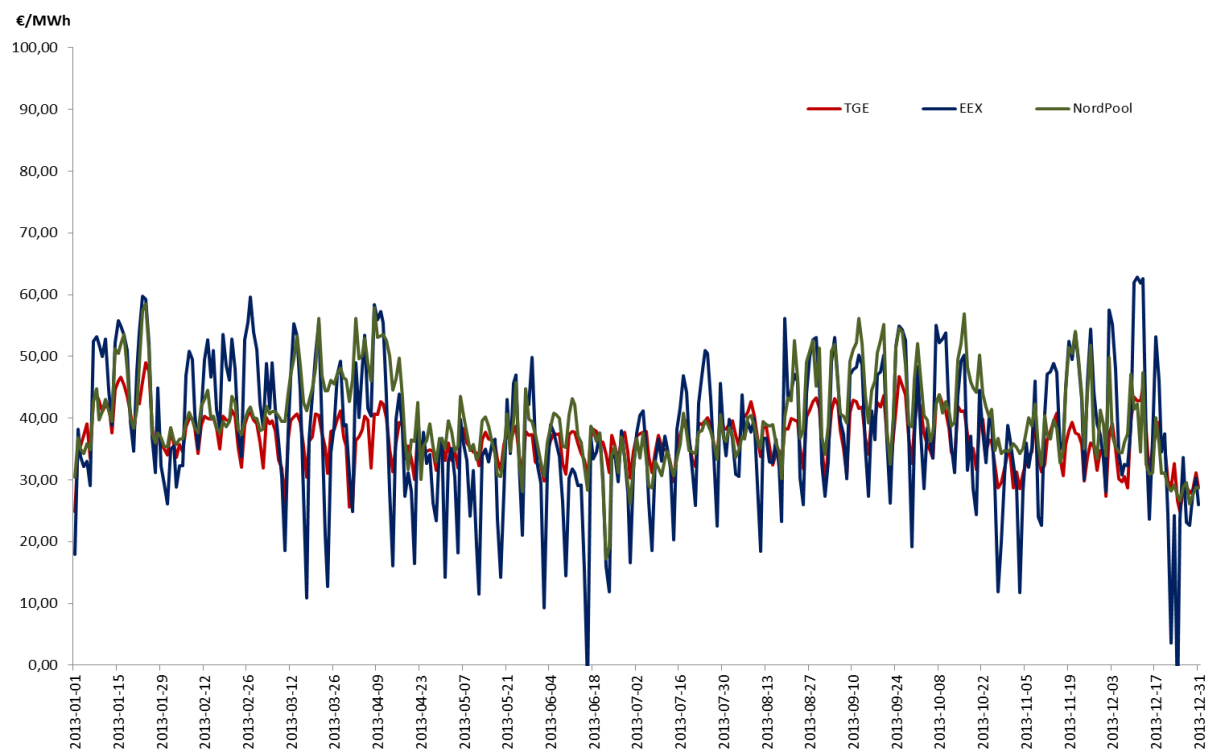
Based on past experiences, conditions on electricity markets in countries interconnected with Polish electro energy system have a significant impact on the Polish electricity market. Price levels, their mutual links and availability of electricity exchange determine the domestic market situation in terms of prices. The demand and supply of energy on the domestic market are influenced by active cross-border connectors. Price levels and demand for energy imported from neighbouring countries favours a rise in prices in Poland, particularly in periods when PSE S.A. offers large capacities for cross-border exchange on daily auctions. Furthermore, energy imports from Sweden and Ukraine could effectively reduce price levels.

In 2013, the previous year's trend of minor price differences between the Polish Power Exchange (TGE) and the EEX exchange on SPOT market continued. The previous year's trend of decreasing prices both in Poland and in Germany also continued. Higher levels of power generation from renewable energy sources and a drop in the prices of CO₂ emission rights contributed to significantly lower price levels in the first half of 2013 compared to the corresponding period of the preceding year. In the third quarter of 2013, prices on SPOT market rose, which may have been directly influenced by better macroeconomic data indicating an improvement in the economic situation in Germany and the entire Eurozone. In the fourth quarter of 2013, the price growth rate, which had been observed in the preceding quarter, slowed down as a result of which the average annual price in 2013 on the German market remained basically at the same level as after three quarters of the year, i.e. it was lower than the average annual price in 2012 by less than 12%. Also in 2013, in the second half of December, during the Christmas season, a significant drop in prices was recorded due to low energy consumption and high levels of wind power generation in Germany. Similarly to 2012, also in 2013 prices had negative values, which means that the lowest price recorded in 2013 was (-)6.28 EUR/MWh whereas in 2012 the lowest recorded price was at the level of (-)56.87 EUR/MWh.

On the Scandinavian market, in contrast to the Polish or German market, average SPOT prices in each quarter of 2013 were higher than in the analogous quarters of the previous year. As a result the yearly average price in 2013 rose by 17% as compared to 2012 to 39.92 EUR/MWh. At the end of 2013 the prices dropped what was a result of higher temperatures than in the previous year. As opposed to the year 2012 when prices were lower than on Polish or German markets, in 2013 yearly average price in Scandinavia was higher than on the mentioned markets.



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



Price structure in 2013 years caused that from January to December 2013 the foreign trade balance was positive and amounted to 4.5 TWh in relation to 2.8 TWh in 2012, what means an increase in dynamics of trade by almost 60%. The increase in prices in the Scandinavia was accompanied by the 490% increase in exports to Sweden as compared to 2012., Energy imports from that direction decreased by 1.6 TWh, i.e. by approximately 62%. Energy imports from Ukraine rose by approximately 2%.



2.2. Financial results of PGE S.A.

2.2.1. Statement of comprehensive income

Table: Statement of comprehensive income

in PLN thousand	2013	2012	% change
Sales revenues	12,407,774	10,529,765	18%
Cost of goods sold	11,269,343	10,010,962	13%
Gross sales result	1,138,431	518,803	119%
% of total sales revenues	9%	5%	
Selling, general and administrative expenses	178,887	159,886	12%
Profit on sales	959,544	358,917	167%
Reversal of provision for Alpiq Holding AG claim	3,543	166,688	-98%
Other operating revenues	12,767	18,138	-30%
Other operating expenses	9,760	3 227	202%
EBIT	966,094	540,516	79%
% of total sales revenues	8%	5%	
Revenues from dividends	1,278,989	437	292,575%
Other financial revenues	322,013	535,217	-40%
Financial expenses	26,688	104,478	-74%
Gross profit	2,540,408	971,692	161%
% of total sales revenues	20%	9%	
Income tax	202,849	199,521	2%
Net profit	2,337,559	772,171	203%
% of total sales revenues	19%	7%	
EBITDA	983,889	560,965	75%
% of total sales revenues	8%	5%	

As a result of events which took place in 2013, data presented in the statement of the comprehensive income for 2012 were restated in order to provide their comparability with the data for 2013. These event were as follows:

- Merger of PGE S.A. with PGE Energia Jądrowa S.A. on July 31, 2013,
- Change of valuation of purchased greenhouse gases emission rights.

These events are described in detail in Note 11 to the standalone financial statements of PGE S.A. for 2013.



Amount and structure of revenues

Table: Total revenues

in PLN thousand	2013	2012	% change
Sale of electricity - wholesale	10,171,392	8,327,416	22%
Sale of other products - CO ₂ , Property Rights	1,675,968	1,726,016	-3%
Sale of services within agreement for Commercial Management of Generation Capacities	481,568	400,323	20%
Sale of other services	78,846	76,010	4%
Total sales revenues	12,407,774	10,529,765	18%

The increase of sales revenues resulted mainly from:

- Increased sale of electricity to the PGE Group companies (by 4%), with revenues of PLN 7,534,727 thousand and increased sale of electricity to companies outside of the PGE Group (by 187%), with revenues of PLN 2,421,033 thousand. Increase of sales outside the Group is a result of agreement concluded with Energa – Obrót S.A., under which more than 9TWh of electricity was sold. In order to meet increasing electricity sales, 88% of the growth of electricity purchase was executed on the domestic power exchange. Other purchase which was not subject to power exchange obligations was executed under electricity sales agreements concluded with the companies from the PGE Group.
- Drop of sales of other products resulted from 21% decrease of sale of certificates of energy origin with revenues of PLN 904 thousand. Decrease was a result of volume of red and yellow certificates sold to PGE Group and outside of PGE Group that was lower by 2.6 TWh. Lack of sale resulted from continuity of legal regulations with regard to obligation of redemption of red and yellow certificates.

Sale of CO₂ emission rights to the company from the Group amounted to PLN 772,098 thousand, i.e. by 34% higher than in 2012. Sales increased with the prices of allowances falling by 31% as a result of sales of certificates higher by almost 19 million tons. Zwiększona sprzedaż uprawnień do emisji CO₂ spowodowana była zwiększonym zapotrzebowaniem z powodu zwiększonej kontraktacji sprzedaży energii elektrycznej.

- Increased revenues from the services under the agreement for Commercial Management of Generation Capacities of PGE GiEK S.A. that were higher by 20% i.e. by PLN 81,245 thousand. Growth of revenues in this category in 2013 resulted mainly from increased range of services rendered for the Group's generating units and thus margin growth. Moreover, the the agreement for Commercial Management of Generation Capacities of PGE GiEK S.A. was in force for the whole year 2013 and in 2012 was in force just from May. In period January-April 2012 there was a valid agreement for electricity sales management for PGE GiEK S.A.



- Sales of other services include mainly revenues from sale of services rendered on the ground of the support agreements. The support agreements have been in effect since January 2008 and were signed following the "Agreement concerning the principles for the cooperation of PGE S.A. with PGE Capital Group Companies", that is, the document specifying the principles and scope of the cooperation of Group Companies in order to build a highly effective organisation implementing the business model within the strategy of PGE S.A. The growth in 2013 resulted mainly from increased range of services rendered for the Group's generating units and thus margin growth.

Territorial structure of sales revenues is presented below.

Table: Sales revenues by geographic regions

in PLN thousand	Total net income				
	2013	2012	% share	% share	% change
Domestic market	12,047,414	10,266,918	97%	98%	17%
EU member states	360,360	262,847	3%	2%	37%
Other countries	0	0	0%	0%	
Total	12,407,774	10,529,765	100%	100%	18%

In 2013 as in 2012, PGE S.A. earned income in the domestic market. In 2013 the Company also traded in EU what accounted for approx. 3% of revenues.

Intra-EU trade includes:

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

Amount and structure of expenses

Table: Total expenses

in PLN thousand	2013	2012	% change
Purchase of electricity	9,513,366	8,227,419	16%
Value of CO ₂ and Property Rights sold	1,667,413	1,700,687	-2%
Cost of services rendered	88,564	82,856	7%
Selling, general and administrative expenses	178,887	159,886	12%
Total expenses related to sales revenues	11,448,230	10,170,848	13%



In 2013, the total operations expenses of PGE S.A. totaled PLN 11,448,230 thousand and were by PLN 1,227,382 thousand higher than in the previous year.

Cost of goods sold amounted to PLN 11,269,343 thousand. Cost of goods sold grew due to higher costs of electricity purchases by PLN 1,285,947 thousand (increase by 16%) as compared to 2012. Higher cost of electricity purchases was a result of increased volume of energy purchased (by more than 12 TWh) along with the average electricity purchase prices lower by 23 PLN/MWh as compared to the previous year. Electricity purchase prices in 2013 were affected by decreasing market prices.

In 2013, the selling, general and administrative expenses of PGE S.A. amounted to PLN 178,887 thousand, what constituted a growth by PLN 19,001 thousand in comparison to the previous year. The higher general and administrative expenses were affected by increase of advertising costs resulting from the intensified image-building activities aimed at achieving an increased brand awareness and knowledge of PGE target group about electricity and increase of personnel expenses resulting from changes in the PGE S.A. organizational structure within the Operating Model project.

Table: Other operations

in PLN thousand	2013	2012	% change
Reversal of provision for Alpiq Holding AG	3,544	166,688	-98%
Other operating revenues	12,766	18,138	-30%
Other operating expenses	9,760	3,227	203%
Result on other operating activities	6,550	181,599	-96%

In 2013 result on other operations amounted to PLN 6,550 thousand and was by PLN 175,049 thousand lower in comparison to the previous year, what mainly resulted from termination of dispute with the foreign contractor and reversal of provisions in 2012 in amount of PLN 166,688 thousand million in comparison to PLN 3,544 thousand in 2013).

Table: Financial operations

in PLN thousand	2013	2012	% change
Dividends from PGE Group companies	1,278,989	437	292,575%
Profit from the bonds purchased from the companies	175,365	277,075	-37%
Other financial revenues	146,648	258,142	-43%
Interests and expenses related to bond issue	23,085	5,494	320%
Other financial expenses	3,603	98,984	-96%
Result on financial activities	1,574,314	431,176	265%



In 2013 result on financial activities amounted to PLN 1,574,314 thousand and was by PLN 1,143,139 thousand higher than in the previous year, mainly due to higher revenues from dividends by PLN 1,278,552 thousand, at the same time the interests on cash and deposits were lower by PLN (-)111,493 thousand million and profit from bonds held lower by PLN (-)101,710 thousand.

2.2.2. Statement of financial position

Table: Assets

in PLN thousand	As at Dec 31, 2013	As at Dec 31, 2012	% change
Non-current assets	27,914,383	26,952,688	4%
Tangible fixed assets	196,962	204,953	-4%
Intangible assets	6,119	11,129	-45%
Loans and receivables	3,329,609	3,627,204	-8%
Shares in subsidiaries	24,381,689	23,106,267	6%
Available for sale long-term financial assets	0	3,135	-
Other long-term assets	5	0	-
Deferred tax	0	0	-
Current assets	3,464,427	3,394,050	2%
Inventory	281,686	492,218	-43%
Income tax receivables	162	0	-
Shares in subsidiaries	0	25,477	-
Short-term financial assets at fair value through profit or loss	104,248	18,833	454%
Trade receivables	770,535	739,589	4%
Other loans and receivables	99,560	1,086,573	-91%
Available for sale short-term financial assets	3,134	36,717	-91%
Other short-term assets	15,477	34,583	-55%
Cash and cash equivalents	2,189,625	960,060	128%
TOTAL ASSETS	31,378,810	30,346,738	3%

Tangible fixed assets as at the end of 2013 amounted to PLN 27,914,383 thousand and increased by PLN 961.695 thousand as compared to the previous year. Structural change of tangible fixed assets is a result of consolidation and acquisition processes. Value of shares in subsidiaries increased by PLN 1,275,422 thousand and resulted from acquisition of shares in the increased share capital of PGE



Energia Odnawialna S.A., merger of PGE S.A. with subsidiary PGE Energia Jądrowa S.A. and acquisition of shares in companies which are managing and operating wind farms.

In 2013 current assets amounted to PLN 3,464,427 thousand and increased by PLN 70,377 thousand as compared to 2012. Structural change of current assets was mainly affected by the buy-out of bonds by PGE GiEK S.A. that caused the decrease of assets by PLN 1,026,776 thousand. Short-term financial assets at fair value through profit or loss increased to PLN 104,248 thousand in connection with the change of valuation of purchased greenhouse gases emission rights. Growth of cash and cash equivalents by PLN 1,229,565 thousand is correlated with issue of bonds with a nominal value of PLN 1,000,000 thousand. Inventory as at December 31, 2013 was lower by PLN 210,532 thousand as compared to 2012. Main reason was lower number of property rights units and CO₂ emission rights consisting the value of inventory as at the balance sheet date.

Table: Equity and liabilities

in PLN thousand	As at Dec 31, 2013	As at Dec 31, 2012	% change
Equity	29,985,716	29,253,343	3%
Share capital	18,697,608	18,697,608	0%
Revaluation reserve	0	0	-
Own shares	0	0	-
Reserve capital	8,941,152	9,687,596	-8%
Other capital reserves	49,779	49,779	0%
Retained earnings	2,297,177	818,360	181%
Long-term liabilities	1,053,952	88,752	1,088%
Interest bearing loans, credits, bonds and finance lease	1,000,000	0	-
Other liabilities	0	0	-
Provisions	18,650	22,563	-17%
Provision for deferred income tax	35,302	66,189	-47%
Short-term liabilities	339,142	1,004,643	-66%
Trade liabilities	132,200	479,787	-72%
Financial liabilities at fair value through profit or loss	1,046	148	607%
Interest-bearing loans, borrowings and lease	372	142,785	-100%
Other financial liabilities	4,108	4,336	-5%
Other non-financial liabilities	171,826	44,368	287%
Income tax liabilities	0	69,615	-
Accruals	624	36,172	-98%
Short-term provisions	28,966	227,432	-87%
TOTAL EQUITY AND LIABILITIES	31,378,810	30,346,738	3%



Equity is the main source of financing of the Company's assets and amounted to PLN 29,985,716 thousand as at the end of 2013 and was higher by PLN 732,373 thousand than at the end of 2012.

Significant change took place in long-term liabilities. The Company issued first non-public coupon bearer bonds with maturity of 5 years and based on floating interest rate. Bonds with nominal value of PLN 1,000,000 thousand were issued under the bond issue program directed to the investors from the Polish capital market.

Detailed description of changes in the share capital and in other capitals of PGE S.A. is presented in Note 24 to the standalone financial statements.

2.2.3. Statement of cash flows

Cash and cash equivalents as at December 31, 2013 were higher by PLN 1,128,323 thousand than at the end of the previous year.

Table: Cash flows

in PLN thousand	Period 01-12'2013	Period 01-12'2012	% change
Net cash flows from operating activities	468,951	-428,563	-209%
Net cash flow from investing activities	1,533,445	3,636,840	-58%
Net cash flow from financial activities	-774,073	-3,284,752	-76%
Net cash flows	1,228,323	-76,474	-1706%
Cash and cash equivalents at the beginning of the period	959,773	1,036,247	-7%
Cash and cash equivalents at the end of period	2,188,096	959,773	128%

Net cash flows from operating activities. Positive cash flow in amount of PLN 468,951 thousand was generated as a result of operating activities in the 12-month period ended December 31, 2013. Positive cash flows were affected by EBIT of PLN 966,095 thousand that included result on wholesale trading of electricity and result on services rendered within the agreement on commercial management of generation capacities of PGE GiEK S.A.

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

Positive net cash flow from investing activities include mainly net cash flow related to purchase of the bonds issued by the companies from the PGE Capital Group. In 2013 PGE S.A. purchased bonds with a value of PLN 27,124,754 thousand. In 2012 it was PLN 12,041,273 thousand. Lower cash flow from investing activities by more than PLN 2,103,395 thousand resulted from decrease of debt of PGE Group companies toward PGE S.A. due to the bonds issued to PLN 1,391,800 thousand.



Net cash flow from financial activities. Net cash flow from financial activities in 2013 amounted to PLN (-) 774,073 thousand, versus PLN (-) 3,285,752 thousand in 2012. It's the result of dividend paid to the shareholders. In 2013 the dividend paid amounted to PLN 1,607,994 thousand.

2.3. Description of significant agreements

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

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

In 2013 PGE S.A. continued sales of electricity to PGE Obrót S.A. on the basis of frame agreement for sales of electricity concluded in 2007.

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

In 2013 the sales revenues under this agreement amounted to PLN 6,930.0 million, what represented 55.8% of sales revenues within the operations of the Company.

2.3.2. EFET Framework Agreement for sale of electricity to ENERGA – OBRÓT SA

In 2013, there was a significant term contract for electricity sales to ENERGA-OBRÓT SA, signed in October 2012 as part of an EFET framework agreement, which provided revenues for a total value of PLN 1,559.2 million, constituting 22.5% of operating revenues of PGE S.A.

2.3.3. Agreements with electricity generators from the PGE Group

In connection with the realisation of amendment to the Energy Law, effective from August 9, 2010, which regulates - through art. 49a – the mode of electricity sales by the generators (so called "power exchange obligation"), in 2013 PGE S.A. had valid agreement with PGE GiEK S.A. for purchase of the energy, which is not subject to the above obligation. The agreement is concluded for the indefinite period, purchase of electricity takes place on the basis of transaction agreements.

Sale of electricity generated by power plants from PGE GiEK S.A. was conducted on the organised markets pursuant to art. 49a of the Energy Law.

2.3.4. Hard coal delivery agreements

Coal supplies for generating units of PGE GiEK SA in 2013 were provided by PGE S.A., based on the contracts concluded mainly with the domestic coal producers. The main supplier of hard coal is Kompania Węglowa S.A. with an approximate share of more than 69% in the PGE Group's yearly demand for this raw material. Other purchases were from Jastrzębska Spółka Węglowa S.A., Katowicki Holding Węglowy S.A., SUEK Polska Sp. z o. o., HAWEX Sp. z o.o.

The process of ceding contracts with coal suppliers on GiEK PGE S.A. began in July 2013 and ended in September. Centralized procurement of raw materials for the production needs of PGE GiEK S.A. has been conducted by PGE S.A. since 2013 under the Agreement on Commercial Management of Generation Capacities, concluded in April 2012.



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

On January 20, 2014 PGE S.A. and PGE GiEK S.A. concluded an agreement with Powszechna Kasa Oszczędności Bank Polski S.A. („PKO BP”). Subject matter of the Agreement is the establishment by PKO BP of a guarantee limit for PGE GiEK to a maximum value of PLN 2,548,607 thousand. The beneficiary of the guarantee will be the general contractor of works associated with the construction of power units No. 5 and 6 in Opole Power Plant (investment led by PGE GiEK S.A.).

The Agreement provides for the award on behalf of PGE GiEK: - guarantee of payment to a maximum value of PLN 1,300,310 million (PGE GiEK S.A. was obliged to submit to the general contractor of units 5 and 6 at the Opole power plant guarantees of payment representing 15% of the total price of the construction of units - a guarantee from PKO BP fulfilled 75% of the obligation, the remaining amount of the payment guarantee has been provided through arrangements with other banks); - guarantee of payment for construction works up to 100% of the guarantee line.

The agreement provides securities in form of: - a guarantee by PGE to 120% of the current amount of the guarantee; - a statement of execution by PGE GiEK (up to 120% of the guarantee limit) and a statement of execution by PGE, as a guarantor (up to 120% of the current amount of the guarantee and a statement of execution by PGE, as a guarantor (up to 120% of the current amount of the guarantee).

2.4. Transactions with related entities

Information about transactions with related entities are presented in Note 35 to the standalone financial statements.

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

Contingent liabilities and receivables and proceedings in front of court are described in Note 31 to the standalone financial statements.

2.6. Publication of financial forecasts

PGE S.A. did not publish forecasts of the Company's and Group's financial results for the year 2013.

2.7. Entity authorised to audit of financial statements

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

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

Costs related to the services rendered by KPMG Audyt Sp. z o.o. in years 2012-2013 are presented in the table below.



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

PLN thousand	2013	2012
Fee of KPMG Audyt Sp. z o.o., including:	296.6	296.6
Audit and reviews of the financial statements	279.6	279.6

2.8. Management of financial resources and financial liquidity

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

In 2013 PGE S.A. did not issue any shares.

On June 27, 2013 PGE S.A. issued bonds in value of PLN 1 billion under program directed to investors from Polish capital market. Proceeds from the issue were used for the purchase of wind farms from DONG and Iberdrola. Maturity date of the bonds falls on June 27, 2018.

The Company purchased bonds issued by the Group companies. Proceeds from the intragroup bond issues were intended for ongoing operations and financing of investments run by the PGE Group companies (see p. 2.8.3. Bonds issued).

Table: Indebtedness

in PLN thousand	2013	2012	% change
Bank loans		142,785	-100%
Debt securities	1,000,000	-	
Indebtedness	1,000,000	142,785	600%
Cash	2,189,625	960,060	128%

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

2.8.1. Rating

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

Latest credit opinion by Moody's Investors Service Limited dated April 30, 2013 affirmed the rating at A3 with stable outlook.

On August 9, 2013 Fitch Ratings affirmed the Company's Issuer Default Rating ("IDR") and senior unsecured rating at BBB+. The outlooks are stable. The agency also affirmed Company's National Long-term rating of AA-(pol) with a stable outlook.

Additionally, on July 3, 2013 Fitch Ratings assigned a final senior unsecured National Rating of AA-(pol) for the issue of domestic bonds in nominal value of PLN 1,000,000,000.



According to a Fitch Ratings definition, national rating AA determinates that an issuer or bond issue represent very low risk in comparison with other issuers or bond issues in Poland. Risk is only insignificantly higher than risk represented by issuers or bond issues with the highest rankings in Poland.



2.8.2. Main financial ratios

Tabela: Podstawowe wskaźniki finansowe

	For years ended December 31,	
	2013	2012
PROFITABILITY RATIOS		
Return on equity ROE (in %)		
net profit (loss) / equity	8%	3%
Net margin		
net profit (loss) / net sales revenues	19%	7%
EBITDA margin		
profit (loss) on operations + D&A/ net sales revenues	8%	5%
LIQUIDITY AND FINANCIAL STRUCTURE RATIOS		
Current ratio		
Current assets / short-term liabilities	10	3
Debt ratio		
Total liabilities / total assets	4%	4%
Net debt / EBITDA		
(interest bearing liabilities - cash) / profit (loss) on operations + D&A	-1.21	-1.42
ECONOMY ACTIVITY RATIOS		
Debtor days		
average trade receivables net and other receivables x number of days / net sales revenues	22	23
Days payable (trade liabilities and other liabilities)		
average trade liabilities and other liabilities x number of days / cost of products and materials sold	10	16
Days sales on hand		
Inventory level x number of days / cost of products and materials sold	9	18



In 2013 PGE S.A. generated a positive financial result and achieved positive profitability ratios. EBITDA margin amounted to 8% and is higher by 3 percentage points than in 2012 what is a result of higher operating profit.

Net margin of PGE S.A. in 2013 reached 19% and is higher by 12 percentage points than in 2012 as a consequence of financial revenues from dividend payments by the subsidiaries.

Activity measured by ROE was higher. ROE for 2013 amounted to 8% and was higher by 5 percentage points than in 2012 what resulted from higher profit before tax in 2013 than in the previous year.

PGE has the ability to settle its current liabilities as evidenced by the current ratio which amounted to 10 at the end of 2013. Debt ratio reached 4% at the end of December 2013 and was at similar level as at December 31, 2012. Net debt/EBITDA in 2013 amounted to (-) 1.21 and to (-) 1.42 in 2012. Negative value of the ratio in years 2012-2013 results from cash level at a higher level than value of bank loans and advances.

Debtor days and days payable were in 2013 lower than in the previous year and reached respectively 22 and 10 days. Days sales on hand also improved falling from 18 days to 9.

2.8.3. Bonds issued

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

As at December 31, 2013 PGE GiEK S.A. had bonds issued for a total nominal value of PLN 2,050.0 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, 2013 the nominal value of the bonds acquired by PGE S.A. under this agreement amounted to PLN 1,350.0 million.
- Bond issue program with PKO 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 1, 2017. As at December 31, 2013 the nominal value of the bonds issued acquired by PGE S.A. under this agreement amounted to PLN 700 million.
- Bond Issue program signed with ING Bank Śląski S.A. on June 20, 2011 allowing for issue of bonds directed to PGE S.A. of up to PLN 11,027 million. The maturity date falls on December 31, 2025. As at December 31, 2013 PGE GiEK S.A. did not have any bonds issued under this program.

As at December 31, 2013 PGE Energia Odnawialna S.A. had bonds issued and purchased by PGE S.A. under the following bond program:

- Bond Issue program signed with ING Bank Śląski S.A. on June 20, 2011 allowing for issue of bonds directed to PGE S.A. of up to PLN 1,200 million. The maturity date falls on December 31, 2016. As at December 31, 2012 the nominal value of the bonds issued acquired by PGE S.A. under this program amounted to PLN 735 million.



As at December 31, 2013 PGE Energia Naturity S.A. had bonds issued and purchased by PGE S.A. under the following bond programs:

- 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 no 1 was signed, that increased the value of the program to PLN 700 million. On January 27, 2014 PGE Energia Naturity PEW sp. z o.o. and PGE Energia Naturity sp. z o.o. entered into the agreement. Nominal value of the bonds purchased by PGE S.A. issued by PGE Energia Naturity Kappa sp. z o.o. under the program amounted to PLN 50 million as at December 31, 2013, nominal value of the bonds purchased by PGE S.A. issued by PGE Energia Naturity Omikron sp. z o.o. under the program amounted to PLN 145 million, and nominal value of the bonds purchased by PGE S.A. issued by PGE Energia Naturity S.A. amounted to PLN 3 million.

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

During 2013, 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, 2013 the Company did not have any bonds issued under the programme.

PGE S.A. market Bond issue program of up to PLN 5 billion

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

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

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 billion were introduced to trading in alternative trading systems managed by BondSpot S.A. and GPW S.A. (Warsaw Stock Exchange). Proceeds from the issue were used for the purchase of wind farms.

As at December 31, 2013 the indebtedness of the Company resulting from the bonds issued under the program did not change and amounted to PLN 1 billion.



2.8.4. Bank loans and advances

As at December 31, 2013 PGE S.A. had bonds issued under market bond issue program in amount of 1,000 million. As at December 31, 2013 value of the outstanding lines in current account credits amounted to PLN 1,250 million.

In 2013 PGE S.A. companies did not terminate any credit agreements.

Table: Information about bank loans and advances agreements signed in 2013

Company	Party of an agreement	Type of financing	Agreement signing date (yyyy-mm-dd)	Maturity date (yyyy-mm-dd)	Amount	Currency code	Fixed/ floating rate
PGE S.A.	PKO Bank Polski S.A.	current account credit	2013-07-30	2016-07-29	500,000,000	PLN	floating
PGE S.A.	Credit Agricole Bank Polska S.A.	current account credit	2013-07-29	2016-07-28	250,000,000	PLN	floating
PGE S.A.	Millennium S.A.	current account credit	2013-07-31	2016-07-30	250,000,000	PLN	floating
PGE S.A.	Societe Generale Oddział w Polsce S.A.	current account credit	2013-07-23	2016-07-29	250,000,000	PLN	floating



2.8.5. Loans granted

In 2013, PGE S.A. granted following advances.

Table: Advances granted in 2013

Creditor	Debtor	Agreement signing date (yyyy-mm-dd)	Maturity date (yyyy-mm-dd)	Amount	Currency code	Fixed/ floating rate
PGE S.A.	PGE Energia Naturity S.A.	2013-07-10	2013-07-12	220,300,000	PLN	fixed
PGE S.A.	PGE Energia Naturity Omikron sp. z o.o.	2013-07-10	2013-09-30	145,600,000	PLN	fixed
PGE S.A.	PGE Energia Naturity Kappa sp. z o.o.	2013-07-10	2013-09-30	50,700,000	PLN	fixed
PGE S.A.	PGE Systemy S.A.	2013-11-07	2017-11-08	28,000,000	PLN	fixed
PGE S.A.	PGE Energia Naturity PEW sp. z o.o.	2013-07-10	2014-04-30	22,400,000	PLN	fixed
PGE S.A.	PGE Energia Naturity sp. z o.o.	2013-08-01	2014-06-30	18,550,000	PLN	fixed
PGE S.A.	PGE EJ 1 sp. z o.o.	2013-07-24	2014-07-28	12,000,000	PLN	fixed
PGE S.A.	PGE Energia Naturity S.A.	2013-07-10	2013-11-12	2,150,000	PLN	fixed
PGE S.A.	PGE Gubin sp. z o.o.	2013-03-14	2013-09-16	1,400,000	PLN	fixed
PGE S.A.	PGE Energia Naturity Karnice sp. z o.o.	2013-08-01	2013-09-30	706,000	PLN	fixed

In 2013 PGE S.A. granted loans to the PGE Group companies amounting to PLN 501,806 million. As at December 31, 2013 the outstanding advances amounted to PLN 80,950 thousand.



2.8.6. Guarantees

The total amount of guarantees granted by PGE S.A. and mandatory on December 31, 2013 amounted to EUR 4.3 million and CZK 30.0 million. Guarantees relate to ongoing operations and include mainly: performance bonds, bid bond guarantees and guarantees of payment.

Table: Main guarantees granted and valid as at December 31, 2013

Company	Entity whose liabilities are subject to guarantee	Entity entitled to guarantee	Beginning date of a guarantee (yyyy-mm-dd)	Maturity of a guarantee (yyyy-mm-dd)	Form of security	Value of guarantee	Currency code
PGE S.A.	PGE Trading GmbH	OTE, a.s. – Czech Republic	2011-12-08	2014-09-30	Bank guarantee ordered by PGE S.A. for liabilities of PGE Trading GmbH	30,000,000	CZK
PGE S.A.	PGE Trading GmbH	CAO GmbH – Germany	2011-12-14	2015-01-31	Bank guarantee ordered by PGE S.A. for liabilities of PGE Trading GmbH	1,000,000	EUR
PGE S.A.	PGE Trading GmbH	OKTE, a.s. – Slovakia	2011-12-09	2014-06-30	Bank guarantee ordered by PGE S.A. for liabilities of PGE Trading GmbH	700,000	EUR
PGE S.A.	PGE Trading GmbH	ČEZ, a.s	2011-07-01	2015-01-31	Corporate guarantee	500,000	EUR
PGE S.A.	PGE Trading GmbH	Vattenfall Energy Trading GmbH	2012-04-02	2015-01-01	Corporate guarantee	500,000	EUR
PGE S.A.	PGE Trading GmbH	E.ON Energy Trading SE	2012-04-02	2015-01-01	Corporate guarantee	500,000	EUR
PGE S.A.	PGE Trading GmbH	EDF Trading Limited	2012-10-01	2015-01-30	Corporate guarantee	500,000	EUR
PGE S.A.	PGE Trading GmbH	Amprion GmbH	2013-06-19	2015-01-31	Bank guarantee ordered by PGE S.A. for liabilities of PGE Trading GmbH	450,000	EUR
PGE S.A.	PGE Trading GmbH	Gazprom Marketing & Trading Ltd.	2012-10-01	2015-01-01	Corporate guarantee	200,000	EUR



Guarantees granted by PGE S. A. are presented in Note 31.1 to the standalone financial statements.

In addition, on January 20, 2014 three agreements between PGE GiEK S.A., PGE S.A. and each of the following banks were concluded: 1) Powszechna Kasa Oszczędności Bank Polski S.A. with its seat in Warsaw; 2) Bank Polska Kasa Opieki S.A. with its seat in Warsaw; and 3) BNP Paribas Bank Polska S.A. with its seat in Warsaw (jointly "Banks" and separately as "Bank"). The beneficiary of the guarantees on PGE GiEK S.A. order will be the general contractor of works associated with the construction of power units No. 5 and 6 in Opole Power Plant (investment led by PGE GiEK S.A.). The agreement provides securities in form of a guarantee by PGE to 120% of the current amount of the guarantee. As a result of a guarantees granted by the Banks as from January 29, 2014, PGE S.A. issued 3 guarantees to the bank guarantees of payment for PGE GiEK S.A. for an aggregate amount of PLN 2,080 million. Significant off-balance sheet items are described in Note 40 to the standalone financial statements.

2.8.7. Evaluation of investment capacities

On-going and future investments are and will be financed from funds generated by the core activity of the Company, funds obtained from the issue of bonds and from external financing. Financial results achieved by the Company and debt level in 2013 confirm that the Company owns sufficient resources to achieve its investment goals, including capital investments.



3. Risks and threats of the PGE Capital Group

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

Key risks and threats, to which the PGE Group's activity is exposed, are described below. The order of the presentation of individual risks does not reflect the assessment of their relevance, i.e. the degree of exposure of the PGE Capital Group to the following risks. The following list does not include all the risk factors of PGE Group's activity that may emerge in future.

The PGE Capital Group has continued to develop 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. The risk management procedures cover key segments of the value chain of the PGE Capital Group and are implemented at all levels of management, from lowest-level employees to top management. 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 particular, actions undertaken in respect of specific risks are carried out on the basis of sets of rules and practices. In the case of risks associated with commercial and financial activities, the Group continues to implement adequate risk limits calculated, inter alia, on the basis of statistical measurements and monitors the extent of their application. In addition, the Company's structure comprises two specialised committees supporting and supervising the management of major and specific risks, in particular in the area of commercial, financial and investing activities of the Group.

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

3.1.1. Risk connected with macroeconomic situation

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

3.1.2. Risk relating to an increasing competition

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



of energy from renewable energy sources and preference of the green energy in the system, there is an increasing pressure on profitability of the conventional energy sources.

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

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

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

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

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

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

3.2. Risk factors connected with regulatory and legal environment

3.2.1. Political risk

The activity of the PGE Group in key operating areas, i.e. lignite mining, generation, distribution and sale of electricity and heat, is subject to legislation, government regulation and government policy adopted by Polish authorities and agencies, authorities of the European Communities and the European Union, and other states. Changes in such legislation, regulations and/or policies may be influenced by political factors, which in turn may affect business activity of the Group including, inter alia, the regulation of electricity prices, heat prices and distribution services for off takers, in particular households. It is particularly relevant for investments in the generating segment as they are characterised by high capital expenses and a long implementation period (in case of nuclear power plants it is 10 years and more including the preparation phase). A stable and coherent energy policy based on capacity balancing and supporting an assumed target fuel mix, and at the same time involving mechanisms enabling to carry out investments, required in order to secure the energy security of the State, may lead to the completion of necessary investment projects in the generation segment.

3.2.2. Risk of instability of legal environment

The PGE Group's activity is subject to numerous Polish and European laws and regulations and international law. The provisions of the laws, regulations, decisions, positions, opinions and actions of relevant authorities important for the Group's activity are subject to changes. In particular, the Energy Law was repeatedly amended, and some of the amendments introduced significant changes



with respect to core business areas. Types, directions and scopes of such amendments may have an unpredictable impact on the Group's activity.

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

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

In previous years, generators in Group, who provided electricity in combination with heat (cogeneration), benefited from a scheme supporting highly efficient generators. Under the applicable regulations, the scheme supporting highly efficient cogeneration based on certificates of origin (the so-called yellow certificates – for installations fired with gaseous fuels or of a total installed capacity below 1 MW, and red certificates – for units fired with fuels other than gas, of a total installed capacity of more than 1 MW) operated until December 31, 2012 (energy produced in 2012 was settled by March 31, 2013). As from December 31, 2012 the support expired. On January 24, 2014, the Polish parliament amended the Energy Law act, restoring the support scheme for highly efficient co-generation. Under the adopted act, the application of the support scheme for electricity and heat generators in the highly efficient co-generation process was prolonged to the end of 2018. As legislative work is still ongoing, the amendment of the Energy Law act entails the risk of being rejected; at the same time the European Commission may consider the Polish support scheme for co-generation as unlawful state aid and in consequence the support scheme for co-generation units will not be renewed, what would adversely affect revenues and returns of co-generation units of the Group who are benefiting from support scheme.

The Group's units generating electricity from renewable energy sources as they also benefit from the support scheme for renewable energy installations. According to the draft new renewable energy act, which is currently in the legislation process, the present support scheme designed for units generating electricity from renewable sources and stipulated by the Energy Law will be changed. On February 4, 2014, the most recent bill of the Act on the Renewable Energy Sources was published. If the proposed document enters into force in its current form, it may have a significant impact on the profitability of existing installations using renewable energy sources and also on investment plans of the PGE Capital Group.

Taking into account the proposed amendments to the Act on Renewable Energy Sources, the greatest risk for the PGE Capital Group in respect of lost revenues may be caused by the discontinuation of support for hydro power plants with installed capacity of above 5MW, a reduced scope of support for biomass co-combustion with conventional fuels to the value of 0.5 of the certificate of origin for each 1MWh of generated power (excluding dedicated multi-fuel combustion plants) and a shorter period of support – a maximum of 15 years.

3.2.4. Risk connected with the requirement for licenses

The Group's core activity is subject to a number of licenses, including licenses for the electricity and heat generation, the distribution of electricity and heat, the electricity and heat trading, the fuel gas trading, as well as for the lignite mining. In order to continue business activity, the Group needs



to maintain and extend existing licenses. Any withdrawal or limitation of licenses or the imposition of additional conditions under the license may cause that Group companies will not be able to run their activities, their activities will be significantly limited or substantially influenced otherwise.

3.2.5. Risk resulting from the potential violation of antitrust regulations

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

3.2.6. Risk connected with the programme of CO₂ emissions reduction

As of January 1, 2013 the CO₂ emission rights are not granted through the National Allocation Plan ("NAP") from the pool granted to Poland by the European Commission ("EC") as it took place in the second ETS settlement period (2008-2012). In next, third settlement period (2013-2020), as a rule, all allowances should be purchased on auctions. The exceptions are free allowances for industrial producers, heat producers and electricity producers (respectively art. 10a and 10c of the ETS directive) known as derogations. Size and range of derogations for particular units is determined and proposed by National Implementation Measures ("NIM") pursuant to guidelines of the European Commission. Polish government submitted to the EC documents entitling to receive free CO₂ emission rights. On January 22, 2014, the European Commission accepted the Polish plan assuming the allocation of 404.6 million of CO₂ emission rights to the modernisation of the electricity sector. The plan covers more than 340 investments for a total value of approx. PLN 119 billion. Following the publication of the European Commission's decision, in the next step the government shall issue a regulation including a list of installations together with the number of free CO₂ emission rights allocated to them. Based on the regulation, emission rights will be transferred to the accounts of the companies. The work on the draft regulation is still ongoing. As at the day of this report, PGE Group did not yet receive confirmed allocation of free allowance for 2013-2020, what can cause lack of settlement of actual 2013 emission, i.e. until the end of April 2014) using the free allowances.

The ETS directive is presently being implemented into the national legislation, i.e. the bill on the trading scheme of greenhouse gas emissions rights was published. It introduced a number of changes in the greenhouse gas emission rights scheme in the third settlement period. The changes consist in particular in the introduction of emission rights auctions as a basic method for distribution of rights, the possibility of derogation for the electricity and power sector and introduction of the mechanism of the so-called national implementing measures.

Besides, at the European level, a strong group is lobbying for an increase of the Community CO₂ reduction target, in particular after 2020. In accordance with the 2008 climate package, the European Union and the Member States undertook to reduce their CO₂ emissions by 20%



by the year 2020 in relation to the base year (1990). On January 22, 2014, the European Commission published proposals for the 2030 EU climate and energy policy framework, which provided new targets with regard to CO₂ emission reductions and the share of energy generated from renewable sources. According to the assumptions, the binding CO₂ emission rights target is to rise to 40% and the share of the Renewable Energy Sources is to reach a minimum of 27% in final energy balance across the EU. In contrast to the proposed target for renewable energy, which is to be in force only at the level of the entire EU, the 40% CO₂ emission reduction target by the year 2030 proposed by the European Commission will be split into binding targets for individual countries. This may lead to a rise in prices of emission rights, and therefore to a deterioration of profitability, in particular in respect of existing generation assets based on coal combustion. The proposal of the European Commission has not been a formal legislative motion yet, however a draft law on the matter may be presented next year.

Together with the new climate and energy targets, the European Commission put forward amendments to the EU emission trading system (ETS), which had been launched in 2005 as an instrument of the EU countries designed to tackle climatic change. The Commission proposes to set up a stabilization reserve of rights from the year 2021 and to increase the annual reduction in the number of emission rights from 1.74% to 2.2% after 2020. The envisaged amendments to the ETS directive pose a risk of permanent withdrawal of emission rights from the market in order to raise their prices. The proposal constitutes a legislative initiative. Although the measure is to enter into force as of 2021, its effects on the CO₂ prices may be noticeable even before 2020 because of the anticipated fall in the emission rights supply by the market; this may in turn translate into higher prices of emission rights.

3.2.7. Risk of more stringent restrictions with respect to emissions to the environment of substances other than CO₂

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

Regulations with respect to environmental protection are subject to very frequent amendments. Within a time span of 2016, due to Industrial Emissions Directive (IED) implemented in 2010, the requirements with respect to emission of NO_x, SO₂ and dusts will be tightened. Currently the above provisions are being implemented into the Polish law through amendment to Environmental Protection Act. IED not only sets out stricter requirements with respect to pollution emission limits compared to regulations previously in force (LCP Directive among others) but also extends the role of BAT reference documents (the so-called BREFs). On the European forum revision BREF is in progress in order that will be legally binding after European Commission conclusion on BAT.



Around year 2019 the emission norms imposed on energy generators resulting thereof may be subsequently tightened in relation to IED. Today the scale of the norms tightening cannot be determined due to the ongoing works in European Union.

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

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

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

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

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

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

3.3.2. Risk connected with mining site rehabilitation expenses

Lignite mines belonging to PGE Group must rehabilitate sites where they carry out their mining works. The Geological and Mining Act, as well as implementing regulations thereto, obligate mining companies to make contributions to the mine liquidation fund constituting 10% of a maintenance fee. Such funds may be used only to cover costs of mine liquidation, including rehabilitation costs. It may happen that funds and reserves of mining companies allocated to such a purpose will not



cover actual rehabilitation expenses that the companies will have to bear in future. This may result in a need to increase amounts payable to the rehabilitation fund, create other reserves, and finance site rehabilitation from external sources.

3.3.3. Risk connected with weather conditions

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

3.3.4. Risk relating to maintenance, repairs, modernisations and investments

PGE Group companies' activity in lignite mining and energy and heat generation and distribution requires regular maintenance, repairs and modernization of assets. Such actions should ensure that equipment's life is optimum and guarantee necessary availability of key assets, including cost minimisation.

Assets recovery and modernisation investments, as well as investments in new assets, are subject to substantial expenditure. A timely execution of the projects is vital for their profitability. Delays caused by lengthy procedures relating to the acquisition of administrative decisions and possible complaints being filed against them brings a risk of discontinuation of individual investment projects. At the same time, particular stages of works or of new investments may be delayed, for example, by uncertainty relating to the acquisition of sufficient financial resources, difficulties in the acquisition of necessary permits, obstructions in acquirement of land for new investments, protests of environmental organisations, strikes of employees, growth of projected investment costs, limited supply of investment goods and machinery, delays caused by contractors, bankruptcy of contractors or sub-contractors, accidents, unfavourable weather conditions or other unexpected difficulties. Above mentioned circumstances may have significant adverse effect on activity, results, financial standing of the Group or Group's development perspectives.

3.3.5. Risk of unsettled legal status of the real estates

In the case of many properties owned by the PGE Group, in particular those used by distribution system operator, there are doubts as to the legal title to use the properties. Very frequently, investments, mainly ones related to lines, were carried out in third party properties without express consent of owners. Corresponding national legal regulations are not clear and judicature on cases relating to such situations has been changed in recent years. This situation is connected with a risk of claims to be filed against PGE Group companies, like in the case of distribution system operator.



We may not exclude further cases of this type and related additional costs or even a need to stop using certain properties.

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

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

PGE S.A. has received positive evaluations from rating agencies confirming its high reliability connected with investment in its debt securities. Nonetheless, rating agencies may at any time downgrade or inform PGE S.A. of their intention to downgrade the rating. The rating agencies may also completely withdraw their ratings which may have the same consequences as a downgrade

in PGE's ratings. Any decrease in PGE's rating may increase the costs of external financing, limit access to capital markets and adversely affect the capacity of PGE Group companies to sell their products or contract economic transaction, especially long-term ones. This may in turn decrease the liquidity of PGE S.A. and adversely affect the operating results and financial condition of PGE Group.

3.3.7. Risk associated with the decisions of the President of the Energy Regulatory Office regarding the implementation of LTC Act

The provisions of the LTC Act defining, in particular, terms for the calculation, payment and adjustments of funds to cover stranded costs, calculation and payment of such funds to generators coming within capital groups (including PGE Capital Group), tax consequences of LTC termination and fund payment, as well as other issues, are complicated and there is no defined practice for their application in Poland. Producers that terminated LTC and are authorised to receive funds to cover stranded costs, including PGE Group generation companies, are exposed to risk of returning of received funds in the case of the negative (annual or final) correction of stranded costs).

3.3.8. Risk of transfer prices

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



3.3.9. Risk of insufficient insurance protection

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

3.3.10. Risk relating to court, arbitration and administrative proceedings and employees' claims

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

Legal proceedings involving the PGE Capital Group are, among others, related to the exchange ratio that had been fixed for the shares of the PGE Górnictwo i Energetyka S.A. exchanged for the shares of PGE S.A. within the Consolidation Process that took place in 2010. Former shareholders of PGE Górnictwo i Energetyka S.A. and the purchaser of the debt from former shareholders have filed a petition 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. The total value of claims resulting from petitions for pre-trial settlements is approximately PLN 379 million.

PGE S.A. does not accept the above mentioned claims in connection with the calls for pre-trial settlements. The claims are unfounded and unsubstantiated. The value of the shares of companies subject to the consolidation process (mergers) was assessed independently. Plans 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. Claimants filing motions to the courts did not prove on what grounds, in what way and on the basis of what kind of data or documents the claimed amounts had been calculated.

In the said cases, the PGE Polska Grupa Energetyczna S.A. refused to enter into pre-trial settlements. However, former shareholders and purchasers of debts from former shareholders may start legal actions to claim the payment of amounts that were claimed previously in the proceedings involving petitions for pre-trial settlements.

Over 100 company and inter-company trade unions are present in the PGE S.A. and PGE Group companies and more than 24 thousand employees are members thereof. Pursuant to the current provisions of law, trade unions influence the legislative process. They are also able to exert pressure on employers in a number of ways, including in the form of collective labour disputes. PGE Group companies are parties to a number of corporate and sector collective bargaining agreements.



Furthermore, management boards of many Group companies have entered into social agreements with trade unions which confer considerable power upon employees and trade unions. The necessity to consult or co-ordinate certain actions with the trade unions may delay, or even render impossible, such actions and may lead to collective disputes, involving strikes or other labour protests. Furthermore, should any significant redundancy program be required in the PGE Group in the future, the obligation to make high severance payments to employees may delay or limit our ability to carry out such redundancy program or may increase its cost.

Risks relating to court, arbitration and administrative proceedings and employees' claim that are essential for the Group's activity are described in Note 38 to the consolidated financial statements.

3.3.11. Risk of asset impairment

Observed fall of energy prices and possible outlook for low prices in the long term along with the uncertainty with regard to support for co-generation may lead to situation when impairment losses with respect to generation assets of the Group may need to be recognised. Description of impairments of assets in 2013 is presented in Note 21 to the consolidated financial statements.

3.4. Financial and market risks

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

3.4.1. Commodity price risk

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

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

3.4.2. Interest rate risk

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



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

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

The Group is exposed to the risk of changes in the fair value of SWAP derivatives resulting from changes in interest rates.

3.4.3. Foreign exchange risk

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

Exposure to transaction risk

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

Translation exposure

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

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

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



- Invested financial assets denominated in foreign currencies.

3.4.4. Liquidity risk

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

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

3.4.5. Credit Risk

The credit risk is related with potential credit defaults such as a counterparty's insolvency, incomplete repayment or significant delay in the repayment of a debt or other default on contractual terms, particularly lack of supply and off-take of the agreed goods according to the contract and possible lack of payments of compensations and contractual penalties.

Companies of the PGE Group are exposed to credit risk arising in the following areas:

- Core business of the companies – sources of credit risk include transactions for the purchase or sale of electricity and other energy products and the uncertainty relating to fulfillment of the agreement by the contractor, both their financial liabilities towards PGE Group and non-financial liabilities for supply or off-take of the subject-matter of the agreement, what in case of uncompleted transaction creates necessity for concluding a substitute contract on current market conditions;
- Investing activities undertaken by the companies – the credit risk is generated by transactions within investment projects where successful completion is subject to the financial standing of the Group's suppliers;
- Financial operations of the companies, inter alia Investing the companies' available funds – the credit risk arises if available funds are invested by the companies of the PGE Group in financial instruments involving credit risk, i.e. financial instruments other than issued by the State Treasury.

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

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



- Derivatives;
- Granted guarantees.

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

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



4. Other events of the reporting period and subsequent events

4.1. Agreement on the exploration for and extraction of shale gas

The Framework Agreement of July 4, 2012 on the Joint Exploration for and Extraction of Shale Gas between PGE, Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG"), ENEA S.A., KGHM Polska Miedź S.A. and TAURON Polska Energia S.A expired on December 31, 2013 (together "Parties").

The subject-matter of the Agreement was to settle the terms of co-operation in exploration, evaluation and extraction of shale gas in geological formations for which concessions have been granted for the exploration and evaluation of deposits of crude oil and natural gas in relation to the Wejherowo concession held by PGNiG.



5. Statement on implementation of Corporate Governance

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

5.1. Corporate governance principles which the Company was obliged to follow in 2013

In 2012 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 passed a resolution approving Best Practices for application in the Company. The Management Board of the Company acts with due diligence to obey the principles of Best Practices.

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

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

In 2013 the Company applied the Best Practices with the exception of:

- a) Principle no. 5 included in Chapter I “Recommendations for Best Practice for Listed Companies”.

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

So far, the Company has not worked out an uniform remuneration policy and rules of defining the policy. The Company and its subsidiaries are bound to apply the provisions of various collective agreements, which significantly restricts the freedom of designing the remuneration policy. With regard to the members of the Supervisory Board, the provisions of the of the Act on remuneration of



managers of certain legal entities are applied, limiting the Supervisory Board members remuneration to one average salary in the enterprises sector, without payments from the profit in the fourth quarter indicated in the above Act. In relation to the Management Board members, the given Act does not apply as they perform the services for the Company on the ground of the agreements for rendering of the management services.

- b) 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 through real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting.

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, 2012. 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.

- c) Principle 6 included in the section III „Best Practice for Supervisory Board Members”.

This principle states that at least two members of the Supervisory Board should meet the criteria of being independent from the company and entities with significant connections with the company. The independence criteria should be applied under Annex II to the Commission Recommendation of February 15, 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. Irrespective of the provisions of point (b) of the said Annex, a person who is an employee of the company or an associated company cannot be deemed to meet the independence criteria described in the Annex. In addition, a relationship with a shareholder precluding the independence of a member of the Supervisory Board as understood in this rule is an actual and significant relationship with any shareholder who has the right to exercise at least 5% of all votes at the General Meeting.

Following the resignation of Mr. Grzegorz Krystek from the Supervisory Board and his appointment to the Management Board PGE ceased to fulfill the above rule as of December 23, 2013. Following Mr. Krystek's resignation only Mr. Czesław Grzesiak met the criteria of independency.

On February 28, 2014 the Extraordinary General Meeting adopted resolutions on complement of composition of the Supervisory Board and appointed Mr. Piotr Machnikowski, a candidate fulfilling the independence criteria, to the Supervisory Board. Since that date the Company has fulfilled the above principle.



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

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

Basic regulations applicable to preparation of financial statements include:

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

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

The Company keeps accounting books in the integrated information system. The system ensures division of competencies, coherent entries in the books and control between the general ledger and subsidiary ledgers. The system can be modified to ensure adequacy of the technical solutions to the changing accounting principles and legal standards. The system includes documentation for the end user section and the technical section. The system documentation undergoes regular verification and update. The Company has implemented organisational and system-wide solutions to ensure that the system is properly used and protected, and that the access to data and hardware is secured. The access to financial and accounting system records and financial reporting records is restricted with relevant rights granted to authorised employees as required for their actions and responsibilities. The accounting books in companies subject to consolidation are kept in autonomous information



systems. For the consolidation purposes, these companies prepare reporting packages, which are transferred, verified and processed in the system's consolidation module. Regardless of the control mechanisms built into the information systems, management control mechanisms are implemented into the process of preparing financial statements in PGE S.A. and companies subject to consolidation. Such mechanisms include separation of responsibilities, verification of correctness of data received, authorisation by the superior, independent arrangements, etc.

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

Statutory auditors perform an independent assessment of reliability and correct preparation of the financial statements of PGE S.A. and financial statements of companies subject to consolidation. Two auditing companies were appointed to audit 2013 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.

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.



5.4. Shareholders with a significant stake

According to the information held by the Company¹, 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 **1,157,124,546 shares of the Company**, what constitutes **61.89% of the share capital** and entitles to exercise the same amount of the votes at the General Meeting of the Company.

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	1,157,124,546	1,157,124,546	61.89%
Others	712,636,283	712,636,283	38.11%
Total	1,869,760,829	1,869,760,829	100.00%

5.5. 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.

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

On the ground of the Statutes, the State Treasury holds special right with regard to selection of the Supervisory Board members. Selection of half of members of the Supervisory Board, including Chairperson of the Supervisory Board, appointed by the General Meeting shall be elected from among persons indicated by the State Treasury. This State Treasury's right is valid until its stake in the Company falls below 20%. On February 6, 2014 the Extraordinary General Meeting adopted resolution no 4 that introduced changes to the Statutes. Changes made to the Statutes on the ground of that resolution relate among others to mode of selection of the Chairperson of the Supervisory Board. The Chairperson of the Supervisory Board will be chosen from the persons

¹ the notification from the Minister of State Treasury of March 1, 2012, about which PGE informed in current report no 7/2012 dated March 1, 2012.



indicated by the State Treasury. Above changes will come into force after their registration by the register court in the National Court Register.

5.6. 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.

5.7. 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.

5.8. 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.

5.9. 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.

a) Convening and cancelling the General Meeting.

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

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

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



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

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

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

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

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

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

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

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

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



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

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

b) Competencies of the General Meeting of the Company.

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

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

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

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

c) Participation in the General Meeting of the Company

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



in the General Meeting, if they are registered in the stockholders' ledger as at the date of registration of participation in the General Meeting.

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

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

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

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

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

d) Voting at the General Meeting of the Company

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

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

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

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

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



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

5.10.1. Management Board

a) Members of the Management Board

In 2013, the Management Board of the Company consisted of:

Name and surname of the Member of the Management Board	Position
Krzysztof Kilian	President of the Management Board until November 18, 2013
Bogusława Matuszewska	Vice-President of the Management Board for Strategy and Development until October 25, 2013
Wojciech Ostrowski	Vice-President of the Management Board for Finance until October 25, 2013
Paweł Smoleń	Vice-President of the Management Board for Operations until July 19, 2013
Piotr Szymanek	Vice-President of the Management Board for Corporate Affairs until November 18, 2013, Acting President of the Management Board from November 18, 2013 till December 23, 2013
Grzegorz Krystek	Member of the Supervisory Board delegated to temporarily perform the duties of the Member of the Management Board from November 18, 2013 till December 23, 2013
Jacek Drozd	Member of the Supervisory Board delegated to temporarily perform the duties of the Member of the Management Board from November 21, 2013 till December 23, 2013

On December 23, 2013 the Supervisory Board, following the recruitment process, appointed the following persons to the Management Board of the 9th term:

Name and surname of the Member of the Management Board	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



Marek Woszczyk
President of the Management Board

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

Graduate of Kozminski University in Warsaw (Executive MBA), Poland's National School of Public Administration and Gdynia Maritime University (MSc, Navigation Faculty). 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. In years 1998-2007 held a position of Deputy Director in the ERO Central Branch.



Dariusz Marzec
Vice-President of the Management Board for Development

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

Graduate of Warsaw University (MA in Organisation and Management).

Since 2009 has worked in KPMG Advisory Sp. z o.o. as a Director responsible for M&A Energy in Middle and Eastern Europe and KPMG financial and strategy services for energy companies in Poland. He completed and supervised series of transactions and projects in the electroenergy field. Earlier, in years 2005-2007, he was a Vice-President for Investments in Unipetrol a.s. responsible for preparation and implementation of investment strategy and organizational restructuring and supervision of M&A projects in the group. In years 2004-2005 Mr. Dariusz Marzec was a Under-secretary of State in the Ministry of Treasury in the government of Prime Minister Mr. Marek Belka. In years 1995-2004 he held managerial positions in international advisory companies Pricewaterhouse Coopers (2001-2004 and 1995-2000) and Arthur Andersen Poland (2000-2001).



Jacek Drozd
Vice-President of the Management Board for Corporate Affairs

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

Graduate of Maria Curie-Skłodowska University in Lublin (Economics) and postgraduate studies at Wrocław University of Economics (Accounting).

Licensed Stockbroker (licence no. 23). As of 2010 he was a Vice-President of the Management Board at Interbud Lublin S.A. For many years he held higher management positions in joint stock companies and financial institutions, Vicepresident of the Management Board - OPF S.A., Branch Director in Bank Gospodarstwa Krajowego in Lublin Branch, Financial Director in Zakłady Azotowe w Puławach S.A., President of the Management Board in Wschodni Bank Cukrownictwa, Regional Office Director in Centralny Dom Maklerski Pekao S.A. Member of the supervisory boards: Lubelskie Przedsiębiorstwo Energetyki Ciepłej (Chairman), Renoma Sp. z o.o., and in past: PGE Dystrybucja S.A., Mewa S.A., Bałtycka baza masowa Sp. z o.o., Navitrans Sp. z o.o., Montex S.A., Bank Depozytowo-Kredytowy Ltd (Łuck/Ukraine), Centralna Tabela Ofert S.A.



Grzegorz Krystek
Wiceprezes Zarządu ds. Operacyjnych i Handlu

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.

b) Rules of appointing and recalling the management personnel

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

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

c) Competencies of the Management Board

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

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

Pursuant to the Statutes of the Company, resolutions of the Management Board are required for all matters that go beyond the scope of ordinary acts of the Company. Furthermore, resolutions of the



Management Board are required for any matter referred by the Management Board to the Supervisory Board, and matters not reserved for the Board's competencies.

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

d) Activities and organisation of work of the Management Board

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

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

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

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

Resolutions may be made in writing or using means of direct remote communications

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



5.10.2. Supervisory Board

a) Members of the Supervisory Board

From January 1, 2013 until June 27, 2013 the Supervisory Board performed the duties in the following composition:

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

On June 27, 2013 the General Meeting determined the number of Supervisory Board members on 7 persons and appointed the following persons to the Supervisory Board of the 9th term as of June 27, 2013:

Name and surname of the member of the Supervisory Board	Position
Małgorzata Dec	Chairman of the Supervisory Board. On February 28, 2014 resigned from the function of the Chairman and member of the Supervisory Board
Jacek Drozd	Vice-Chairman of the Supervisory Board from July 17, 2013, delegated to temporarily perform the duties of the member of the Management Board from November 21, 2013 till December 23, 2013, on December 23, 2013 submitted resignation from the Supervisory Board
Jacek Barylski	Supervisory Board Member
Małgorzata Mika – Bryska	Supervisory Board Member
Czesław Grzesiak	Supervisory Board Member
Grzegorz Krystek	Member of the Supervisory Board, delegated to temporarily perform the duties of the member of the Management Board from November 18, 2013 till December 23, 2013, on December 23, 2013 submitted resignation from the Supervisory Board
Anna Kowalik	Secretary of the Supervisory Board since July 17, 2013



On July 17, 2013 the Supervisory Board adopted a resolution on appointment of Mr. Jacek Drozd for the position of Vice-Chairman of the Supervisory Board and on appointment of Mrs. Anna Kowalik for the position of Secretary of the Supervisory Board.

On February 28, 2014, Ms. Małgorzata Dec, a Chairperson of the Supervisory Board, resigned from her position.

On the same day the Extraordinary General Meeting adopted resolutions on determination of number of Supervisory Board members at 9 and on appointment of the following persons to the Supervisory Board:

Name and surname of the member of the Supervisory Board	Position
Barbara Dybek	Chairman of the Supervisory Board, appointed on February 28, 2014
Jarosław Gołębiewski	Supervisory Board Member, appointed on February 28, 2014
Małgorzata Molas	Supervisory Board Member, appointed on February 28, 2014
Krzysztof Trochimiuk	Supervisory Board Member, appointed on February 28, 2014
Piotr Machnikowski	Supervisory Board Member, appointed on February 28, 2014

As at March 12, 2014 the composition of the Supervisory Board is as follows:

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



b) Rules of appointing and recalling of the supervisory personnel

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

On February 6, 2014 the Extraordinary General Meeting adopted resolution no. 4 which changes the Statutes of PGE S.A. The changes will relate to, inter alia, determining the number of Supervisory Board members and mode of appointment the Chairperson of the Supervisory Board. The provisions concerning the competences of the General Meeting with regard to determining the number of Supervisory Board members will be deleted. The Chairperson of the Supervisory Board will be elected by the Supervisory Board from among its members identified by the State Treasury. At least half of members of the Supervisory Board shall be elected from among persons identified by the State Treasury. The above changes shall come into force once they are registered by the register court in the National Court Register.

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

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

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



c) Activities and organisation of the Supervisory Board

The operating procedure of the Supervisory Board is described in the Statutes of the Company and in the Rules of the Supervisory Board of PGE Polska Grupa Energetyczna S.A. The Supervisory Board performs its obligations collectively, however, it may delegate individual members for temporary and independent performance of certain supervisory activities. The Supervisory Board meets as required, not less often than once every two months.

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

Meetings of the Supervisory Board are convened by the Chairman of the Supervisory Board or the Vice-Chairman in the absence of the Chairman. The meeting of the Supervisory Board is convened by sending out a written invitation to all members of the Supervisory Board at least seven days before the schedule date of the meeting. This period of seven days may be shortened to two days for major reasons. The Meeting of the Supervisory Board may be also convened on demand of each member of the Supervisory Board or the motion of the Management Board (the person filing the motion proposes the agenda). Then the meeting should be convened within two weeks. If the Chairman of the Supervisory Board fails to convene the meeting within that period, the person filing the motion may convene the meeting on his/her own, stating the date, place and proposed agenda. The agenda may be changed if all members of the Supervisory Board are present at the meeting and no one objects to the change.

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

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

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

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



d) Competencies of the Supervisory Board

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

In accordance with the Statutes, the Supervisory Board:

- reviews the report of the Management Board on the activities of the Company and the unit financial statements for the past financial year for compliance with the books, documents and the actual status. This also applies to the consolidated financial statements of the Capital Group if any;
- reviews the motions of the Management Board on the division of profit or covering the loss;
- presents the General Meeting with a written report on the results of activities referred to in the aforementioned two points;
- appoints the statutory auditor to audit the unit financial statements and the consolidated financial statements of the Capital Group if any;
- approves the annual and long-term financial plans of the Company, specifies the scope and dates of presentation of such plans by the Management Board;
- approves the development strategy of the Company;
- approves the rules which lays down detailed operating procedure of the Supervisory Board;
- approves the rules of the Management Board of the Company;
- sets remuneration and other terms of agreements and concludes agreements with the members of the Management Board (including the President of the Management Board), subject to competencies of the General Meeting resulting from the binding laws;
- provides opinions on all the motions for resolutions submitted by the Management Board to the General Meeting;
- delegates members of the Supervisory Board to perform, on a temporary basis, activities of the members of the Management Board who cannot fulfil their duties;
- grants consent for the members of the Management Board to hold positions in authorities of other companies.

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

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



incurring of obligations consisting in trading of electricity, related products and rights connected with them, and fuels,

- payment of an advance against the expected dividend,
- investment undertakings concerning or related to a power generation unit or a combined heat and power generation unit with a value exceeding 50,000,000 euros, or a power distribution network with a value exceeding 5,000,000 euros, within the meaning of the Energy Law, to be carried out or co-financed by the Company or to be secured by the Company or on the Company's assets,
- projects concerning or related to exploration for or identification of mineral deposits or extraction of minerals with a value exceeding 50,000,000 euros, within the meaning of the Geological and Mining Law, to be carried out or co-financed by the Company or to be secured by the Company or on the Company's assets,
- the manner of exercising the voting right by a representative of PGE S.A. at General Meetings in companies in which the Company holds at least 50% of shares or interests, in matters concerning power generation units or combined heat and power generation units with a value exceeding 50,000,000 euros or power distribution networks with a value exceeding 5,000,000 euros, within the meaning of the Energy Law,
- the manner of exercising the voting right by a representative of PGE S.A. at General Meetings in companies in which the Company holds at least 50% of shares or interests, in matters concerning projects related to exploration for or identification of mineral deposits or extraction of minerals, within the meaning of the Geological and Mining Law, with a value exceeding 50,000,000 euros
- the manner of exercising the voting right by a representative of PGE S.A. at General Meetings in companies whose objects include electric power generation, transmission, distribution, in matters concerning the incurring of contingent liabilities, credits or loans and other financial agreements of the similar character concerning or related to power generation units, combined power and heat generation units with a value exceeding 50,000,000 euros or power distribution networks, within the meaning of the Energy Law, with a value exceeding 5,000,000 euros, or concerning or related to exploration for or identification of mineral deposits or extraction of minerals, within the meaning of the Geological and Mining Law, with a value exceeding 50,000,000 euros.

e) 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 which were appointed by the resolutions of the Supervisory Board of December 6, 2007.

On June 27, 2013 the General Meeting recalled three Supervisory Board members, thus the mandates of the members of the above mentioned committees expired too. On the same day the General Meeting appointed three new Supervisory Board members.

On July 17, 2013, the Supervisory Board adopted resolutions on the election of the standing committees acting within the Supervisory Board. Composition of committees changed after resignations from the Supervisory Board of Mr. Grzegorz Krystek and Mr. Jacek Drozd on December 23, 2013 and of Ms. Małgorzatę Dec on February 28, 2014.

I. The Audit Committee

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

In particular, the Audit Committee:

- monitors the work of statutory auditors of the Company and presents the Supervisory Board with recommendations on the appointment and remunerating statutory auditors of the Company,
- discusses the scope of audit with the statutory auditors of the Company before the audit of the annual financial statements and monitors the work of the statutory auditors of the Company,
- reviews interim and annual financial statements of the Company (stand-alone and consolidated), focusing in particular on:
 - all the changes of accounting standards, principles and practices,
 - main areas to be audited,
 - major corrections resulting from the audit,
 - statements on the going concern,
 - compliance with governing provisions on book-keeping.
- discusses with the competent persons all the issues or reservations which might arise out of the audit of the financial statements,
- analyses letters addressed to the Management Board by the statutory auditors and responses of the Management Board; checks independence and objectiveness of audits conducted by the statutory auditors,
- expresses opinions on the Company's policy on dividends, profit distribution and issue of securities,



- reviews the management accounting system,
- reviews the internal control system (including the mechanisms of financial and operational control, legal compliance, risk assessment and management control) and the annual report,
- analyses reports of internal auditors of the Company and main conclusions of other internal analysts and responses of the Management Board to such conclusions; examines the level of independence of internal auditors,
- performs an annual review of the internal audit programme, co-ordinates the work of internal and external auditors and examines the operating conditions of internal auditors,
- co-operates with the organisational units of the Company responsible for the audit and control and performs a periodical evaluation of their work,
- reviews all the other issues related to the audit of the Company, highlighted by the Committee or the Supervisory Board,
- informs the Supervisory Board of any major issues related to the activities of the Audit Committee.

Until June 27, 2013 the Audit Committee consisted of:

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

From July 17, 2013, in accordance with the resolution no 91/IX/2013, the Audit Committee consisted of:

Name and surname	Position
Małgorzata Dec	Chairman of the Committee till August 12, 2013. On February 28, 2014 resigned from the function of the Chairman and member of the Supervisory Board
Jacek Drozd	Committee Member till August 12, 2013; Chairman of the Committee since August 12, 2013; delegated to temporarily perform the duties of the member of the Management Board from November 21, 2013 till December 23, 2013. On December 23, 2013 resigned from the Supervisory Board.
Grzegorz Krystek	Committee Member, delegated to temporarily perform the duties of the member of the Management Board from November 18, 2013 till December 23, 2013. On December 23, 2013 resigned from the Supervisory Board.
Anna Kowalik	Committee Member



II. The Corporate Governance Committee

The Corporate Governance Committee:

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

Until June 27, 2013 the Corporate Governance Committee consisted of:

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

From July 17, 2013, in accordance with the resolution no 92/IX/2013, the Corporate Governance Committee consisted of:

Name and surname	Position
Małgorzata Mika – Bryska	Chairman of the Committee
Jacek Drozd	Committee Member delegated to temporarily perform the duties of the member of the Management Board from November 21, 2013 till December 23, 2013. On December 23, 2013 resigned from the Supervisory Board.
Jacek Barylski	Committee Member
Czesław Grzesiak	Committee Member

III. The Strategy and Development Committee

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

In particular, the Strategy and Development Committee:

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



Until June 27, 2013 the Strategy and Development Committee consisted of:

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

From July 17, 2013, in accordance with the resolution no 94/IX/2013, the Strategy and Development Committee consisted of:

Name and surname	Position
Grzegorz Krystek	Chairman of the Committee delegated to temporarily perform the duties of the member of the Management Board from November 18, 2013 till December 23, 2013. On December 23, 2013 resigned from the Supervisory Board.
Małgorzata Dec	Committee Member. On February 28, 2014 resigned from the function of the Chairman and member of the Supervisory Board.
Czesław Grzesiak	Committee Member
Małgorzata Mika – Bryska	Committee Member

IV. The Appointment and Remuneration Committee

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

In particular, the Appointment and Remuneration Committee:

- initiates and provides opinions on the system of appointing the members of the Management Board;
- provides opinions on the Company management system solutions proposed by the Management Board, aimed at ensuring the effectiveness, cohesion and security of Company management,
- performs a periodic review and recommends the rules of fixing motivational remuneration for the members the Management Board and top management, taking into account the interest of the Company,
- performs a periodic review of the system of remunerating the members of the Management Board and the managerial staff reporting directly to the members of the Management Board,



including the manager contracts and motivational systems, and presents the Supervisory Board with proposals of developing such systems in the context of pursuing the strategic objectives of the Company,

- presents the Supervisory Board with opinions justifying the award of remuneration dependent on results in the context of evaluation of the level of achievement of specific tasks and goals of the Company,
- evaluates the human resources management system in the Company.

Until June 27, 2013 the Appointment and Remuneration Committee consisted of:

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

From July 17, 2013, in accordance with the resolution no 93/IX/2013, the Appointment and Remuneration Committee consisted of:

Name and surname	Position
Jacek Barylski	Chairman of the Committee
Czesław Grzesiak	Committee Member
Małgorzata Dec	Committee Member. On February 28, 2014 resigned from the function of the Chairman and member of the Supervisory Board
Anna Kowalik	Committee Member



6. Organisation of PGE S.A.

PGE S.A. held shares in direct and indirect subsidiaries with a value of PLN 24,381,689 thousand recognized at a purchase prices.

Table: Shares in direct and indirect subsidiaries

Company	Seat	% share of PGE S.A. i the share capital and votes	Share of PGE S.A., at purchase price [PLN thousand]
PGE Górnictwo i Energetyka Konwencjonalna S.A.	Bełchatów	93.6	14,786,256
PGE Obrót S.A.	Rzeszów	100.00	6,653,225
PGE Dystrybucja S.A.	Lublin	10.07	949,757
PGE Energia Odnawialna S.A.	Warsaw	100.00	414,990
Exatel S.A.	Warsaw	99.98	427,885
PGE Energia Natury S.A.	Warsaw	100.00	421,252
EPW Energia S.A.	Warsaw	32.70	395,841
PGE Systemy S.A.	Warsaw	100.00	125,002
PGE EJ 1 sp. z o.o.	Warsaw	100.00	131,001
PGE Energia Natury Bukowo sp. z o.o.	Warsaw	100.00	28,029
PGE Dom Maklerski S.A.	Warsaw	100.00	16,501
PGE Energia Natury Karnice sp. z o.o.	Warsaw	100.00	15,515
PGE Trading GmbH	Niemcy	100.00	13,990
EPW Energia Olecko sp. z o.o.	Warsaw	81.00	1,385
PGE Inwest sp. z o.o.	Warsaw	100.00	1,050
PGE Foundation „Energy from heart”	Warsaw	100.00	10
Total			24,381,689



6.1. Changes in organisation of the Company in 2013

The changes, which occurred in the Company's and Group's organisation during 12-month period ended December 31, 2013, are presented in Note 19 to standalone financial statements and described below:

- on July 31, 2013 the District Court of the City of Warsaw, XII Commercial Division of the National Court Register registered the merger of PGE with its subsidiary PGE Energia Jądrowa S.A. ("Acquired Company"). The merger of the companies was carried out by course of art. 492 § 1 p. 1 in connection with art. 515 § 1 and art. 516 § 5 and 6 of Code of Commercial Companies i.e. through transfer of all assets of the Acquired Company to PGE (merger through takeover) without raising the share capital of PGE and without the exchange of Acquired Company's shares for PGE's shares. PGE Energia Jądrowa S.A. was a subsidiary of PGE that was responsible for preparation of project of construction of nuclear power plant. PGE held 100% of the Acquired Company's shares, giving 100% of votes on its General Meeting. The Acquired Company held 51% of shares in PGE EJ1 sp. z o.o. - a special purpose vehicle responsible for preparing the investment process and construction of the first nuclear power plant in Poland (remaining 49% were held by PGE). After the merger PGE holds 100% shares in PGE EJ1 sp. z o.o. The merger of PGE S.A. with PGE Energia Jądrowa S.A. is also described in p. 1.2.1.2.
- on January 17, 2013, the Extraordinary General Meeting of PGE Energia Odnawialna S.A. adopted a resolution to increase the share capital of the company from PLN 217,126,500.00 to PLN 308,500,000.00, i.e. by PLN 91,373,500.00 by issuing 9,137,350 inscribed shares at a nominal and issue price of PLN 10 per share. All the shares of the company in the increased share capital were acquired by PGE S.A. in exchange for a cash contribution. On February 26, 2013, the share capital increase was registered in the National Court Register. The share capital of PGE EO S.A. was increased in order to increase the financial funds of the company and in order to ensure the possibility of financing from PGE S.A. for execution of the investments in new generation capacities, particularly in wind generation (projects of construction of wind farms Wojciechowo and Resko).
- Buy-out of minorities in order to streamline the capital interest structure of PGE S.A. took place in the following companies:
 - on January 23, 2013 PGE S.A. purchased from a minority shareholder 3,885 shares of EXATEL S.A., constituting 0.0465% in the share capital of the company. After the above transaction PGE S.A. currently holds 99.98% in the share capital of EXATEL S.A.
 - PGE S.A. became the sole shareholder of PGE Obrót S.A. as a result of squeeze-out by PGE Obrót S.A. of 5,127 bearer shares owned by a minority shareholder and redemption thereof.
 - In period January 1, 2013 – December 31, 2013 PGE S.A. purchased from minority shareholders – on ground of share sale agreements - a total of 7,103 shares of PGE GiEK S.A., constituting 0.001% in the share capital of PGE GiEK S.A.
- Changes in structure of capital interest of PGE S.A., described in p. 1.2.1.1., resulting from acquisition of wind energy assets from DONG Energy Wind Power A/S and Iberdrola



Renovables Energía, S.A.U. ("Iberdrola") with European Bank for Reconstruction and Development („EBRD”) were as follows:

- On June 28, 2013 PGE S.A. and Energa Hydro sp. z o.o. (currently ENERGA Wytwarzanie sp. z o.o. – a subsidiary of Energa S.A.) concluded with Dong Energy Wind Power A/S („DONG Energy”) on June 28, 2013 an acquisition agreement of shares in companies operating wind farms and developing portfolios of wind farms in Poland.

Concluding of the agreement resulted from conditional agreement concluded on February 19, 2013 and a further approval for concentration issued by the President of the Office of Competition and Consumer Protection dated June 4, 2013 (see Note 2.2.2 to the consolidated financial statements).

On the ground of the acquisition agreement, as of June 28, 2013 the ownership rights of the following companies were transferred to PGE S.A.:

- Dong Energy Polska S.A. (currently PGE Energia Naturity S.A.) - 100%;
- Dong Energy Renewables Polska sp. z o.o. (currently PGE Energia Naturity sp. z o.o.) - 100%;
- Dong Energy Karnice III sp. z o.o. (currently PGE Energia Naturity Karnice sp. z o.o.) - 100%;
- Dong Energy Bukowo sp. z o.o. (currently PGE Energia Naturity Bukowo sp. z o.o.) - 100%;
- Dong Energy Olecko sp. z o.o. (currently EPW Energia Olecka sp. z o.o.) - 81%.

PGE Energia Naturity S.A. is the sole partner in the following companies: PGE Energia Naturity Kappa sp. z o.o., PGE Energia Naturity Omikron sp. z o.o. oraz PGE Energia Naturity PEW sp. z o.o.

- On July 31, 2013 PGE S.A. jointly with Energa Hydro sp. z o.o. (currently ENERGA Wytwarzanie sp. z o.o. – a subsidiary of Energa S.A.) concluded with Iberdrola Renovables Energía, S.A.U. and European Bank for Reconstruction and Development („EBRD”) two agreements for acquisition of 100% shares in Iberdrola Renewables Polska Sp. z o.o. (currently EPW Energia sp. z o.o.) - a company that manages a wind farms portfolio in Poland. The signing of the above agreements is a consequence of the conditional agreements concluded with Iberdrola on February 26, 2013 and with EBRD on June 21, 2013 and obtaining approval for concentration from the President of the Office of Competition and Consumer Protection on June 4, 2013. As a result PGE S.A. acquired 292,461 shares in Iberdrola Renewables Polska Sp. z o.o. constituting 32.7% in the company's share capital and Energa Hydro sp. z o.o. acquired 601,915 shares constituting 67.3% in the company's share capital (see Notes 3.1. and 3.2. to the consolidated financial statements).



- Decrease of capital interest in companies as a result of liquidation thereof occurred in case of the following entities:
 - On March 5, 2013 PGE Inwest spółka z ograniczoną odpowiedzialnością II S.K.A. in liquidation with its seat in Warsaw was deleted from the National Court Register as a result of liquidation proceeding. PGE S.A. held 100% in the share capital of the company. PGE Inwest Sp. z o.o. was a working partner of the company.
 - On April 12, 2013 ELECTRA Bohemia s.r.o. in liquidation with its seat in Prague (Czech Republic), was deleted from the entrepreneurs' register as a result of the liquidation proceeding. Decision on deletion of the company from the register became final on April 28, 2013. PGE S.A. held 100% shares in the share capital of the company.
 - On November 13, 2013 SwePol Link Poland sp. z o.o. in liquidation with its seat in Warsaw, was deleted from the National Court Register as a result of liquidation proceeding. SwePol Link A.B. in liquidation held 100% in the share capital of the company. PGE S.A. held 49% in the share capital of SwePol Link A.B. in liquidation.
 - On December 4, 2013 SwePol Link A.B. in liquidation with its seat in Sundbyberg (Sweden), was deleted from the Swedish entrepreneurs register as a result of liquidation proceeding. PGE S.A. held 49% in the share capital of the company.

6.2. Changes in the organisation of the Company and the Capital Group after the balance sheet date

On January 10, 2014 Extraordinary Assembly of Partners of EPW Energia Olecko sp. z o.o. (PGE holds 81% of shares and ENERGA Wytwarzanie sp. z o.o. holds 19% of shares in the share capital) adopted a resolution on the division of the EPW Energia Olecko sp. z o.o. (division by separation) by transferring a part of assets of EPW Energia Olecko sp. z o.o., constituting the organized part of the enterprise operating as a branch under the name EPW Energia Olecko sp. z o.o. branch in Kętrzyn, to the existing company, i.e. EPW 1 sp. z o.o. with a seat in a Pruszcz Gdański (subsidiary of ENERGA Wytwarzanie sp. z o.o. belonging to the Energa S.A. Capital Group). In connection with the division by separation, the share capital of the company was decreased by an amount of PLN 380,000, i.e. from PLN 2,000,000 to PLN 1,620,000, and the number of shares was reduced by 380 shares, with a nominal value of PLN 1,000 each, attributable to ENERGA Wytwarzanie sp. z o.o., that are subject to conversion for 250 new shares of EPW 1 sp. z o.o. in the increased share capital of that company.

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

On February 11, 2014 increase of the share capital of the company which acquires part of the assets of Olecko, i.e. EPW 1 sp. z o.o., was registered, thus completing the process of division of EPW Energia Olecko sp. z o.o.

After the registration of the above changes in the National Court Register, PGE S.A. became the sole partner in EPW Energia Olecko Sp. z o.o.

On January 10, 2014 Extraordinary Assembly of Partners of EPW Energia sp. z o.o. (PGE holds 32.7% of shares and ENERGA Wytwarzanie sp. z o.o. holds 67.3% of shares in the share capital) adopted a



resolution on the division of the EPW Energia sp. z o.o. (division by separation) by transferring two parts of its assets constituting the organized part of the enterprise as:

- branches under the name: EPW Energia sp. z o.o. Branch „Kielice/Malbork” Wrocław and EPW Energia sp. z o.o. Branch „Galicja” Orzechowce to PGE Energia Natury sp. z o.o.
- branch under the name: EPW Energia sp. z o.o. Oddział „Pipeline” Pruszcz Gdański to EPW Parsówek sp. z o.o. with seat in Pruszcz Gdański (a subsidiary of ENERGA Wytwarzanie sp. z o.o. belonging to the Energa S.A. Capital Group).

In connection with the division, the company's share capital was reduced by the amount of PLN 337,174,000, i.e. from PLN 894,376,000 to PLN 557,202,000 and the number of shares has been reduced by 337,174 shares with a nominal value of PLN 1000 per share, attributable in amount of 44,713 shares to partner ENERGA Wytwarzanie sp. z o.o., which can be exchanged for 18,000 shares of EPW Parsówek sp. z o.o. and in the number of 292,461 shares for PGE S.A., that are subject to conversion for 331,921 shares of PGE Energia Natury sp. z o.o.

In connection with the above, Extraordinary Assemblies of Partners of EPW Parsówek sp. z o.o. and PGE Energia Natury sp. z o.o. were held on January 10, 2014 with regard to the increase of the share capital of these companies respectively by PLN 18,000,000 and by PLN 331,921,000. The new shares in the increased share capital of PGE Energia Natury sp. z o.o. will be allotted to PGE S.A. and new shares of EPW Parsówek sp. z o.o. will be allotted to ENERGA Wytwarzanie sp. z o.o.

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

On February 10, 2014 the court registered the decrease in the share capital of EPW Energia sp. z o.o. and entered into the register information regarding the division by separation. Thus, ENERGA Wytwarzanie sp. z o.o. became the sole partner in the company.

On February 28, 2014 the court registered the increase of the share capital of PGE Energia Natury sp. z o.o. from PLN 2,500,000 to PLN 334,421,000 thus completing the division process of EPW Energia sp. z o.o. Assets attributable to PGE were formally set aside to PGE Energia Natury sp. z o.o., a company under 100% control of PGE.

PGE S.A. holds 100% of shares in PGE Energia Natury sp. z o.o.

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

There were no significant changes in management rules in PGE S.A. in 2013.

The detailed description of transformations in PGE Group is presented in Note 3 to the consolidated financial statements.

6.4. Remuneration of the management of PGE S.A.

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

In 2013 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 2013 by the Members of the Management Board of PGE S.A., from PGE S.A. and companies in the PGE Capital Group other than PGE S.A.

Name and surname of the member of the Management Board	Remuneration and benefits achieved by the Management Board members in PGE S.A. in 2013	Remuneration achieved by the Management Board members in Group entities other than PGE S.A. in 2013
	(in PLN)	(in PLN)
Krzysztof Kilian	1,699,811.72 ^{1,2,3}	0
Piotr Szymanek	1,240,056.00 ¹	0
Bogusława Matuszewska	1,200,042.00 ^{1,3}	0
Wojciech Ostrowski	1,282,738.52 ^{1,2,3}	0
Paweł Smoleń	1,120,014.00 ^{1,3}	0
Paweł Skowroński	989,028.00 ^{1,3}	0
Marek Szostek	79,974.16 ³	146,619.29 ³
Tomasz Zadroga	79,974.16 ³	0
Grzegorz Krystek	8,981.96 ⁴	0
Jacek Drozd	6,909.20 ⁴	0

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 benefits,

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

⁴ item including remuneration for the period when Supervisor Board member was delegated to the Management Board of PGE S.A.



The remuneration and benefits paid by the Company to Management Board members amounted to PLN 7.7 million.

In cost perspective (including provisions), the remuneration of all persons who acted as Management Board members, jointly with the post-employment benefits, amounted to PLN 13.3 million.

6.4.2. 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: Amounts of remuneration received by the Supervisory Board Members of PGE S.A. who in 2013 performed their functions in PGE S.A. and in companies of the PGE Capital Group other than PGE S.A.

Name and surname of a Supervisory Board member	Position	Remuneration and benefits achieved by the Supervisory Board members in PGE S.A. in 2013 (in PLN)	Remuneration achieved by the Supervisory Board members in Group entities other than PGE S.A. in 2012 (in EUR)
Małgorzata Dec	Chairman of the Supervisory Board	41,454.96 ¹	-
Jacek Barylski	Supervisory Board Member	41,454.96 ¹	-
Czesław Grzesiak	Supervisory Board Member	41,454.96 ¹	-
Małgorzata Mika - Bryska	Supervisory Board Member	21,188.08 ¹	-
Anna Kowalik	Secretary of the Supervisory Board	21,188.08 ¹	-
Marcin Zieliński		20,727.48 ¹	42,000.00 ¹
Maciej Bałtowski		20,727.48 ¹	-
Grzegorz Krystek		36,503.37 ¹	-
Katarzyna Prus		20,727.48 ¹	-
Jacek Drozd		16,581.92 ¹	-

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

Total remuneration and benefits paid out by the Company to the members of the Supervisory Board of PGE S.A. in 2013 amounted to PLN 282 thousand.



7. Information about shares and other securities

7.1.1. Share capital and ownership structure

As at December 31, 2013 the share capital of PGE S.A. amounts to PLN 18,697,608,290 and splits into 1,869,760,829 shares with a nominal value of PLN 10 each.

Table: Share capital of the Company.

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

Table: Ownership structure of the share capital as at December 31, 2013 *.

	State Treasury		Other shareholders*		Total	
	Nominal value of shares	% share in the share capital and votes	Nominal value of shares	% share in the share capital and votes	Nominal value of shares	% share in the share capital and votes
Shares at Dec 31, 2013	11,571,245,460	61.89	7,126,362,830	38.11	18,697,608,290	100.00

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

All of the Company shares have been paid.

Although the Company's shares are not privileged, the Statutes of the Company provide for special rights of the State Treasury until it remains a shareholder of the Company (see Note 24 to the stand-alone financial statements).

7.1.2. Treasury shares

PGE S.A. did not hold any their treasury shares in 2013.

7.1.3. 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 results for the third quarter of 2013 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 2013 (i.e. November 12, 2013) (pieces)	Change in number of owned shares (pieces)	Number of shares as of submission date of the annual report (pieces)	Nominal value of shares as of submission date of the annual report (PLN)
The Supervisory Board / The Management Board	350	no change	350	3,500
Grzegorz Krystek*	350	no change	350	3,500

**Member of the Supervisory Board, delegated to temporarily perform the duties of the member of the Management Board from November 18, 2013 till December 23, 2013; then the Vice-President of the Management Board for Operations and Trading since December 23, 2013*

Other members 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 directly by the persons acting on behalf of material direct subsidiaries of PGE S.A.

Company	Name and surname	Position	Number of shares as of submission date of the annual report (pieces)	Nominal value of shares as of submission date of the annual report (PLN)
PGE GIEK S.A.	Management Board		8,301	83,010
	Jacek Kaczorowski	President of the Management Board	1,390	13,900
	Roman Forma	Vice-President of the Management Board	662	6,620
	Waldemar Szulc	Vice-President of the Management Board	5,090	50,900
	Robert Imbor	Vice-President of the Management Board	471	4,710
	Stanisław Żuk	Vice-President of the Management Board	688	6,880



7.1.4. Control system of employees share scheme

In 2013, PGE S.A. did not maintain any employees share schemes.

7.1.5. Use of proceeds from issues

In 2013 PGE S.A. did not issue any shares. As at December 31, 2013 PGE S.A. had bonds issued under the market bond issue program in amount of PLN 1,000 million. The above funds were intended for financing of investments (see p. 2.8.3. Bonds issued).



Fundacja PGE
Energia z Serca

8. Commitment

8.1. PGE Foundation “Energy from Heart”

The PGE Foundation “Energy from Heart” was established in 2011 at the initiative of 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 2013, the members of the Management Board of PGE Foundation “Energy from Heart” joined the project: “Enhancing the quality of public tasks implemented by corporate foundations in Poland”, carried out by the Forum of Donors.

In December 2013, the PGE Foundation “Energy from Heart” launched the “SOS Filipiny – Podaruję dom” campaign (SOS Philippines – I will give a home) in co-operation with the Polish Humanitarian Action. The Foundation donated funds for the rebuilding of 20 homes for Philippine families affected by the typhoon, while the employees of the PGE Capital Group raised funds for the construction of 22 successive homes. The cost of building one home in the Philippine conditions is PLN 850. The campaign was completed on January 31, 2014.

The PGE Foundation “Energy from Heart” has also been working on its own proprietary programmes. Since November 2013, preparations have been carried out in view of establishing a corporate volunteering in the whole PGE group.

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

RESPECT Index

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.

Only the companies with the highest standards of management with respect to corporate governance, information governance and investor relations, as well as with a consideration for ecology, social and employee factors, are included in the RESPECT Index.

Global Compact

Since 2008, PGE S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A. have taken part in the initiative of the Secretary-General of the United Nations called “Global Compact”. The involvement in Global Compact obligates PGE to adopt 10 principles of Global Compact, including among others effective combating of employment discrimination, elimination of every case of human rights violation by the company, preventive approach to environmental protection, undertaking initiatives aiming at the promotion of environmental responsibility, the use of environmentally friendly technologies and counteracting corruption in all its forms.



8.2. PGE and work environment

8.2.1. Employees at PGE S.A.

As at December 31, 2013 employment in PGE S.A. amounted to 418.69 FTEs and was higher by 34.06 FTEs or by 9% as compared to the end of 2012. Employment, including managers hired on the basis of contracts, amounted to 425 employees in comparison to 391.63 as at December 31, 2012.

Table: Employment level

	2013	2012	% change
Total employment in FTEs as at December 31 (excluding managers hired on the basis of contracts)	418.69	384.63	9%
Average annual employment in FTEs	402.57	358.52	12%

The increase in employment by **34,06** FTEs as at the end of 2013 as compared to the end of 2012 is a result of organisational changes in the structure of PGE S.A. Organisation structure development and current scope of duties for particular organisational units mainly affected employment growth in 2012. Works on target structure of PGE S.A. organisation have commenced within the Operating Model project. Until the end of 2013 the works were not completed.

8.2.2. Freedom of association

In the PGE Capital Group in 2013 there were 113 company and intercompany trade union organizations associating 24 thousand of employees

The following organisations were active in 2013 in PGE S.A.: Intercompany Organisation no. NSZZ "Solidarity" in PGE S.A. and Trade Union of Continuous Operations Workers of the National Power System. Total number of persons associated in both trade unions amounted to 79 as at the end of December 2013.

Numerous non-trade union organizations function in the companies of the PGE Capital Group; they are formed by employees based on their individual interests.

8.2.3. Health and Safety at Work

Acting in accordance with the law in force and in order to protect the health and lives of employees, PGE S.A. and particular companies provide health and safety training programmes, carry out medical examinations provided for by the law, employ staff with required skills and equip them with appropriate personal protection equipment.

PGE S.A. organizes workshops on first aid and trainings in the field of fire protection. Acting in accordance with the law PGE S.A. established Health and Safety at Work Service which fulfills advisory and monitoring functions within the scope of health and safety at work.

The industry in which the PGE Capital Group operates is characterised by a relatively high probability of work accidents. The commitment of the Group to the safety at work culture brings measurable effects. In 2013 accident rate in PGE Group decreased by 7% as compared to 2012. In 2013 no work related accidents were recorded in PGE S.A.



8.2.4. Human resources development

The Company promotes continuous development of employees through training, courses as well as through co-funding postgraduate studies. PGE S.A. is willing to offer training for students who therefore have the opportunity to gain valuable experience and professional qualifications.

Table: Educational structure of employees in PGE S.A. (as at December 31, 2013, number of individuals).

Level of education	Employees	(%) share
University education (bachelor's degree, master's degree, postgraduate studies, PhD, professors)	402	93.06%
Secondary education (general upper secondary school, technical upper secondary school, post-secondary non-tertiary schools)	26	6.02%
Vocational education (basic vocational, vocational training)	2	0.46%
Elementary education (primary school, lower secondary school)	2	0.46%
TOTAL	432	100%

Table: Employee age and gender structure in PGE S.A. (as at December 31, 2013, number of individuals)

Gender/Age	Female	Male	Total
under 30 years of age	35	28	63
31-40 years of age	119	82	201
41-45 years of age	25	40	65
46-50 years of age	8	14	22
51-55 years of age	16	13	29
56-60 years of age	26	12	38
over 60 years	2	12	14
TOTAL	231	201	432

One of the most meaningful projects involving the development of the employee capabilities and competence was "PGE Academy – Integrated Development of Strategic Competence of Employees in the PGE Capital Group." The primary goal of the project was to support the consolidation processes in the PGE Capital Group through enabling the employees to develop key competencies in the area of management, finance, controlling, negotiations and customer service. Under the project, which is co-financed by the European Social Fund, approx. 1,743 employees of the companies and branches from the entire PGE Group participated in the training courses. The PGE Academy courses began in August



2011 and ran until June 2013. Afterwards, the project results assessment (including the acquired knowledge and skills) were carried out by the end of 2013.

Table: Beneficiaries of state aid within the framework of the PGE Academy (number of participants since the beginning of the programme until June 30, 2013).

Company	Number of participants
PGE GiEK S.A.	1,192
PTS Betrans sp. z o.o.	110
PGE Obrót S.A.	698
PGE Dystrybucja S.A.	1,006
PGE Energia Odnawialna S.A.	198
PGE EJ S.A.	9
PGE EJ 1 sp. z o.o.	6
PGE S.A.	469
TOTAL	3,688

** participation - participation of one employee in one training*

PGE Capital Group supports and promotes the development of employees' interests. In 2013, a competition "MY PASSION - MY ENERGY" was organized and was attended by 115 participants. The best projects were selected by the employees themselves. The competition aimed to promote people with passion and support the integration of employees.

8.3. PGE and the natural environment

PGE runs numerous projects and investments with a view to minimise the impact on the environment and to foster the protection of natural ecosystems. The Group invests in the development of entirely new sources of energy basing on renewable resources and upgrades the existing conventional systems in order to significantly reduce their negative impact on the environment. In recognition of their actions companies of the PGE Capital Group are awarded the titles of "Environment-Friendly Business," "Business Fair Play," "Patrons of the Environment" and "Leaders of the Polish Ecology".

In 2013, the PGE Capital Group took the following efforts aimed at the protection of environment:

- regular performance of all obligations imposed on the Group's companies under environmental regulations and administrative decisions, including proper reporting, measurements and monitoring of the environment as required by law;
- settlement and balancing of CO2 emissions and allocated allowances for 2012; purchase of emission rights in order to balance the rights in 2012 and partly in 2013;
- use of the best available technological solutions and specialized equipment in order to limit pollution emissions to the atmosphere; the comparison of pollution measurement data with the requirements set out by the Regulation of the Minister of Environment showed that the



permissible limits of polluting substances were not exceeded in 2013 with respect to emissions from power plants and CHPs;

- actions relating to waste management, i.e. reduction of quantities of waste, recovery of recyclable waste, and then neutralisation of waste in compliance with legal regulations. The PGE Capital Group is actively involved in the works of the REACH Consortium for By-Products of Combustion and in the Eurogypsum Consortium;
- further implementation of the programme for the reduction of noise emission to the environment – covering Kopalnia Węgla Brunatnego Turów and Elektrownia Turów which made investments to modernise coal conveyers and noise damping technological systems in their installations in order to improve acoustics conditions and reduce noise emissions below the stipulated levels.

8.4. PGE and research and development

With account taken to the operations profile, PGE Group companies carried research and development studies in 2013. Studies were aimed at:

- implementing new technologies in the field of electricity generation;
- fulfilling environmental requirements;
- reducing production costs.

8.5. PGE and customer relations

Ambassador of Quality

Drawing on the innovative Norwegian idea in customer service, in 2013 PGE S.A. launched the Ambassador of Quality programme. Its objective has been to reduce as much as possible the customer waiting time for service, provision of basic information and assistance in filling in documents. According to studies that were carried out, customers wish to have a possibility to be provided with a staff member assistance just after entering a PGE Customer Service Office. The idea was implemented in 12 most frequently visited customer service sites.

<http://www.youtube.com/user/gkpge>

“Customer Friendly Company” Emblem

In 2013, the PGE Obrót S.A. was awarded the “Customer Friendly Company” emblem, a distinction decided by customers only. An independent survey with the use of a standardised questionnaire is conducted to examine four areas: customer satisfaction, satisfaction with cooperation, quality of service, and likelihood of recommendation.

In the PGE Obrót S.A. company both individual customers and corporate clients were surveyed. Individual customers are satisfied, other things, with the fact that Customer Service Offices are open until 17:00 or 19:00. They also appreciate the presence of the Ambassadors of Quality. Corporate Clients perceive PGE Obrót S.A. as a solid company which ensures safe and reliable supply of electricity.

The “Customer Friendly Company” emblem is awarded for a period of 12 months.



8.6. PGE and education

8.6.1. Proprietary educational programmes

The companies of the PGE Capital Group pursue proprietary educational programmes aimed at children and youth. "Electricity – my safe friend" is a programme which has been run by the PGE Dystrybucja S.A. Warsaw Branch for several years. PGE Dystrybucja S.A. in Lublin implemented a project of touring scientific shows entitled "Secrets of Energy", and the Rzeszów Branch features Eksperymentarium 3 – which combines ideas of a scientific centre, a museum of technology and a demonstration and technical centre.

In 2013, the companies of PGE Obrót S.A. supported and co-organized school games and competitions in the subjects of environmental protection and general knowledge on energy: "School with Energy", "Jogging with Energy", "Environmental Manifestation on the Occasion of the Earth Day" or: "Be eco-minded – segregate waste".

As part of the Open Days, individual companies within the PGE Capital Group organise tours for members of local communities. The branches of PGE GiEK S.A., such as The Kopalnia Węgla Brunatnego Bełchatów, Kopalnia Węgla Brunatnego Turów lignite mines, or Elektrownia Bełchatów or Elektrownia Turów power plants, can be visited by organised groups throughout the year. Tour participants can learn about the specifics of operation, the process of lignite extraction in mines and generation of electricity in power plants using lignite. For more details on this topic visit the web site: www.pgegiiek.pl

As part of the World Water Day in 2013, PGE Energia Odnawialna S.A. provided for the possibility of visiting the Solina Myczkowce hydroelectric power plant, while during the seventh Global Wind Day, children from Radomsko participated in an educational tour of the Kamieńsk Wind Farm. Both celebrations ended with inter-school knowledge competitions on Renewable Energy Sources.

The PGE Capital Group was also involved in the "Safer with electricity" social campaign – a project which promotes the knowledge about the safe use of electricity.

It is also worth mentioning the "Energy of words" campaign, which raised a considerable interest amongst internet users. Using a special application, they could transfer words which were then used by artists to write educational tales for children. The "Wprost" weekly considered the campaign as one of the most interesting projects of Corporate Social Responsibility.

At the Innovation Forum, PGE Obrót S.A. demonstrated how electrical power can be generated and used (including from fruits and vegetables). Also in 2013, within educational campaigns PGE Obrót S.A. co-developed a special environmental and educational supplement under the name of "Parki Narodowe" (National Parks) to the "Gazeta Współczesna", "Dziennik Wschodni", "GC Nowiny" and "Echo Dnia" dailies.

The PGE Group has continued to develop cooperation with universities. The PGE GiEK S.A. company works with: AGH University of Science and Technology in Kraków, University of Łódź and Universities of Technology in Łódź, Warsaw, Wrocław, Gdańsk and Opole. Examples of jointly executed projects include among others: designing of an innovative method for power unit monitoring in Elektrowania Turów – a project implemented with Wrocław University of Technology, the execution of the third stage of the mercury programme with the Łódź University of Technology aimed at reducing mercury emissions to the atmosphere or the organisation of the Pro – Energia competition in collaboration



with Łódź University of Technology as part of which six one-time research grants were awarded. Closely cooperating with Opole University of Technology, the company was involved in a series of meetings under the name of “Akademia Rozwoju Przedsiębiorczości – Wykłady Otwarte prowadzone przez praktyków” (Academy for Enterprise Development – Open Lectures by practitioners).

Furthermore, PGE GiEK S.A. supported the Children School of Technology in Opole. As part of the cooperation, the company's employees prepared and conducted lectures for a very young audience in teaching classrooms of the Opole University of Technology, taking the participants for a “Virtual tour of a conventional power plant”.

PGE GiEK S.A. is a naming rights sponsor of the “PGE - Giants of Power” exhibition being prepared in Bełchatów. Its primary aim is to familiarize visitors with the process of electric power generation from lignite. It is a unique undertaking on a national scale, it is state-of-the-art, multimedia, interactive and promotes knowledge of exact sciences for everyone. In 2013, the PGE GiEK S.A. company also worked with local media from the branches areas of Zespół Elektrowni Dolna Odra and EC Gorzów power plants in the publication of a compendium promoting the knowledge on where heat in the local residents' homes is provided from.

8.6.2. Educational and information activities in the PGE EJ 1 sp. z o.o. nuclear company

Nationwide activities

The main tool used in campaigns of nationwide communication on the subject of nuclear energy is the www.swiadomieoatomie.pl website, which in addition to current news on the status of the on-going nuclear project provides both knowledge on physics and news from the international nuclear energy sector. The website offers videos, animations, publications and other materials that may be used by individuals or as teaching materials.

In 2013, the company launched a project in collaboration with universities: “Atom dla nauki” (Atom for science), whose purpose is to disseminate knowledge on nuclear energy among students and academic staff, to promote young researchers and build a broad expert base needed for the development of nuclear energy in our country. The Program was addressed not only to those concerned with exact and technical sciences, but also to those interested in social, medical and natural studies. The programme comprised competitions, series of lectures by reputed experts in national universities; lectures for students of the University of the Third Age complemented the project.

As in previous years, the PGE EJ 1 sp. z o.o. company was also a partner of the International School of Nuclear Energy.

Local activities

Since the launch in 2013 of location and environmental studies leading to the selection of the final site for the investment, the major part of information and educational activities have been conducted in the Pomorskie Voivodeship, in the area of the communes: Choczewo (location “Choczewo”), Gniewino and Krokowa (location “Żarnowiec”).

Information and educational efforts in this area were mainly carried out by three Local Information Points of the Nuclear Plant Construction Project in Choczew, Krokowa and Gniewno. They were established in response to information needs of local communities. The information points staff,



recruited from the communes considered for the project, provide information, take notes and comments from the residents. They also organised workshops and meetings with experts, including PGE employees or the contractor of location studies.

Furthermore, in 2013, the PGE EJ 1 sp. z o.o. company took measures aiming at preparing the local community for the arrival of the contractor of location and environmental studies in their area; examples of activities include:

- Extraction workshops for dedicated groups (councillors, public opinion leaders, teachers) on the environmental and location studies, completed by the publication of a brochure entitled "Location and Environmental Studies – Questions and Answers".
- Educational activities in the field of nuclear energy and information on the location and environmental studies conducted through mobile information points in attractive tourist locations in the territory of the communes considered for the project;
- Lectures addressed to various local social groups dedicated to nuclear energy and location and environmental studies;
- Organization of educational stands, competitions and quizzes for adults, children and youth, devoted to nuclear energy and location and environmental studies as part of local events and celebrations involving animators and educators;
- Support for the "Atomic Bus" educational project in selected primary schools and lower secondary schools in Pomerania;
- Organization of 12 holiday art workshops in 6 communal kindergartens in 3 communes considered for the project. The project was attended by 210 children aged 5 to 14 years.

8.7. PGE and human rights

As any other company that aims to be recognized as a socially responsible business, PGE undertakes activities that go beyond the legislative requirements in force. PGE Capital Group acts in accordance with the applicable standards and recognises them as obvious. The values adopted by the company definitively exclude any form of compulsory work or employment of minors.

8.8. PGE and promotion of other social goals

Sport

Through its commitment in development of the Polish sport, PGE Group tries to share the energy with those who use it properly. PGE 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 i MKS Lublin). Among teams sponsored by the Group, there are both famous clubs with rich traditions and new teams which have just started building their position in the world of sport. All of them are eager to win and demonstrate vigorous energy which stimulates action and development. The Group actively supports the most talented sportsmen, like bronze medalist of the 2012 Olympics - Zofia Klepacka, and promotes sports by engaging in major sporting events.

PGE Group also supports initiatives in the area of amateur sport, thus activating young people to continuous development.



Culture

The PGE Capital Group shares the positive energy that stems from culture and art – supporting them also contributes to the development of local communities, promotes outstanding personalities and gives creative inspiration. Significant and valuable cultural events in the world of music, theatre and film are held under the patronage of the PGE Group.

In 2013, PGE Group became the Patron of the Music Festival in Łańcut for the successive time. Furthermore, the company supports classical music working with the National Philharmonic in Warsaw.

As a sponsor, in 2013, PGE was also involved in the next edition of the OFF Festival in Katowice. For many years, the event has been associated with music at its best. During a few days, guests have the opportunity to see over 90 artists from all over the world. The festival is accompanied by a number of events promoting other art disciplines as well. The OFF Festival was awarded the Green'n'Clean international prize and therefore has been considered as an environmentally friendly festival.

For many years, PGE has been actively involved in the organization of the “Dwa Brzegi” (Two RiverSides) cult film festival taking place in Kazimierz Dolny by the Vistula River. “Polska Światłoczuła” (Photosensitive Poland) is another project which was joined by PGE as a Sponsor in 2013. It is a series of film screenings which reaches the smallest towns in Poland and allows their residents to meet actors and creators.

In addition, PGE supports educational activities which provide children and the youth with opportunities to discover art in a more exciting way than just through school textbooks. An example of such an endeavour are cyclical “Spotlight Kids” workshops – a project implemented in cooperation with the National Centre for Culture.

In 2013, PGE continued cooperation with the ‘Teatr Stary’ theatre in Lublin and the Museum of Modern Art in Warsaw. We also supported the ‘Inne Brzmienia’ (Different Sounds) festival, the ART ‘N’ Music Festival in Lublin, the Łódź Czterech Kultur (Łódź of Four Cultures) festival, the Faktyczny Dom Kultury cultural centre, the 20th and 21st Century Art Gallery in the National Museum in Warsaw, the Independence Concert in the Warsaw Rising Museum and other local initiatives. Among other examples are: “Perła Baroku” (Pearl of Baroque) music festival held near Warsaw or the 17th Festival of Christian Culture in Łódź, which shows a way to intercultural dialogue. PGE also supported “Energia Kultury” (Energy of Culture) – a poll to choose the cultural event of the year – and the official opening of the Fashion Promotion Centre in Włodzimierz Strzemiński Academy of Fine Arts in Łódź, i.e. the first professional in an art university in Poland. Also in the city of Łódź, we have ensured (since 2000) the operation of the “Rubinstein Piano” monument. The Energy Partner and Conservator of the project is the PGE Obrót S.A.

At the same time, PGE GiEK S.A. supported among others: The Festiwal Młodej Sztuki (Young Arts Festival), the Festiwal Kolory Polski (Colours of Poland Festival) or Jesienne Spotkania z Bat-em (Autumn Meetings with BAT Theatre), and also the National Contest of Small Satiric Forms organized for years under the patronage of Polish Radio Program 3.



Social initiatives

PGE Group is committed to supporting significant social initiatives. On the “2013 Philanthropy Leaders” list, kept by the Forum of Donors – the PGE Capital Group was ranked as number 5 in the category of “Company which donated the most funds for social purposes”, while taking the third place among the companies from the industry.

In 2013, the “Energy School Bag” campaign, which has for many years been organized in the Łódź branches of PGE Dystrybucja S.A., involved all the branches of this company. Altogether, before the start of the school term, the company provided the youngest pupils from poorer families nearly 1,500 school bags containing sets of textbooks and school accessories. The PGE Dystrybucja S.A. Branch in Lublin, together with the Prevention Department, Road Traffic Division of the Voivodship Police Headquarters and the Voivodship Road Traffic Centre, launched the programme “I’m visible with PGE”. The aim of the programme was to promote safe moving on the communication routes along the roads among children.

In 2013, Łódź saw two educational projects targeted to both children and adults. The first one was Łódzka Wioska Historyczna (Łódź Historical Village) – an educational and historical project publicising the cultural heritage of the region and promoting knowledge through play, experiments, workshops and spectacular presentations as well as staging of historical reconstructions. The second project was Łódzka Fabryka Prezentów pod Choinkę (Łódź Factory of Christmas Presents). In 2013, the Factory “produced” the 1st Łódź Primer.

Another significant initiative initiated by PGE Dystrybucja S.A. in 2013 in several branches of the company were educational meetings for representatives of local governments, i.e. Local Government Fora. The Local Government Forum is a platform for exchanging experience and information regarding the development of energy infrastructure, existing procedures, planned investments, etc. Under the patronage of PGE Energia Odnawialna S.A. together with the Environmental Foundation in Piaseczno, the “Second National Competition of Water Machines” was organised for school children from above primary schools.

As a result of the involvement of employees from the companies and branches of the PGE Capital Group and PGE Foundation “Energy from Heart”, over ten thousand Christmas parcels were given to children and to those in need.

The company was also active on the nationwide level: “Szlachetna Paczka” (Generous Parcel) or “Pomóż dzieciom przetrwać zimę” (Help the children make it through the winter) as well as on the local level, e.g. “City Christmas Tree” in Łowicz. In some branches Christmas fairs were organized. They were a good opportunity to provide support for the Nursing Home in Nowy Czarnów or the Association for Persons with Mental Disability near Gryfino.

Santa Clauses from PGE visited orphanages in Falbogi, Pawłówka, Łódź, Lublin, Gorzów Wielkopolski and Łabunie. Donations for the purchase of gifts were made to: the Children Friends Association, Communal Nursing Homes, hospices, St. Brother Albert’s Aid Society, Caritas, “Krwinka Foundation for Children with Oncologic Diseases” or patients of children’s hospitals, including Centrum Zdrowia Dziecka (Children’s Memorial Health Institute).



9. Statements of the Management Board

9.1. Statement on the reliable preparation of the financial statements

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

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

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

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

Warsaw, March 12, 2014

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

Marek Woszczyk
President of the
Management Board

Jacek Drozd
Vice-President of the
Management Board

Grzegorz Krystek
Vice-President of the
Management Board

Dariusz Marzec
Vice-President of the
Management Board
