

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





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## 1. General information about the PGE Capital Group

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

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

### 1.1. Description of organisation and activity of the Capital Group

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



#### **Mining and Conventional Generation („Conventional Generation”)**

Includes extraction of lignite and generation of electricity and heat from conventional sources and distribution of heat.



#### **Distribution of electricity**

Includes supply of electricity to final off-takers through the grid and HV, MV and LV power infrastructure.



#### **Wholesale Trading**

Includes trading of electricity, related products and fuels.



#### **Renewable Energy**

Includes electricity generation from renewable sources and in pumped storage power plants.



#### **Retail sales of electricity**

Includes sale and supply of electricity to final off-takers.



The Group also comprises of company, whose main activities are preparation and execution of project of construction of nuclear power plant within First Polish Nuclear Power Plant Program.

In addition, the Group comprises of companies providing IT and telecommunication services and supporting services to companies from the energy and mining sectors like:

- building, renovation and modernization works and investments in electricity equipment,
- comprehensive diagnostic tests and measurements of electro energy machines and equipment,
- management of by-products of coal combustion,
- development and implementation of above technologies usage as well as rehabilitation of degraded areas.

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

### 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 CO<sub>2</sub> 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. Development investments in Conventional Generation

##### **Project of construction of power units in PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Elektrownia Opole.**

On April 4, 2013 the Management Board of PGE Górnictwo i Energetyka Konwencjonalna S.A., on the ground of analyses of changes on the energy market and in the environment and recommendation from the Investment Committee of PGE Capital Group, adopted resolution on closing of the investment project "Project Opole II" of construction of new hard coal-fired units no 5 and 6 in PGE Górnictwo i Energetyka Konwencjonalna S.A. – Branch Elektrownia Opole.

In connection with the realisation of this investment PGE Elektrownia Opole S.A. (currently, after merger, PGE GiEK S.A. – Branch Elektrownia Opole) concluded series of agreements with the contractors including first of all:

- agreement with the General Contractor (consortium of Rafako S.A., Polimex-Mostostal S.A. and Mostostal Warszawa S.A.) for construction of two power units with a total capacity of 1,800 MW, that net value amounts to PLN 9,397 million,
- agreement with PSE Operator S.A. (currently PSE S.A.) for connection of units 5 and 6 in Opole power plant to the transmission grid.

Following the information from the government side about support of the Project, on June 18, 2013 the Management Board of PGE GiEK S.A. adopted a resolution on giving consent to start analytical works in scope of additional solutions which would improve the profitability of the Project and enable its possible realization.

On the ground of analyses related to formula of realization and seeking more favourable business conditions for the project, the Management Board of PGE GiEK S.A. adopted a resolution on re-opening of the Opole II project.

In the second half of 2013 and in January 2014, PGE GiEK S.A. concluded a series of agreements and annexes with regard to the organization and co-operation at realisation of Project Opole II. Among



others, on October 11, 2013 the company signed an annex to the agreement with the General Contractor (consortium of Rafako S.A., Polimex-Mostostal S.A. and Mostostal Warszawa S.A.), that allows for introduction of Alstom Power Sp. z o.o. as a sub-contractor for construction of boiler, IOS installation and as a General Constructor and regulates the provision of the advance payment by the General Contractor and issues related to proper performance of the agreement.

Parallely observed evolution of the regulatory environment of the energy market in Poland and Europe, particularly commenced works on introduction of capacity mechanisms, rationalization with regard to support for renewable energy sources and changes to the CO<sub>2</sub> emission rights trading system, allowed for positive verification of the business rationale of the project. On January 31, 2014 the General Contractor received a Notice to Proceed.

#### **Project of construction of power units in PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Elektrociepłownia Gorzów**

On October 3, 2013 PGE GiEK S.A. concluded an agreement for the construction of a combined cycle gas turbine unit in Branch Elektrociepłownia Gorzów.

CCGT unit with a capacity of 138 MWe and 90 MWt and 83.93% operating efficiency in co-generation will be commissioned within 28 months from the award of the contract. The net value of the contract for unit construction amounts to PLN 562 million.

#### **Project of construction of new power unit in PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Elektrownia Turów**

PGE GiEK S.A. Branch Elektrownia Turów prepares an investment project of revitalisation of generation capacity of the Turów Power Plant, through construction of a new unit (unit no. 11) with net capacity in range 430 - 450 MWe in place of units intended for decommissioning (units no. 8, 9, 10) with a total gross capacity of approx. 600 MWe.

Technical parameters of the new unit shall meet the requirements for environmental protection arising from domestic regulations and EU directives, while ensuring the fulfillment of the BAT criteria.

The opening of offers, conducted within the tender proceedings, took place on November 15, 2013. The Tender Committee expects the completion of its works in second quarter of 2014.

#### **1.2.2. Purchase and integration of wind farms in PGE Capital Group**

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").

In accordance with the concluded agreement with DONG Energy, dated June 28, 2014, PGE S.A. acquired operating wind farms in Karnice of 30 MW installed capacity and Jagniątkowo of 30.5 MW installed capacity with contracted off-take of electricity and certificates, respectively for Karnice wind farm until the end of 2020 and for Jagniątkowo wind farm until the end of 2017.

In accordance with the concluded agreements with Iberdrola and EBRD, PGE S.A. acquired three operating wind farms with total installed capacity of 70.5 MW, including 40.5 MW in Warmińsko-Mazurskie Voivodeship, 18 MW in Pomorskie Voivodeship and 12 MW in Podkarpackie Voivodeship with contracted off-take of electricity and certificates until 2029.



Value of both transactions (Enterprise Value) for PGE S.A. amounts to approx. PLN 1.05 billion.

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. 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.

### 1.2.3. Program of Optimisation of Conventional Generation business line

*Program of Optimisation of Conventional Generation business line* assumes restructuring of PGE Górnictwo i Energetyka Konwencjonalna S.A. group (PGE GiEK Group) in order to prepare the group for operations in changing market conditions and for challenges related to new investments. Program consists of 18 projects covering headquarters and branches of the company as well as subsidiaries. Each of the projects includes cost reduction and/or revenues increasing initiatives. Initiatives were identified by the headquarters and branches that manage particular entities. Bottom-up approach allowed for analysis of business processes in entities and the best adjustment of optimisation changes for the specific area of operations. All initiatives were verified and approved at the level of PGE GiEK S.A. Group, both with regard to technical and economic aspects i.e. feasibility study and expected financial result.

In January 2013, first of the projects - *Turów Complex (mine and power plant) optimisation* – has commenced.

In the next step, whole mining and conventional generation segment was covered by the *Program of Optimisation of Conventional Generation business line*.

A Package of optimisation initiatives for the PGE GiEK Group was defined in the second half of 2013. In January 2014, the Program's Steering Committee made a decision on commencement of implementation stage which will last until the end of 2015.

Implementation of initiatives will allow PGE GiEK Group to adjust operational expenses to the market changes, at the same time using the potential for generation of new revenues.

### 1.2.4. Programs of Optimisation of Distribution business line with regard to OPEX and CAPEX management

Optimisation and restructuring programs have been also executed in PGE Dystrybucja S.A.

At the beginning of the second quarter of 2013 a *Program of Optimisation of Distribution business line with regard to CAPEX management* was launched. The program's goal is to prepare



and implement methodology of building an investment portfolio that would be uniform in scale of PGE Dystrybucja S.A. Based on mentioned methodology a Development Plan for years 2014-2019 and Operational Investment Plan for 2014 were prepared.

The main result of the program will be steering of expenditures to the most versatile elements of infrastructure with the highest SAIDI ratio and increase of efficiency of the expenditures that will ensure an increase of efficiency of the managed assets. A project aimed at implementation of methodology in the process of investment portfolio planning has commenced at the beginning of 2014.

In the third quarter of 2013 a *Program of Optimisation of Distribution business line with regard to OPEX management* was launched. The program's target is a complex improvement of operational efficiency of PGE Dystrybucja S.A. in fields of work organisation and of operational expenses. First implementation was completed in Branch Warsaw. Implementation of solutions in this branch will result in reduction of SAIDI ratio by 183-319 of minutes/customer/year) in the perspective of year 2019 and related therewith increased revenues due to decreased volumes of energy not supplied.

It is planned that implementation of the Program in other branches will be completed by the end of 2014.

#### 1.2.5. Restructuring of 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.

##### **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. 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.



### 1.2.6. Factors important for the development of the PGE Capital Group

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

#### 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 CO<sub>2</sub> reduction targets, RES share targets, proposal of Stabilisation Capacity Mechanism;
    - revision of BAT – uncertainty with regard to future norms of SO<sub>2</sub>, NO<sub>x</sub> 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. Activity of PGE Capital Group

### 2.1. Factors and events affecting results

#### 2.1.1. 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) <sup>1</sup>	1.6*	1.9
Annual CPI rate (% of growth) <sup>2</sup>	0.9	3.7
Domestic electricity consumption (% of growth) <sup>3</sup>	0.6	-0.6
Domestic electricity consumption (TWh) <sup>3</sup>	158.0	157.0

*\* initial estimates by Polish Central Statistical Office*

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



### 2.1.2. Tariffs

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

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

#### Sales of electricity

In the period ended December 31, 2013 sales of electricity to recipients from the G tariff group, connected to the distribution network of PGE Dystrybucja S.A., was conducted on the basis of electricity Tariff approved by the decision of the President of the Energy Regulatory Office of December 16, 2011, that was valid until June 30, 2013, and on the basis of electricity Tariff approved by the decision of the President of the Energy Regulatory Office of June 11, 2013 that was valid from July 1, 2013 till December 31, 2013.

In the 12-month period ended December 31, 2013 sales of energy to the corporate customers (key and business) and to individuals (other than G tariff customers connected to the distribution network of PGE Dystrybucja S.A.), took place on the basis of Tariff for customers from A, B, C and R tariff groups, approved by the resolution of the Management Board of PGE Obrót S.A. and effective from December 1, 2011, as well as on the basis of public promotional offers and individually negotiated sale conditions.

#### Distribution of electricity

Methodology of and assumptions for tariffs determination were published in the document "Tariffs for the DSO for the year 2013", which were prepared by the President of the Energy Regulatory Office and provided to distribution system operators.

Tariff of PGE Dystrybucja S.A. for 2013 was approved by the President of the Energy Regulatory Office on December 19, 2012. Tariffs for 2013, according to resolution of the Management Board of PGE Dystrybucja S.A, dated December 21, 2012, came into force on January 3, 2013 except for the transition fee (according to the decision of the President of the Energy Regulatory Office, the transition fee has been in force since January 1, 2013).

Distribution tariffs for 2013 approved by the President of the Energy Regulatory Office, contributed to changes in average payments for customers in particular tariff groups in comparison to year 2012:

- A tariff group – decrease by **0.31%**;
- B tariff group – increase by **1.42%**;
- C+R tariff group – increase by **1.97%**;
- G tariff group – increase by **1.39%**.

An average price of energy distribution services in comparison to last tariffs binding in 2012 increased by approximately 1.10%.



During the reporting period the approved tariffs for distribution services were not subject to any changes.

### Tariff for heat

Pursuant to art. 47 sections 1 and 2 of the Energy Law, energy companies, which hold licences, set tariffs for heat and propose their duration. Submitted tariff is subject to the approval by the President of the Energy Regulatory Office, provided that it is consistent with rules and regulations referred to in art. 44-46 of the Energy Law. Detailed rules for tariffs determination are defined in the Regulation of the Polish Minister of Economy of September 17, 2010 on detailed rules for calculation of tariffs and on settlements with regard to heat supply. Conduction of proceedings concerning heat tariffs approval lies within the competence of regional Branches of Energy Regulatory Office.

The binding tariffs for electricity, electricity distribution services and heat, which are subject to the approval by the President of the Energy Regulatory Office, include justified costs, thus contributing to trigger efficiency related activities by the companies.

### 2.1.3. 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
<b>SPOT market, of which:</b>	<b>TWh</b>	<b>22.6</b>	<b>21.3</b>	<b>21.6</b>	<b>13.3</b>
TGE	TWh	22.2	19.1	19.7	7.6
<b>Futures and forward market, of which:</b>	<b>TWh</b>	<b>208.4</b>	<b>184.9</b>	<b>155.2</b>	<b>114.0</b>
TGE	TWh	154.3	112.9	106.9	74.1
<b>SPOT+ futures and forward market, of which:</b>	<b>TWh</b>	<b>231.0</b>	<b>206.2</b>	<b>176.8</b>	<b>127.3</b>
TGE		176.5	132.0	126.6	81.7

Balancing market

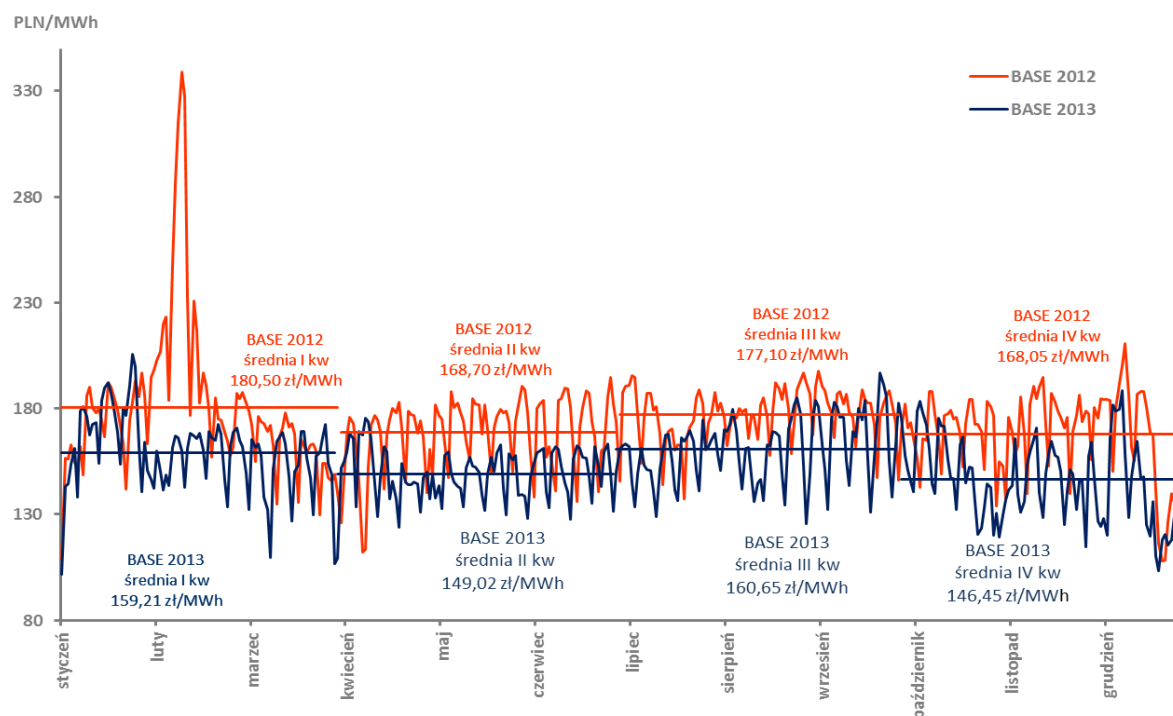
In 2013 the trading volume on the Balancing Market reached 3.67 TWh and was lower by 2% than in 2012.

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

SPOT market

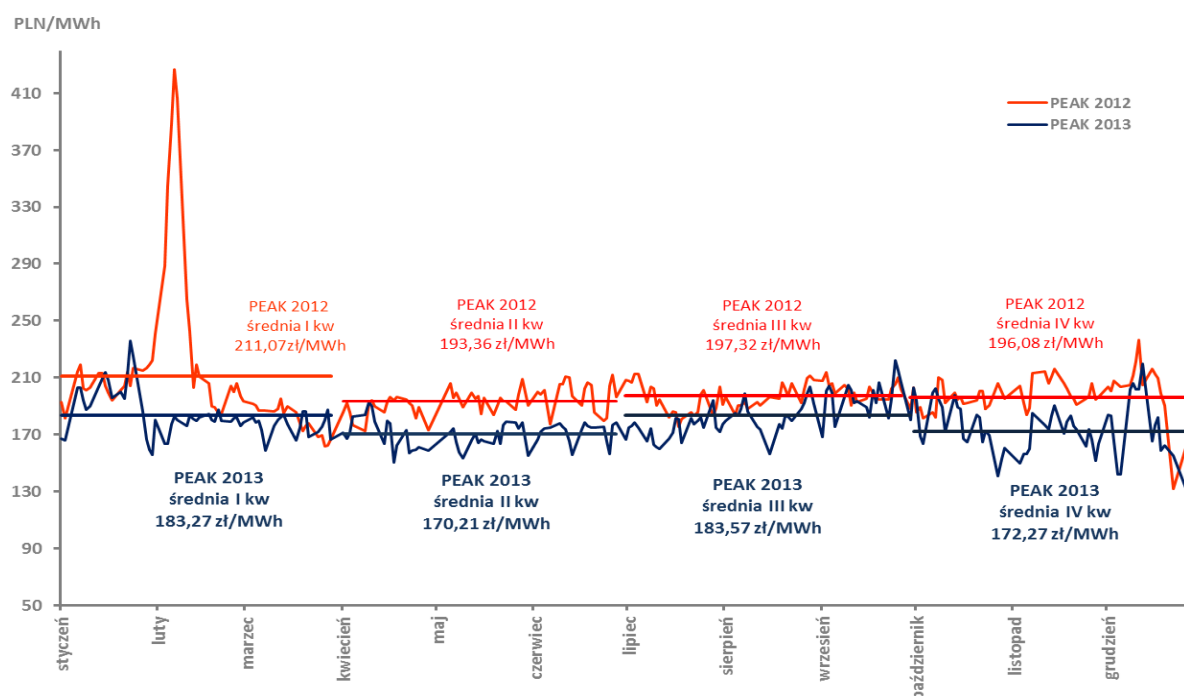
In 2013 SPOT prices were in a continued downward trend that began in 2012. Average SPOT price in 2013 in Poland amounted to 153.82 PLN/MWh (IRDN24), what means that it was lower by 11% than in 2012. Average prices for particular months of 2013 were lower than in corresponding months of 2012.

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)

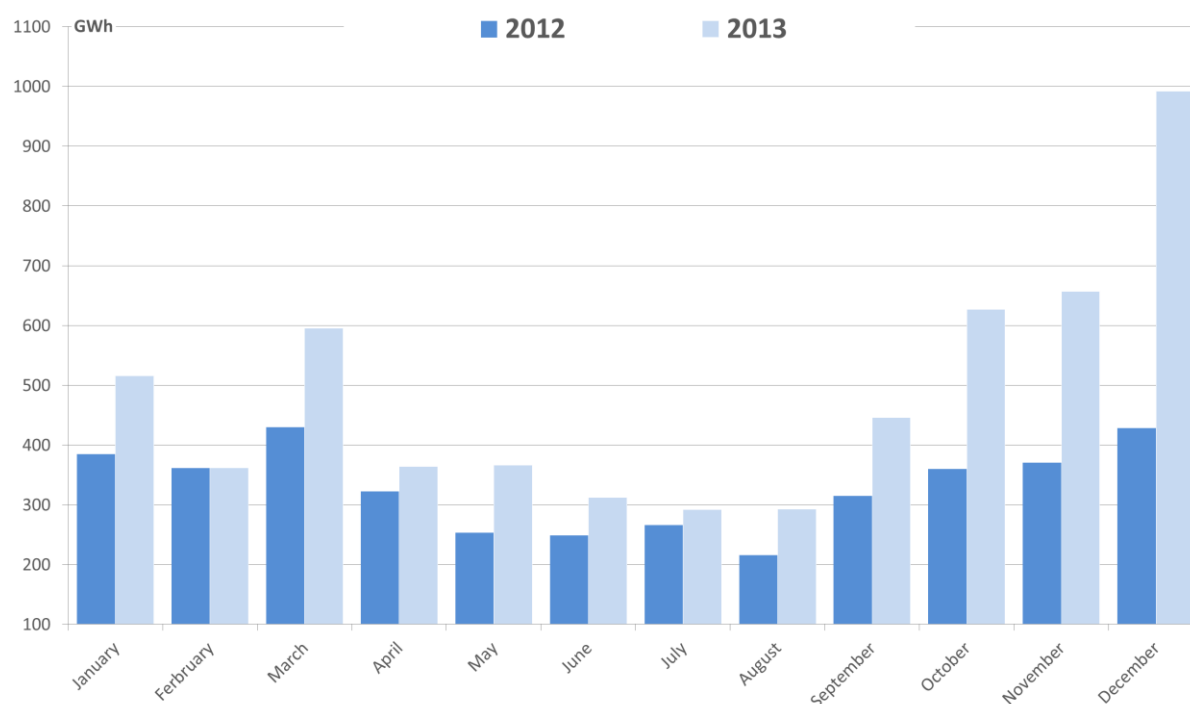


Downward trend was visible from January 2013 (166.47 PLN/MWh) till May 2013 (147.35 PLN/MWh). Then prices bounced back when highest price was recorded in September (165.83 PLN/MWh) and another decrease of prices was observed in the fourth quarter with the lowest average price in December (140.12 PLN/MWh).

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



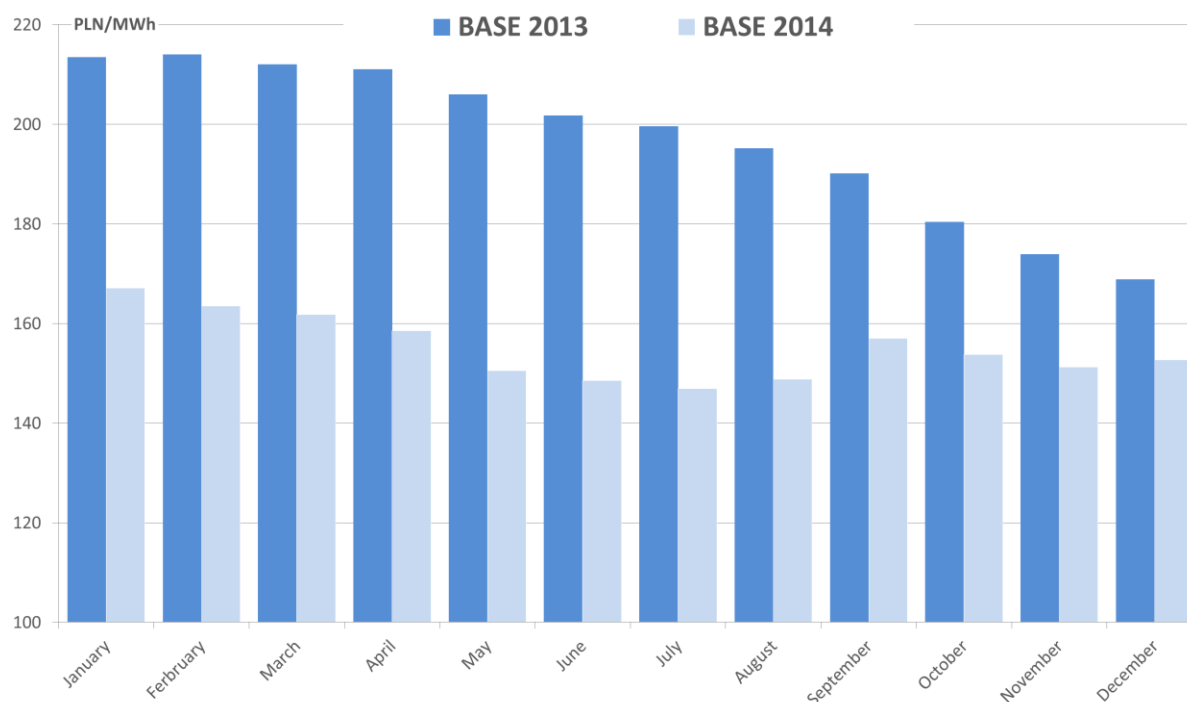
Relatively low prices on spot market in Germany also affected Polish prices and limited the export from Poland. Thus, despite slight increase in electricity consumption in 2013 as compared to 2012 (0.6%), above factors along with lower costs of CO<sub>2</sub> emission rights and hard-coal in 2013 resulted 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.

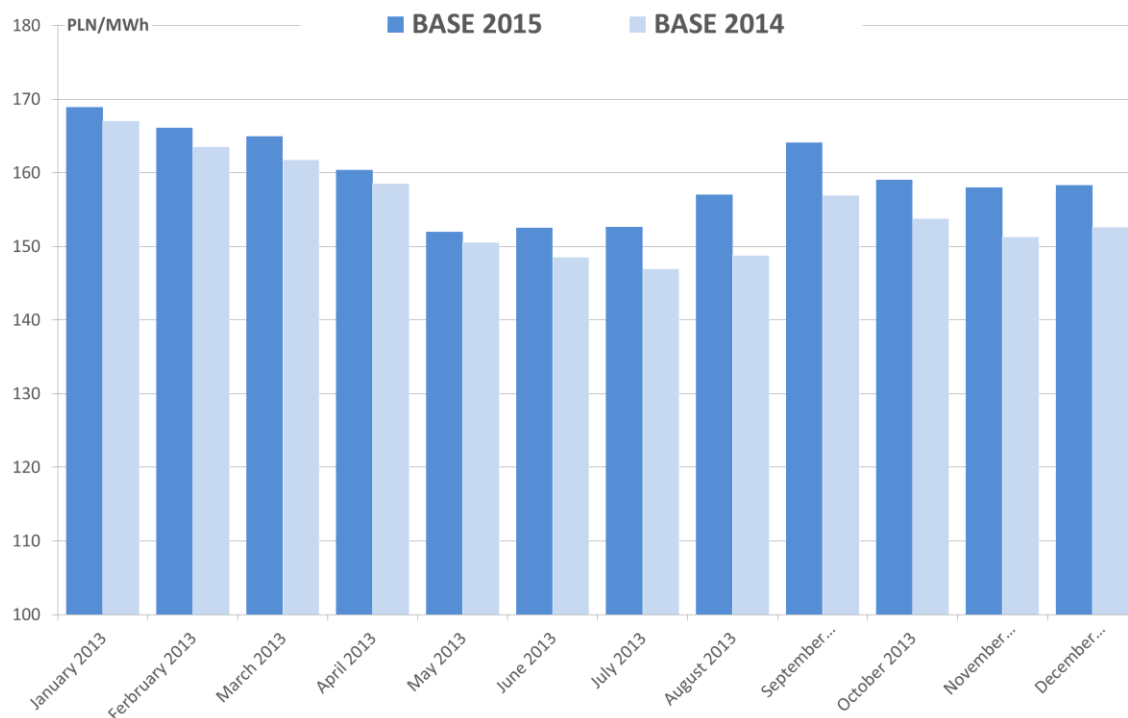
Despite gradual improvement of economic situation, the decrease of prices of CO<sub>2</sub> emission rights, decrease of hard-coal prices and increased capacity in renewables contributed to fall of yearly baseload prices from 213.50 PLN/MWh in January 2012 for BASE\_Y-13 to 152.64 PLN/MWh in December 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.



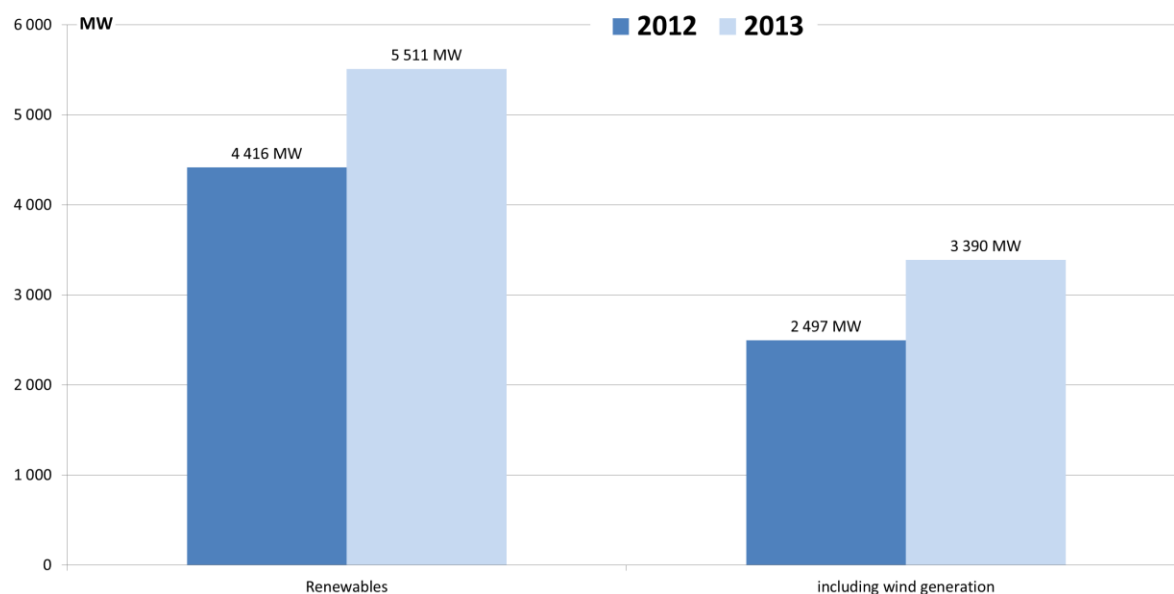
The prices of BASE\_Y-15 after the increase at the break of August and September resisted the strong declines which BASE\_Y-14.

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.



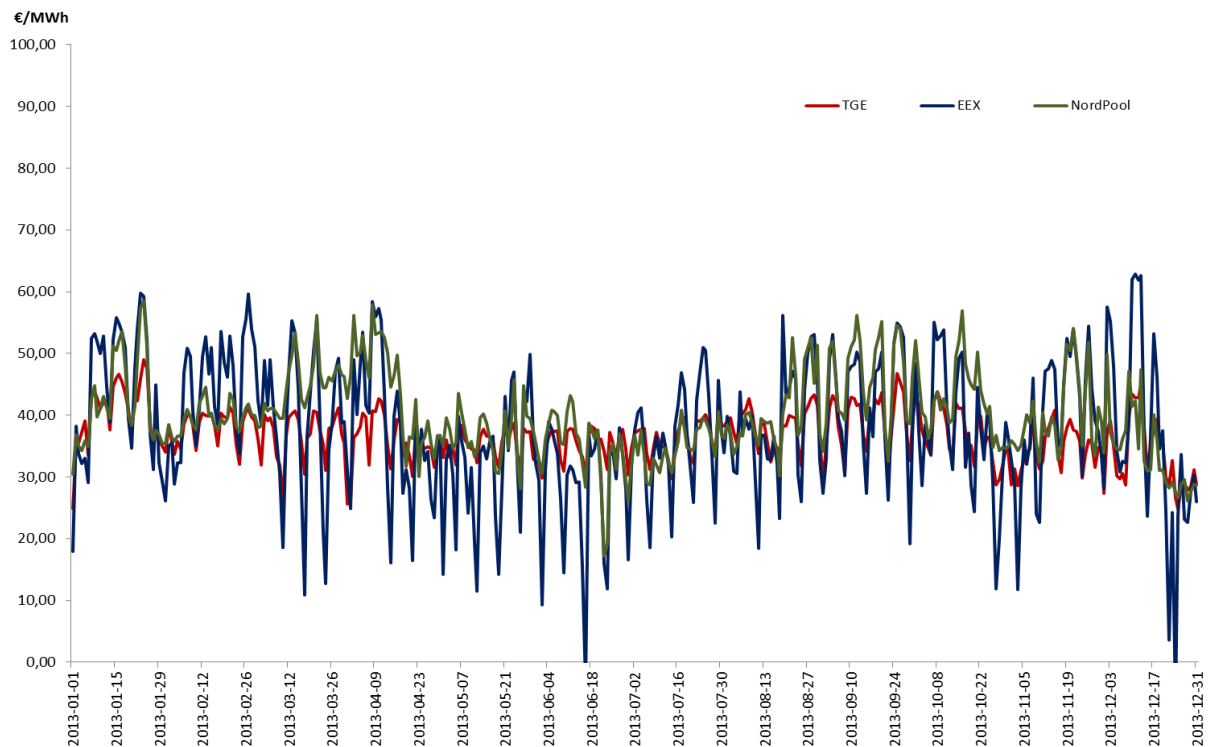
## International market

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" – Towarowa Giełda Energii) 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 CO<sub>2</sub> 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 analogical 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%.



#### 2.1.4. Supply markets

##### Provision of raw materials

Lignite, hard coal, natural gas and biomass are key fuels used to generate electricity and heat by power plants and heat and power plants belonging to the PGE Group.

The cost of fuel procurement constitutes a major share in electricity generation costs.

Lignite supplies are carried out within a framework of regular cooperation between branches operating in the structure of PGE GiEK S.A. The KWB Bełchatów mine supplies lignite to the Elektrownia Bełchatów plant and the KWB Turów mine supplies it the Elektrownia Turów plant. The Company set up internal rules with respect to the performance and settlement of lignite supplies between individual branches of the Company.

PGE S.A., on the ground of Agreement for Commercial Management of Generation Capacities, purchases hard coal on behalf PGE GiEK S.A. in order to secure supplies for power plants and CHPs belonging to PGE GiEK S.A. The main supplier is Kompania Węglowa S.A. with an approximate share of 69% in the yearly demand for this raw material. Majority of the rest of supplies were provided by Jastrzębska Spółka Węglowa S.A. and Katowicki Holding Węglowy S.A.

Natural gas for electricity and heat production in CHPs: Gorzów, Lublin Wrotków and Rzeszów, is mainly supplied on the ground of agreements with Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG S.A.). Due to long-term contracts for gas supply signed in the previous years by PGE S.A. with PGNiG S.A. and conditions thereof, the PGE Group was significantly dependent on this supplier. From March 18, 2013 the gas supplies from PGNiG S.A. for Lublin Wrotków CHP and Rzeszów CHP due to loss of profitability of production resulting from lack of legal support schemes for production of electricity in highly efficient co-generation. On the ground of the valid agreement, in few months of 2013 the gas supplies by PGNiG S.A. were resumed to Lublin Wrotków CHP (for the needs of agreement with PSE S.A. on forced generation and in order to collect the minimal volume of gas resulting from the agreement with PGNiG S.A.). The supplies to Gorzów CHP were executed throughout the whole year as this CHP is working basing on cheaper gas from local sources.

In October 2013 an agreement for supply of gas to Branch Elektrociepłownia Rzeszów was terminated and expired as from November 8, 2013.

In 2013 biomass supplies were mostly ensured by ELBIS sp. z o.o., which has supplied all branches of PGE GiEK S.A. with biomass since August 2011 on the ground of the Long-Term Agreement for the Sale of Biomass signed with PGE GiEK S.A. Biomass supplied by Elbis Sp. z o.o. is obtained in tenders from suppliers from Polish market.

There was no risk of loss of realisation of supplies to ensure continuity of the production process. Fuels were available, and only the supply of gas and biomass were temporarily suspended due to lack of legal regulations and to quotations of property rights on Towarowa Giełda Energii.



### Purchases of transmission and distribution services

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

1. a valid Agreement for the Provision of Electricity Transmission Services signed with a Transmission System Operator ("TSO") in order to be able to sell electricity on wholesale markets;
2. a valid Agreement for the Provision of Electricity Distribution Services signed with a Distribution System Operator ("DSO") for other sale of electricity;
3. or valid agreements concluded both with a TSO and a DSO – if required due to the scope of operations.

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

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

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

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

An integral part of a transmission Contract is an Agreement on the Terms and Conditions for the Provision of Ancillary Services ("Agreement"), concluded pursuant to the single source procurement procedure (i.e. through negotiations) with PSE S.A. The Agreement remains in force for one calendar year. The generation units of the PGE Capital Group render selected services



from the catalogue of ancillary services to PSE S.A. the extent which has been agreed and provided for in the Agreement.

In 2013, PGE GiEK S.A. extended the scope of its services by two new ancillary services: reduction of demand by the TSO order ("negawatt power") with a binding term of two years (i.e. for the years 2013 and 2014) and the cold reserve mechanism for the years 2016 and 2017 with an option of renewal for two successive years.

In 2013, PGE Energia Odnawialna S.A. had a contract signed with PSE S.A. for the provision strategic reserve services, pursuant to which it provides TSO with services including Active Power Strategic Reserve (ensuring production or collection of active power in generation, pumping, downtime mode) and compensatory operations and Automatic Voltage Regulator (maintaining voltage level and the passive power balance).

The lack of agreement with regard to ancillary services does not release a power undertaking from the obligation to provide the service, e.g. power control in the system.

In 2013, services purchased from PSE S.A. accounted totally for approx. 6% of operating costs incurred by the Group. PSE S.A. is related to PGE S.A. as a company controlled by the State Treasury.

### Purchases of electricity

In 2013, pursuant to the electricity trading model applied in the PGE Group, the Group's generators sold electricity on power exchanges (under the provisions of art. 49a section 1 and 2 of the Energy Law, i.e. under the so-called "power exchange obligation"), to PGE S.A. and to external customers. Energy purchased by PGE S.A. on power exchange and from generators from the Group was sold to the companies of the PGE Group, including to the Retail Sales company and the Distribution company, to contractors from outside the PGE Group as well as on domestic and international markets. In addition, the Retail Sales company in the PGE Group purchased energy from local generating sources located in the areas where the company acts as a supplier of last resort.

#### 2.1.5. Fuel purchase costs

Table: Volume and cost of purchase of fuels from third party suppliers in the year ended December 31, 2013 and December 31, 2012.

Type of fuel	12-month period ended December 31, 2013		12-month period ended December 31, 2012	
	Volume	Cost	Volume	Cost
	(tons thousand)	(PLN million)	(tons thousand)	(PLN million)
Hard coal	6,109	1,557	6,555	1,917
Gas (cubic metres thousand)	377,177	271	635,477	600
Biomass	1,061	304	1,374	517
Fuel oil (heavy and light)	44	96	56	133
<b>TOTAL</b>		<b>2,228</b>		<b>3,167</b>



In the 12-month period ended December 31, 2013 the costs of purchasing primary fuels from providers outside the Group amounted to PLN 2,228.0 million and were lower by approximately 30% as compared to the analogical period of the previous year.

The following aspects had the biggest impact on the decreased cost of fuel purchase in PGE Capital Group:

- decreased volumes of use of gas in connection with ceasing production from CCGT in Rzeszów CHP from March 18, 2013 and decreased use in Lublin Wrotków CHP as a result of forced generation (rendering of ancillary control services);
- prices of hard-coal purchase – lower by approximately 13%;
- lower use of hard-coal mainly caused by the lower production in Bydgoszcz CHPs and in Pomorzany CHP (see p. 2.2.1. Balance of energy of PGE Capital Group of this report);
- lower use of biomass connected with ceasing co-combustion of biomass with coal in Bełchatów power plant.

In 2013 approximately 73% of the electricity produced was obtained from internally sourced lignite, whose price is fully controlled by PGE Capital Group in contrary to cost of other fuels.

#### 2.1.6. Allocation of free allowances for the years 2013-2020

For the settlement period 2013-2020 the official allocations approved by the European Commission are still not known. Emission rights for the third settlement period (2013-2020) will be granted on the ground of appropriate Regulation of the Council of Ministers. As at the day of this report, the European Commission did not issue a decision with regard to granting free allowances to particular installations. The final date of the European Commission approval for the allocation of free allowances for units in part of EU countries, including Poland, is not known.

The following table presents data concerning CO<sub>2</sub> emission from major Group installations in comparison to the estimated allocations.



Table: Emission of CO<sub>2</sub> from major Group installations in 2013 in comparison to the average yearly allocation of CO<sub>2</sub> emission rights.

Operator	CO <sub>2</sub> emissions in 2013*	Allocation of CO <sub>2</sub> emission rights for 2013**
PGE GiEK Branch Elektrownia Bełchatów	37,178,165	16,816,401
PGE GiEK Branch Elektrownia Turów	9,994,790	6,761,106
PGE GiEK Branch Elektrownia Opole	6,321,344	3,882,897
PGE GiEK Branch Zespół Elektrowni Dolna Odra	5,550,677	3,231,860
PGE GiEK Branch Zespół Elektrociepłowni Bydgoszcz	849,926	798,364
PGE GiEK Branch Elektrociepłownia Gorzów	445,365	333,312
PGE GiEK Branch Elektrociepłownia Lublin-Wrotków	411,261	439,808
PGE GiEK Branch Elektrociepłownia Rzeszów	242,435	186,013
PGE GiEK Branch Elektrociepłownia Kielce	210,206	153,644
PGE GiEK Branch Elektrociepłownia Zgierz	87,986	69,665
<b>TOTAL</b>	<b>61,292,155</b>	<b>32,673,070</b>

\* estimates, emissions not verified - the data will be settled and certified by the authorised verifier of CO<sub>2</sub> emission on the ground of yearly reports of volume of CO<sub>2</sub> emissions

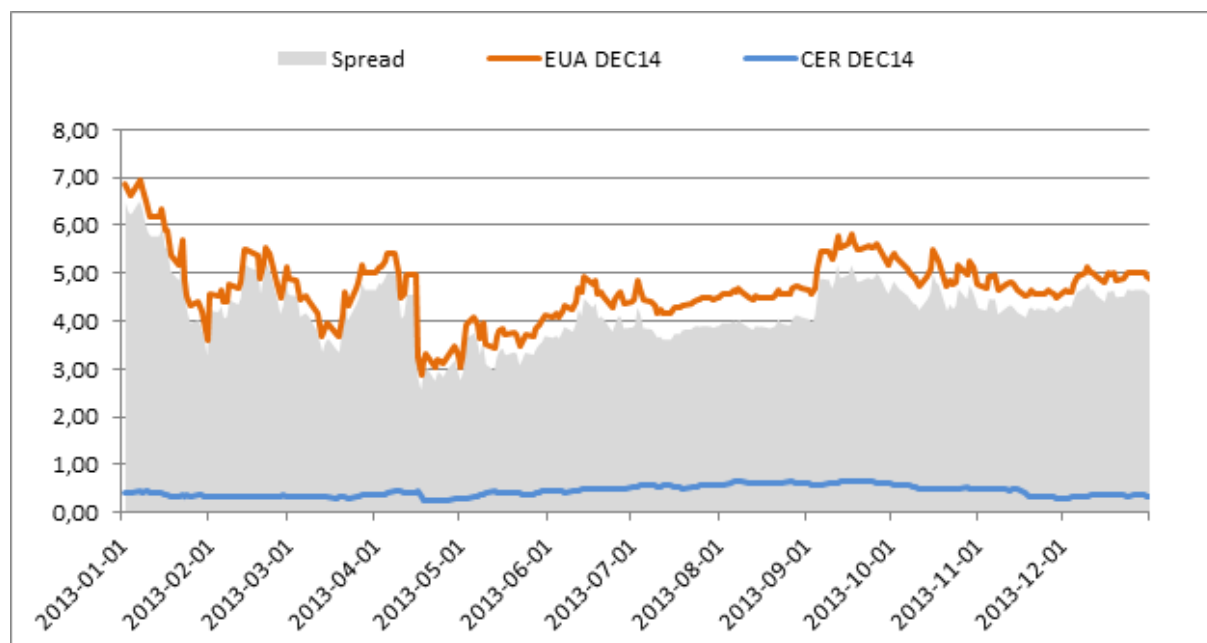
\*\* estimated allocations for particular installations, not approved by the European Commission as at the publication date of this report; as a result of to the lack of allocation of free allowances due to PGE Group for 2013, PGE Group raised an additional provision for CO<sub>2</sub> emission rights (see Note 35.3 to the consolidated financial statements).

### 2.1.7. Prices of CO<sub>2</sub> emission rights

Three types of emission rights can be found on the market – EUA (European Union Allowances), CER (Certified Emission Reductions) and ERU (Emission Reduction Units) allowing for the emission of one tonne of CO<sub>2</sub>. CER-type and ERU-type rights may be redeemed by business operators only to a limited extent, in settlement period 2013-2020 up to 1% of the allocations granted under the National Allocation Plan for years 2008-2012.

The number of CO<sub>2</sub> allowances initially granted to the installations Poland within the National Allocation Plan of CO<sub>2</sub> Allowances is lower than demanded by the Polish industry sector. Business operators are obliged to purchase the difference between the demand resulting from CO<sub>2</sub> emission levels and allowances granted for free under the framework of the so-called European Emissions Trading Scheme (EU ETS). The purchasing cost of lacking allowances is therefore a significant factor determining the financial results achieved by PGE.

Chart: Prices of CO<sub>2</sub> emission rights in 2013



Since the beginning of 2013, the market of CO<sub>2</sub> emission rights was characterised by high volatility of prices. Until the last decade of April 2013 the market was in a downward trend, reaching lower and lower price levels. Starting from the last week of April 2013, there has been a reversal of the trend. Despite the reversal of the trend in the market of CO<sub>2</sub> emission rights, year 2013 is a reflection of the market trend, which is characterized by low prices of emission allowances. EUA in 2013 were quoted in the range 2.70-6.68 EUR/t, and CER in the range 0.03-0.72 EUR/t, while ERU in the range 0.03-0.45 EUR/t.

Among significant factors determining the prices of emission rights and in 2013 there were:

- oversupply of emission rights on the market;
- decreased demand from the industry sector for emission rights due to economic slowdown;



- lack of coherent attitude of European Commission with regard to backloading, i.e. reallocation of part of allowances for 2013-2015 to 2019-2020.

On February 6, 2014 the European Parliament approved the regulations necessary for acceleration of backloading implementation. This information contributed to the increase of allowance prices to the level exceeding 6 EUR/t.

On February 24, 2014 the European Council voted for the backloading.

#### 2.1.8. Termination of long-term contracts (LTC)

Due to the termination of LTCs in accordance with The Act on coverage of stranded costs resulting at generators in relation to accelerated termination of long-term contracts ("LTC Act"), the producers being earlier the parties to such contracts obtained a right to receive compensations for the coverage of so called stranded costs (capital expenditures resulting from investments in generating assets made by the generator before May 1, 2004 that a generator is not able to recoup from revenues obtained from sales of generated electricity, spare capacity and ancillary services in a competitive environment after early termination of LTC). The LTC Act limits the total amount of funds that may be paid to all generators to cover stranded costs, discounted as at January 1, 2007, to PLN 11.6 billion, including PLN 6,317 million for PGE GiEK S.A.

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

Generator	LTC maturity	Maximum amount of stranded and additional costs
PGE GiEK S.A. Branch Elektrownia Opole	2012	PLN 1,966 million
PGE GiEK S.A. Branch Elektrownia Turów	2016	PLN 2,571million
PGE GiEK S.A. Branch Zespół Elektrowni Dolna Odra	2010	PLN 633 million
PGE GiEK S.A. Branch Elektrociepłownia Gorzów	2009	PLN 108 million
PGE GiEK S.A. Branch Elektrociepłownia Lublin Wrotków	2010	PLN 617 million
PGE GiEK S.A. Branch Elektrociepłownia Rzeszów	2012	PLN 422 million
<b>TOTAL</b>		<b>PLN 6,317 million</b>

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

The impact of LTC compensations on results achieved by the PGE Group is described in Note 45.1 to the consolidated financial statements.



## 2.2. Business segments – operational data

Table: Key operational figures.

Key figures	Unit	2013	2012	% change
Lignite extraction	Tons m	51.31	50.48	2%
Net electricity production, including:	TWh	57.04	57.05	0%
Production from biomass	TWh	1.03	1.48	-30%
Heat sales	GJ m	19.98	21.71	-8%
Sales to final customers *	TWh	36.95	32.10	15%
Distribution of electricity **	TWh	31.78	31.32	1%

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

\*\* with additional estimation

### 2.2.1. Balance of energy of PGE Capital Group

#### Sales of electricity

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

Sales volume	2013	2012**	% change
<b>Sales in TWh, including:</b>	<b>109.75</b>	<b>95.20</b>	<b>15%</b>
Sales to end-users *	36.91	32.10	15%
Sales on the wholesale market, including:	71.37	61.70	16%
Sales on the domestic wholesale market – power exchange	54.73	53.50	2%
Other sales on the domestic wholesale market	15.67	7.18	118%
Sales to foreign customers	0.97	1.02	-5%
Sales on the Balancing Market	1.47	1.40	5%

\* after elimination of internal sales within PGE Group

\*\* data restated for comparability with regard to the consolidated entities

The growth of volume of electricity sold by the Group resulted mainly from intensified trade operations on the wholesale market. Sales on the balancing market also increased. Sales of electricity to foreign customers decreased due to lower sales realised by PGE Trading GmbH.

Increased sales to end users resulted from increased supply to companies from large and medium enterprises segment.

## Purchases of electricity

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

Purchases volume	2013	2012	% change
<b>Purchases in TWh, including:</b>	<b>57.58</b>	<b>42.89</b>	<b>34%</b>
Purchases on the domestic wholesale market – power exchange	46.73	35.26	33%
Purchases on the domestic wholesale market, other	4.93	2.09	136%
Purchases from abroad	0.41	0.43	-5%
Purchase from the Balancing Market	5.51	5.11	8%

The growth of volume of purchases of electricity was done in order to cover the increasing electricity sales to final customers increasing trade operations on the wholesale market, while drop was recorded in purchase of electricity from abroad by PGE Trading GmbH.

## Production of electricity

Table: Generation of electricity by the Group (in TWh).

Generation volume	2013	2012	% change
<b>Total energy generation in TWh, including:</b>	<b>57.04</b>	<b>57.05</b>	<b>0%</b>
Lignite-fired power plants	41.36	40.34	3%
Coal-fired power plants	11.57	11.62	0%
Coal-fired CHP plants	1.11	1.33	-17%
Gas-fired CHP plants	1.11	2.34	-53%
Biomass-fired CHP plants	0.44	0.44	0%
Pumped storage power plants	0.53	0.40	33%
Hydroelectric plants	0.49	0.45	9%
Wind power plants	0.43	0.13	231%

In 2013 and 2012 the electricity production was at the similar levels.

The increase in electricity production in lignite-fired power plants mainly resulted from higher electricity generation in Bełchatów power plant what is a result of stoppage of units 7 and 8 in 2012 due to complex reconstruction and modernisation (unit 7 from January till September 2012 and unit 8 from June 2012 till February 2013).



Increased production in pumped storage power plants results from the character of work of these units, which were used at higher degree by the Transmission System Operator (PSE S.A.) in 2013.

Increased production in hydroelectric power plants is a result of favourable hydrological conditions.

Increase of production in wind power plants is a result of commissioning of Pelplin wind power plant from August 2012 and Żuromin wind power plant from October 2012 and power plants belonging to PGE Energia Natury sp. z o.o. from July 2013.

The decrease in electricity production in coal-fired CHP plants results from lower production of electricity in Elektrociepłownia Pomorzany and in ZEC Bydgoszcz. Lower generation in Elektrociepłownia Pomorzany results from stoppage of unit no 1 for major overhaul from June till December 2013. Lower generation in ZEC Bydgoszcz results from lower production of electricity in co-generation with heat due to ceasing of heat off-take by the key customer.

The decrease in electricity production in gas-fired CHP plants is a result of ceasing production as of March 18, 2013 in combined cycle units in Elektrociepłownia Rzeszów and Elektrociepłownia Lublin- Wrotków due to lack of legal regulations with regard to support of electricity production in co-generation.

#### 2.2.2. Sales of heat

In 2013 the heat sales in PGE Group totaled **19.98 GJ million** and were lower by 8% as compared to 2012. Lower sales of heat resulted mainly from cease of off-take by the key heat off-taker of Elektrociepłownia Bydgoszcz.

#### 2.2.3. Conventional Generation

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

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



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

No.	Name	Main fuel types	Installed capacity (MWe)	Annual energy generation (GWh)	Annual heat generation (TJ)
1	Elektrownia Bełchatów	lignite, biomass	5,298	32,036	2,056
2	Elektrownia Turów	lignite, biomass	1,699	9,329	539
3	Elektrownia Opole	hard coal, biomass	1,492	6,650	131
4	Elektrownia Dolna Odra	hard coal, biomass	1,567	4,920	336
5	Elektrociepłownia Pomorzany	hard coal	134	469	3,052
6	Elektrociepłownia Szczecin	biomass	69	430	734
7	Elektrociepłownia Bydgoszcz	hard coal, biomass, fuel oil	248	480	5,088
8	Elektrociepłownia Gorzów	gas, hard coal	98	585	1,592
9	Elektrociepłownia Lublin-Wrotków	methane-rich gas, hard coal	247	450	3,050
10	Elektrociepłownia Rzeszów	methane-rich gas, hard coal	102	192	1,874
11	Elektrociepłownia Kielce	hard coal in form of coal-dust, biomass	11	43	1,694
12	Elektrociepłownia Zgierz	lignite, hard coal	17	12	402
<b>Total:</b>			<b>10,982</b>	<b>55,596</b>	<b>20,548</b>

### 2.2.3.1 Information on lignite mining

#### I. Review of main issues regarding resources

#### Lignite quality parameters

The quality of lignite in Bełchatów and Turów mines was originally assessed during an archaeological examination of the coal layer. Additionally, boreholes at individual coal layers enabled to carry out coal quality tests. The table below shows average quality parameters of lignite found in deposits owned by PGE GiEK S.A. with a reference to balance resources.

Deposit	Average value of heat content ( $Q_i'$ ) [kJ/kg]	Average ash content ( $A'$ ) [%]	Average sulphur content ( $S_i'$ ) [%]	Note
Bełchatów – Field Szczerców	7,560	12.50	1.35	Quality parameters of lignite according to Exhibit 1 to the Geological Records from 2005
Bełchatów – Field Bełchatów	7,579	11.90	0.73	Quality parameters of coal according to Exhibit 1 to the Bełchatów – Field Bełchatów Lignite Deposit Development Plan
Turów	Deposit 1	9.729	11.37	Quality parameters of coal according to Exhibit 3 to the Turów Lignite Deposit Development Plan
	Deposit 1	9.523	11.86	
	Deposit 1	9.070	14.69	

#### Lignite resources

Lignite resources are determined based on measuring evidence in the geological survey for a given year until the end of February of the next year. The table below contains lignite resources data as at the end of 2013 and lignite output in 2013.

Deposit	Resources - as at the end of 2013 [million Mg]		Output in 2013 [million Mg]
Bełchatów – Field Szczerców	geological	847.54	9.1
	industrial	580.20	
Bełchatów – Field Bełchatów	geological	166.36	32.9
	industrial	120.86	
Turów	geological	381.39	9.3
	industrial	333.52	



### Long-term projects

Current lignite deposits in Kopalnia Bełchatów and Kopalnia Turów mines ensure a stable output level until 2030. Following that year, output will gradually decrease. In order to ensure continuity of operations and protect the value of the Capital Group, based on advanced and efficient generating methods, lignite surveys are conducted with a view to obtain the extraction permit with regard to lignite deposits in "Złoczew" and "Gubin".

As part of projects conducted in 2012, exploratory drillings were completed in the "Złoczew" deposit; their results were used to compile the geological documentation. On October 28, 2013, the Minister of the Environment issued a decision approving Addendum no. 1 to the geological documentation of the "Złoczew" deposit and on February 7, 2014 a decision approving the "Hydrogeological report specifying the hydrogeological conditions in connection with the planned drainage for the purpose of lignite extraction in the Złoczew deposit of category B+C1

Based on the approved Addendum No. 1 to the geological documentation, the lignite resources supposed economic in the "Złoczew" deposit amount to 611,969 million Mg, which compared with the previous geological documentation constitutes an increase of approx. 125 million Mg. Similarly to the Bełchatów deposit, the "Złoczew" deposit takes the form of a rift valley. Average overburden for the deposit supposed economic amounts to 215.1 metres and average thickness of the deposit is 51.4 metres. N:W ratio (ratio of amount of overburden to the amount of lignite) ranges from 1.5 to 11.4. Quality parameters of lignite in the deposit:

- ash content - Ad = 21.29%;
- sulphur content - Sdt = 2.14%;
- calorific value - Qri = 1,968 kcal/kg (8,230 kJ/kg).

The Gubin deposit belongs to the so-called miocene layer with coal characterised by the best suitability for industrial purposes. These are deposits which in morphological and structural terms belong to almost flat seam deposits most often composed of 1 or 2 seams. Results of conducted geological research are contained in Exhibit 1 to the complex geological documentation of the Gubin deposit; it comprises information on the "Gubin" and "Gubin-Zasieki-Brody" deposits covering 4 decades of research carried out on these deposits. According to the documentation, lignite resources supposed economic amounted to: resources— 1,561 million Mg.

The objective of currently ongoing work is to prepare license applications for lignite extraction from the "Złoczew" and "Gubin" deposits.

### Current rehabilitation operations

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

#### A. Bełchatów lignite mine

Rehabilitation operations of post-mining land are currently carried out on the internal dump, south and north settling ponds of Field Bełchatów, the external dump of Field Szczerców and other land



belonging to Field Bełchatów. Mainly, operations cover advanced rehabilitation of newly prepared dumping areas selected for biological reclamation as well as restoration of land excluded from mining exploitation.

Activities carried out in Field Szczerców in 2013 included:

- basic rehabilitation on an area of 107.50 ha;
- advanced rehabilitation on an area of 42.70 ha.

#### **B. KWB Turów**

In 2013, rehabilitation on post-mining land involved reforestation on an area of 1.87ha. In accordance with the guidelines of the Forest Management Plan designed for the Mine, recultivation covered an area of 7.09ha. The work involved planting of 56,028 pieces of trees together with land neutralisation and application of a grass mix and papilionaceous plants. Supplementations and additional forestation on land rehabilitated in the previous years covered the planting of 53,000 pieces of trees and shrubs. In addition, supplementary fertilisation was applied to some of land which had been rehabilitated earlier. The treatment was performed on an area of 65.75ha. Technical rehabilitation included land grading and water system re-engineering.

### **II. Mine Liquidation Fund and provision for rehabilitation of land**

#### **A. Mine Liquidation Fund**

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

#### **B. Provisions for post-mining land rehabilitation**

Mines belonging to the Group make provisions for expenses to be incurred for the rehabilitation of land where mining operations ended. The amount of the provision is determined based on projected costs of rehabilitation operations and the final pit improvement. As regards mining excavations, the provision is fixed in the amount depending on the ratio of coal produced to total projected coal output from a deposit in the entire period of exploitation. Estimates of anticipated rehabilitation expenses are updated not less frequently than every five years, with the reservation that the value of the provision is verified each year against current assumptions regarding the inflation rate, discount rates and extraction output.

The provision corresponding to the output in a given year is charged to operating costs while the difference resulting from changed macroeconomic assumptions, i.e.: inflation rate or discount rates, is charged to other operating expenses or revenues. The unwinding of the discount effect is charged to the financial cost.



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

Fund and provision for rehabilitation of land (PLN thousand)	KWB Bełchatów	KWB Turów
Fund as at January 1, 2013	75,549	23,497
• change due to on-going extraction	8,392	1,586
Fund as at December 31, 2013	83,941	25,083
Provision as at January 1, 2013	1,153,428	768,807
• change due to significant adjustment of discount rate and inflation rate	-154,229	-101,189
• change due to on-going extraction and discount	91,472	39,681
Provision as at December 31, 2013	1,090,671	707,300
<b>Fund and provision as at January 1, 2013</b>	<b>1,228,978</b>	<b>792,305</b>
• change due to significant adjustment of discount rate and inflation rate	-154,229	-101,189
• change due to on-going extraction and discount	99,863	41,267
<b>Fund and provision as at December 31, 2013</b>	<b>1,174,612</b>	<b>732,383</b>

Provision for rehabilitation of land (along with Mine Liquidation Fund) and changes thereof for KWB Bełchatów, KWB Turów and other entities included in the composition of PGE Capital Group (power plants and CHPs) are presented in Note 35 to the consolidated financial statements).

#### 2.2.4. Renewable energy

The PGE Capital Group's investments in renewable energy are managed by the PGE Energia Odnawialna S.A. and PGE Energia Natury sp. z o.o. Assets in the segment:

- 10 wind farms;
- 25 run-of-river power plants;
- 4 pumped-storage power plants, including 2 with natural flow;



Table: Installed capacity and production in branches of Renewable energy segment

No.	Name	Type of power plant	Installed capacity (MW)	Annual energy generation (GWh)
1	Elektrownia Wind Pelplin	wind	48.0	97.6
2	Elektrownia Wind Żuromin	wind	60.0	133.1
3	Elektrownia Wind Kamieński	wind	30.0	55.7
4	Elektrownia Wind Resko I	wind	14.0	8.3
5	Elektrownia Wind Lisewo	wind	0.2	0.0
6	Elektrownia Wind Lake Ostrowo*	wind	30.6	38.5
7	Elektrownia Wind Karnice I*	wind	29.9	30.4
8	Elektrownia Wind Malbork**	wind	18.0	18.0
9	Elektrownia Wind Kisielice**	wind	40.5	34.3
10	Elektrownia Wind Galicja**	wind	12.0	11.4
		<b>Wind farms</b>	<b>283.2</b>	<b>427.3</b>
11	Elektrownia Wodna Myczkowce	run-of-river	8.2	28.5
12	Elektrownia Wodna Rakowice	run-of-river	2.0	6.0
13	Elektrownia Wodna Dobrzeń	run-of-river	1.6	7.2
14	Elektrownia Wodna Porąbka	run-of-river	12.5	22.8
15	Elektrownia Wodna Tresna	run-of-river	21.0	23.8
16	Elektrownia Wodna Raduszczy Stary	run-of-river	3.0	15.4
17	Elektrownia Wodna Gorzupia I	run-of-river	0.9	0.3
18	Elektrownia Wodna Gorzupia II	run-of-river	1.7	9.1
19	Elektrownia Wodna Grajówka	run-of-river	2.9	11.4
20	Elektrownia Wodna Żagań I	run-of-river	1.0	4.1
21	Elektrownia Wodna Żagań II	run-of-river	1.2	4.6
22	Elektrownia Wodna Małomice	run-of-river	0.8	2.0
23	Elektrownia Wodna Szprotawa	run-of-river	0.8	2.1
24	Elektrownia Wodna Kliczków	run-of-river	0.7	2.8
25	Elektrownia Wodna Gubin	run-of-river	1.2	4.0
26	Elektrownia Wodna Zasieki	run-of-river	0.8	4.5
27	Elektrownia Wodna Zielisko	run-of-river	1.5	4.2
28	Elektrownia Wodna Żarki Wielkie	run-of-river	0.6	3.1
29	Elektrownia Wodna Przysieka	run-of-river	1.4	6.9
30	Elektrownia Wodna Bukówka	run-of-river	0.8	5.0
31	Elektrownia Wodna Sobolice	run-of-river	0.7	3.6
32	Elektrownia Wodna MEW Myczkowce	run-of-river	0.2	1.3
33	Elektrownia Wodna Januszkowice	run-of-river	1.4	4.5
34	Elektrownia Wodna Krępna	run-of-river	1.3	5.1
35	Elektrownia Wodna Krapkowice	run-of-river	1.3	6.1
		<b>Run-of-river power plants</b>	<b>69.5</b>	<b>188.4</b>



36	Elektrownia Wodna Żarnowiec	pumped-storage	716.0	316.9
37	Elektrownia Wodna Żar	pumped-storage	500.0	204.9
		<b>Pumped-storage power plants</b>	<b>1,216.0</b>	<b>521.8</b>
38	Elektrownia Wodna w Solinie	pumped-storage with natural flow	200.2	94.9
39	Elektrownia Wodna Dychów	pumped-storage with natural flow	91.3	70.6
		<b>Pumped-storage plants with natural flow</b>	<b>291.5</b>	<b>165.5</b>
		<b>Total Renewable Energy:</b>	<b>1,860.2</b>	<b>1,303.0</b>

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\* data for period July – December 2013

\*\* data for period August – December 2013.



### 2.2.5. Distribution

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

Table: Volume of distributed energy and number of customers in 2013 and 2012

	Volume of distributed energy (TWh)*		Number of customers according to power take-off points	
	2013	2012	2013	2012
A tariff group	5.0	4.9	83	82
B tariff group	11.1	10.7	10,374	10,124
C+R tariff groups	6.5	6.5	501,098	506,387
G tariff group	9.2	9.2	4,682,166	4,648,153
<b>TOTAL</b>	<b>31.8</b>	<b>31.3</b>	<b>5,193,721</b>	<b>5,164,746</b>

\* with additional estimation of sales

Table: Key operational data in 2013 and 2012

Operational data	Unit	2013	2012
Number of stations	pieces.	90,685	89,859
including number of transformer stations	pieces	90,304	89,435
MVA power	MVA	28,178	27,856
Length of power lines	km	279,704	277,204
HV lines	km	10,079	10,049
MV lines	km	108,571	108,265
LV lines	km	161,054	158,890
Grid loss ratio*	%	6.5%	6.8%
SAIDI ratio**	min	528	531

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

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

### 2.2.6. Retail sale

Retail sale of the Group is dealt with by the PGE Obrót S.A. The company's operations involve trading in electricity in all the country. The Group supplies to more than 5 million customers: businesses, local self-government units and households.

Revenues are mainly generated from electricity sales to final customers and sales of distribution services under master agreements. The main costs of operation in the segment are costs



of electricity purchase (see Section 2.1.3. Electricity prices) and expenses incurred in compliance with the obligation to buy units of ownership which are subject to remittance under the System of Support for Renewable Energy Sources and Energy Efficiency. As an alternative, a substitute fee may be contributed.

The volume of electricity sales to final customers amounted to 36.95 TWh, what means a significant 15% growth in comparison to the previous year.

Expenses borne by power undertakings involved in the sale of electricity and relating to the System of Support for Renewable and Cogeneration Energy Sources and resulting from introduction of certificates of energy efficiency is a substantial item in the retail price of electricity paid by the final customer.

Anticipated amendments to the System of Support for Electricity Generation from Renewable Sources and Co-Generation may impact prices of electricity paid by the final customer.

Substitution fee	Unit	2013
Renewable energy sources	PLN/MWh	297.35
Energy certificate - cogenerated energy (colliery methane )	PLN/MWh	60.00
Certificates of energy efficiency	PLN/toe	1,000.00

Obligation to redeem the property rights	Unit	2013
Renewable energy sources	%	12.0
Energy certificate - cogenerated energy (colliery methane)	%	0.9
Certificates of energy efficiency	%	1



## 2.3. Business segments – financial results

Table: Breakdown of the Group's gross income (including flows between segments), by business segments for years ended December 31, 2013 and December 31, 2012.

in PLN million	Total income		
	2013	2012	% change
Conventional Generation	12,211.3	15,081.7	-19%
Renewable Energy	733.5	573.9	28%
Wholesale Trading	12,488.6	10,573.1	18%
Distribution	5,616.3	5,538.7	1%
Retail Sale	13,007.9	12,609.9	3%
Other activity	1,838.2	1,745.7	5%
<b>Total</b>	<b>45,895.8</b>	<b>46,123.0</b>	<b>0%</b>
<b>Consolidation adjustments</b>	<b>-15,750.9</b>	<b>-15,641.9</b>	<b>1%</b>
<b>Net income</b>	<b>30,144.9</b>	<b>30,481.1</b>	<b>-1%</b>

Table: Key financial indicators for each business segment for the year ended December 31, 2013 (after eliminations).

in PLN million	EBITDA	EBIT	Capital expenditures	Purchase of PPE* net, within purchase of new companies	Assets of the segment **
			2013		
Conventional Generation	3,820.0	2,184.2	2,722.1	0.0	31,024.5
Renewable Energy	386.0	188.0	195.9	721.8	3,337.5
Wholesale Trading	982.8	965.0	13.0	0.0	1,279.7
Distribution	2,209.1	1,221.2	1,334.9	0.0	15,192.5
Retail Sale	287.7	279.6	6.3	0.0	2,064.5
Other activity	145.0	29.1	177.9	0.0	1,434.0
<b>Total</b>	<b>7,830.6</b>	<b>4,867.1</b>	<b>4,450.1</b>	<b>721.8</b>	<b>54,332.7</b>
<b>Consolidation adjustments</b>	<b>194.3</b>	<b>193.3</b>	<b>-93.5</b>	<b>394.7</b>	<b>-1,286.1</b>
<b>Total after adjustments</b>	<b>8,024.9</b>	<b>5,060.4</b>	<b>4,356.6</b>	<b>1,116.5</b>	<b>53,046.6</b>

\* PPE – property, plant and equipment

\*\* see Note 14 to the consolidated financial statements



Table: Key financial indicators for each business segment for the year ended December 31, 2012 (after eliminations).

in PLN million	EBITDA	EBIT	Capital expenditures	Purchase of PPE* net, within purchase of new companies	Assets of the segment **
<b>2012***</b>					
Conventional Generation	4,243.9	2,520.6	3,336.3	0.1	29,846.0
Renewable Energy	250.5	102.6	126.7	660.0	2,461.6
Wholesale Trading	573.9	554.5	4.7	0.0	1,499.0
Distribution	1,970.7	1,029.0	1,339.3	0.0	14,879.2
Retail Sale	227.6	218.7	4.6	0.0	2,126.3
Other activity	-1.8	-114.3	135.8	0.0	1,385.3
<b>Total</b>	<b>7,264.8</b>	<b>4,311.1</b>	<b>4,947.4</b>	<b>660.1</b>	<b>52,197.4</b>
<b>Consolidation adjustments</b>	<b>45.3</b>	<b>66.7</b>	<b>-124.0</b>	<b>195.4</b>	<b>-1,869.2</b>
<b>Total after adjustments</b>	<b>7,310.1</b>	<b>4,377.8</b>	<b>4,823.4</b>	<b>855.5</b>	<b>50,328.2</b>

\* PPE – property, plant and equipment

\*\* see Note 14 to the consolidated financial statements

\*\*\* data restated



### 2.3.1. Conventional Generation

Table: Key financial indicators for Conventional Generation

in PLN million	2013	2012	% change
Sales revenues	12,211.3	15,081.7	-19%
EBIT	2,184.2	2,520.6	-13%
EBITDA	3,820.0	4,243.9	-10%
Capital expenditures	2,722.1	3,336.3	-18%
Purchase of PPE net, within purchase of new companies	0.0	0.1	-

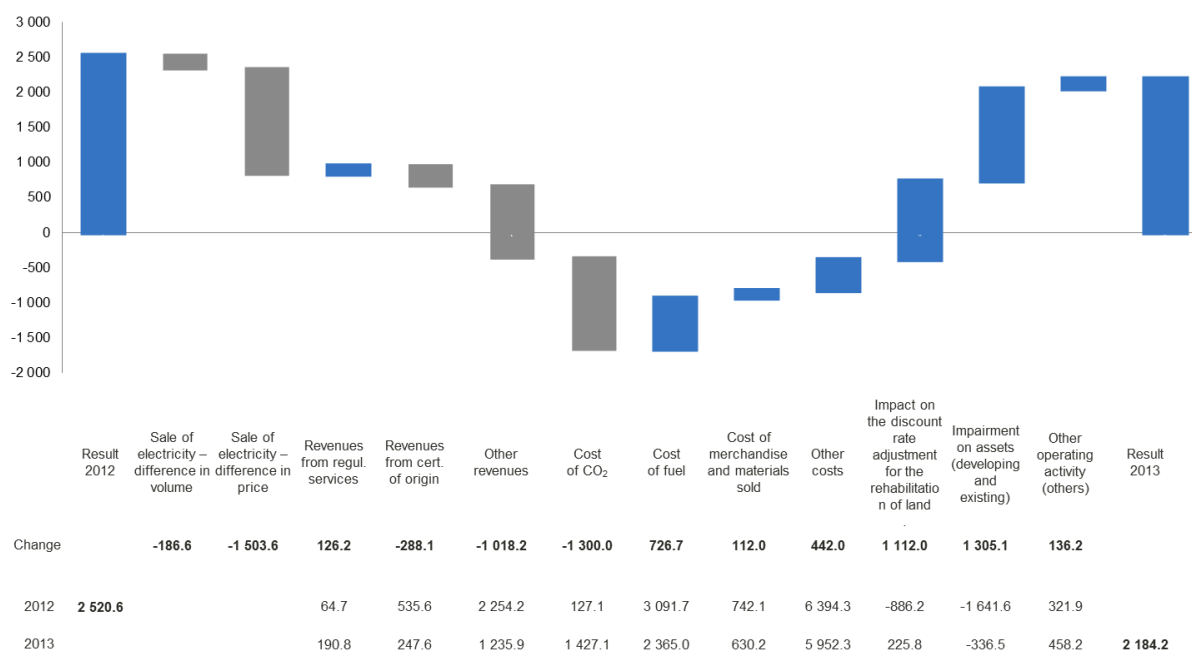
Decrease of EBIT by PLN **336.4 million** was mainly connected with:

- lower revenues from sales of electricity PLN (-) 1,690.2 million;
- lower revenues from LTC compensations PLN (-) 1,026.5 million;
- lower revenues from sales of energy origin certificates PLN (-) 288.1 million.

Above decrease was partly offset by:

- lower impairment losses of assets PLN 1,305.1 million;
- favourable impact of adjustment of estimates of provision for rehabilitations (change of discount rate and inflation rate) PLN 1,112.0 million.

Chart: Key changes of EBIT in Conventional Generation



*Other revenues include mainly revenues from LTC compensations, revenues from sales of heat and distribution services, revenues from sale of lignite and other fuels*

*Other costs include costs by type except the ones listed in the table.*



## Capital expenditures

Table: Capital expenditures incurred in Conventional Generation segment in 2013 and 2012, by particular investment tasks.

in PLN million	Capital expenditures		
	2013	2012	% change
Investments in generating capacities, including:	956.7	2,347.6	-59%
• <i>Development</i>	729.5	1,475.9	-51%
• <i>Modernization and replacement</i>	227.2	871.7	-74%
Purchases of finished capital goods	34.9	72.5	-52%
IT	16.8	24.7	-32%
Vehicles	7.8	9.7	-20%
Other	1,085.3	313.2	247%
<b>TOTAL</b>	<b>2,101.5</b>	<b>2,767.7</b>	<b>-24%</b>
Purchase of PPE net, within purchase of new companies	0.0	0.1	-
Activated costs of overburden removal in mines	620.6	568.5	9%
<b>TOTAL</b>	<b>2,722.1</b>	<b>3,336.3</b>	<b>-18%</b>

In 2013 highest capital expenditures were incurred for the following projects:

- complex reconstruction and modernization of units 3-12 in Bełchatów power plant PLN 542.3 million;
- change of technology of furnace waste storage in Bełchatów power plant PLN 110.4 million;
- modernisation of IOS at units 3-12 in Bełchatów power plant PLN 96.5 million;
- construction of installation for NO<sub>x</sub> reduction at units 1-3 in Opole power plant PLN 39.3 million;
- development of set of pass-out and condensing turbines along with the reserve-peak boiler in EC Zgierz PLN 32.1 million.

Additionally, PLN 620.6 million was recognised in capital expenditures in 2013 – value of activated costs of overburden removal in lignite mines (see Note 12.4 to the consolidated financial statements).

### 2.3.2. Renewable Energy

Table: Key financial indicators for Renewable Energy

in PLN million	2013	2012	% change
Sales revenues	733.5	573.9	28%
EBIT	188.0	102.6	83%
EBITDA	386.0	250.5	54%
Capital expenditures	195.9	126.7	55%
Purchase of PPE net, within purchase of new companies	721.8	660.0	9%

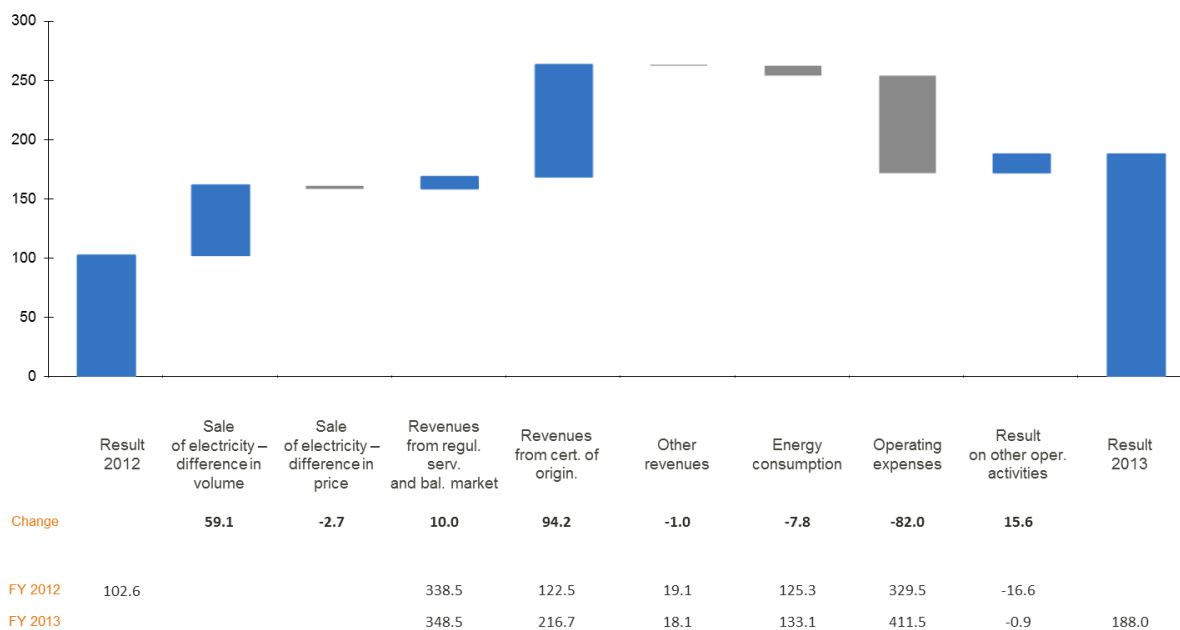
Growth of EBIT by PLN 85.4 million resulted mainly from:

- Higher revenues from sale of property rights PLN 94.2 million;
- Higher revenues from sale of electricity (except for Balancing Market) PLN 56.4 million.

Increase of revenues was partly compensated by higher costs of:

- Depreciation and amortisation PLN 50.2 million;
- Use of energy for generation purposes PLN 6.9 million;
- Real estate tax PLN 6.3 million.

Chart: Key changes of EBIT in Renewable Energy





## Capital expenditures

Table: Capital expenditures incurred in the Renewable Energy segment in 2013 and 2012.

in PLN million	Capital expenditures		
	2013	2012	% change
Investments in generating capacities, including:	187.5	120.6	55%
• <i>Development</i>	132.5	75.3	76%
• <i>Modernization and replacement</i>	55.0	45.3	21%
Purchases of finished capital goods	1.0	1.0	0%
IT	2.1	0.8	163%
Vehicles	2.9	0.1	2.800%
Other	2.4	4.2	-41%
<b>TOTAL</b>	<b>195.9</b>	<b>126.7</b>	<b>55%</b>
Purchase of PPE net, within purchase of new companies	721.8	660.0	9%
<b>TOTAL</b>	<b>917.7</b>	<b>786.7</b>	<b>17%</b>

In the third quarter of 2013 highest capital expenditures were incurred for projects of construction of:

- Wind farm Resko I with a capacity of 14 MW PLN 70.1 million;
- Wind farm Wojciechowo with a capacity of 28 MW PLN 25.2 million;
- Hydro power plant Oława with a capacity of 3.2 MW PLN 25.4 million.

On October 15, 2013 wind farm Resko I obtained a license for electricity generation and Final Acceptance Protocol and commissioning document were signed.

On December 9, 2013 a trial run of wind farm Wojciechowo has commenced. An application for license for electricity generation was filed in February.

Hydro power plant Oława received permission for use on December 3, 2013 then a license for electricity generation and was commissioned on January, 30 2014.

Additionally, PLN 721.8 million – a value of property, plant and equipment purchased in acquisitions of wind farm companies from DONG Energy Wind Power A/S and Iberdrola Renovables Energía S.A.U. and EBRD - were recognized in capital expenditures in 2013.

In 2012 the PPE net of the acquired companies i.e. Żuromin sp. z o.o. in amount of PLN 375.4 million and Pelplin sp. z o.o. in amount of PLN 284.6 million were recognized in capital expenditures in 2012.

### 2.3.3. Wholesale Trading

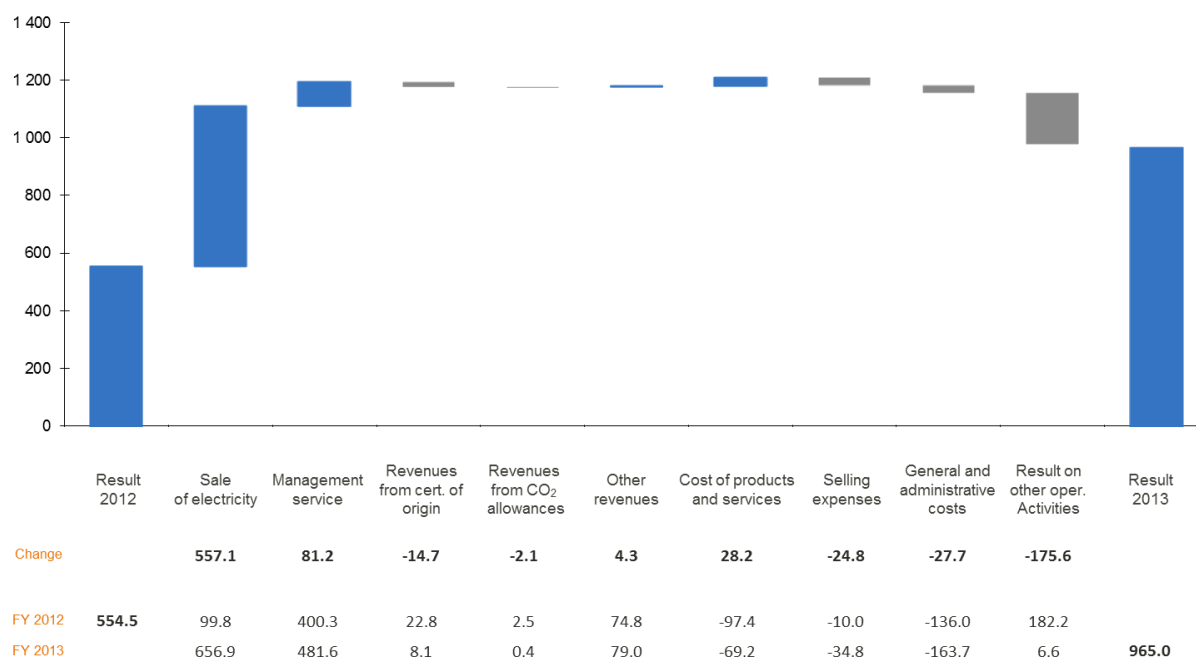
Table: Key financial indicators for Wholesale Trading

(in PLN million)	2013	2012	% change
Sales revenues	12,488.6	10,573.1	18%
EBIT	965.0	554.5	74%
EBITDA	982.8	573.9	71%
Capital expenditures	13.0	4.7	177%

Growth of EBIT **by PLN 410.5 million** was mainly connected with:

- higher result on electricity sales PLN 557.1 million;
- higher remuneration with regard to services for PGE GiEK S.A. due to the Agreement on Commercial Management of Generation Capacities PLN 81.2 million;
- lower result on other operations what is connected with reversal in 2012 of provision for Alpiq Holding AG claims related to costs of reservation of cross-border transmission capacities in amount of PLN 163.1 million PLN (-) 175.6 million.

Chart: Key changes of EBIT in Wholesale Trading





#### 2.3.4. Distribution

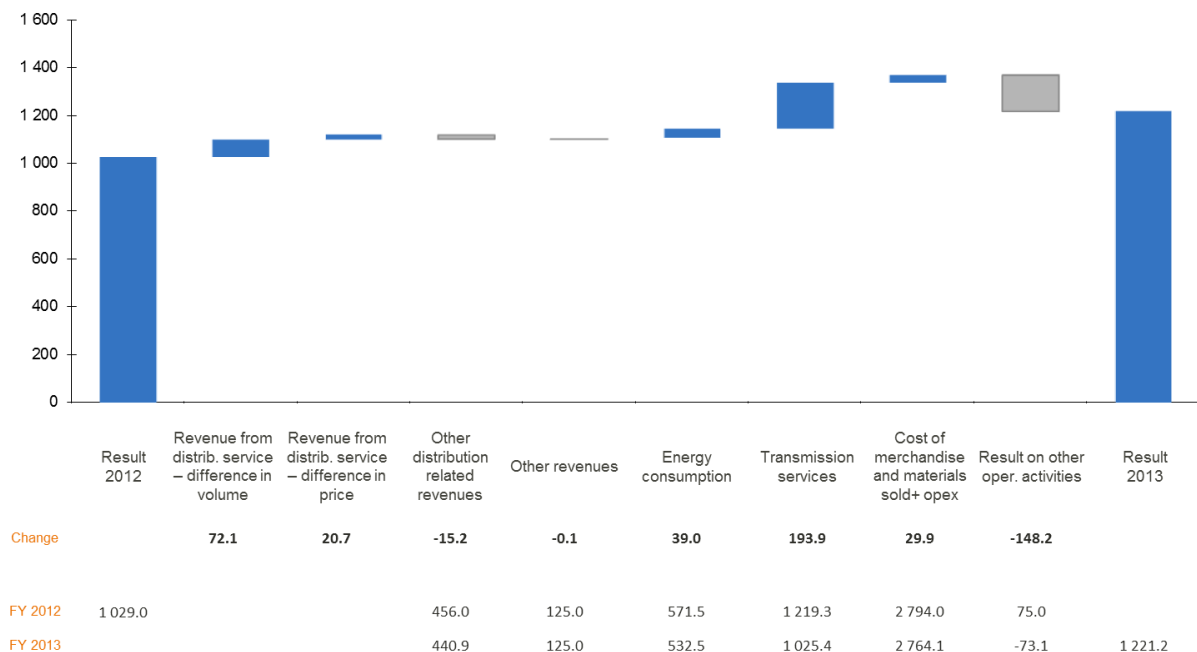
Table: Key financial indicators for Distribution

in PLN million	2013	2012	% change
Sales revenues	5,616.3	5,538.7	1%
EBIT	1,221.2	1,029.0	19%
EBITDA	2,209.1	1,970.7	12%
Capital expenditures	1,334.9	1,339.3	0%

Growth of EBIT **by PLN 192.2 million** mainly resulted from:

- higher revenues from the distribution services due to higher tariffs approved for 2013 and higher volume of energy distributed PLN 92.8 million;
- lower costs of transmission services caused by the fall in fixed and variable grid fees in Tariff of PSE S.A. for 2013 PLN 193.9 million;
- lower personnel expenses (effect of Programs: Pre-Retirement Voluntary Leave and Compensation Voluntary Leave) PLN 96.7 million;
- lower result on other operations (provisions raised, revaluation write-off on other assets and receivables higher than in 2012) PLN (-) 148.2 million.

Chart: Key changes of EBIT in Distribution





## Capital expenditures

Table: Capital expenditures incurred in the Distribution segment in 2013 and 2012.

in PLN million	Capital expenditures		
	2013	2012	% change
MV and LV power networks	262.9	309.1	-15%
110/MV and MV/MV power stations	174.6	117.3	49%
110 kV power lines	34.5	35.9	-4%
Connection of new off-takers	542.1	566.6	-4%
Purchase of transformers and energy counters	153.1	157.2	-3%
IT, telemechanics and communication	84.2	87.9	-4%
Other	83.5	65.3	28%
<b>TOTAL</b>	<b>1,334.9</b>	<b>1,339.3</b>	<b>0%</b>

In 2013 highest capital expenditures were incurred for:

- connection of new off-takers PLN 542.1 million;
- modernization and expansion of power grid, stations and lines PLN 472.0 million.

The amount of capital expenditures agreed with the ERO President in the Development Plan for a given period, is used as the basis for the appointment of the justified items of regulated revenues; consequently, the amount in question will impact the level of rates in the distribution tariffs subject to approval.

Completed investments lead in the first place to an increase of the Regulatory Asset Base; then, they are reflected in the amount of the return from invested capital and the level of depreciation costs and real estate tax. Return on invested capital is determined with the use of WACC for the Distribution System Operator designated by the ERO President in the given tariff period. The above components are elements of the regulated revenue and in this respect they affect the transmission fees.

### 2.3.5. Retail Sale

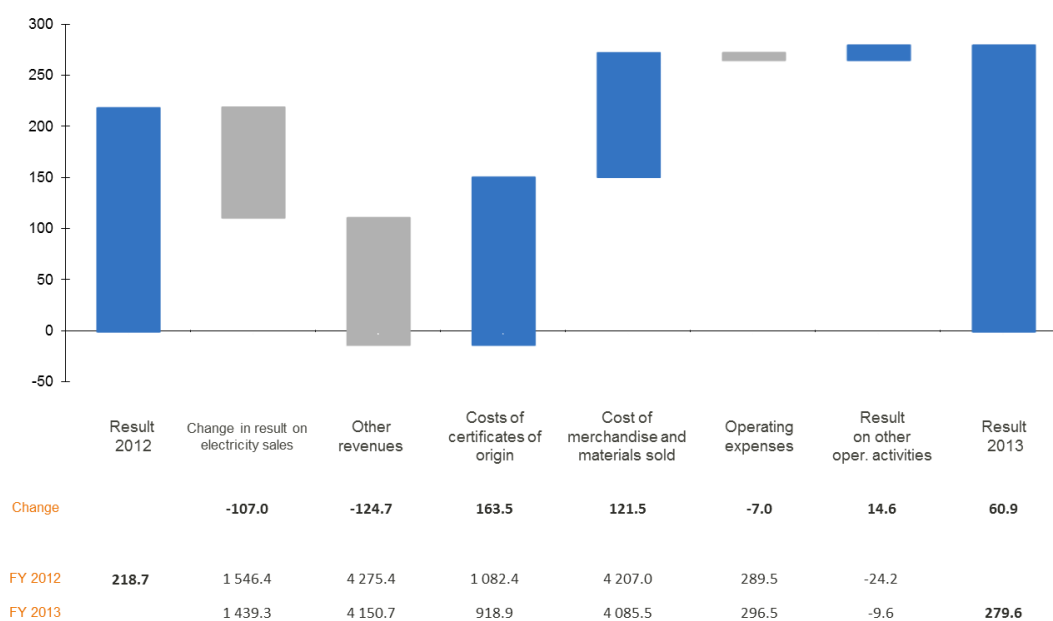
Table: Key financial indicators for Retail Sale

in PLN million	2013	2012	% change
Sales revenues	13,007.9	12,609.9	3%
EBIT	279.6	218.7	28%
EBITDA	287.7	227.6	26%
Capital expenditures	6.3	4.6	37%

Growth of EBIT **by PLN 60.9 million** was mainly connected with:

- lower costs of redemption of property rights PLN 163.5 million;
- lower margin on electricity sales PLN (-) 107.0 million.

Chart: Key changes of EBIT in Retail Sale



*Item other revenues and cost of merchandise and materials sold includes mainly distribution services.*



### 2.3.6. Other Operations

in PLN million	2013	2012	% change
Sales revenues	1,838.2	1,745.7	5%
EBIT	29.1	-114.3	-
EBITDA	145.0	-1.8	-
Capital expenditures	177.9	135.8	31%

Growth of EBIT **by PLN 143.4 million** mainly resulted from:

- Higher result on other operations; in 2012 Exatel S.A. created provision for claim by company Taifun Real;
- Wider range of ancillary services (construction works, repairs, modernisations) rendered by the companies from the segment to companies from other segments of PGE Capital Group and to external contractors.

#### Capital expenditures

Capital expenditures in Other Operations in 2013 were mainly incurred by:

- Exatel S.A. – for telecommunication infrastructure development PLN 58.9 million;
- PGE Systemy S.A. – for IT infrastructure development PLN 48.2 million.

Other capital expenditures were mostly related to ancillary services.



## 2.4. Financial results of PGE Capital Group

Key financial data	Unit	2013	2012	% change
Sales revenues	PLN thousand	30,144,855	30,481,076	-1%
<b>EBIT</b>	<b>PLN thousand</b>	<b>5,060,441</b>	<b>4,377,759</b>	<b>16%</b>
<b>EBITDA</b>	<b>PLN thousand</b>	<b>8,024,869</b>	<b>7,310,135</b>	<b>10%</b>
Net profit attributable to equity holders of the parent company	PLN thousand	4,118,469	3,616,254	14%
LTC compensations	PLN thousand	637,718	1,526,930	-58%
<i>Revenues from LTC compensations</i>	<i>PLN thousand</i>	<i>300,826</i>	<i>1,327,301</i>	<i>-77%</i>
<i>Reversal of provisions for LTC (other operating revenues)</i>	<i>PLN thousand</i>	<i>336,892</i>	<i>199,629</i>	<i>69%</i>
<b>Capital expenditures</b>	<b>PLN thousand</b>	<b>4,356,560</b>	<b>4,823,432</b>	<b>-10%</b>
Net cash from operating activities	PLN thousand	7,941,260	7,410,863	7%
Net cash from investing activities	PLN thousand	-5,716,948	-2,519,014	127%
Net cash from financial activities	PLN thousand	-1,066,581	-4,142,841	-74%
Net earnings per share	PLN	2.20	1.93	14%
Working capital	PLN thousand	5,222,574	4,079,469	28%
<b>EBITDA margin</b>	<b>%</b>	<b>26.6%</b>	<b>24.0%</b>	
Net debt/LTM EBITDA*	x	-0.39x	-0.34x	

\*LTM EBITDA – Last Twelve Months EBITDA

### 2.4.1. Consolidated statement of comprehensive income

Total **sales revenues** of the Group in 2013 amounted to PLN 30,144.9 million as compared to PLN 30,481.1 million in 2012, what means decrease by approx. 1%.

Decrease of revenues by PLN 336.2 million was mainly caused by:

- decrease of revenues from LTC PLN (-) 1,026.5 million;
- decreased revenues from sales of certificates of energy origin PLN (-) 235.5 million.

This decrease was partly offset by:

- increased revenues from sales of electricity PLN (+) 823.6 million.

**Cost of goods** sold in 2013 amounted to PLN 23,370.1 million, what means growth by approximately 7% as compared to 2012.

The increase of the cost of goods sold by PLN 1,607.9 million was mainly caused by:

- increased merchandise and materials sold PLN 1,648.2 million;
- increased costs of fees for CO<sub>2</sub> emission PLN 1,300.0 million.

This growth was partly compensated by:

- lower costs of production fuel used PLN (-) 667.7 million;
- lower personnel expenses PLN (-) 521.1 million;
- lower costs of transmission services PLN (-) 186.1 million.

**Gross profit on sales** in 2013 amounted to PLN 6,774.8 million as compared to PLN 8,718.9 million in 2012, what means decrease by approximately 22%.

In 2013 total **distribution and selling expenses** of PGE Group amounted to PLN 1,244.1 million and were lower by approximately 17% as compared to 2012. The decrease of selling and distribution expenses was mainly associated with lower costs of redemption of property rights incurred by PGE Obrót S.A.

**General and administrative expenses** in 2013 amounted to PLN 795.4 million, what means approximately 4% growth as compared to 2012.

Result on **other operating activities** in 2013 was positive and amounted to PLN 325.1 million in comparison to the negative result of PLN (-) 2,080.7 million in 2012.

**Other operating revenues** of the Group in 2013 amounted to PLN 1,025.9 million, what means approximately 31% growth in relation to PLN 782.7 million achieved in 2012.

Increase of operating revenues by PLN 243,2 million mainly resulted from:

- recognition of change of provision for rehabilitation of land as a result of discount rate adjustment PLN 225.8 million;
- increase of adjustment of revenues from LTC compensations PLN 137.3 million;
- lower level of provisions reversed PLN (-) 152.3 million.



**Other operating expenses** in 2013 amounted to PLN 700.7 million as compared to PLN 2,863.4 million in 2012, what means a decrease by approximately 76%.

Decrease of operating expenses by PLN 2,162.7 million mainly resulted from:

- decrease in impairment allowances raised for other assets PLN (-) 1,329.3 million;
- lack of recognition in other operating expenses in 2013 of result of revaluation of provision for rehabilitation of land PLN (-) 886.2 million.

In 2013 **result on financial activities** was negative and amounted to PLN (-) 0.3 million, in comparison to positive result in amount of PLN 245.8 million in 2012.

The Group's **financial revenues** in 2013 amounted to PLN 313.9 million, what means decrease by approximately 49% in relation to PLN 613.0 million achieved in 2012.

The decrease of financial revenues by PLN 299.1 million mainly results from:

- lower interest from financial instruments PLN (-) 170.9 million;
- lower revenues from foreign exchange translations on financial instruments PLN (-) 92.4 million;
- lower profit on investment disposal PLN (-) 43.2 million;
- lower revenues from reversal of provisions PLN (-) 32.5 million.

The Group's **financial expenses** in 2013 amounted to PLN 314.2 million, what means decrease by approximately 14% in relations to PLN 367.1 million achieved in 2012.

Lower financial expenses by PLN 52.9 million was caused mainly by:

- decrease of impairment allowance of financial instruments (-) 64.7 million;
- decrease of costs of negative foreign exchange translations on financial instruments PLN (-) 46.4 million;

This decrease was partly offset by:

- increase of provisions raised (mainly due to claims for interests related to delayed payment of dividend by PGE GiEK S.A.) PLN 35.5 million;
- higher interest expenses due to discount unwinding PLN 32.3 million.

As a result of the factors discussed above, the **gross profit** of the Group in 2013 amounted to PLN 5,059.2 million as compared to PLN 4,610.0 million in 2012.

In 2013 **gross profit margin** of the Group (gross profit to total sales revenues) increased to 21% from 15% in 2012.

The **net profit** of the PGE Capital Group in 2013 amounted to PLN 4,143.2 million as compared to PLN 3,644.2 million in 2012.

**Net profit attributable to the equity holders of the parent company** increased in 2013 by PLN 502.2 million as compared to 2012 and amounted to PLN 4,118.5 million.

**Total comprehensive income** of the Group in 2013 amounted to PLN 4,396.5 million, as compared to PLN 3,478.6 million in 2012.



## 2.4.2. Consolidated statement of financial position

As at December 31, 2013 and as at December 31, 2012, **non-current assets** of the Group amounted to respectively PLN 47,738.2 million and PLN 45,406.7 million.

Increase in value of non-current assets by PLN 2,331.5 million was mainly caused by:

- Capital expenditures incurred for property, plant and equipment and intangible assets including:
  - in PGE GiEK S.A. PLN 2,717.7 million;
  - in PGE Dystrybucja S.A. PLN 1,334.9 million;
- Recognition of acquisition of companies from DONG group and of Iberdrola Renewables Polska sp. z o.o. PLN 1,086.7 million;
- Increased advances for construction in progress PLN 259.4 million;
- Depreciation charges on fixed assets PLN (-) 2,891.0 million;
- Recognition of impairment of assets of Elektrownia Dolna Odra, Elektrociepłownia Pomorzany and Elektrociepłownia Zgierz PLN (-) 342.9 million.

**Current assets** of the Group as at December 31, 2013 and as at December 31, 2012 amounted respectively to PLN 13,013.1 million and PLN 11,296.9 million.

The increase of the value of the Group's current assets by PLN 1,716.2 million was mainly caused by:

- Increased cash and cash equivalents PLN 1,156.5 million;
- increase in greenhouse gases emission rights PLN 612.6 million;
- increased trade receivables PLN 297.4 million;
- lower inventory PLN (-) 516.2 million.

Changes in cash and cash equivalents were described in the part relating to cash flow statement.

Increase in greenhouse gases emission rights results mainly from purchase of CO<sub>2</sub> emission rights for the own needs of PGE GiEK S.A.

Decrease in inventory results from lower value of certificates of energy origin, repair and exploitation materials and CO<sub>2</sub> emission rights held for trading.

As at December 31, 2013 and as at December 31, 2012 total **equity of the Group** amounted respectively to PLN 43,648.3 million and PLN 41,011.3 million.

**Non-controlling interest** as at December 31, 2013 and as at December 31, 2012 amounted respectively to PLN 266.3 million and PLN 294.4 million.

The increase in total equity by PLN 2,637.0 million mainly resulted from:

- Recognition of the net profit for year 2013 PLN 4,143.2 million;
- allocation of part of the retained earnings and reserve capital for dividend payment PLN (-) 1,610.0 million.



The **long-term liabilities** as at December 31, 2013 and as at December 31, 2012 amounted respectively to PLN 9,312.5 million and 8,474.9 million.

Growth of long-term liabilities by PLN 837.6 million was mainly caused by:

- increase of bank loans, borrowings, bonds and lease PLN 908.6 million;
- increase of deferred tax liability PLN 117.6 million;
- decreased long-term provisions PLN (-) 233.4 million.

Growth of bank loans, borrowings, bonds and lease is associated with the issue of bonds in amount of PLN 1,000.0 million.

Increase of deferred tax liability results from higher difference between tax and carrying value of property, plant and equipment.

Drop in long-term provisions results mainly from decrease of valuation of provisions for employee benefits by PLN 264.5 million.

The **short-term liabilities** as at December 31, 2013 and as at December 31, 2012 amounted respectively to PLN 7,790.5 million and PLN 7,217.4 million.

Growth of short-term liabilities by PLN 573.1 million mainly resulted from:

- increased short-term provisions PLN 726.6 million;
- increase of other financial liabilities PLN 397.8 million;
- decrease of short-term part of interest-bearing loans, borrowings, bonds and lease PLN (-) 283.6 million;
- lower trade liabilities PLN (-) 267.0 million.

Increase in short-term provisions mainly results from provision raised for the purchase of CO<sub>2</sub> emission rights that was compensated by using the provision for property rights and using of provision for third party claims.

Increase of other financial liabilities mainly results from higher liabilities related to LTC. This growth was partly compensated by decrease of investment liabilities related to purchase of property, plant and equipment and intangible assets.

Decrease of short-term part of interest-bearing loans, borrowings, bonds and lease results from lower value of current account credits of the Group companies.



### 2.4.3. Consolidated statement of cash flows

**Cash and cash equivalents** as at December 31, 2013 amounted to PLN 5,947.6 million and were higher than at the end of 2012 by PLN 1,157.7 million.

**The total net cash flow from operating activities** for the 12-month period ended December 31, 2013 amounted to 7,941.3 million as compared to PLN 7,410.9 million for the 12-month period ended December 31, 2012.

**Negative net cash flow from investing activities** for the 12-month period ended December 31, 2013 amounted to PLN 5,716.9 million as compared to negative net cash flow in amount of PLN 2,519.0 million for the 12-month period ended December 31, 2012.

The level of **cash flow from investing activities** for the 12-month period ended December 31, 2013 was mainly affected by:

- expenses for the purchase of property, plant and equipment and intangible assets PLN (-) 4,618.9 million;
- acquisition/sale of subsidiaries after deduction of acquired cash PLN (-) 1,063.2 million.

**Negative net cash flow from financial activities** for the 12-month period ended December 31, 2013 amounted to PLN 1,066.6 million as compared to negative net cash flow in amount of PLN 4,142.8 million for the 12-month period ended December 31, 2012.

Cash flow from financial activities for the 12-month period ended December 31, 2013 was mainly affected by:

- dividend paid to the shareholders PLN (-) 1,611.0 million;
- balance of proceeds/repayments from/of bank loans, borrowings, bonds and finance lease PLN 613.4 million.

#### 2.4.4. Geographical areas

Table: Breakdown of Group's income from continuing operations, by geographic area, in 2013 and 2012.

in PLN million	Total income				
	2013	% share	2012	% share	% change
Domestic market	29,478.1	98%	29,975.7	98%	-2%
EU member states	652.3	2%	487.9	2%	34%
Other countries	14.5	0%	17.5	0%	-17%
<b>Total</b>	<b>30,144.9</b>	<b>100%</b>	<b>30,481.1</b>	<b>100%</b>	<b>-1%</b>

In the years 2012 and 2013, the Group earned income mainly in the domestic market. Changes with regard to revenues from sales are described in *p. 2.4.1. Consolidated statement of comprehensive income* of this report.

Increase of revenues from EU member states resulted mainly from higher sales of electricity by PGE S.A. in bilateral contracts.



## 2.5. Transactions with related entities

Information about transactions with related entities is presented in Note 41 to the consolidated financial statements.

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

As at December 31, 2013 PGE S.A. and its subsidiaries were not a party of any proceedings concerning payables or debts whose total value would constitute at least 10% of the Company's equity, except for applications filed by generators from PGE Group to confirm excise tax overpayment and tax return together with interest for the years 2006-2008 and the first two months of 2009. Total overpaid tax to be returned to the PGE Group companies may amount to approximately PLN 3.4 billion, excluding interest (the generators are entitled to interest on overpaid excise tax, accrued from the date of payment of the overstated tax). PGE Group entities are convinced of the merits of the claim, however taking into account the current practice of the tax authorities and court verdicts, refund of overpaid tax should be considered unlikely.

Significant proceedings pending in front of courts, competent arbitration authority or public administration authority are described in Note 20 to the consolidated financial statements.

## 2.7. Publication of financial forecasts

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

## 2.8. 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
<b>Fee of KPMG Audyt Sp. z o.o., including:</b>	<b>296.6</b>	<b>296.6</b>
Audit and reviews of the financial statements	279.6	279.6



In 2013 KPMG Audyt Sp. z o.o. also audited financial statements of other PGE Capital Group companies, i.e.: PGE GiEK S.A. (holding with self-balancing branches), PGE Energia Jądrowa S.A. (before merger with PGE S.A.) , PGE EJ 1 sp. z o.o., Exatel S.A., PGE Systemy S.A., Elbis sp. z o.o. The total fees payable from the above audits amounted to PLN 622.2 thousand.

In 2012 KPMG Audyt Sp. z o.o. also audited financial statements of other PGE Capital Group companies, i.e.: PGE Górnictwo i Energetyka Konwencjonalna S.A. (holding with self-balancing branches), PGE Energia Jądrowa S.A., PGE EJ 1 sp. z o.o., Exatel S.A., PGE Systemy S.A., Elbis sp. z o.o. The total fees payable from the above audits amounted to PLN 723.6 thousand.



## 2.9. 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.

### 2.9.1. 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.

## 2.9.2. Net debt of the Group and main financial ratios

Table: Group's net debt as at December 31, 2013 and 2012.

In PLN million	December 31, 2013	December 31, 2012
A. Cash <sup>(1)</sup>	578.3	639.6
B. Cash equivalents	4,970.6	3,755.2
C. Securities held for trading and available for sale <sup>(2)</sup>	4.1	3.8
<b>D. Liquidity (A) + (B) + (C)</b>	<b>5,553.0</b>	<b>4,398.6</b>
<b>E. Investments held to maturity and loans and receivables</b>	<b>100.0</b>	<b>10.6</b>
F. Short-term debt with banks and current part of long-term debt <sup>(4)</sup>	525.9	809.3
G. Other short-term financial debt <sup>(6)</sup>	1.9	2.2
<b>H. Short-term financial debt (F) + (G) <sup>(5)</sup></b>	<b>527.8</b>	<b>811.5</b>
<b>I. Short-term financial debt, net (H) - (D) - (E)</b>	<b>(5,125.2)</b>	<b>(3,597.7)</b>
J. Long-term bank loans and advances	992.0	1,083.0
K. Bonds issued	1,000.0	0.0
L. Other long-term loans and advances or other commitments <sup>(6)</sup>	1.9	2.3
<b>M. Long-term financial debt (J) + (K) + (L) <sup>(5)</sup></b>	<b>1,993.9</b>	<b>1,085.3</b>
<b>N. Net financial debt (I) + (M)</b>	<b>(3,131.3)</b>	<b>(2,512.4)</b>

### Comments:

Excluding restricted cash, attributable primarily to:	
1.	<ul style="list-style-type: none"> <li>funds received as guarantee for due performance of the contract for construction of units in Opole power plant and Bełchatów power plant;</li> <li>funds as collaterals for settlements of PGE Group entities with Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Clearing House ) and WSE platform for electricity trading (poe RE GPW);</li> <li>the Mining Liquidation Fund and Mine Rehabilitation Fund</li> </ul>
2.	Including stocks listed in active markets, participation units in investment funds classified as financial assets available for sale and acquired bonds, bills of exchange, bills and participation units in investment funds classified as assets held for trading
3.	Including short-term acquired bonds, bills of exchange, bills classified as investments held to maturity, acquired bonds, bills of exchange and bills, loans granted and deposits classified as loans and receivables
4.	Including loans and bonds
5.	Excluding other financial commitments measured at depreciated cost
6.	Including payables under lease and lease repo agreements



Table: Key financial ratios

	For years ended December 31,	
	2013	2012*
<b>Return on sales ROS (in %)</b>		
Net profit x 100% / sales revenues	13.74%	11.95%
<b>Return on equity ROE (in %)</b>		
Net profit x 100% / (equity – net profit)	10.49%	9.75%
<b>Debtor's days</b>		
Average trade receivables (gross) x 365 days / sales revenues	28	25
<b>Debt ratio (in %)</b>		
Liabilities x 100% / total equity and liabilities	28.15%	27.67%
<b>Current ratio</b>		
Current assets / short-term liabilities	1.7	1.6

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\* data restated

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



### 2.9.3. 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.



#### 2.9.4. Bank loans and advances

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

Company	Branch	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
PGE GiEK S.A.	Headquarters	PEKAO S.A.	current account credit	2013-12-10	2016-12-10	200,000,000	PLN	floating
PGE GiEK S.A.	Headquarters	WFOŚiGW in Wrocław	loan	2013-12-13	2019-12-16	104,264,500	PLN	fixed
PGE GiEK S.A.	Headquarters	WFOŚiGW in Łódź	loan	2013-12-20	2022-05-31	50,000,000	PLN	fixed
PGE GiEK S.A.	Headquarters	NFOŚiGW in Warsaw	loan	2013-12-23	2024-09-30	50,000,000	PLN	floating
PGE GiEK S.A.	Headquarters	NFOŚiGW in Warsaw	loan	2013-12-23	2024-09-30	50,000,000	PLN	floating



PGE GiEK S.A.	Headquarters	WFOŚiGW in Opole	loan	2013-06-20	2018-09-15	17,500,000	PLN	floating
PGE GiEK S.A.	Headquarters	WFOŚiGW in Opole	loan	2013-06-20	2019-06-15	13,750,000	PLN	floating
PGE GiEK S.A.	Headquarters	WFOŚiGW in Opole	loan	2013-06-20	2020-06-15	13,750,000	PLN	floating
PGE Energia Natury Omikron sp. z o.o.		Dong Energy Polska S.A.	loan	2013-07-10	2013-07-12	145,290,000	PLN	fixed
PGE Energia Natury Kappa sp. z o.o.		Dong Energy Polska S.A.	loan	2013-07-10	2013-07-12	50,620,000	PLN	fixed
PGE Energia Natury PEW sp. z o.o.		Dong Energy Polska S.A.	loan	2013-07-10	2013-07-12	22,300,000	PLN	fixed
PGE Dystrybucja S.A.	Zamość	WFOŚiGW	loan	2013-09-04	2015-11-30*	767,000*	PLN	floating

\*amount of the agreement was changed by the annex of November 20, 2013 from PLN 767,000 to PLN 565,760

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

Company	Branch	Party of an agreement	Type of financing	Agreement signing date (yyyy-mm-dd)	Maturity date (yyyy-mm-dd)	Annex signing date (yyyy-mm-dd)	Amount	Currenc y code	Fixed/ floating rate
PGE GiEK S.A.	Headquarter s	WFOŚiGW in Łódź	loan	2012-12-20	2019-09-30	2013-10-21	49,000,000	PLN	fixed
PGE GiEK S.A.	Headquarter s	WFOŚiGW in Łódź	loan	2012-12-20	2019-09-30	2013-12-13	49,000,000	PLN	fixed
PGE GiEK S.A.	Headquarter s	WFOŚiGW in Opole	loan	2011-11-04	2015-12-16	2013-11-12	13,200,000	PLN	floating
PGE EO S.A.	Headquarter s	WFOŚiGW in Wrocław	loan	2012-05-31	2020-09-16	2013-12-02	12,800,000	PLN	fixed



PGE Energia Natury Omikron sp. z o.o.		PGE S.A.	loan	2013-07-10	2013-09-30	2013-09-12	145,600,000	PLN	fixed
PGE Energia Natury Kappa sp. z o.o.		PGE S.A.	loan	2013-07-10	2013-09-30	2013-09-12	50,700,000	PLN	fixed
PGE Energia Natury PEW sp. z o.o.		PGE S.A.	loan	2013-07-10	2014-04-30	2013-09-12	22,400,000	PLN	fixed
PGE Dystrybucja S.A.	Łódź-Miasto	WFOŚiGW	loan	2012-12-28	2014-12-31	2013-05-09	2,267,100	PLN	fixed
PGE Dystrybucja S.A.	Zamość	WFOŚiGW	loan	2013-09-04	2015-11-30	2013-11-20	565,760	PLN	floating
PGE Dystrybucja S.A.	Łódź-Miasto	WFOŚiGW	loan	2012-12-31	2015-01-01	2013-04-18	499,103	PLN	fixed

Table: Loans terminated by the Group companies in 2013

Company	Branch	Party of an agreement	Type of financing	Agreement signing date (yyyy-mm-dd)	Maturity date (yyyy-mm-dd)	Termination date (yyyy-mm-dd)	Amount	Currency code	Fixed/floating rate
PGE GiEK S.A.	Headquarters	WFOŚiGW in Szczecin	loan	2009-08-10	2019-03-31	2013-03-29	5,707,500	PLN	fixed

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



### 2.9.5. Loans granted

In 2013, PGE S.A. and Group companies 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
PGE S.A. and Energa Hydro sp. z o.o.	EPW Energia Olecko sp. z o.o.	2013-09-25	2014-06-30	2,000,000	PLN	fixed



PGE GiEK S.A.	MegaSerwis sp. z o.o.	2013-04-26	2014-11-30	5,400,000	PLN	floating
PGE GiEK S.A.	GKS Bełchatów SSA	2013-10-10	2013-12-31	1,100,000	PLN	floating
PGE Energia Naturity S.A.	PGE Energia Naturity Omikron sp. z o.o.	2013-07-10	2013-07-12	145,290,000	PLN	fixed
PGE Energia Naturity S.A.	PGE Energia Naturity Kappa sp. z o.o.	2013-07-10	2013-07-12	50,620,000	PLN	fixed
PGE Energia Naturity S.A.	PGE Energia Naturity PEW sp. z o.o.	2013-07-10	2013-07-12	22,300,000	PLN	fixed



## 2.9.6. Guarantees

The total amount of guarantees granted by the companies of the PGE Capital Group and mandatory on December 31, 2013 amounted to EUR 7.6 million, CZK 30.0 million and PLN 1.1 million.

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
PGE GiEK S.A.	ELTUR TRANS sp. z o.o.	BP Polska S.A.	2009-11-24	2014-11-23	Corporate guarantee	1,100,000	PLN
PGE EO S.A.	Eolica Wojciechowo sp. z o.o.	Vestas Poland sp. z o.o.	2013-02-19	2014-09-30	Corporate guarantee	3,242,526	EUR

The total amount of guarantees received by the companies of the PGE Capital Group and mandatory on December 31, 2013 amounted to more than PLN 1,535.9 million and EUR 117.1 million. Guarantees were received in connection with day-to-day operations and included mainly: performance bonds, tender fee guarantees and guarantees of payment.



Table: Main guarantees in EUR received and valid as at December 31, 2013

Company	Guarantee issuer	Issuer related entity	Entity for whose liabilities a guarantee was issued	Type of guarantee	Date of a guarantee (yyyy-mm-dd)	Beginning date of a guarantee (yyyy-mm-dd)	Maturity of a guarantee (yyyy-mm-dd)	Value of guarantee	Currency code
PGE S.A.	EDF Polska S.A.	NO	EDF Energia sp. z o.o.	Corporate guarantee		2012-05-09	2014-03-31	50,000,000	EUR
PGE S.A.	Vattenfall AB	NO	Vattenfall Energy Trading GmbH	Corporate guarantee		2013-04-22	2016-01-31	5,000,000	EUR
PGE GiEK S.A.	Societe Generale S.A.	NO	Alstom Power Systems S.A. Alstom Power sp. z o.o. Alstom Power Systems GmbH	Guarantee	2013-03-26	2013-03-26	2014-09-29	42,050,365	EUR
PGE GiEK S.A.	Societe Generale S.A.	NO	Alstom Power Systems S.A. Alstom Power sp. z o.o. Alstom Power Systems GmbH	Guarantee	2013-03-26	2013-03-26	2014-09-29	3,128,997	EUR



Table: Main guarantees in PLN received and valid as at December 31, 2013

Company	Guarantee issuer	Issuer related entity	Entity for whose liabilities a guarantee was issued	Type of guarantee	Date of a guarantee (yyyy-mm-dd)	Beginning date of a guarantee (yyyy-mm-dd)	Maturity of a guarantee (yyyy-mm-dd)	Value of guarantee	Currency code
PGE S.A.	ENERGA S.A.	NO	ENERGA-OBRÓT S.A.	Corporate guarantee		2013-04-30	2016-06-30	500,000,000	PLN
PGE S.A.	Alpiq Holding Ltd.	NO	Alpiq Energy SE	Corporate guarantee		2012-03-13	2016-02-15	20,000,000	PLN
PGE GiEK S.A.	Bank Pekao S.A.	NO	Siemens sp. z o.o., Siemens Industrial Turbomachinery AB	Refundment guarantee	2013-11-12	2013-11-26	2016-05-28	69,150,354	PLN
PGE GiEK S.A.	Skandinaviska Enskilda Banken AB (Spółka Akcyjna) - Branch in Poland	NO	Babcock Noell GmbH, Bilfinger Infrastructure S.A.	Performance bond	2013-09-10	2013-07-25	2019-01-14	62,449,293	PLN
PGE GiEK S.A.	Skandinaviska Enskilda Banken AB (Spółka Akcyjna) - Branch in Poland	NO	Babcock Noell GmbH, Bilfinger Infrastructure S.A.	Performance bond	2013-09-13	2013-09-13	2016-05-31	62,449,293	PLN



PGE GiEK S.A.	Bank Pekao S.A.	NO	Siemens sp. z o.o., Siemens Industrial Turbomachinery AB	Performance bond	2013-10-03	2013-10-03	2016-03-02	56,219,800	PLN
PGE GiEK S.A.	Deutsche Bank Polska S.A.	NO	Babcock Borsig Steinmuller GmbH	Guarantee	2013-01-31	2013-01-31	2015-07-20	51,706,125	PLN
PGE GiEK S.A.	Skandinaviska Enskilda Banken AB (Spółka Akcyjna) - Branch in Poland	NO	Babcock Borsig Steinmuller GmbH	Guarantee	2012-09-12	2012-09-12	2015-02-13	50,497,650	PLN
PGE GiEK S.A.	Skandinaviska Enskilda Banken AB (Spółka Akcyjna) – Branch in Poland	NO	Babcock Borsig Steinmuller GmbH	Guarantee	2012-06-28	2012-06-28	2016-10-21	45,878,736	PLN
PGE GiEK S.A.	Deutsche Bank Polska S.A.	NO	Babcock Borsig Steinmuller GmbH	Guarantee	2013-09-05	2013-09-05	2017-03-25	41,697,000	PLN



#### 2.9.7. Significant off-balance sheet items

Significant off-balance sheet items are described in Note 38 and 39 to the consolidated financial statements.

#### 2.9.8. Evaluation of investment capacities

On-going and future investments are and will be financed from funds generated by the core activity of the PGE Group, funds obtained from the issue of bonds and from external financing. Financial results achieved by the PGE Group and debt level in 2013 confirm that the Group 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, CO<sub>2</sub> 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 CO<sub>2</sub> emissions reduction

As of January 1, 2013 the CO<sub>2</sub> 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 CO<sub>2</sub> emission rights. On January 22, 2014, the European Commission accepted the Polish plan assuming the allocation of 404.6 million of CO<sub>2</sub> 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 CO<sub>2</sub> 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 CO<sub>2</sub> reduction target, in particular after 2020. In accordance with the 2008 climate package, the European Union and the Member States undertook to reduce their CO<sub>2</sub> 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 CO<sub>2</sub> emission reductions and the share of energy generated from renewable sources. According to the assumptions, the binding CO<sub>2</sub> 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% CO<sub>2</sub> 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 CO<sub>2</sub> 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 CO<sub>2</sub>

Operations conducted by the companies of the Group, including in particular electricity and heat generation, are connected with emissions of not only CO<sub>2</sub>, but also NO<sub>x</sub>, SO<sub>2</sub>, 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<sub>x</sub>, SO<sub>2</sub> 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;
- CO<sub>2</sub> 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 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 CO<sub>2</sub> 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

Other significant events of the reporting period and the significant event having impact on the Group's activities, that occurred after the end of the reporting period until the date of approval of the financial statements, are described below (additionally see Note 45 to the consolidated financial statements).

### 4.1. Activities related to nuclear energy

#### Environmental and site characterization

On February 7, 2013 PGE EJ1 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 EJ1 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 EJ 1 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.

## 4.2. Decisions of the President of the Energy Regulatory Office related to realisation of LTC Act

As it was described in the previous reports, some generating entities of PGE GiEK S.A. became entitled to receive funds to cover stranded costs (so-called "LTC compensation") pursuant to the Act of June 29, 2007 on the Rules of Coverage of Costs Occurring at Production Plants as a Consequence of Early Termination of Long-Term Power and Electricity Sales Contracts (Journal of Laws No. 130, item 905, of 2007) (the "LTC Act"). The LTC Act is ambiguous in many points and raise important questions of interpretation. The calculation of the estimated results of each entity and resulting compensations, annual adjustments of stranded costs and final adjustments as well as resulting revenues recognized in the statement of comprehensive income was performed by the Group with the best of its knowledge in this area and with support of external experts.

In the previous years entitled producers from PGE Group received decisions on annual adjustments of stranded costs and costs related to natural gas fired entities for 2008-2012. The majority of these decisions were disadvantageous for the particular entities and the Group believes that they were issued in violation of the Long-Term Contracts Act. As a consequence, since 2009, a number of proceedings have been pending before the Regional Court in Warsaw - Competition and Consumer Protection Court ("CCP Court") and before the Court of Appeal concerning appeals by PGE Group producers against the Decision of the President of the Energy Regulatory Office. These proceedings are currently at various levels of advancement.

LTC court cases are presented below:

#### **Annual adjustment of the stranded costs for 2008**

In 2013, three cases with a total claim value of PLN 247.8 million were closed with verdicts that are final and valid, including verdicts favourable for PGE GiEK S.A. with a claim value of PLN 245.9 million. In one of the above cases the ERO President filed a cassation appeal (claim value of PLN 178.8 million). Additionally, two cassation appeals were examined by the Supreme Court with verdicts favourable for the company (claim value of PLN 22.3 million).

#### **Annual adjustment of the stranded costs and costs related to natural gas fired entities for 2009.**

In 2013 three cases with a total claim value of PLN 308.8 million were closed with final and valid verdicts that are favourable for PGE GiEK S.A. (in two cases the ERO President filed cassation appeals). Total claim value amounts to PLN 672.9 million. With regard to gas costs the CCP Court issued following verdicts in 2013:

- Verdict favourable in case of Rzeszów CHP - the ERO President appealed against the verdict, claim value is PLN 3.8 million.
- Verdict partially unfavourable in case of Lublin Wrotków CHP – the company appealed against the unfavourable part of the verdict, claim value is PLN 7.0 million.

#### **Annual adjustment of the stranded costs and costs related to natural gas fired entities for 2010.**

In 2013, the CCP Court issued a verdict favourable for the company with regard to the stranded costs (the verdict does not Opole power plant where a separate case is conducted). the ERO President appealed against the verdict. Claim value amounts to PLN 393.5 million.

On November 29, 2013 the CCCP issued a verdict in a case related to annual adjustment of gas costs for 2010 for PGE GiEK S.A. The court partially acknowledged the appeal of the company. The verdict is not final and binding. On December 30, 2013 the ERO President appealed against the part of the verdict that was unfavourable for the ERO. On January 13, 2014 the company appealed to the Appeal Court with regard to the part of the verdict that was unfavourable for the company. The claim value in this case amount to PLN 4.4 million.

#### **Annual adjustment of the stranded costs and costs related to natural gas fired entities for 2012.**

The company appealed against the ERO President decision with regard to adjustment of costs of use of collected natural gas and not collected in Elektrociepłownia Rzeszów. Total claim value amounts to PLN 7.4 million.

#### **Impact on the statements for 2013**

The Court of Appeal verdicts in cases of Branch Elektrociepłownia Gorzów, Branch Elektrownia Opole, Branch Elektrociepłownia Lublin Wrotków, Branch Zespół Elektrowni Dolna Odra and final and binding verdict of the CCCP in case of Branch Elektrownia Turów resulted in adjustment of settlement of LTC compensation in amount of PLN 336.9 million in the financial statements for the period ended Decemebr 31, 2013. The value of the adjustment was recognised in other operating revenues in statement of comprehensive income.

## Other information

Claim value in all cases related to years 2008 – 2012 amounts to PLN 1,660.3 million, including claim value in cases with favourable verdicts of the Court of Appeal and favourable final and binding verdict of the CCCP – PLN 741.5 million.

On August 29, 2013 the Management Board of PGE GiEK S.A. submitted to the ERO President an application for an advance for generating units: Branch Elektrownia Turów and Branch Elektrownia Opole for an aggregate amount of PLN 299.4 million.

On December 9, 2013 the CCCP held a case for appeal of PGE GiEK S.A. against the decision of the ERO President of March 16, 2012. In that decision the ERO President refused to issue a decision on the final adjustment of stranded costs for Gorzów CHP before December 16, 2016. The court issued a verdict unfavorable for PGE GiEK S.A. and dismissed the appeal of the company. The judgment is not final. On January 10, 2014, the company appealed to the Court of Appeal.

## 4.3. Description of material agreements

### 4.3.1. Conclusion of material agreement on hard coal supply for period 2014-18

On August 12, 2013 PGE GiEK S.A. concluded an agreement with Kompania Węglowa S.A. for hard coal supplies. Subject matter of the agreement ("Agreement") is supply of hard coal by Kompania Węglowa S.A. for power plants within PGE Group for 2014-2018. The net value of Agreement amounts to approx. PLN 5.6 billion.

Price of hard coal for consecutive years within the Agreement is determined on the ground of factors regarding the average electricity price and average market price of hard coal.

The aggregate value of contractual penalties shall not exceed 10% of the non-delivered supply volumes based on the Agreement. PGE GiEK S.A. may seek compensation claims on general basis exceeding the value of contractual penalties.

### 4.3.2. Conclusion of material agreement for coal supply for the needs of Investment Project Opole II

On August 13, 2013 PGE GiEK S.A. concluded an agreement with Kompania Węglowa S.A. for hard coal supplies, in the period 2018 - 2038. Subject matter of the agreement ("Agreement") is supply of hard coal by Kompania Węglowa S.A. for the needs of Units 5&6 at Opole Power Plant, if Project Opole II is completed.

Conclusion of the Agreement is intended to limit certain risks related to realization of the Project Opole II. Estimated net value of the Agreement amounts from app. PLN 16 billion to app. PLN 22 billion, dependent on the delivered volumes.

Price of hard coal for consecutive years within the Agreement is determined on factors of the average electricity price, average market price of hard coal and average cost of carbon dioxide emission rights.

Start of hard coal delivery is conditional on the commencement of the Project Opole II. PGE GiEK S.A. is entitled to retract from the Agreement before September 30, 2020.



The aggregate value of contractual penalties shall not exceed 10% of the non-delivered supply volumes based on the Agreement. PGE GiEK S.A. may seek compensation claims on general basis exceeding the value of contractual penalties.

#### 4.3.3. Conclusion of an agreement for establishment by PKO BP of a guarantee limit for PGE GiEK. Fulfillment of material agreement criteria.

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 2,548,607,358. 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.

The Agreement provides for the award on behalf of PGE GiEK:

- guarantee of payment to a maximum value of PLN 1,300,309,875 (PGE GiEK 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 is valid for a period of 67 months from the date of its conclusion.

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).

The agreement does not provide for contractual penalties.

During the 12 months preceding the conclusion of the above agreement, PGE S.A. and its subsidiaries concluded a number of agreements with PKO BP, that jointly met the criteria of a material agreement. The aggregate value of the mentioned agreements amounted to approximately PLN 3.1 billion. The agreements are considered as material, since their aggregate value exceeded value of 10% of PGE's equity.

#### 4.3.4. Conclusion of an agreement for the construction of CCGT unit in Gorzów CHP. Conclusion of a material agreement for gas supplies.

Due to the conclusion by PGE GiEK S.A. of an agreement for the construction of a combined cycle gas turbine unit (“CCGT unit”) in Branch Elektrociepłownia Gorzów, on October 3, 2013 PGE GiEK S.A. also concluded the agreement for the supply of natural gas with Polskie Górnictwo Naftowe i Gazownictwo S.A. Its subject matter is sale of nitrogen-rich gas extracted from PGNiG deposits to the new CCGT unit in Gorzów CHP. The agreement is concluded for a period of 20 years from the date of commencement of gas supply, which is dependent on the commissioning date of the new



unit. The annual volume of supply will amount to 281 million m<sup>3</sup> per year. The estimated net value of the Agreement as at the signing date amounts to approximately PLN 3 billion.

The agreement provides for contractual penalties, which maximum amount may exceed the PLN equivalent of EUR 200,000, including penalties for failure to collect the minimum annual amount of gas and for the necessity to terminate the Agreement due to non-performance or improper performance of the significant obligations by the buyer. If the contractual penalties provided for in the Agreement do not cover any damage suffered, either party may claim additional compensation in excess of these penalties, but only within the limits of the actual loss, except for loss of profit.

#### 4.4. 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.

#### 4.5. Conclusion of agreements for guarantee lines and guarantees for Opole Project

On January 20, 2014 three agreements between PGE GiEK S.A., PGE S.A. and each of the banks mentioned below (jointly "Banks" and separately as "Bank") were concluded:

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

The agreements provide three guarantee limits for the aggregate amount of PLN 3,398,143,144, under which PGE GiEK is entitled to order bank guarantees of payments. The beneficiary of the guarantees will be the general contractor of works associated with the construction of power units No. 5 and 6 in Opole Power Plant (see p. 1.2.1. Development investments in Conventional Generation of this report).

Table: Guarantee lines for Opole Project

Bank	Date of the agreement (yyyy-mm-dd)	Agreement maturity date (yyyy-mm-dd)	Available guarantee limit in PLN
Powszechna Kasa Oszczędności Bank Polski S.A.	2014-01-20	2019-08-20	2,548,607,358
Bank Polska Kasa Opieki S.A.	2014-01-20	2019-08-20	424,767,893
BNP Paribas Bank Polska S.A.	2014-01-20	2019-08-20	424,767,893
<b>Total</b>			<b>3,398,143,144</b>

The agreement provides for security in form of a guarantee by PGE to 120% of the current amount of the guarantee by the Banks.

In connection with the establishing on January 29, 2014 of three guarantees by the Banks for the general contractor for the total amount of PLN 1,733,746,500, PGE S.A. issued guarantees on the terms presented below.

Table: Guarantees for the Opole Project

Guarantor	Type of security	Security for	Beneficiary of the guarantee	Guarantee issued for the liability of	Issue date	Guarantee period		Total value of the guaranteed instrument as at January 31, 2014 in PLN	Value of the guarantee as at January 31, 2014 in PLN
						from	to		
PGE S.A.	Guarantee	bank guarantee of payment	Bank Polska Kasa Opieki S.A.	PGE GiEK S.A.	2014-01-22	2014-01-29	2020-03-20	216,718,312.5	260,061,975
PGE S.A.	Guarantee	bank guarantee of payment	Kasa Powszechna Oszczędności Bank Polski S.A.	PGE GiEK S.A.	2014-01-22	2014-01-29	2020-03-21	1,300,309,875	1,560,371,850
PGE S.A.	Guarantee	bank guarantee of payment	BNP Paribas Bank Polska S.A.	PGE GiEK S.A.	2014-01-22	2014-01-29	2020-03-22	216,718,312.5	260,061,975
								<b>1,733,746,500</b>	<b>2,080,495,800</b>

#### 4.6. 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.

## 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](http://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 Company<sup>1</sup>, 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%
<b>Total</b>	<b>1,869,760,829</b>	<b>1,869,760,829</b>	<b>100.00%</b>

#### 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

<sup>1</sup> 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.

of the Supervisory Board. The Chairperson of the Supervisory Board will be chosen from the persons 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](http://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](http://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 CO<sub>2</sub> 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
<b>Marcin Zieliński</b>	Chairman of the Supervisory Board
<b>Małgorzata Dec</b>	Vice-Chairman of the Supervisory Board
<b>Jacek Barylski</b>	Supervisory Board Member
<b>Maciej Bałtowski</b>	Supervisory Board Member
<b>Czesław Grzesiak</b>	Supervisory Board Member
<b>Grzegorz Krystek</b>	Supervisory Board Member
<b>Katarzyna Prus</b>	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 9<sup>th</sup> term as of June 27, 2013:

Name and surname of the member of the Supervisory Board	Position
<b>Małgorzata Dec</b>	Chairman of the Supervisory Board. On February 28, 2014 resigned from the function of the Chairman and member of the Supervisory Board
<b>Jacek Drozd</b>	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
<b>Jacek Barylski</b>	Supervisory Board Member
<b>Małgorzata Mika – Bryska</b>	Supervisory Board Member
<b>Czesław Grzesiak</b>	Supervisory Board Member
<b>Grzegorz Krystek</b>	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
<b>Anna Kowalik</b>	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 lay 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 fulfill 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
<b>Małgorzata Dec</b>	Chairman of the Committee
<b>Maciej Bałtowski</b>	Committee Member
<b>Grzegorz Krystek</b>	Committee Member
<b>Marcin Zieliński</b>	Committee Member



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

Name and surname	Position
<b>Małgorzata Dec</b>	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
<b>Jacek Drozd</b>	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.
<b>Grzegorz Krystek</b>	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.
<b>Anna Kowalik</b>	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
<b>Katarzyna Prus</b>	Chairman of the Committee
<b>Maciej Bałtowski</b>	Committee Member
<b>Jacek Barylski</b>	Committee Member
<b>Czesław Grzesiak</b>	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. Description of the organization of the PGE Capital Group

Companies comprising the main business segments of PGE Group as at December 31, 2013:

Segment	Company
<b>Conventional Generation</b>	1. PGE Górnictwo i Energetyka Konwencjonalna S.A. 2. Przedsiębiorstwo Energetyki Ciepłej sp. z o.o.
<b>Renewable Energy</b>	3. PGE Energia Odnawialna S.A. 4. Bio-Energia S.A. 5. Pelplin sp. z o.o. 6. Żuromin sp. z o.o. 7. Elektrownia Wiatrowa Baltica-1 sp. z o.o. 8. Elektrownia Wiatrowa Baltica-2 sp. z o.o. 9. Elektrownia Wiatrowa Baltica-3 sp. z o.o. 10. Eolica Wojciechowo sp. z o.o. 11. PGE Energia Natury S.A. 12. PGE Energia Natury sp. z o.o. 13. PGE Energia Natury Karnice sp. z o.o. 14. PGE Energia Natury Bukowo sp. z o.o. 15. PGE Energia Natury Omikron sp. z o.o. 16. PGE Energia Natury Kappa sp. z o.o. 17. PGE Energia Natury PEW sp. z o.o. 18. EPW Energia Olecko sp. z o.o. 19. EPW Energia sp. z o.o.*
<b>Wholesale Trading</b>	20. PGE Polska Grupa Energetyczna S.A. 21. PGE Trading GmbH
<b>Distribution</b>	22. PGE Dystrybucja S.A.
<b>Retail Sales</b>	23. PGE Obrót S.A.

\* PGE S.A. fully consolidates branches of EPW Energia sp. z o.o. controlled by PGE.



As at December 31, 2013 the following PGE Group companies had their branches:

**PGE Górnictwo i Energetyka Konwencjonalna S.A. with its registered office in Bełchatów:**

- Branch Elektrownia Bełchatów,
- Branch Elektrownia Opole,
- Branch Elektrownia Turów,
- Branch Zespół Elektrowni Dolna Odra,
- Branch Kopalnia Węgla Brunatnego Bełchatów,
- Branch Kopalnia Węgla Brunatnego Turów,
- Branch Elektrociepłownia Gorzów,
- Branch Zespół Elektrociepłowni Bydgoszcz,
- Branch Elektrociepłownia Rzeszów,
- Branch Elektrociepłownia Kielce,
- Branch Elektrociepłownia Lublin Wrotków,
- Branch Elektrociepłownia Zgierz.

**PGE Energia Odnawialna S.A. with its registered office in Warsaw:**

- Branch EW Żarnowiec in Czymanów,
- Branch ZEW Dębe in Dębe,
- Branch ZEW Dychów in Dychów,
- Branch ZEW Porąbka - Żar in Międzybrodzie Bialskie,
- Branch ZEW Solina - Myczkowce in Solina.

**EPW Energia Olecko sp. z o.o. with its registered office in Warsaw:**

*Branch controlled by PGE S.A.*

- Branch „Olecko” Szczecin,
- Branch controlled by ENERGA Wytwarzanie sp. z o.o.*
- Branch „Kętrzyn” Pruszcz Gdański.

**EPW Energia sp. z o.o.\***

*Branches controlled by PGE S.A.*

- Branch „Kisielice/Malbork” Wrocław,
  - Branch „Galicja” Orzechowce,
- Branches controlled by ENERGA Wytwarzanie sp. z o.o.*
- Branch Bystra,
  - Branch Karścino,
  - Branch „Pipeline” Pruszcz Gdański.

*\* on February 28, 2014 a division of EPW Energia sp. z o.o. was registered (see p. 6.1. Changes in organization of the Capital Group)*

**PGE Dystrybucja S.A. with its registered office in Lublin:**

- Branch Białystok,
- Branch Lublin,
- Branch Łódź – Miasto,
- Branch Łódź – Teren,
- Branch Rzeszów,
- Branch Skarżysko – Kamienna,
- Branch Warszawa,
- Branch Zamość.

**PGE Obrót S.A. with its registered office in Rzeszów\*:**

- Branch with seat in Białystok,
- Branch with seat in Lublin,
- Branch I with seat in Łódź,
- Branch II with seat in Łódź,
- Branch with seat in Skarżysko – Kamienna,
- Branch with seat in Warsaw,
- Branch with seat in Zamość.

*Until December 31, 2013 PGE Obrót S.A. comprised of 7 Branches. As of January 1, 2014, according to the decision of the Management Board of PGE Obrót S.A., two branches, i.e. PGE Obrót S.A. Branch I with seat in Łódź and PGE Obrót S.A. Branch II with seat in Łódź, were merged into one Branch named PGE Obrót S.A. Branch with seat in Łódź.*

**PGE Trading GmbH with its seat in Berlin:**

- Branch in Prague,
- Branch in Bratislava.

**„Elbest” sp. z o.o. with its seat in Bełchatów:**

- Branch Bogatynia,
- Branch Iwonicz-Zdrój,
- Branch Krasnobród,
- Branch Rogowiec,
- Branch Wawrzekowizna.



**Przedsiębiorstwo Transportowo – Sprzętowe  
„Betrans” sp. z o.o. with seat in Bełchatów:**

- Branch ELTUR-TRANS with its seat in Bogatynia,
- Branch Rogowiec with its seat in Rogowiec.

**Przedsiębiorstwo Usługowo-Produkcyjne  
„ELTUR-SERWIS” sp. z o.o. with its seat  
in Bogatynia:**

- Branch in Brzezcie.

**EPORE sp. z o.o. with its seat in Bogatynia:**

- Branch Bełchatów,
- Branch Bogatynia,
- Branch Rogowiec,
- Branch Opole,
- Branch Żarska Wieś.

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



## 6.1. Changes in organisation of the Capital Group

### 6.1.1. Changes in organisation of the Capital Group in 2013

The changes, which occurred in the PGE Capital Group's structure during 12-month period ended December 31, 2013 are presented in Note 2 to consolidated financial statements and described below.

#### Shares in subsidiaries and associates

During 12 months of 2013 PGE S.A. changed its equity interest in the following entities:

- 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.
- 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.

- on March 27, 2013 PGE S.A. and PGE GiEK S.A. („PGE GiEK S.A.”) signed an agreement for sale of 100% shares of „PGE Gubin” sp. z o.o. with its seat in w Gubin. On the ground of the agreement, the property right of 100% shares of „PGE Gubin” sp. z o.o. was transferred to PGE GiEK S.A. as of March 27, 2013.
- On April 8, 2013 PGE Obrót S.A. signed an agreement with a minority shareholder on squeeze-out of 5,127 bearer shares (the „Agreement”), held by the minority shareholder. The purchase of shares was made pursuant to art. 418<sup>1</sup> of the Polish Commercial Companies Code. As a result of the Agreement, on April 15, 2013 the company paid to the minority shareholder the full buyout price for 5,127 shares. Following the execution of the Agreement, all the shares of the Company have been bought out, and PGE Polska Grupa Energetyczna S.A. became the sole shareholder of the company.

In connection with the above squeeze-out, the company holds 22,222 treasury shares (constituting 0.45% in the share capital of the company), including 21,979 treasury shares, which were purchased by the company through squeeze-out pursuant to art. 418<sup>1</sup> § 4 of the Polish Commercial Companies Code and 243 shares not allotted to the shareholders during the consolidation process of companies from PGE Capital Group in 2010.

On August 8, 2013 the Extraordinary General Meeting of PGE Obrót S.A. adopted a resolution on redemption of 22,222 treasury shares and decrease of the share capital of PGE Obrót S.A. by the value of the redeemed treasury shares.

After PGE Obrót S.A. carried out a convocation proceeding pursuant to art. 456 of Code of Commercial Companies, the decrease of the company's share capital was registered



in the National Court Register on November 29, 2013 as a result of the redemption of treasury shares. The share capital of PGE Obrót S.A. was decreased by sum of nominal value of redeemed shares, i.e. by PLN 2,222,200 from PLN 494,862,600 to PLN 492,640,400.

As a result of the treasury shares redemption and decrease of the share capital, PGE S.A. holds 100% shares of PGE Obrót S.A.

- On June 28, 2013 the Ordinary General Meeting of PGE Obrót S.A. adopted a resolution on distribution of net profit for 2012 and allocation of part of reserve capital for dividend payment. Part of the dividend was paid in form of dividend in kind through transfer of 16,865,600 shares of PGE GiEK S.A. by PGE Obrót S.A. to PGE S.A. On July 1, 2013 the ownership right of shares of PGE GiEK S.A. was transferred to PGE S.A.

As at December 31, 2013 PGE S.A. held 93.62% in the share capital of PGE GiEK S.A.

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

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

- On July 30, 2013 Assembly of Partners of PGE Energia Natury Karnice sp. z o.o. (subsidiary of PGE S.A.) adopted a resolutions on increase of the company's share capital from PLN 1,000,000 to PLN 2,500,000, i.e. by PLN 1,500,000, through issue of 1,500 new, equal and undivided shares at a nominal and issue prices of PLN 1,000 each. All newly issued shares were acquired by PGE S.A. in exchange for cash contribution. On September 23, 2013 the share capital increase was registered in the National Court Register.



- 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 Note 2.2. to the consolidated financial statements).
- 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 S.A. 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 S.A. (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 S.A. 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 EJ 1 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 EJ 1 sp. z o.o.
- On November 20, 2013 the District Court of the City of Warsaw, XII Commercial Division of the National Court Register registered the merger of EXATEL S.A. (acquiring company) with E-Telbank sp. z o.o. (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 § 6 of Code of Commercial Companies i.e. through transfer of all assets of the acquired company to the acquiring company without raising the share capital of the acquired company and without the exchange of acquired company's shares for the shares of the acquiring company.

- In period January 1, 2013 – December 31, 2013 PGE Polska Grupa Energetyczna S.A. purchased from minority shareholders – on ground of share sale agreements - a total of 7,103 shares of PGE Górnictwo i Energetyka Konwencjonalna S.A., constituting 0.001% in the share capital of PGE GiEK S.A.

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.

In the 12 months of 2013 PGE Group companies changed their capital exposure in the following entities:

- On January 7, 2013 the Extraordinary Meeting of Shareholders of Bio-Energia S.A. adopted a resolution on merger of Bio-Energia S.A. (acquiring company) with Biogazownia Łąpy sp. z o.o. and Biogazownia Woźuczyn sp. z o.o. (acquired companies) and on changes to the Statutes of the acquiring company pursuant to art. 516 of the Polish Commercial Companies Code. The merger of the companies was registered in the National Court Register on January 31, 2013.
- On January 8, 2013, a conditional sale agreement was signed with regard to the acquisition of shares of Eolica Wojciechowo sp. z o.o. with its seat in Czymanów by the company Greentech Energy Systems A/S. Pursuant to an agreement for sale of shares concluded on January 24, 2013, Greentech Energy Systems A/S sold 9,550 shares to PGE Energia Odnawialna S.A., which constituted 50% of the Eolica Wojciechowo sp. z o.o. share capital. Under the transaction PGE Energia Odnawialna S.A. acquired 100% of shares in the share capital of the company concerned.

On February 19, 2013 PGE Energia Odnawialna S.A., as the sole partner of the company, on the ground of the resolution of the Extraordinary Assembly of Partners contributed to Eolica Wojciechowo sp. z o.o. a surcharge in the meaning of art. 177 of the Commercial Companies Code in the aggregate amount of PLN 59,999,976, i.e. PLN 3,141.36 to each share of the company.

- On January 10, 2013, a conditional agreement was signed by PGE Energia Odnawialna S.A. and "BE-BETON" sp. z o.o. for the sale of 100% of Budownictwo Hydro - Energetyka Dychów sp. z o.o. shares owned by PGE Energia Odnawialna S.A. On February 21, 2013, the title to 100% of Budownictwo Hydro – Energetyka Dychów sp. z o.o. shares was transferred to the company "BE-BETON" sp. z o.o. under a conditional sale agreement.
- On December 21, 2012 PGE GiEK S.A. set up MegaSerwis sp. z o.o. with its seat in Zgorzelec. PGE GiEK S.A. took up 100% in the share capital of that company. The share capital of the company in amount of PLN 100,000 was paid on January 31, 2013. On March 21, 2013 the company was registered in the National Court Register.



On March 26, 2013 the Extraordinary Assembly of Partners of MegaSerwis sp. z o.o. adopted a resolution on increase of the share capital of the company from PLN 100,000 to PLN 2,100,000, i.e. by PLN 2,000,000, through issue of 2,000 new shares with a nominal value of PLN 1,000 each. All newly issued shares were acquired by PGE GiEK S.A. The company started its operations as of April 1, 2013.

On June 19, 2013 the Extraordinary Assembly of Partners of the company adopted a resolution on change of the act of incorporation of the company involving change of the seat of the company from Zgorzelec to Bogatynia. On July 18, 2013 the change was registered in the National Court Register.

- On March 25, 2013 the Extraordinary Assembly of Partners of ELBEST sp. z o.o. adopted a resolution on change to the articles of partnership, consisting in deletion of some of the types of company's activities. The above changes were registered in the National Court Register on April 2, 2013. As of March 31, 2013 the company abandoned activities in the services area and handed over 891 employees to MegaSerwis sp. z o.o., on the ground of art. 23<sup>1</sup> of the Labour Law.
- On April 25, 2013 District Court in Rzeszów decided to repeal the settlement approved on October 11, 2011 by the Meeting of Creditors of MEGA sp. z o.o. with its seat in Miłocin and approved by the decision of October 19, 2011 and to open bankruptcy proceeding involving liquidation of assets of the MEGA sp. z o.o.
- On June 3, 2013 District Court in Wrocław registered the merger of „ELTUR-WAPORE” sp. z o.o. with its seat in Bogatynia (acquiring company) with „EPO” sp. z o.o. with its seat in Opole pursuant to art. 492 § 1 p.1 of the Polish Commercial Companies Code, i.e. by transfer of all assets of EPO sp. z o.o. to "ELTUR-WAPORE" sp. z o.o.

As a result of the merger the share capital of the acquiring company amounting to PLN 22,631,500 was raised by PLN 9,350,000 i.e. to PLN 31,981,500, through issue of 18,700 new shares with a nominal value of PLN 500 each.

After the merger, the firm of the acquiring company was changed from Przedsiębiorstwo Produkcji Sorbentów i Rekultywacji „ELTUR-WAPORE” sp. z o.o. to EPORE sp. z o.o. PGE GiEK S.A. holds 54,613 shares in EPORE sp. z o.o. with a nominal value of PLN 27,306,500 constituting 85.38% of the share capital.

- On August 9, 2013 the Extraordinary Assembly of Partners of PGE Gubin sp. z o.o. adopted a resolution on increase of the share capital of the company from PLN 12,000,000 to PLN 19,000,000, i.e. by PLN 7,000,000, through issue of 7,000 new, equal and undivided shares with a nominal and issue price of PLN 1,000. All newly issued shares were acquired by PGE GiEK S.A. in exchange for cash contribution. Payment of PLN 3,500,000 due to the increase of the share capital was made on September 4, 2013. Second installment was paid on November 26, 2013. On December 13, 2013 the change was registered in the National Court Register.
- on September 23, 2013, orders for purchase and sale of 14,181 inscribed shares of ENERGO-TEL S.A. with a seat in Warsaw, constituting 48.9% in the company's share capital, were concluded via the brokerage house. Niezależny Operator



Międzystrefowy sp. z o.o. with a seat in Warsaw was the seller of the shares of ENERGO-TEL S.A. and EXATEL S.A. with a seat in Warsaw was the buyer. Following the transaction, EXATEL S.A. became the sole shareholder of ENERGO-TEL S.A.

- On October 17, 2013 Energetyczne Towarzystwo Finansowo - Leasingowe „ENERGO-UTECH” S.A. (entity jointly controlled by PGE Energia Odnawialna S.A.) and Przedsiębiorstwo Usługowe „UTECH” sp. z o.o. with its seat in Poznań concluded an agreement for sale of 100% shares in Energoutech 2 sp. z o.o. with its seat in Poznań. On the ground of the agreement for sale of shares, the ownership of 100% shares was transferred to Przedsiębiorstwo Usługowe „UTECH” sp. z o.o. as of October 17, 2013.
- On December 24, 2013 PGE GiEK S.A. purchased from PGE Dystrybucja S.A., PGE Obrót S.A. and PGE Energia Odnawialna S.A. a total of 434 shares in Spółka Przedsiębiorstwo Transportowo-Sprzętowe Betrans sp. z o.o., constituting 1.35% in the share capital. Following that transactions PGE GiEK S.A. became the sole shareholder of the company.
- On December 31, 2013 the ownership of 4,440 shares in ELMEN sp. z o.o., constituting 100% in the share capital, and the ownership of 2,040 shares in „Energoserwis Kleszczów” sp. z o.o., constituting 51% in the share capital, were transferred to PGE GiEK S.A. as a result of payment of dividend in kind by ELBIS sp. z o.o. to PGE GiEK S.A. PGE GiEK S.A. holds 100% shares in ELBIS sp. z o.o.
- Two branches of ELBEST sp. z o.o.: Branch Dychów and Branch Wawrzkowizna II were liquidated as of December 31, 2013, according to the decision of ELBEST sp. z o.o.
- In period from January 1, 2013 till December 31, 2013 PGE GiEK S.A. purchased from minority shareholders a total of 1,902,714 treasury shares, constituting 0.27% of the company's share capital, in way of squeeze-out pursuant to art. 418<sup>1</sup> § 4 of the Polish Commercial Companies Code.

On January 7, 2013 the Extraordinary Assembly of Partners of BESTGUM POLSKA sp. z o.o. adopted a resolution on change to the Deed of Foundation of the company, consisting

in expansion of activities by rehabilitation and other service activities connected with the waste management. Above change was registered in the National Court Register on January 23, 2013.

On August 19, 2013 E-Connections S.A. in liquidation with a seat in Warsaw was deleted from the National Court Register as a result of the liquidation proceeding. EXATEL S.A. held 49.47% shares in the share capital of the company.

On October 30, 2013 Ośrodek Wypoczynkowo-Szkoleniowy „Energetyk” sp. z o.o. in liquidation with its seat in Sielpia Wielka was deleted from the National Court Register as a result of the liquidation proceeding. PGE Dystrybucja S.A. held 100% in the share capital of the company.

On November 29, 2013 ESP-Usługi sp. z o.o. in liquidation with its seat in Warsaw was deleted from the National Court Register as a result of the liquidation proceeding. PGE Energia Odnawialna S.A. held 100% in the share capital of the company.



On December 4, International Broadband Network sp. z o.o. in liquidation with its seat in Warsaw was deleted from the National Court Register as a result of the liquidation proceeding. EXATEL S.A. held 100% in the share capital of the company.

On December 18, 2013 Enbud sp. z o.o. in liquidation with its seat in Czymanowo was deleted from the National Court Register as a result of the liquidation proceeding. PGE Energia Odnawialna S.A. held 100% in the share capital of the company.

#### 6.1.2. Changes in the organisation of 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 „Kisielice/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 Naturity sp. z o.o.

In connection with the above, Extraordinary Assemblies of Partners of EPW Parsówek sp. z o.o. and PGE Energia Naturity 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 Naturity 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 Naturity 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 Naturity sp. z o.o., a company under 100% control of PGE.

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

## 6.2. 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 is presented in p. 6.1. Changes in organisation of the Capital Group.

## 6.3. Remuneration of the management of PGE S.A.

### 6.3.1. 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 <sup>1,2,3</sup>	0
Piotr Szymanek	1,240,056.00 <sup>1</sup>	0
Bogusława Matuszewska	1,200,042.00 <sup>1,3</sup>	0
Wojciech Ostrowski	1,282,738.52 <sup>1,2,3</sup>	0
Paweł Smoleń	1,120,014.00 <sup>1,3</sup>	0
Paweł Skowroński	989,028.00 <sup>1,3</sup>	0
Marek Szostek	79,974.16 <sup>3</sup>	146,619.29 <sup>3</sup>
Tomasz Zadroga	79,974.16 <sup>3</sup>	0
Grzegorz Krystek	8,981.96 <sup>4</sup>	0
Jacek Drozd	6,909.20 <sup>4</sup>	0

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

<sup>2</sup> item including benefits,

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

<sup>4</sup> 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**.



### 6.3.2. 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 on the Public Sector Salary Cap Act, pursuant to which the remuneration may not exceed the amount of one average monthly salary in the enterprise sector without payments of profit bonuses in the 4th quarter of the year, as specified in the Public Sector Salary Cap Act.

Table: Amounts of remuneration 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)
<b>Małgorzata Dec</b>	Chairman of the Supervisory Board	41,454.96 <sup>1</sup>	-
<b>Jacek Barylski</b>	Supervisory Board Member	41,454.96 <sup>1</sup>	-
<b>Czesław Grzesiak</b>	Supervisory Board Member	41,454.96 <sup>1</sup>	-
<b>Małgorzata Mika - Bryska</b>	Supervisory Board Member	21,188.08 <sup>1</sup>	-
<b>Anna Kowalik</b>	Secretary of the Supervisory Board	21,188.08 <sup>1</sup>	-
<b>Marcin Zieliński</b>		20,727.48 <sup>1</sup>	42,000.00 <sup>1</sup>
<b>Maciej Bałtowski</b>		20,727.48 <sup>1</sup>	-
<b>Grzegorz Krystek</b>		36,503.37 <sup>1</sup>	-
<b>Katarzyna Prus</b>		20,727.48 <sup>1</sup>	-
<b>Jacek Drozd</b>		16,581.92 <sup>1</sup>	-

<sup>1</sup> 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.
<b>Total</b>			<b>1,869,760,829</b>	<b>18,697,608,290</b>	

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
<b>Shares at Dec 31, 2013</b>	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 30.3 to the consolidated financial statements).

### 7.1.2. Treasury shares

As at December 31, 2013 PGE S.A. did not hold any their treasury shares.

As at December 31, 2013 the following PGE Group companies held their treasury shares:

- PGE GiEK S.A. – 2,114,093 treasury shares purchased through squeeze-out pursuant to art. 418<sup>1</sup> § 4 of the Polish Commercial Companies Code or on the ground of the company's statutes (the shares were purchased for redemption).



- PGE Dystrybucja S.A. – 131,873 treasury shares including: 131,845 treasury shares, purchased through squeeze-out pursuant to art. 418<sup>1</sup> § 4 of the Polish Commercial Companies Code (the shares were purchased for redemption) and 28 shares not allotted to the shareholders during the consolidation process of companies from PGE Capital Group.

### 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 consolidated report 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)
<b>The Supervisory Board / The Management Board</b>	<b>350</b>	<b>no change</b>	<b>350</b>	<b>3,500</b>
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 member of the Management Board and Supervisory Board did not hold PGE S.A. shares.

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



Table: PGE S.A. shares held 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)
	<b>Management Board</b>		<b>8,301</b>	<b>83,010</b>
	Jacek Kaczorowski	President of the Management Board	1,390	13,900
	Roman Forma	Vice-President of the Management Board	662	6,620
<b>PGE GiEK S.A.</b>	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.

Proceeds from the issue of bonds were used for financing of the on-going activities as well as for financing of the investments conducted by PGE Group companies (see p. 2.9.3. 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 Polska Grupa Energetyczna 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

As at December 31, 2013, the employment in the PGE Capital Group amounted to 41,194.88 FTEs which was less by 81.83 FTEs than as at December 31, 2012. The highest employment was recorded in companies from Conventional Generation and constituted approx. 46% of the Capital Group total.



Table: Employment level \*

in FTEs	FTEs	FTEs	% change
	Dec 31, 2013	Dec 31, 2012	
<b>Total employment in PGE Group, including:</b>	<b>41,194.88</b>	<b>41,276.71</b>	<b>0%</b>
Conventional Generation	18,870.81	19,637.83	-4%
Renewable Energy	583.75	546.05	7%
Wholesale Trading	423.69	389.63	9%
Distribution	10,937.71	11,306.39	-3%
Retail Sales	1,505.12	1,491.40	1%
Other consolidated companies	8,873.80	7,905.41	12%

\* without suspended employees

### 8.2.2. Freedom of association

In the PGE Capital Group there are **113 company and intercompany trade union organizations associating over 24 thousand of employees**. 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

In 2013 accident rate in PGE Group **decreased by 7%** as compared to 2012.

Awards in the field of health and safety at work received in 2013:

- **16<sup>th</sup> National Competition on Knowledge of Workplace Safety in Power Plants and CHPs**

Team of PGE GiEK S.A. Branch Elektrownia Bełchatów won the first prize in teams classification. PGE GiEK employees also took 1st and 2nd place in individual competition.

- **National Competition for Working Conditions Improvement**

In 41<sup>st</sup> edition of the competition, which is organized under the auspices of the Ministry of Labour and Social Policy, PGE GiEK S.A. Branch Elektrownia Bełchatów was honoured and received a certificate for developing the "Qualification and implementation of the ultrasonic method" Phased Array "(PA) for testing of welds with wall thickness less than 8 mm" and a letter of congratulation for the scientific description: "Changing technology for replacement of coal conveyor belts".



### • Safe Work Leader Card

In October 2013, at the 16th Conference of the Safe Work Leaders Forum, employers were awarded the 'Cards of Safe Work Leaders' at a special ceremony. Two branches of the PGE GiEK S.A. were among the prize winners in recognition for achievements in the field of improving health and safety conditions and worker protection in the workplace: Bełchatów and Zespół Elektrowni Dolna Odra.

The new Golden Card of Safe Work Leader was awarded to the Bełchatów power plant for the years 2014-2015. Zespół Elektrowni Dolna Odra was distinguished with the Silver Card of Safe Work Leader for the years 2014-2015.

### 8.2.4. Human resources development

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

Table: Educational structure of employees (as at December 31, 2013, number of individuals)

Level of education	Employees	(%) share
<b>University education</b> (bachelor's degree, master's degree, postgraduate studies, PhD, professors)	11,350	27%
<b>Secondary education</b> (general upper secondary school, technical upper secondary school, post-secondary non- tertiary schools)	17,144	41%
<b>Vocational education</b> (basic vocational, vocational training)	10,808	26%
<b>Elementary education</b> (primary school, lower secondary school)	2,321	6%
<b>TOTAL</b>	<b>41,623</b>	<b>100%</b>

Table: Employee age and gender structure (as at December 31, 2013, number of individuals)

Gender/Age	Female	Male	Total
under 30 years of age	648	2,977	3,625
31-40 years of age	1,973	6,421	8,394
41-45 years of age	982	5,423	6,405
46-50 years of age	1,358	5,848	7,206
51-55 years of age	1,852	6,341	8,193
56-60 years of age	1,373	4,828	6,201
over 60 years	81	1,518	1,599
<b>TOTAL</b>	<b>8,267</b>	<b>33,356</b>	<b>41,623</b>

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”. 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 in the area of management, finance, controlling,



negotiations and customer service 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
<b>TOTAL</b>	<b>3,688</b>

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

### 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 CO<sub>2</sub> 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.

### 8.3.1. Conventional Generation

Conventional power plants and CHP plants in the PGE Group generate heat and electricity from conventional sources and hold Integrated Permits that specify: the installation type and parameters, conditions for releasing chemical substances and energy to the environment, specification of permitted types and quantities of gases and dusts. In addition, the permits contain guidelines relating to water management, waste management, methods enabling to determine permitted levels of noise emission and improvements of environmental protection standards. They also specify ways of preventing failures and mitigating their negative effects and define the obligation to report failures and requirements with respect to water, sewage and air monitoring. Companies dealing with electricity generation also hold relevant sectoral permits. Operators adapt in advance to legal regulations regarding the protection of environment. They are open to innovative solutions and technologies which may additionally improve the environmental safety. Therefore, they have cooperated with research institutions and centres for many years. Steps taken by power plants and CHPs in view of meeting the required environmental protection standards consist mainly in:

- Upgrading of generating equipment;
- Increasing the share of cogenerated heat and electricity generation;
- Optimization of the combustion process;
- Modernization, replacement or construction of protective devices (precipitators, desulphurisation plants);

### Emissions reduction

Power plants and CHPs of the PGE Capital Group use state-of-the-art technological processes and highly advanced equipment. Based on a comparison of the pollution measurements data with the requirements defined in the Regulation of the Minister of Environment, limits applying to polluting substances from emissions in power plants and CHPs belonging to PGE GiEK S.A. in 2012 were exceeded in two cases:

- Bełchatów power plant – refers to the exceeded limit of annual emissions of NO<sub>x</sub> as a result of intensive exploitation of the block and too low emission limit specified in the integrated permit. No penalties are expected for exceeding the allowable annual limits for installations covered by continuous monitoring.
- Lublin Wrotków CHP – refers to the exceeded limit of emissions of NO<sub>x</sub> on combined cycle gas and steam unit in periods of units start-ups which in 2013 were not distinguished from the normal operation of the unit. Unit also exceeded the limits in the period July - August while working for the needs of PSE at low load factor, when increased emission of nitrogen oxides occurs.



The volume of CO<sub>2</sub> emissions and allocations of emission allowances in the year 2013 for individual branches of PGE GiEK S.A. in the third settlement period (2013-2020) are presented in the section 2.1.4 of this report.

Table: Emissions of SO<sub>2</sub>, NO<sub>x</sub> and dusts in PGE GiEK S.A. in 2013

Branch	SO <sub>2</sub> emission [Mg]	NO <sub>x</sub> emission [Mg]	Dust emissions [Mg]
Elektrownia Bełchatów	60,961	4,029	1,065
Elektrownia Turów	21,416	6,180	1,033
Elektrownia Opole	4,530	9,572	250
ZEDO Dolna Odra	5,920	8,347	174
ZEDO Pomorzany	2,443	1,405	156
ZEDO Szczecin	61	544	15
Elektrociepłownia Bydgoszcz I	204	55	62
Elektrociepłownia Bydgoszcz II	3,910	1,950	179
Elektrociepłownia Gorzów	787	456	22
Elektrociepłownia Lublin Wrotków	821	435	270
Elektrociepłownia Rzeszów	664	250	108
Elektrociepłownia Kielce	744	311	106
Elektrociepłownia Zgierz	185	83	13
<b>TOTAL</b>	<b>102,646</b>	<b>33,617</b>	<b>3,453</b>

Mines belonging to the PGE Group hold mandatory sector permits which are required for extraction operations and the use of the environment; their scope covers water and sewage management, waste management, noise level and emission of gases and dusts into the atmosphere.

### Rehabilitation of post-mining areas

Open-pit mining of lignite leads to land surface transformation on vast areas, and consequently to changes in the natural environment. The company is fully aware that it benefits significantly from the natural environment and therefore measures aiming at rehabilitating post-mining sites are implemented with greatest care. The rehabilitation operations in the PGE GiEK S.A. mines are planned already at the stage of removing the ground layer, while the technology is selected with a view to optimize the rehabilitation work. The rehabilitation work carried out so far have contributed to the creation of new forest and water complexes where numerous species of animals and plants found their natural habitat. Land rehabilitation improves the quality of water supplied to surface water reservoirs as result of increased levels of retention, regulated runoff of storm water, limitation of surface runoff and escarpment erosion. Aeration processes in the overburden layers are also limited resulting in lower quantities of sulphate ions and Ph level stabilization.



### Noise emissions

The production potential of the PGE Group includes sources of noise emissions. They are subjected to constant monitoring. When permissible levels are exceeded, immediate action is undertaken in order to eliminate any excesses. Measurements of noise emitted to the environment are performed in two-year cycles. In 2013, scheduled measurements of noise emissions were conducted in three branches of PGE GiEK S.A. The measurements did not reveal exceeded values. Ad hoc checks showed that permitted noise emission level were from time to time exceeded at conveyor routes and belt-drive stations of the Bełchatów lignite mine. The application of end-to-end technological solutions will allow to reduce emission levels to permitted values already in 2014. The noise emission reduction programme has also been implemented in the Turów power plant.

Issues related to exceeded noise emission levels are also handled through purchase of real estate exposed to noise emissions.

### Energy from biomass

Generation of green energy from renewable sources has a positive impact on the environment by contributing to the reduction of CO<sub>2</sub> and SO<sub>2</sub>, it allows to reduce combustion waste (ash, slag, etc.), also stimulates local biomass producers (including farmers). It also enables to reuse fallow land and dry residues from forest production. The forerunners in that field were Elektrownia Opole and Zespół Elektrowni Dolna Odra which started to generate power from biomass in the years 2004-2005. Other CHPs followed their steps: in 2008 Elektrociepłownia Zgierz, and in 2009 Elektrownia Bełchatów and Elektrownia Turów. Also in 2009, a 100% biomass-fired boiler was commissioned in CHP Kielce. Zespół Elektrociepłownia Bydgoszcz began generation of heat and electricity from biomass in 2011. Also in 2011, Elektrownia Szczecin, which is part of ZEDO, launched a unit with a biomass based fluidised boiler with stationary bed of a capacity of 68.5MWe; it can use up to 708,000 tons of this ecological organic fuel yearly. Furthermore, in 2012 a new installation of biomass co-combusting for units 1-4 was commissioned in the Elektrownia Turów Branch.

In 2013 the following biomass investments projects were being carried out:

- In the Branch Elektrociepłownia Kielce, where the biomass share represented almost half of the production fuels in 2012, a pass-out and condensing steam turbine with a capacity of 6.5MW and a heat exchanger of 14MW were being constructed in 2013 thus the use of biomass was limited. They are designed to co-function with the existing biomass-fired steam boiler. Currently, the commissioning procedures are in progress.
- A new installation for direct biomass injection in unit 2 of Elektrownia Opole was commissioned.

Biomass constituted app. 2% in the structure of production fuels of the PGE GiEK S.A. in 2013.

### Waste management

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

We are improving and increasing the scope of combustion by-products use; we are conducting research and seeking new applications of combustion by-products while respecting the principles of sustainable growth. Long-term studies on the use of such substances have confirmed that they



comply with the environmental protection requirements and do not constitute a threat to human life or health. This was confirmed in particular by studies on the physical and chemical, toxicological and ecotoxicological properties carried out in connection with substance registration requirements set out in the REACH regulation.

In 2013, the installations of PGE GiEK S.A. generated more than 7,900 thousand Mg of waste from the combustion of fuels, including more than 6,500 thousand Mg of waste from lignite combustion. Due to its properties, waste obtained from hard coal combustion is widely used in the construction and cement industries. All waste produced in installations belonging to the company is reused in recovery operations. As ashes obtained from lignite combustion have inferior and very volatile properties, their economic applications are not significant, and they are mainly deposited or used for filling lands that have been adversely transformed.

Synthetic gypsum is widely used in the construction and cement industry, and its management is based on long-term cooperation and contracts with regular buyers. In 2013, more than 1,543 thousand Mg of gypsum was produced, including 1,365 thousand Mg in the installations of Elektrownia Bełchatów power plant.

### **Protection of waters**

The PGE GiEK S.A. company holds necessary administrative approvals which specify the terms and conditions for operations of waste-water management.

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

Water management in lignite mines is linked with both deep and surface drainage of open pits. Waters obtained in drainage processes do not meet the parameters set out in the administrative approvals held by the company and, consequently, they require treatment. Water is transported through a pipeline network, ditches and water channels to a purification system consisting of both settling tanks using the natural sedimentation of suspensions processes supported by a plant filter and state-of-the-art mechanical and biological or mechanical and chemical sewage treatment plants. Following the treatment process, waters are introduced into natural watercourses. In each case, the water quality class is at least B.

### **Environmental Management System – ISO 14001**

The primary goal of the ISO 14001 is to support environmental protection and to prevent pollution using methods that take into consideration the socio-economic needs in line with the sustainable development concept. Environmental management systems were functioning in Branches: Kopalnia Węgla Brunatnego Bełchatów, Elektrownia Bełchatów, Elektrownia Turów, Elektrownia Opole, Zespół Elektrowni Dolna Odra (ZEDO), Zespół Elektrociepłowni Bydgoszcz, Elektrociepłownia Lublin Wrotków, Elektrociepłownia Gorzów. In Branch ZEDO a verification of EMAS PI:2999 was conducted and was completed with a positive result. In 2013, the environmental policy was unified and central management of the environmental issues was introduced in all Branches of the company. This documentation will be subject to an update based on annual reviews. The concept of unified Environmental Management System is to standardize the documentation and improve the efficiency of the area of environmental protection.



### 8.3.2. Renewable Energy

#### Hydroelectric power plants

At present, 36 hydroelectric power plants are operating within the PGE Capital Group. 30 of them are functioning within the PGE Energia Odnawialna S.A. company. This group comprises: pumped-storage power plants (including the largest plant of that type in Poland – Elektrownia Wodna Żarnowiec and Elektrownia Porąbka-Żar), pumped storage power plants with natural water supply (EW Solina and EW Dychów) and run-of-river power plants. Energy generated in EW Żarnowiec and EW Porąbka-Żar is not renewable, however as a result of energy accumulation in the upper reservoirs in off-peak periods and its utilisation in periods of high electrical demand, the plants ensure more flexibility to the National Power Grid and thus improve the performance of the energy generation system. Consequently, better performance translates into lower environmental footprint. The company takes part in water management development programmes. It collaborates with the Ministry of Environment, District Water Management Offices, the National Fund for Environmental Protection and other companies involved in water management, environmental protection and renewable energy generation. In line with the requirements applying to environmental protection, special passes enabling fish migration will be used in the newly built facilities (e.g. EW Oława on Odra river). In order to avoid negative impacts on the environment, the plants widely use biodegradable oils and lubricants.

#### Wind power plants

PGE Group is currently one of the leaders in the wind energy market. In 2013, the Group had wind farms with a total capacity of 283 MW, representing approximately 8.4% of the installed wind power in Poland.

Nine wind farms were operating within the PGE Capital Group in 2013, including four in structure of PGE Energia Odnawialna S.A., with a total capacity of 152 MW, i.e.:

- Kamieńsk with a capacity of 30 MW;
- Pelplin with a capacity of 48 MW;
- Żuromin with a capacity of 60 MW;
- Resko I with a capacity of 14 MW.

The Elektrowania Wiatrowa Kamieńsk wind power plant is situated on the rehabilitated external dump of the Kopalnia Bełchatów mine; it started generating energy in December 2007. Farms in Pelplin (Pomorskie Voivodship) and in Żuromin (Mazowieckie Voivodship) were commissioned in 2012. Resko I (Zachodniopomorskie Voivodship) was commissioned in 2013.

In PGE Energia Natury S.A. five consecutive wind farms have been operating since 2013 with a total capacity of 131 MW:

- 2 wind farms in Zachodniopomorskie Voivodship: Lake Ostrowo and Karnice with a total capacity of 60.5 MW;
- wind farm Kisielice in Warmińsko-Mazurskie Voivodship – with a capacity of 40.5 MW;
- wind farm Malbork in Pomorskie Voivodship with a capacity of 18 MW;
- wind farm Galicja in Podkarpackie Voivodship with a capacity of 12 MW.

In connection with the implementation of investment projects in 2013 and early 2014, PGE Energia Odnawialna S.A. also received the following decisions:



- October 15, 2013 - Wind Farm Resko, stage I with a capacity of 14 MW – concession for energy generation and commissioning
- January 30, 2014 - EW Oława with a capacity of 3.2 MW – concession for energy generation and commissioning.

### 8.3.3. Distribution

PGE Dystrybucja S.A. complied with all the obligations imposed by environmental regulations and administrative decisions.

The company took a number of steps in order to preserve the natural values of Poland. The most important measures include:

- assessments of environmental impacts at the stage of technical project drafting before the construction of new facilities;
- safeguarding the environment against the insulating oil pollution in the event of an emergency leak from transformers used on 110 kV substations, by *inter alia* the construction of sealed containers under power transformers and insulating oil separators on outlets of rainwater discharged from transformers to water or soil;
- developing technologically advanced compact equipment and electric poles, and replacing old wires on overhead power lines with insulated ones;
- cutting emissions of carbon dioxide (CO<sub>2</sub>) to the atmosphere by reducing technical losses by modernising power grids and replacing transformers with new ones ensuring low technical losses;
- connecting wind farms to the grid;
- agreement with the environmental emergency service – performing tasks related to the elimination of effects of soil contamination with transformer oil (e.g. due to theft).

Additionally, platforms are built for stork nests and fluorescent plates deter birds from overhead power lines.

### 8.3.4. Retail Sale

PGE Obrót S.A. operations in the field electricity generation from renewable energy sources are carried out with a special care to the environmental protection. The PGE Obrót S.A. Branch based in Zamość obtained a permit required by the Water Law Act in connection with activities involving electricity generation; the permit covers the use of surface water for energy purposes in MEW Nielisz and is valid until 2030. The permit granted for MEW Radawa is valid until 2015. For the purposes related to electricity generation, PGE Obrót S.A. Branch II based in Łódź was granted a permit required by the Water Law Act for the use of the Pilica river waters for energy purposes for MEW Smardzewice, valid until 2031, and for the discharge of industrial sewage from Elektrownia Wodna Smardzewice to the Pilica river, that is valid until 2016. For the purposes of activities involving electricity generation, PGE Obrót S.A. Branch based in Warsaw obtained a permit allowing to produce hazardous waste in Elektrownia Wodna Dębe (Dębe hydro power plant), which is valid until 2014, and the permit required by the Water Law Act allowing for the use of Narew river water by the Elektrownia Wodna Dębe; it is valid until to 2026. Due to the use of equipment containing different types of oils, Elektrownia Wodna Dębe is a potential threat to the water quality



in the Narew river. It is particularly relevant for the risk of leakage (as a result of damage to seals) of the oil filling the turbine rotor hubs and designed to lubricate the blades of the propelling mechanism, and for the leakage of transformer oil used by the power plant. The PGE Obrót S.A. Branch based in Warsaw takes steps in order to eliminate potential risks of oil leakages by introducing non-grease bearing systems; measures are also taken to prevent transformer oil leakages.

#### 8.3.5. Nuclear Energy

The special purpose company PGE EJ 1 sp. z o.o. is in charge of the construction of the first nuclear power plant in Poland. At the present stage of the project, the company is focusing on tasks related to location and environmental studies for the purpose of selecting the site for the first nuclear power plant. Research studies have been carried out with great care and have no negative impact on the environment. In order to prepare the local community in the areas of potential locations of the nuclear power plant, PGE EJ 1 sp. z o.o. has initiated various kinds of information and educational campaigns.

### 8.4. PGE and research and development

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

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

The following are the most vital research and development projects conducted in individual areas of the Group's operations:

#### 8.4.1. Conventional Generation

##### **Mercury Programme for PGE GiEK S.A.**

The implementation of the Mercury Programme, which began in 2011, will provide comprehensive knowledge and information on the phenomenon of mercury circulation in the technological chain, from coal extraction to electricity and heat generation. This will allow to explore the possibility of emissions reduction and to suggest specific actions to be taken by the PGE GiEK S.A. branches.

In June 2013 a project called "Development and implementation of Technology to Reduce Mercury Emissions to the Atmosphere from the Combustion of Coal", run in co-operation with the Łódź University of Technology.

##### **Developing the concept and feasibility of co-combustion of crude and pre-dried lignite in selected power plants of the PGE Capital Group**

In 2013, an overview of lignite drying technologies was presented; then, their integration into the technological system of selected power plants of the PGE Capital Group was considered. We have also studied the impact of co-combustion of pre-dried lignite with crude lignite in the BB-1150 boiler in Bełchatów power plant and the OE700 boiler in Turów power plant. Furthermore, maximum



possible shares in mass of partly dried fuel have been determined. According to data obtained from economic analyses, the project is not profitable.

**RECOMBIO – developing innovative methods for using low-quality biomass and recovered solid fuels in electricity and heat generation, assuming cost-effectiveness, high installation availability and processing performance**

Since December 2010, PGE GiEK S.A. Elektrownia Turów Branch had been participating in a research and development project under the Seventh Framework Programme of the European Union „REcovered fuels COMbined with BIOMass (combining recycled/alternative fuels and biomass) – abbreviated name „RECOMBIO” with a total budget of EUR 6.3 million.

The aim of the project was to develop methods and feasible techniques for highly efficient processing of low-quality biomass and recycled fuels obtained from municipal solid waste. One of the main assumption of the project was to test the possibility of obtaining an energetic charge which would provide Solid Recovered Fuel (SRF) of stable quality and which would be suitable for energetic processing according to proven techniques or techniques modified within the framework of the programme. Elaborate called „The use of SRF in power sector. Study of RECOMBIO technology transfer based on selected boiler technology in Poland” was prepared on Turów power plant request. The analyses indicated that the fluidized bed boilers have the most promising potential for co-combustion of SRF.

The project was completed in December 2013 and is currently the project coordinator prepares a final report. The project was completed in December and currently a project coordinator prepares a final report.

**Designing and implementing a prototype modification of the sorbent dosing control system on a selected fluidised bed boiler from the group of units 1-6 in Turów power plant**

The aim of the project was to design fuzzy control systems for sorbent dosing in boiler no. 5. As part of cooperation with JASE Wrocław, dedicated algorithms were developed in the application of fuzzy control in the distributed control system (DCS), which allowed to optimize the operation of the dry desulfurization system.

The acquired experience has shown that using similar technical measures in control systems for fluidised bed boilers should significantly improve the operation of the systems and lead to major benefits for Turów power plant.

**Studies on the potential use of vitrification of ashes and slag from Elektrownia Bełchatów and Elektrownia Turów power plants**

The aim of the study was to investigate the possibility to adapt the vitrification process to combustion waste management. Vitrification is a technique which involves thermal transformation of waste which is applied to municipal and industrial waste. The products of this process are characterised by significantly reduced heavy metals leachability and a decreased volume. Studies carried out by the Industrial Research Institute for Automation and Measurements confirmed that vitrification can be applied to ashes from Bełchatów and Turów power plants. Four good quality vitrification agents were produced. They were subsequently examined for their physical and chemical properties, the potential use of the product and energy intensity of the process. Whereas the results in the first two areas were satisfactory, the amount of energy needed for the vitrification



of ashes disqualified the whole project in terms of cost-effectiveness. The proposed solution has not been recommended for commercial deployment because of excessive energy intensity.

In 2013, 38 research and development projects were executed in the area of mining and conventional energy generation; as part of the projects the Company cooperated not only with national universities of technology, i.e. Warsaw, Wrocław, Łódź, Kraków University of Technology and AGH University of Science and Technology, but also with national and international research institutions.

#### 8.4.2. Distribution

##### **Construction and implementation of a smart metering system in Białystok Branch and Łódź-Miasto Branch.**

In 2013, work continued on the implementation of an AMI (Advanced Metering Infrastructure) class system for stage I, i.e. for two locations: Białystok Branch and Łódź-Miasto Branch. The project was granted the status of a strategic project for the PGE Capital Group. In the second half of 2013, project work was related to the Technical Dialogue referred to in Article 31A of the Public Procurement Law. The PGE Dystrybucja S.A. company met with all the participants who had been qualified for the Technical Dialogue in order to discuss technological details of presented products and solutions. At the end of 2013, drafting of final terms of reference began.

Furthermore, at the end of January 2013, PGE Dystrybucja S.A. filed an application for funding of the project from the Inteligentne Sieci Energetyczne (Smart Grids) priority programme. On November 7, 2013, the company received a Promise of Consent for the execution of the project in the form of a grant amounting to PLN 3,176 thousand. From November to December 2013, the 2nd proposal was drawn up in accordance with the regulations of the competition.

#### 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/gkpgge>

##### **“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 Warsaw Branch for several years. PGE Dystrybucja 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](http://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 Elektrownia 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](http://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 Festiwal 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 showroom 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 consolidated financial statements and comparable data were prepared in accordance with the governing accounting principles, present a fair, true and reliable view of the material and financial situation of PGE Capital Group and its financial result.

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

### 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 consolidated financial statements, has been appointed in accordance with provisions of the law. The entity and the statutory auditors fulfilled all the requirements for issuing an unbiased and independent opinion on the audit, in accordance with the governing provisions and professional standards.

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**

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**Jacek Drozd**  
**Vice-President of the**  
**Management Board**

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**Grzegorz Krystek**  
**Vice-President of the**  
**Management Board**

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**Dariusz Marzec**  
**Vice-President of the**  
**Management Board**

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